Top Of the Pyramid

T.O.P. India - Decoding the ultra HNI

2012

The Indian Ultra HNI
Untouched by Uncertainty

kotak® Wealth Management

25 YEARS MAKING MARKETS FUNCTION BETTER CRISIL RESEARCH

FOREWORD

Last year, we had mentioned that barring unforeseen circumstances, there is no turning back of the clock on the spectacular India growth story.

Things have changed since then.

Not so much that the long-term India story is under threat. Far from it. But events in the economy over the past year provide food for thought. There are warning clouds over the economic horizon at present that, if not nipped in the bud immediately by policymakers, have the potential to turn into a cloudburst.

Mindful of the prevailing economic landscape, we have, in this edition of our report, sought answers to the behaviour of the ultra HNI when confronted by adversity. Needless to say, the answers were extremely interesting and revealing.

This year's edition will be an invaluable addition to the previous year's behavioural learnings. Wealth managers and luxury product makers, in particular, will find it insightful.

Yet again, Kotak and CRISIL are extremely proud to present this second edition of their report 'Top of the Pyramid.'

As always, happy reading.

C. Jayaram
Joint Managing Director
Kotak Mahindra Bank Ltd.

Mukesh Agarwal
President
CRISIL Research

INSIDE THE REPORT

ABOUT THE REPORT

The year that went by since our inaugural report has been a difficult one, to say the least. The sovereign debt crisis in Europe erupted and Greece was the first to implode under the weight of its huge debt. Subsequently, other major European countries such as Italy, Spain, Portugal and France have been dragged, in varying degrees, into the quagmire caused by the crisis.

The casualty has been world economic growth and large-scale wealth destruction for many. Being intrinsically linked to the world economy, India and Indian industry too felt the heat of the crisis. The phenomenal growth seen in the country in the last few years in the number of the super rich hit the pause button due to the slowdown, as the Forbes Billionaires List 2012 indicates.

In the inaugural report, we had established the broad framework and expounded the methodology to define who an ultra high net worth individual (ultra HNI) is. And, instead of focussing the spotlight that year on their numbers and the size of their wealth, we had looked at behavioural aspects, such as what drives these individuals, their priorities or motives when it comes to spending or investing and whether there was any homogeneity in their actions as a class.

In the light of our understanding of their behaviour, we have tried to understand how the ultra HNIs fared during the slowdown. The conclusions were extremely enlightening, and gave us an interesting insight into their mindset and actions during times of adversity. More importantly, many of the conclusions that we drew last year have been validated successfully.

For both wealth managers and luxury product makers, intimate knowledge on the earning, spending and investing behaviour of the super wealthy is a pre-requisite for their success. We believe that this year too, the learnings gleaned from our survey will be invaluable for people who manage the wealth of the ultra rich, and will help niche companies operating in the segment expand their product line and also come up with more innovative marketing or distribution strategies for their products.

It was last year that Kotak Wealth and CRISIL Research seized the opportunity to release a report that analyses and tracks ultra HNI trends with specific reference to the Indian market. In that context, this year, we looked at two sectors in some detail: cars and education. Again, the results were extremely revealing.

Kotak is a pioneer and leader in the private banking space in India. Its Wealth Management team caters to over a quarter of the 100 most wealthy (as per the Forbes India Rich List - 2011) in India.

CRISIL Research is India's largest independent research house, providing comprehensive research coverage to more than 1,200 Indian and global customers.

This report is based on two main strands of research – personal interviews and market surveys.

1) A series of interviews were conducted with senior personnel at major global luxury brands, art gallery owners, product dealers and industry body representatives.

2) We commissioned a market survey of about 150 ultra HNIs, with conversations lasting up to one hour. The respondents were spread across three major cities, namely Mumbai, Delhi and Bengaluru, as well as Hyderabad, Chandigarh, Ahmedabad / Vadodara, Chennai, Pune and Kolkata. A majority of the respondents (75 per cent) were from the three major metros. The survey took place between December 2011 and April 2012.

CRISIL Research then undertook an extensive analysis of the results of the survey and every conclusion was subject to the same analytical rigour and review process that is the hallmark of all CRISIL Research reports.

This report would not have been possible without the co-operation of all the survey respondents and the interviewees. We thank them for their invaluable support, the time they put at our disposal and the insights they offered.

About Kotak Group

Kotak is a leading banking and financial services organisation in India, offering a wide range of financial services that encompass every sphere of life. From services like Family Office for ultra HNIs, to Wealth Management for HNIs, to commercial banking, car finance, stockbroking, asset management, life insurance, investment banking, the Group caters to financial needs of individuals and corporates.

In February 2003, Kotak Mahindra Finance Ltd., the Group's flagship company, was given the license to carry on banking business by the Reserve Bank of India (RBI). This approval created banking history since Kotak Mahindra Finance Ltd. was the first non-banking finance company in India to convert itself into a bank as Kotak Mahindra Bank Ltd.

The Group has a net worth of ₹ 129.01 billion and a distribution network through branches and franchisees across the country and offices in New York, California, London, Dubai, Abu Dhabi, Bahrain, Mauritius and Singapore, servicing close to 10 million customer accounts.

The Kotak Group offers the understanding, the experience, the infrastructure and most importantly the commitment to deliver pragmatic end-to-end solutions.

About Kotak Wealth

Kotak has one of the oldest and most respected Wealth Management teams in India, providing solutions to high net worth individuals.

Over fourteen years, a wide range of wealth management solutions has made Kotak Wealth Management the largest player. Our client base ranges from entrepreneurs to business families to employed professionals.

On the investment scenario, we believe that no single asset class tends to perform consistently over a long period of time. Therefore, an HNI needs to be given access to various asset classes, investment styles, themes and tenures. Thanks to this focus of the Group, we have built a formidable suite of products and services straddling this spectrum. Our offering is customised, based on the client's profile and investment objectives.

The Kotak Wealth umbrella also includes Family Office. Through Family Office, we go beyond investments to provide a host of value-added services such as Estate Planning Services, tax optimisation, etc.

Kotak Wealth Management recently won awards across several categories in the Euromoney's Private Banking Poll - 2012 including 'Best Family Office Services, Range of Advisory Services, Range of Investment Products' in India. It also won 'Best Private Bank - India' in FinanceAsia Country Awards - 2011.

We have maintained our leadership position, thanks to the macro environment, in-depth understanding of the client's requirements and of the various asset classes. This has resulted in Kotak being in a position to offer the widest range of solutions for the client.

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research and risk and policy advisory services.

We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading

corporations. With sustainable competitive advantage arising from our strong brand, unmatched credibility, market leadership across businesses, and large customer base, we deliver analysis, opinions and solutions that make markets function better.

Our defining trait is our ability to convert data and information into expert judgements and forecasts across a wide range of domains, with deep expertise and complete objectivity.

At the core of our credibility, built up assiduously over the years, are our values: Integrity, Independence, Analytical Rigour, Commitment and Innovation.

CRISIL's majority shareholder is Standard and Poor's (S&P). Standard & Poor's, a part of The McGraw-Hill Companies (NYSE:MHP), is the world's foremost provider of credit ratings.

We address a rich and globally diversified client base. Within India, our customers range from small enterprises to the largest corporations and financial institutions; outside India our customers include the world's largest banks and leading corporations. We also work with governments and policymakers in India and other emerging markets in the infrastructure domain.

We empower our customers and the markets at large, with independent analysis, benchmarks and tools. These help lenders and borrowers, issuers and investors, regulators, and market intermediaries make better-informed investment and business decisions. Our offerings allow markets and market participants to become more transparent and efficient – by mitigating and managing risk, taking pricing decisions, generating more revenue, reducing time to market and enhancing returns. By helping shape public policy on infrastructure in emerging markets, we help catalyse economic growth and development in these countries.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macroeconomy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

EXECUTIVE BRIEFING

Our survey this year on ultra high net worth individuals (ultra HNIs) was conducted in the backdrop of an economic crisis that has gripped many parts of the world and has had an impact on the Indian economy as well.

It proved to be an opportune time to study how the Indian ultra HNI reacts in times of adversity, particularly in areas such as spending and investing, and whether there are any patterns that would prove to be of interest to providers of luxury products and services.

The economic downturn, we found, had little or no effect on ultra HNI spending and understandably so. One distinct facet of the ultra HNI is his lifestyle and he goes to great lengths to maintain it. Our respondents did not seem to feel that the circumstances warranted any cutbacks in spending. In fact, many of them even justified the increase in expenditure, in absolute terms, by pointing out that the number of non-discretionary items too was on the rise, to support that lifestyle. For instance, a product such as the iPad (customised, high-end versions) may have been a discretionary item very briefly, in the early days of its launch, but is today a non-discretionary spend. And the list is growing.

In the context of spending, we looked at luxury cars in some detail this year. And here, we came across one trait that is central to the spending behaviour of ultra HNIs in not just cars, but overall: exclusivity. Our survey revealed that the premium that is placed on exclusivity is sometimes so much that in case of a conflict between brand and exclusivity, it is the latter that often triumphs.

We found that the perception of loss of exclusivity was primarily responsible for the considerable churn in market share this year of the top three luxury car makers. In addition, the brands that gained were those that were able to effectively draw the youth towards them.

These findings are interesting in the context of the kind of market that India is expected to become in a few years. We believe that propelled by both favourable demographics and volumes, India will become one of the most important markets for global luxury product makers in the long term.

Our estimates suggest that the total net worth of Indian ultra high net worth households (ultra HNHs) will reach ₹ 318 trillion in 2016-17, a nearly five-fold increase from around ₹ 65 trillion in 2011-12. This growth in net worth will be driven predominantly by growth in the number of ultra HNHs and the returns on wealth.

If we consider a household with a minimum net worth of ₹ 250 million, there are more than 81,000 ultra HNHs in India as of 2011-12. Although, this number represents a miniscule 0.03 per cent of the total households in India, it is poised to more than triple to over 286,000 households by 2016-17.

It is clear from the numbers above that the spending potential of this class is enormous and is showing sustained growth. And these wealthy spenders will not be limited to just a few cities. Over half of the ultra HNHs in the country are in the four metros. The other top 6 cities account for around 13 per cent and the next 40 cities are home to about 15 per cent. The rest are spread across the country.

Our survey on luxury cars also indicates that the Indian ultra HNI as a class represents a market with very distinct tastes, borne out of a combination of rich traditions and heritage and modern needs. It is also increasingly likely to become a market that is becoming younger with time, as indicated by the success that some recent entrants into the luxury car market have been able to achieve by targeting the youth.

In the next few years, India is projected to become one of the world's youngest economies, not just in terms of the workforce but also in terms of the overall population. And, in future, rising prosperity fuelled by healthy economic growth will ensure that a significant percentage of those young will be part of the ultra HNI segment.

Yet another key finding of the survey was that in stark contrast to their attitude towards spending, the approach of ultra HNIs towards investments this year was cautious and low risk, reflecting the economic and business sentiment of the day.

Many of them used their business acumen and understanding of markets and shifted focus to investing in safe havens such as debt and gold. Proportion of incremental investments in equity markets was stable even in uncertain situations as ultra HNIs view it as a long-term bet.

The general feeling among our respondents was that the situation would come back to normal by mid to late 2013. So, many of them are in a wait and watch mode and caution has crept in only on investments so far. But if the uncertainty concerning the global economic recovery lingers for some more time, however, there is a real risk that the patterns seen in investments will spill over into spending. And in a tough economic climate, such as the current one, some of the above mentioned findings may well turn out to be game changers on the road to success.

Introduction

INTRODUCTION

To quote from a Forbes article, "The big story this year was about churn."

Unquestionably, it was a tumultuous year, in every sense of the term; particularly so in the developed West, which still remains a significant influence on global growth. People who live in what was once perhaps derisively referred to in the West as the 'third world' watched in horror as many economies in Europe, once envied and admired for their economic development and the high living standards of their people, began to shudder under the weight of the debt they had accumulated over the years – the pernicious effect, critics said, of living beyond their means for so many years.

As the global economic downturn caused by the sovereign debt crisis in Europe advanced, the economies of many countries turned turtle, unemployment shot up, living conditions deteriorated and many iconic businesses went bust.

Did the number of global wealthy shrink too? Not really!

The Forbes Billionaires list of 2012 has 1,226 billionaires, an all-time high since the magazine began its rankings 25 years ago. The number of people who gained, or lost, wealth was more or less equal. Contrary to what people may have been expecting, the US added billionaires, despite the downturn, whereas among the BRICS nations, only Brazil added billionaires.

The number of wealthy continue to grow. They innovate to stay wealthy and live, or try to live life king size.

If a similar list of the global super wealthy had been made in the first half of the last century, a good number of Indians would have figured on it – people such as the Maharaja of Patiala and the Nizam of Hyderabad, to name a few. But for the next around forty years or so post Independence, one would have been hard pressed to find one.

What really tilted the scales and eventually led, and continues to lead, to a quantum jump in the number of Indian billionaires was the domestic liberalisation process in the 1990s through a series of path-breaking economic and capital market reforms that freed the economy, promoted entrepreneurship, and encouraged capital and wealth creation. In the trailblazing years that followed, the hitherto 'Hindu rate of growth' was unceremoniously dumped and the country's GDP growth soared towards the high single digit mark, next only to that of the other rising superpower, China.

In the transformation that ensued, growth ran riot in the IT/ITES sectors, capital markets opened up and millions more joined the stock market frenzy and average income levels rose multifold. But, most importantly, long pent-up aspirations were unleashed – and businesses that came up in response to meet this burgeoning demand for products (both lifestyle and non-lifestyle) eventually created millionaires and then billionaires.

From being a relatively impoverished nation, there was a sudden surge in the number of the rich and money in the pockets waiting to be spent, even as the country's increased integration with the global economy widened the population's exposure to major global luxury products and services. Increasingly, people threw away their past inhibitions; it was no longer bad to be rich, or richer, or richest. Since then, there has been no looking back. A luxury revolution has unfolded and slowly engulfed the entire nation.

So people hardly bat an eyelid today when luxury homes are advertised and sold in cities such as Delhi or Mumbai for prices that are comparable to those in exotic locations, such as the French Riveira.

When news emerged that one of the world's costliest residences (Antilla) was being built in Mumbai, it generated more curiosity than angst. Reams of column space in newspapers and television time on

entertainment channels were spent on speculation about the interiors, the carpeting, the crockery, the theatre, the swimming pools inside or even the number of helipads on its roof.

A few years ago, such public displays of opulence would perhaps have elicited a different reaction. But, with average income rising steadily, attitudes are changing and that trend is unlikely to reverse because, barring any unforeseen circumstances, there is near-consensus globally that the India growth story will endure in the long term.

The Indian ultra HNH

In our inaugural report last year, we had drawn up a benchmark that defined the ultra HNH.

For the purpose of this report, CRISIL Research has defined an ultra high net worth household (ultra HNH) as one having a minimum average net worth of ₹ 250 million essentially accumulated over the past 10 years, which as per our proprietary tool 'IDeA' (Income and Demographics Analysis) gets mapped to a minimum income of ₹ 35 to 40 million.

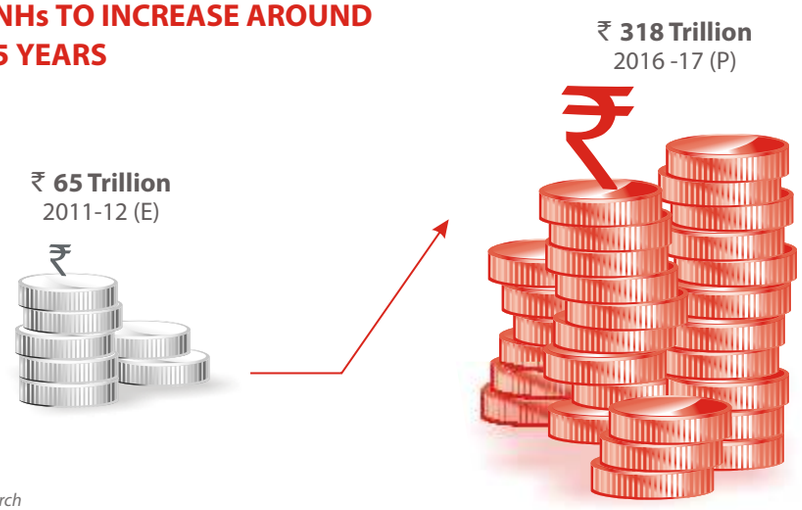
Slightly over 20 years since economic reforms were launched by the Narasimha Rao government, it is evident that the economic landscape of India has undergone a remarkable transformation. From a slow-growing agrarian country, it is today arguably the second most dynamic large economy in the world, next only to China.

The country's GDP has grown at a compounded annual growth of around 7.5 per cent over the past 3 years, at a time when the most developed economies have limped along at 1-2 per cent. The economic boom since 2000 has resulted in unprecedented wealth creation and catapulted many Indians into the leagues of the global jet set.

The total net worth of Indian ultra HNHs, is expected to reach ₹ 318 trillion in 2016-17 from an estimated ₹ 65 trillion in 2011-12. This growth in net worth will be driven predominantly by growth in the number of ultra HNHs and the returns on wealth.

At present, there are no validated estimates of the number of ultra HNHs in the country. If we consider a household with a minimum net worth of ₹ 250 million, there are more than 81,000 ultra HNHs in

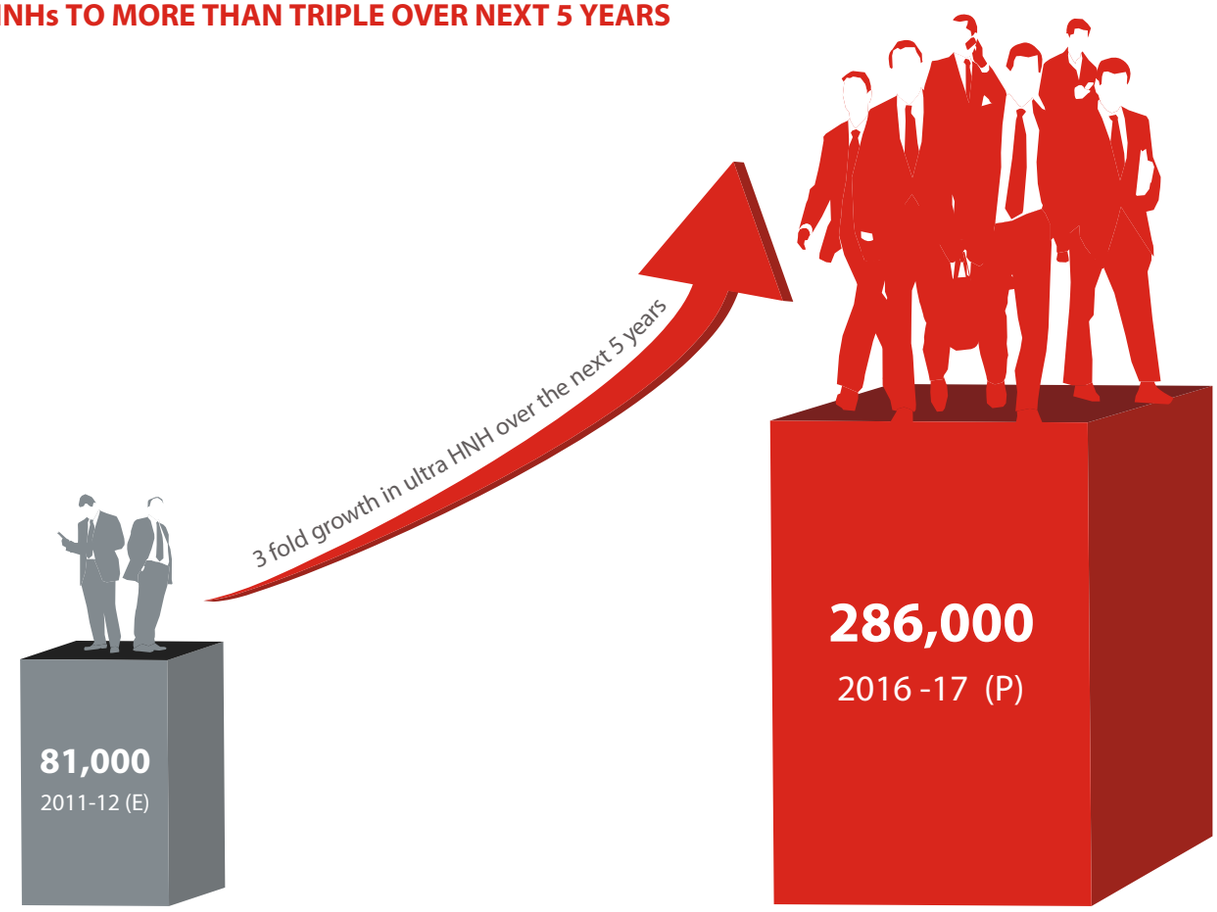
NET WORTH OF ULTRA HNHs TO INCREASE AROUND 5 TIMES OVER THE NEXT 5 YEARS



E: Estimated P: Projected

Source: T.O.P. India - Kotak Wealth & CRISIL Research

ULTRA HNHs TO MORE THAN TRIPLE OVER NEXT 5 YEARS



E: Estimated
P: Projected

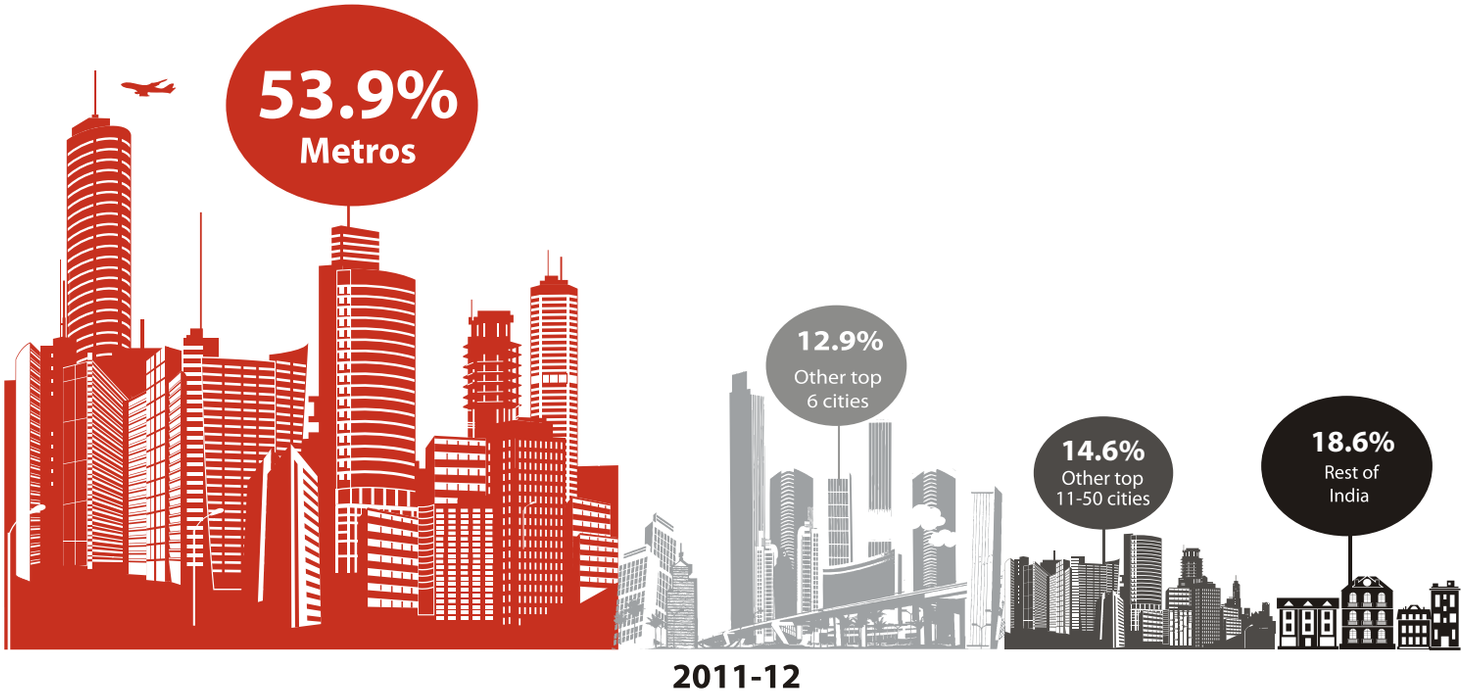
Source: T.O.P. India - Kotak Wealth & CRISIL Research

India as of 2011-12, estimates Kotak Wealth and CRISIL Research. Although this number represents a meagre 0.03 per cent of the total households in India, it is poised to more than triple to over 286,000 households by 2016-17.

Over half of the ultra HNHs in the country are in the four metros. That is understandable, because these cities have been the financial epicenters of their respective regions since the time of British rule, or even earlier; even after Independence, the wealthy found it convenient to be located here from the point of view of both their business interests and their lifestyle. The other top 6 cities account for around 13 per cent and the next 40 cities are home to about 15 per cent. The rest are spread across the country.

Unlike before Independence, or in the early years after that, when they were most likely to have been from the upper class or the nobility,

METROS ACCOUNT FOR MORE THAN HALF OF THE ULTRA HNH



Source: T.O.P. India - Kotak Wealth & CRISIL Research

Note: Other top 6 cities include Bengaluru, Ahmedabad, Pune, Nagpur, Hyderabad, Ludhiana

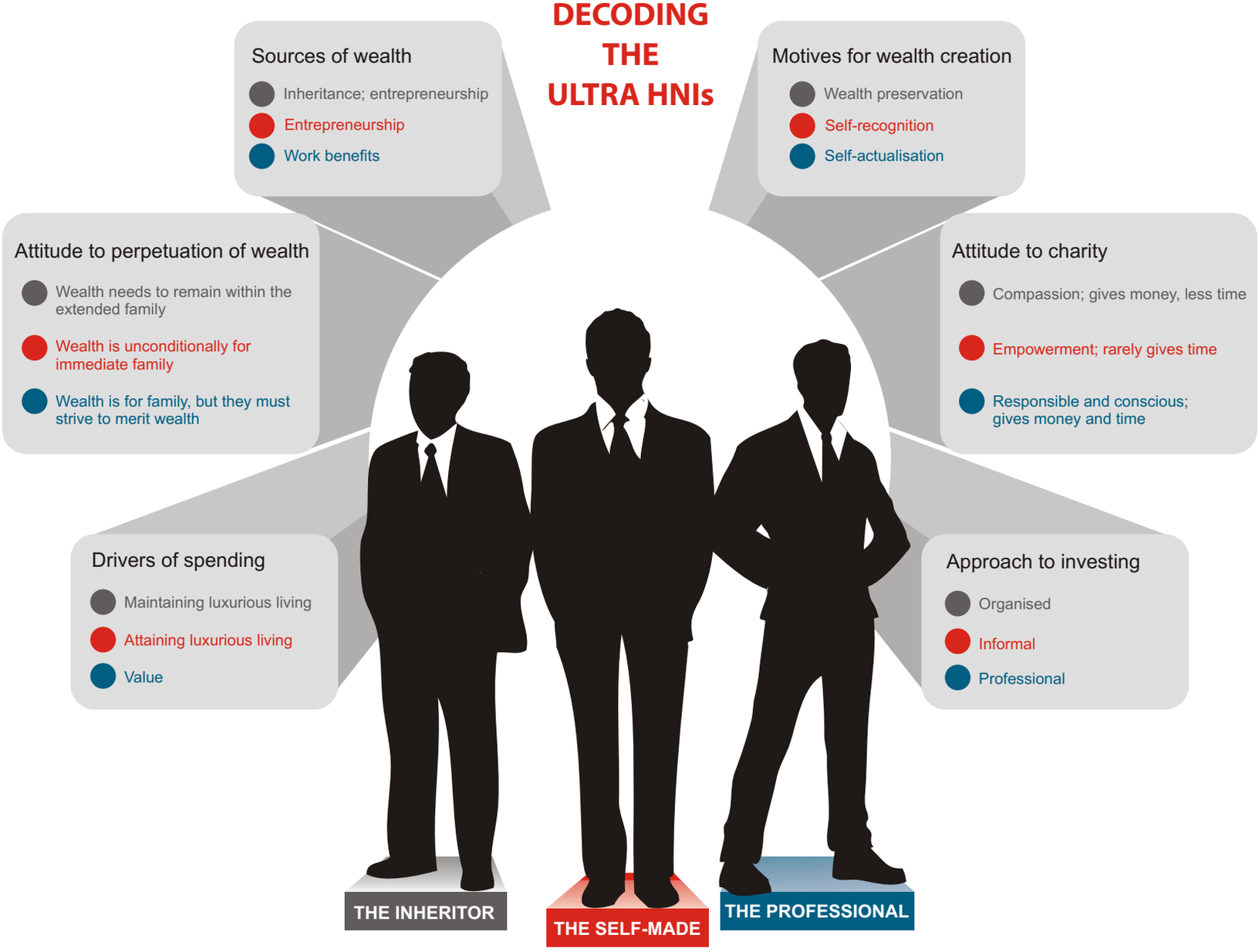
the Indian billionaires of today come from varied backgrounds, a testimony to the fact that wealth creation through inclusive economic development is truly a great leveller.

Entrepreneurship is clearly the dominant source of wealth in India, but fast-growing service industries such as technology and financial services too have catapulted many hitherto middle-income group households into the ultra HNH bracket.

Based on our findings, using parameters such as source of wealth, motivation for wealth creation, spending and investing patterns, attitude towards charity or philanthropy, and perpetuation of wealth, we had, in our previous report, classified the Indian ultra HNI into three groups:

- Inheritors
- Self-made
- Professionals

DECODING THE ULTRA HNIs



What sets these ultra HNIs apart from others is the sheer value and the type of assets they own. It is not often that one gets to build a 27-storey building for oneself, with three helipads, or have a 1-acre penthouse nearly a mile above, in the sky.

Inevitably, in keeping with the need to maintain a flamboyant lifestyle, they are very heavy spenders on high quality homes, food, clothing and the luxuries of life in entertainment, education, travel, and family vacations.

Our survey this year was conducted in the backdrop of the global economic downturn and its domestic repercussions, reflected in a slowdown in macro-economic and industry parameters such as GDP growth, and index of industrial production.

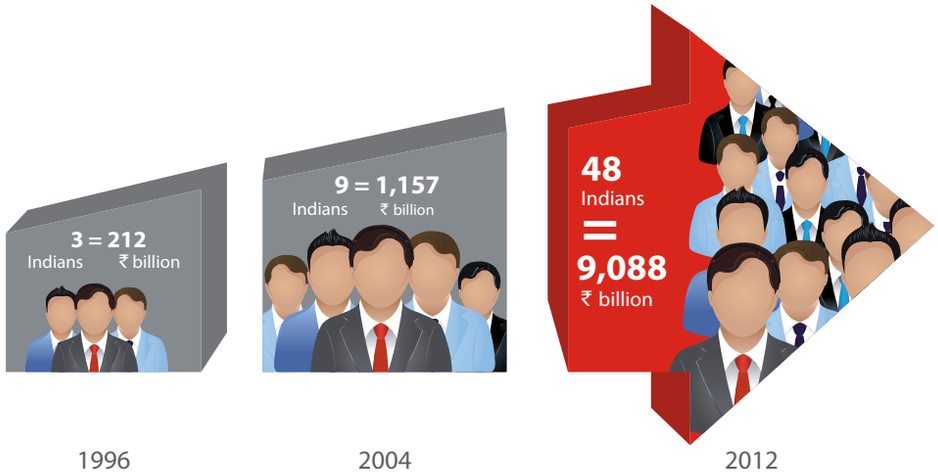
The common man was clearly hit by the conditions. Were the wealthy too similarly affected, we wondered. A strict reading of the Forbes list would suggest that they were, albeit marginally. The number of Indian billionaires is down only slightly in 2012 compared with the previous year (48 versus 55 in 2011).

But, happily for luxury product makers, most ultra HNIs refuse to acknowledge that there is a downturn when it comes to spending. And, surprisingly, over 60 per cent of those who said there was no slowdown were from the non-metros. "There is nothing wrong with the economy, but the fact that people are comparing growth levels to 2008 levels. That was an exception and cannot be used as a benchmark since we might never reach those levels again," one of them opined.

A number of items that may qualify as luxury to most other individuals are essential (non-discretionary spends) items for the super rich. Unless they have been rousted out of the rich league due to some business or financial calamity, most ultra HNIs find it unthinkable to

NUMBER OF INDIANS ON FORBES LIST*

Net worth (₹ billion)



* Forbes Billionaires List - 2012

Source: T.O.P. India - Kotak Wealth & CRISIL Research

curtail their spending or change their lifestyle because the economy is facing a few jitters.

One of them voiced the thought that was echoed by many. "We are used to a certain lifestyle and it is not easy to change it, even if there is a slowdown – it is not impacting us so much that we need to change or cut our lifestyle."

And those who acknowledged that there was a slowdown stated that even if they do cut down on something, it would be in a way that is not apparent at all. "There is a slowdown but people are not willing to show that their lives are affected. I will curb on things that will not show that I have altered my life in any way. So, instead of business class, I will travel economy class, but I will still throw a big party where I will invite everyone," one of them remarked.

There is also a huge attitudinal shift that is visible, even among the older ultra HNIs, perhaps due to a combination of the growing nuclearisation of families and the relentless growth in consumerism. It is an attitude that is infectious and is affecting even the older generation of ultra HNIs. "Our generation also has an attitude like the younger one. We also want to live for the moment and make the most of what we have. We have a small family – just two children, my wife and I both believe we should keep some money for our children but also enjoy our lives. Hence, we spend when we want to without thinking a lot," a middle-aged respondent remarked.

But, on investments, it is a totally different story. Most of them are people of high business acumen and they recognise a risk when they see it. The innate caution that they exercise when they conduct business was evident in the nature of their investments this year.

"I believe, at the moment, capital conservation is the most important thing, so I will not withdraw money from equities, but not invest more either," one of the respondents admitted.

Asset classes such as equities and commodities were found wanting, a reflection of the subdue state of these markets. Instead, there was an increase in safe-haven investments such as debt, fixed deposits and gold. And in real estate too, whenever low-risk opportunities such as distress sale arose.

Most ultra HNIs shunned the opportunistic approach that is always evident during a time of boom in asset classes such as equities. Instead, the over-arching sentiment during the year was low risk and maximum protection, with discipline in investments the key objective.

Our survey this year also delved deeper into the psyche of the ultra HNI when it came to luxury cars, which happens to be one of the big-ticket spend items, if not the biggest. Our findings suggest that the Indian ultra HNI is increasingly thinking like his global peers when it comes to cars that they aspire to own. Exclusivity is perhaps the most important criterion in their choice of cars, so high-end luxury models of BMW, Audi and Mercedes are the most aspirational cars (cars that they believe they can buy soon) although a Lamborghini, a Bugatti, a Rolls Royce, a Maybach or an Aston Martin might represent the ultimate in luxury.

At the same time, they are also extremely conscious of the uniquely Indian setting, such as existing road infrastructure, traffic conditions in most cities, luxury car servicing and maintenance infrastructure.

"I do not think it makes sense to spend on importing (luxury) cars and driving them on bad Indian roads. Maintaining these cars becomes a big issue," a respondent opined.

Therefore, higher-end cars of Toyota and Honda are also in equal demand and vogue, with Japanese car makers enjoying a high degree of confidence among this class. *(For details, see special focus on cars)*

Trends in education are also revealing. An earlier generation of ultra HNIs may not have been as highly educated but, across classes, they are emphatic that their children need the best in education that is available. If fifty years ago a post graduate degree was a rarity, today it is commonplace.

It is also vital in today's business environment. "A good college is very important, finally when my son takes over my business – that is what will help him expand our business," one ultra HNI said.

This is particularly true for the Inheritor and the Self-made, for whom a lot of highly educated professionals (from very reputed colleges) work. As businesses and business operations get increasingly complex, driven by changes in the marketplace, management practices and technology, less-educated owners of businesses will not only find it more difficult to run their companies, but will also fail to network effectively with their peers and earn the respect of fellow professionals. *(For details, see special focus on education)*

The importance of education today is also because of the social status that it has acquired. "Education has become extremely expensive and parents attach a lot of importance to it since it also signifies their social standing. A college/school is a talking point for parents these days," one ultra HNI said.

It is tempting to dismiss the economic travails of the short and near term as by-products of global economic integration and keep harping on the bright long-term picture for India, as everyone does. But if policy makers do that, they would be missing the big picture. A lot of the hope and hype that has been generated about India both globally and domestically is due in large measure to the important reforms that were carried out in the 1990s and the early years of this decade, and their all-too-visible, beneficial, trickle-down effects.

It is important that the country continues down the liberalisation path, on all fronts – be it inviting greater foreign direct investment across sectors, or lowering duties, deepening capital market reforms or even playing facilitator – and building further on previous reforms.

Conversely, if the India story is either compromised or delayed, even the unthinkable could start appearing within the realm of possibility – for instance, the cautious behaviour that is currently evident on investments could well spill over into spending. We already heard some murmurs to this effect. "The Indian economy has a lot of structural problems and hence, we can never predict when the issues in the system will be resolved," one of our respondents said.

Trammeling consumption could blow a big hole in the India story.

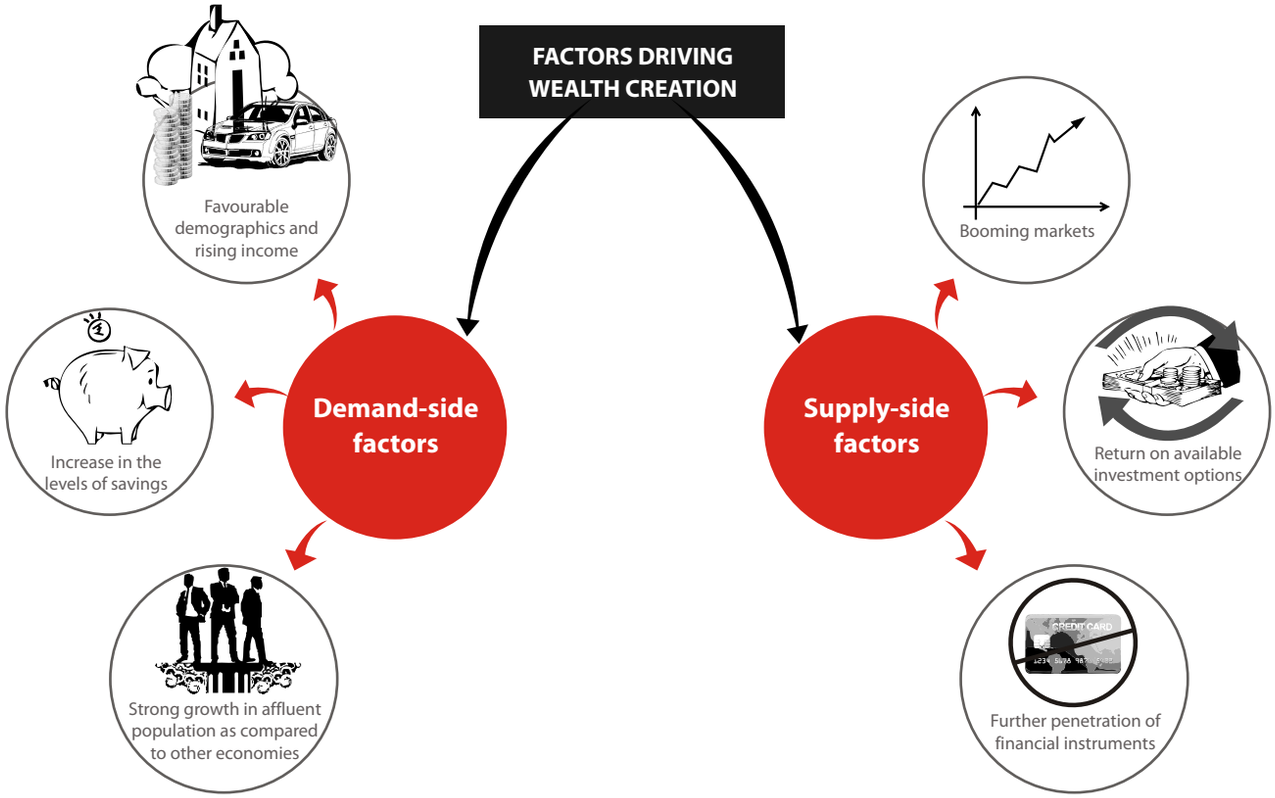
The India growth story; wealth creation to sustain in the long term.

Although near-term economic blips, such as those seen in 2008 and now, may continue to dog Indian investors in the short to medium term, we believe the long-term India growth story remains intact. This cautious optimism is, of course, based on the premise that policymakers will act decisively to stem any further deterioration in the current economic climate and ensure that this phase remains only a temporary phenomenon.

In the last few years, India's growth, even at its lowest, has far exceeded that of both its developed and emerging market peers.

Add to this, virtues such as its population size that makes it an attractive market for foreign companies for all types of goods, a young labour pool and its inherent industrial strength. It is these strengths that have been identified in many studies by leading think tanks and research houses as qualities that will catapult India into being the world's largest economy by 2050 or 2060, notwithstanding the economic and political turbulence being experienced by the country at present.

As growth rebounds and the economy rights itself, more and more investments are expected to flow into India, resulting in more wealth creation, swelling in numbers and in riches of India's nouveau riche.



Source: T.O.P. India - Kotak Wealth & CRISIL Research

Special Focus:
Education Background

SPECIAL FOCUS: EDUCATION BACKGROUND

The tradition of following the footsteps of their forefathers and entering the family business is a very strong one in India. In the past, it has not been uncommon to see youngsters being drafted into the family business at a very early age so that they can learn the ropes and take over when the time comes. Often, such a decision has come at the cost of the youngster's education. While data may be hard to come by, it may not be too far off the mark to say that most of the first and second generation entrepreneurs who set up companies in the last century may have had poor to moderate schooling.

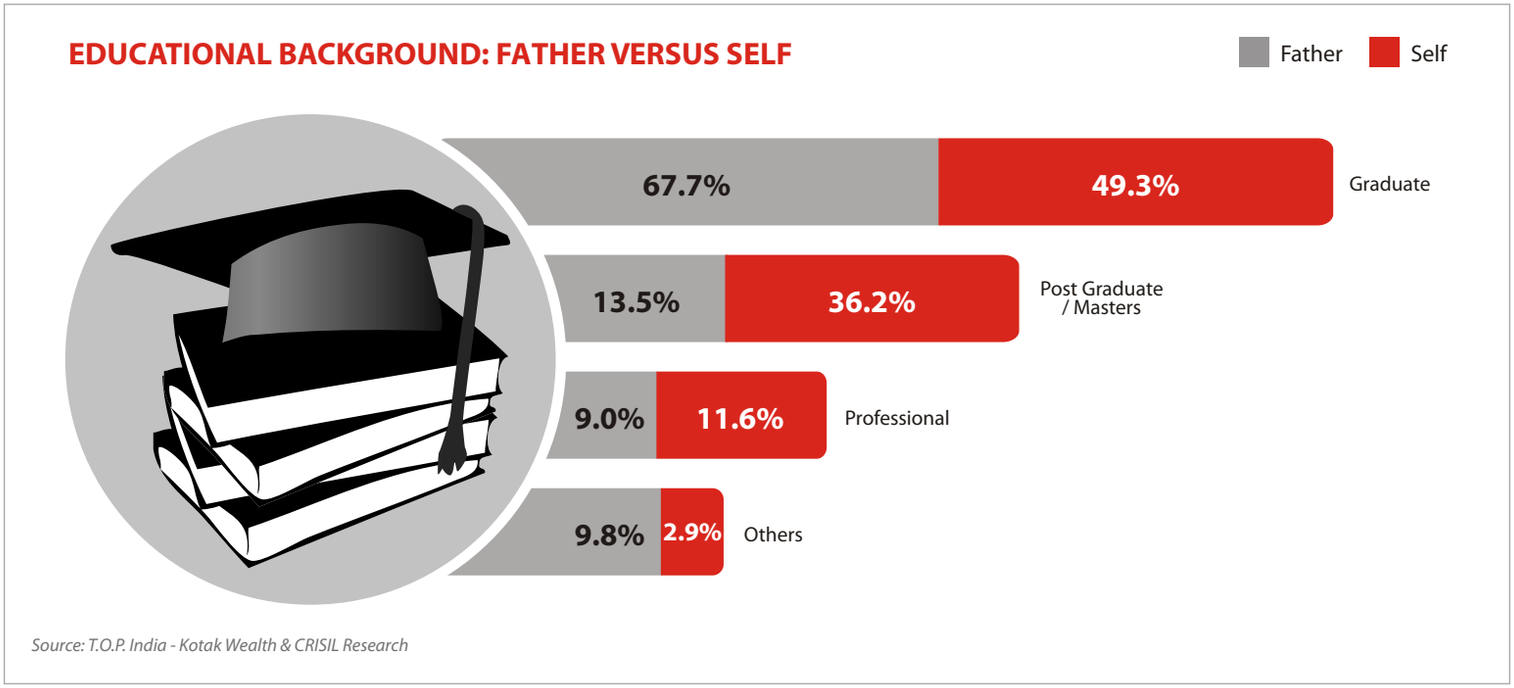
Some may argue that it may have sufficed in those days, but would it be so in today's information age, when both operational and management practices have changed, due to rapid changes in the technological landscape?

This year, one of the key questions to which our survey sought answers was this: was the emphasis on education changing? Some of the answers were on expected lines, but there were also some interesting ones, signifying a change of attitudes.

First, education has become a major focus for today's ultra HNI, irrespective of whether he is an Inheritor, Self-made or Professional; more so for the Professional, as we discovered in last year's survey.

Some of the results that emerged were:

- Most ultra HNIs interviewed were better educated than their fathers and a strong correlation was identified in terms of self made entrepreneurs who were mostly from business families.
- Professionals from business families too wanted to explore opportunities and gain experience working outside their traditional businesses to bring in better knowledge to their traditionally run family businesses.



- There was also a peculiar trend of professionals who after a few years of work experience started their own successful ventures.

- Most mothers were housewives while a small number was found to be working.

One of the most surprising findings was that boarding schools, once referred to as the refuge of the rich kids, is no longer as popular. Perhaps it has to do with greater choice, propelled by the establishment of equally good day schools or educational institutions in their cities and, because of break-up of the joint families and increasing nuclearisation of families, the need of the parents to have their children with them in the formative years.

The survey revealed that the brand name or pedigree of the institution and the curriculum were the most important factors while deciding the school. But here, a very interesting difference came to light: the most important parameter while choosing the school was the curriculum/board in the metros, whereas it was the brand name in the non-metros. This is perhaps because of fewer branded schools in the non-metros and the innate need of the rich here to project an aura of exclusivity in their choice of school. IB/IGCSE schools are growing faster in the non-metros, perhaps because educational service providers are realising the unfulfilled potential in these areas.

And, more importantly, the parents were heavily involved in making the choice of the school, with friends and immediate family being the key influencers. An important consideration in the choice of school was that it should be one where the children felt comfortable with their peers in terms of exposure to, for instance, new subjects and technology.

Most ultra HNIs increasingly prefer to let the child study in India until graduation, perhaps because they are quite comfortable with the quality of such institutions in the country upto this level, and also because it helps in the family staying together during the childhood years. For post graduation, there is an overwhelming preference for institutions overseas, because of the apparent dearth of such high-quality colleges in the country. "Post-graduate education should be done abroad since international universities give better options for specialisation than the Indian ones," one of the parents said.

With a maximum of one or two children, most parents said that the child's education was key priority and was a "no-compromise" expenditure. In this sentiment, there is no essential difference between the Inheritor, the Self-made and the Professional: all of them are equally agreed on the importance of education in today's world and place a very high premium on it.

More pertinently, unlike parents of an earlier generation, almost all ultra HNI parents of today strongly believe that just a graduate degree is insufficient even if the ultimate aim is for the child to join the family business. And, in this context, overseas institutes are the preferred choice for a post-graduate degree, for a variety of factors.

"Apart from the top 5-6 colleges, no other institute in India is so good for post graduate studies," one opined.

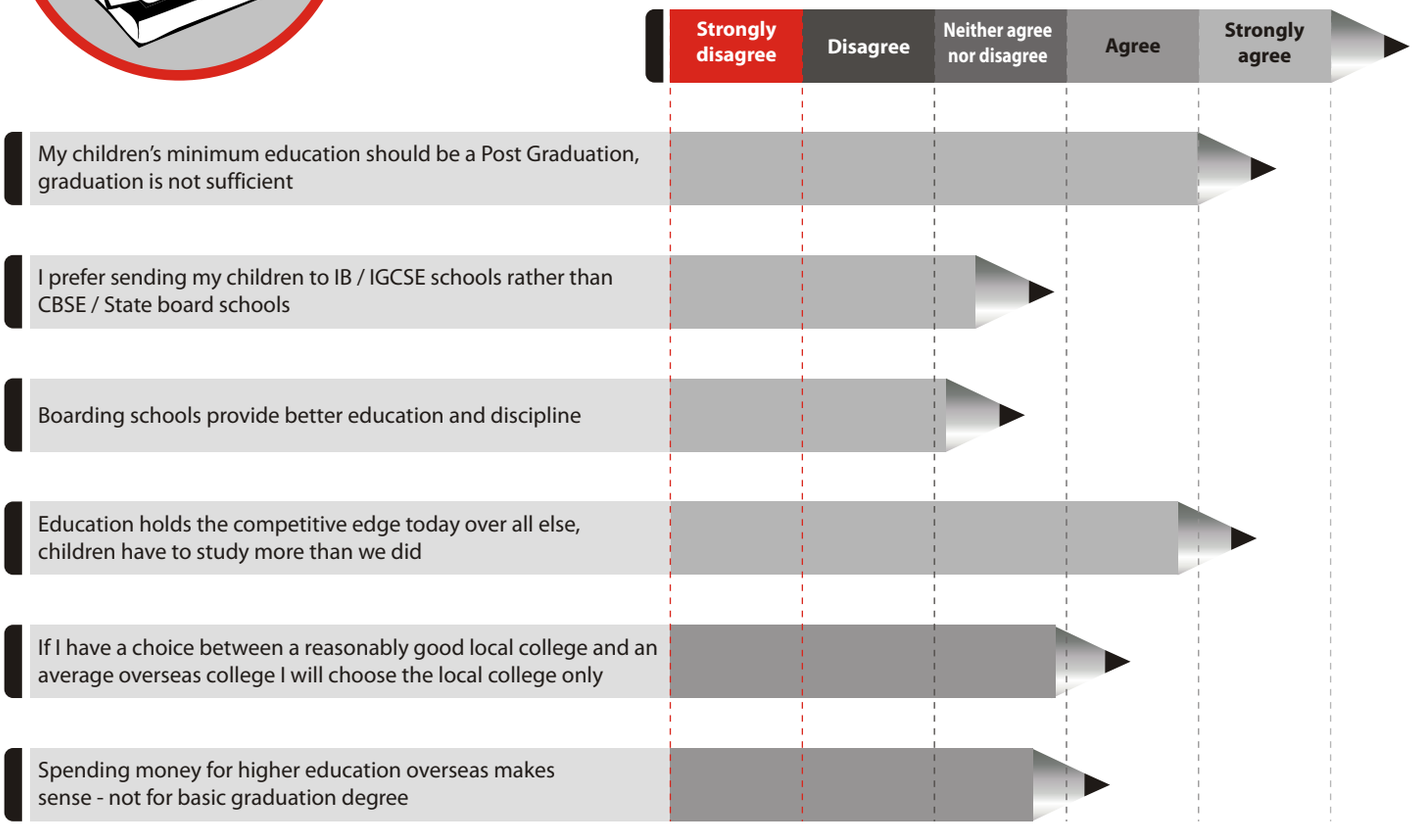
"Competition to get into Indian colleges has become so tough that I really doubt if my child will be able to get into one of the top colleges, it's easier to get into international universities," another remarked.

"Universities abroad allow you to select a college based on a particular subject you want to take up. No university in India gives you that option," a third added.

Nevertheless, from the survey it is clear that increasing nuclearisation of families is causing an attitudinal shift about study overseas. Given the choice of an equally good domestic institution, they are quite willing to let their wards study in India, unlike the foreign focus of an earlier generation.

Maybe, there is food for thought there for foreign higher education providers, or even reputed foreign educational institutions who are contemplating entry into the Indian landscape.

BOARDING SCHOOLS, ONCE REFERRED TO AS THE REFUGE OF THE RICH KIDS, NO LONGER AS POPULAR



Source: T.O.P. India - Kotak Wealth & CRISIL Research

Spending Patterns

SPENDING PATTERNS

"Downturn? What downturn!"

That was the common, sometimes even shocked, refrain we elicited from nearly a quarter of our respondents to our query on whether their high-end lifestyle had suffered due to the subdued economic climate both globally and domestically. The remaining respondents too did not give the subject much importance; some, in fact, dismissed the suggestion outright.

Such an emphatic no for an answer will no doubt be music to the ears of luxury product makers, many of whom are either pondering an India foray or are in the process of bolstering their presence. Britain's Aston Martin and Fiat's Italian brand Ferrari opened showrooms in the country in 2011, joining Rolls Royce, Audi, BMW and Mercedes who are already present.

The response may, however, seem surprising to most individuals who lead what may be called a humdrum existence, at least by the standards of the wealthy. But then, we are not talking about any average individual – we are talking about the ultra rich, the crème de la crème of society, the people who set the trends that others follow.

In what most people would agree was a difficult year, our survey found that the overall trends in spending among Indian ultra HNHs was consistent with what has been observed among the global jet-set – which is that there has been hardly any scaling down on purchases of items that qualify as non-discretionary. And the list of such non-discretionary items is gradually growing, along with changes in lifestyle (high-end electronics, private home theatres etc). For instance, luxury apparel is considered a far more non-discretionary item in the non-metros compared to the metros. Of the respondents who said that designer or luxury clothing was a non-discretionary spend, nearly 58 per cent were from the non-metros.

So, ultra HNIs have not stopped buying luxury gold or diamond jewellery, or stopped constructing plush private home theatres just because the global economic climate has turned a bit sour. A flamboyant industrialist of one of India's oldest business families is building a 30-storey building and furnishing it in such a lavish way that the popular entertainment media has begun to compare it with Antilla (among the world's costliest residences) in Mumbai.

There may have been some who have consciously scaled back on spending, but our survey indicates no discernible trend for this class as a whole. "Spending on clothes and regular shoes, watches has not changed drastically. However, I would not unnecessarily spend on things I don't need," one respondent said.

By contrast, after the global economic crisis of 2008, numerous studies and surveys suggested that the global wealthy, particularly in the developed countries, had turned more cautious on spending. The argument trotted out to support this finding was that the super wealthy in most developed countries had been shocked and awed by the kind of distress that had unfolded after the events of 2008, hitting many near and dear ones, and that whilst there has been no apparent curtailing of spending, a degree of caution hitherto unknown had crept into the equation.

Quite in contrast, many Asian, emerging markets and BRICS nations had not faced the kind of sorrow that had engulfed the West. Moreover, in a developing country such as India, varied shades of poverty are a part of the economic and social landscape and, to that extent, unlikely to cause shock and awe on the same scale as it did in the West.

For instance, early this year, the former first lady of Russia, along with a 30-member entourage, hired the entire spa of the Hotel La Pace in Montecantini Terme, Italy, for a whole week. In the past, the hotel has attracted big Hollywood stars.

Or, consider a member of Abu Dhabi royal family, who is a multibillionaire and owner of Al Futaisi island in the Arabian Gulf. Apparently to ensure that all and sundry would be aware of who the

island belongs to, he carved his name on the island such that it was visible from the air to every traveller who overflew it. Or even the Chinese billionaire who spent US $200,000 to buy a single, racing pigeon (bird).

The Indian ultra HNI has behaved no differently. According to luxury media reports, the patriarch of a south-based infrastructure conglomerate would have easily picked up a tab running into quite a few hundred crores for the wedding of his granddaughter. From the bridal and other outfits to the marriage hall décor, everything was designer made, and number of Bollywood celebrities including big stars performed at the wedding.

Or take the case of one of Bollywood's prominent distributors. According to media reports, he has hired the Royal Albert Hall in London for a wedding in the family later this year, which will also host performances by a number of Bollywood stars. A well known Mumbai's socialite couple held their wedding last year in exotic Monte Carlo, the highlight of which was, among others, a performance by Akon.

That is not to say that the expenditure has not gone up, in a period of still reasonably high inflation. That it has, understandably so. But, more importantly, in percentage terms, this increase in spending has not been at the cost of total savings (investments for growing personal wealth and savings as a percentage of overall income has remained fairly stable). The cutbacks have only been in investments in primary business, philanthropy etc.

Trends in 2011

Our inaugural survey last year had revealed that as a proportion of total income, it is the Professional – and not, as popular wisdom would suggest, the Inheritor or the Self-made – who, well, splurges the most, if one can call it that. This can probably be explained by the fact that the Professional derives his income predominantly from a salary, unlike the Inheritor and the Self-made, both of who generate their income principally from their businesses.

And in this year's survey, we found that, true to his nature, it is the Professional who has eaten into his savings the most to sustain his lifestyle. This is exemplified by the nearly 3 per cent fall in savings for the Professional, compared with the previous year.

It would, however, be inappropriate to conclude from all this that the Professional is a squanderer. According to the results of our attitudes survey last year, unlike the Inheritor and the Self-made, the Professional is not as overwhelmingly consumed by the desire to build up wealth that their children can inherit; based on their own experiences, they place far greater premium on success through good education and hard work and are quite willing to let their progeny come good on their own.

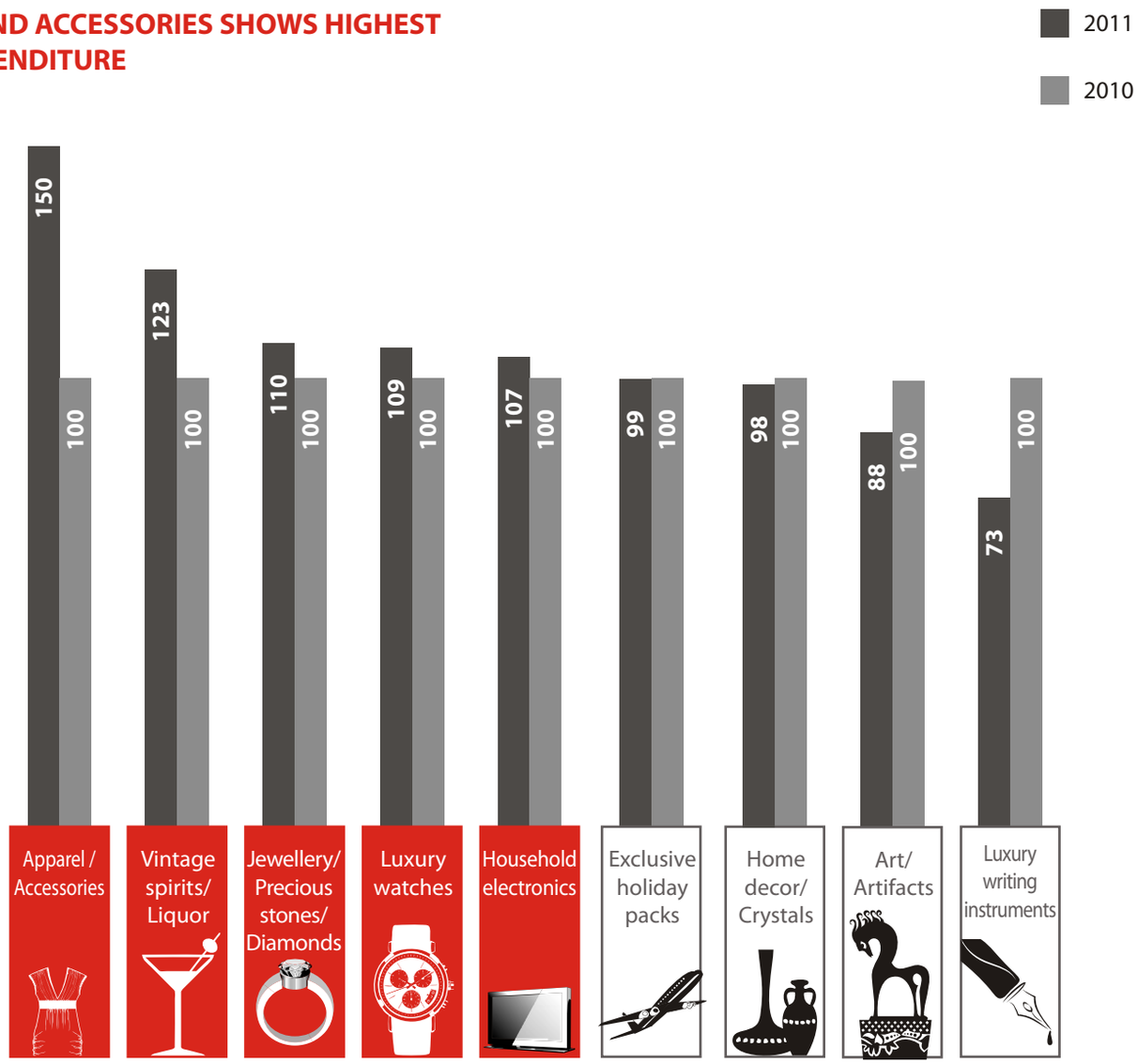
Equally, we found, the Professional is acutely conscious of the environment he comes from and is far more inclined towards charity than the others. We found last year that quite distinct from his regular/occasional spend, the Professional bequeaths nearly 10 per cent of his income towards noble causes, markedly higher than 6 per cent for the Inheritor and around 4 per cent for the Self-made.

This empathy of the Professional towards charity stood out in a difficult year such as the one just past. Unlike both the Inheritor and the Self-made, who did not eat into their savings to buttress the rise in spending, the Professional's savings shrank nearly 3 per cent even as his contribution to charity or philanthropy rose by 5 per cent.

Overall, to sustain their high-end lifestyle, ultra HNIs as a class continue to spend a significant portion of their overall expenditure on domestic and international branded wear, customised holiday packages, luxury watches, jewellery, diamonds and precious stones and household electronics.

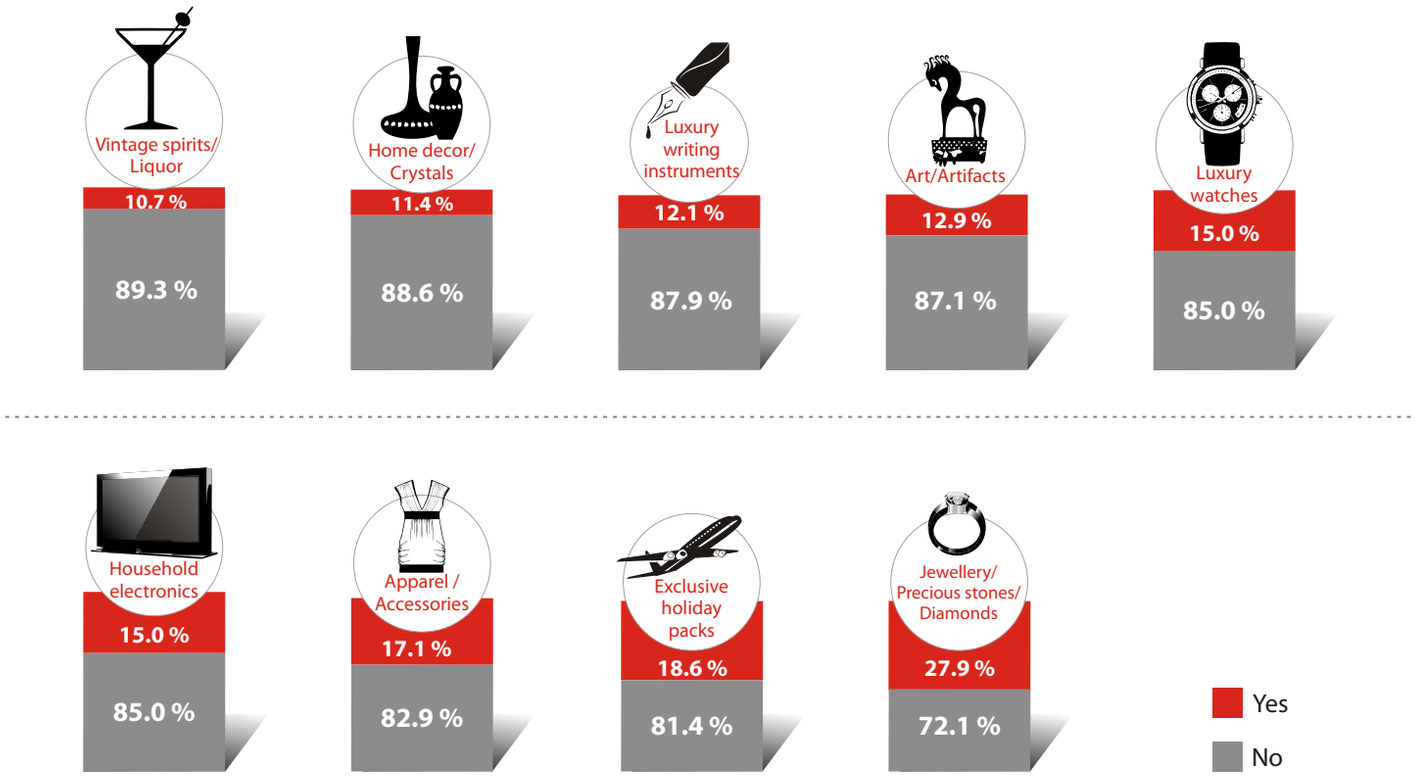
Of these categories, the biggest impact, our survey found, was on jewellery and precious stones – the percentage of respondents saying that the slowdown had hit purchases was nearly 28 per cent, compared with around 11-19 per cent for the other categories.

APPAREL AND ACCESSORIES SHOWS HIGHEST RISE IN EXPENDITURE



Source: T.O.P. India - Kotak Wealth & CRISIL Research

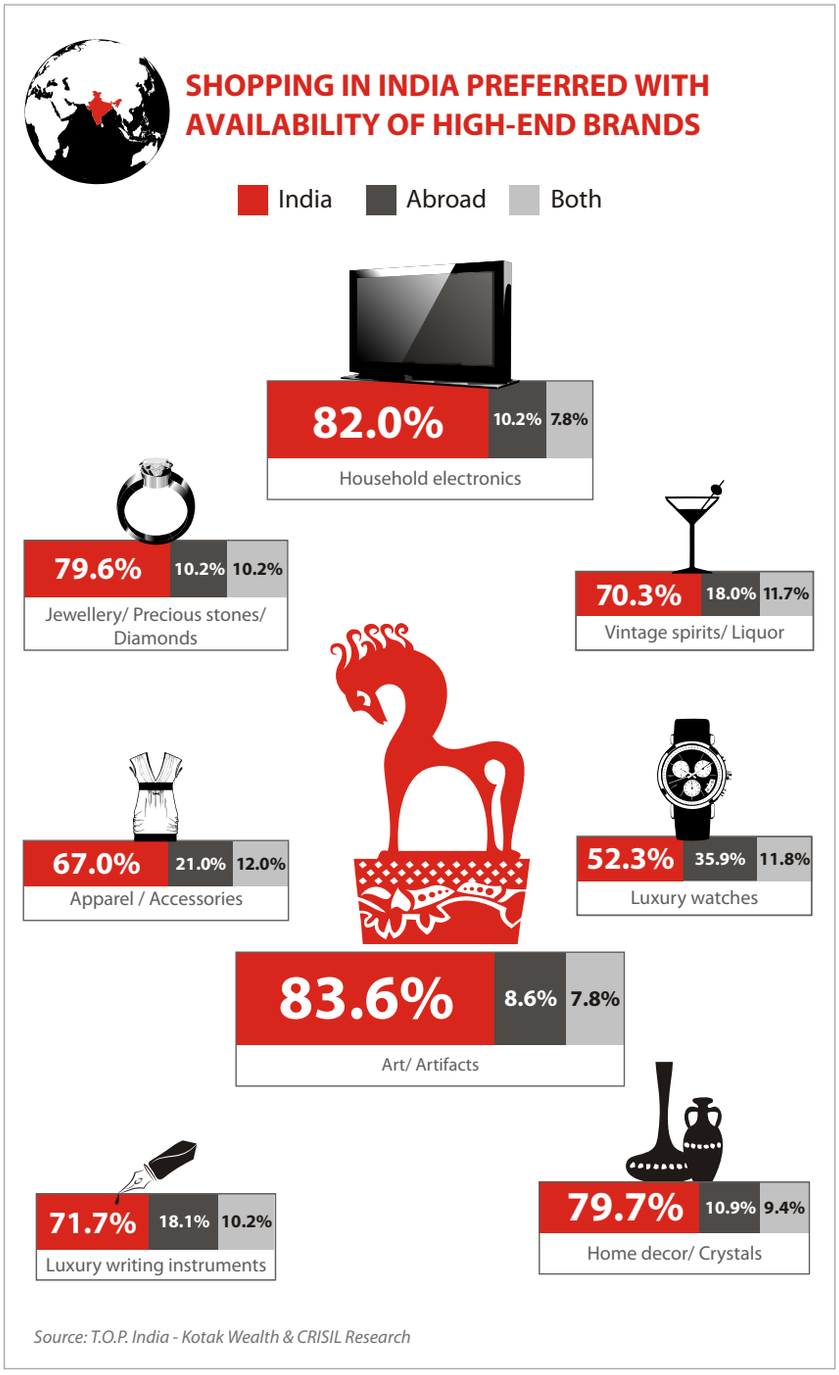
HAS EXPENDITURE BEEN IMPACTED BY THE SLOWDOWN?



Source: T.O.P.India - Kotak Wealth & CRISIL Research

One interesting feature of the responses compared with last year was the increase in the number of people who said they preferred to shop in India, even for high-end global brands. "Everything is available in India, so we don't plan for shopping abroad. Whatever is bought abroad is just when we like something but is surely not pre-planned," one ultra HNI stated.

This is also an indication that concerns regarding quality and variety of the products are slowly easing with more and more luxury product makers setting up outlets in the country. But a significant percentage of the non-metro ultra HNIs still prefer to buy their favourite branded clothes abroad, rather than in India, perhaps suggesting the dearth of showrooms in these areas and that they combine overseas trips with their shopping.



Source: T.O.P. India - Kotak Wealth & CRISIL Research

In addition to spending on self, the ultra HNI spends heavily on immediate family and close friends, in that order. Among the items of spend on immediate family are cars, clothes, diamond and gold jewellery, with the last mentioned the most popular among nearly 50 per cent of the respondents. For spending on friends, a luxury watch turned out to be the most favoured item. Our survey found that more ultra HNIs in the non-metros gift cars to their immediate family, compared to ultra HNIs in the metros.

Interestingly, despite the staggering rise in gold prices during the year and the portends for further such increases in future, most ultra HNIs continue to view and buy gold in the form of jewellery rather than as an investment. Although a little surprising, this may perhaps not be so hard to understand – this mindset is in line with the Indian ethos, where, since time immemorial, Indians, regardless of age, class, or riches, in all facets of life have been enthralled by jewellery. Nevertheless, this mindset may be changing gradually, at least among other sections of society, as evidenced by the numerous offers of sale of gold bricks to customers from leading banks.

There appeared to be no let-up in finding new and innovative ways to spend and impress, notwithstanding the economic slowdown that is also hurting business as a whole. "Spas and massages are becoming a vogue these days. It is in fashion to spend almost every weekend going for these sessions," one ultra HNI said.

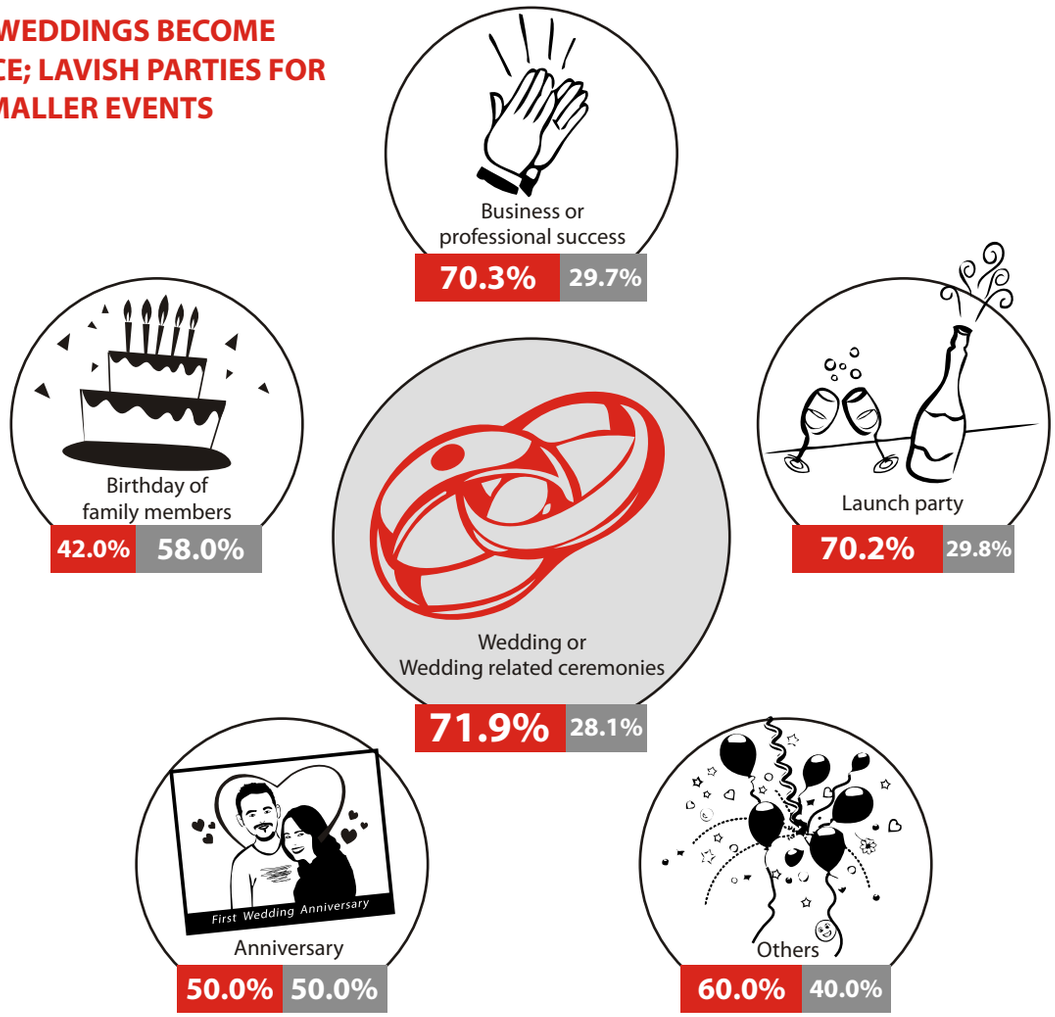
Another remarked that vacation classes for kids that could be held at established football clubs or even other popular sports is yet another emerging area of expenditure. Some others mentioned buying or even leasing a second or third vacation home, if possible in exotic locations overseas, so that the whole family could de-stress in breathtaking locales is also catching up, particularly if it could be combined with adventure sports or tourism.

Big fat Indian weddings and more

With elaborate destination weddings, theme parties and birthday celebrations being in vogue as avenues for spending, the lure of gold for use on such occasions remains.

In Indian society, weddings have always been an ostentatious occasion, with the degree of splendour and glitz only varying slightly from region to region. But increasingly, some suggest, destination weddings too are becoming passé. "Destination weddings have become very common and these days not just the upper class but everyone is opting for it – it is no longer a novelty," an ultra HNI said.

DESTINATION WEDDINGS BECOME COMMONPLACE; LAVISH PARTIES FOR RELATIVELY SMALLER EVENTS



Source: T.O.P. India - Kotak Wealth & CRISIL Research

So, many other occasions such as birthdays, launch parties, wedding anniversaries and the like are becoming occasions for lavish displays of wealth. Perhaps, perceptions too are gradually changing. Nearly 40 per cent of our respondents said that such occasions were now regular events and not ad-hoc ones.

The Inheritors are particularly fond of celebrities gracing and performing at such occasions; all our Inheritor respondents said that they had hired celebrity performers for such events. By contrast, only 50 per cent of the Self-made and the Professionals answered in the affirmative. In terms of cities, all our respondents in Mumbai, Bengaluru and Ahmedabad / Vadodara agreed that a celebrity performance was a must for such occasions. All those who said they hired event managers for such occasions added that celebrities were part of such functions.

The general mindset behind the display of wealth on such occasions appeared to be the desire to keep up with their peer circles and also to show that they could stage such events better than the others. Quite a few of these events are also held overseas. Ultra HNIs in the 40-45 age group appear to be particularly in favour of wedding-related ceremonies, launch parties or parties to celebrate business/professional success, perhaps because they are reaching, particularly in the case of Professionals, the pinnacle of success and desire to flaunt their new-found prosperity.

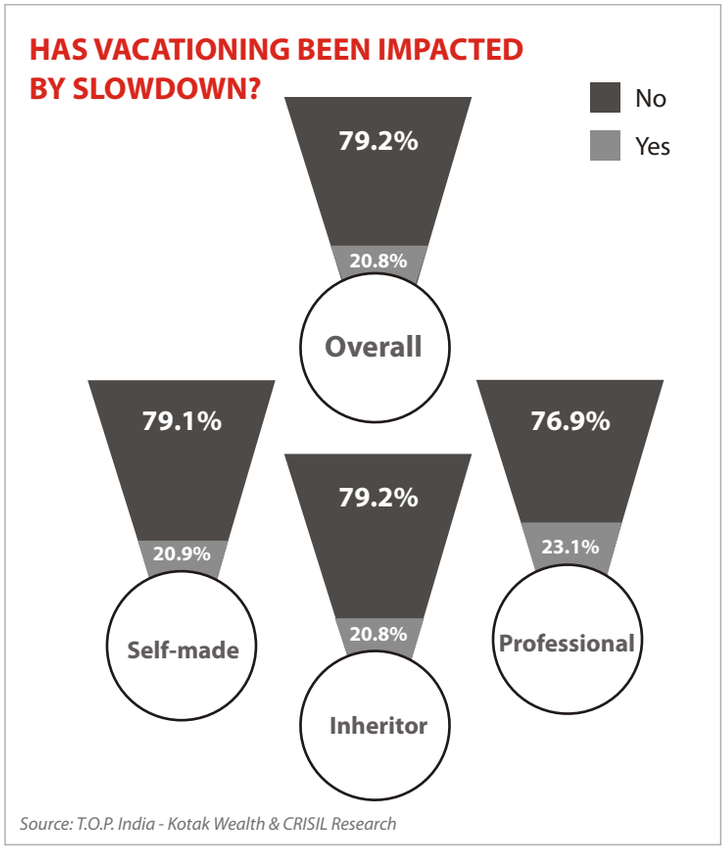
Older ultra HNIs (those who are over 50-55 years old) love celebrating wedding or wedding-related ceremonies or anniversaries possibly because they are at an age where getting their children married or celebrating their silver or golden wedding jubilees will be occasions to cherish.

The most famous event destinations within the country are places such as Goa, Jaipur, Pune and farmhouses in smaller towns. Internationally, Bangkok, Hong Kong and Dubai are favoured, perhaps because of their ideal location, in terms of distance to travel, for a 2-3 day event.

Our survey found that ultra HNIs spend lavishly on such events. Around 7 per cent of Inheritors and 8 per cent of Self-made said that they spent in lakhs on such theme parties. That is still something, although it may not compare with what Sean Combs, the American singer, did. He gifted his son a US $390,000 limousine for a special occasion.

Travel

The ultra HNI is an avid traveller, be it for business or leisure or, when possible, for both. In last year's survey, we had noted that vacationing was a top priority for them, understandably so because many of them have slogged it out, or continue to toil hard, in the workplace to reach the heights that they have.



Source: T.O.P. India - Kotak Wealth & CRISIL Research

It also became clear from that survey that unlike the Inheritor or the Self-made, who own businesses and perhaps employ others in large numbers to run them, workplace burnout is an indisputable aspect of life that the Professional confronts. Perhaps reflecting this dichotomy, a greater number of Professionals confessed that their biggest weakness was exclusive luxury holiday packages, compared with both the Inheritors and the Self-made.

The general slowdown notwithstanding, vacationing continued to be a top priority during this year. Only about a fifth of the respondents said their vacationing plans had been impacted as a result of the slowdown. Most of them said that they undertook multiple trips a year, including at least 2- 4 overseas trips, reinforcing last year's findings.

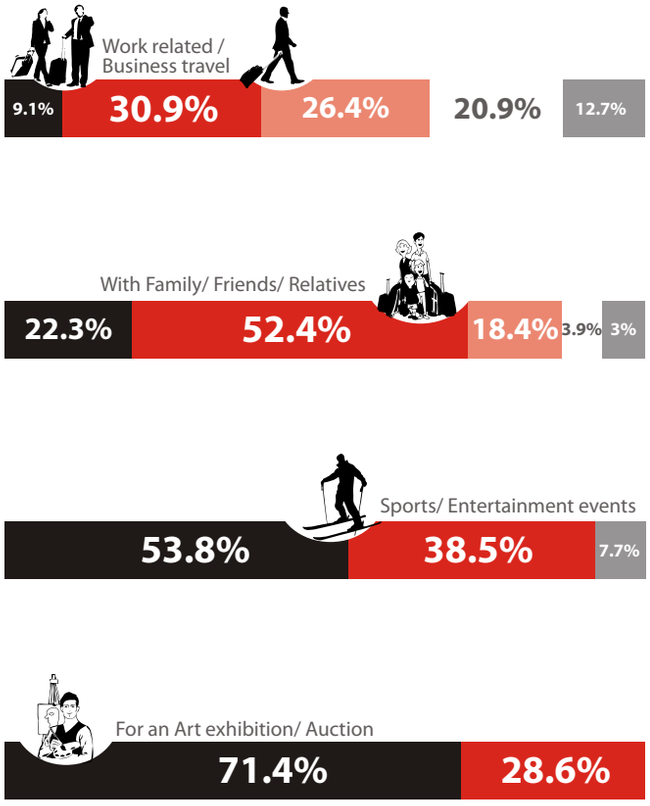
Among overseas destinations, Europe, New Zealand, Australia and South Africa were touted as favourite vacation destinations. Europe, primarily Spain, Italy, Switzerland and New Zealand are popular vacation spots for adventure sports, while South Africa tops the list for wild life or safari experiences.

Amongst beaches, Mauritius emerged as the most popular destination. Interestingly, many ultra HNIs said that they were as keen to visit tourist destinations in India as those abroad. Other exotic locations becoming increasingly popular are destinations like Machu Picchu, Bora Bora island etc.

Among the three groups, exclusive overseas holiday packs are favoured the most by the Professionals. Respondents in cities such as Mumbai, Ahmedabad and Vadodara favour beach vacations the most, whereas mountaineering or treks is most pursued by ultra HNIs in most southern cities.

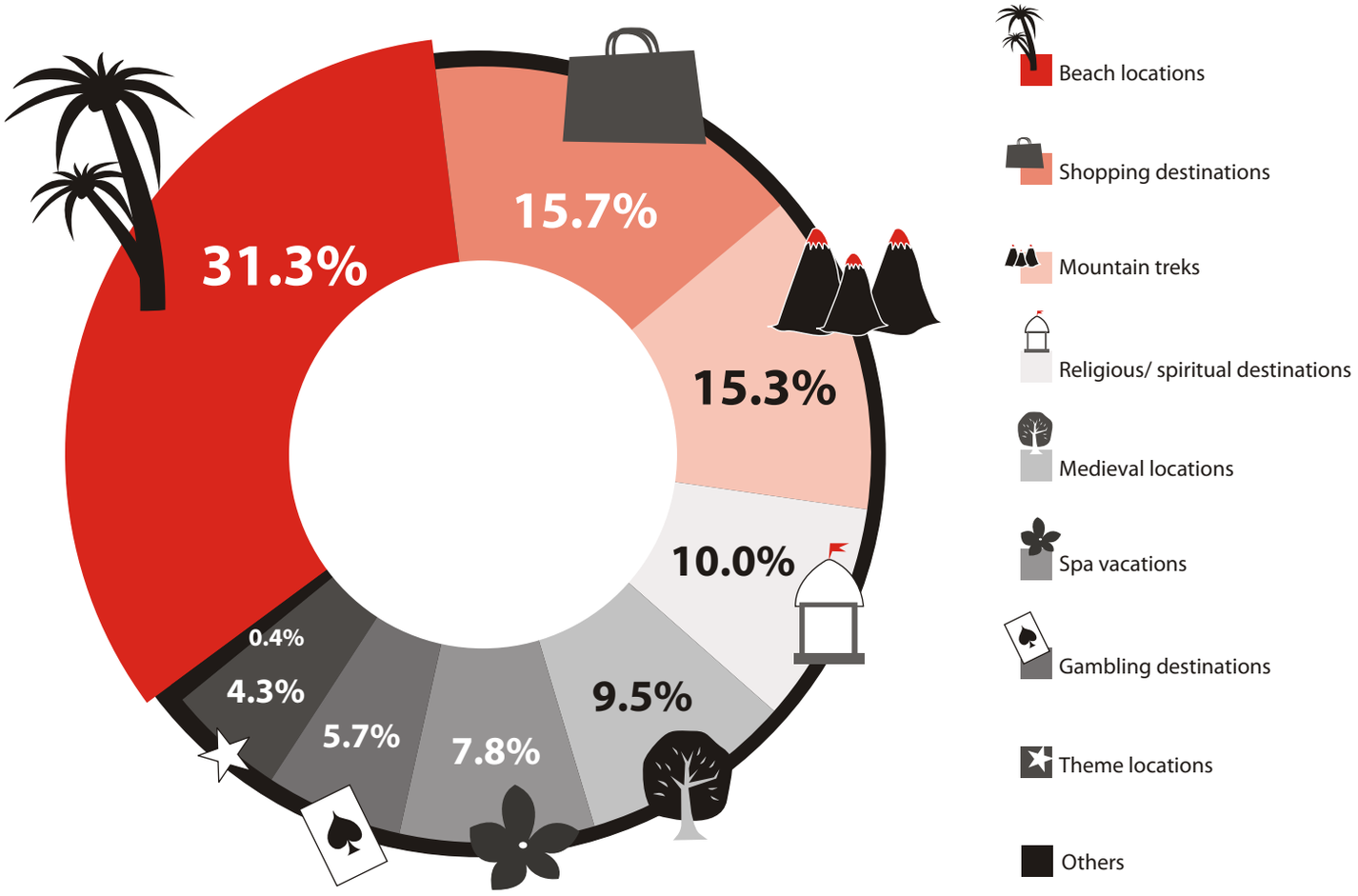
In terms of age, people in the 41-45 age group are most active when it comes to mountaineering, treks or even visiting global shopping destinations such as Dubai. For people under the age of 35, beach vacations are a priority.

ULTRA HNIs TRAVEL EXTENSIVELY



Source: T.O.P. India - Kotak Wealth & CRISIL Research

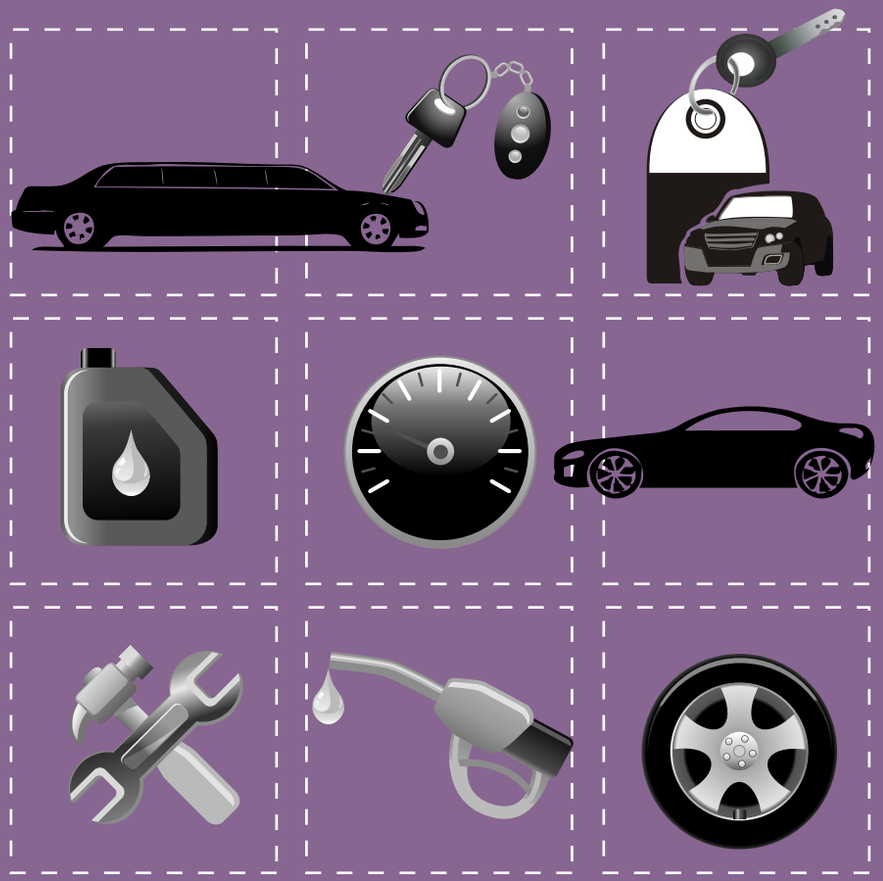
MOST PREFERRED DESTINATION – BEACHES FOLLOWED BY SHOPPING



Source: T.O.P. India - Kotak Wealth & CRISIL Research

The expansion of luxury market in India is likely to continue, keeping pace with the country's long-term economic potential. Even though projections by various agencies may vary in degrees, most, if not all of them see India as one of the top three global economies by 2050.

As global luxury product makers set up shop, they will also realise in the coming decades that, with its young population, its diversity, the wealth of its nouveau riche and the ever expanding desires that come with increased riches, India is one of the best places to be in.



Special Focus:

Luxury Cars

SPECIAL FOCUS: LUXURY CARS

The first car was brought to India in 1897, by a Mumbai-based Englishman with Crompton Greaves Company. Jamshedji Tata was next, and was the first Indian to own a car; he was followed, quickly enough, by Rajas, Maharajas, Nawabs, Nizams and so on.

Tata had imported an Oldsmobile, but all the great names soon followed: Rolls Royce, Bentley, Jaguar, Daimler etc. In those early days of motor cars in the country, just owning a car represented luxury, the name was perhaps an afterthought.

Today, over 100 years later, many of those named above are still present and represent the ultimate in luxury cars. The difference perhaps is this: the USP now is not only about owning a car, but also the exclusivity it gives to the owner. So a Rolls Royce, Bugatti, Maybach, Ferrari, Lamborghini, Bentley or an Aston Martin still signify luxury, but some others with numerous models at affordable price points, no longer represent those aspirational cars.

By that yardstick, our survey this year was revealing: BMW, Audi and Mercedes are the top three aspired cars, in that order. In fact, all three appear to have become mass luxury cars, with Audi growing the fastest in recent times. Don't be surprised if you don't see a Bentley or a Bugatti in that list. That is because an aspired car here means a car that the ultra HNI knows that he can realistically purchase in the immediate future.

BMW and Audi, according to our respondents, score over Mercedes in terms of newer models and exclusivity in terms of both design and value-added features (and services). Many respondents called Mercedes as a "childhood dream car" – they said it was a car that conveyed style and maturity, was a favourite amongst the older ultra HNIs. By contrast, BMW and Audi were popular amongst the younger ultra HNIs.

"Cars these days are not just about whether it is Mercedes or BMW – it is a reflection of your personality too," one young ultra HNI commented.

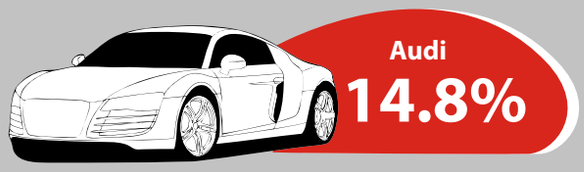
Audi's popularity too is increasing multifold across all age groups, as the brand conveys a classy style statement and is equally popular amongst women.

Until a couple of years ago, Mercedes was believed to be ahead of its competitors in the luxury car segment. But in the last couple of years, many luxury car makers, to grow their market share, are offering special loan packages, group booking packages and discounts and have also introduced a variety of models, not too different from each other in looks or design. That strategy may have its strengths, but therein also lies a weakness. On the one hand, these packages make the cars more affordable, but on the other, they lose their premium on exclusivity.

Consider it from an ultra HNI's point of view: what is the use of buying a 'luxury car' like that if your neighbour also has the same make? "I would want my car to have better features than my neighbour's car – it is not just about a particular brand anymore, it is also which car it is – like an Audi A6 or a Q7."

Therein lies a contradiction of sorts that holds a lesson for the current leaders, if they wish to remain so and retain their luxury brand image.

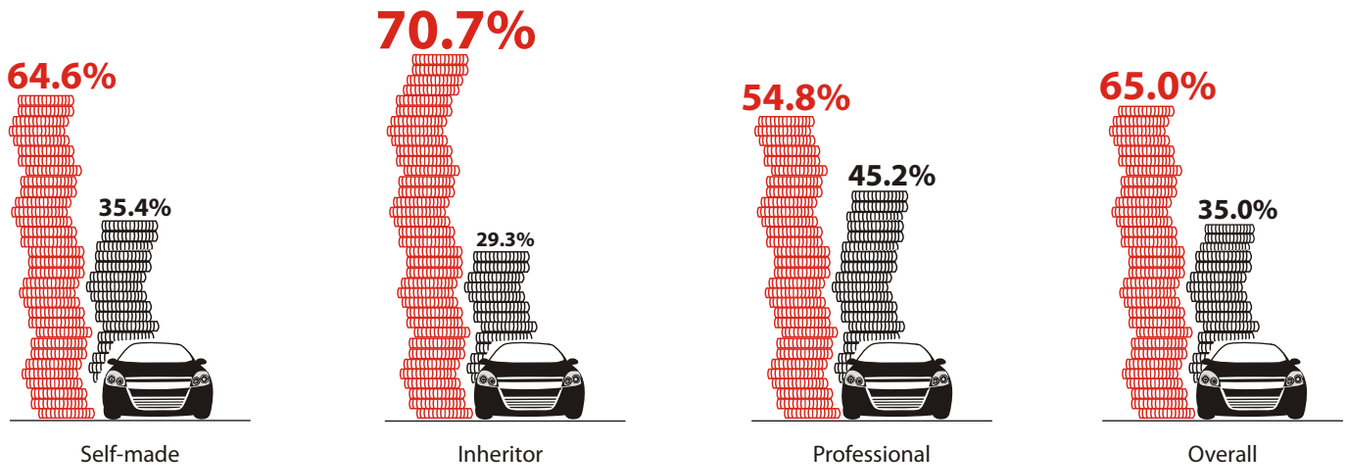
THE MOST ASPIRED CARS



* Brands including Rolls Royce, Range Rover, Land Rover, Jaguar, Hyundai, Nissan, Mahindra, Bugatti, Beetel, Porsche, Bentley are part of the 'Others'

Source: T.O.P. India - Kotak Wealth & CRISIL Research

MOST AVAIL OF CAR LOANS TO TAKE ADVANTAGE OF TAX BENEFITS



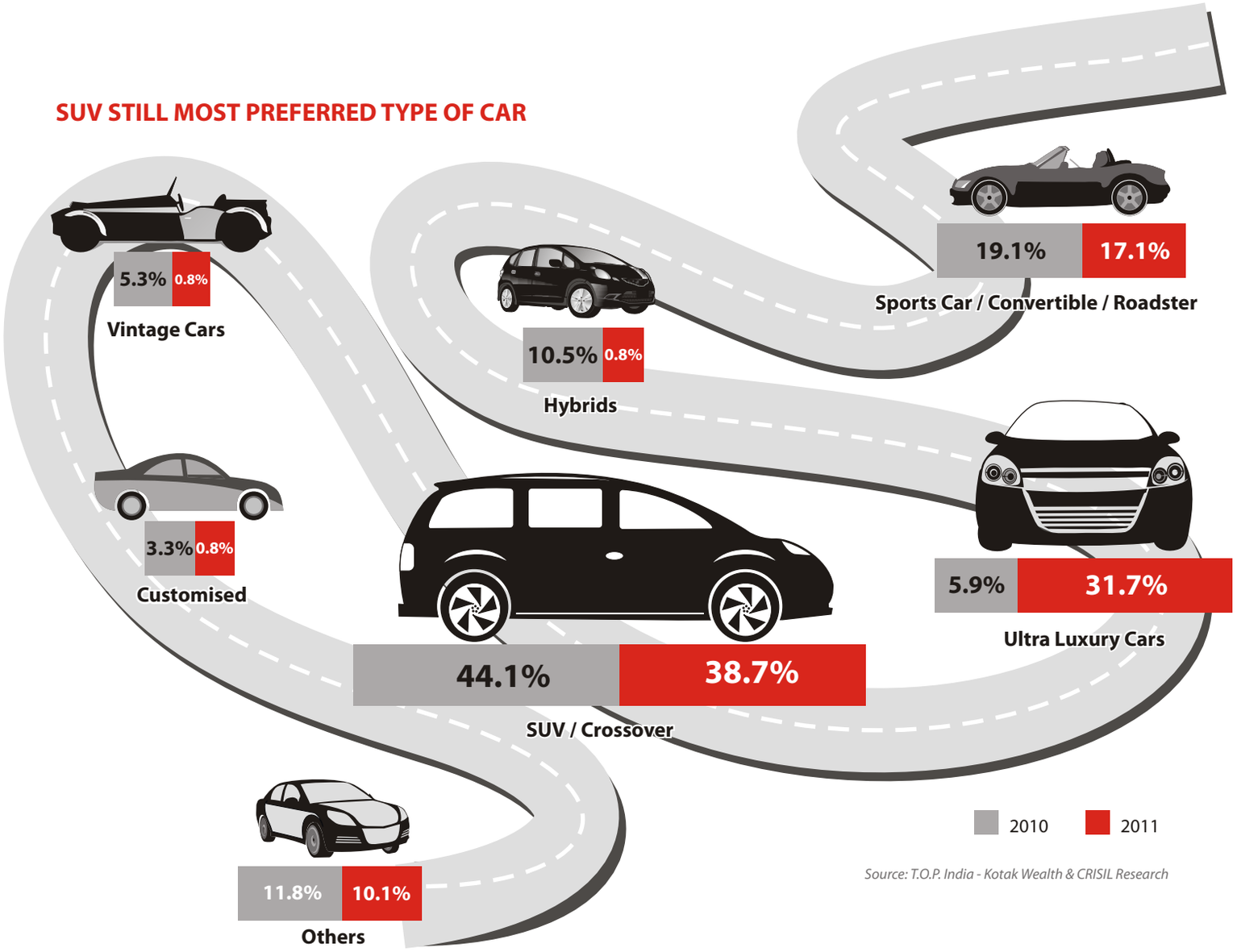
Yes No

Source: T.O.P. India - Kotak Wealth & CRISIL Research

At the same time, to our question to whether they took loans to buy a luxury car, we elicited a surprisingly high percentage of responses in the affirmative. So, does that contradict the thought process expressed below? On deeper scrutiny, we found that it did not; it was, in fact, a purely business like decision. It is not that the ultra HNI is not able to make full payment out of his own pocket and buy the car outright. Instead, they buy the car in their company's name to avail of tax benefits arising due to interest and depreciation deduction.

Another fact that separates the ordinary Indian from the ultra HNI is the number of cars owned by the latter, to suit their diverse needs. On an average, the Inheritor owns 3-4 cars, while the Self-made and the Professional own 1-2 cars each. Interestingly, the number of ultra HNIs who owned more than 4 cars was more in the non-metros than in the metros.

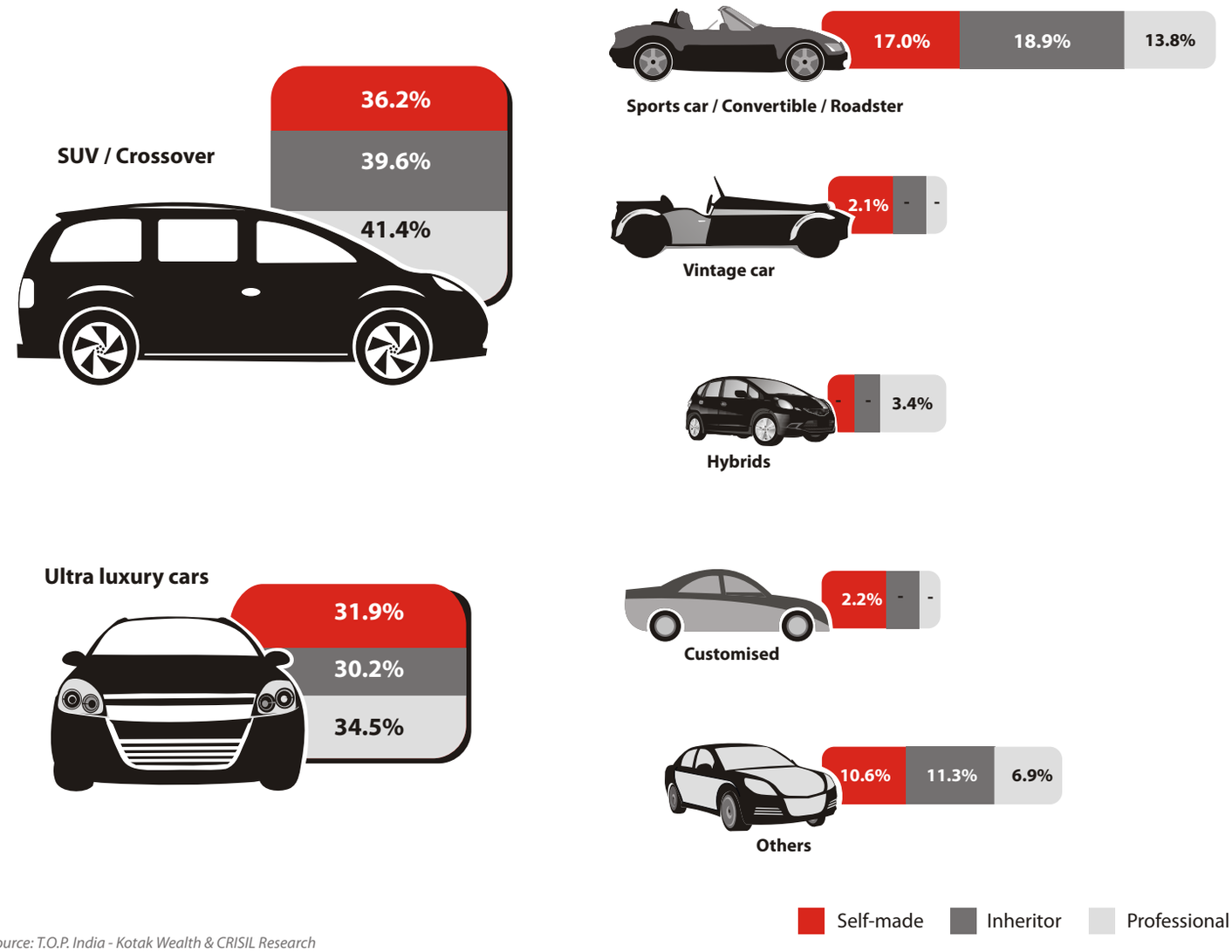
SUV STILL MOST PREFERRED TYPE OF CAR



Source: T.O.P. India - Kotak Wealth & CRISIL Research

The most preferred car remains an SUV/Crossover, perhaps because of the rugged, macho image that it inspires, coupled with it being an ideal fit for short family holidays in nearby locales. This preference is markedly higher in the non-metros compared to the metros; in the metros, ultra luxury cars are more preferred. However, compared with our survey last year, there is a dramatic rise in the preference for ultra luxury cars. This is perhaps a reflection of the increased awareness luxury car makers have been able to create among the ultra HNIs for their models through targeted advertising and marketing campaigns, coupled with the entry of more and more luxury car makers into the country, which is leading to more intense competition and leaving the ultra HNI spoilt for choice.

MOST PREFERRED TYPE OF CAR (CLASSIFICATION BY PROFILE)

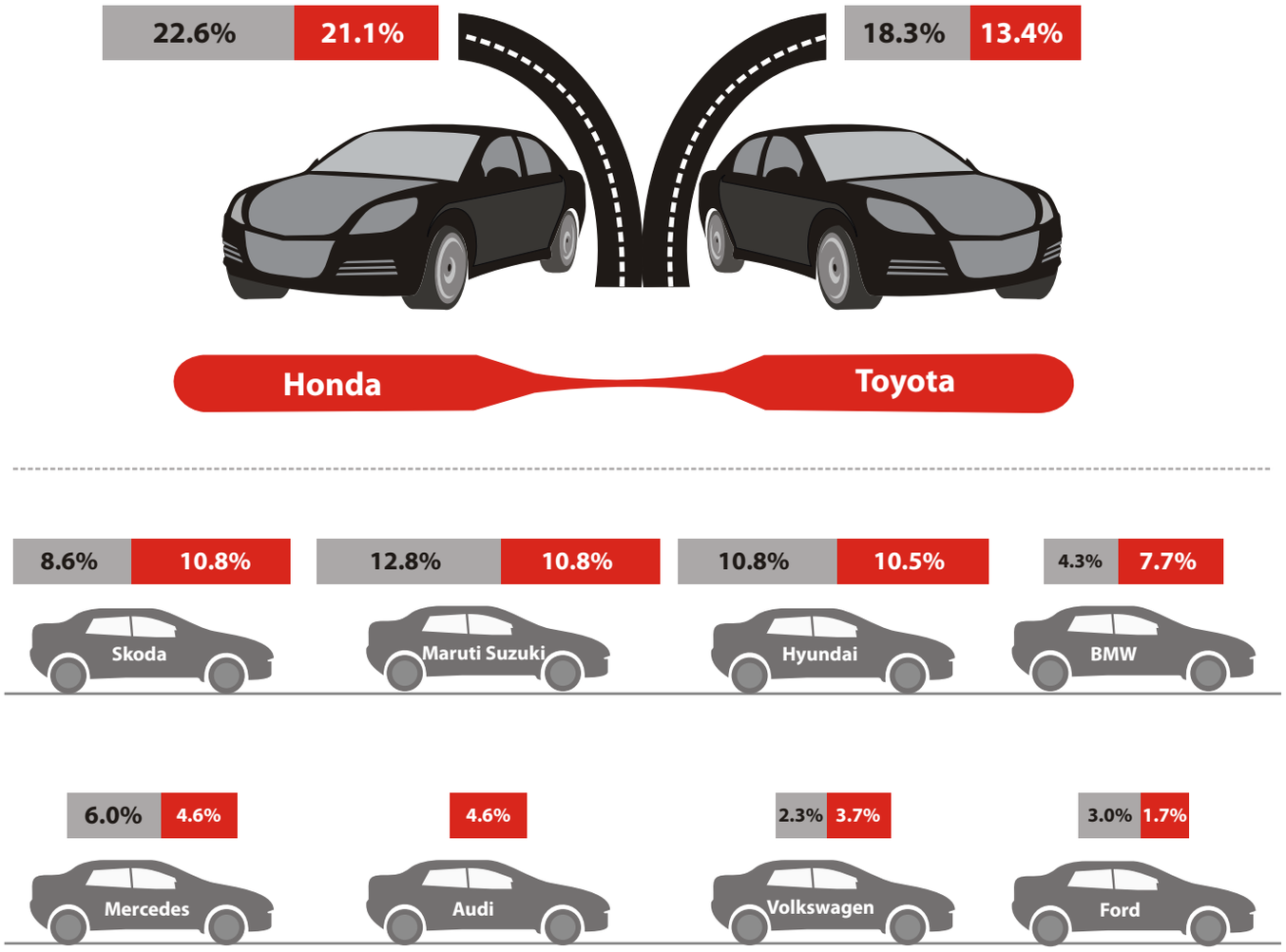


Source: T.O.P. India - Kotak Wealth & CRISIL Research

Last year, our survey had found that Japanese brands were very popular for regular use as they were trusted for Indian roads.

German cars are becoming extremely popular among the younger ultra HNIs.

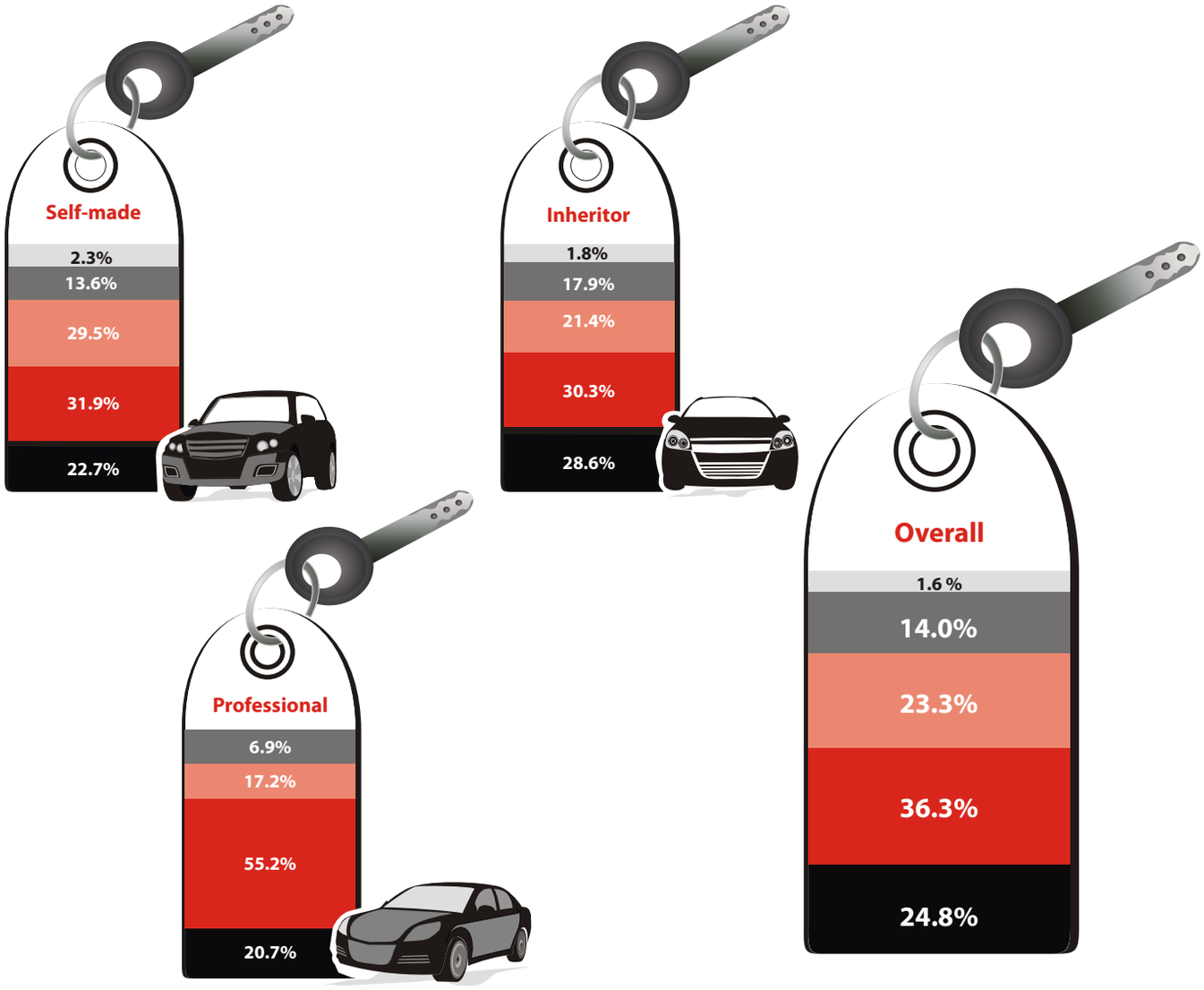
JAPANESE BRANDS REMAIN POPULAR FOR REGULAR USE



Source: T.O.P. India - Kotak Wealth & CRISIL Research

Not surprisingly, in keeping with their lifestyle, the ultra HNI prefers to change his car frequently, to remain in vogue and give himself the opportunity to outshine his peers.

FREQUENCY OF CAR CHANGE

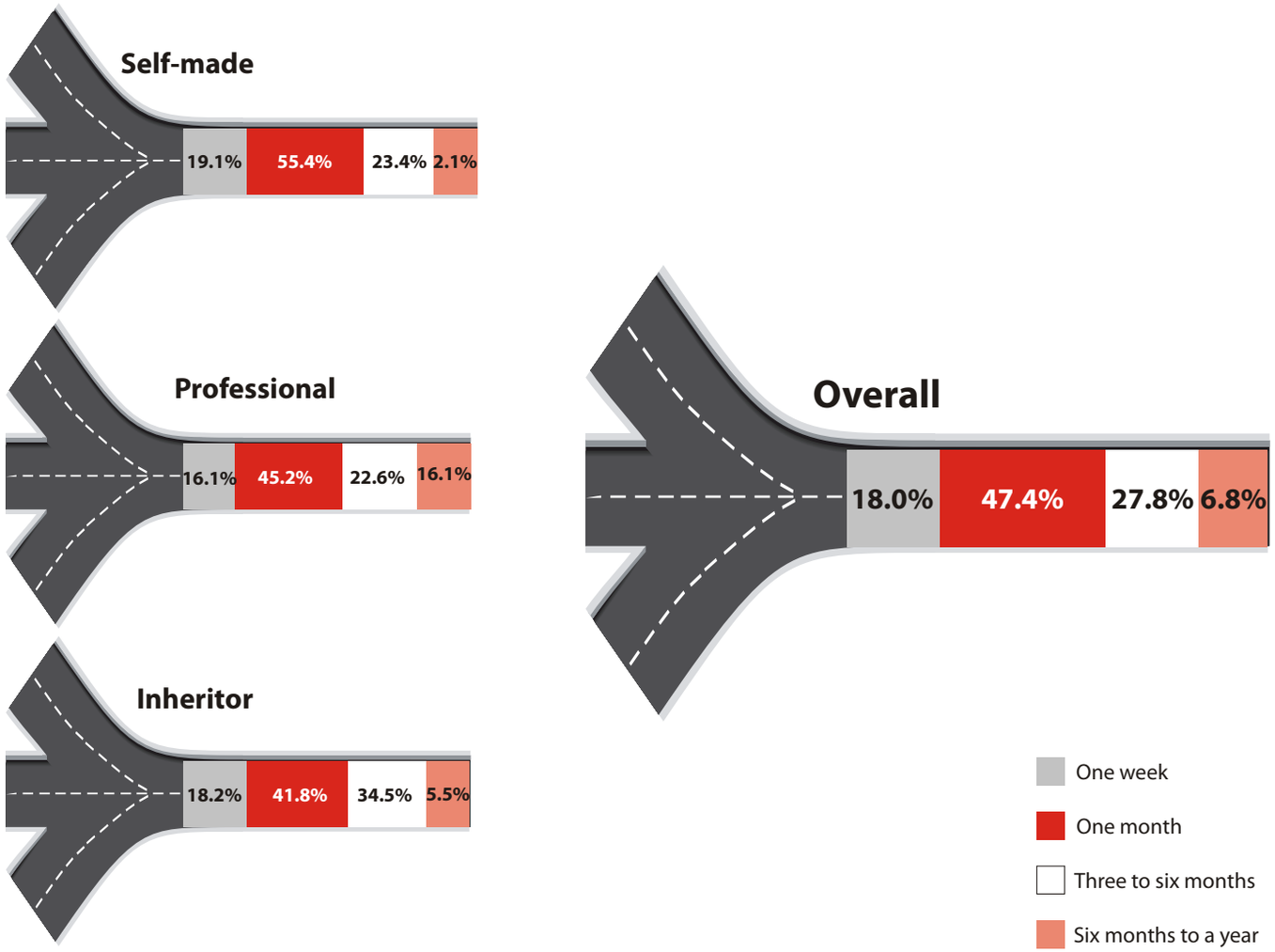


Source: T.O.P. India - Kotak Wealth & CRISIL Research

Every year | Every 2 years | Every 3 years | More than 3 years | Not fixed

Around 55 per cent of the Professionals said they change their car in more than three years; the Inheritor and the Self-made make changes more often, as the chart above illustrates.

DECISION ON NEW CAR MADE WITHIN A MONTH

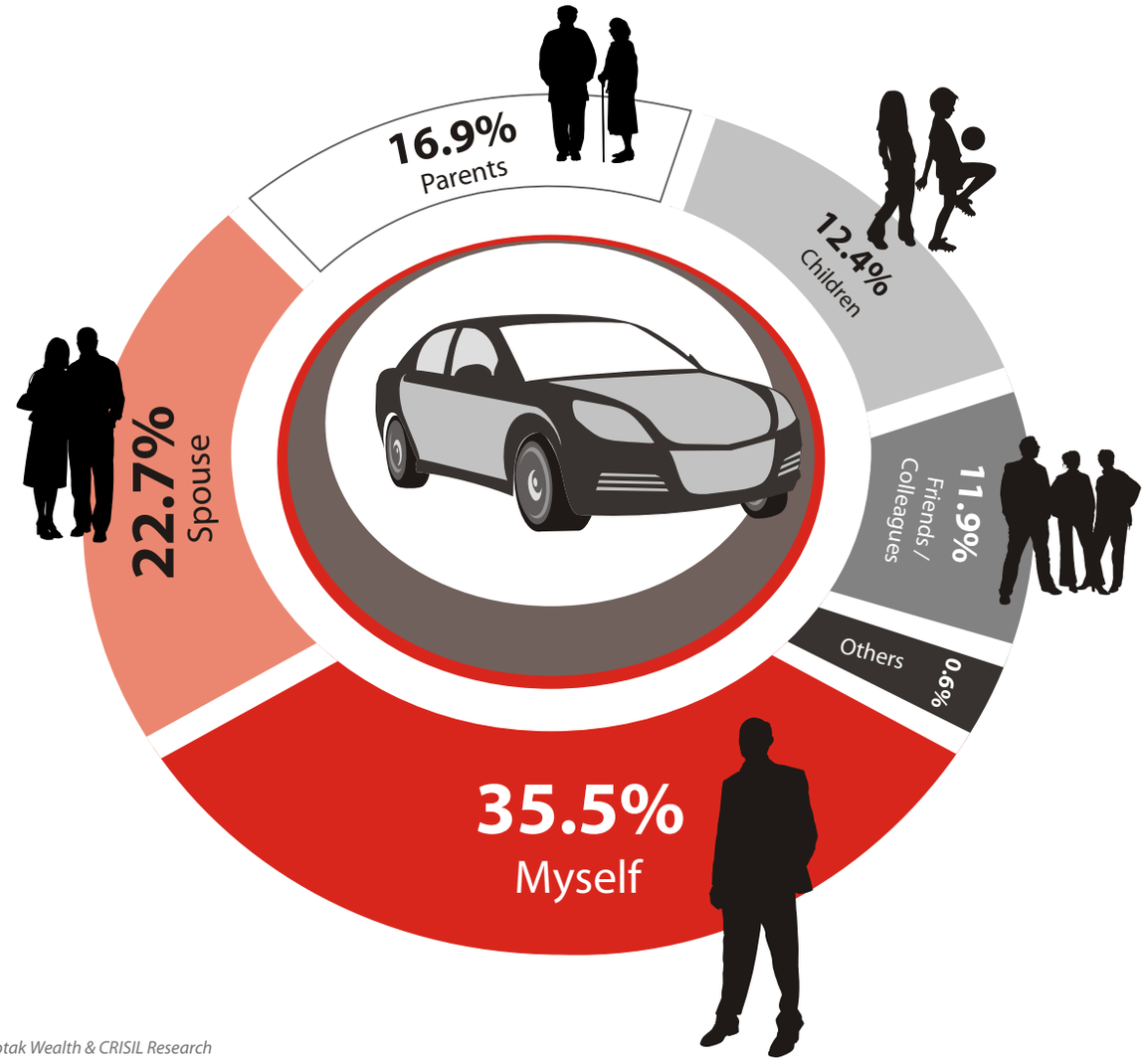


Source: T.O.P. India - Kotak Wealth & CRISIL Research

Once the decision to buy a new car is made, it takes them, on an average, around a month to decide on the new car.

Style and design are the foremost features taken into account while making the choice, followed by driving experience and comfort. The key influencers while making the choice are wife, parents and children. In the non-metros, we found that parents are the key decision-makers,

SPOUSE, IMMEDIATE FAMILY KEY INFLUENCERS IN CHOICE OF CAR

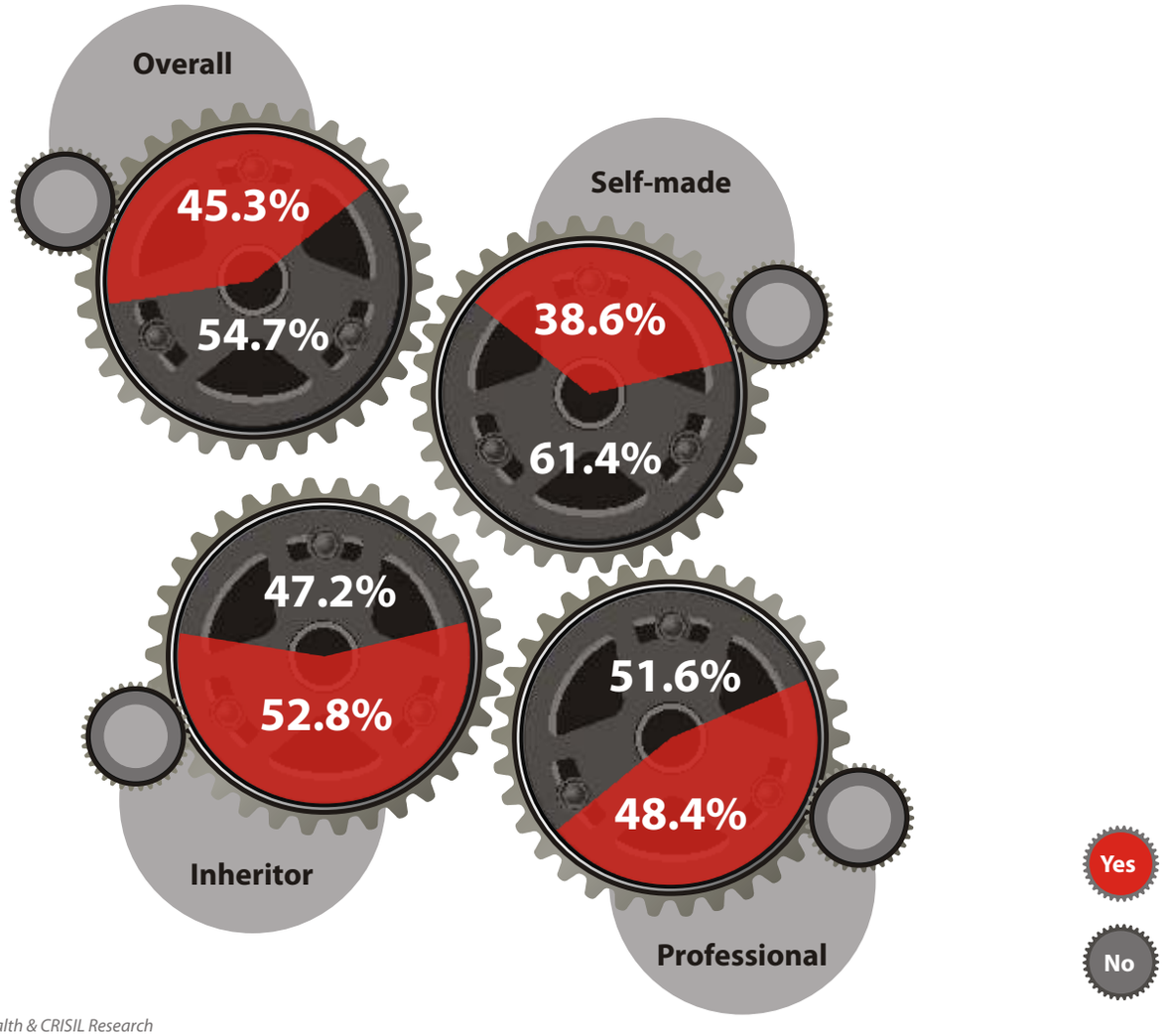


Source: T.O.P. India - Kotak Wealth & CRISIL Research

whereas in the metros both parents and children are equally involved, a reflection perhaps that the age-old tradition of parents being the head of the family have stronger roots in the relatively smaller non-metros.

In the non-metros, our respondents said that they have learnt about new luxury cars primarily from car dealers and to a lesser extent, from family/friends. By contrast, in the metros, car magazines are the primary source of information, followed by family/friends.

SERVICE ISSUES NOT A MAJOR FACTOR IN CHOICE OF CAR



Source: T.O.P. India - Kotak Wealth & CRISIL Research

Other factors (mentioned by around 45 per cent of the respondents) that swing the decision include service and maintenance issues such as free door-to-door services, discounts on value, exchange options, maintenance contract beyond 2-3 years, providing a substitute for car being serviced, help in car customisation etc.

Despite campaigns by car makers, not many ultra HNIs are enthusiastic about leasing a car. Overall, only about 31 per cent of the respondents were favouring the idea, while the majority were vehemently against it. Understandably so, since the pride associated with owning and displaying a luxury car to their peers is not quite the same as leasing it.

For luxury car makers, the opportunity unfolding due to the ongoing wealth creation and the resultant surge in the number of super rich in India is immense. In addition to creating awareness about their products, it is also important for them to address the Indian ultra HNI's tastes regarding exclusivity, service and maintenance.

At the same time, it is clear that the user is well aware of the state of attendant infrastructure in the country. Thus, one important factor for success would be offering the right models that are both exclusive and simultaneously seen to be fit for the Indian landscape.

While discounts and promotions are not something that the Indian ultra HNI is seeking by choice, they do have their part to play. As does wooing women and children, who are increasingly playing a major role, if not actually determining the choice of the car.

Investment Trends

Global wealth creation suffers as economies turn turtle

It was by no means a good year for wealth creation, worldwide. This, for instance, is reflected in the combined net worth of the Forbes Billionaires 2012 grouping growing by a mere 2 per cent, which is one of the slowest in the past few years (ignoring the financial shock of 2008, which was reflected in the steep fall in combined net worth in 2009). By contrast, the combined net worth of the grouping had risen by over 46 per cent in 2010 (due to the lower 2009 base) and by an equally impressive 29 per cent in 2011.

As many countries in Europe slid into an economic morass in the latter half of 2011, and other developed economies too floundered, both economy and industry suffered globally and the consequent impact was felt on the super rich everywhere. For instance, 441 members (of the total 1,226 in this year's list) of the Forbes Billionaires grouping lost wealth.

One major adverse impact of the global economic crisis was on equity markets. In terms of price changes, developed markets, excluding the US, lost around 12 per cent in 2011. Emerging markets fared worse, down around 19 per cent. The situation has improved slightly in 2012.

India's equity market too tailed global trends. In 2011, India was one of the worst performing equity markets, with both the Sensex and the Nifty down around 25 per cent. Real estate prices too were subdued in 2011. Not surprisingly, prices of gold, the safe-haven asset, surged by 31 per cent during the year.

However, so far in 2012, there has been a gradual improvement in returns across all asset classes, be it real estate, gold, equities, debt or commodities.

Trends in Indian ultra HNI investments in 2011-12

So, given all that happened in the domestic and global markets across varied asset classes, what did the Indian ultra HNI do to keep growing his wealth? One of the biggest results of our survey this year was a validation of one of the key conclusions of our attitudes survey of last year, namely that the ultra HNI displays dichotomous behaviour when it came to spending and investments. As discussed in the section on expenditure, an overwhelming section of our respondents averred that the downturn had no impact on spending; however, when it came to investments, the catch-all phrase almost everyone uttered was "low-risk" and "capital protection." The indifference so amply on display when one discussed spending was remarkably absent when the talk turned to investments.

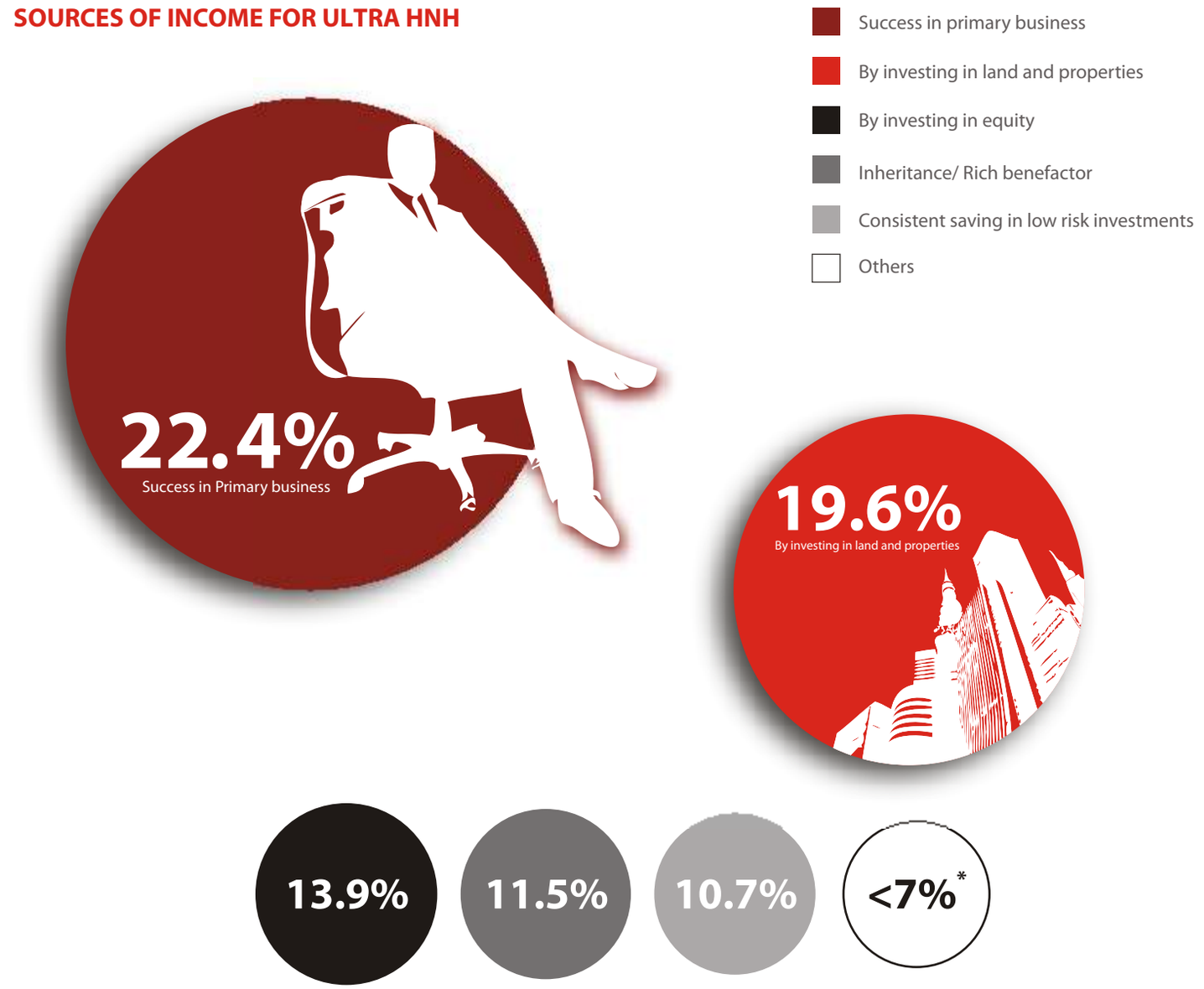
The overarching objective during the past 12 months has been to invest in relatively low-risk instruments; compared with the previous year, therefore, a lot more money was channelled into debt.

The key source of wealth continues to be success in primary business, just as it was in the previous survey, followed by real estate and investment in equity.

Both the Inheritor and the Self-made asserted that the bulk of their wealth came from income from primary business and real estate (and also inheritance, in the case of the Inheritor), whereas the Professional indicated that the biggest contribution was from equity, excluding ESOPs whose contribution this year was expectedly lesser compared to the previous year due to the downturn in the stock market in 2011. The Professional appears to have put his education, experience and expertise to good use in generating good returns from equities in a generally subdued year for the market.

But, in general, in such an uncertain economic and business environment, capital protection was a buzzword among the ultra HNIs as they scrambled to conserve their hard-earned wealth. "I believe, at the moment, capital conservation is the most important thing, so I will not withdraw money from equities but not invest more, either," one of the respondents said.

SOURCES OF INCOME FOR ULTRA HNH



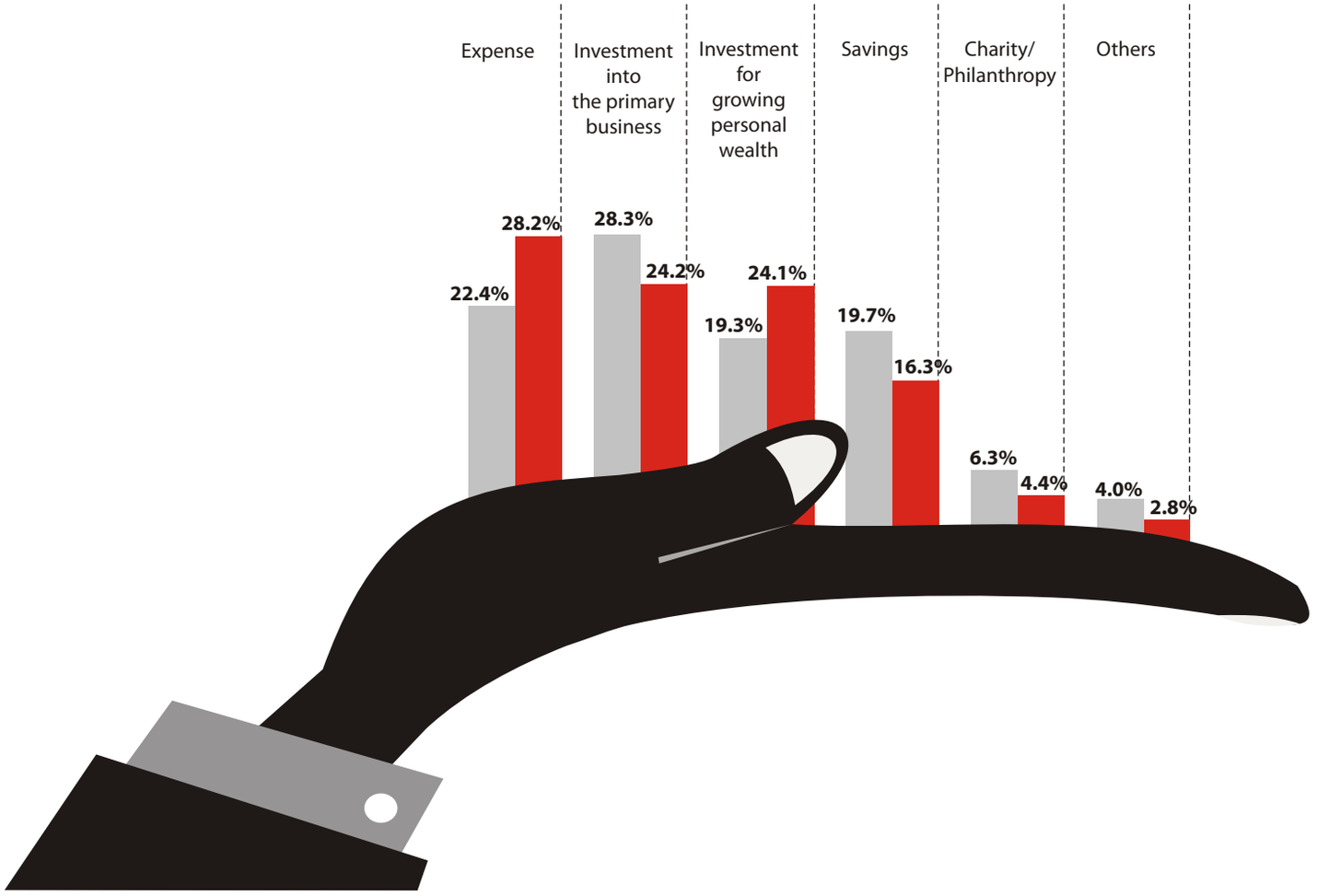
*Income from sale of business, agricultural/ tea plantation income, ESOPs in company, income from voluntary retirement, win in other activities like racing and other entertainment.

Source: T.O.P. India - Kotak Wealth & CRISIL Research

Where the income went

A majority of the respondents said they had not ploughed back wealth into their primary business. This is primarily because of the subdued economic and industrial climate, which has hit consumer confidence and impacted demand. Instead, most of our respondents were more focussed on channelling money into savings or other avenues (read asset classes) to shore up their personal wealth, such as real estate, debt market, equity market, mutual funds, insurance, gold etc.

INCOME ALLOCATION



2010 2011

Source: T.O.P. India - Kotak Wealth & CRISIL Research

Investment approach

The appetite to take on risk was also, expectedly, subdued. A majority of the respondents said that they preferred a disciplined approach to investments, rather than an opportunistic one.

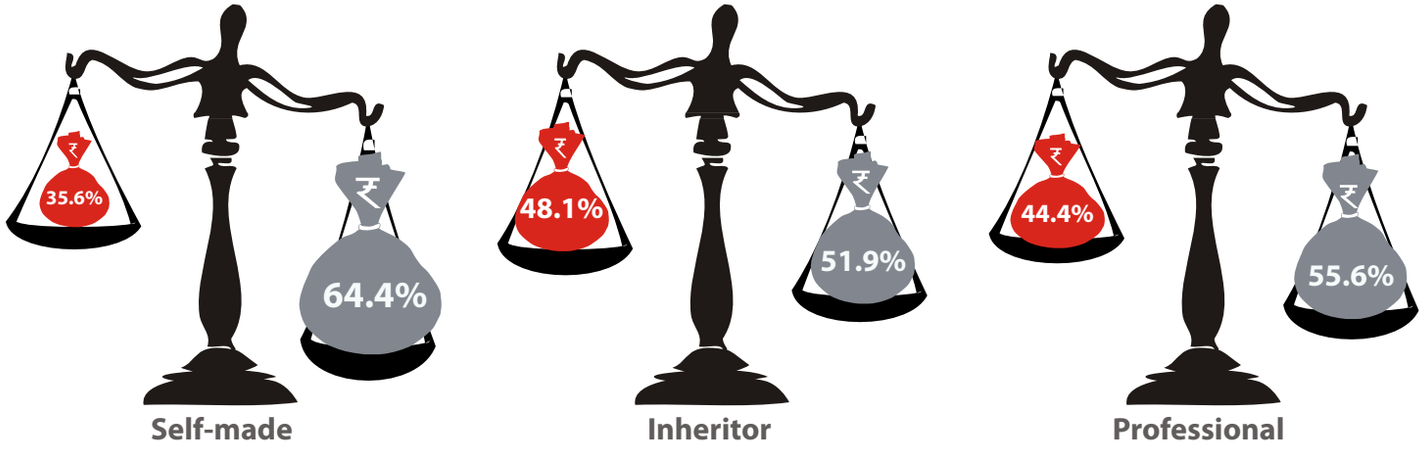
Even in opportunistic cases, caution ruled while determining the degree of risk to take on. Thus, for instance, while they were willing to invest in a house that was available as a distress sale, the same ultra HNI was not very comfortable when it came to investing in high-risk assets such as private equity, hedge funds and currency.

As noted briefly above, this year's survey reiterates one major finding of our attitudes survey last year, namely the dichotomy in the approach of ultra HNIs to their business and investments: as a class, the ultra HNIs uniformly exercise far greater degree of caution when it comes to their investments compared with the kind of risks they are willing to undertake in their businesses. The difference among them is only in terms of degree, when it comes to risk aversion.

So, a businessman willing to bet millions of dollars on purchasing a failing or a sick business is unwilling to show the same gumption when it comes to investing his own wealth in riskier asset classes. This is probably because the primary motive – our previous survey had revealed – behind investment (other than tax planning aspects) is regular income and protection for the future; growth comes later, quite unlike in business, where growth and profits and not protection, is the chief objective. These traits were all the more evident in a difficult year.

It goes without saying that with this focus on capital conservation as far as investments are concerned, many of them reiterate their desire to maintain close control over their assets and, in a sense actively micromanage them. So, around 90 per cent of our respondents said that they were either very active or active in managing investments that they understand and where much of their investments were directed, such as stocks and shares, real estate, derivatives etc. Conversely, many of the assets that they did not understand and micromanage as much were also perceived by them as high-risk, such as hedge funds, currency and art.

IN YEAR OF SLOWDOWN, LOW-RISK DISCIPLINED APPROACH PREFERRED OVER OPPORTUNISTIC ONE



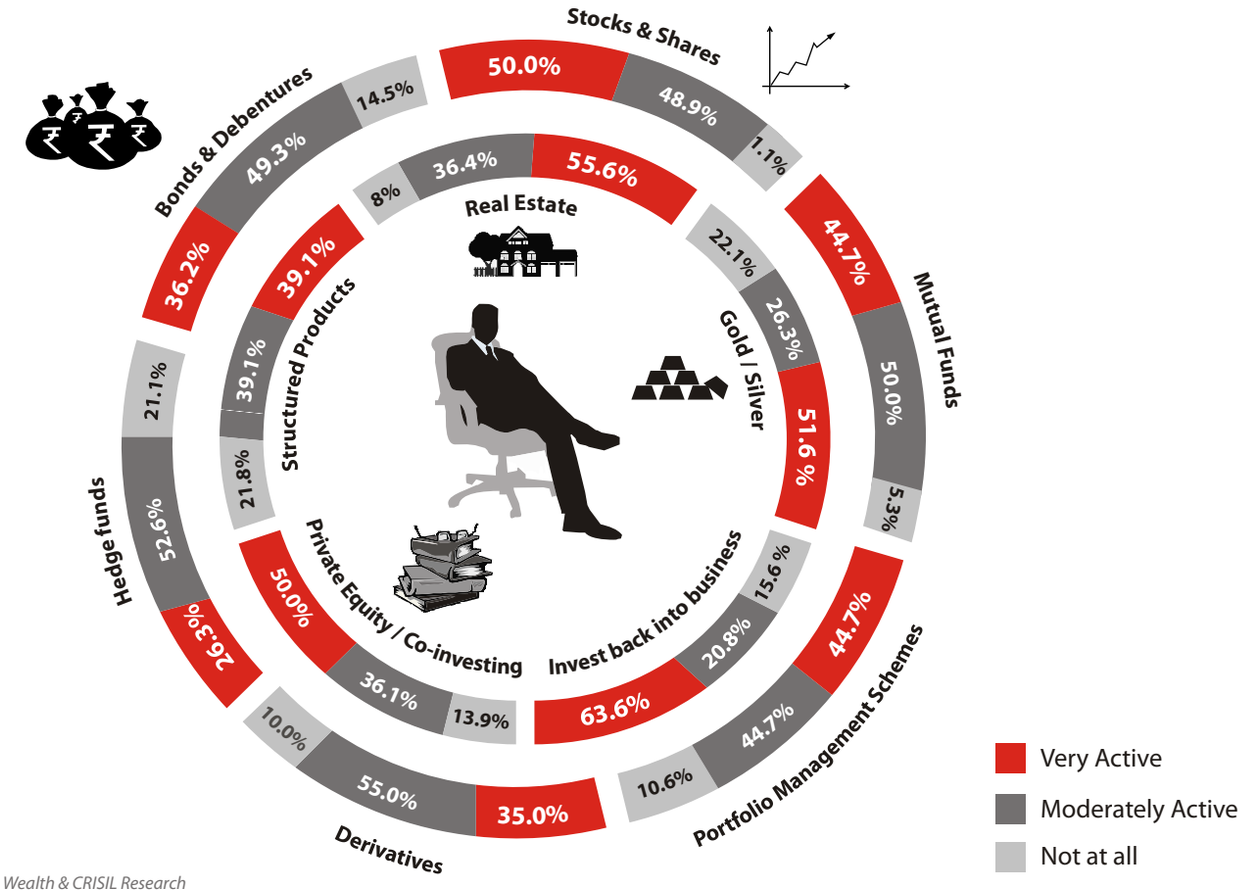
Source: T.O.P. India - Kotak Wealth & CRISIL Research

Involvement in managing investments

Our survey found that age was, in general, a major determinant in taking on risk. Thus, younger, established ultra HNIs (in the 31-40 age group) were more opportunistic than their seniors who focussed more on capital protection and adopted a disciplined approach. There was an exception, though: the very young (below 30) were also disciplined, perhaps because they had only just entered the league and all their efforts were focussed on maintaining their lifestyle and remaining part of the jet set. "I believe, at the moment, capital conservation is the most important thing," one of them remarked.

With discipline and caution ruling the roost, many ultra HNIs preferred to adopt a long-term approach to investments, rather than a short-term one that would be more characteristic of an opportunistic investor. This, obviously, differed across age groups, as explained earlier.

HIGHLY INVOLVED IN DECISION-MAKING OF INVESTMENTS THAT THEY UNDERSTAND



Source: T.O.P. India - Kotak Wealth & CRISIL Research

Change in investment (2011 versus 2010)

The long-term approach, many said, was also a pragmatic one where stocks were concerned, because the alternative would have been to book losses and erode wealth. In mentioning this, some of them were candid enough to admit that near-term recovery of the equity market looked highly unlikely and that they were in it for the long haul.

"Equity markets will not rise till the global markets get better and that will take a lot of time. FII investments will not easily come in and hence chances of market rising soon are bleak," one of them opined.

"Equity markets will rise eventually in a year or two but right now it is better to be cautious. It has impacted my portfolio but I still do not intend to rush and withdraw my money, I will hold it for sometime and wait and watch," another said.

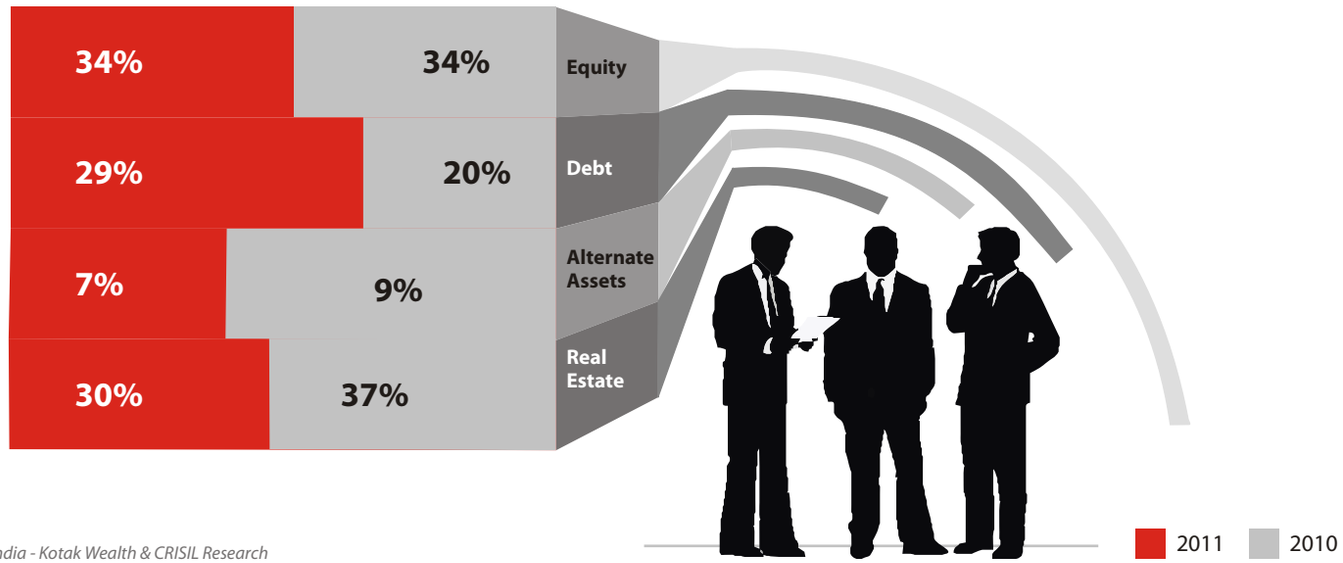
So, what then were the safe asset classes? According to them, gold and debt (which is one of the safest asset classes in difficult times). And, some believe, real estate in the long term: as a whole, real estate may not have given great returns in the past year, but many are willing to wait for the long haul; when the market recovers, they believe the returns will be one of the highest across asset classes. Real estate has traditionally given high returns in the long term in India.

Gold has already given the highest appreciation in the past decade and 2011 was no exception, when the returns were 31 per cent. Yields have hardened in India's bond market, making it attractive for investors. The yield on the 10-year G-sec was 8.53 per cent in March 2012, compared with 7.98 per cent a year ago. Many also found fixed deposits attractive.

"Real estate and fixed deposits are the safest investment options. The real estate prices cannot fall below a certain level," one of them argued.

Some said that they had ploughed back investments into the primary business as well, although cautiously. "People are very careful before investing in business too these days, if the demand is limited the

CHANGE IN INVESTMENT 2011 VERSUS 2010



Source: T.O.P. India - Kotak Wealth & CRISIL Research

need for investments is also limited, hence I am also putting money in fixed deposits," an ultra HNI proffered.

There were also some ultra HNIs who made modest investments in gold, to try and take advantage of the phenomenal rise in prices during the year. But it is pertinent to mention here that the practice of buying gold as an investment, primarily in the form of gold biscuits, is still in its infancy in India. As one of our respondents commented: "I buy gold biscuits but it is not a very big part of my portfolio."

If gold as an investment avenue has not picked up as expected, the main reason behind it is the traditional use of gold as jewellery in the country for various festive occasions and the Indian mindset about gold. Selling the family gold is always the last resort: For an Indian family, this sentiment is strongly associated with the sale of gold, in any form. "Gold is purely ornamental – somewhere in our mind we know that gold is adding to our investments but it will be the last resort that we will use (to sell and raise money in times of need)," one of them commented.

"I am buying gold right now since I know the prices will keep increasing – I will never sell it off, however much prices increase, but it is investment for my daughter's marriage," another concurred.

Art as an alternative investment not yet catching up

Our survey this year sought an answer to whether art as an investment avenue was growing in the country. The result, from the point of view of art connoisseurs, was disappointing. Buying works of art is yet to catch up in India, unlike in the West where it is done for passion, or for investment, or for both. Considering their wealth standards, a limited number of our respondents expressed knowledge about art.

By contrast, the global wealthy are well aware of art and its potential as an investment. In April this year, for example, an anonymous buyer picked up a Song dynasty era ceramic bowl at a Sotheby's auction for an astounding US $26.7 million, a record of sorts. If the results of our survey are any indication, then Vijay Mallya, one of the best-known Indian patrons of art and antiques and a small minority of other art lovers, are unlikely to find much company soon.

A very few of our respondents professed art as an investment. A majority of them said that, if at all they did purchase art, it was for decoration. Contrast that with a painting by an Indian artist at a New York auction last month, which sold for over US $0.3 million. The person who sold the painting, dated 1808, had purchased it two decades ago for US $125. Clearly, there is a long way to go in India.

Wealth creation will create opportunities for investment products

The nearly five-fold growth expected in the number of ultra HNHs over the next five years opens up exciting opportunities for wealth managers. To effectively tap the potential that will unfold, they will need to increase the number of products that they offer to their clients and also network with them better.

This will be all the more true for domestic wealth managers. As wealth creation intensifies in India in the future, it is inevitable that foreign wealth managers and wealth funds aggressively start seeking out Indian clients. Indian managers will be faced with competition from experienced, foreign entities who may be able to offer more on the global platform.

Indian wealth managers with established clientele could, in a few years time, be in a win-win situation from both sides – beneficial tie-ups with foreign wealth managers would allow them to offer greater investment avenues for their clients and earn commensurately and at the same time earn revenues from their relationship with the client-seeking foreign entities.

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