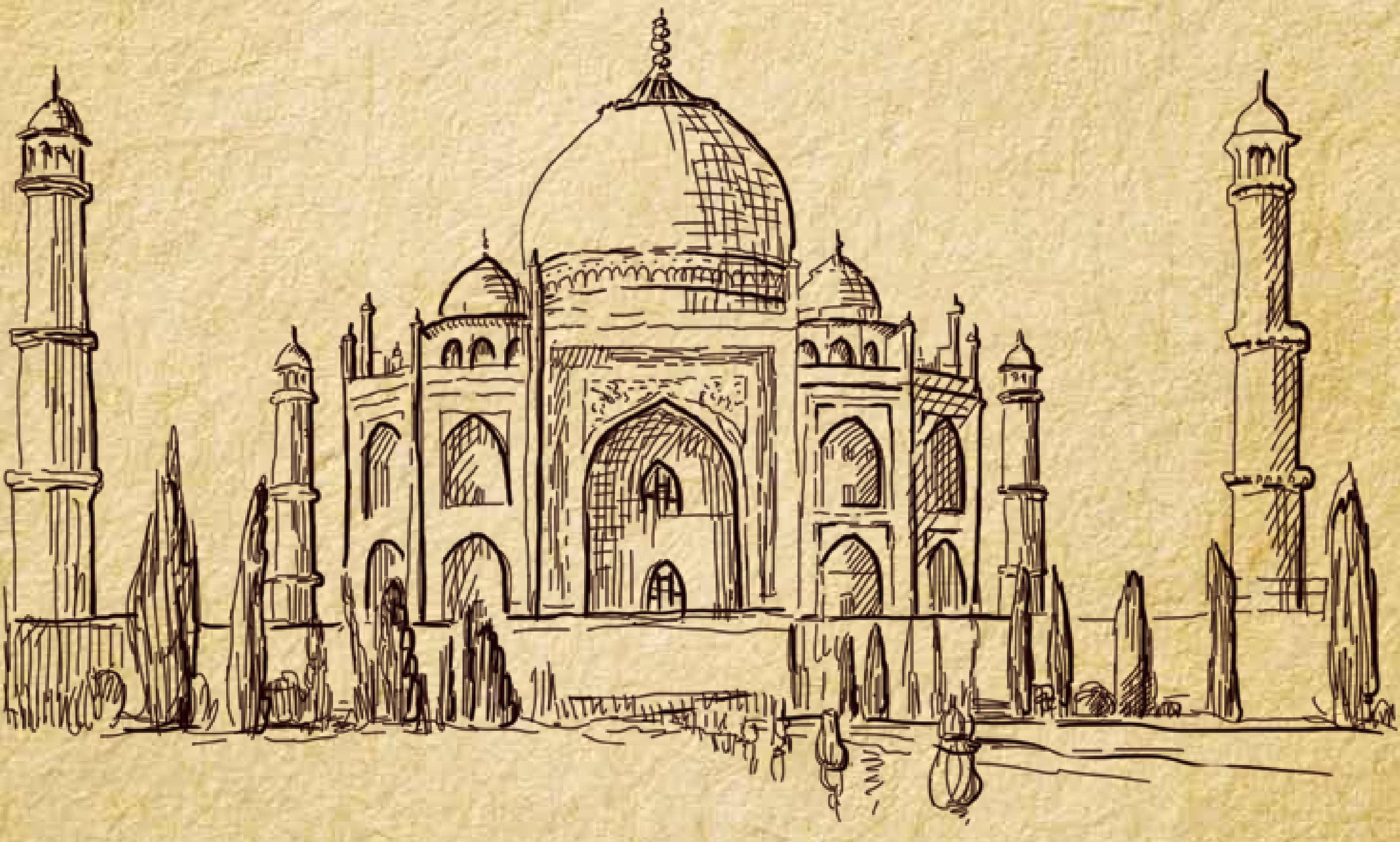
Volume 4 FOR PRIVATE CIRCULATION ONLY December 2013

KARVY PRIVATE WEALTH

INDIA WEALTH REPORT

The Investing Indian



KARVY PRIVATE WEALTH

Foreword

The context for this fourth annual edition of our India Wealth Report is different and a bit mixed on the different aspects, as compared to that of the last year. We report here the Wealth in the hands of Individual Investors in India as of March 31, 2013. The developed world did much better this year than it was doing a year back. Political tensions in the Middle-East have receded. The domestic woes however have increased for India, with GDP growth slowing down and seeing sub-5% growths in the second half of the year, after many years.

Even with this context, Wealth of Indian Investors continues to increase; undoubtedly however at a slower pace as compared to what was happening a few years back. Our higher exposure to debt insulates us from shocks of equity capital markets.

This time around, we have bowed to the diktats of the market and included investments in Real Estate and Gold in this Report. These asset classes have been darlings of the Investors in recent times and we have made an audacious attempt to try to quantify investments into each of these two. Gold comes out the winner as the largest asset class after Debt. Real Estate figures third above Equities. While calculating Investments into Real Estate, we have excluded the primary residences or the first homes of families. Hence, the number represents investments into second and subsequent properties being made by Individuals, possibly the first time this has been attempted by anyone.

We have also added Cash this time as a separate wealth item – though it is not an investment per se, including it makes the Wealth definition more comprehensive.

At the time of making this Report, macro-economic conditions have improved quite a bit and some of that has flown into the equity markets as well. The two big events in the coming quarters are the Indian elections and the tapering of the quantitative easing by the US Fed. We are optimistic that post-elections, we should see a period of stability and then some good growth. The last few years have made us temper the quantum of expectation of this growth. But nevertheless, we see total Wealth (including Cash, Gold and Real Estate) doubling in the next five years! And financial assets recovering some of the ground they lost to the physical ones.

Hope you enjoy going through the macro-picture that we present in this Report, and this enhances your understanding of Wealth in India and of the shape of things to come.

Happy Reading!!!

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

Contents

List of Tables

Executive Summary

The Indian economy is the tenth largest in the world in terms of nominal GDP and ranks as the third largest in terms of GDP based on Purchasing Power Parity (PPP), behind only United States of America and China.

With the economy performing well after the global economic downturn of 2008, recording a GDP growth rate of 9.2% in FY11 and 6.2% in FY12, the GDP growth slumped to a 10 year low of 5% in FY13. FY13 was a year of challenges for the economy with a slowdown experienced in agriculture, manufacturing as well as service sector. This coupled with rising current account deficit, high inflation, weakening exports due to weak global demand and delayed policy action slowed down the GDP growth rate. As a result, even Foreign Direct Investment inflows took a hit, registering a 38%[1] decline from FY12, making foreign investors wary about India.

Growth is expected to remain at 5% in FY14. Agricultural sector owing to normal monsoon and growth in Exports is likely to give a boost to the economy. However growth in manufacturing and service sectors are expected to remain subdued.

1. Economic Times

Global Individual Wealth

Global individual wealth grew by 7.8 percent in 2012 to reach a total of US$135.5 trillion compared to -3.6% & 7.3% growth in 2011 and 2010 respectively[2]. North America and Western Europe remained the wealthiest regions in 2012, with total individual wealth of US$43.3 trillion and US$35.8 trillion, respectively. Asia-Pacific (excluding Japan) stood third with total individual wealth of US$28 trillion.

In 2012, the world's high net worth individual (HNI)[3] population increased by 9.2% to reach 12 million, and aggregate investable wealth increased 10.0% to US$46.2 trillion. HNI wealth in 2012 represented a new level of strength, going well past the historical high of US$42.7 trillion set in 2010[4].

The population of ultra-high net worth individual (UHNIs)[5] increased by 11.0% to 111,000 in 2012, as compared to 100,000 in 2011, and aggregate wealth of UHNIs also increasing by 11% . Representing less than 1% of the global HNI population, the world's 111,000 ultra-HNIs control more than one-third (35.2%) of HNI wealth[6].

Individual Wealth in India

The amount of individual wealth in India is arrived by a summation of all asset classes in which investments are made by individuals. It does not consider government and institutional holdings. In this report, Financial assets and Physical assets, where investments are made by individuals of India are considered. Also International investments made by these individuals in financial and physical assets have been considered.

As on FY13, Indian Individual wealth in financial assets stands at ₹109.86 lakh crore whereas Indian Individual wealth in Physical assets (Gold & Real Estate Investments) stands at ₹92.06 lakh crore. Hence the total Individual Wealth in India stands at ₹201.90 lakh crore.

Due to the stupendous growth and development in financial markets in the last two decades since liberalisation, Indians now have 54.4% of their wealth invested in financial assets.

Table 1: Total Individual Wealth in India 2013

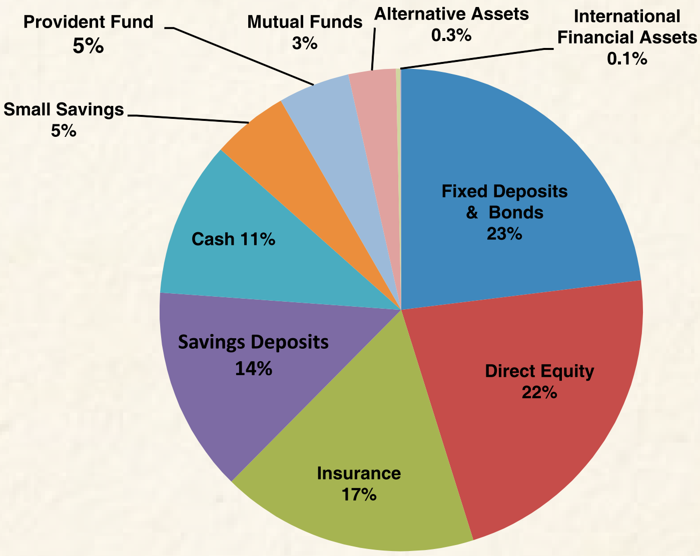
Asset Class	Amount (₹ Cr)	Proportion (%)
Financial Assets	1,09,86,166	54.4
Physical Assets	92,06,181	45.6
Total	**2,01,92,347**	**100.0**

2. BCG World of Wealth Report 2013.
3. HNIs are defined as those having investible asset of US$1 million or more excluding primary residence, collectibles, consumables and consumer durables.
4. World Wealth Report 2013, Page 4, Capgemini- RBC Wealth Management.
5. UHNIs are defined as those having investible asset of US$30 million or more excluding primary residence, collectibles, consumables and consumer durables.
6. World Wealth Report 2013, Page 6, Capgemini- RBC Wealth Management.

Table 2: Classification of Individual Wealth in India based on Financial Assets

Asset	Amount (₹ Cr)	Proportion (%)
Fixed Deposits & Bonds	25,30,608	23.0
Direct Equity	24,31,030	22.1
Insurance	18,93,766	17.2
Savings Deposits	15,08,599	13.7
Cash	11,44,740	10.4
Small Savings	5,64,729	5.1
Provident Fund	5,24,300	4.8
Mutual Funds	3,49,749	3.2
Alternative Assets	31,553	0.3
International Financial Assets	7,091	0.1
Total	**1,09,86,166**	**100.0**

Figure 2: Asset-Wise Distribution Of Individual Wealth in India (Financial Assets only)



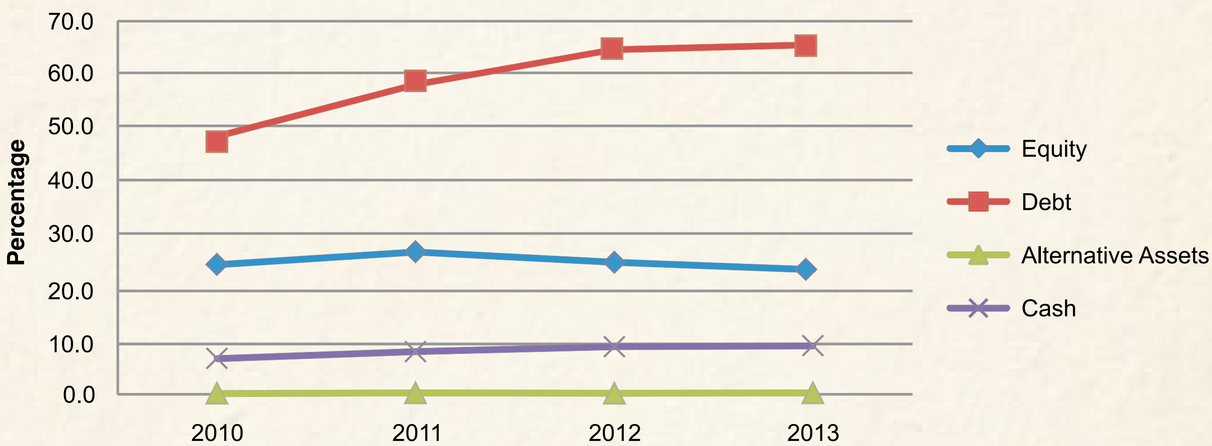
Investments in fixed deposits & bonds form the largest component of the total individual wealth in financial assets with 23% of Indian Individual financial wealth being held in this asset class. Direct Equity comes a close second attracting 22.1% of total individual wealth in financial assets. Assets held in Fixed Deposits have been increasing over the past couple of years as banks are now offering high interest rates in the range of 8-12%. Indian Equity market saw the Nifty giving a return of 9.39% as compared to a -8% in FY12. Growth in equity markets was also largely driven by higher inflows from foreign institutional investors (FIIs).

Table 3: Classification of Indian Individual Wealth in Financial Assets according to Key Asset Classes

Asset Class	Amount (₹ Cr)	Proportion (%)
Equity	26,03,161	23.7
Debt	72,06,712	65.6
Alternative Assets	31,553	0.3
Cash	11,44,740	10.4
Total	**1,09,86,166**	**100.0**

The total wealth of ₹109.86 lakh crore in financial assets marks an increase of 7.1% as compared to FY12.

Figure 3:Trend of Individual Wealth in Financial Assets according to Key Asset Class



While the overall values across the Asset Classes have been increasing, one can see the trend in proportion of individual investment in the debt segment has been increasing over the years, as compared to others.

Table 4: Classification of Individual Wealth in India held in Physical Assets

Asset	Amount (₹ Cr)	Proportion (%)
Gold	60,61,167	65.84
Real Estate	31,43,274	34.14
Investments in Real Estate Abroad	1,740	0.02
Total	**92,06,181**	**100.0**

Individual wealth in Physical Assets stands at ₹92.06 lakh crore. The individual wealth in Gold stands at a whopping ₹60.61 lakh crore, showing India's affinity for the yellow metal. Traditionally, Indians have a majority of their savings into Gold. Despite the increased penetration of banking and growth of financial instruments like stocks, bonds and other instruments, Gold continues to play a dominant role in the Indian household, being one of the most preferred family assets.

Investments in Real Estate stand at ₹31.43 lakh crore, excluding primary residence. Investments in Real Estate outside India by Indian Individuals stands at 1.7[7] thousand crore compared to 1.6 thousand crore in 2012.

7. RBI

Key Trends

1) Overall wealth held by individuals in India is expected to double to ₹411 lakh crore in the next 5 years. However the ratio of Financial assets to Physical assets in total wealth (55:45) are expected to broadly remain the same.

2) The Wealth held in Real Estate (excluding Primary Residence of the Individual) is expected to double in the next 3 years.

3) In the coming years with improvement in the economy and the percentage of households owning primary homes set to increase to greater than 90%, the fresh inflow into physical assets will increase at a decreasing rate.

4) With expected upturn in the economy there will be a gradual shift of more financial savings being invested in equities.

5) Even with a higher minimum investment size, alternative investments such as high yield debt, private equity, real estate funds and hedge funds will remain popular among the HNIs.

6) With the expansion of workforce and pension benefits being limited for the newer generation from employers/government, retirement/pension funds are expected to grow at a rapid pace in the next decade.

Section 1: Global Individual Wealth

Global individual wealth stood at US$135.5 trillion in 2012, marking a growth of 7.8% compared to 2011 and 2010 where the growth was - 3.6% and 7.3% respectively. Individual wealth grew by 5.9 percent in the old world[8] in 2012 and 12.9% growth in the new world[9].

North America and Western Europe remained the wealthiest regions in 2012, with total individual wealth of US$43.3 trillion and US$35.8 trillion, respectively. Asia-Pacific (excluding Japan) was the third-largest market, with wealth of US$28.0 trillion. Growth in overall wealth in 2012 amounted to nearly US$10 trillion, from US$125.7 trillion in 2011 to US$135.5 trillion in 2012.

The principal driver of the rise in global individual wealth in 2012 was the strong rebound in equity markets in most countries, particularly during the second half of the year. In 2012, the S&P 500 rose by 13.4 percent, the Nikkei 225 by 22.9 percent, and the Euro Stoxx 50 by 13.8 percent. The drivers of stronger equity markets included generally supportive monetary policies by central banks (notably in Europe with regard to the euro) and a measure of economic clarity after national elections in countries such as the U.S., Japan, China, France, and Russia. Growth in individual wealth was also strongly driven by savings as a percentage of GDP. High nominal GDP growth rates particularly in India (12.8 percent) and China (11.4 percent) stimulated wealth creation. The BRIC countries achieved average nominal GDP growth of 10.8 percent in 2012.

8. Old world regions- North America, Western Europe, Japan
9. Rapidly developing economies (new world regions) - Asia-Pacific EX-Japan, Eastern Europe, Latin America, Middle East & Africa as classified in BCG Global Wealth Report, 2013

Figure 4: Global Individual Wealth

Global individual wealth is projected to post a compound annual growth rate (CAGR) of 4.8% over the next five years to reach US$171.2 trillion by the end of 2017. Overall, the Asia-Pacific region (excluding Japan) will account for the bulk of the increase in global wealth through 2017[10].

The global population and investible wealth of HNIs both increased substantially to reach record levels in 2012. The population of HNIs grew by 9.2% worldwide, increasing by one million individuals to reach 12.0 million. Global HNI wealth, increased by 10.0% to reach US$46.2 trillion above the pre-crisis level of US$40.7 trillion in 2007 and the previous high of US$42.7 trillion in 2010[11].

Figure 5:Number Of HNIs in Millions

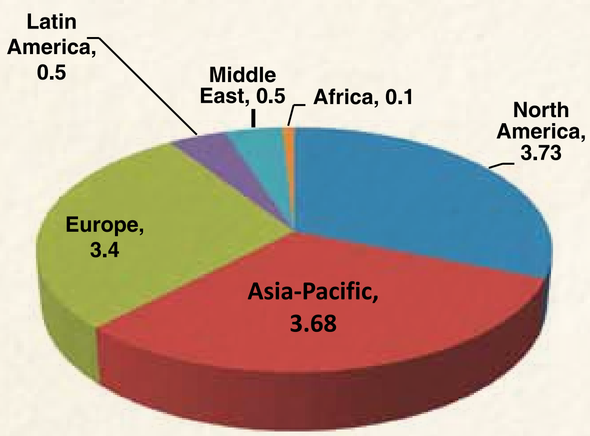
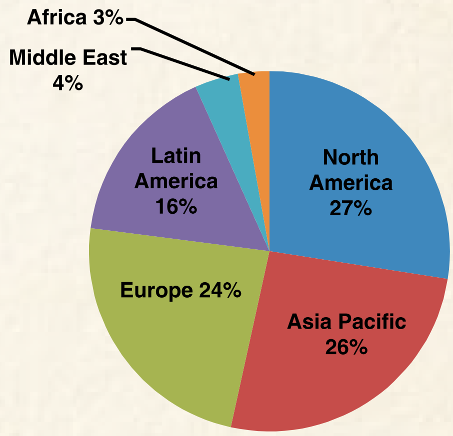


Figure 6:Global HNI Wealth Allocation



10 & 11 BCG Global Wealth Report 2013

North America contributed significantly to the global HNI population growth by registering the highest regional growth rate (11.5%) to reach 3.73 million HNIs and also the greatest share of HNI investible wealth with US$12.7 trillion. It regained its position in the region with the highest number of HNIs, overtaking Asia-Pacific, which grew at 9.4% to reach 3.68 million with investible wealth of US$12 trillion[12]. Latin America, which had the highest growth rate in 2011, decelerated in 2012, posting a growth of only 4.4%, largely due to a slowdown in GDP growth and because of contraction in the Brazilian and Argentinean equity markets. Currently, India is home to 164,000[13] HNI households and ranks 15th amongst all nations in terms of number of households.

Table 5: Asset wise classification of global wealth

Asset Class	Proportion (%)
Equities	26.1
Debt	43.9
Alternative assets	10.0
Real Estate	20.0
Total	**100.0**

The global asset allocation in equities fell to 26.1% compared to 35.5% last year. The global asset allocation shows that the trend in investment is moving from equity towards debt. Proportion of alternative assets grew to 10% as compared to 2.8% and 6.2% in 2011 and 2010 respectively.

12. World Wealth Report 2013, Page 5,Figure 1 & 2, Capgemini- RBC Wealth Management
13. BCG Global Wealth Report 2013

Section 2: Current Indian Economic Scenario

In FY13, India surpassed Japan to become the third largest economy in the world in terms of GDP (Purchasing Power Parity).

The Indian Economy however experienced its worst slowdown in 10 years, with GDP rising only by 5%. The economy grew by 5.4%, 5.2%, 4.7% and 4.8% in the four quarters of FY13. The fall in the growth rate was caused by the slowdown across all the agriculture, manufacturing and services sectors. Deficient and erratic monsoon, supply side bottlenecks, alarming fiscal and current account deficit, apprehensive foreign investors, weakening exports and policy paralysis etc. posed challenges to the Indian economy.

Growth is expected to remain at 5% in FY14. Agricultural sector owing to normal monsoon and growth in Exports is likely to give a boost to the economy. However growth in manufacturing and service sectors are expected to remain subdued.

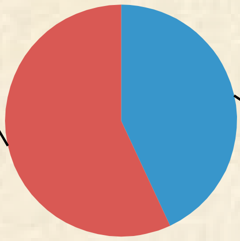
The second phase of reforms introduced by the government in 2012 namely, FDI in Multi-Brand Retail, Insurance, Pension funds, phasing out of diesel subsidy will provide the necessary impetus for growth by improvement in infrastructure, increased taxes for the government and employment generation.

With all the above factors expected to work in India's favour, the economy is expected to be back to a better growth trajectory in FY14.

Section 3: Individual Wealth in India

The Gross Savings rate in India is expected to remain at 30.8% in FY14[14], same as the last fiscal. Although India's saving rate continues to decline, it boasts of a higher rate than most of the emerging economies. Indian Individual wealth in financial assets stands at ₹ 109.86 lakh crore, an increase of 7.1% as compared to FY12. The Indian Individual wealth in physical assets stands at ₹ 92.06 lakh crore. Hence the total Individual wealth in India is ₹201.92 lakh crore. We have taken into account both investments made in Financial and Physical Assets by Individuals.

Figure 1: Composition of Indian Individual Wealth



Total Individual Wealth in India 2013		
Asset Class	**Amount (₹ Cr)**	**Proportion (%)**
Financial Assets	1,09,86,166	54.4
Physical Assets	92,06,181	45.6
Total	**2,01,92,346**	**100.0**

14. PMEAC

Section 4: Asset wise Break-up of Individual Wealth held in Financial Assets

The total Indian Individual wealth on basis of Financial Assets stands at ₹109.86 lakh crore marking a growth of 7.1% as compared to FY12. The following financial assets have been considered to arrive at Individual Wealth based on financial assets.

- Direct Equity
- Mutual Funds
- Insurance
- Fixed Deposits & Bonds
- Savings Bank Deposits
- Small Savings
- Provident Funds
- Alternative Assets
- International Assets (Financial)
- Cash

Individual Wealth in Physical Assets, viz Gold and Real Estate are covered in a later section separately

Section 4.1: Direct Equity

The NSE market capitalization stood at ₹62.39 lakh crore[15] as on March 2013, marking an increase of 2.34% as compared to ₹60.96 lakh crore year ended March 2012. Equity markets in FY13 performed better than FY12. Amongst the various sectoral indices in the NSE - FMCG, Media and Pharma were the best performing sectors, recording over 30% returns. Metals was the worst performing sector having returns of -27%.

15. NSE

Table 6: Direct Equity Classification

Investors	% of Market Capitalisation	Amount (₹ Cr)
Promoter Holdings	51.5	32,15,908
Institutions	33.4	20,83,081
Individuals Investors	15.0	9,40,045
Total	**100.0**	**62,39,034**

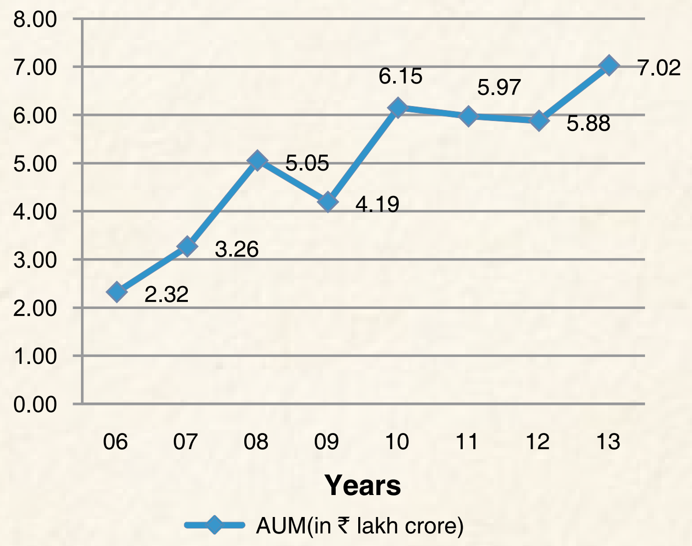
The Individual Wealth in direct equity stands at ₹24.31 lakh crore up by 3.47% in FY13 as compared to ₹23.49 lakh crore in FY12 This Individual Wealth is the sum of Direct Equities purchased by Investors (₹9.4 lakhs) and the Promoter Holdings of Individual business.

Direct Equity contributes 22.1% of the total Individual wealth in financial assets and is the 2nd largest asset class after Fixed deposits and bonds.

Section 4.2: Mutual Funds

The Indian mutual fund industries 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

Figure 7: Overall AUM of Mutual Fund Industry



Assets collectively managed by Indian mutual fund houses stood at around ₹7.02 lakh crore[16] as on 31st March, 2013.

16. Association of Mutual Funds in India (AMFI)

Table 7: Mutual Funds based on Underlying Investment by Individual Investor

Asset Class	2013		2012	
	Amount (₹ Cr)	Proportion (%)	Amount (₹ Cr)	Proportion (%)
Debt	1,81,407	52	1,35,135	43
Equity	1,68,342	48	1,76,679	57
Total	**3,49,749**	**100**	**3,11,814**	**100**

As can be seen in the table above, in FY13, there has been a gradual shift towards investing in Debt mutual funds. Total amount of individual investment in mutual funds is ₹3.5 lakh crore[17] in FY13 an increase of 12% from FY12.

Mutual Funds constitute 3.2% of total individual wealth held in financial assets in 2013.

Section 4.3: Insurance

India's growing economy, coupled with a significant rise in the young working population, has potential for development of the life insurance sector. Life insurance penetration in India is about 4.4 per cent of the country's gross domestic product (GDP) in terms of total premiums underwritten annually[18]. The penetration is quite less in India as compared to peers and hence, the Indian insurance market provides ample opportunities to domestic and international players to harness the profitable avenues in the same.

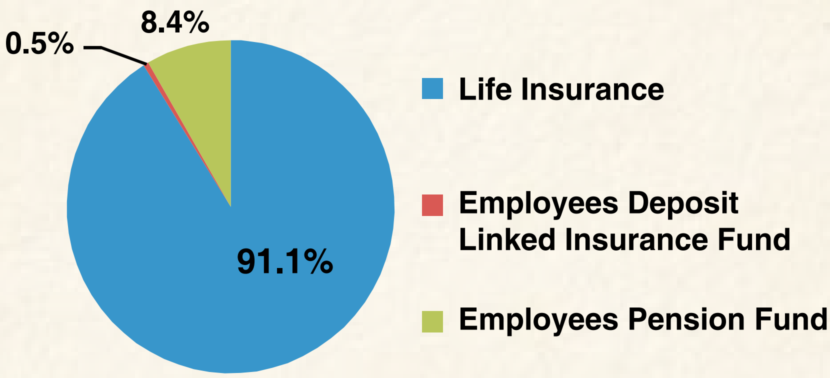
In this Section we have focused on individual wealth in Life Insurance, Pension Funds And Employees' Deposit Linked Insurance Fund

17. Association of Mutual Funds in India (AMFI)
18. Insurance Regulatory and development Authority (IRDA)

Table 8: Assets in Insurance

Types of Insurance	Amount (₹ Cr)
Life Insurance	17,25,317
Employees Pension Fund	1,58,890
Employees Deposit Linked Insurance Fund	9,560
Total Individual Wealth in Insurance	18,93,766

Figure 8:Composition of Insurance Asset Class



The assets in Insurance consists of Life Insurance at 91.1%,followed by Employees Pension Fund at 8.4% and, Employees Deposit Linked Insurance Fund by 0.5%

Individual Wealth in Insurance for FY13 is estimated to be ₹18.94 lakh crore marking a growth of 9% in FY13 as compared to FY12.

During FY12 the no of new policies issued fell by 8% to 4.42 crore mainly because of new regulations enforced by Insurance Regulatory and Development Authority, cleaning up the structure of the Unit Linked Insurance Plans (ULIPs). However in FY13 there was a bounce back in the number of policies issued to 5.73 crore.

Insurance constitutes 17.2% of individual Financial Wealth in India on basis of financial assets in FY13.

Section 4.4: Fixed Deposits & Bonds

Traditionally Indian investors have invested in Fixed Deposits, Bank fixed deposits being the most favored. A Fixed Deposit is a financial instrument provided by Indian banks which provides investors with a higher rate of interest than a regular savings account, and with predetermined maturity date.

Table 9: Assets of Individuals In Fixed Deposits & Bonds

Asset	Amount (₹ Cr)
Fixed Deposits	24,87,804
Bonds	42,805
Total	25,30,608

Individual wealth in Fixed Deposits and Bonds stands at ₹ 25.31 lakh crore. At 25.4% Fixed Deposits and Bonds form the largest component of total individual wealth in financial assets in 2013.

Fixed Deposits (FDs)

Fixed Deposits comprises of

- Bank Fixed Deposits
- Corporate Fixed Deposits
- Deposit taking NBFCs

Bank FDs

Bank Fixed Deposits for long have been one of the favourite avenues of investors in India who historically have always preferred the stable and safe debt investments.

Bank Fixed Deposits consists of fixed deposits from:

- Scheduled Commercial Banks
- Co-operative Banks

Table 10: Composition of Individual Wealth in Bank Fixed Deposits

Bank Category	Amount (₹ Cr)
Scheduled Commercial Bank	22,90,214
Scheduled Co-operative Banks	92,645
Total	23,82,859

Individual Wealth In Bank FDs in FY13 stands at ` 23.82 lakh crore, and has grown by 9.17% as compared to FY12.

Corporate Fixed Deposits

Corporate FDs, also known as Company Fixed Deposits provide higher interest rates as compared to Bank FDs, and hence these are becoming increasingly popular.

Company fixed deposits are expected to make a strong come back after an increase in dividend distribution tax (DDT) for debt funds. Earlier the interest earned by company fixed deposits was clubbed to income of the individual and taxed at marginal rate of tax, and the dividends on the debt funds (other than liquid funds) were taxed at 13.5%. This prompted higher investments in Debt funds, especially from people in higher tax bracket. However the budget for FY14 announced a hike in the DDT and also increase in the surcharge, resulting in an effective rate of tax of 28.33%[19] on dividends declared by all debt funds, thus making investments in company fixed deposits a better option.

Individual Wealth in Corporate Fixed Deposits stood at ₹ 94.36 thousand crore, a growth of 7% as compared to FY12.

NBFC Deposits

Deposits with Non-banking finance corporations (NBFCs) witnessed a slowdown in FY13 with the total public deposits with these institutions having increased by 10.8% as compared to the previous year.

Fixed Deposits with NBFCs constitute both deposits held by NBFCs (deposit taking) and RNBCs[20].

Table 11: Composition of assets in NBFCs & RNBCs

Types of NBFCs	FY13 (₹ Cr)	FY12 (₹ Cr)	% change
Deposit taking NBFC	7,058	5,555	27.5
RNBC	3,501	3,996	-12.4
Total individual deposits	10,586	9,551	10.8

19. The Economic Times
20. RNBC - Residuary Non Banking Corporation - A type of NBFC whose principal business is to accept deposit or in a manner not being Investment, Asset Financing, Loan Company. These companies are required to maintain investments as per directions of RBI, in addition to liquid assets.

RNBCs are experiencing a decline in the public deposits after the two RNBCs, Sahara Investment Finance Corporation Limited and Peerless Finance and Investment Company were barred from accepting deposits from the public from 2010.

Deposit accepting NBFCs are also facing growing competition from Banks and Corporate Fixed Deposits, as the corporate loan books of banks are drying up due to a slowdown in investment activities. However, these companies experienced a 27.5% rise in their deposits, from ₹5,555 crore in FY12 to ₹7058 crore in FY13.

Bonds and Debentures

Funds raised by Indian companies through retail issues of non-convertible debentures (NCDs) more than halved to nearly ₹17,000 crore in FY13. In FY12, a cumulative amount of ₹35,611 crore was garnered by 16 firms through their NCDs. One key reason in this reduction is removal of tax benefit of ₹20,000 under Sec 80C that was provided to infrastructure bonds, affecting retail participation in this space.

The total wealth in bonds and debentures stands at ₹66,044 crore, out of which retail participation accounts for ₹42,805 crore.

The total individual wealth in corporate Bonds stands at ₹9,812 crore, where as Individual wealth held in PSU Bonds stand at ₹32,993 crore.

Table 12: Composition of individual wealth in Bonds and Debentures

Sector	Individual wealth (in ₹ Cr)
Corporate	9,812
PSU	32,993
Total	42,805

The individual wealth in bonds and debentures as on 31 March 2013 stands at ₹42,805 crore

Section 4.5: Savings Bank Deposits

Saving Deposits are a popular investment option owing to their liquidity and ease of operation. Banks maintaining saving account of individuals can be divided into two categories:

- Scheduled Commercial Banks
- Scheduled Co-operative Banks

Table 13: Composition of Savings Bank Deposits

Asset	Amount (₹ Crore)
Fixed Deposits	24,87,804
Bonds	42,805
Total	25,30,608

Individual Wealth in Savings Bank Deposits stands at ₹15.08 lakh crore as on 31st March, 2013, marking a growth of 14% as compared to FY12.

The Individual wealth in savings bank deposits forms 13.7% of the overall individual wealth.

Section 4.6: Small Savings

Small savings comprise savings made with the Post Office. They comprise of various instruments such as Post Office Time Deposits, Post Office Recurring Deposits, Post Office Savings Accounts, Post Office Monthly Income Scheme, Kisan Vikas Patra, and National Savings Certificate, etc. It is one of the most traditional forms of investment especially in rural India.

Table 14: Composition of Individual Wealth in Small Savings

Small Savings Schemes	Amount (₹ Cr)
Monthly Income Scheme	2,01,743
Kisan Vikas Patra	1,32,568
Post Office Recurring Deposits	67,348
National Savings Certificates	62,454
Post Office Saving Bank Deposits	37,648
Post Office Time Deposits	32,013
Senior Citizen Scheme	24,296
National Saving Scheme:1987,1992	4,239
Other Certificates[21]	1,540
Indira Vikas Patra	880
Total	5,64,729

Individual Wealth in Small Savings degrew by 1% in FY13 as two of its popular instruments Indira Vikas Patra which was discontinued in 2001 and Kisan Vikas Patra Scheme which has been recently discontinued by the government from December 1, 2011. These two instruments are maturing and no new investments in these schemes is possible.

The total wealth held in Small Savings as on 31st March, 2013 is ₹5.64 lakh crore. Small savings constitutes 5.14% of individual wealth in financial assets.

Section 4.7 Provident Fund

Provident Fund (PF) is an investment-cum-tax savings instrument. It has been used traditionally as a retirement planning tool by individual investors in India. It is an asset class which provides the investor with the double benefit of saving tax as well as increasing and safeguarding their capital.

Provident Fund can be divided into two categories

- Employee Provident Fund (EPF)
  EPF is implemented by the Employee Provident Fund Organization of India (EPFO). Any company with over 20 employees is required to register itself with the EPFO. 12% of the Basic, DA, and cash value of food allowances has to be contributed to the EPF account.

  Employee Provident Fund is a very important tool of retirement planning. The tax free interest at maturity ensure a good growth of your money. If continued for a very long term, it can help immensely in meeting ones retirement goal. Amount of wealth invested by Individuals in EPF is ₹3.41 Lakh crore.

- Public Provident Fund (PPF)
  The Public Provident Fund is a long-term investment option that suits investors of all types. Scoring high on safety, by virtue of it being government

21. Other certificates consists of defence certificates and treasury certificates

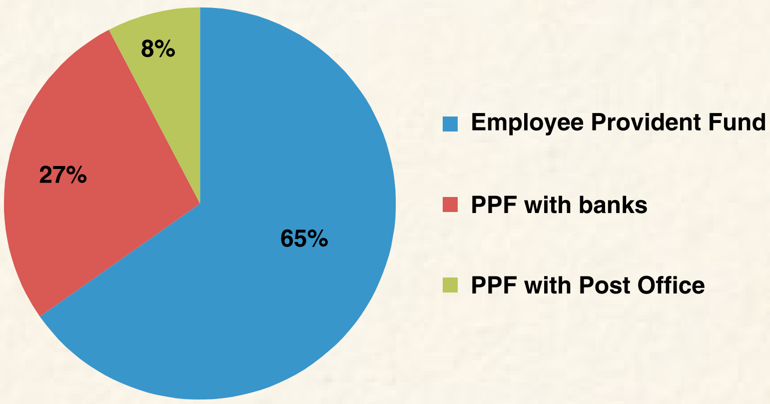
backed, this wonderful option comes with tax benefits, loan options and a low maintenance cost. PPF is a voluntary Scheme for individuals in which they can open a PPF account with a Post office or various nationalized banks. The total assets in PPF with post office stands at ₹40,321 crore while ₹1.42 lakh crore is with Nationalized Banks.

Individual Wealth in Provident Fund has grown by 13% in FY13 as compared to FY12.

Table 15: Assets in Provident Fund

Composition Of Provident Fund	Amount (₹ Cr)
Employee Provident Fund	3,41,937
PPF with banks	1,42,042
PPF with Post Office	40,321
Total	5,24,300

Figure 9: Composition Of Provident Fund



In FY14, Provident Fund account holders will earn less on their post office savings schemes, with the government deciding to reduce interest rates on them marginally by 0.10 percent[22] . The interest rate of Public Provident Fund (PPF) has been lowered from 8.8 per cent to 8.7 per cent with effect from April 1, 2013.

Provident Fund constitutes ₹5.24 lakh crore of the total Financial wealth held by individuals in India.

Section 4.8 Alternative Assets

SEBI introduced the guidelines regulating alternative assets, falling under the purview of Alternative Investment Fund (AIF) in May, 2012. Alternative Investment Funds include Private Equity Funds, Real Estate Funds, Hedge Funds, among others. According to SEBI, the rationale behind introduction of regulations for these unregulated funds is to bring systemic stability, increase market efficiency, and encourage formation of new capital and most importantly, consumer protection.

SEBI has mandated funds that come under the purview of Alternative Investment Funds can have a maximum of 1000 investors and the minimum amount invested in these funds should not be less than ₹1 crore.

Alternative investments experienced a surge not only in India but also globally from 2005 to 2011, where the assets under management more than doubled to US$6.5 trillion[23]. This pace represents a compounded annual growth rate of 14% over the period, far outstripping traditional asset classes.

The individual wealth in Alternative Assets has increased from ₹ 24,415 crore in FY12 to ₹31,553 crore in FY13, registering a growth of 29%.

Table 16: Composition of Individual Wealth in Alternative Assets

Asset Class	Amount(₹ Cr)
Structured products	12,150
Gold ETFs	5,289
Private Equity funds	4,117
Real Estate NCDs	4,000
Real Estate funds	3,406
Art funds	1,087
Film funds	904
Hedge Funds	600
Total Alternative Investments	31,553

22. Indian Express
23. McKinsey Report- The Mainstreaming of Alternative Investments

Gold ETF

Total wealth in gold ETFs stands at ₹11,647.8 crore[24] as compared to last year's ₹9,886 crore witnessing an increase of 17.82%.

The individual wealth in gold ETF in the year ended 2013 has increased from ₹4,483 crore in FY12 to ₹5,289 crore in FY13 recording an increase of 18%.

Individual participation in Gold ETFs stands at 45% of the total investments in this asset class. HNIs hold about ₹983 crore worth wealth in Gold ETF.

Private Equity funds

Private Equity funds have experienced a rising streak over the last couple of years with individual wealth in this asset estimated to be at ₹4,117 crore in FY13, a growth of 15.3% over the last year. These funds are garnering interest from Indian HNIs and UHNIs as forms of alternative investments.

Film funds

The Film Funds are marketed as special products amongst an identified set of High Net worth Individuals (HNIs) and Institutional Investors. With film like Vistaar Religare Ltd, DAR Capital and Mentor Capital, these funds experienced a surge of 429% as compared to FY12. The individual wealth in these funds stands at ₹ 904 crore in FY13.

Real Estate Funds

The consequent growth in business opportunities has escalated demands for commercial as well as residential space. Real Estate Funds in India have witnessed a steep rise due to the high returns they yield from the real estate boom in India. The individual wealth in these funds is estimated at ₹3,406 crore, a rise of 11% from ₹3,069 crore in FY12.

24. AMFI

Art Funds

India's share in global art market is ₹1,358 crore[25], i.e., less than 1% of the total global art market that is currently worth US$60.8 billion. A recent report[26] claims that the Indian art market has risen over 485% in the last 10 years, making it the fourth most positive art market in the world. In the past, the Indian art market was largely dominated by collectors and connoisseurs, royal and wealthy Indian families, who acquired art more out of aesthetic appeal than as investment in an alternative asset class.

Recent trends indicate the emergence of a new class of buyers into Art Funds: upper-middle-class families, upwardly-mobile professionals and entrepreneurs from diverse fields, who constitute the growing number of high net-worth individuals (HNIs). Driven by high disposable wealth, this growing HNI population has triggered a change in the investment behaviour. The individual wealth in Art Funds stands at ₹1,087 crore, experiencing a rise of 276% from ₹289 crore in FY12.

Hedge funds

SEBI in May 2012, introduced regulations for alternative investment funds (AIFs), opening the way for local hedge funds and complex products. These funds have traditionally not been popular with financial regulators, as these can enter and exit investments at will, potentially posing liquidity threats to the Indian market. Prior to this regulation, Indian firms were not allowed to launch local hedge funds, though foreign hedge funds were allowed to invest in the country. About eight hedge funds are registered with SEBI, who are expected to have Assets under Management (AUM) of ₹3,000 crore[27]. The individual participation in these Hedge funds is estimated at ₹600 crore.

Structured Products

Structured Products or market-linked debenture are products where majority of the money is invested in fixed-income securities and the smaller portion in derivatives linked to assets such as equity. Structured products can be used as an alternative to a direct investment, as part of the asset allocation process to reduce risk exposure of a portfolio, or to utilize the current market trend. The combination of yield, principal protection and participation in returns make these a popular choice among HNIs. Total Individual Wealth in Structure Products stands at ₹12,150 crore in FY13.

25. LiveMint
26. Fortune
27. Economic Times

Real Estate NCDs

Non-convertible debentures (NCDs) are issued by real estate developers and privately placed with high networth individuals. These are generally high yield products with a fixed return between 16-19% p.a. for investors. Individual Wealth in Real Estate NCDs stands at ₹4,000 crore[28].

Alternative Assets constitute about 0.29% of the individual wealth in India on basis of financial assets.

Section 4.9: International Assets

Apart from investments in Indian assets, Indian individuals also invest in financial and physical assets abroad. These international remittances are governed by RBI under the Liberalized Remittance Scheme (LRS) in which all resident individuals, including minors, are allowed to freely remit up to US$75,000 per financial year[29] (April – March) for any permissible current or capital account transaction or a combination of both. Remittances made under the LRS can be used to buy property abroad or to invest in shares, mutual funds or debt instruments in any foreign country without prior approval of the RBI. Individuals can also open, maintain and hold foreign currency accounts with banks outside India for carrying out transactions permitted under the Scheme and are not required to repatriate the funds or income generated out of these investments.

For FY13, the cumulative investments into financial assets made abroad by resident individuals stands at ₹7,091 crore. Following is the composition of such investments.

Table 17: Individual Wealth in International Investments upto 2013

Assets	Amount (₹ Cr)
Deposits	1,025
Investment in Equity/Debt (bonds, mutual funds, etc)	6,066
Total International Investments	7,091

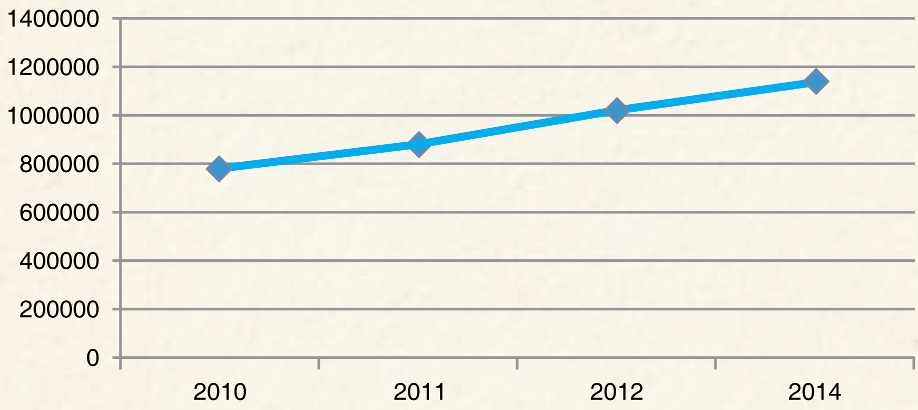
28. Livemint
29. RBI

Section 4.10: Cash

Cash held by individuals in India in FY13 stands at ₹11.44 lakh crore, which is 10.4% of the Total wealth held by individuals in India.

Cash held by individuals in 2012 was 10.10% of the total wealth i.e. 10.22Lakh crore.

Figure 10: Cash held by individuals (in ₹ crore)



Section 5: Indian Individual Wealth in Physical Assets

The interest of Indian Individuals investing in Physical assets have been increasing year on year. This only gets affirmed by the sharp rise over the past five years in the share of Physical Household in overall household savings. Indian Individual Wealth in Physical Assets stands at ₹92.06 lakh crore by end of 2013 which is 45.6% of the total Individual Wealth in FY13.

Physical Assets considered to arrive at individual wealth in this report are

- Physical Gold
- Real Estate

Section 5.1: Physical Gold

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 Indian's 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.

Over the centuries, Indian households have piled up as much as 20,470[30] tonnes of gold till March 2013, worth ₹60.61 lakh crore, an historic high. Coupled with 5000 tonnes of gold held with temples and 558 tonnes of the central bank's holdings, gold stocks at known sources in India, the world's largest consumer, would represent more than 75% of its gross domestic product.

India accounts for 28% of the total global gold demand, highest by any country in the world. Not surprisingly, while globally the investment in physical gold witnessed a decline of 3.83% from the previous year, demand for physical gold in India went up by 3.57%.

Table 18: Composition of individual demand in Gold (in Tonnes)

Region	FY12	FY13	% change
India	886.9	918.6	3.57
World	3,366.6	3,237.5	-3.83

30. World Gold Council

The reasons for surge in Indian demand for gold are a plenty. Firstly, increase in incomes of rural households due to a good late harvest fuelled the surge in demand for gold. Secondly, a fall in prices of gold in February 2013, pushed up the demand for gold.

Gold imports have increased at an average of 33% over the last decade, highest being in the years of 2010 and 2012, putting a pressure on the current account deficit in 2013. The Indian government has responded to the rise in imports by imposing a duty on this non productive asset and raising the same at short intervals. The government effectively has doubled the import duty on gold to 2% in January and followed it up by raising it to 4% during the budget announcement in March this fiscal, with a hope to contain the alarming Current Account Deficit which was at 4.8% in March 2013. The CAD had touched a record high of 6.7% in the October-December quarter in 2012.

The total household wealth that is channelled into gold is estimated to be a whopping ₹60.61 lakh crore.

Section 5.2: Real Estate

Today the Real Estate industry's dynamics reflect consumers' expectations of higher quality with India's increasing integration with the global economy.

Residential demand is the mainstay of Indian Real Estate sector. Demand for houses has increased considerably while supply of houses could not keep up with the growing demand. In 2012, the larger cities of Mumbai and NCR-Delhi recorded healthy absorption of residential units during 2012, with a 60% contribution to the overall absorption. Chennai and Pune were among the other two cities that increased their share of absorption during 2012 to 26% from the 23% recorded a year ago[31].

31. Real Estate Intelligence Service, JLL & Money Control

Among the top 7 cities of India, the capital value growth in Pune and NCR-Delhi was the highest, while Hyderabad and Bangalore saw a slower rate of capital value growth.

Mumbai, Pune, NCR, Bangalore & Chennai are considered as the top investment destinations over the next five years.

The real estate sector of India is estimated to have a total pipeline of nearly 3.6 billion square feet lined up for completion in 2013, out of which 98% is concentrated in the residential areas. The real estate sector, an inherent component of the construction industry, has a tremendous potential in our country. The proper tapping of the real estate sector will also generate considerable economic opportunities.

Policy Outlook *The Union Cabinet of India on 4 June 2013 approved the Real Estate (Regulation and Development) Bill 2013 to set up a regulator for the real estate sector in the country. This was done with the objective of protecting home buyers from dishonest builders. The bill seeks to make it mandatory for developers to launch projects only after acquiring all the statutory clearances from relevant authorities.*

It also has provisions under which all relevant clearances for real estate projects would have to be submitted to the regulator and also displayed on a website before starting construction work. A real estate regulator will be set up in every state. It will ensure that private developers get all their projects registered with it before sale and only after obtaining all necessary clearances. The Commercial real estate is not covered under the purview of the proposed bill.

Apart from investing in India's property, individuals also invest in immovable property abroad. These investments made abroad come under the Liberalised Remittance Scheme governed by the RBI. Cumulative investments in FY13 made in Real Estate abroad stands at ₹1740 crore.

Individual Investment in Real Estate in India stands at ₹31.43 lakh crore.

Section 6: Individual Wealth: India versus World

In this age of global integration, trends in Indian asset allocation should ideally be similar to trends of asset allocation globally, Table 20 shows the proportion of investments in key asset classes by individuals in India and globally.

Table 19: Individual Wealth - India V/S Global

Asset Class	Global Wealth (%)	Indian Wealth(%)
Equities	26.1	12.9
Debt	43.9	41.4
Alternative assets (including Gold)	10.0	30.2
Real Estate	20.0	15.6
Total	100.0	100.0

As is evident that investment in debt instruments is highest among asset classes both globally and in India.

Investments in Alternative assets form a larger portion in India as compared to that done globally primarily because of investments in Gold, where Indian individuals preference to invest in Gold is still higher as compared to other nations. Investing in Equity in India is still very low as compared to globally, however we forsee this to gradually increase in the future.

Section 7: Future of India's Individual Wealth

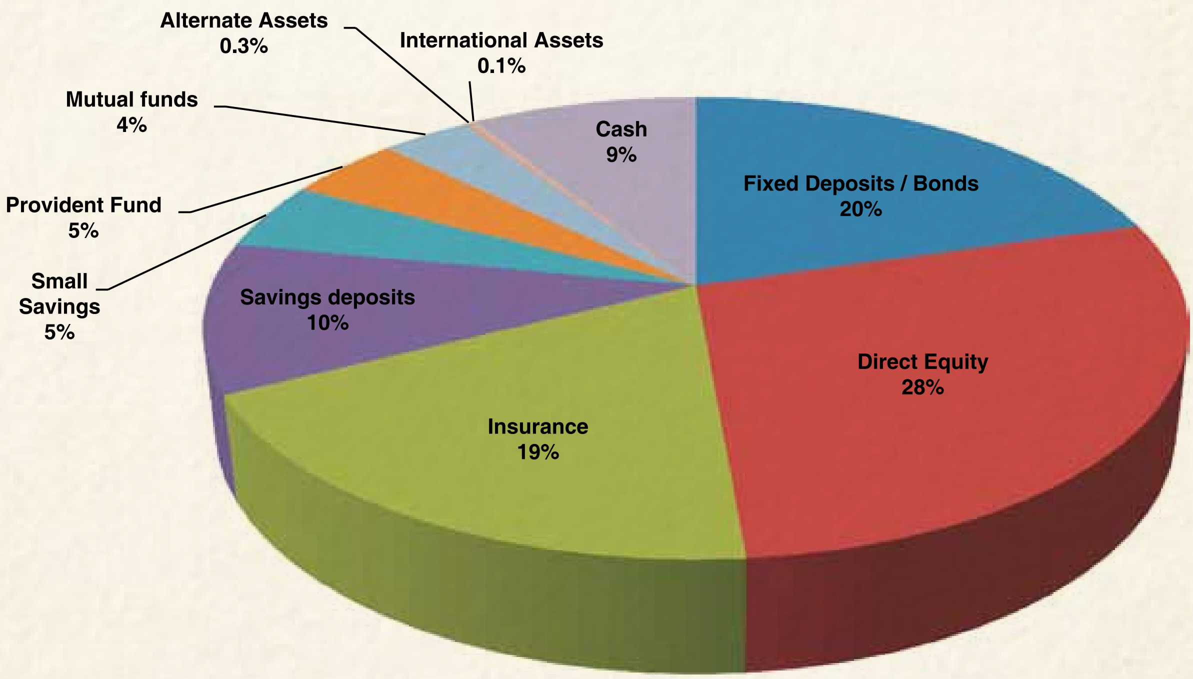
The global economy is still going through an upheaval and there are uncertainties ahead. The global economic recession and crisis has, quite expectedly, impacted India, too.

It is well known that - on a purchasing power parity basis – India is already, at over USD four trillion of GDP, the third largest economy in the world. In the next 15 to 18 years this size is expected to grow, as per various studies and estimates, four to five times. As a result many foreign investors and a majority of global companies and businesses are making a beeline for the Indian market, which promises a booming middle class, expanding steadily in the next few decades.

India's GDP for FY13 is ₹100 lakh crore and is expected to grow to ₹176 lakh crore by FY18. Individual wealth in financial assets is expected to grow from the current ₹109.86 lakh crore to ₹228.36 lakh crore by FY18. Investment in Physical assets is expected to increase from the current ₹92.06 lakh crore to ₹183.15 lakh crore by FY18.

Hence the total wealth is expected to more than double from the current ₹201.92 lakh crore to ₹411.51 lakh crore.

Figure 11: Projected Financial Asset Class Wise Distribution in FY18



Key Trends

1) Overall wealth held by individuals in India is expected to double to ₹411 lakh crore in the next 5 years. However the ratio of Financial assets to Physical assets in total wealth (55:45) are expected to broadly remain the same.

2) The Wealth held in Real Estate (excluding Primary Residence of the Individual) is expected to double in the next 3 years.

3) In the coming years with improvement in the economy and the percentage of households owning primary homes set to increase to greater than 90%, the fresh inflow into physical assets will increase at a decreasing rate.

4) With expected upturn in the economy there will be a gradual shift of more financial savings being invested in equities.

5) Even with a higher minimum investment size, alternative investments such as high yield debt, private equity, real estate funds and hedge funds will remain popular among the HNIs.

6) With the expansion of workforce and pension benefits being limited for the newer generation from employers/government, retirement/pension funds are expected to grow at a rapid pace in the next decade.

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, 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 net worth 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 hard earned 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.

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: +91 - 22 - 33055000, Fax: +91 - 22 - 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"