

2014

TOP OF THE PYRAMID

INDIA **DECODING THE ULTRA HNI**



The Indian Ultra HNI

READY FOR CHANGE



Foreword



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India's super rich are moving out of their comfort zones to put more monies in the rare and the risky – exotic food, private equity and even space travel. These and other fascinating consumption patterns emerge from the fourth annual survey of ultra high net worth Indians, Top of the Pyramid, by Kotak Wealth Management.

India's rich – households worth over ₹ 250 million – are happier than they've been in a long time. They see recent changes in the government and in the economy validating the aspirations of people like themselves – who create capital or inherit it. Remarkably, almost half of this hallowed and happy lot comes from non-metros.

Sniffing change in the air in an election year, many Indian ultra HNIs are removing all the stops to spend on visiting lions, polar bears and private islands. In their bid for exclusivity, they chase molecular gastronomists, award-winning chefs and specially grown foods.

So what does the ultra HNI do when he's got the yacht and the third house and checked the boxes on every conventional asset class? He puts his finger up to check the direction of the wind. Going by the increasing attractiveness of Private Equity

investments to this group of people, the wind is clearly blowing in the right direction. The trend grows steadily, fuelled by high returns reported by some PE funds.

But it's not all chartered jets and front seats at the World Cup – our rich are giving more. Ultra HNIs are supporting a variety of social causes with the biggest chunk of monies going to education for the poor.

A new economic order beckons. India's ultra HNIs are ready for the change it promises. Top of the Pyramid tells you how and why.

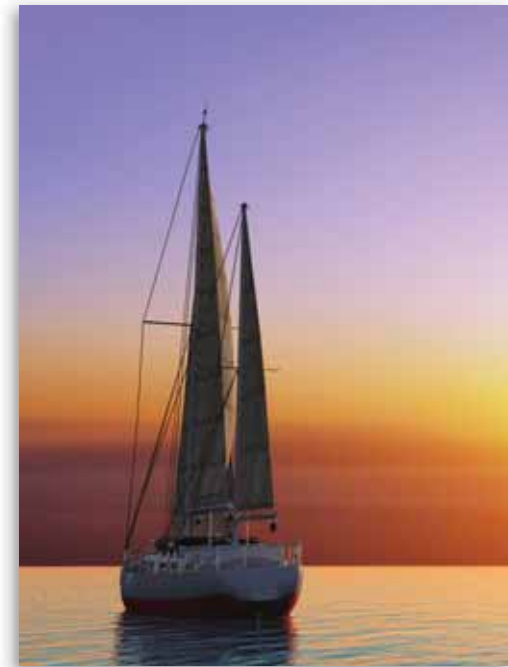
A handwritten signature in black ink that reads "Jayaram". The signature is stylized with a long horizontal line underneath the name.

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About the Report

Signs of a buoyant economy are emerging with the change in the investment outlook and advent of the new government. The current edition of 'Top of the Pyramid' report from Kotak has captured this positive sentiment as featured in spends as well as investments. **'Ready for Change'** is the key theme signifying the improvement in the overall sentiment.

The number of ultra High Net worth Households (HNHs) in India has grown by 16% this year, albeit at a slower pace compared to the last three years. The total net worth of ultra HNHs has also increased to ₹ 104 trillion, reflecting this positive sentiment.

Kotak Wealth Management, the Private Banking arm of Kotak Mahindra Bank Limited, commissioned Ernst & Young LLP (EY) in developing the report, collaborating with the market research firm on customer survey, study and analyse customer trends and prepare the report with insights. EY used parameters such as GDP growth, inflation rate, past and projected financial and non-financial asset class allocations and returns to determine projections.

The emergence of non-metro cities has also been a key trend as the tier now includes ~45% of India's ultra HNIs. In the long-term, the share of non-metros is expected to increase gradually. Primary research through interaction with luxury brands and secondary research including sale of luxury cars and luxury goods was utilised to arrive at the list of non-metros.

Ultra HNIs believe that the winds of change herald sustainable and robust economic growth over the next few years. This has also changed their perspective when it comes to spends and investments. There is less restraint in discretionary spending, particularly in areas such as luxury travel.

In our previous reports, we quizzed ultra HNIs on their spending and investment patterns in terms of the key drivers and motivations for the behaviour amidst changing economic environment.

The current report also looks at spending and investment behaviour of ultra HNIs. The insights highlight changes in spending behaviour in the past year as well future spending trends. The report also has special focus on Luxury Travel, Philanthropy and

Total net worth of Indian ultra HNIs has increased to ₹ 104 trillion

Private Equity Investments. Ultra HNIs have new aspirations which seek exclusivity in their lifestyles. Product and services are evolving to meet these new aspirations.

The current report is a culmination of insights from three main sources:

1. A detailed market survey of 150 ultra HNIs by Feedback Consulting and EY.

The survey took place between February 2014 and April 2014, and face-to-face interviews were conducted in Delhi, Kolkata, Mumbai, Bengaluru, Ahmedabad, Chennai, Pune, Chandigarh, Lucknow and Aurangabad.

2. A series of interviews with luxury service providers such as luxury travel companies, luxury watch companies, jewellery companies and Wealth Management RMs.

3. Secondary research and additional analysis by EY.

EY then undertook an extensive analysis of the survey results, and many of its conclusions were validated with our primary sources. This report would not have been possible without the cooperation 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.

Ultra HNIs have new aspirations which assign a premium to exclusivity

Covers of previous Top of the Pyramid reports



2011



2012



2013

Kotak Wealth Management ranked among the 'Top 5 Family Offices in Asia' by Euromoney Private Banking Survey in 2012, 2013 and 2014

About Kotak Group

Kotak's evolution is a tale of consistent pursuit of opportunities and capitalising on them despite a rapidly changing economic and business landscape. As we retrace our steps to the initial days of our journey, one particular day stands out – 21st November, 1985. This was when Mr. Uday Kotak identified an opportunity in the bill discounting market.

From a seed capital of less than US\$80,000 borrowed from family and friends, Mr. Kotak aided by the team, which has grown from three employees to over 26,000 today, adroitly led a bill-discounting startup into a financial services conglomerate with assets of US\$19 billion.

In February 2003, Kotak Mahindra Finance Ltd., our Group's flagship company, became India's first Non-Banking Finance Company to receive a banking license from the Reserve Bank of India (RBI).

Thus was laid the foundation of Kotak Mahindra Bank Ltd. (KMBL). We are focusing our industry experience and capabilities to cater to changing customer aspirations. Our solutions are technology driven, contemporary

and comprehensive, spanning consumer banking, commercial banking, corporate banking, wealth management, retail and institutional equities, asset management, life insurance and investment banking.

We have come a long way since those early days. Kotak now caters to diverse financial needs of individuals and the corporate sector, nationally and internationally.

About Kotak Wealth Management

Kotak Wealth Management, the Private Banking arm of Kotak Mahindra Bank Ltd., provides financial advice to some of the most distinguished high net worth families in the country. Our client base ranges from entrepreneurs to business families, as well as employed professionals, including over 40 per cent of India's top 100 families (as per the Forbes India Rich List, 2013).

We believe that no single asset class tends to perform consistently over a long period of time and an HNI needs to have access to various asset classes, investment styles, themes and tenures. With this philosophy, Kotak

has built a formidable suite of products and services for this specific audience.

Our offerings are customised, based on the client's profile and investment objectives. With in-depth understanding of the client's requirements and the various asset classes, Kotak offers the widest range of financial solutions.

We offer Family Office Services to ultra high net worth investors, providing comprehensive financial solutions which go beyond investments to provide a host of value-added services.

Through Kotak Mahindra Trusteeship Services Limited we offer Estate Planning Services which deals with Succession Planning by creation of private family trusts.

Kotak Wealth Management is the only Indian Wealth Manager to feature in the 'Top 25 Private Banks' of the world in the category of 'Best Private Banking Services Overall' by Euromoney Private Banking Survey 2013. It has also featured among the 'Top 5 Family Offices in Asia' by Euromoney Private Banking Survey in 2012, 2013 and 2014. 

Executive Summary

Change is in the air, and this time it is for the better!

There is a sense of renewed optimism in the economy, which has picked up particularly in the second half of 2013, with the indicators being strongly visible in the western economies and India as well. India's ultra HNH population has witnessed a strong growth, rising to 117,000 in 2013-14 (Estimated) from 100,900 in 2012-13.

The ultra HNIs seem to have broken away from their sense of cautiousness and are now spending more than last year.

Discretionary and non-discretionary spends have risen from 30% of total income allocation to 45% this year. Gold and jewellery, also doubling up as investments, have been the single largest area of spend, followed by apparel and accessories, and then by luxury holidays.

The preference of ultra HNIs for luxury travel has been covered as a special theme in the current publication. Shopping has emerged as the most important theme for travel. Another

emerging trend is the increasing number of shorter trips taken by the ultra-rich, indicating a need to take frequent breaks from work.

Ultra HNIs also aspire for larger-than-life travel experiences, with many stating interests in polar expeditions and even space travel.

Besides spending on themselves, they also believe in giving back to the society. Nearly two-thirds of ultra HNIs interviewed attached a high sense of importance to philanthropy, with Professionals being the most concerned. The primary motivator here is the sense of satisfaction derived from contributing positively to society, with education being

India's ultra HNH population has witnessed a strong growth of 16% to 117,000 in 2013-14 (E)

the most common area of philanthropic contribution.

The overall positive sentiment has brought about a change in investments as well. Barring wealth from primary business, real estate has been the biggest driver of income, followed by equity.

Our special focus on Private Equity (PE) investments shows that ultra HNIs are actively investing in the PE space as well. Nearly 26% of ultra HNIs have an allocation to PE in their total investments, with higher returns

being the primary driver for the interest. Much in line with the sectors showing robust performance, ultra HNIs have also been investing their confidence in PE investments in IT, Pharma and Real estate.

All in all, there has been a positive change in the outlook of the ultra-rich, encouraged largely by the improved economy. This trend is expected to continue and even accelerate further reflecting a strong sense of confidence in the resurgence of the economy in general and the ultra HNI lifestyle in particular. ☞

THE INDIAN ULTRA HNI

Ready for Change

Five years following the global financial crisis, the world economy is showing signs of looking up, brought forth by a recovery in developed economies. The improving growth scenario in developed countries signals progress across economic sectors, ushering in a healing effect post the financial crisis.

Economic growth in developed countries, particularly the US and Europe, is expected to boost capital inflows and demand for exports of developing countries, thereby accelerating the growth in the economy.

This improvement has buoyed the overall growth in wealth globally. While there has been a sharp increase in both the number of global billionaires and their wealth, it is evident that the growth has seen a greater acceleration this year, which can be attributed to the improving global economy.

In terms of economic performance, while the global markets saw a cyclical recovery in the second half of 2013, this was led by a rapid expansion of regional exports, reflecting a gradual recovery in global demand. The situation in the Indian markets also saw an upturn, particularly in the second half

of the year, with market sentiments being boosted by a number of factors – including a stronger Rupee, the appointment of a new RBI governor and, most importantly, the increasing confidence due to an industry-friendly government coming to power.

There is thus an increasing optimism that the economy will improve, with the World Bank projecting an increasing GDP growth of over 6% for the next three years.

From a sector-wise perspective, the Indian economy has seen a positive growth in the services sector, including finance, insurance, real estate and business services, while manufacturing, mining and quarrying have largely shown a lacklustre performance.¹

This sector-specific growth is also reflected in the emergence of new Indian billionaires. Between 2011 and 2013, following sectors saw the emergence of new billionaires:

- Cement
- Paints
- Automobiles
- Construction
- Jewellery
- Education
- Soft Drinks

The Indian economy has seen an upturn in the growth cycle led by a stronger Rupee, appointment of a new RBI governor and an industry-friendly government coming to power

1. Source: Ministry of Statistics and Programme Implementation

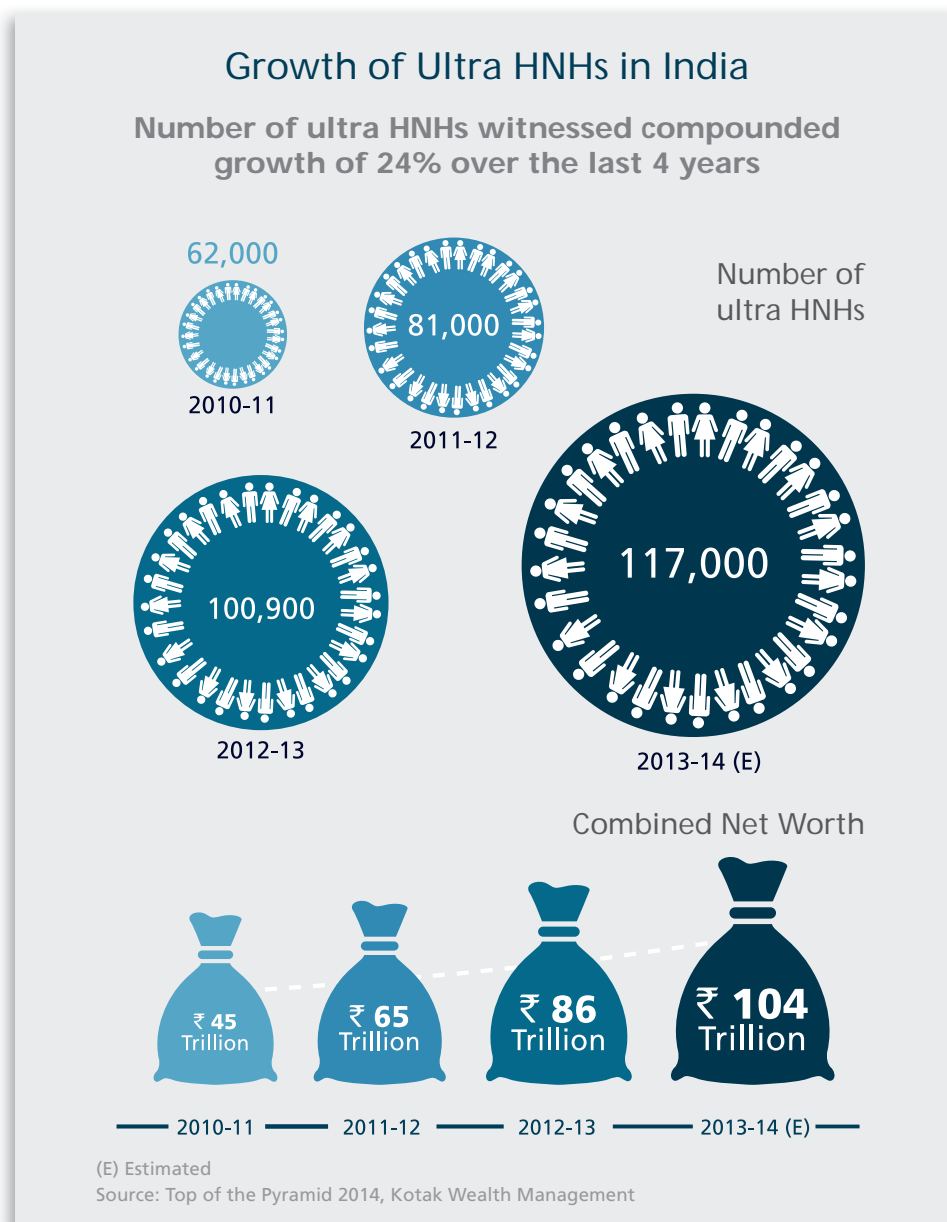
The Indian Ultra High Net Worth Household

In line with our analysis on ultra HNHs for the last three editions, a household has been considered as an ultra high net worth household if it has a minimum net worth of ₹ 250 million, mapped over 10 years.

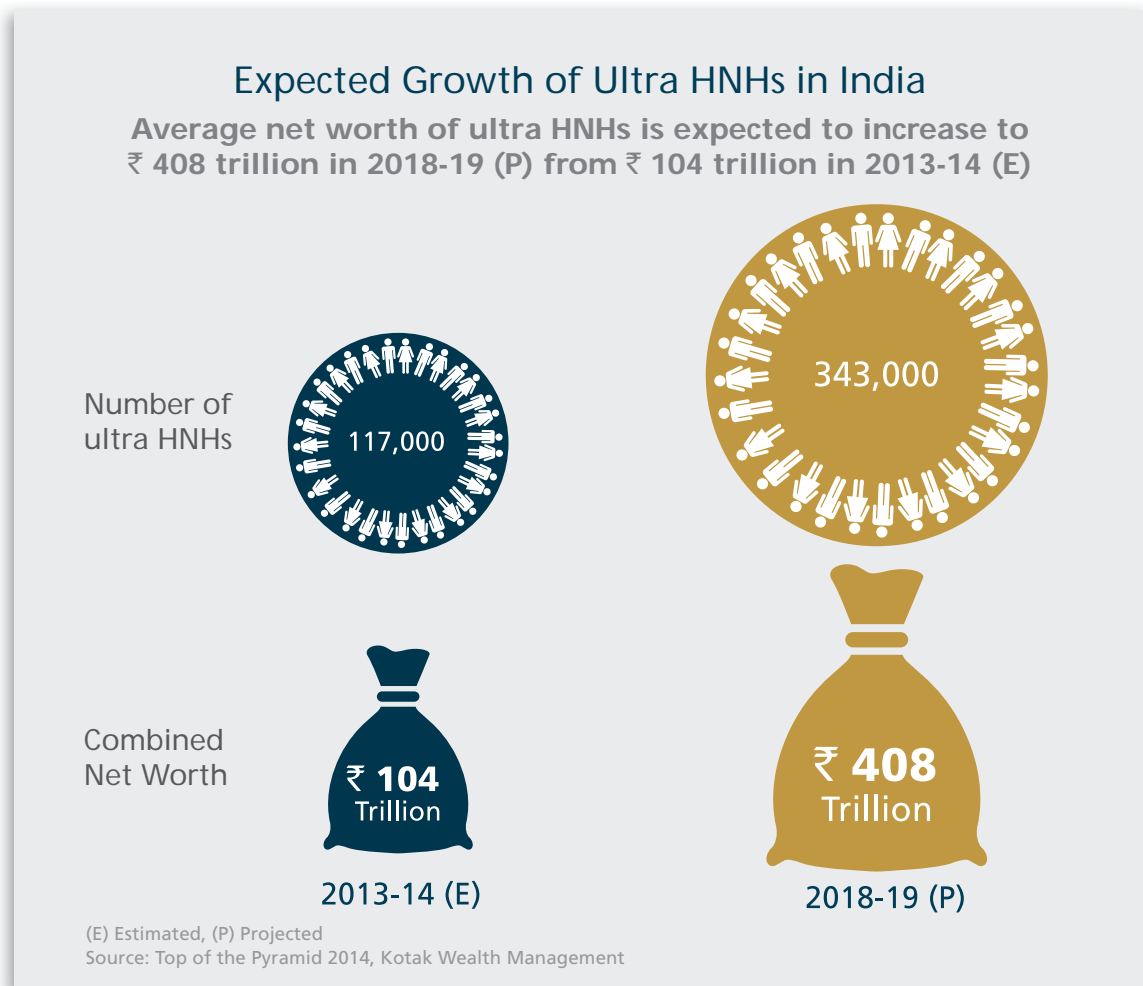
Based on our analysis and estimate, the number of ultra HNHs has grown to 117,000 in 2013-14 (Estimated), accounting for about 0.05% of Indian households. This in turn reflects an accumulated net worth of ₹ 104 trillion. While the number of ultra high net worth households grew by 24% over the last four years, the accumulated wealth of these households grew by a whopping 32% year-on-year during this period.

Likewise, the number of ultra HNHs is projected to nearly triple to 343,000 with net worth of ₹ 408 trillion by 2018-19 (Projected). This will predominantly be driven by additions to the list of ultra HNHs and the avenues >>

The total number of Indian ultra HNHs is estimated at 117,000 with an accumulated net worth of ₹ 104 trillion



The ultra HNH population in India is expected to touch 343,000 by 2018-19 (P) with a net worth of ₹ 408 trillion



for investments giving high returns. While the current growth has still been appreciable given the cautionary phase over the last two years, it is expected that the growth shall be higher in the years to come.

From the perspective of geographic distribution, there is a rising trend in the

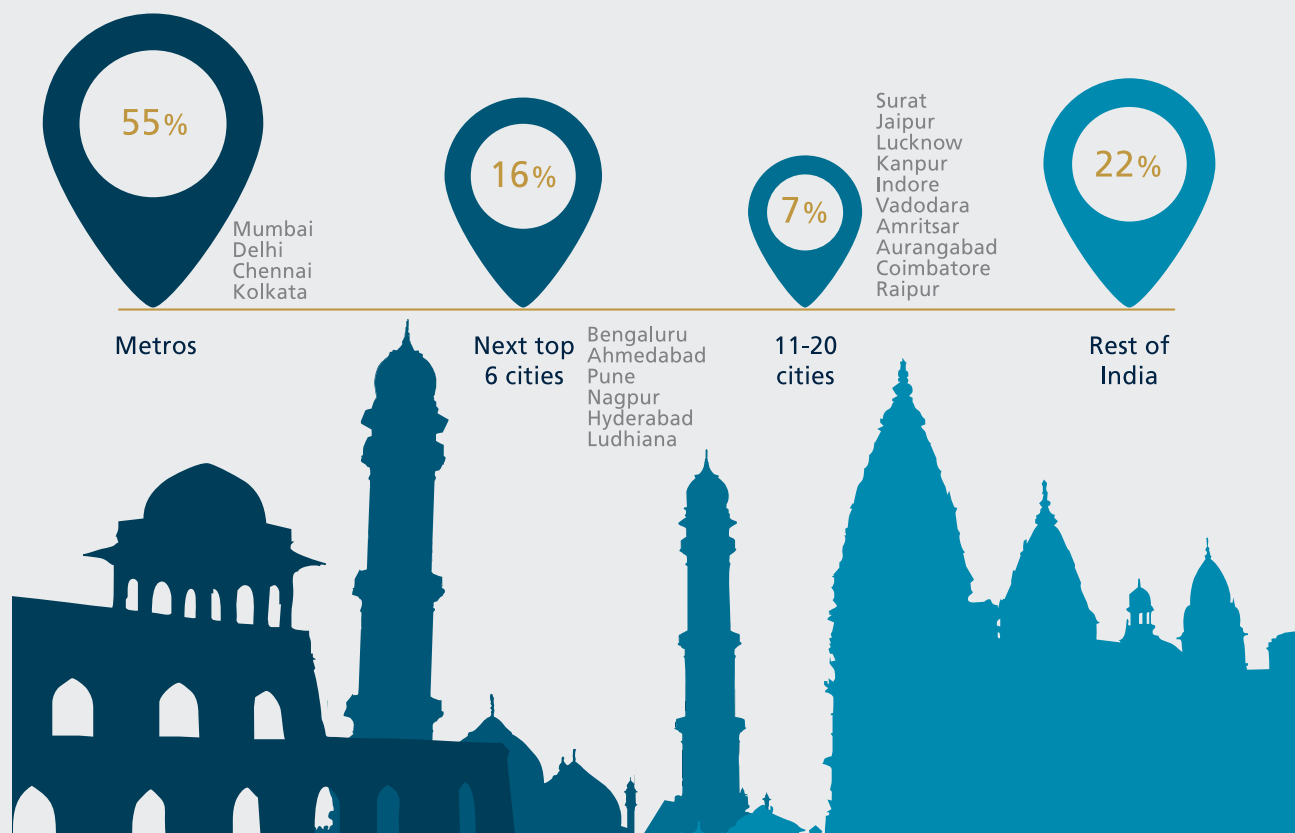
number of ultra HNHs across non-metro locations. While the four metros account for 55% of the ultra HNHs, the contribution from non-metros accounts for 45% currently. Within this, the next top six cities after the four metros account for 16% of the ultra HNHs and the subsequent ten cities account for 7%.

Luxury has a new address in India – emerging cities and small towns. Far from the glitzy malls and duty-free shops of big metros, global heritage and luxury brands are finding new patrons who have both money as well

as taste. Wealthy families from small towns would earlier spend on high-end brands by shopping in bigger cities or during their visits abroad. But with the proliferation of the nouveau riche in small towns and the >>

Spread of Ultra HNH Population in India

While metros dominate the ultra HNHs, next top 6 cities with 16% share are the new target locations for luxury brands



Source: Top of the Pyramid 2014, Kotak Wealth Management

increase in their spending power, luxury brands now want to set up shops at their doorstep. From Hyderabad to Ludhiana, Surat to Coimbatore and Indore to Chandigarh, non-metro destinations are turning into new hotspots for luxury retail.

All in all, ultra HNI trends still seem slightly cautious, perhaps due to the fact that global economy is yet to springboard to earlier levels. Ultra HNIs in India have also been watchful of their investment decisions with the volatile market movements still fresh in their memory.

However, there are impressions of improvement in the overall financial as well as political scenarios for the country. It now remains to be seen how this impacts the growth of ultra HNI wealth in the coming years.

Decoding the Ultra HNI

As is the case with the previous reports, we have maintained our classification of ultra HNIs in the following three categories:

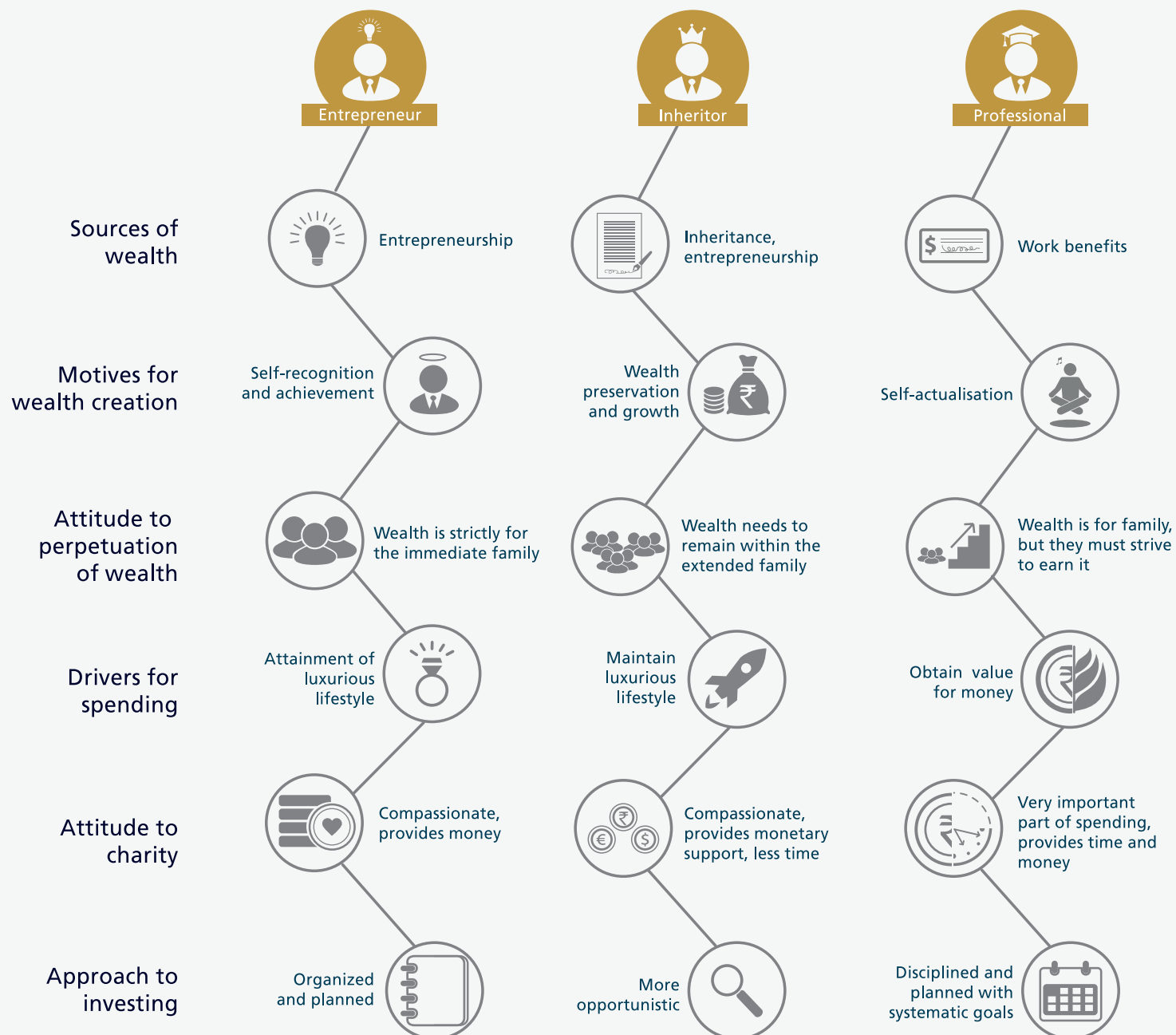
- Entrepreneurs
- Inheritors
- Professionals

While the Indian ultra HNI has traditionally been an Inheritor, over the last two and half decades since the country's liberalisation, Entrepreneurs and Professionals have emerged as the primary segment of ultra HNIs driven by new sectors such as Pharmaceuticals and Information Technology.

An assessment of these three profiles reveals some key attributes that help to decode the Indian ultra HNI: >>

The increase in spending power of the nouveau riche in small towns has propelled luxury brands to set up shops in these towns

Decoding the DNA of Ultra HNI



Source: Top of the Pyramid 2014, Kotak Wealth Management

6 Types of Ultra HNIs

A deep dive into the segments have revealed emergence of micro-segments where ultra HNIs with similar background, professions and attitude have shown strikingly distinct behaviour patterns.



OPPORTUNISTIC ENTREPRENEURS

Builds businesses with an objective to capitalise on profitable businesses

- Graduate
- Middle-aged
- Stay in a nuclear family
- Opportunistic investment approach
- Focus on alternate assets



DIVERSIFIED INVESTORS

Entrepreneurs who have created wealth by diversifying into investments

- Graduate
- Stay in smaller apartments
- Disciplined investment approach
- Favour equity & real estate

The following sections of the report help us further understand the various nuances and behaviour traits displayed by these segments from both spending and investment perspectives. ↻



ASSET CREATORS

Successful Professionals who have invested high proportion of their income in real estate

- Postgraduate / Professional
- Focus on real estate
- Maintains work-life balance
- Self-decision maker



NEW-GEN ENTREPRENEURS

Second-generation successful entrepreneurs who have inherited and expanded the family legacy

- Middle-aged
- Spends significant time at work
- Family / friends influence investment decision
- Opportunistic investment approach



WEALTH CREATORS

Entrepreneurs / Inheritors who have exited stream of business at a premium and diversified into investments

- Graduate
- In early thirties
- Spends time with family
- Self-decision maker
- Balanced portfolio comprising equity & debt



FOCUSED ENTREPRENEURS

Self-made entrepreneurs who have worked the hard way up in building their businesses

- Postgraduate / Professional
- In early fifties
- Stay in a bungalow / villa
- Self-decision maker
- Active & diversified investment portfolio



How the Ultra HNIs SPEND

The Japanese writer Murakami has said: “Spend your money on the things money can buy. Spend your time on the things money can’t buy.” This principle seems to be aptly adopted by ultra HNIs who ensure that money is rightly spent on the luxuries of life. Be it an investment in a plush skyscraper or an estate replete with helipad, man-made lakes and Zen gardens or the zeal to accelerate in a Bugatti Veyron or admire the craftsmanship of a Ulysse Nardin or savour the richness of a cup of Hacienda La Esmeralda, ultra HNIs just love to indulge.

And why not? It is these experiences which are not only alluring but also different, that create a sense of fulfillment. Hence the need to invigorate in the secluded beaches of faraway Polynesia or even aspire to travel into space.

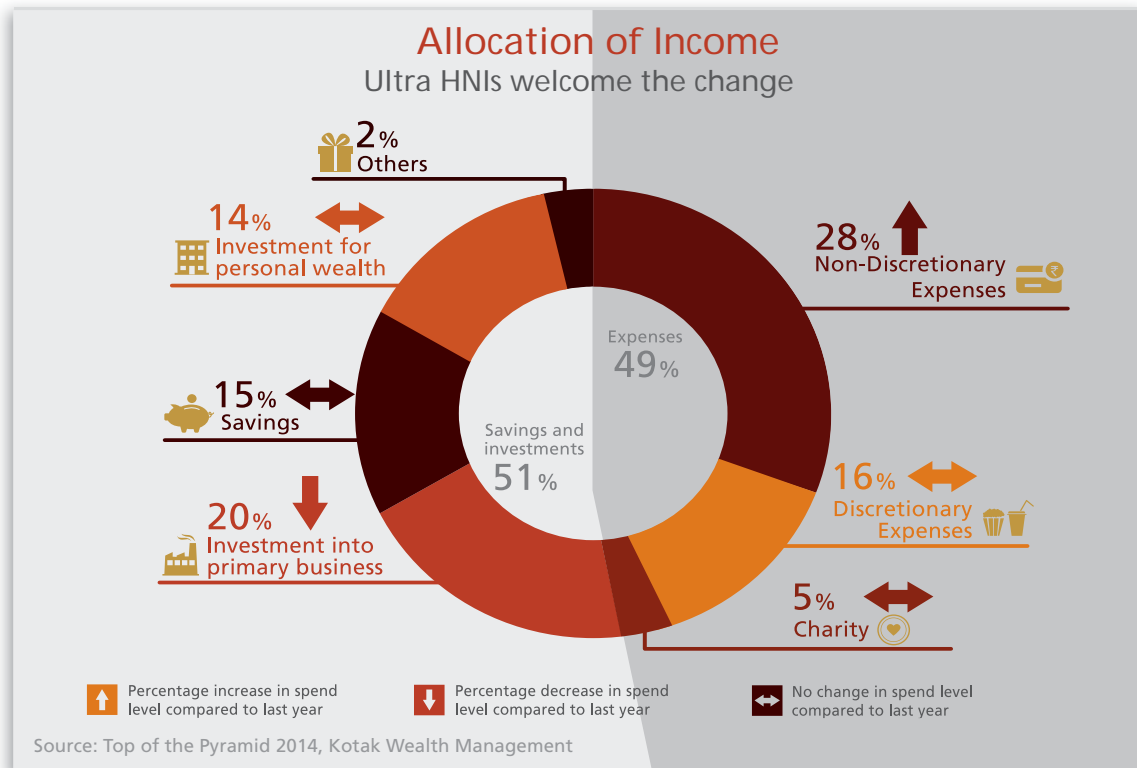
Ultra HNIs Increase their Luxury Expenditure

Ultra HNIs often expect value for money from their spends and are cautious of the movements in the market. Given the market confidence of last year, there was a restraining effect on overall spends. In comparison, market confidence seems to have improved this year, particularly during the latter half. A strong Rupee, a new RBI governor, the hope of a friendly government and a promising revival of the Western economies are some of the primary factors that have triggered this change. This has, in particular, helped ultra

HNIs break their 'shackles of caution', and indulge in the 'good life'. Our survey reveals that there has been a significant increase in spends, growing from about 30% of total income last year to about 44% this year.

The luxury market in India has touched ₹ 51,000 crore in 2013 as against ₹ 36,000 crore in 2012. This is estimated to cross ₹ 84,000 crore over the next three years², reflecting the ever-rising demand of super luxury consumption in India.

Expenses are expected to continue rising as ultra HNIs explore their passions for designer jewellery, luxury watches and travel to exotic locations



2. Source: ASSOCHAM Press Release, January 2014

Inheritors, Entrepreneurs prefer Investing in Primary Business

Among the ultra HNI segments, we found varying traits characterizing the Entrepreneurs, Inheritors and Professionals.

Entrepreneurs and Inheritors were found to allocate more of their income in discretionary expenses, non-discretionary expenses and reinvestments into primary businesses.

Professionals, on the other hand, preferred more of savings and personal investments, reflecting a more conservative outlook.

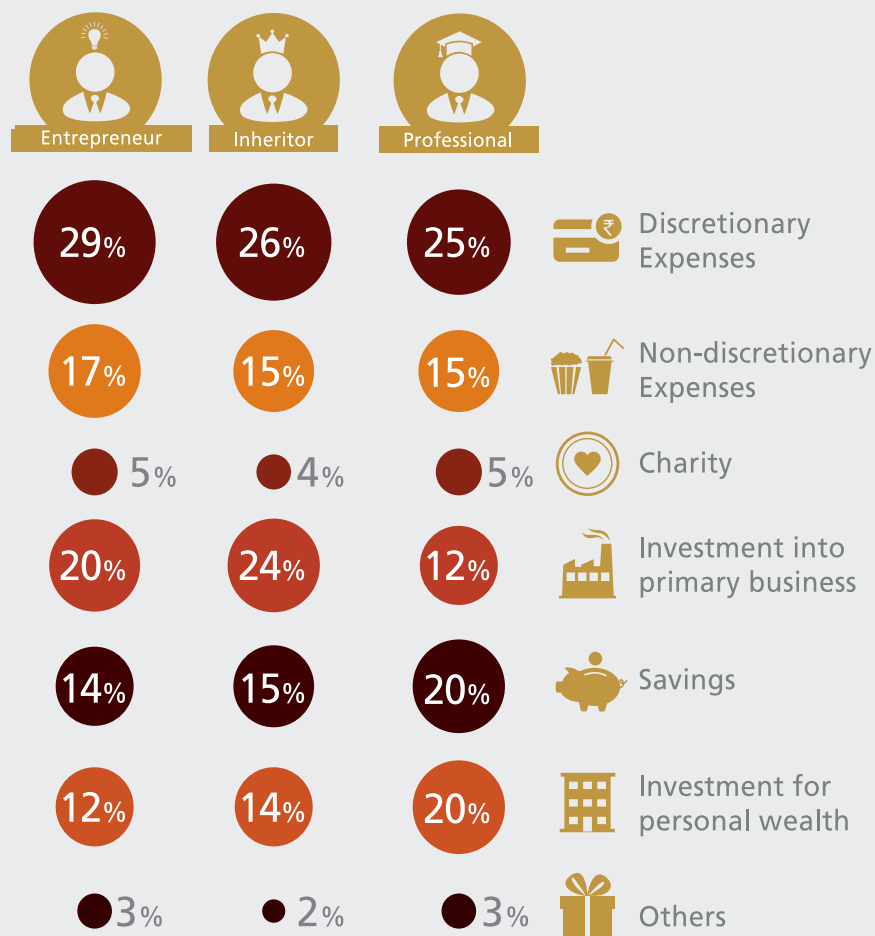
Professionals also looked at investments in alternate businesses to augment their income from regular work.

While about 50% of both Entrepreneurs and Inheritors we interviewed displayed an increase in expenses over last year, only 30% of Professionals have shown a similar increase.

The trend is reflected in leisure expenditure as well, where nearly a third of all Entrepreneurs and Inheritors increased their spends, while only 13% of Professionals, did so. >>

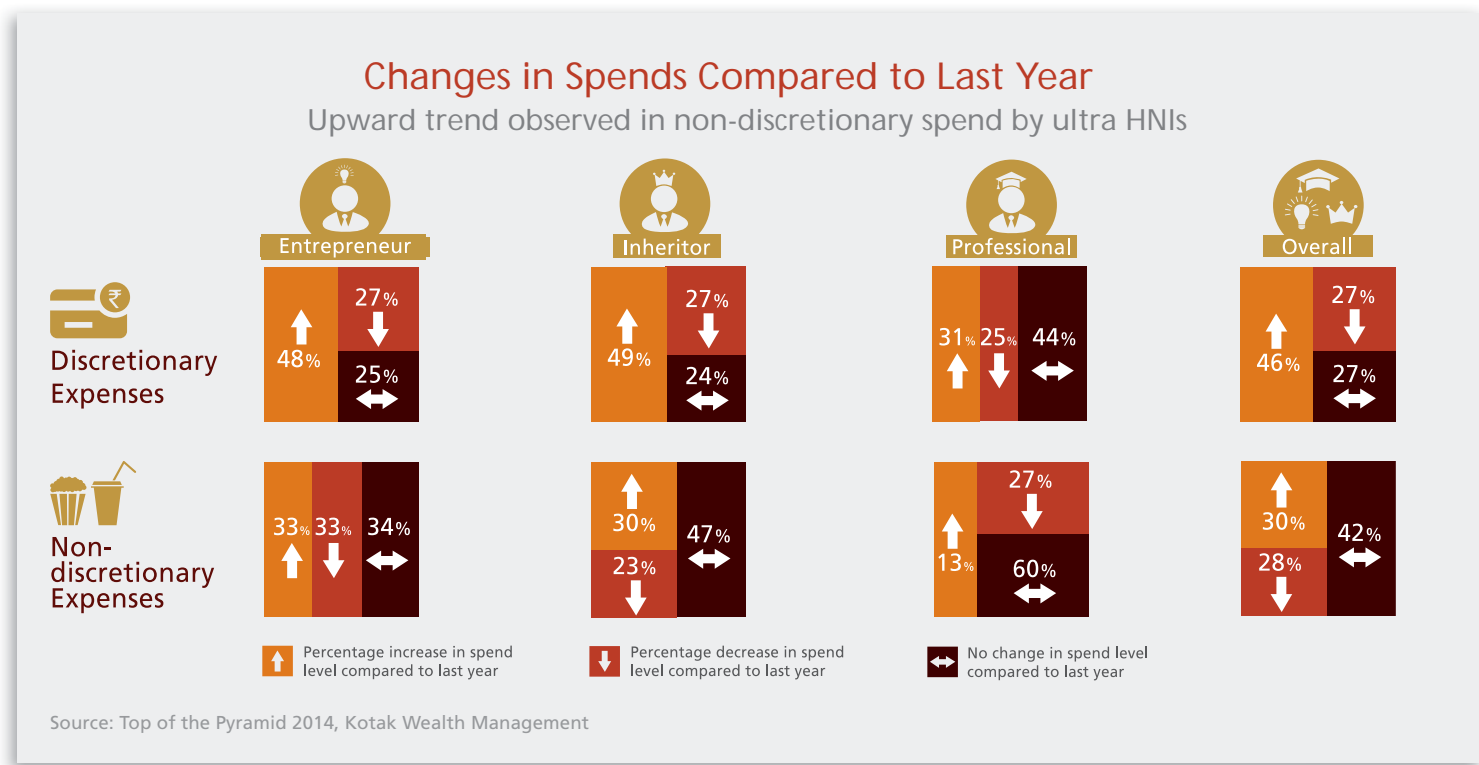
Ultra HNIs regularly visit shopping destinations abroad to buy luxury brands for the whole family

Allocation of Income by Ultra HNI Category



Inheritors & Entrepreneurs prefer reinvesting into primary businesses, while Professionals choose to save

Source: Top of the Pyramid 2014, Kotak Wealth Management



Ultra HNIs Spend Most on Family-related Expenses



Price for high-quality emeralds has increased ten-fold since 2009, attracting interest from ultra HNIs

Last year, ultra HNIs spent most on jewellery, apparel and accessories, followed by leisure travel, reflecting that they spend a significant part of their expenses for requirements suiting the entire family. In fact, around 65% of all spends fall in this category, with personal indulgences such as watches and gizmos being largely secondary.

Jewellery - While jewellery displays the ultra HNI's interest in exclusivity and exquisite craftsmanship, it is also a useful mode of investment. Besides gold, there is a great deal of interest in precious stones as well, due to their high returns. For example, according to a luxury jeweller based in Mumbai, the cost of

high-quality emeralds has increased ten-fold since 2009, thereby attracting the interest of the wealthy populace.

Ultra HNIs also rely on family jewellers, being largely indifferent to brands in this space. In fact, high duties on imported jewellery often lead them to deal mostly with domestic jewellers.

Apparel - Ultra HNIs have always had apparel as one of the key categories of spends but one of the newer trends is designer clothing for children. This has been further boosted by the launch of designer lines for kids, such as Young Versace and Baby Gucci, leading

to high spends on the apparel category. On many occasions, ultra HNIs travel abroad to shopping destinations to buy the best brands for themselves and their family, thereby increasing their spends on 'Holidays'. Shopping is also one of the key drivers for luxury trips to Singapore and Dubai, where the rich buy the latest jewellery designs and apparel.

While ultra HNIs are conscious of value for money, they seek exclusivity in all their purchases – the more exclusive the purchase, the greater the psychological satisfaction. For example, a luxury concierge firm recently ordered nine cases of Japanese whisky costing

over ₹ 50,000 a bottle to be served at a pre-wedding function. Part of the deal was to ensure that no one who attended and got a taste of the whisky should know how to source the same in India.

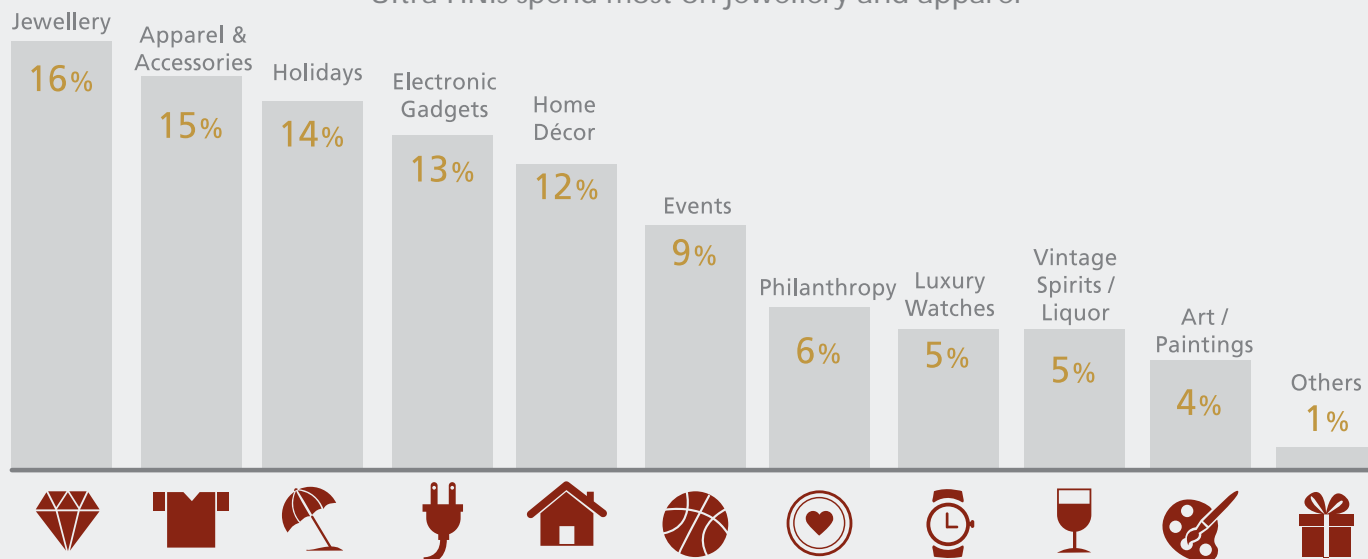
Similarly, an ultra HNI fan of Louis Vuitton buys identical Louis Vuitton bags, one of which is used as a bag, while the other is cut to design her fabrics to match the bag.

Yet another ultra HNI we interviewed was more than eager to shell out ₹ 48 lakh to play golf for a day at the Augusta Golf Course, Georgia – considered to be one of the finest golf courses in the world. >>

This year the percentage of ultra HNIs increasing their year-on-year luxury spends has been significantly higher than those with a reduction in the same

Areas of Spends

Ultra HNIs spend most on jewellery and apparel



Source: Top of the Pyramid 2014, Kotak Wealth Management

A German automobile giant sold 125 units of its recently launched top-of-the-line luxury car priced at ₹ 1.57 crore in just 16 days

Prefer Super Luxury Cars as a Status Symbol

Luxury car makers are riding the wave of ultra HNI buyers who want to announce their wealth and success. Undaunted by the slowing economy, the luxury car market has seen healthy demand in 2013-14, encouraging companies to work on new launch plans and further expansion.

Luxury cars have captivated the interest of ultra HNIs with their smooth ride, plush upholstery and the exclusivity they offer. What also attracts them are the iconic brand ambassadors in the fields of sports and entertainment, and the exclusive campaigns these brands run. An emerging trend is the option of 'Supercar Clubs' that ultra HNIs are participating in for driving a wide variety

of exotic models at a fraction of the cost, without having to worry about ownership and maintenance.

According to the president of a super luxury brand in India, customers in India are one of the youngest in the global markets – much younger than those in Europe.

However, the highly price-sensitive ultra HNIs have taken a middle spot in luxury cars for use in India, rather than give in to the highest end of that segment. An ultra HNI willing to splurge on a super car would, in many cases, have a house abroad – allowing him to own the same model at a reduced cost while enjoying better roads and infrastructure.

'Glocal' is the New Wave when it comes to Cuisines

Ultra HNIs today are much more aware of international cuisines due to their extensive travels and increasingly adventurous nature. The times today are witnessing use of international ingredients in Indian dishes and vice versa – in both cases, the effort is helping ultra HNIs try out newer cuisines.

More interestingly, the gastronomic scene in India is undergoing a makeover with scores of chefs returning from London, Tokyo, New York and elsewhere bringing new expertise

and invention. Not surprisingly, some of the most expensive dishes available in India revolve around premium cuts of meat flown in from Japan, Australia and the US, not to mention imports of bluefin otoro sashimi or alba white truffles.

While international proficiency is growing in India, 'Glocal' is steadily becoming the new wave for ultra HNI cuisines, boosted by the newer generation ready to experiment in order to find newer and finer flavours. In fact,

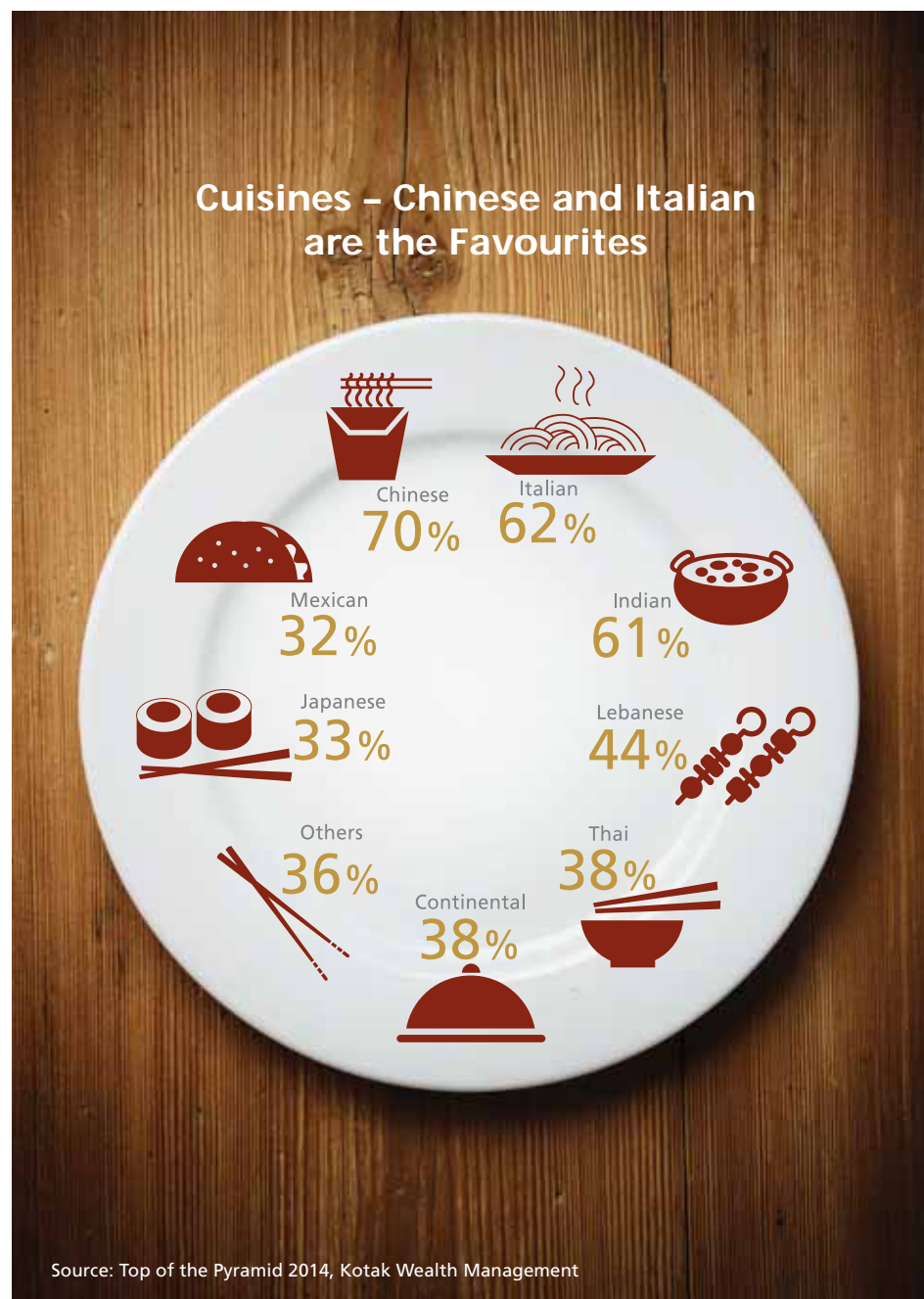
young inheritors were found to be the most experimental with new age cuisines such as Japanese, Spanish and Mexican.

Restaurants today are also trying to position themselves uniquely to create a differential experience for super luxury dining. For example, a luxury hotel in Delhi takes pride in the fact that the fish served is caught the old-fashioned way, through hook and line, and a leading five-star hotel in Mumbai offers dining in a secluded private ambience overlooking the sea - the delight of watching a chef preparing a Teppanyaki meal and dishes including tenderloin imported from New Zealand, among others.

While ultra HNIs have been adventurous in trying out new cuisines, we asked them about their favourite cuisines – Chinese seemed to be the most preferred, followed by Italian and Indian.

However, some ultra HNIs are wary of spending on exotic food. Last year, while a weak rupee affected super luxury dining, which is largely based on imported food, ultra HNIs were willing to reduce their spends on luxury dining, showing an inclination to indulge more in areas which are tangible and can be displayed to peers.

However, the scenario has changed this year with ultra HNIs enjoying the luxury of international cuisine restaurants. >>



Love to Gift Luxury Watches and Jewellery

Ultra HNIs love to spend on their friends and relatives through gifts. Our survey results show an inclination towards luxury watches, followed by jewellery and accessories, while mobile phones continue to increasingly feature in the list. Though ultra HNIs prefer

to buy luxury watches for themselves from abroad, they are quite willing to buy a Rolex or a Hublot in India as a gift for a friend or relative.

The ultra-rich go beyond formal occasions to buy gifts. They also love to indulge in 'apology gifts' and 'fancy invites.'

For example, the wife of a Delhi-based ultra HNI came up with a novel idea to express her regret for not being able to attend a high profile wedding. She imported three Birkin handbags to be sent to the bride's family as a note of apology.

Similarly, a Noida-based real estate tycoon ordered 60 Rolex watches to be sent out with invitation cards for his daughter's wedding.

An Entrepreneur gifted high-end luxury mobile phones to his entire team to show his appreciation for the success of a project



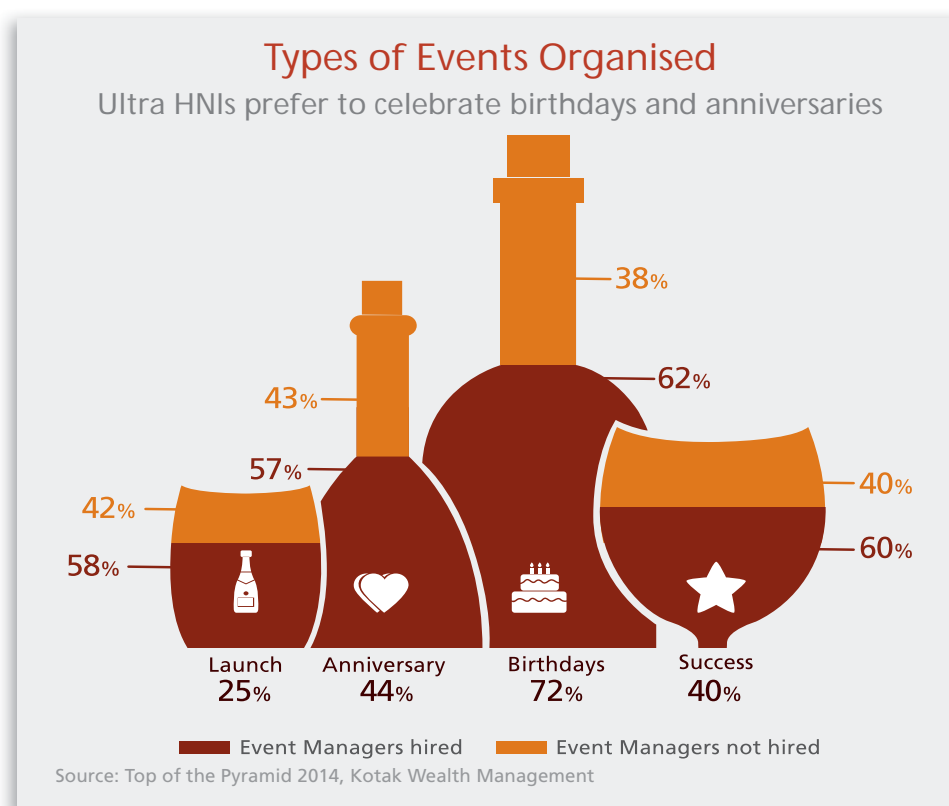
Younger, Self-made Ultra HNIs More Inclined to Celebrating Personal Occasions and Success

Ultra HNIs, especially young Entrepreneurs, show more interest in creating an unforgettable experience to celebrate their success or to establish their identity. For example, a Delhi-based ultra HNI recently booked a trip to the North Pole to celebrate his fortieth birthday.

Another ultra HNI spent over ₹ 30 lakh to gift a five-day trip to his mother on her birthday. Ultra HNIs also rope in movie stars or influential politicians for large family functions such as weddings.

An interesting development in recent times is five-star hotels catering at ultra HNI homes for special events and occasions. In fact, having the best chefs of the city come and cook at the event becomes an attraction in itself. Some of the best hotels have started undertaking outdoor catering, including top luxury hospitality brands.

It is also more common for ultra HNIs to celebrate personal occasions more than professional success. However, for business functions such as celebrating professional success and organising launch parties for new products, our survey revealed Entrepreneurs to be the most proactive, owing to the sense of attachment to their business.



This year has also seen a rise in the deployment of event managers to organise events. Use of event managers has been highest for celebrating birthdays and anniversaries, with 45% and 25% of ultra HNIs opting for it, showing their growing importance along with their eagerness to spend more on celebrating personal events.

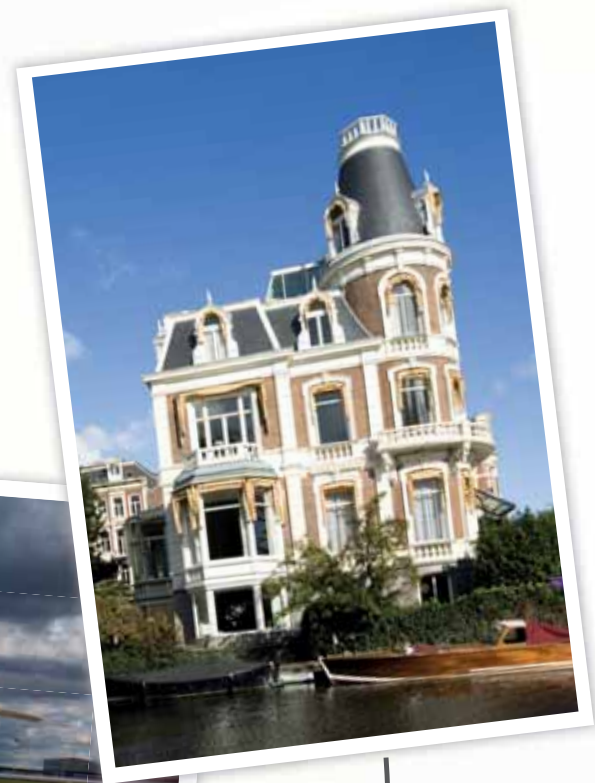
Professionals prefer conducting events at home; Entrepreneurs go in for destination events

Aspirations

Even though ultra HNIs have spending patterns and habits far different from that of the common man, it is interesting to study their aspirations.

We asked the ultra HNIs in our survey about their aspirations and found a range of diverse answers capturing the dreams of the richest. Not surprisingly, most of these aspirations were centred on owning a super luxury car or a villa in an exotic location. 🚗

Private jet plane



A villa in Amsterdam

Luxury seaside villa in Italy



Private island with a state-of-the-art yacht



A resort in an island outside India







Luxury Travel

Special Focus

The average Indian's perception of travel has changed significantly over the last couple of decades. A liberated economy with easier trade relations was just the beginning, but the doors that opened thereafter increased the general awareness of the Indian traveller. No wonder then that diving with sharks in South Africa or glacier treks in New Zealand or Fjord cruises in Scandinavia are common topics of discussion among aspiring travellers today.

As for the ultra HNIs, luxury travel needs to provide a welcome break – or better still, usher in a sense of exclusivity. Thus, while ultra HNIs love to visit the mega malls of Dubai and Singapore, on the other hand they are also keen on vacationing in the exotic Mediterranean or the azure Caribbean. Some have even grander travel aspirations, such as going into space.

Ultra HNIs are willing to spend large sums of money as long as they perceive value in the exclusivity of the luxury travel

Nearly 50% of Ultra HNIs make Three Luxury Trips in a Year

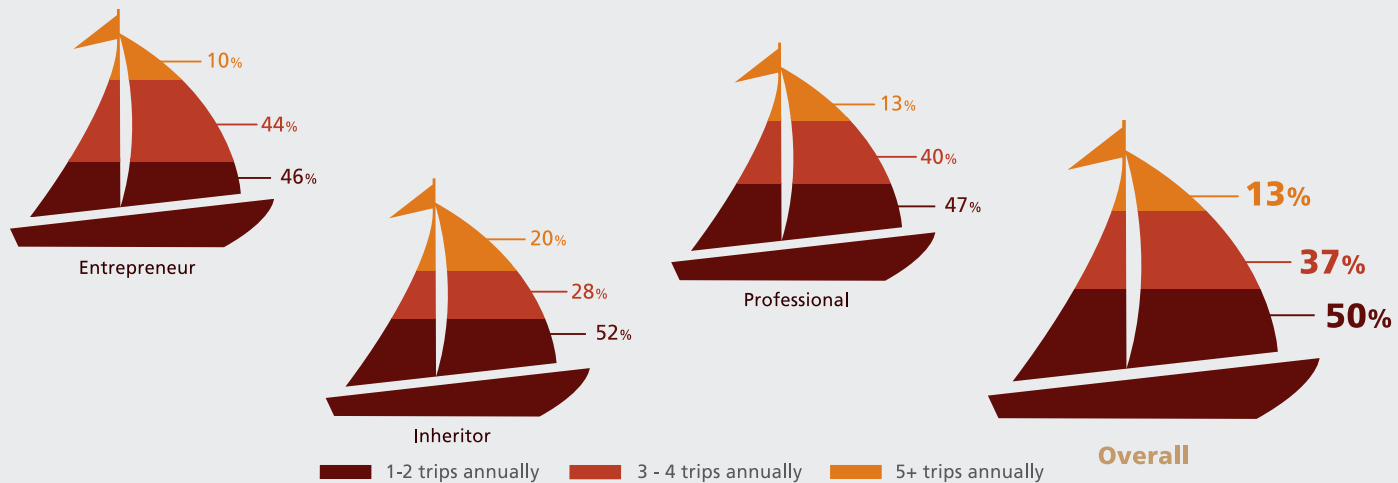
Ultra HNIs are passionate about travelling, with luxury travel being one of their key spend areas. Based on our survey, nearly 50% of all ultra HNIs make at least three luxury trips in a year. In terms of the segments, a greater percentage of Inheritors made at least five trips annually, owing to a greater availability of time.

An emerging trend has been the decline in the average number of days per trip, with a corresponding increase in the number of

trips – ultra HNIs are preferring to travel more frequently while reducing long trips. There is an increasing interest in short weekend trips.

Ultra HNIs spend at least ₹ 1.2 lakh per couple per night on an average, according to a leading luxury service provider. Within the ultra HNI segment, Entrepreneurs and Inheritors tend to incur higher spends for their luxury travel than Professionals. This is in line with the latter's tendency to allocate more income to savings and investments.

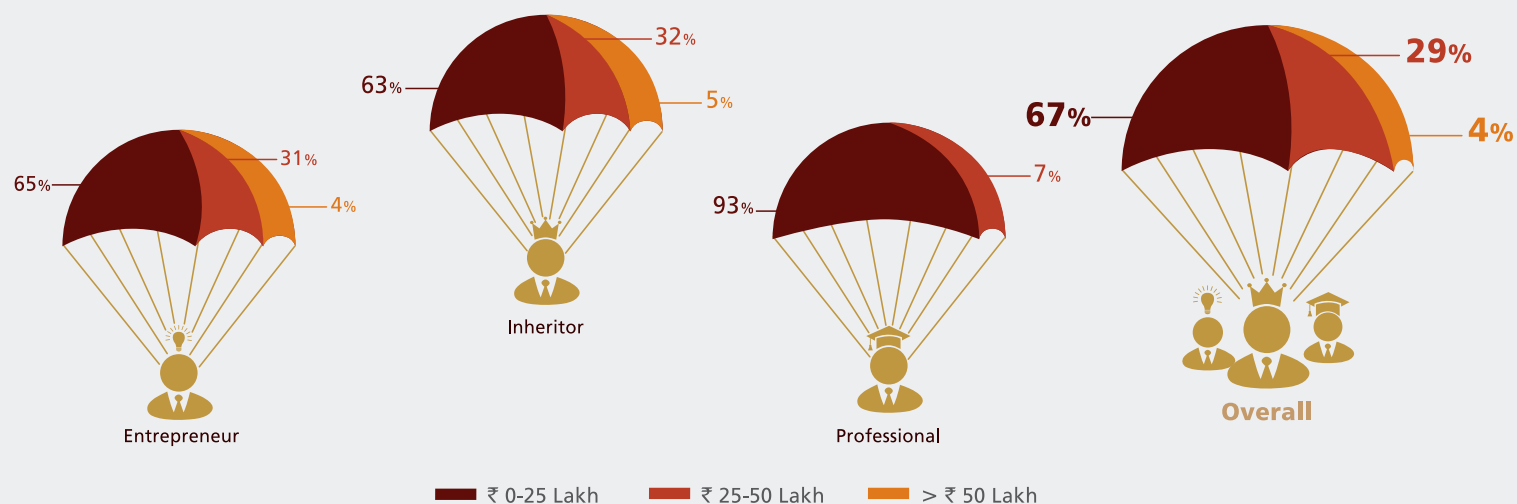
Number of Luxury Trips in a Year
Ultra HNIs travel frequently but reduce the duration of trips



Source: Top of the Pyramid 2014, Kotak Wealth Management

Spend in Last 12 Months on Travel

Ultra HNIs spend large sums if they perceive value in the exclusivity of the luxury travel



Source: Top of the Pyramid 2014, Kotak Wealth Management

Luxury travel today has also become a display of the eclectic tastes of ultra HNIs, with an increasing preference to travel exotic and unexplored destinations. This is more pronounced for younger ultra HNIs and the nouveau riche, who prefer to display and talk of their tastes, as against the older generation which prefers a more discreet lifestyle.

While luxury travel in the past year was particularly affected due to the perceived caution in the economy, travel plans for ultra HNIs are already seeing an upswing, particularly in the second half of the year.

This reinforces the fact that ultra HNIs want to cut down on intangible expenditure compared to the more tangible ones. >>

Ultra HNIs research extensively on their own to satiate their tastes and ensure value for money in their spends

Entrepreneurs, Professionals Travel Business Class for Leisure

While Inheritors more or less displayed a uniform trend business vs. economy travel for work and leisure alike, a large section of Entrepreneurs and Professionals preferred economy travel for work, but switched to luxury business class for leisure.

While 69% of Entrepreneurs and 63% of Professionals preferred business class travel for work, the percentages shot up by more than 20% each when it came to travelling for leisure.

To cater to the ultra HNIs' taste for luxury, travel organisers are coming up with unique ideas as well. For example, an air carrier from the Middle East is offering super luxury travel, creating the closest experience to travelling on a private jet in commercial airlines – this includes travel in a 125 sq. ft. 3-room cabin, with a living room, a double bedroom, en-suite shower room and a personal butler, along with a host of luxury features. This costs ₹ 12 lakh from Abu Dhabi to London, a route often taken by the Indian ultra-rich as well.

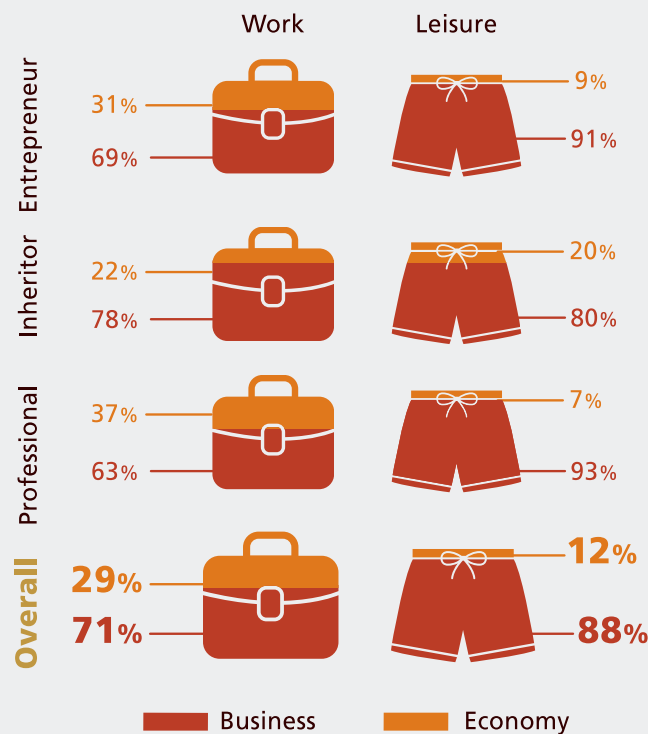
India vs. Abroad

Ultra HNIs showed slightly higher interest in travelling within India vs. abroad – when asked how many luxury trips they would prefer in India, the average value stood at three as against two abroad.

This highlights that ultra HNIs are keen on touring India as well – the most popular domestic destinations being Ladakh, Rajasthan and Kerala. Professionals showed far higher interest in domestic travel compared to the rest.

Travel Preference: Business vs. Economy

Ultra HNIs travel Business class for leisure trips with family



Source: Top of the Pyramid 2014, Kotak Wealth Management

Ultra HNIs Travel Predominantly to New Exclusive Places

Eastern Europe is emerging as a popular destination for exotic travel while stays in ancient castles and luxury villas in Ireland,

Switzerland and Greece are also gaining popularity among the ultra-rich.

Celebration of occasions, predominantly anniversaries, also figured highly as factors promoting travel. The third most important feature was the feeling of exclusivity experienced by travel to off-beat exotic locations and super luxury resorts.

To cater to these requirements, niche luxury service providers are coming up with vibrant holiday ideas, including experiences such as underwater expeditions, travel along the Italian coastline or an Antarctic odyssey, among others.

The ultra-rich do not hesitate to spend on luxury travel if an idea catches their attention. For example, last year, a Mumbai-based businessman, on finding his family members keenly following the Wimbledon tournament, arranged for their travel to the shrine of tennis in just three days' time, spending ₹ 50 lakh for the same. Similarly, another Mumbai-based ultra HNI flew his daughter on a private jet to her favourite restaurant in Goa just because she wanted to have a 'special lunch' on her birthday.

When it comes to drivers for travel, 'seeking a break' is the primary motivator followed by passion for travel. >>

Factors Considered in Luxury Travel

Location is the most important attribute in luxury travel



Location

34%



Occasion

21%



Exclusivity

19%



Price

16%



Theme

10%

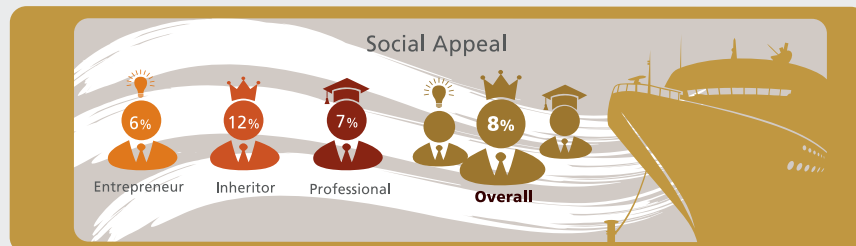
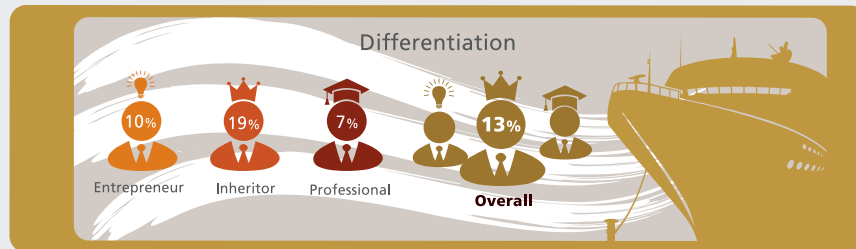
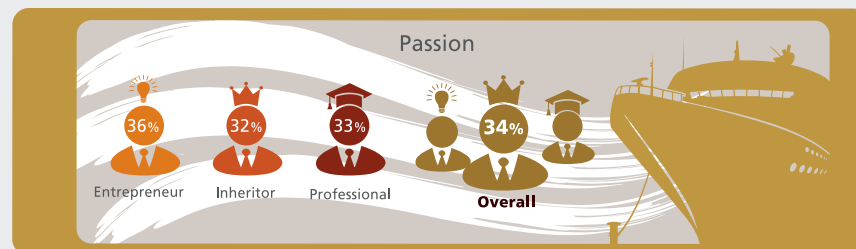
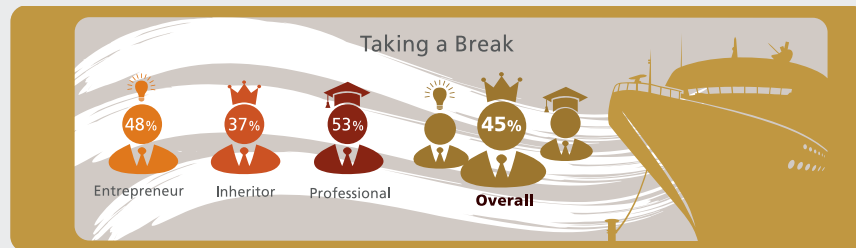
Source: Top of the Pyramid 2014, Kotak Wealth Management



A Mumbai-based businessman, upon finding members of his family keenly following the Wimbledon tournament, arranged for their travel to the shrine of tennis in just three days' time, at a cost of ₹ 50 lakh

Drivers for Luxury Travel

Taking a break is the primary motivator, followed by passion for travel



Source: Top of the Pyramid 2014, Kotak Wealth Management

Eastern Europe is emerging as a popular destination for exotic travel while stays in ancient castles and luxury villas in Ireland, Switzerland and Greece are also gaining popularity among the ultra-rich

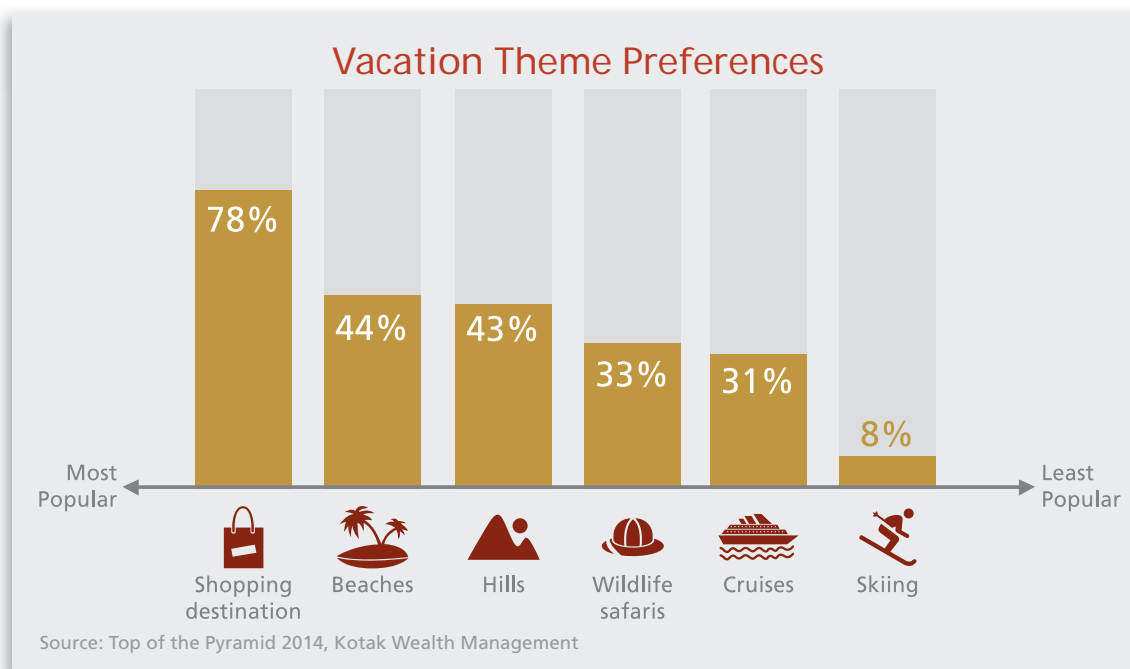
Shopping Emerges as an Important Theme for Travel

Singapore, Dubai and the European fashion capitals have emerged as the most preferred travel destinations. Ultra HNIs prefer shopping hubs to indulge in their choicest brands – while many of these retail brands have set shop in India, ultra HNIs feel that there is still a perceivable difference in quality. For example, a partner in a leading consulting firm travels to London every quarter to shop for clothes due to the sheer variety available.

Other factors that spur these shopping trips include acquiring the latest offerings of fashion houses or getting better prices

compared to those at Indian outlets. Shopping was followed by beaches as the most preferred theme. The beaches of Asia-Oceania including Maldives, Fiji and French Polynesia, were the most preferred destinations, followed by the Mediterranean, the French Riviera, the Caribbean and Hawaii.

Beaches were closely followed by hills and mountains, and while the Alps were a strong favourite, it was interesting to note a significant percentage of respondents travelling along the Himalayas as well in Nepal and Bhutan outside India. >>



Ultra HNIs are also eager to travel to meet their favourite stars or drop in at coveted events

Most Popular Ultra HNI Destinations

Europe is the most preferred destination for ultra HNIs



Source: Top of the Pyramid 2014, Kotak Wealth Management

- Ultra HNIs, besides trying the tested, are also adventurous in their ideas. Thus they are also interested in exploring the Maya/Aztec trails in Guatemala, trekking up to the Angel Falls of Venezuela or even diving in the blue waters of Belize in Central America.
- Once the conventional European destinations of Paris and London are ticked off, Eastern Europe is emerging as a new destination for ultra HNIs, including Baltic nations like Latvia

or countries such as Croatia and Montenegro. Europe was the most preferred destination followed by Asia and North America.

Ultra HNIs are also eager to travel to meet their favourite stars or drop in at coveted events – private meetings with sports personalities and Hollywood superstars were some examples of luxury trips that ultra HNIs undertook last year.

Aspirations

While the ultra HNIs are already extensive globetrotters, we asked them about the destination that tops their 'must-visit' list.

Interestingly, a large number of respondents showed a keen interest in space travel or travel to the Moon. There was a significant interest in polar expeditions as well. 🌐

visit to Masha
cay, Bahamas



Polar expedition



Follow the
Northern lights



Lamborghini drive along the US coast



space travel





Philanthropy

Special Focus

Ultra HNIs are as keen on donating money for a worthy cause as they are in earning it. Given the transition to the age of inspiration, when everybody aspires to be known as a role model, the 'doing good for society' aspect becomes important. The ultra-rich are at the forefront, leading the change with their involvement in philanthropic activities and charity for various causes.

Globally, ultra HNIs are adopting interesting approaches that have the potential to catalyze large-scale social impact on a variety of critical issues. Closer home, some of the most renowned business personalities have donated a large part of their income towards various causes and charities.

The following section looks into the philanthropic interests of ultra HNIs, the causes they support and, more importantly, the motivating factors that drive them towards charity.

Professionals Show a Higher Interest in Philanthropy

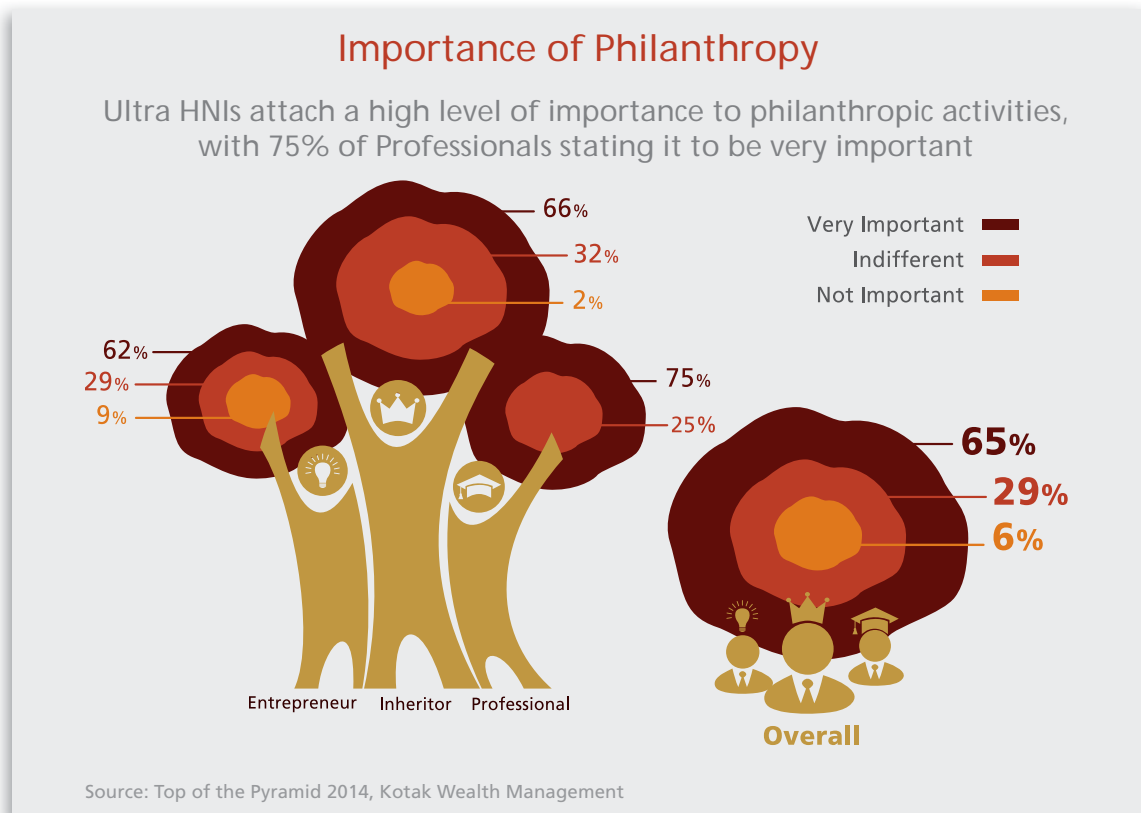
As many as 65% of the ultra HNIs interviewed felt it is important and necessary to give back to society in the form of a charitable activity. Among the ultra HNI segments, Professionals showed the highest interest, with 75% considering philanthropy to be a very important activity.

The commitment towards philanthropy is further indicated by the pre-planned spends

on charity as part of the overall annual spends. Over 60% of the ultra HNIs we surveyed consider philanthropic activities while planning their annual expenditure.

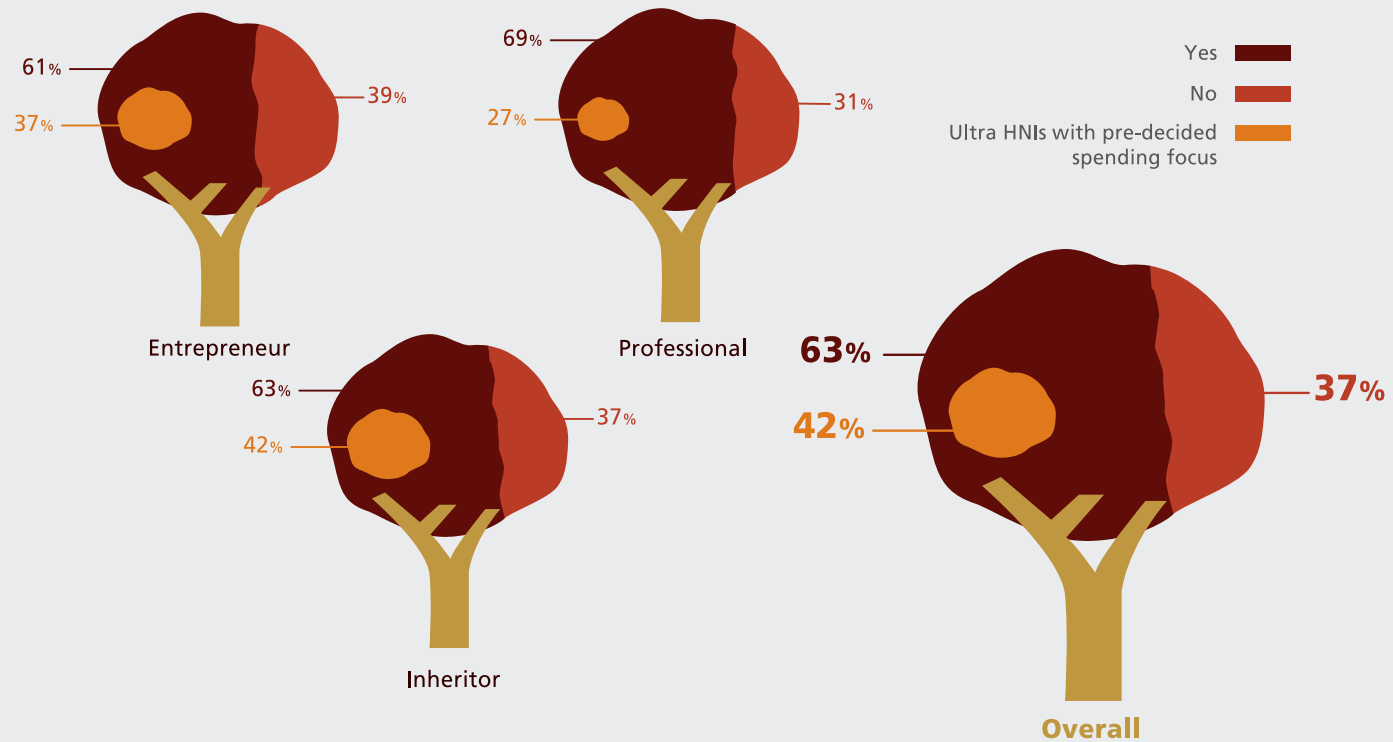
However, while donations for charity may be pre-planned, these are largely made in an ad hoc manner through the year, as the supporting cause for charity remains largely uncertain.

Over 60% of the ultra HNIs surveyed considered philanthropic activities while planning their annual expenditure



Planned Expenditure on Philanthropic Activities

63% of ultra HNIs include philanthropic spends in their annual expenditure plan



Source: Top of the Pyramid 2014, Kotak Wealth Management

Select ultra HNIs attributed this to the under-developed delivery infrastructure of NGOs and trusts, leading to a sense of uncertainty in the end-use of their contributions. Nonetheless, Inheritors were the most focused in planning how and where to donate, followed by Entrepreneurs and then Professionals.

The growth of philanthropic spends in India has not been proportional to overall growth in ultra HNI wealth. Many ultra HNIs have acquired their wealth recently and are in the process of consolidating it before being able to contribute to society. This is further hindered by the undeveloped infrastructure and opaque operations of many NGOs. >>

Feel-good Factor Drives Charity

Philanthropic activities have been driven by multiple reasons, depending on the category of ultra HNIs as well as the demographic profile. Based on our survey, the key motivator that drives philanthropy is a feel-good factor in being able to create a better society.

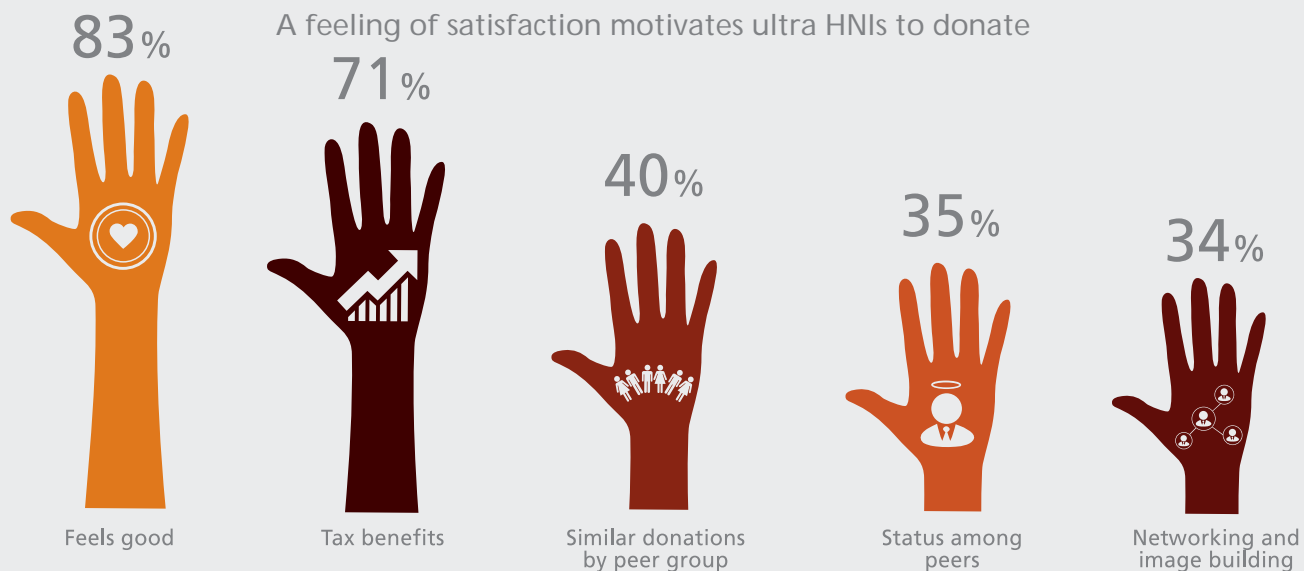
Many ultra HNIs, especially Entrepreneurs, have built their fortunes over time. Quite a few of them have seen incidents in their formative years which inspire them today in their philanthropic activities. For example,

a Kolkata-based entrepreneur recollects his childhood days in rural Bengal when he had to walk for miles to reach the nearest primary school. Today, he is contributing significantly every year to set up schools in the most backward districts, feeling satisfied at his efforts in creating a better society.

When ultra HNIs provide monetary support to NGOs, they want to know more about the organisation, the beneficiaries and, more importantly, how much of their money

Factors Driving Ultra HNI Philanthropy

A feeling of satisfaction motivates ultra HNIs to donate



Source: Top of the Pyramid 2014, Kotak Wealth Management

reaches the beneficiaries. Due to lack of time to do a thorough evaluation of the NGOs, they prefer to support established organisations that promote child education and health.

Given that the ultra HNIs remain involved in their work, a large proportion donates money directly. However, an increasing number of ultra HNIs, especially Entrepreneurs and Professionals, are showing a higher personal involvement in their philanthropic activities. This not only helps them to monitor the outcomes and channel their contributions better, but also directs the involvement further and adds to their satisfaction. As a

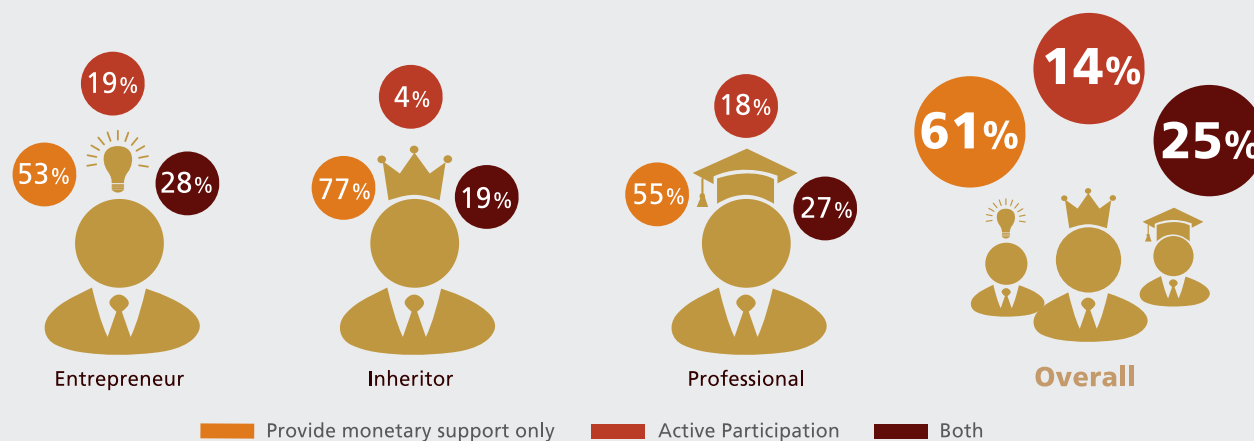
A Kolkata-based entrepreneur had to walk for miles to reach the nearest primary school. Today he is helping set up schools in the most backward districts of West Bengal

Delhi-based Professional mentioned, direct involvement helps ultra HNIs to inspire peers, friends and relatives to recognise the supporting cause and also encourages them to contribute in turn.

>>

Mode of Involvement in Philanthropic Activities

Entrepreneurs and Professionals show higher personal involvement



Source: Top of the Pyramid 2014, Kotak Wealth Management

Scepticism of Existing Infrastructure makes Ultra HNIs Establish their Own Foundations

An NRI has allocated more than 20% of his annual income to build a model village in Andhra Pradesh, which includes schools, primary healthcare, a technical training institute for women and community centre

Ultra HNIs use NGOs and trusts as common platforms to contribute to charity. However, most ultra HNIs are sceptical of these existing platforms as there is often a lack of clarity on the final utilisation of the contributions made.

According to a few respondents, NGOs and trusts can heavily improve upon their overall methodology of utilising funds to boost donor confidence. They, however, feel that the scenario is already showing signs of improvement, although at a slow pace.

Nonetheless, the existing infrastructure is leading the ultra-rich to establish their own charity foundations that can not only direct money to specified causes but can also be

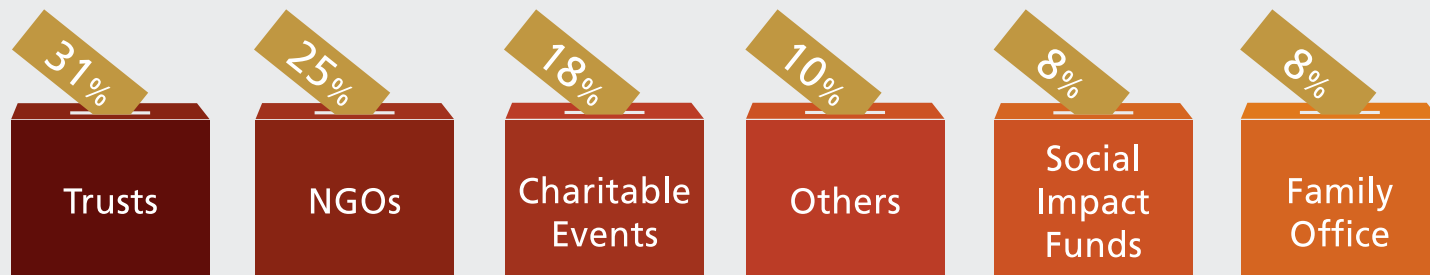
monitored effectively. In fact, many of the ultra-rich are also considering joining hands to increase the corpus and enhance credibility of the same for future fundraising activities.

While ultra HNIs support a diverse number of causes across age, gender and need, education has emerged as the most important cause of support. One factor, respondents say, has been the influence of some leading Indian business families who have set up schools and research institutions across India.

This is inspiring ultra HNIs, especially the nouveau riche, to also promote education, particularly in rural India. ☺

Most Preferred Vehicles for Philanthropy

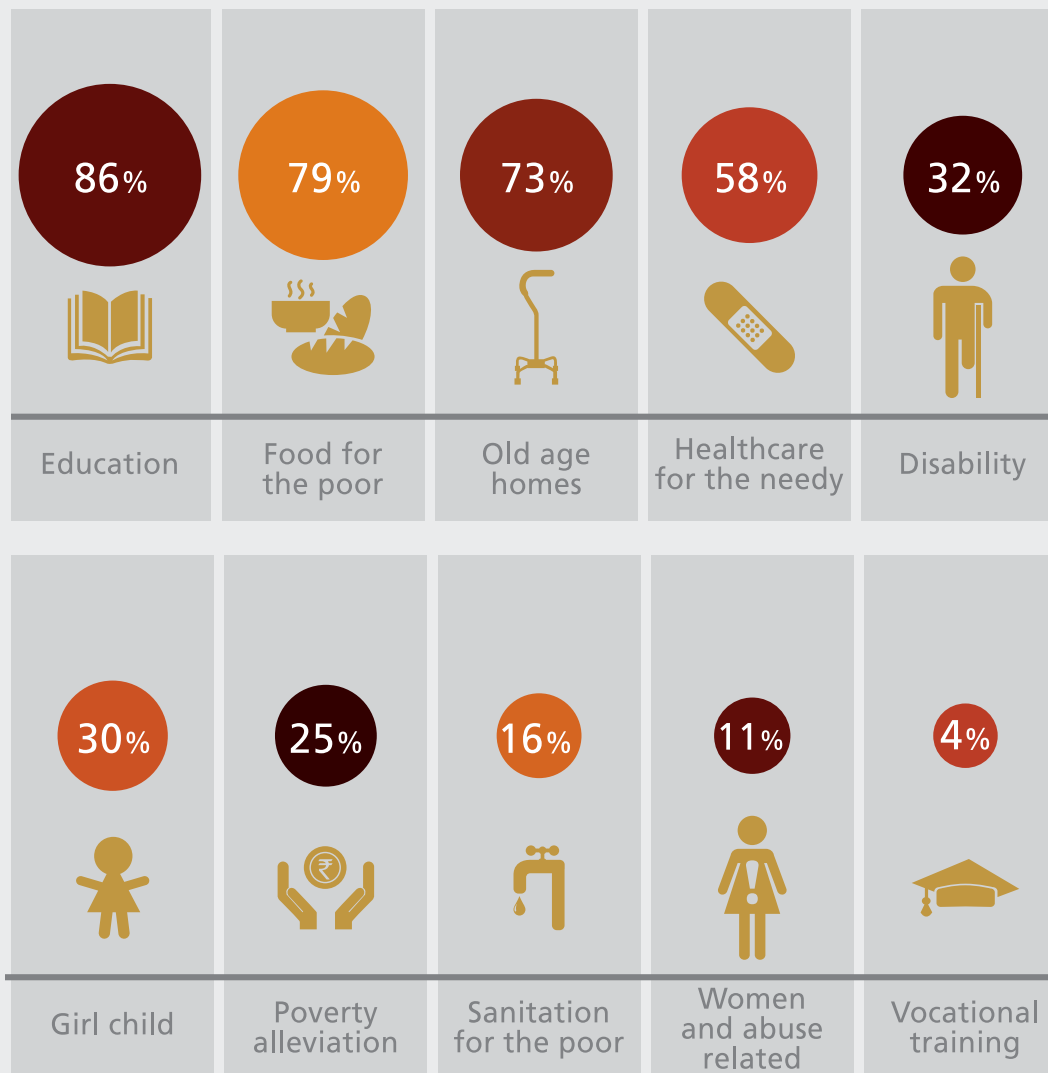
Trusts and NGOs are the most preferred vehicles for philanthropy



Source: Top of the Pyramid 2014, Kotak Wealth Management

Causes Supported in Philanthropic Activities

Ultra HNIs support a number of causes, education being the strongest



Source: Top of the Pyramid 2014, Kotak Wealth Management

Ultra HNIs recognise government-run schools in remote locations and help in improving the infrastructure by providing books or meals

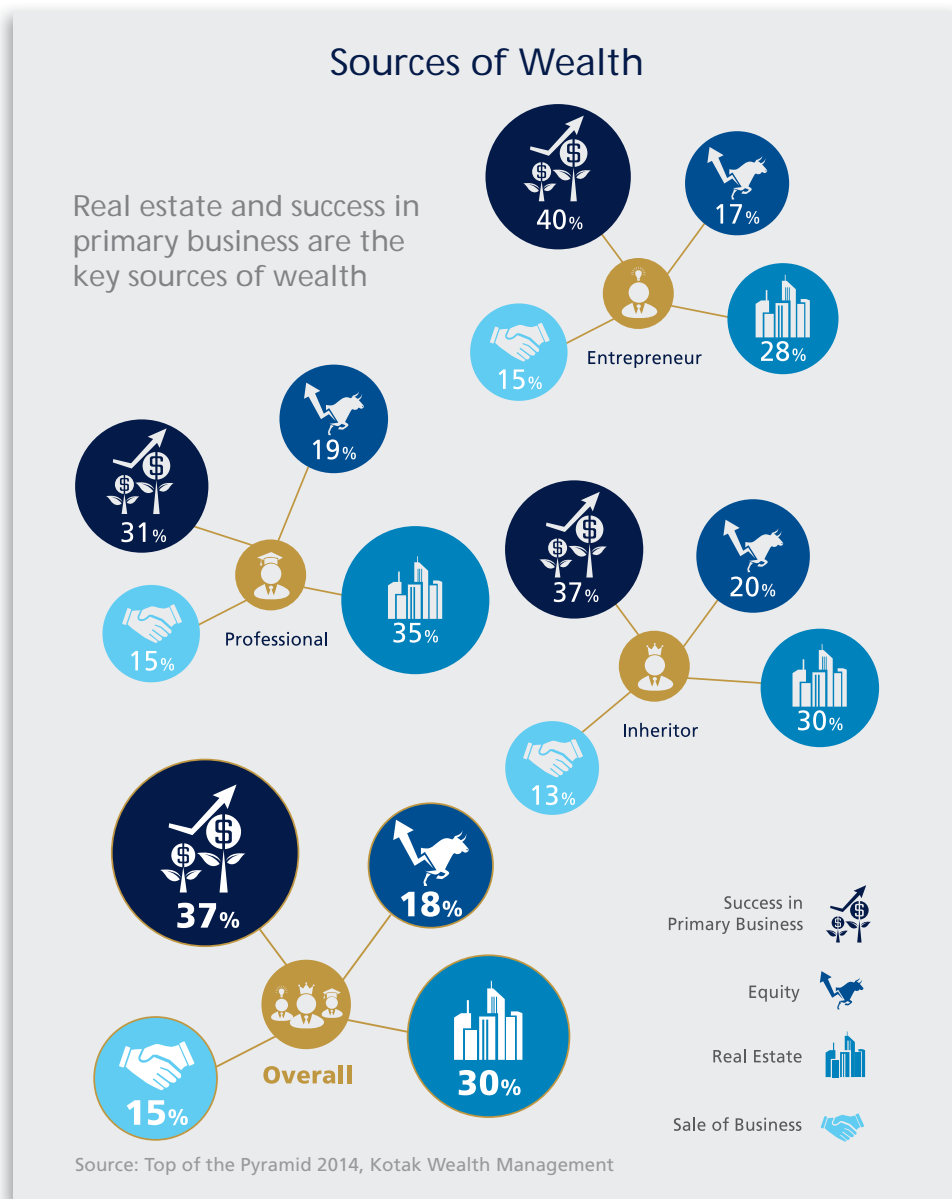
How the Ultra HNIs INVEST

The investment patterns of ultra HNIs have always been a guiding and inspirational force for the overall market. They have transformed themselves and take pride in being opinion leaders and their inputs carry a lot of weight in this part of the world. The market curiosity on the investments being made by the savvy investors of India is a talking example on this. The choice of asset classes by these ultra HNIs also gives a pulse of the economic climate of the country.

Ultra HNIs have a strong preference for investing into equity and real estate. Their real estate investment decisions are wide-ranged, from long-term investments to finding a suitable retirement home to exploring interests in agriculture. Real estate is also seeing interest from ultra HNIs in the areas of commercial real estate and luxury real estate.

The current section looks into the investment patterns of ultra HNIs, their choice of assets and asset classes and their approach to investment.

Primary Business, Real Estate Key Sources of Wealth



Real estate has always been a favoured investment for ultra HNIs. The tangible nature and host of opportunities associated with real estate in terms of sale and rental is what attracts people to this asset class. Except for the blip during the financial crisis of 2008, real estate has generated wealth for ultra HNIs over the last few years.

Two-thirds of the total distribution of wealth for ultra HNIs comes from primary business and real estate. Among ultra HNIs, Professionals lay higher emphasis on premium real estate, whilst Entrepreneurs and Inheritors lay higher emphasis on their primary business.

Despite the general perception that ultra HNIs are prone to taking risks, they are generally risk-averse and this aversion to risk increases with their wealth.

Real estate, being a tried and tested investment option, is not likely to lose its sheen anytime in the near future

Entrepreneurs Speculative; Professionals Disciplined Investors

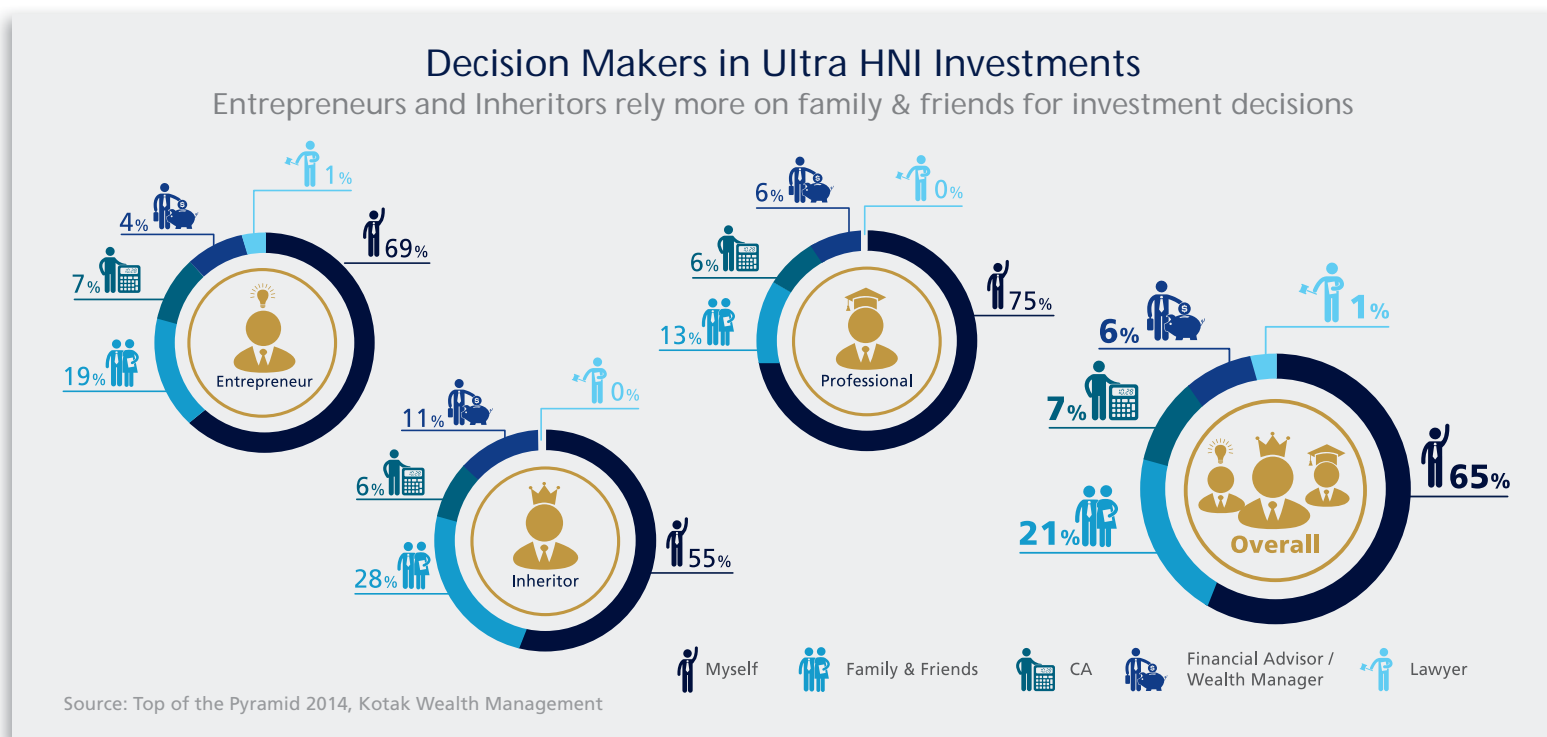
Ultra HNIs have distinct styles of investing and decision making. Entrepreneurs tend to be more speculative in their investment approach reflecting their operating styles. The styles of investing become more disciplined as we move from Entrepreneurs to Inheritors and Professionals. Professionals, being more risk-averse and disciplined, believe in earning wealth with a systematic plan.

The complexity of decision making is handled generally by the ultra HNIs themselves in

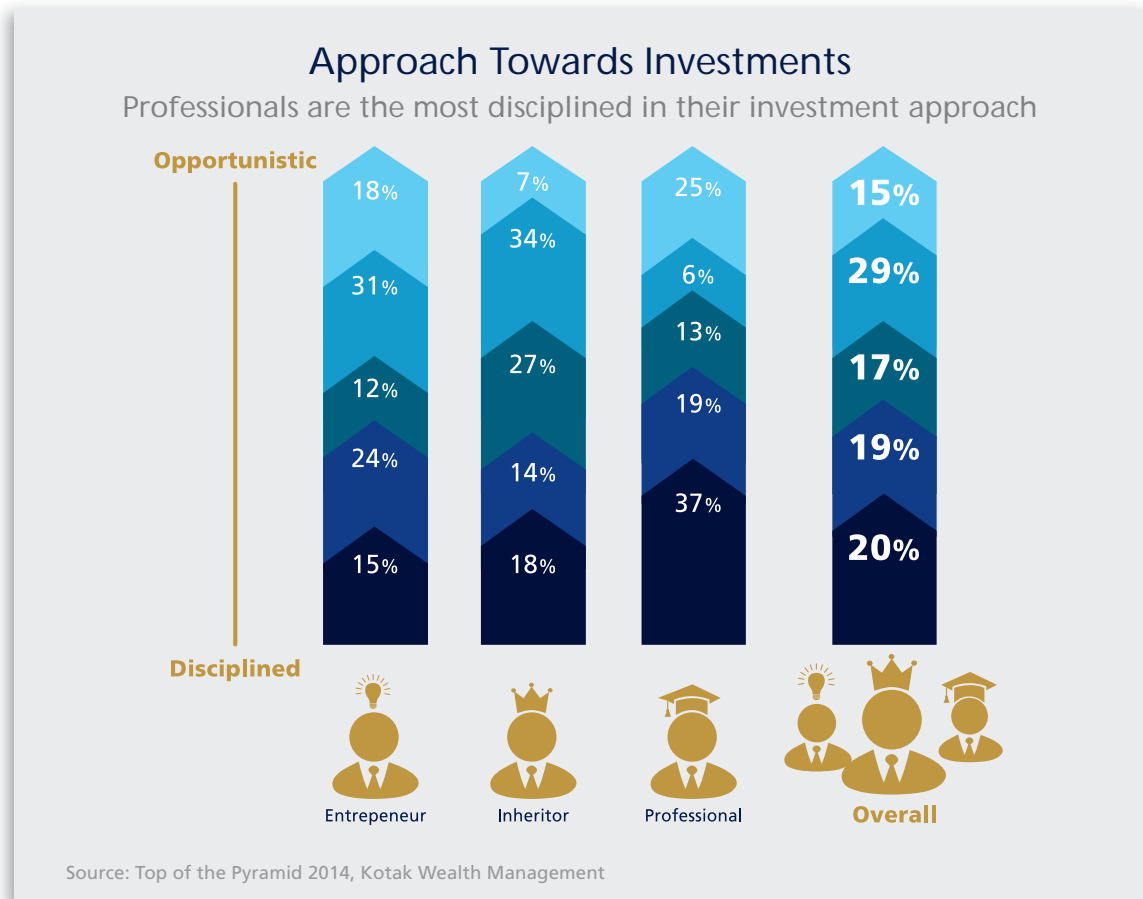
coordination with their advisors, ranging from family and friends to experts.

Professionals rely on self-analysis for investment decision making. Entrepreneurs and Inheritors tend to consult family and friends more than Professionals when making decisions regarding investments. Our survey results show that 28% of Inheritors and 19% of Entrepreneurs rely on family and friends as compared to 13% of Professionals in their investment decisions. >>

Ultra HNIs are diversifying portfolios geographically. This gives them a chance to invest in areas, ideas and themes not available in domestic markets



Ultra HNIs, in anticipation of a stronger domestic economy, have shown increased optimism towards investing in equity markets



Equity, Real Estate are Primary Investment Classes, Debt Exposure has Reduced

In anticipation of the new government, the equity markets have seen a sharp increase with the BSE Sensex delivering ~30% returns in the last 12 months. This has been propelled by increase in capital inflows from domestic and foreign investors. Mirroring this overall positive sentiment, ultra HNIs have also taken

a liking for the equity market and increased their exposure in anticipation of a stronger domestic economy.

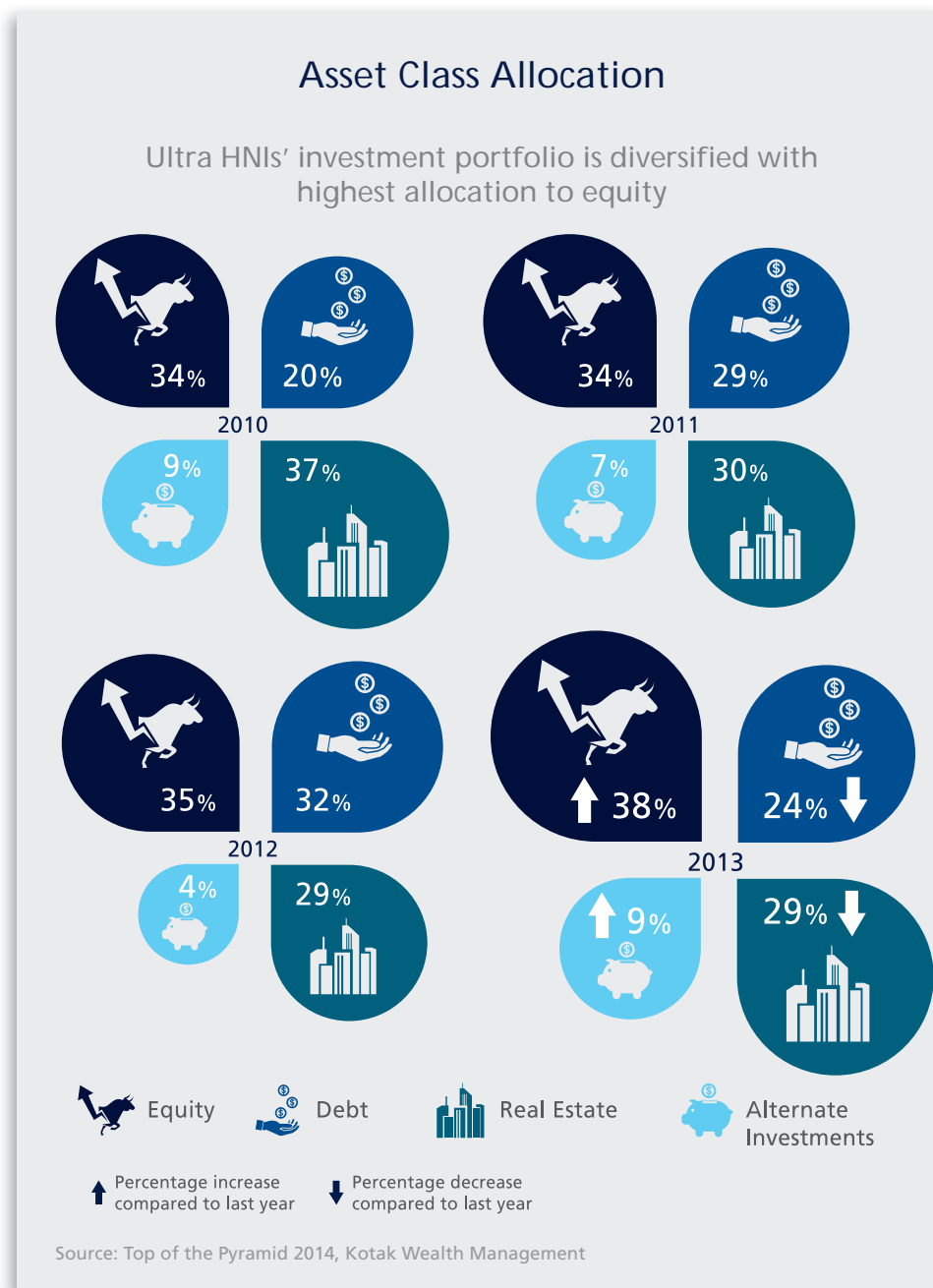
Our survey reveals that the allocation to equity has increased from 35% in 2012 to 38% in 2013 with a consequential reduction

Ultra HNIs' asset allocation to equity has increased to 38% in 2013 from 35% in 2012

in debt investment to 24%. Equity markets have underperformed in the last few years on account of the weak economic scenario. With the expected positive change, equity as an asset class is expected to gain the most with increased interest from ultra HNIs. Select ultra HNIs have gone to the extent of liquidating their debt and real estate investments to generate funds for investing in the equity markets.

Real estate investment as a proportion of total investment remained constant at 29% with limited fresh inflows into the sector. Ultra HNIs have an optimistic outlook on this asset class, pointing out that prices haven't corrected even during uncertain times.

Of the total real estate investments, ultra HNIs tend to invest ~50% in residential real estate and ~25% each in land and commercial real estate. A leading trend is investment in luxury real estate in areas such as Pune, Coimbatore, Bengaluru, parts of northern districts of Kerala; where leading developers are coming up with luxury projects with designer architects targeted at the ultra HNIs. ☺







Private Equity Investments

Special Focus

Over the last decade, the emerging markets have evinced greater interest amongst investors as growth rates are declining across most of the developed world. For example, the share of Private Equity (PE) funds in emerging markets is rising over the last five years and has grown from approximately 12% of total PE fund-raising to more than 20%³.

PE investment has emerged as a new investment asset class for ultra HNIs to diversify their portfolio. Ultra HNIs with limited time tend to go through the PE fund route to generate attractive portfolio returns. Historically, the gains have been limited as there is a definite time period of exiting the investments made. Nonetheless, it tends to be a good diversification from traditional investments.

For instance, a leading Asset Management Company is raising its second India-focused PE fund with a target corpus of ₹ 500-600 crores from Indian HNIs. The objective is to selectively invest in high-growth, mid-sized unlisted companies in India. Thus, there is increased optimism on account of the new government which has encouraged PE funds to raise capital from the ultra HNIs.

The following section covers the PE interests of ultra HNIs, the drivers, the expectations and the channels used for investments.

3. Source: Ernst & Young Private equity roundup India, 2013

PE industry anticipates that the economic initiatives and policies of the new government will promote both short and long-term growth in investments

Inheritors and Professionals Show Inclination Towards PE

Ultra HNIs have a penchant for alternative investment options which allow for portfolio diversification and an opportunity to generate superior returns. PE investments of ultra HNIs have been mainly focused on unlisted firms, start-ups and real estate funds / companies.

However, with the 2008 downturn in the financial markets still fresh in memory, interest for PE investments has diminished. Only 26% of ultra HNIs interviewed have an exposure to PE in their investment portfolio. Of the ultra HNI segments, Inheritors are more inclined towards PE investments with an

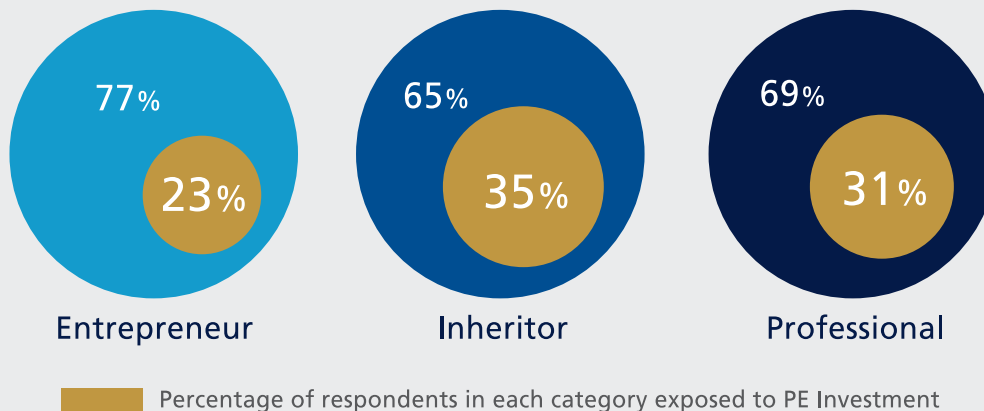
overall portfolio exposure of ~10%, driven by their desire to earn higher returns on the inherited wealth.

PE investments in India have declined in recent times due to lack of understanding as it involves complex structuring of the product, comprises low levels of transparency about underlying holdings and has uncertainty regarding government policy and regulations.

The perceived risk levels of PE investments are high owing to their longer tenure as well as the attached illiquidity.

Exposure to PE Investment

One in four of ultra HNIs invest in PE



26%
of ultra HNIs
have PE in their
investment
portfolio

Source: Top of the Pyramid 2014, Kotak Wealth Management

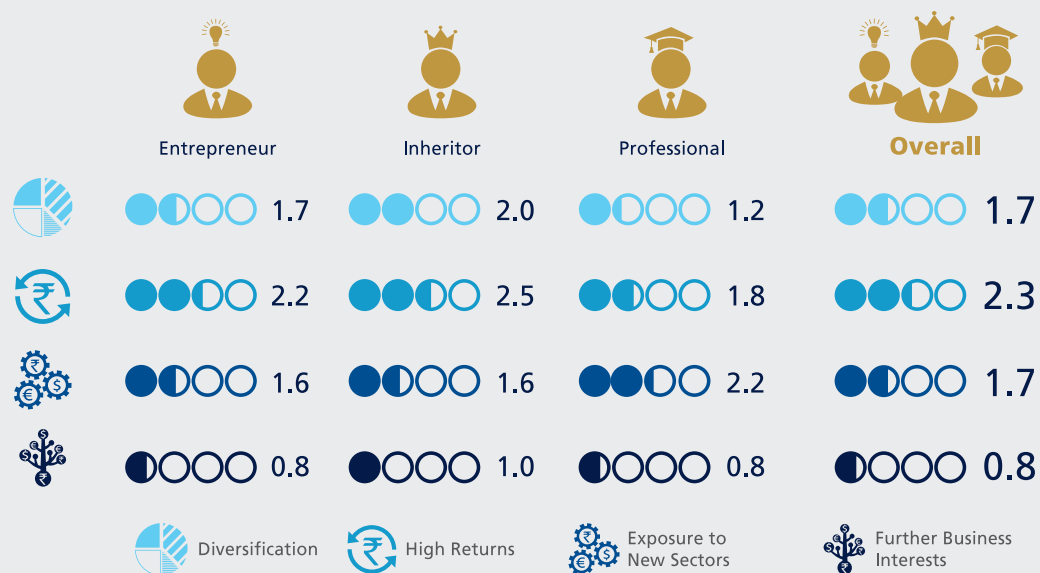
High Returns, Need for Diversification Drives PE Investment of Inheritors and Entrepreneurs

Investment by ultra HNIs into PE is driven by the potential to generate higher returns because of the focused investments and the active management strategy. PE equity funds target newer markets and growth sectors, providing the required diversification to the investment portfolio of the ultra HNI.

Select PE funds have delivered high investment returns ranging from six to fourteen times based on the time frame of investment. In line with that, seeking high returns, diversification and exposure to new sectors were identified as the key drivers for PE investment of ultra HNIs. >>

Rationale for PE Investment

Higher returns and portfolio diversification are the main drivers for PE investments



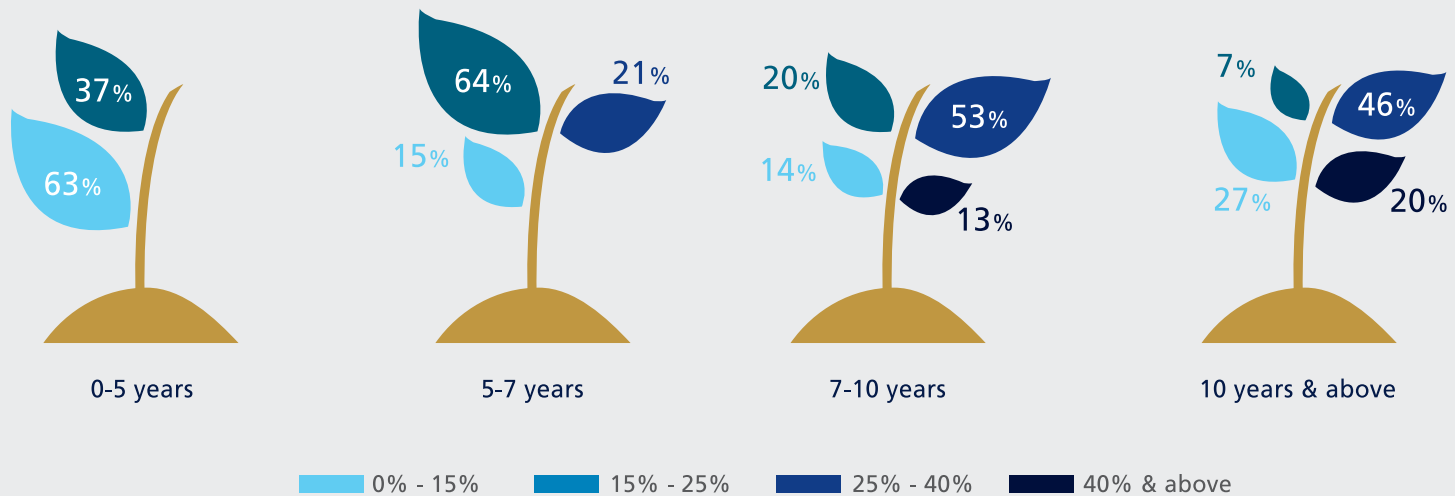
Drivers have been scored on a scale of 1 to 4, with 4 being most preferred

Source: Top of the Pyramid 2014, Kotak Wealth Management

New age technology start-ups have caught the attention of investors, with high returns and future growth potential

Return Expectations from PE Investments

Return expectations increase with the tenure of investment



Source: Top of the Pyramid 2014, Kotak Wealth Management

A leading PE fund generated annual compounded return of 25-28% including dividend earnings on part exit of its three-year-old strategic investment

Ultra HNIs use a combination of self-analysis and investment advisors to make investment decisions in PE.

While making investment decisions, all three classes of ultra HNIs sometimes discuss with peers. As is the case with all investment classes, the returns from PE investments increase with an increase in the tenure of investment. Ultra HNIs expect a return of nearly 15% on investments for a

relatively short tenure of up to 5 years. The return expectations increase to between 25%-40% when the tenure is more than 7 years.

Overall, the average duration of PE investments is expected to increase to at least 7 years from the current 5 years to ensure adequate time frame for the investment exit and to generate returns commensurate with the risk.

Real estate, IT, Pharma and Financial Services Preferred Sectors for PE Investments

Traditionally, ultra HNIs have invested in real estate by working closely with developers to fund acquisition or construction of a project. They have found favour in real estate PE funds as they partner with developers with a track record and have execution capabilities while evaluating an investment.

In 2013, real estate private equity funds raised ₹ 5,000 – 6,000 crore from investors

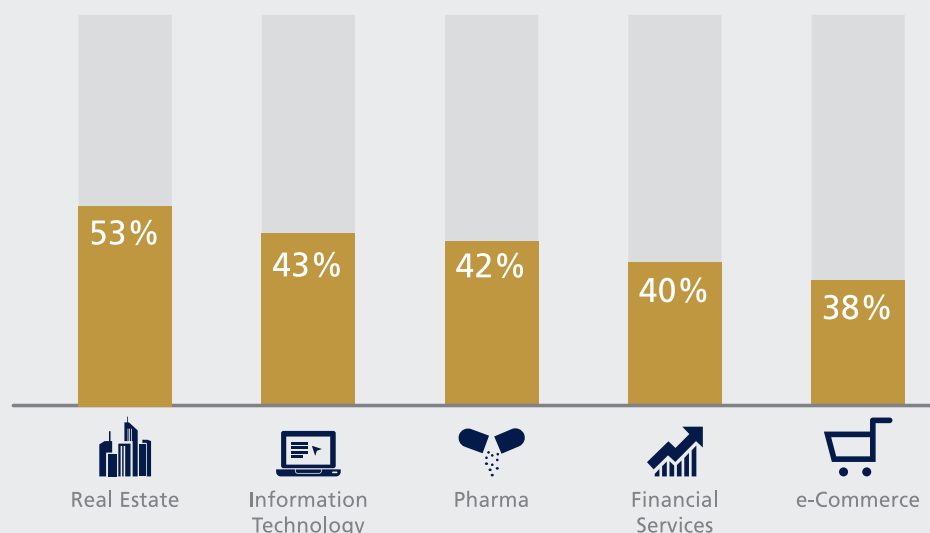
in the Indian market. This flurry of capital is driven by the expected positive change in the infrastructure development with the new government in place.

Reflecting the positive investor sentiment, 53% of ultra HNIs prefer exposure to the real estate sector whereas 43% prefer Information Technology through PE investments, followed closely by the pharma sector. 🔄

Real estate and IT continue to be the top two sectors for ultra HNIs' PE investments, while e-commerce has emerged as a new favourite

Preferred Sectors for PE Investment

Real estate and IT are top sectors for PE investment by ultra HNIs




Source: Top of the Pyramid 2014, Kotak Wealth Management

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