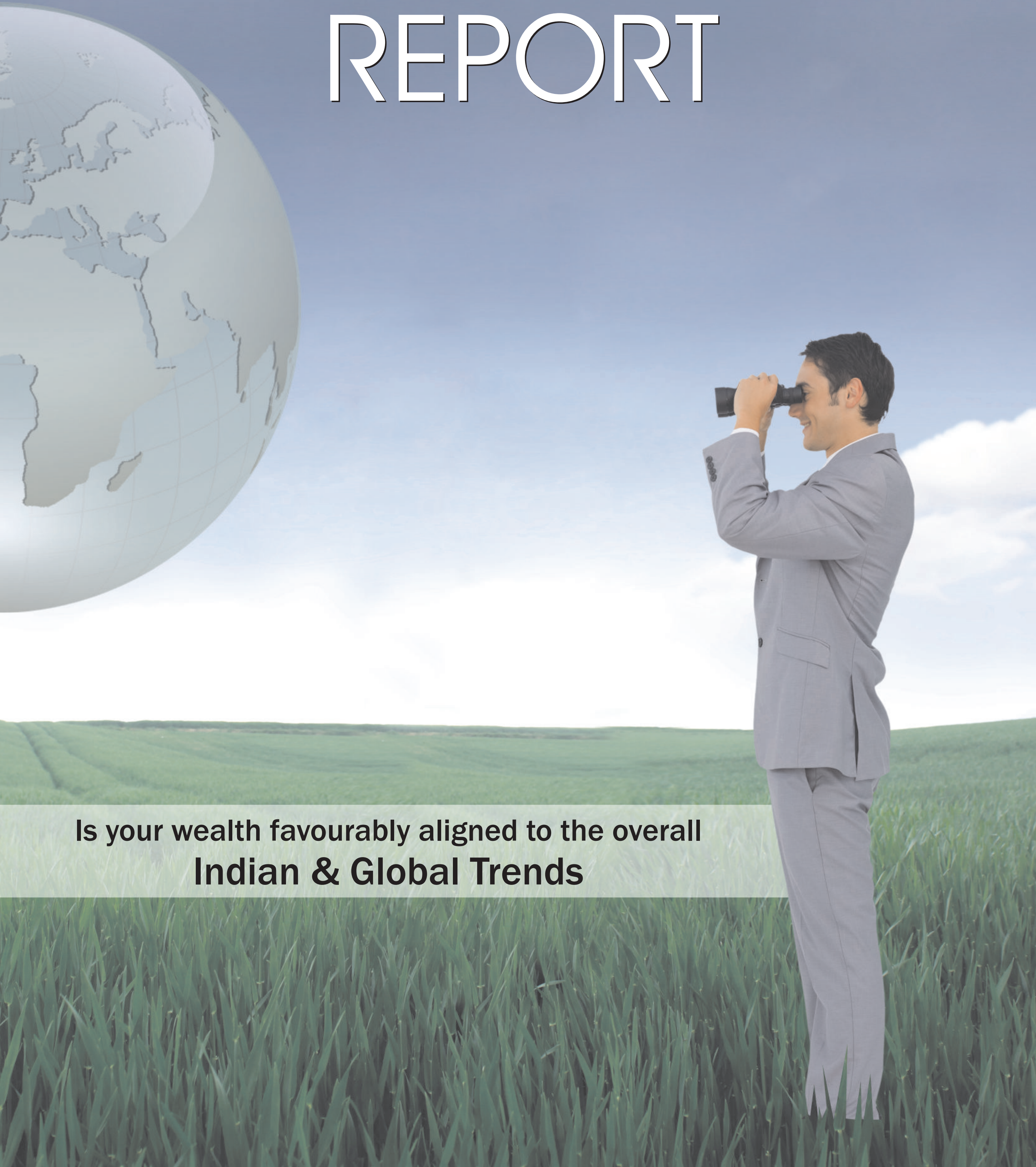
VOLUME 3 For Private Circulation only NOVEMBER 2012

KARVY PRIVATE WEALTH

INDIA WEALTH REPORT



Is your wealth favourably aligned to the overall

Indian & Global Trends

KARVY PRIVATE WEALTH

Foreword – 2012 Wealth Report

As we bring out the third annual edition of our India Wealth Report, the world of business, economics and politics is a slightly different place than what it was in the past. Pessimism in global economic growth has pervaded all aspects of our lives. Some of this has seeped into India also. However, if we take a few steps back and look at the larger picture, we believe that in the coming years and decades, India will continue to perform much better than any significant country in the world.

In this edition of the India Wealth Report, we see that wealth in the hands of Indian individuals continues to grow at a decent clip, albeit slower than in the last couple of years. However, we still remain in line to double our wealth over the next four years. Even historically, to put it in perspective, we have added as much wealth in the past seven years as we have added in the first 60 years of our independence!!

As explained in earlier reports, wealth is increasing in India by the happy confluence of high GDP growth and savings rate.

In this third edition of the India Wealth Report, we have provided the latest financial-year update on the status of "financial wealth" among Indian individuals. We continue to bring separate perspectives on the other two prominent asset classes in India—real estate and gold. Through this Report, we enable you—the Indian HNI and the emerging HNI—to understand the dynamics of the nation's existing wealth across asset classes like equity, debt and alternate assets. The Report will certainly enlighten you on where Indian individuals are investing their wealth. That way, you should be able to tell whether your portfolio is favourably (or unfavourably) aligned to the overall trend, both in India and globally.

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

For a more detailed discussion on the contents of this Report, please feel free to drop me a line. Happy Reading...best wishes for keeping your wealth growing.

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


INDIA

CONTENTS

LIST OF TABLES

EXECUTIVE SUMMARY

India's economy was moving along at a blistering pace since the beginning of the second decade of the twenty first century. In FY11 the GDP growth touched 8.4%. In FY08, the growth was even better at 9.2%, bringing India tantalisingly close to that long cherished dream of double digit growth rates. But there has been a significant slowdown since. RBI's forecast for FY13 stands at a much reduced 6.5%.

FY12 turned out to be one of the worst years not only for India but also for the world. Globally, we had the US sovereign rating downgraded for the first time in its history. The European Union faced the first serious threat of disintegration. Greece defaulted on its debts and the borrowings of several big southern European countries such as Portugal, Italy, Ireland, Greece & Spain (this indebted group of nations commonly referred to as PIIGS) had to be written off.

On the domestic front, there were concerns about high inflation, monetary tightening, policy inaction. The sovereign debt concerns of the Euro zone which led to bouts of risk aversion. We witnessed a correction in emerging market equities and depreciation of respective currencies against the US dollar.

FY13 is expected to be a good year for Indian equities on the back of monetary easing, global flows and some proactive policy making. This will not only ensure the return of big-ticket FII funds and provide a fillip to the domestic economy. While the Indian economy has been slowing down in the last couple of years, we believe that the long term India growth story is still intact and the Indian economy will grow at an average rate of 7.5 - 8% over the next decade.

Global Individual Wealth

The world population of high net-worth individuals (HNIs)[1] grew marginally by 0.8% to 11 million in 2011[2] as compared to growing 8.3% in 2010 and 17.1% in 2009. In 2011, however, global HNI investible wealth contracted to $42 trillion amid high volatility in global markets and challenging macroeconomic conditions as compared to $42.7 trillion in 2010.

The global population of ultra-HNIs[3] declined 2.5% to 100,000 in 2011, and their wealth declined by 4.9%, after gaining 11.5% in 2010[4].

Estimated Individual Wealth in India

The amount of wealth in India held by individuals or the total individual wealth has been calculated after taking the sum of all asset classes in which investments are made by individuals. It does not include government and institutional holdings. In this report, only “financial assets” are considered, and not physical assets such as real estate and gold. Accordingly, the wealth in India held by “individuals” is estimated to be ₹ 92.26 lakh crore at the end of FY12.

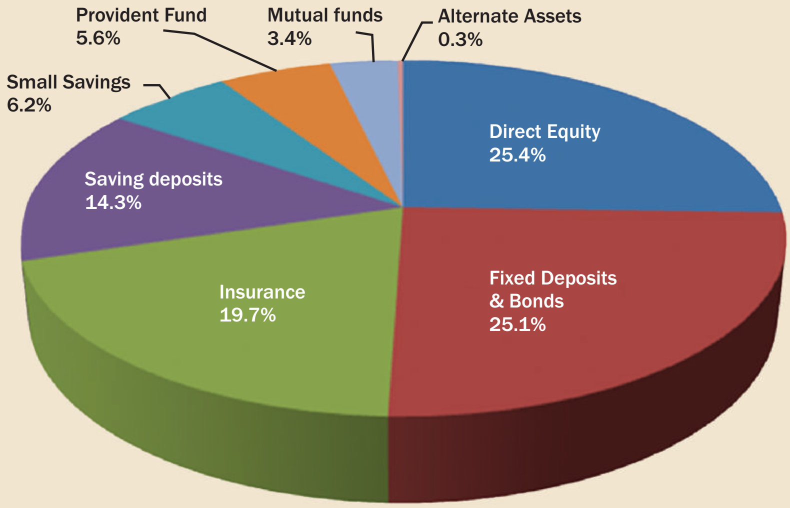
---

1. HNIs are defined as those having an investible asset of US$ 1 million or more excluding primary residence, collectibles, consumables, and Consumer durables.
2, 4. Capgemini & RBC Wealth Management, World Wealth Report, 2012.
3. Ultra-HNIs are defined as those having investible assets of US$30 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

Table 1: Classification of Individual Wealth in India

Asset	Amount (₹ Cr.)	Proportion (%)
Direct Equity	23,49,529	25.4
Fixed Deposits and Bonds	23,11,653	25.1
Insurance	18,18,585	19.7
Savings deposits	13,20,908	14.3
Small Savings	5,69,632	6.2
Provident Fund	5,19,555	5.6
Mutual funds	3,11,813	3.4
Alternate Assets	24,415	0.3
Total	**92,26,090**	**100**

Figure 1: Asset-wise Distribution of Individual Wealth in India



Investments in direct equity forms a major part of the total individual wealth in India with 25.4% in this asset class whereas fixed deposits and bonds attracted 25.1% of the total individual wealth.

FY12 saw a decrease in assets held in direct equity, owing to volatility in the stock markets. The stock markets shed 8% of its value and investors became wary of putting their money in. That proved to be a gain for debt instruments. Perceived as relatively risk free, investments in debt as an asset class grew by 13.7%.

Table 2: Classification of Individual Wealth in India according to Key Asset Classes

Asset Class	Amount (₹ Cr)	Proportion (%)
Equity	25,26,207	27.4
Debt	66,75,468	72.3
Alternate Assets	24,415	0.3
Total	**92,26,090**	**100**

The total individual wealth of ₹ 92.26 lakh marks an increase of 6.66% over FY11. However the number of Indian US$ millionaires fell by 27,500 in 2011 to 125,500 down 18%[5] from 2010.

Individual wealth is expected to grow from current ₹ 92.26 lakh crore to ₹ 214 lakh crore by FY17.

Equity is expected to be the biggest asset class by 2017. Nearly 28.7% of individual wealth will be invested in equities. About 22% of the wealth will reside in FDs and bonds. Alternate assets will grow more than 3 times by FY17 as compared to current 0.3% of the total individual wealth.

KEY TRENDS

1. Total individual wealth in India is expected to double to ₹ 179 lakh crore in the next four years by from the current ₹ 92.26 lakh crore.

2. Investments in direct equity would form 28.7% of total asset in FY17 as compared to 25.5% in FY12. This would reflect the increase in confidence of investors in stock markets and will be the single largest sub - asset class.

3. The insurance industry has been growing at an average rate of over 22% for the last decade. Investments in insurance come not only in the form of new policies sold, but also renewal premiums which are higher than first year premiums collected. The wealth held by individuals in insurance will grow at a CAGR of 21% in the next 5 years.

4. Though Alternate Assets which includes Structured Products, Private Equity, Venture Capital Funds, Gold ETFs, Film and Art Funds had been flat in FY12, are expected to grow by more than 3 times by FY17.

5. With the expansion in the organised sector workforce, India's pension fund market is set to grow at a rapid pace in the coming years.

5. Capgemini & RBC Wealth Management, World Wealth Report, 2012.

SECTION 1: GLOBAL INDIVIDUAL WEALTH 2012

The global population of HNIs grew marginally by 0.8% to 11.0 million in 2011. During the year, the global financial wealth of HNIs slid 1.7% to $42 trillion amid high volatility in global markets and challenging macroeconomic conditions.

The overall decline in investible wealth largely reflected the disproportionate impact of losses among higher wealth brackets, in which investors are often more likely to be invested in less liquid and more risky assets.

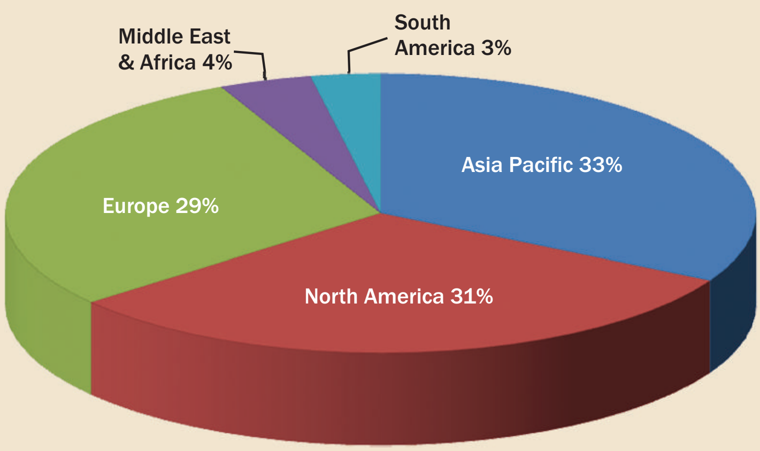
Investible wealth had increased 9.7% and 18.9% respectively in 2010 and 2009, when there had been a significant rebound from the hefty crisis-related losses of 2008.

The HNI population in Asia Pacific rose 1.6% to 3.37 million[6] individuals in 2011. The financial wealth of these HNIs also declined similar to the global trend, but by a lesser 1.1% to $ 10.7 trillion.

The US, Japan, and Germany together accounted for 53.3%[7] of the world's HNI population in 2011, up slightly from 53.1% in 2010. However, the share held by these three has been eroding gradually (it was 54.7% in 2006) as the HNI populations of emerging and developing markets, especially those in Asia-Pacific, continue to increase, albeit that grow faster than those of developed markets.

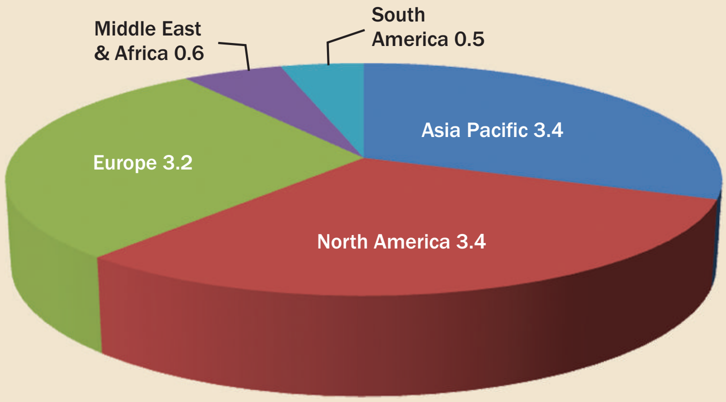
In 2011, losses in key Asia-Pacific markets such as Hong Kong and India restrained the pace of HNI population growth in the region. Regardless, globally the HNI population is likely to continue to increase. Albeit, that growth is likely to be far more fragmented in future.

Figure 2: Global Wealth Distribution



6, 7. Capgemini & RBC Wealth Management World Wealth Report, 2012.

Figure 3: Number of HNI Households Worldwide (in Millions)



Equity markets took a pounding across the globe in 2011. There were just a handful of bourses being in the black. Europe's equity markets were hurt the most, with Greece's tumbling by a staggering 52%. In the Middle East, Egypt's stock market lost half its value. Indian equity-market capitalisation too dropped 33.4% in CY 2011, after a gain of 24.9% in 2010. This decline, and domestic factors such as increasing budget and fiscal deficit, contributed to a significant drop in India's HNI population by 18%. HNIs in North America and Asia Pacific are 3.4 million each whereas there are 3.2 million in Europe, 0.6 million in Middle East & Africa and 0.5 million in South America.

Table 3: Asset Class-wise classification of Global Wealth

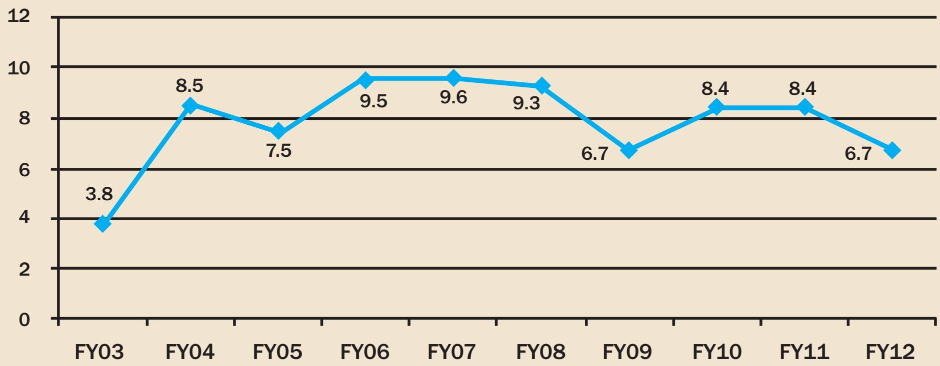
Asset Class	Proportion 2010(%)	Proportion 2011(%)
Equity	40.7	35.5
Debt	53.1	61.7
Alternate assets	6.2	2.8
Total	**100**	**100**

Overall global asset allocation performance saw a decrease in wealth allocation in Equities by 5.2%, while wealth in Debt asset class increased by 8.6%. The HNI community stayed away from Alternate asset and it's proportion dropped by 3.4%.

SECTION 2: CURRENT INDIAN ECONOMIC SITUATION

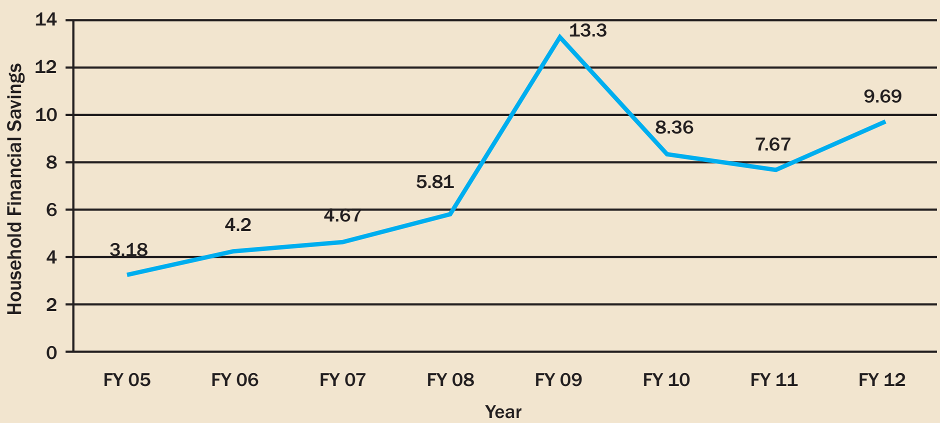
Indian GDP in FY12 grew at 6.7% as compared to 8% in FY11. The nations GDP stands at ₹ 89 lakh crore in FY12 as compared to ₹ 78 lakh crore in FY11. Indian GDP growth has come down in the last few years. From a high of 9.6% in FY07, it is now down to 6.7% in FY12. India's GDP for first quarter of FY13 grew by just 5.5%.

Figure 4: GDP Growth Rate



Household financial savings fell to 11% (of GDP) in FY12, owing to slowing of the economy, coupled with high inflation, high borrowing costs among others. During the preceding three years, it averaged to 13.57%. (of GDP) .

Figure 5: Household Financial Savings (in ₹ lakh Crore)



There was a late surge of monsoon FY13. The increased precipitation in the latter part of the season somewhat made up for the deficit till the month of July. That will ensure that the agriculture growth is only moderately impacted. Manufacturing activity has slowed down significantly due to high interest rates and falling purchasing power. The Services sector growth is now stabilising, but the plight of the Manufacturing sector will eventually rub off on the Services sector as well.

Inflation is expected to hover around 7% for the rest of the year. A 100bps cut in repo rate for the full year is on the cards. As interest rates come down, corporate investment cycle will revive leading to a rebound in economic growth.

Although the Indian GDP growth rate has slowed down to 6.7%, most other large economies of the world would be thrilled with the figure. Nominal GDP growth for FY13 would close to 13-14% leading to a corporate earnings growth of 13-15%.

Rupee has weakened significantly in the last year and we expect exporters to benefit hugely.

SECTION 3: INDIVIDUAL WEALTH IN INDIA

The high rate of savings in India and the rising wealth of the middle class has made the country one of the fastest wealth accumulators in the world. The total individual wealth in India is estimated to be ₹ 92.26 lakh crores, a rise of 7% over the last year.

The investment in debt instruments forms a major part of the total individual wealth in India with 72.35% being invested in this asset class. This was further boosted by deregulation of savings bank deposit rate and increase in small savings returns. The proportion of this asset class has grown by 13.71% as compared to last year.

Equity-related investments cornered 27.38% of the total individual wealth. Owing to the uncertainty in the markets in FY12, the proportion of this asset class in the pie has shrunk by 8.12%.

Alternate Assets form a negligible portion of the total individual wealth in India, contributing 0.26%.

According to a survey conducted by Karvy Private Wealth with HNIs and UHNIs in India, the HNIs and UHNIs firmly believe in the India growth story. Nearly 78% of them are confident of investing in equities in the coming year. Over 20% of the respondents said they would be investing more than 50% wealth in equities while 30% respondents said they would invest greater than 50% in fixed income instruments next year. 22.4% do not wish to invest in equities in the coming year primarily due to the uncertain macroeconomic situation.

SECTION 4:
ASSET WISE BREAK UP OF INDIVIDUAL WEALTH IN INDIA

The total individual wealth in India is ₹ 92.26 lakh crore, and is arrived at by adding up all investments in asset classes, broadly classified into equity, debt and alternate assets.

The following investment avenues and financial assets have been considered to estimate individual wealth:

- Direct Equity
- Mutual Funds
- Insurance
- Provident Funds
- Fixed Deposits and Bonds
- Savings Bank Deposits
- Small Savings
- Alternate Assets

For the purpose of this report, physical assets such as gold and real estate have been excluded from this section as these are physical/real assets and not financial assets. However, they have been covered in separate sections.

SECTION 4.1: DIRECT EQUITY

The market capitalisation of India's National Stock Exchange (NSE) stood at ₹ 60.97 lakh crore[8] as on March 31, 2012 compared to ₹ 67 lakh crore the previous year.

The preference of investors in India has changed over the years. However due to overall global slowdown in 2011 we have seen a withdrawal from equities and into safer investment opportunities.

Indian equity-market capitalisation dropped 33.4% in FY12, after a gain of 24.9% in FY11[9]. Decline in equity market and domestic factors such as increasing fiscal deficit, high inflation, high interest rates and international factors such as Euro zone crisis and downgrading of US economy among others.

Table 4: Direct Equity Classification

Investor	% of Market Capitalisation	Amount (in ₹ crores)
Promoter Holdings	53.74	32,76,059
Institutions	30.47	18,57,754
Individual Investors	15.79	9,62,705
Total	**100**	**60,97,518**

The total individual wealth invested in direct equity stands at ₹ 23.49 lakh crore and represents 38.5% of the total market capitalisation. This is total of equity investments of Individual Investors & Non-Institutional Promoters.

Direct Equity comprises of 25.47% of the Total Individual Wealth in India. This includes the investment held by individual investors, as well as the promoter holdings held by individuals.

According to a survey conducted by Karvy Private Wealth with HNIs & UHNIs, HNIs & UHNIs in India still believe in economic growth and 78% of the total respondents said they would be investing in equity in the coming year.

8,9. SEBI

SECTION 4.2: MUTUAL FUNDS

Assets collectively managed by Indian mutual fund houses stood at around ₹ 5.87 lakh crore as on 31 March 2012. Having seen a sharp downturn in equity markets in FY12, and with the higher interest rate environment, retail investors were attracted towards debt oriented funds such as gilt and liquid schemes. Gold has been the flavour of the season with 61% growth in folios in the segment over twelve months.

Figure 6: AUM of Mutual Funds

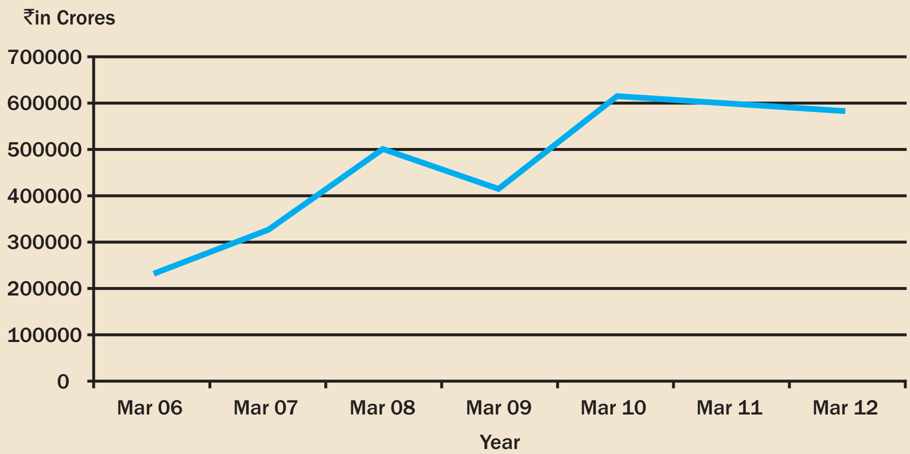


Table 5: Mutual Funds based on Underlying Investment by Individual Investors

Asset class	Amount (in ₹ cr)
Equity	1,76,678[10]
Debt	1,35,135[11]
TOTAL	**3,11,813.7**

The total value of individual investors' investments in mutual funds is ₹ 3.11 lakh crore, up from ₹ 2.84 lakh crore in FY11. While assets in debt oriented funds have shown a high increase of 17.2%, equity oriented funds have grown by just 2%.

Mutual funds constitute 3% of total individual wealth in 2011.

10, 11. AMFI

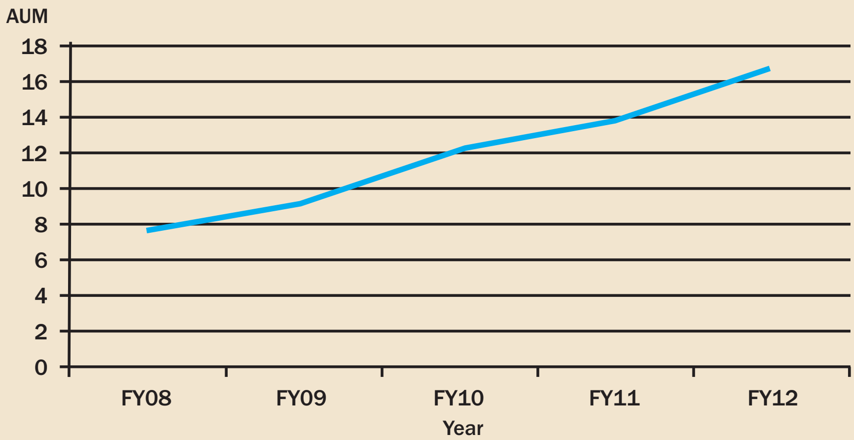
SECTION 4.3: INSURANCE

We consider the investments in avenues such as life insurance, Employees' Pension Fund and Employees' Deposit Linked Insurance Fund as investments in the insurance asset class.

With the opening up of the Life Insurance sector to foreign players in the beginning of the century, the Indian investor has a multitude of product options to choose from.

What was once a monopoly of state-run LIC is now the battlefield of more than twenty private insurers. The cut-throat competition means that companies put in a lot of effort into research into development of insurance products.

Figure 7: Assets in Life Insurance (₹ lakh crore)



Total AUM with life insurance is ₹ 16.73 lakh Crore which has witnessed an increase of 19.75% over last year when it was ₹ 13.97 lakh Crore.

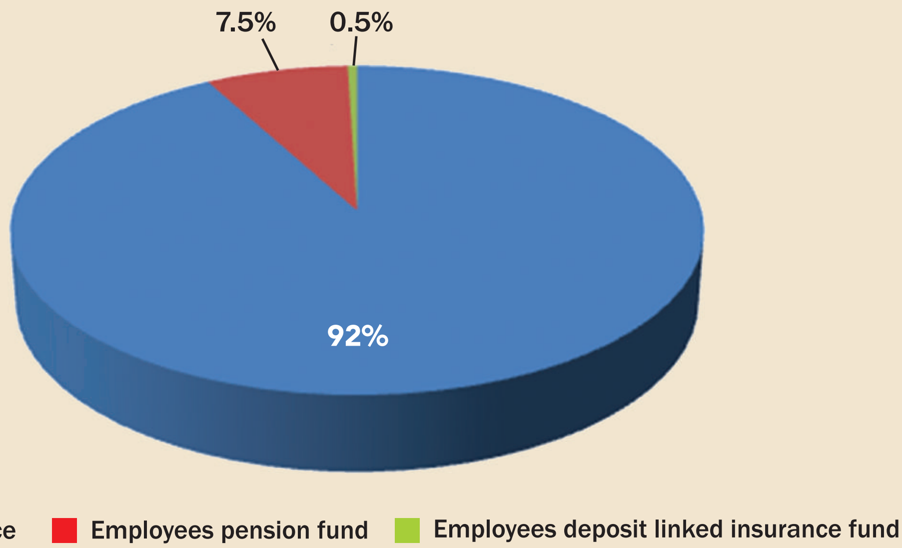
Table 6: Assets in Insurance

Asset type	Amount (in ₹ cr.)
Life Insurance	16,73,885
Employees Pension Fund	1,35,803
Employees Deposit Linked Insurance Fund	8,897
Total	**18,18,585**

Of the total AUM, ₹ 9.8 lakh crore is estimated to be in life funds, ₹ 2.22 lakh crore in pension and group funds, and ₹ 4.46 lakh crore in ULIPs[12].

The assets in employee pension funds is estimated to be ₹ 1.36 lakh crore[13] and in employees deposit linked insurance funds ₹ 8,897 crore.[14]

Figure 8 : Composition of Insurance Assets



After fixed deposits and equities, insurance is the most popular investment class among individual investors in India.

The assets in insurance account for 19.71% of total individual wealth in FY12 as compared to 17.64% in FY11.

12. IRDA
13, 14. EPFO

SECTION 4.4: FIXED DEPOSITS AND BONDS

Fixed deposits allow the investors to deposit money for a set period of time, thereby earning a higher rate of interest in return as compared to savings deposits or small savings accounts. These term deposits are one of the safest investment options available to investors. They attract investors who believe in long-term investments and wish to earn interest on their savings. Banks also usually offer higher interest rates to senior citizens offering them a comparatively safer and low risk option.

A. Fixed Deposits (FDs) can be classified into following categories:

- Bank Fixed Deposits
- Corporate Fixed Deposits
- Fixed deposits with Non Banking Finance companies (NBFCs)

1. Bank Fixed Deposits:

These can be further divided into

- Scheduled Commercial Bank FDs
- Co-operative Bank FDs

These deposits have always remained one of the most preferred options of investors. Bank FDs returned to high growth after revision of interest rates by RBI.

The FDs which individuals hold with commercial banks is worth ₹ 21.2 lakh crore, while the FDs with co - operative banks are estimated to be around ₹ 55,396 crore. The total bank fixed deposits in India amount to **₹ 54.3 lakh crore** of which **₹ 21.8 lakh crore** is estimated to be held by individuals.

2. Corporate Fixed Deposits:

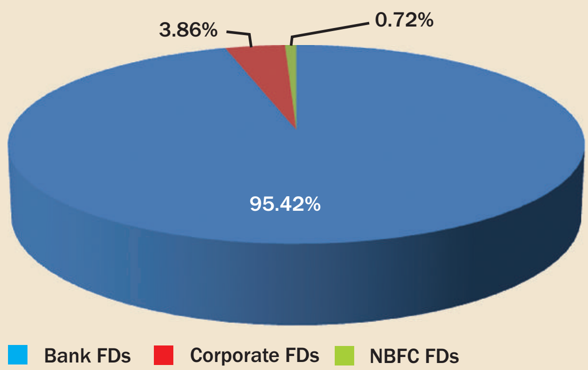
These are fixed deposits held by individuals in various companies, both listed and unlisted for a specific time period. These deposits usually fetch higher returns than traditional bank fixed deposits. However the risk involved in these are also higher as compared to bank fixed deposits. Many companies including reputed industrial houses take deposits from investors to meet their short term requirements of funds. **The amount invested by individuals in corporate is ₹ 88,186 crore.**

3. NBFC Fixed Deposits:

The various NBFCs registered with RBI can be classified into those accepting deposits and those not accepting deposits. Some NBFCs are allowed to accept and renew public deposits for a minimum period of 12 months and maximum period of 60 months. Residuary Non-Banking Company is a class of NBFC which has its principal business to receive deposits, under any scheme, arrangement or in any other manner and not being investment, asset financing, loan company. The amounts parked in RNBC deposits have been going down continuously. This year RNBC deposits saw a decrease of 10% while NBFC deposits saw an increase of 27%. **The amounts invested by individuals in India in NBFC Fixed Deposits are ₹ 16,490 crores.**

Table 7 & Figure 9: Distribution of Fixed Deposits

Type of FDs	Amount (in ₹ Crores)
Bank FDs	21,82,666
Corporate FDs	88,186
NBFC	16,490
Total	**22,87,342**



Bank FDs are the most preferred asset by investors as the investment in these deposits form a major portion of Total Fixed Deposits held. The individual investments in Bank FDs are ₹ 21.82 lakh crore. Corporate FDs are most preferred after bank FDs with ₹ 88,186 crores invested in them, followed by FDs with Non-Banking Finance Companies (NBFCs) being ₹ 16,490 crore.

B. Bonds

• **PSU Bonds:** These are bonds issued by Public Sector Undertakings (PSU). This includes both public issues of bonds and privately placed bonds. Here, both taxable and tax - free bonds are considered. The numbers of issues being launched by PSU bonds has been growing over the last few years, with the need to raise funds for infrastructure development. The trend continued in 2012. **The estimated individual wealth in these bonds is ₹ 15,437 crore.**

• **Corporate Bonds:** Some corporates, other than PSUs also issue bonds to institutions and retail investors. In FY12, there were a few big issues of corporate bonds, which led to the increase in investment of individual investors in these bonds. The total amount invested by individuals in these types of bonds is estimated to be ₹ 4,448.7 crore in FY11.

Table 8: Assets in Bonds: Individual Wealth

Type	Amount(in ₹crores)
PSU Bonds	15,437
Corporate Bonds	8,874
Total	**24,311**

Total bonds issued this year stands at ₹ 35,611 crore of which individual investment is estimated to be ₹ 17,440 crore. Total AUM in PSU and Corporate Bonds combined as on 31 March 2012 stands at ₹ 1,81,903 crore of which individual wealth is ₹ **24,311 crore.**

Table 9: Assets of Individuals in Fixed Deposits and Bonds

Asset	Amount(in ₹ crores)
Fixed Deposits	22,87,342[15]
Bonds	24,311
Total	**23,11,653**

The total individual wealth in fixed deposits and bonds is 25.1% of total individual wealth in India.

15. RBI

SECTION 4.5: SAVINGS BANK DEPOSITS

Savings bank deposits offer the simplest of investment avenues for all individuals. It also plays an important part in financial inclusion of Indians.

The move to deregulate savings rate by the RBI, meant that banks were free to determine the interest rates on their savings accounts. This led to a number of banks to increase savings deposit rate above the traditional 3.5% - 4% mark to reach as high as 7%. This was one of the primary reasons for increase in investments in savings bank deposits.

Savings deposits are a popular investment option owing to their liquidity and ease of operation.

Banks maintaining savings account of individuals can be divided into two categories:

- Scheduled Commercial Banks
- Scheduled Cooperative Banks

Table 10: Savings Deposits with Bank

Bank	Amount (in ₹ Crores)
Scheduled Commercial Bank*	13,08,303
Scheduled Cooperative Bank	12,605
Total	**13,20,908**

The total amount in savings deposits is ₹ 13.21 lakh crore[16].
The total amount in savings deposits constitutes 14.32% of total wealth of individuals.

16. RBI.
* Includes only savings deposit excluding current deposits

SECTION 4.6: SMALL SAVINGS

Individuals have been traditionally investing in different small savings schemes of Post Office such as Post Office Monthly Income Scheme (MIS), Post Office Time Deposits, National Saving Certificate, Kisan Vikas Patra, Post Office Savings Accounts etc. The government has made small savings more attractive in an effort to woo small investors and enlarge the national savings pool. The decision to increase interest rates, which was in line with the recommendations of the Shyamala Gopinath committee, made the small savings schemes more attractive and returns would be in sync with market rates.

Table 11: Small Savings - Individual Wealth

Small Saving Schemes	Amount (₹ Crores)
Post Office Monthly Income Scheme	2,05,415
Kisan Vikas Patra	1,55,173
Post Office Recurring Deposit account	61,473
National Saving Certificate issues	54,566
Post Office Savings bank accounts	33,660
Post Office Time Deposit account	27,343
Senior Citizens Saving Scheme	26,529
National Savings Scheme 87,92	4,307
Indira Vikas Patra	1166
Total of Small savings	**5,69,632**

The total amount invested in such small savings schemes of post offices is **₹ 5.69**[17] **lakh crore** in FY12.

Small savings contribute around 6.17% towards total individual wealth. This is higher than the contribution last year which stood at 6.06%.

17. RBI

SECTION 4.7: PROVIDENT FUND

Provident Fund adds a lot of value to individuals, as a tax saving and social security scheme. Provident Fund can be divided into Employees Provident Fund(EPF) and Public Provident fund(PPF).

Employee Provident Fund(EPF) is a compulsory contributory Provident Fund for the Indian work force for any organisation having 20 or more permanent employees, and is administered by EPFO in India. It comprises of contributions made by both, employee and the employer.

On the other hand, Public Provident Fund (PPF) is a voluntary scheme for individuals in which they can open a PPF account with a Post office or various nationalised banks.

Table 12: Provident Fund

Type of Provident Fund	Amount (in ₹ Crores)
Employee Provident Fund	3,65,238
PPF with Banks	1,20,197
PPF with Post Office	34,120
Total	**5,19,555**

The assets in provident fund account for 5.63% of total individual wealth in India.

The amount of wealth invested by individuals in EPF is ₹ 3.65 lakh crore.[18] Public Provident Fund can be invested through post office and banks. The total assets in PPF with post office is estimated to be around ₹ 34,120[19] crore while the remaining ₹ 1.20 Lakh crore PPF is with banks. The total amount of wealth invested by individuals in PPF is ₹ 1.54 lakh crore. The total assets in Provident Funds are estimated to be around ₹ 5.19 lakh crore.

The amount of individual wealth invested in EPF has been consistently increasing as it is a compulsory fund and with increase in number of establishments coming under its ambit every year and number of employees rising, the investment is expected to rise even more in coming years. Also it is proposed that the minimum monthly pension for members of the Employees Provident Fund (EPF) which could soon increase to ₹ 1,000 once mandated by the government, it will lead to a greater increase in assets. The increase in provident fund interest rates in FY11 also contributed to increase in wealth.

The investment in post office PPF has increased by 32% over the previous year owing to the new focus on mobilising small savings by the government.

18. EPFO
19. RBI

SECTION 4.8: ALTERNATE ASSETS

An alternate investment is an investment option other than the traditional investments like stocks, bonds, cash, or property. This includes tangible assets such as art, wine, antiques, coins, or stamps and some financial assets such as commodities, private equity, hedge funds, venture capital, film funds and financial derivatives, among others.

Many alternate investments also have high minimum investments and fee structures as compared to mutual funds and ETFs, and are typically bought by HNI and UHNI investors.

Alternate investments are favoured by HNI & UHNI investors mainly because many a times their returns have a low correlation with those of standard asset classes. Because of this, many large institutional funds such as pension funds and private endowments have begun to allocate a small portion (typically less than 10%) of their portfolios to alternate investments such as hedge funds.

While the small investor may be shut out of some alternate investment opportunities, one can easily invest in some commodities such as precious metals which are widely available. However any individual should ideally limit his exposure to various alternate assets to just 10%.

An alternate investment can help diversify the portfolio, thereby reducing risk as investments often provide a return which has a low or negative correlation to traditional investments like equities or fixed income. Therefore, if an equity share or index moves in a direction, an alternate investment may not do the same.

The investment in these assets has shown drastic increase in FY12. This trend has been seen not only in India but also globally in FY12. The most popular alternate asset in India is structured products (equity-linked debentures and gold-linked debentures) which constitute 49% of total investment in Alternate Assets. The product had gained popularity in 2006 and 2007 and then faded with the crash in 2008. It was one of the most popular products among investors in FY12.

1) Structured Products

Structured products or market-linked debentures are products where majority of the money is invested in fixed-income securities and the smaller portion in derivatives linked to assets such as equities. These could be "traditional" asset classes such as stocks, stock indices, interest rates, foreign exchange, commodities, inflation or credit. They could also be more "exotic" underlying asset such as weather (temperature, snowfall), electricity, carbon credits, freight, dividends, property derivatives and volatility. However these exotic structured products are yet to take off in India.

Most of the structured products in India are capital-protected. In a capital-protected structured product, an investor gets back at least his principal amount at maturity irrespective of the performance of the underlying asset, subject to the credit risk of the issuer.

In India, mostly equity-linked and gold-linked structured products are available to HNIs.

Equity - Linked debentures

An equity-linked debenture is a hybrid structured product. The returns are linked to an index such as the Nifty or the Sensex or a basket of stocks. There is no fixed rate payout like other debentures which are usually linked to debt instruments.

The investor actually gets an exposure to equity returns even without actually buying equity. These debentures often offer a cap on returns that the investor will generate from the upside of equity.

The total assets in equity-linked debentures are estimated to be around ₹12,000 crore. Improved sentiment about equity markets and increased accessibility has contributed to the rise in the use of such products in the past few years.

Gold-Linked debentures

A gold-linked debenture is a structured product that comes with a pre-packaged investment strategy based on the underlying gold price. This product offers principal protection if held to maturity. At maturity, the payout on the structure is the original principal, plus any appreciation from the underlying asset, which in this case is gold.

The assets in gold linked debentures are estimated to be ₹ 150 crore.[20]

2) GOLD ETF

A Gold ETF fund purchases large amounts of gold, maintaining the physical metal in storage. The fund managers will then issue shares in baskets, the idea here is that the value of the shares will increase with the price of gold bullion. The amount of investments in Gold ETFs as on 31 March, 2012 is ₹ 4,483 crore. It witnessed a growth of 83% over the last year.

3) Real Estate Fund

Its a type of mutual fund that primarily focuses on investing in securities offered by real estate companies. It is a professionally-managed portfolio of diversified real estate holdings. When one invests in such funds, the investor essentially makes investments in the schemes of concerned firms, which in turn invest the money in upcoming or ongoing real estate projects. The returns from building and selling or leasing the projects are the gains that investors receive from the investment. The assets in real estate funds have decreased to around ₹ 9,300 crore[21] in FY12, down 9%, as compared to FY11 figure of ₹ 10,220 crore. The amount invested by individuals in these funds is estimated to be ₹ 3,569 crore.

4) Private Equity(PE)/Venture Capital Funds (VCF)

Private Equity funds typically make

---

20. Karvy Research
21. SEBI

investments in companies not listed on public stock exchanges. They offer high return opportunities due to their access to dynamic, privately held companies and their ability to create value in them. In India, over the years, private equity has gained in significance as they invest in smaller companies and exit when they gain in size, often at a hefty premium to their investment value. Much of the PE and VC industry in India is funded by overseas endowment funds, sovereign funds and other such investors. For an industry whose unique selling proposition is high returns to compensate for the relative low liquidity of its investments over long periods, it has not been able to deliver on this crucial promise. PE returns for India lag those in China both on an overall and realised basis. The assets in these funds are worth ₹ 18,767crore[22] and individual investment is estimated to be around ₹ 3,753 crore.

5) Art Funds

Globally, art funds are highly prized as an alternate class of investments by rich investors. Art funds are becoming extremely popular in India as well. Art investment funds offer investors a stake in a portfolio of artwork. People who are keen on investing in art can make their investments through art funds to diversify their investment portfolio. The art funds in India essentially operate like mutual funds, with people investing money in and the fund manager purchasing art with the collected money. These art works are bought through exhibitions or directly from the possessors. The profits obtained from the sale of these art works over time are distributed amongst the investors. The wealth held in these funds has increased 10% in FY12 to ₹ 289 crore.

6) Film Funds

These are funds which invest in production and marketing of films, considered by many as recession-proof. The fund sets up Special Purpose Vehicles (SPVs) to fund film projects. The revenues from the project are distributed among investors. The returns depend on the success of films in which the investors' money is invested. These funds have become quite popular in India with many funds being launched in the past few years and also as some production houses planning their own film funds. The total wealth in film funds is ₹ 853 crore[23] of which individual wealth amounts to ₹ 171 crore.

Table 13: Alternate Assets

Type of Asset	Amount (in ₹ crores)
Structured Products	12,150
Gold ETF	4,483
Private Equity	3,753
Real Estate Fund	3,569
Art Funds	289
Film Funds	171
Total	**24,415**

These investments form 0.26% of total wealth of individuals in India.

22, 23. SEBI

SECTION 5:
INDIVIDUAL WEALTH – INDIA VERSUS GLOBAL

In an ideal world, the wealth held by Indian individuals in various asset classes would be similar to the global proportion. However, presently the proportion of wealth held by Indian individuals across various asset classes is slightly different as compared to globally.

Table 14 : Individual Wealth – India Versus global based on Asset Class

Name of Asset	Global Wealth (%)	Indian Wealth (%)
Equities	35.5	27.4
Debt	61.7	72.3
Alternate Assets	2.8	0.3
Total	**100**	**100**

The above table shows the proportion of investments across asset classes by individuals in India and globally. It is evident that investment in debt instruments is highest among asset classes both globally and in India.

Globally, the proportion of individual investments in equity has dropped from 40.7% in FY11 to 35.5% in FY12 because of high volatility in global markets and challenging macroeconomic conditions whereas a proportion of debt instruments have increased from 53.1% to 61.7%.

In India the trend is similar to global trends where the proportion of equities has gone down and debt has increased, in FY12. In the long term over a decade, we foresee the proportion across various asset classes to almost replicate the global proportion.

SECTION 6:
GOLD - THE WAY AHEAD?

Gold has always been a symbol of prosperity, wealth, and trust. Gold has been a part of our life all through the ages. Many in the western world wonder why Indians stack up on gold despite the fact that it is a non-interest bearing asset. The answer is simple: Indians know something that the world doesn't know about gold.

Estimates vary, but the consensus is that Indian households possess more than 25,000 tonnes of gold. At the current price of $1750 an ounce, this vast holding is valued at a staggering $1.407 trillion. This is of course excluding RBI's gold reserves of 557.7 metric tonnes, and other inventories held by trusts and places of worship. It was recently discovered that the hidden treasures of gold in the Sree Padmanabhaswamy temple located in Thiruvananthapuram were worth $26.76 billion. The Tirupati Venkateswara Temple, one of the wealthiest temples in India has some $7.14 billion in gold, coins and other assets.

For Indians, gold represents the ultimate storehouse of economic value. It is an asset that is virtually liquid, and enhances the societal stature of the owner. Gold is the only commodity-cum-currency that has delivered positive annual returns for a decade now. In the last five years the yellow metal has generated a CAGR of 19.66%. India and China will continue to be the big markets for precious metals and gold jewellery in particular.

As the Fed continues to hold interest rates at current levels until the end of 2014, and global central bank pumping money, there will be too much money chasing too few goods, causing inflationary pressure. That will hold up gold prices.

Gold will always maintain its purchasing power. The race among countries to maintain bigger gold reserves resembles the cold war nuclear stockpile one-upmanship.

Gold is omnipresent. It has always been associated with mankind from time immortal; and is indeed the real wealth (money). In India, owing to various beliefs, making us purchase gold in various forms apart from the new found acceptance of gold as an investment option (ETF, Mutual Fund, e-Gold), we see that a good proportion of physical assets will continue to get invested in Gold.

SECTION 7: REAL ESTATE

In many countries, real estate investment performance statistics for FY12 showed increased activity. The value of real estate around the world seems to be inching up after the battering of 2008. Are investors rethinking the role that they want real estate to play in a diversified investment portfolio? The answer will be different for different types of investors, but the challenge to the industry is to provide the investment product that meets the risk-return appetite of investors. It is clear that in the years leading up to the crisis, real estate valuations became significantly detached from fundamentals, and financial realities leading to asset bubbles in many markets. Values became far more sensitive to capital flows than to the underlying operating performance of the assets. The core characteristics of real estate, such as a reliable income stream and close correlation to GDP, were eclipsed in the majority of developed economies by speculation on liquidity and leverage-fuelled re-pricing of the asset class.

One direct consequence is that institutional investors have become increasingly risk-averse, refocusing on underlying asset-fundamentals, and perhaps becoming more sophisticated in their consideration of volatility, risk and return. This topic has featured on the agenda of nearly every industry event in the second half of 2010, and remains high on the agenda of CIOs across the industry. Some forward-thinking research departments are already well advanced in defining new approaches to assessing real estate risk, return and portfolio volatility. We expect that communication between fund managers and investors will increasingly include this type of information. Funds adopting investment strategies and performance reporting based on this may well be the winners in attracting new investment into the sector.

Downturn and sales pressure has infused new standards - Improved construction quality, enhanced market transparency, and availability of suitable options have made real estate a good asset class to invest in. It provides a stable and predictable income yield along with a possibility of capital appreciation. While residential markets in India have already witnessed a rapid bounce back, commercial markets had touched a cyclical low and are expected to recover by FY14.

Real estate investments includes land, properties, buildings, and apartments, but excludes property for self-use like your home. In a developing country like India, there is a large portion of land where modernisation and industrialisation is still under way. Hence there are many investment opportunities available, especially in smaller cities, towns and rural areas, where real estate is significantly undervalued. The key is to identify such opportunities at the right time and reap the benefits of higher value in the future.

There are a number of ways you can invest in real estate; directly in property, in stocks of real estate companies or even invest through real estate funds. Most Indians prefer investing directly in real estate, as not only is it often considered to be a matter of pride and social status but also usually has a very high growth rate. It is a great investment option as you can earn regular rental income and also benefit from the expected capital appreciation. As lucrative as it does sound to invest in real estate, it is a risky asset class.

Real estate is an asset class that has low liquidity; hence you must take into consideration the timeline of a financial goal at the time of investment. It is very important to exit well in time to meet your financial commitments so that you are not compelled to sell in distress for a lower price.

Real estate is considered to be a long term investment, as most often it is expected to give better returns in the longer run, thus you should take your investment time horizon into consideration before investing. Your investment in real estate can also generate a regular rental income and provide a steady cash flow.

SECTION 8: FUTURE OF INDIA'S WEALTH

The Indian economy has been quite resilient and has managed to withstand the global turmoil and keep its head above water. India's large domestic market and the economy's strong fundamentals go a long way in keeping it insulated from global headwinds. India's GDP for FY12 is ₹ 89 lakh crore and it is expected to grow to ₹ 101 lakh crore by FY13 at a growth rate of 13.95%. The size of Indian Economy in FY12 was $1.84 trillion at current prices. A growth of 13.95% would translate that the economy would expand to around $2.09 trillion in FY13.

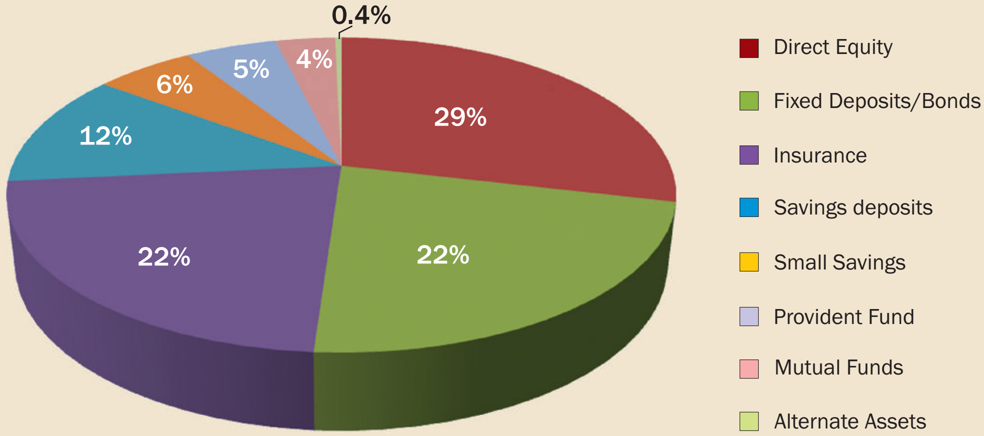
Savings rate of India's households is about 33.3% at the end of March 2012. India's gross domestic savings rate has increased near steadily over the years and is among the highest in the world in the recent times. The savings rate of the country is comparable to Indonesia, Thailand and Korea but lower than that of China, Malaysia and Singapore. Countries like the US and the UK had their savings rate as low as 11% levels in 2009, while the rate is 17% for France and 21.4% for Germany.

India's household savings, which have fuelled growth over the last few years, have dropped to below 10% of gross domestic product in FY12, or national income, for the first time in 13 years, as soaring inflation ate into disposable income. This is expected to bounce back to 10% plus levels in FY13.

Financial Household Savings is expected to grow at an average rate of 11.3% in the next five years. Individual wealth is expected to grow from current ₹ 92.26 lakh crore to ₹ 214 lakh crore by FY17. Additional wealth comes in the form of return on exisiting investment and new investment.

The insurance industry has been growing at an average rate of over 22% for the last decade. Investments in insurance come not only in the form of new policies sold, but also renewal premiums which are higher than first year premium. Wealth held by individuals in insurance is expected to grow at a CAGR of 21% in the next 5 years.

Figure 10: Projected Asset Class wise Distribution in FY17



Equity is expected to continue to be the biggest asset class by 2017. Nearly 30% of individual wealth will be invested in equities. About 22% of the wealth will reside in FDs and bonds.

Alternate assets will grow more than 3 times by FY17 as compared to current 0.3% of the total individual wealth.

KEY TRENDS

1. Total individual wealth in India is expected to double to ₹ 179 lakh crore in the next four years by from the current ₹ 92.26 lakh crore.

2. Investments in direct equity would form 28.7% of total asset in FY17 as compared to 25.5% in FY12. This would reflect the increase in confidence of investors in stock markets and will be the single largest sub - asset class.

3. The insurance industry has been growing at an average rate of over 22% for the last decade. Investments in insurance come not only in the form of new policies sold, but also renewal premiums which are higher than first year premiums collected. The wealth held by individuals in insurance will grow at a CAGR of 21% in the next 5 years.

4. Though Alternate Assets which includes Structured Products, Private Equity, Venture Capital Funds, Gold ETFs, Film and Art Funds had been flat in FY12, are expected to grow by more than 3 times by FY17.

5. With the expansion in the organised sector workforce, India's pension fund market is set to grow at a rapid pace in the coming years.

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 and offices across India, Dubai, New York, Singapore and more than 400 franchisees all over the country. The group operates multiple businesses – stock broking, IPO marketing, registry and transfer of shares, depository participants, insurance broking, mutual fund distribution and commodity broking among others– and is ranked among the top five in most of these businesses. The KARVY Group services 60 million individual investors in various capacities, and provides investor services to over 400 corporates.

All this has been built upon the Group's unwavering commitment to integrity and transparency in all its dealings - a fact all our customers attest to. Out of this very culture of success has emerged Karvy Private Wealth, the wealth management arm of the KARVY Group. Karvy Private Wealth focuses on providing wealth management advisory services to High 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 and 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.

The KPW 3-S Service promise: Besides getting intelligent & practicable Investment Advice, you get the benefit of “The KPW 3-S Service Promise” :

- Smooth and Hassle Free – Attention, Service & Convenience
- Smart and proactive – Portfolio monitoring and tracking
- Smart –Incisive insights on markets and Investment products

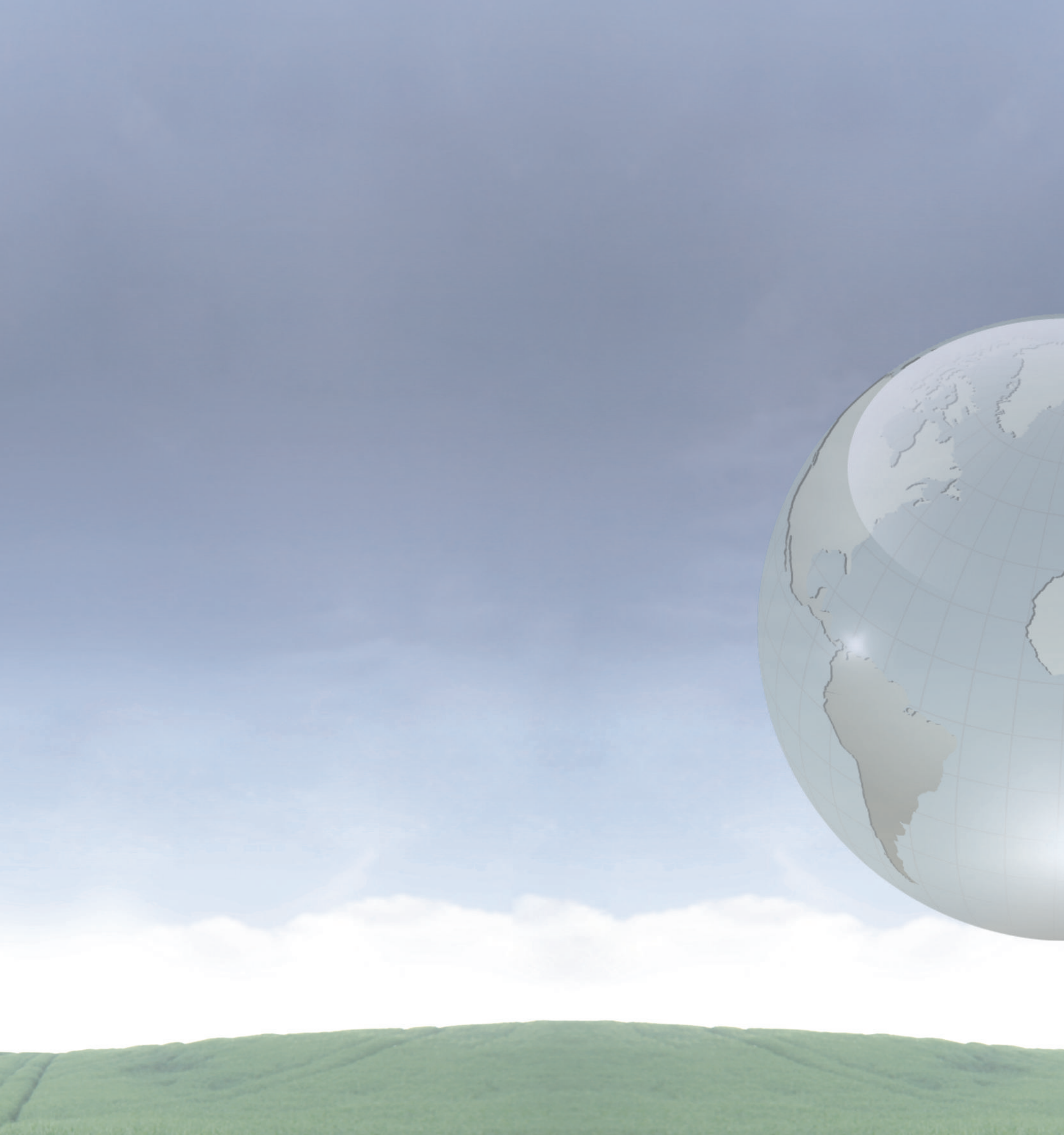
DISCLAIMER

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”