Cover

DECEMBER 2011

FOR PRIVATE CIRCULATION ONLY

KARVY PRIVATE WEALTH

INDIA WEALTH REPORT

VOL 2

WHERE DO INDIAN INDIVIDUALS INVEST THEIR WEALTH?

KEY TRENDS.

KARVY PRIVATE WEALTH

FOREWORD

We are delighted to bring to you the second annual edition of the "India Wealth Report". Evidently, wealth in India continues to rise at an unprecedented rate, outperforming most countries around the world. The happy confluence of high GDP growth and savings rate continue to contribute to the same. With equity markets slowing down in FY11, the increase in wealth has been lower than what we had forecast in our maiden edition. However, we believe that growth will be back on track to keep up with the longer-term targets. Accordingly, we maintain that wealth held by individuals in India will triple over the next five years!

In this second edition of the "India Wealth Report", we have provided the latest financial-year update on the status of wealth among Indian individuals. In addition, we have separately attempted to bring about some fresh perspective on two very prominent asset classes in India-real estate and gold. Through this Report, we enable you-the Indian HNI and the emerging HNI-to understand the dynamics of the nation's existing wealth across asset classes like equity, debt and alternative assets. The Report will certainly enlighten you on where Indian individuals have so far been parking their money. That way, you should be able to tell whether your portfolio is favorably (or unfavorably) aligned to the overall trend, both in India and globally.

In that regard, the "India Wealth Report" offers comparative asset class-wise break-ups between Indian and global wealth held by individuals. Such information will offer great insights for Indian HNIs in that they will be able to comprehend where they have been under-invested or over-invested, and, accordingly, make the necessary adjustments.

For instance, given that India's individual wealth in alternative assets is 0.34% of our total wealth (versus 6.2% globally), we believe that alternative assets will be a major investment avenue in India over the next few years. The key premise of many alternative assets is a single-product offering catering to multiple investment objectives. As long as we are clear about our investment objectives, we can identify alternative avenues that will prove to be winners. Moreover, we need not pick up all our learning from the West; instead, we can use our "glocal" (combination of global initiatives and local dynamics) capabilities to develop smart alternative investment products in India.

For a more detailed discussion on the contents of this Report, please feel free to drop me a line.

Happy Reading…Keep Growing.

Sunil Mishra
Chief Executive Officer
Karvy Private Wealth
sunil.mishra@karvy.com

CONTENTS

LIST OF TABLES

EXECUTIVE SUMMARY

India is one of the fastest-growing economies in the world. Over the last decade, both government and private industry have endeavored to bring about an environment conducive to growth. This is increasingly reflected in better earnings and higher disposable incomes for the working population, particularly the middle class. Accordingly, the country's domestic consumption story took off at a blistering pace, thus significantly improving people's standard of living, both rural and urban, over the last decade.

The spectacular story of India's economic growth has resonated strongly among investors around the world. In fact, despite formidable headwinds in recent years, including the 2008 global financial crisis, the subsequent Euro-zone debt impact, and the stubbornly high domestic inflation, India continues to be one of the fastest-growing nations in the world. Needless to say, we believe the next two decades belong to India, and the country is well on its way to become the most attractive frontiers for international investors.

A wide range of better-regulated investment options have made its way into the financial marketplace over the last decade. However, the sheer complexity of these options - in terms of inherent risks, benefits and objectives - has got the average investor more confused than ever. That said, investors today are far more educated than they were a decade ago. And given their high savings rate, they are increasingly looking for guidance and investment advice to facilitate their diverse goals. Moreover, as the coming decades play out for India, we believe that investors will increasingly seek out financial planning and wealth management solutions in this complex marketplace.

Global Individual Wealth

The global High net-worth individual (HNI)[1] population and wealth growth returned to more stable levels in 2010. During the year, the HNI population rose 8.3% to 10.9 million[2] while HNI financial wealth grew 9.7% to US$ 42.7 trillion[3]. Meanwhile, the global population of ultra-HNIs[4] rose 10.2% to 1,03,000 and wealth by 11.5%[5]

Estimated Individual Wealth in India

The total Individual Wealth in India is calculated by summing up the value of all investment assets (see **Table 1**). In that regard, we have only considered the wealth held by 'individuals'; we have not included government and institutional holdings. Moreover, we have only considered 'financial' assets and not physical assets like real estate and gold. Accordingly, the total wealth in India held by 'individuals' is estimated to be ₹ 86.5 lakh crore in FY11 (Financial Year ended March 2011).

TABLE 1: ASSET-WISE INDIVIDUAL WEALTH IN INDIA

Asset	Amount (₹ cr.)	Proportion (%)
Fixed deposits and bonds	26,76,878	30.95
Direct equity	25,76,317	29.78
Insurance	15,25,735	17.64
Savings deposits	6,16,917	7.13
Small savings	5,23,908	6.06
Provident fund	4,11,901	4.76
Mutual funds	2,88,543	3.34
Alternative assets	29,565	0.34
Total	**86,49,764**	**100**

1. HNIs are defined as those having an investable asset of US$ 1 million or more excluding primary residence, collectibles, consumables, and consumer durables. • 2. World Wealth Report 2011, Page 5, Figure 1. Capgemini-Merrill Lynch Wealth Management. • 3. World Wealth Report 2011, Page 5, Figure 2. Capgemini-Merrill Lynch Wealth Management. • 4. Ultra-HNIs are defined as those having investable assets of US$30 million or more, excluding primary residence, collectibles, consumables, and consumer durables. • 5. World Wealth Report 2011,Page 7.Capgemini-Merrill Lynch Wealth Management.

Fixed deposits have always been popular among risk-averse investors. Given the global economic uncertainties and persistent high inflation in India, many individual investors made a shift towards safer investment avenues like fixed deposits FY11, as against direct equity in FY10.

The HNI population in India rose by around 20.8%[6] in 2010, and their wealth is estimated to have grown by more than 11%, to US$ 530 billion. India is one of the fastest-growing HNI segments in the world, currently contributing approximately 1.2% to the global HNI wealth.

TABLE 2: ASSET CLASS-WISE INDIVIDUAL WEALTH IN INDIA

Asset class	Amount (₹ cr.)	Proportion (%)
Equity	27,49,569	31.79
Debt	58,70,630	67.87
Alternative assets	29,565	0.34
Total	**86,49,764**	**100.00**

Table 2 highlights the risk-averse nature of Indian individuals. Investments in debt instruments form a major part of the total Individual Wealth in India, with nearly 68% getting parked in this asset class. Although investments in equity, constituting nearly 32%, have risen over the past decade, the majority of investments by individuals in India are still in debt instruments. Alternative assets, although a negligible portion of the total Individual Wealth in India, are increasingly gaining popularity among HNI investors in the country, with investments in this asset class contributing 0.34% to the total wealth of individuals.

In comparison, individual investors globally are less risk-averse than their counterparts in India. A break up of Global Individual Wealth shows that equity accounts for nearly 41%, whereas debt constitutes approximately 53%, and alternative assets, 6.2%.

6. World Wealth Report 2011, Page 7, Figure 3. Capgemini-Merrill Lynch Wealth Management

Key Trends

- Total Individual Wealth in India is expected to nearly triple to ₹ 249 lakh crore by FY16 from the current ₹ 86.5 lakh crore.
- Fixed deposits have regained popularity in FY11 to become the single-largest investment class. These instruments are expected to continue to be the largest and preferred investment class, at least in the next couple of years.
- Indian companies are becoming more mature, and with increasingly greater numbers getting listed, Individual Wealth in equities is expected to reach 37% in India in FY16, against 30% in FY11.
- As retirement benefits become more limited for the newer generation of government employees, they will begin to increasingly focus on retirement planning. As awareness increases, more investments will be channelised into pension funds and retirement benefits.
- Alternative assets - including structured products, private equity and venture capital funds, gold ETFs, and realty, film and art funds - are expected to grow at a rapid pace of 100% per annum.
- Although the average investment size is larger, structured products and highyield debt will remain popular among HNIs as these are relatively safe in terms of principal protection.
- Over the next five years, we will also see a rise in insurance investments as private companies become more evolved.

SECTION 1: GLOBAL WEALTH

The global population of HNIs rose 8.3% Y/Y to 10.9 million in 2010. During the year, the global financial wealth of HNIs grew 9.7% to US$ 42.7 trillion (including real estate). **Table 3** shows the asset class-wise classification of Global Wealth (excluding real estate). The HNI population grew the fastest in the Asia-Pacific region due to faster-growing economies like China, India and Australia. The HNI population in the Asia Pacific rose 9.7% to 3.3 million in 2010 and the financial wealth of these HNIs grew 12.1% to US$ 10.8 trillion. Meanwhile, the wealth held by HNIs in India grew 11%. Accordingly, the Asia-Pacific HNI population has become the second-largest in the world. It has overtaken Europe (3.1 million HNIs in 2010) and is close on the heels of North America (3.4 million)[7].

TABLE 3: ASSET CLASS-WISE CLASSIFICATION OF GLOBAL WEALTH

Asset class	Amount (US$ trillion)	Proportion (%)
Equity	14.09	40.7
Debt	18.36	53.1
Alternative assets	2.14	6.2

7. Asia-Pacific Wealth Report 2011, Page 4. Capgemini-Merrill Lynch Wealth Management

SECTION 2: CURRENT INDIAN ECONOMIC SCENARIO

We believe that it is now India's turn to gain from the innovativeness of its new-age entrepreneurs, and the rising incomes and savings of its working population. That said, high inflation and borrowing costs are currently slowing down the nation's GDP growth, which is expected to be 7.6%[8] in FY12 (financial year ended March 2012). India's GDP growth had reverted to the high-growth trajectory in FY11. This was following a period of moderation in the preceding two years in the face of a global economic slowdown, triggered by the 2008 financial crisis. The GDP growth in FY11 came in at 8.5%[9], after having declined to 6.7% in FY09 and 7.4% in FY10[10]. The FY11 GDP growth reflects a rebound in agriculture and sustained levels of activity in industry and services; the nation's GDP (at current market prices) has come in at ₹ 79 lakh crore[11].

Traditionally, India enjoys a very high savings rate. It was approximately 34% in FY11, of which financial household savings were around 11.8%. From a global perspective, between 1959 and 2010, people in developed countries like the US saved on average 7% of their disposable income. On the other hand, the average savings rate in India, which was about 20-25% through the 1970s and 1980s, is now a phenomenal 30-35%. More importantly, India's savings rate is expected to stabilise at 35% levels going forward owing to high economic growth.

---

8. RBI • 9,10,11. Economic Survey 2010-11

SECTION 3: INDIVIDUAL WEALTH IN INDIA

The total wealth held by individuals in India is estimated at ₹ 86.5 lakh crore in FY11. It is derived by summing up all asset classes, broadly classified into equity, debt and alternative assets. We make an effort to estimate the Individual Wealth in India based on investment avenues and financial assets available in the country.

The following investment avenues and financial assets have been considered to estimate Individual Wealth:

- Direct equity
- Mutual funds
- Insurance
- Provident funds
- Fixed deposits & bonds
- Savings bank deposits
- Small savings
- Alternative assets

For the purpose of this Report, physical assets like gold and real estate have been excluded.

3.1 Direct Equity

Over the last decade, investor preferences have changed in India, with more people willing to invest in high-risk, high-return assets like direct equity, to try and earn better returns. The equity market witnessed spectacular growth in the phenomenal four-year bull run that culminated in 2007. In the recession-hit years of FY09, however, markets declined sharply by nearly 40% to ₹ 29 lakh crore. But it made a huge comeback in FY10, when market capitalisation more than doubled to reach ₹ 60 lakh crore[12], as investors showed greater confidence in equity investments.

Meanwhile, growth has slowed down drastically in 2011. The overall market capitalisation of direct equity in FY11 came in at ₹ 67 lakh crore, a gain of 11.6% Y/Y[13]. Direct equity can be broadly categorised into promoter holdings (33%), institutions (48%) and retail investors (19%). Promoter holdings here would contain all individuals, government and corporate holdings. In 2010,

12, 13. SEBI

the equity market capitalisation globally had risen by 18%[14].

In regard to Individual Wealth, direct equity is the second-largest contributor among asset classes, at 29.78%, with total wealth held by individuals in direct equity at ₹ 25.76 lakh crore.

For the purpose of this Report, only individual direct equity investments have been considered. The growth in individual equity investments has been lower than the increase in total market capitalisation. This indicates individual investors' reduced confidence in the Indian stock markets.

TABLE 4: DIRECT EQUITY CLASSIFICATION

Investor	Market capitalisation %	Amount (₹ cr.)
Promoter holdings	32.92%	22,06,501
Institutions	47.95%	32,13,904
Retail investors	19.13%	12,82,210
Total	**100.00%**	**67,02,616**

3.2 Mutual Funds

The Indian mutual fund industry saw rapid growth for some years, driven by favorable economic and demographic factors. These included favorable stock markets, higher disposable incomes and savings, diverse choices of personal finance products, convenience of investing, high-quality service delivery, well-regulated, entry of professionally-managed asset management companies (AMCs), and aggressive marketing coupled with proactive investor education by AMCs. However, after years of sustained growth, there was a 17% decline in FY09 assets under management (AUM) in the backdrop of the global financial turmoil, adversely impacting industry revenue and profitability.

The mutual fund industry received another major setback in 2009 when entry loads were abolished. Consequently, many mutual fund distributors shifted focus to other financial products which offered better commissions. The poor sentiment in the markets has not helped either. Accordingly, there has been an industry slowdown, and the sector continues to be hugely underpenetrated in India. Ironically, in developed markets, mutual fund

14. World Wealth Report 2011,Page 8. Capgemini-Merrill Lynch Wealth Management

investments constitute a significant proportion of one's portfolio.

The total mutual fund AUM in India declined to ₹ 5.97 lakh crore as of March 2011. The AUM of equity-oriented mutual funds has declined in FY11 whereas debt-oriented mutual funds' AUM has risen more than 20% during the same period.

Mutual funds constitute 3.34% of total Individual Wealth in FY11, and is lower than in FY10 when it was 3.8%. For the purpose of this Report, only HNI and retail MF investments have been considered, while corporate and institutional investments have been excluded. Hence, total wealth from mutual funds with individual investors stands at ₹ 2.88 lakh crore in FY11.

Figure 1: AUM of Mutual Funds

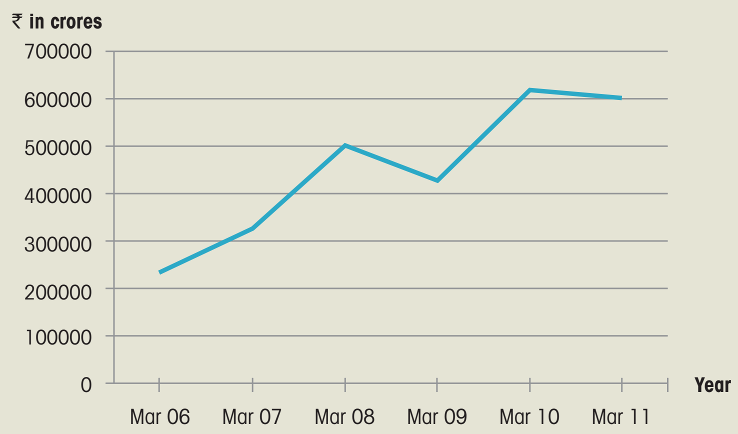


TABLE 5: MUTUAL FUNDS - INDIVIDUAL WEALTH BASED ON UNDERLYING INVESTMENT

Asset class	Amount (₹ cr.)
Equity	1,73,252
Debt	1,15,291
Total	**2,88,543**

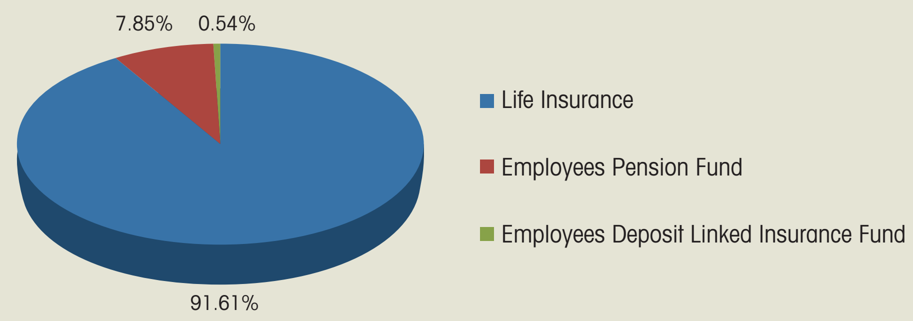
3.3 Insurance

The total wealth held by individuals in India as insurance assets comprise life insurance, employees' pension fund (EPF) and employees' deposit-linked insurance fund. The reforms in the sector have not only brought about robust competition in the marketplace, but customers today have a vast range of products and solutions to choose from to cater to their every need and goal. Moreover, insurers today are spending time and money to increasingly focus on product R&D and to understand market needs. That said, despite the entry of the private sector more than a decade back, insurance penetration still remains rather low today. However, this is likely to change in the coming years when private players come of age.

TABLE 6: INSURANCE

Asset type	Amount (₹ cr.)
Life insurance	13,97,667
Employees pension fund	1,19,800[15]
Employees deposit-linked insurance fund	8,267[16]
Total	**15,25,734**

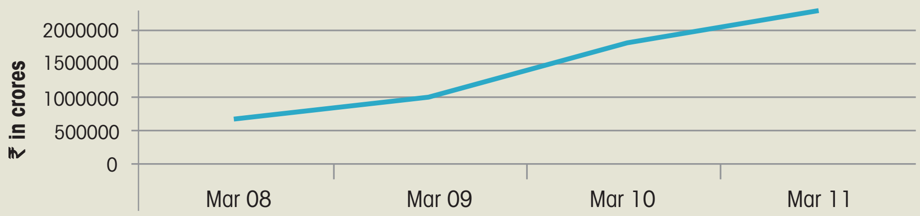
Figure 2: Composition of Insurance Assets



Life insurance is the biggest segment, with 23 life insurers having a combined AUM of ₹ 13.97 lakh crore in FY11. Clearly, individuals in India, especially in urban and semi-urban areas where insurance penetration is higher, give importance to safeguarding their own and family's future. Among life insurers, the public sector Life Insurance Corporation of India (LIC) still enjoys the highest market share, with more than 70% of the total sum assured.

In FY11, employees pension fund assets amounted to ₹ 1,19,800 crore and the assets in employees deposit-linked insurance fund aggregated ₹ 8,267 crore.

Figure 3: Assets in Insurance



After fixed deposits and equity, insurance is the third-most popular asset class among individual investors in India, with many products and financial solutions giving them the benefit of insurance (risk management), investment and tax planning, in that order.

At ₹15.25 lakh crore, insurance assets account for 17.64% of the total Individual Wealth in FY11.

As the penetration of insurance companies rise and as retirement benefits become more limited for the newer generation of government employees, we are likely to see an increase in wealth held by individuals in insurance assets. Meanwhile, the regulator - Insurance Regulatory and Development Authority (IRDA) - is set to change the rules for pension plans. This could help the industry to recoup business volumes, which had fallen sharply late last year after the regulator had imposed stringent guidelines.

3.4 Fixed Deposits & Bonds

Fixed deposits allow investors to park their savings in a bank, financial institution or a company for a particular timeframe. Also referred to as term deposits, these fixed-income instruments earn a higher return compared to the interest rates offered by a savings account. Fixed deposits are one of the safest investment options available to investors. It typically attracts risk-averse investors who want to park their money for the long term at relatively higher interest rates. Moreover, banks usually offer senior citizens a small mark-up on prevailing rates. Fixed deposits are available for different time periods, ranging from a few days to many years.

TABLE 7: FIXED DEPOSITS & BONDS - INDIVIDUAL WEALTH

Asset	Amount (₹ cr.)
Fixed deposits	26,70,008
Bonds	6,870
Total	**26,76,878**

(1) Fixed Deposits: These fixed-income instruments can be classified into: (a) Bank fixed deposits; (b) Corporate fixed deposits; (c) Fixed deposits with non-banking finance companies (NBFCs); and (d) Fixed deposits with residuary non-banking companies (RNBCs).

(a) Bank Fixed Deposits: Also referred to as FDs, these are classified into: (a) Scheduled commercial bank FDs; and (b) Co-operative bank FDs. One of the most preferred options for investors, bank FDs have returned to a high-growth trajectory after deposit growth slowed down to about 16% in FY10. These deposits have been growing at a compounded rate of more than 20% from the last 4 years. As of March 2011, the total bank FDs in India amount to ₹ 48.8 lakh crore, of which ₹ 25.7 lakh crore is estimated to be with individuals. Of the total FDs, commercial banks account for more than 97%, at ₹ 47.4 lakh crore[17].

(b) Corporate Fixed Deposits: Many companies, including reputed industrial houses, accept deposits from investors to meet funding requirements. Held for a particular time period, these deposits usually fetch higher interest rate than traditional bank FDs. However, many a time the risk involved is also higher. The AUM of corporate fixed deposits in India is around ₹ 73,500 crore. These deposits have grown by more than 22% in FY11.

(c) NBFC Fixed Deposits: The NBFCs registered with the RBI are classified into asset finance companies, investment companies and loan companies. These may be further categorised into those that accept deposits and those that do not. The NBFCs are allowed to accept/renew public deposits for minimum 12 months and maximum 60 months. However, due to tightening of capital norms, many NBFCs have been forced to reduce their assets. The wealth held by individuals in these deposits amount to ₹ 3367 crore[18].

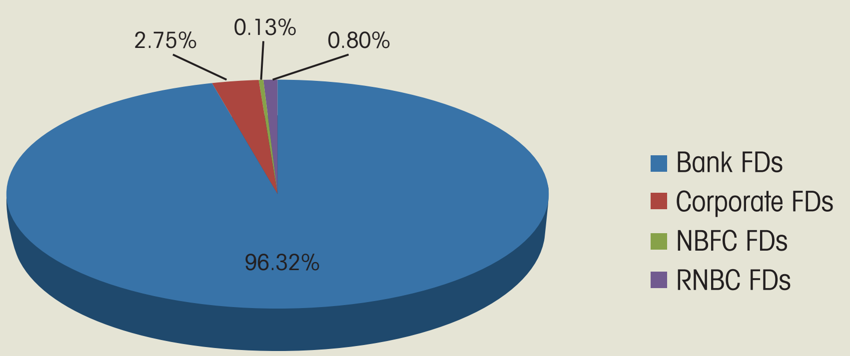
(d) RNBC Fixed Deposits: RNBCs are also registered as an NBFC with the RBI. The principal business of these companies is to accept deposits under any scheme or arrangement as long as it is unrelated to investment, asset financing and loans. The functioning of RNBCs is different from those of other NBFCs in terms of method of deposit mobilisation and deployment of depositors' funds. The total RNBC FD assets amount to around ₹ 21,280 crore[19].

17,18,19. RBI

TABLE 8: FIXED DEPOSITS - INDIVIDUAL WEALTH

FD types	Amount (₹ cr.)
Bank FDs	25,71,873
Corporate FDs	73,488
NBFC FDs	3,367
RNBC FDs	21,280
Total	**26,70,008**

Figure 4: Distribution of Fixed Deposits



(2) Bonds: These debt instruments can be classified into *PSU bonds* and *corporate bonds.*

a) PSU Bonds: Issued by various public sector undertakings (PSU), the total AUM of PSU bonds is ₹ 1,46,292 crore[20]. These include both public bond issues and privately placed bonds, and include taxable and tax-free bonds. The issue of PSU bonds, particularly taxable bonds, more than doubled in FY10 and there was a significant uptrend in FY11. The estimated Individual Wealth in these bonds is ₹ 2,445 crore.

b) Corporate Bonds: Non-PSU companies also issue bonds to institutional and retail investors. In FY11, there were a few big corporate bond issues, leading to greater investment by individual investors in these bonds. The estimated amount invested in these bonds by individual investors is ₹ 4,425 crore.

---

20. RBI

TABLE 9: BONDS - INDIVIDUAL WEALTH

Bond types	Amount (₹ cr.)
PSU bonds	2,445
Corporate bonds	4,425
Total	**6,870**

Together, fixed deposits & bonds comprise 30.95% of the total Individual Wealth in India, making it the largest contributor among all asset classes.

3.5 Savings Bank Deposits

One of the most convenient options for individuals, savings bank deposits offer high liquidity and low risk. Deposits in scheduled banks are quite safe due to RBI regulations. These deposits declined 13% in FY11. The fall can be attributed to the very low interest rates offered on these deposits. Given the high interest-rate scenario, investors preferred parking their money in other avenues like FDs that offer high interest rates and nowadays, there is little (or no) penalty on withdrawals prior to the maturity date. Meanwhile, with the recent deregulation of the savings bank deposit interest rate, we may see more liquid money coming into savings deposits in the coming years.

Savings deposits are popular, constituting a considerable portion of the total deposits of scheduled commercial banks. A savings accounts can be opened in: (a) Scheduled commercial banks; and (b) Scheduled co-operative banks. ***The total savings bank deposits held by individuals amount to ₹ 6.17 lakh crore[21], constituting 7.13% of total Individual Wealth.***

TABLE 10: SAVINGS BANK DEPOSITS - INDIVIDUAL WEALTH

Bank	Amount (₹ cr.)
Commercial banks	6,02,610
Co-operative banks	14,307
Total	**6,16,917**

21. RBI

3.6 Small Savings

Individuals have been traditionally investing in different post office small-savings schemes, such as Post Office Monthly Income Scheme (POMIS), Post Office Time Deposits, National Savings Certificate (NSC), Kisan Vikas Patra (KVP), Savings Accounts, and so on. The total amount invested by individuals in such post office small-savings schemes ***is ₹ 5.24 Lakh crore, contributing around 6.06% to the total wealth held by individuals in India.***

TABLE 11: SMALL SAVINGS - INDIVIDUAL WEALTH

Small savings schemes	Amount (₹ cr.)	Change (%) (FY11 v/s FY10)
POMIS	1,77,756.2	(0.97)
KVP	1,48,071.3	0.38
Post office recurring deposit account	71,477.2	9.84
NSC VIII issue	54,158.2	(2.08)
Post office savings bank account	24,771.4	9.17
Senior Citizens Savings Scheme	23,048.2	11.61
Post office time deposit account	21,749.9	(17.19)
Deposit scheme for retiring government employees 1989 / retiring employees of public sector	1,244.0	0
Indira Vikas Patra	1,097.2	6.42
National Savings Scheme 1992	534.25	(5.44)
Total	**5,23,907.9**	**0.91**

Post office public provident funds are not considered under small savings as it has been included under provident fund ("see next section"). Overall, investments in small savings have been quite stagnant over the years. It rose at a negligible pace in FY10 after declining for two consecutive years. However, certain schemes like Senior Citizens Saving Scheme, Post Office Recurring Deposit account, and Post Office Savings Bank Accounts have shown significant growth. That is because, apart from offering a decent interest rate, these are key investment avenues in rural India where banking is still not so popular. These schemes are not effectively marketed by the government, and with other safe options like bank FDs offering higher interest rates, investments in these instruments are not as attractive as it was earlier when the banking system was not so evolved.

3.7 Provident Fund

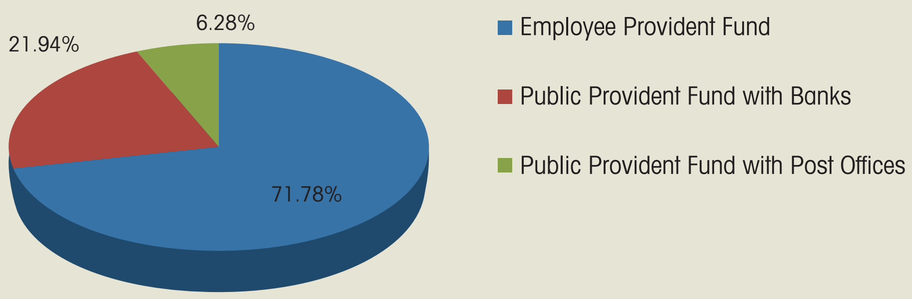
Provident fund is a social security scheme as well as a tax-saving instrument. Traditionally, it has been used as a retirement planning tool by individual investors in India. Provident funds can be divided into Employees' Provident Fund (EPF) and Public Provident Fund (PPFs).

An EPF is a defined-contribution plan for the Indian workforce, administered by the Employees' Provident Fund Organisation (EPFO), whereby the employee puts in a certain share of his basic pay in the Fund and the employer must also compulsorily contribute in a similar amount. PPF, on the other hand, is a voluntary scheme for

TABLE 12: PROVIDENT FUND - INDIVIDUAL WEALTH

Provident fund types	Amount (₹ cr.)
EPF	2,95,651
PPF with banks	90,374
PPF with post offices	25,876
Total	**4,11,901**

Figure 6: Distribution of Provident Fund



individuals, whereby a PPF account can be opened with a post office or through various nationalised banks across the country.

The total provident fund assets in FY11 ***aggregated ₹ 4.12 lakh crore, constituting 4.76% of the total Individual Wealth in India.*** Between the two, EPFs enjoy a bigger market share, with total wealth invested by individuals amounting to ₹ 2.95 lakh crore. The wealth by individuals in PPFs is estimated to be around ₹ 1.16 lakh crore[22], of which banks hold nearly 78% of the PPF assets, at ₹ 90,374 crores. Clearly, investors value these social security schemes for their post-retirement needs.

The wealth held by individuals in the EPF has been rising consistently, driven by an increasing number of establishments coming under its ambit every year, apart from rising employee strength, attractive interest rates and lack of investment opportunities in the prevailing uncertainty. As the India story continues on its growth trajectory, we expect investments to rise further in the coming years.

3.8 Alternative Assets

These assets broadly differ from a traditional investment product. Statistically; these investments often provide returns that have a low or negative correlation to traditional investments like common equity shares or fixed-income instruments. For instance, if equity markets move in a particular direction, an alternative asset may not necessarily follow suit. Thus, given the unconventional nature of these investments, alternative assets help to diversify and reduce the overall portfolio risk.

Alternative investments are quite in vogue among HNI investors globally; they are likely to allocate 5-10% of their investment portfolio into these products[23]. Globally, alternative assets are expected to constitute nearly 8% of the HNI wealth in 2012[24]. These investments accounted for as much as 10% of HNIs' financial assets in 2006, but had fallen to as low as 6% by 2009 due to the economic slowdown.

In India, investment in alternative assets has increased significantly in FY11, with investors' rising confidence in this relatively newer class of assets. The most popular alternative asset is the structured product (equity- and gold-linked debentures), constituting nearly 72% of the total wealth in this asset class. Already, structured products, private equity, gold ETFs and real estate funds have grown significantly in FY11. Going forward, we

---

22. Times of India • 23. Economic Times
24. World Wealth Report 2011, Page 17, Figure 10. Capgemini-Merrill Lynch Wealth Management

believe that HNI investors will continue to show robust interest in this asset class. In a nutshell, alternative assets, which ***constitute 0.34% of Individual Wealth in India, are expected to grow at a phenomenal rate of 100%.***

(1) Structured Products: A structured product is a market linked investment that facilitates "highly customised" risk-return objectives. It is generally a pre-packaged investment strategy based on derivatives, wherein the underlying instrument can be a single security or a basket of securities, including equities, indices, commodities, debt issuances, foreign currencies or swaps.

In India, structured products gained popularity in 2006 and 2007 but then faded in the market crash of 2008. There has been a resurgence since then, making these one of the most popular products in FY11. Although the average investment size is larger, structured products remain popular among HNI investors. That is because it is designed to be relatively safe avenue in that it ensures principal protection in these troubled times. In India, mostly equity- and gold-linked structured products are sold to HNIs.

Equity-linked Debentures: Here, a part of the capital is invested in debt while the remaining is linked to equity markets through a basket of stocks or an index. The debt portion ensures that the capital is protected, while the equity portion facilitates participation in the event of upside. Through this product, the investor actually gets exposure to equity without actually owning it. These debentures often have a cap on return generated from the equity upside. Equity-linked debentures made a significant comeback in FY11. The total assets in equity-linked debentures is estimated to be around ₹ 21,267 crore, or a rise of about 21% Y/Y.

Gold-linked Debentures: A gold-linked debenture is a structured product that comes with a pre-packaged investment strategy based on the underlying gold price. This product also typically offers principal protection if held until maturity. At maturity, the payout is the original principal and any price appreciation from the underlying gold asset. The assets in gold-linked debentures is estimated to be ₹ 120 crore.

(2) Private Equity / Venture Capital Funds: Private equity funds typically make investments in companies not listed on the public stock exchanges. These offer high-return opportunities due to their access to dynamic, privately-held companies and their ability to create value in them. In India, private equity has gained significance over the years in that they invest in smaller companies and exit when these gain in scale and size, often at a hefty premium to their investment value. The assets in these funds are worth ₹ 14,847 crore[25], and individual investments are estimated to be around ₹ 2,970 crore, or approximately 100% higher than last year.

(3) Gold ETFs: Gold ETF (GETF) is an exchange-traded fund, wherein units can be bought and sold on real-time basis on major stock exchanges. Typically managed by a mutual fund, units are issued to investors, who can then participate and benefit from the movement of gold prices. The benchmark used by GETFs in India is London Gold, and the fund house backs the value of the outstanding gold units in the GETF by purchasing large quantities of the yellow metal in physical form and storing it. As on March 31, 2011, investments in GETFs amounted to ₹ 2,447 crore[26], an increase of 150% Y/Y.

GETFs have gained popularity in recent times due to a variety of reasons. First, given the global uncertainty playing out, gold has become a safe-haven for investors. Secondly, the shining metal is the only asset class on a secular bull trend over the last 10 years. Thirdly, advisors and planners are increasingly promoting gold as an essential investment asset class for diversification in every portfolio. Finally, GETFs offer ease and convenience of investing without the hassle of buying or storing physical gold.

25.SEBI • 26.AMFI

(4) Real Estate Funds: A real estate fund is a professionally managed portfolio of diversified real estate holdings. Here the investor essentially makes investments in the schemes of concerned firms, which, in turn, invests the money in upcoming or ongoing real estate projects. The return generated from building and selling (or leasing) the projects are the gains that accrue to investors. As of March 2011, the assets in real estate funds are estimated to have jumped nearly 100% to ₹ 10,220 crore[27]. For the same period, individual investments is estimated to have touched ₹ 2,044 crore.

5) Film Funds: These are funds that invest in the production and marketing of films. The Indian film industry is considered by many to be recession-proof. Film funds set up a special-purpose vehicle (SPV) to fund film projects. The revenues from the project are distributed among investors, and the return is dependent on the success of the films. These funds have become quite popular in India, with many funds having been launched in the last few years. Moreover, even some production houses are planning to start their own film funds. The total wealth in film funds is ₹ 907 crore[28], of which individual wealth is estimated to be about ₹ 453 crore. It has risen by 50% over the previous years.

(6) Art Funds: Globally, art funds are popular as an alternative investment class for HNIs. In India, these funds have started gaining some ground over the last few years. Those who are keen to invest in art can make investments through art funds, thus diversifying their investment portfolio. Artworks are typically bought through exhibitions or directly from the art collectors. The profit generated from the sale of these artworks is distributed among the investors. The investments held by Individuals in these funds has increased by 10.46% to ₹ 264 crores[29] in FY11.

TABLE 13: ALTERNATIVE ASSETS - INDIVIDUAL WEALTH

Asset type	Amount (₹ cr.)
Structured products	21,387
Private equity	2,970
Gold ETFs	2,447
Real estate funds	2,044
Film funds	453
Art funds	264
Total	**29,565**

27,28.SEBI • 29.The Art trust

3.9 Total Wealth in India

In FY11, the total wealth in India across asset classes is ₹ **86.5 lakh crore.** From **Figure 7,** it is evident that fixed deposits and equity combined aggregate 60.76% of the total Individual Wealth in India. **Figure 8** illustrates how asset classes as a proportion of total wealth have changed in FY11 over that of the previous financial year. Evidently, the percentage contribution of fixed deposits to the total wealth has risen in FY11, whereas it has declined for direct equity during the year.

Figure 7: Asset-wise distribution of Individual Wealth

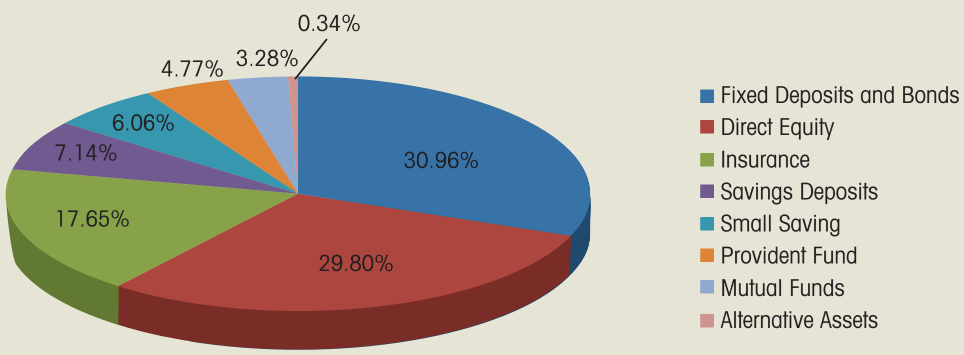
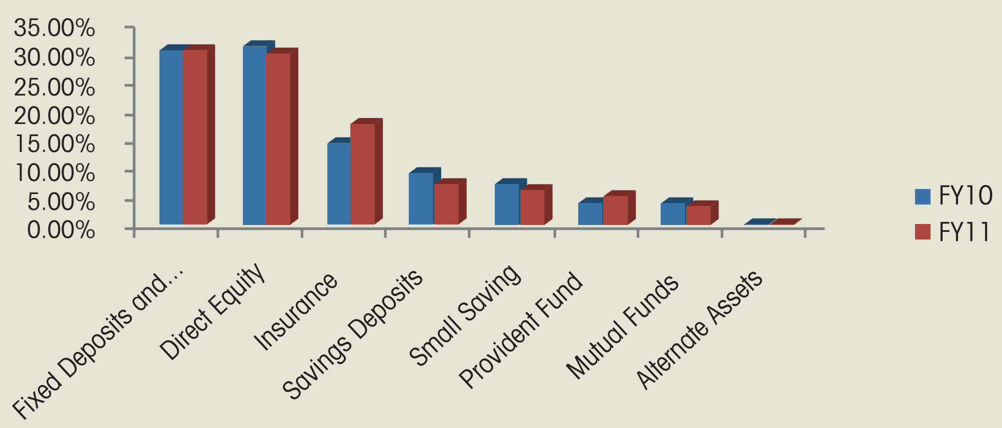


Figure 8: FY11 v/s FY10 Asset-wise distribution of Individual Wealth



SECTION 4: INDIVIDUAL WEALTH - INDIA VERSUS GLOBAL

TABLE 14: INDIVIDUAL WEALTH - INDIA VERSUS GLOBAL BASED ON ASSET CLASS

Name of Asset	Global Wealth (%)	Indian Wealth (%)
Equities	40.7	31.80
Debt	53.1	67.86
Alternate assets	6.2	0.34
Total	**100**	**100**

Table 14 shows the proportion of investments across asset classes by individuals in India and globally. Evidently, the proportion of investments in debt instruments is not only the highest among asset classes, both India and globally, but it is also far higher in India. Clearly, in comparison to equity, domestic investors traditionally have stayed overwhelmingly loyal to this relatively safer asset class. On the other hand, globally, the proportion of individual investments in equity has risen from 35% to more than 40% as of FY11, whereas the proportion of debt investments has declined. In India, however, the trend has not been in-line with the global trend, and the proportion of equities has in fact gone down.

Alternative assets, especially structured products, will continue to see robust interest from HNIs. Although the average investment size in structured products is larger, these avenues are popular, particularly in these uncertain times, because it ensures principal protection and are relatively safe. In India, alternate assets are at a very early stage of development. Compared to the global average, currently, the proportion of these assets in the total individual wealth is quite low in India. That said, investments by Indian individuals in alternative avenues have risen smartly in FY11. Investor interest will continue to grow in the country, and these assets are expected to grow at 100% every year.

Once the current global debt crisis subsides, we expect to see robust growth in equity investments. Moreover, investments in alternative assets are likely to grow spectacularly in the coming years. Although debt instruments will see a decline in the overall proportion of wealth held by individuals in India, these are expected to rise 15% every year in value terms.

SECTION 5: GOLD AND REALTY - AN OVERVIEW

Gold: Onward march to continue

The yellow metal is a symbol of wealth and good fortune in India and the country has a long history of gold buying . To understand India's affinity towards gold, one must understand the nation itself where the purchase of gold has been entwined with Indian religious and cultural beliefs. Unlike other nations, the love of gold has transcended generations of Indians across social strata. For instance gold jewellery is not only considered an ornament but also an investment and store of value. In fact, Indians have always identified the yellow metal as a form of money and a means for wealth accumulation.

Indians hold more than 18,000 tonnes of gold in India. At today's price level, that is nearly worth ₹ 50 lakh crores. The nation continues to be the world's largest gold market and has expanded significantly since liberalisation. It constituted 32% of global gold jewellery and bar & coin demand in 2010. Of this, gold jewellery contributes around 75% of total Indian gold demand, the rest is accounted for by investment (~ 23%) and decorative, technology and industrial (~2%).

Gold demand is well distributed across India with four southern states (Tamil Nadu, Kerala, Andhra Pradesh, Karnataka) accounting for more than 40% of nation's overall demand. The remaining is divided among the western (25-30%), northern (20-25%) and eastern (10-15%) regions of the country . Despite being the largest source of gold demand, Indian jewellery consumption intensity is still relatively low at 0.40 grams (as on 2009) and we foresee a much larger per capita gold consumption over the next decade as nation's favourable demographic and age profile are likely to ensure buoyant consumption growth.

Gold plays a fundamental role in India for marriage ceremonies and it is considered a necessity rather than a luxury. The gold (along with other gifts) that a bride receives are called "Streedhan" ("Stree" is woman and "dhan" is wealth), and is a means of passing some of the family inheritance to daughters, as Hindu tradition dictates that family' assets can only be passed down to sons. Thus, the wedding-related demand makes up a substantial proportion of overall jewellery demand, particularly in South India. Given the nation's young population, approximately 15 million weddings per annum are expected over the next decade. And, with gold being an integral part of these weddings, we are looking at incremental demand of about 500 tonnes every year, along with another 500 tonnes of existing gold being gifted by one family to another.

India's gold investment revolution is gathering pace given its strong affinity towards this tangible source of wealth. Given the yellow metal's importance as a safe haven in troubled times, characteristics of diversification, a hedge against inflation, it is increasingly making its way into investment portfolios today. In recent years, many gold-based financial instruments have been launched, including GETFs, gold linked structured products, bullion PMS schemes apart from schemes like the India Post gold retail programme and gold linked microfinance schemes. Over the past ten years, India's gold demand has risen at an average rate of 13% per year, outpacing the country's real GDP growth by almost 6%. While estimates may vary, the broad consensus is the gold demand in India is likely to increase nearly 30% to touch 1200 tonnes by FY21 and India will continue to be the largest buyer and holder of gold in the world.

Realty at a Glance

India is the second most populous country in the world. The country's large market, favorable demographics, higher disposable incomes and rising domestic demand are key drivers of economic growth. As a result, foreign investors have shown immense interest in sectors, such as information technology, telecom, insurance, tourism, pharmaceutical and business process outsourcing.

Clearly, all these factors have strongly contributed to the growth of the real estate sector in India. Over the next decade, as the country becomes more developed and industrialised, the realty sector is expected to show tremendous growth on the back of rising demand in the affordable housing, commercial and industrial sectors. In the first five months of FY11, the housing, commercial and retail real estate have attracted 4.5% of total FDI, whereas construction activities (including roads and highways) have drawn just 2.3% of total FDI[30].

Residential

Given strong pre-launch sales, there has been no visible correction residential real estate, although sales are down nearly 35% since last year,. The locations facing oversupply will continue to be stagnant until the end of FY12.

Entry points anywhere from ₹ 3000 – 4600 per sq ft in cities like Pune, NCR, Hyderabad, Chennai and Bangalore is still valued by home-buyers. The infrastructure development and the new airports in these cities have made it conducive for residential development to spread beyond the city limits. Overall, prices here are still affordable.

Although Mumbai is facing oversupply, prices are still at the peak levels. The corrections are being reported only by the media, but not evident on the ground level. The retail investors (second home buyers) and HNI investors are playing the waiting game on expectations of price correction.

With the country's urban population growing up to 3.8% annually due to higher birth rate (against death rate) and migration from rural areas, the urban areas is expected to fall short of an estimated 26.53 million dwelling units by 2012[31].

Commercial

India is among the fastest growing office markets in the world, constructing 100 million sq ft every 7-10 quarters. Office stock is expected to reach 500 million sq ft by 2015, while annual absorption is expected to be in the range of 30-45 million sq ft over the next 5 years. On the basis of net effective rents, Mumbai's Bandra Kurla Complex is among the most expensive market in the Asia Pacific while Bangalore and Chennai are among the least expensive.

Given the over-supply and cautious expansion by corporates, this commercial segment has witnessed a significant correction with rates nearly down 30%. The rates are expected to be stagnant for the coming 2-3 quarters. Despite improving demand, vacancies are expected to rise in the short term owing to massive infusion of office space. Clearly, the segment has more or less bottomed out and this is the best opportunity for companies looking for long term holding of real estate office space.

Retail

In the last few years, the retail segment has significantly transformed its business strategy, and the sector has been redefined to suit the Indian way of consumerism. Low cost, high

---

30.Department of Industrial Policy and Promotion, Govt. of India
31.Ministry of Housing and Urban Poverty Alleviation Government of India Real Estate Intelligence Service

reach, variety, proximity to competition, and, maximisation of the bottom line rather than top-line have made retailers smarter. However, even today most high-street locations are still expensive as compared to malls. Investors prefer high street locations over malls as they would enjoy greater capital appreciation due to dearth of available space.

Of 9.9 mn sq ft forecasted for absorption in 2011, 7.1 mn sq ft has already been absorbed till 3QFY11 and another 1.3 mn sq ft has been pre-committed. The northern regions of India rate high on propensity to consume retail space, followed by the western, eastern and southern regions. Industrial towns are similar in consumer preferences and socio-economic & demographic profiles. Most of them remain equally under-served despite mall developments in the last couple of years.

Land

This is apparently a very interesting time to buy land which is currently being traded more as a commodity. Moreover it is getting absorbed quite fast. Investors see immense opportunity in land as it is a tangible asset and can be the most credible pledge against business. With the Government increasingly committed to improve infrastructure (roads, bridges, airports, rail metros), we have seen many far flung areas getting good connectivity to the CBD (central business district) locations over the last 5 years. The trend of investing in land continues to be at a nascent as most transactions reported even today are of lesser value, making it tough for the organised players / investors to transact.

SECTION 6: FUTURE OF INDIA'S WEALTH

The size of India's household savings is currently over US$ 330 billion. The size of India's economy is about US$ 1.73 trillion. The savings rate of India's households is about 34%, and this is expected to grow further at an average rate of 8% annually[32]. Moreover, with growing incomes for Indian households, it translates into incremental savings of US$ 5 trillion over the next decade. In fact, India may overtake the US in terms of household savings by 2020.

Given the quantum of savings, these have to be carefully mobilised and allocated into productive channels. Clearly, there is an urgent need for appropriate financial intermediation as investors participate in the India growth story for the next couple of decades. The concerted efforts of the government and the regulators, supported by long-term vision and clarity in action, can significantly help in fostering a climate that is conducive to growth and investments.

6.1 Financial Household Savings

The household savings in financial assets is expected to reach ₹23.94 lakh crore in FY16.

TABLE 15: FINANCIAL HOUSEHOLD SAVINGS PROJECTIONS

(₹ cr.)	FY12	FY13	FY14	FY15	FY16
Estimated GDP (at current market prices)	92,39,571	1,07,77,036	1,25,70,335	1,46,62,039	1,71,01,802
Estimated Household Financial Savings	11,08,749	13,47,130	16,34,144	19,79,375	23,94,252

32.ASSOCHAM

6.2 Forecast of Individual Wealth

The increase in Financial Household savings will contribute significantly to the Individual wealth in the coming years. With encouraging GDP growth forecasts and with additional investments in the Indian economy, the total individual wealth is set to grow. In addition, the returns generated on the invested wealth will also contribute to the total wealth. ***The individual wealth is expected to grow to more than ₹ 106 lakh crore by FY 12 and will almost triple to ₹ 249 lakh crores by FY16.***

TABLE 16: INDIVIDUAL WEALTH FORECAST

(₹ cr.)	FY12	FY13	FY14	FY15	FY16
Individual Wealth - Beginning of the year	86,49,764	1,06,86,786	1,31,99,536	1,63,00,441	2,01,28,839
Return generated on invested wealth	9,28,274	11,65,620	14,66,762	18,49,022	23,39,396
Household financial savings to be invested	11,08,749	13,47,130	16,34,144	19,79,375	23,94,252
Total	**1,06,86,786**	**1,31,99,536**	**1,63,00,441**	**2,01,28,839**	**2,48,62,487**

Over the next five years, we expect wealth held by individuals in India to grow at 23% CAGR.

6.3 Key Trends

- Total Individual Wealth in India is expected to nearly triple to ₹ 249 lakh crore by FY16 from the current ₹ 86.5 lakh crore.

- Fixed deposits have regained popularity in FY11 to become the single-largest investment class. These instruments are expected to continue to be the largest and preferred investment class, at least in the next couple of years.

- Indian companies are becoming more mature, and with increasingly greater numbers getting listed, Individual Wealth in equities is expected to reach 37% in India in FY16, against 30% in FY11.

- As retirement benefits become more limited for the newer generation of government employees, they will begin to increasingly focus on retirement planning. As awareness increases, more investments will be channelised into pension funds and retirement benefits.

- Alternative assets - including structured products, private equity and venture capital funds, gold ETFs, and realty, film and art funds - are expected to grow at a rapid pace of 100% per annum.

- Although the average investment size is larger, structured products and highyield debt will remain popular among HNIs as these are relatively safe in terms of principal protection.

- Over the next five years, we will also see a rise in insurance investments as private companies become more evolved.

ABOUT KARVY PRIVATE WEALTH

Founded in 1985, the KARVY Group has grown to become one of the leading financial groups in India. Our wide network spans more than 400 branches/offices across India, Dubai, New York, Singapore & more than 400 franchisees all over the country. The group operates multiple businesses – stock broking, IPO marketing, registry and transfer of shares, depository participants, insurance broking, mutual fund distribution and commodity broking among others – and is ranked among the top five in most of these businesses. The KARVY Group Services 60 million individual investors in various capacities, and provides investor services to over 400 corporates.

All this has been built upon the Group's unwavering commitment to integrity and transparency in all its dealings- a fact all our customers attest to. Out of this very culture of success has emerged Karvy Private Wealth, the wealth management arm of the KARVY Group. Karvy Private Wealth focuses on providing wealth management advisory services to High networth Individuals and Business Families. Karvy Private Wealth provides a spectrum of innovative solutions to privileged individuals like you who need wealth management solutions to manage their hardearned fortunes efficiently.

At Karvy Private Wealth, we believe that expert wealth management is important to maintain the value of your wealth over a long period of time and to grow it to fulfill your aspirations and financial goals.

The Karvy Private Wealth Edge

We aspire to become your trusted and primary advisor.

We act as more than just investment advisors - we provide access to a complete suite of services. With the right people guiding your wealth in right direction, there is no limit to what you can achieve. All our investment recommendations are backed by intense in-house research and tailor-made for you as a bespoke solution by our highly experienced senior management team. Our strategic asset allocation framework takes into account your unique circumstances and financial personality for recommending an asset allocation specific to your needs.

Karvy Private Wealth is a neutral advisor as we are not affiliated to any product partner, thus giving you honest & unbiased advice at all times.

At Karvy Private Wealth, we ensure that you get the freedom to actually enjoy your success by offering you end-to-end advice, which helps you to Keep Growing.

DISCLAIMER

The information and views presented here are prepared by Karvy Private Wealth or other Karvy Group companies. The information contained herein is based on our analysis and upon sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it.

The author, directors and other employees of Karvy and its affiliates may hold long or short positions in the various companies from time to time. Every employee of Karvy and its associated companies are required to disclose their individual stock holdings and details of trades, if any, that they undertake. The team rendering corporate analysis and investment recommendations are restricted in purchasing/selling of shares or other securities till such a time this recommendation has either been displayed or has been forwarded to clients of Karvy. All employees are further restricted to place orders only through Karvy Stock Broking Ltd.

The investments, if any, discussed or recommended here may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned here, investors may please note that neither Karvy nor any person connected with any associated companies of Karvy accepts any liability arising from the use of this information and views mentioned here.

The information given in this document on tax, if any, is for guidance only, and should not be construed as tax advice. Investors are advised to consult their respective tax advisers to understand the specific tax incidence applicable to them. We also expect significant changes in the tax laws once the new Direct Tax Code is in force.

Back Cover

KARVY PRIVATE WEALTH

A division of Karvy Stock Broking Limited

Office Address : Karvy Private Wealth (A division of Karvy Stock Broking Limited), 702, Hallmark Business Plaza, Sant Dnyaneshwar Marg, off. Bandra Kurla Complex, Bandra (East), Mumbai- 400051, Tel: 022-33055000, Fax: 022-33055033

Registered Office Address : Karvy Stock Broking Ltd., KARVY HOUSE 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034

SEBI Registration Nos. : "NSE(CM) : INB230770138, NSE(F&O) : INF230770138, BSE : INB010770130, BSE(F&O) : INF010770131, MCX : 10775, NCDEX : 00236, NSE(CDS) : INE230770138, MCX(SX) : INE260770138, NSDL – SEBI Registration No. : IN-DP-NSDL-247-2005, CSDL-SEBI Registration No. : IN-DP-CSDL-305-2005, PMS Registration No. : INP000001512"