VOLUME 10 | OCTOBER 2019
FOR PRIVATE CIRCULATION ONLY

KARVY PRIVATE WEALTH

INDIA
WEALTH REPORT
2019

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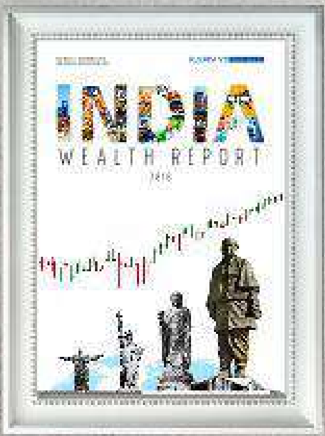
$ 5 TRILLION ECONOMY



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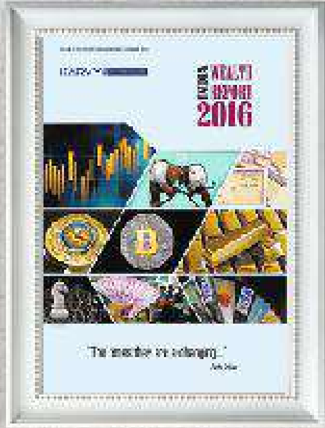

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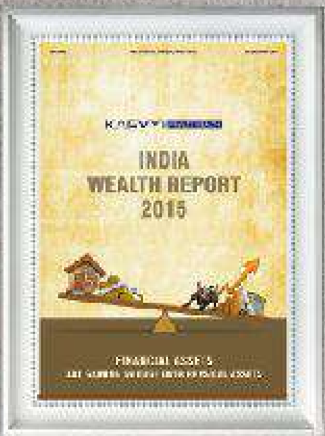

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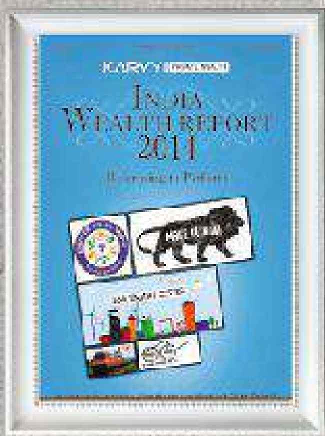

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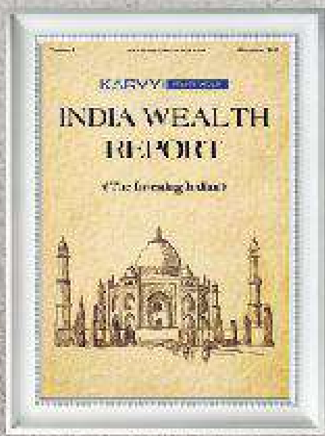

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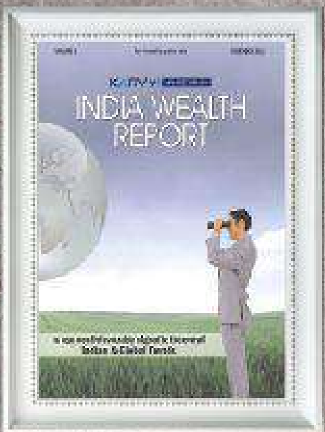

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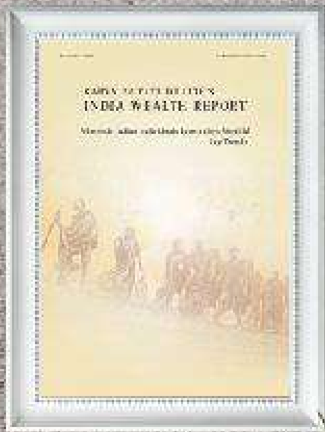

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Foreword

KARVY PRIVATE WEALTH

The India Wealth Report 2019 marks a decade since the first annual report was published by Karvy Private Wealth in 2010. It gives me great pleasure to present the 10th edition of the Indian Wealth Report. The report provides a thorough insight into the investment themes preferred by individual investors in FY19, a detailed analysis on the asset and sub-asset class wise distribution of their wealth, while spelling out the dynamics and drivers of each investment theme. I am certain that the report will be appealing and useful to all the stakeholders in the financial domain as well as for the individual investors.

We believe that the drive to make India become a US $5 trillion economy by 2024 will, for most part, stem from high growth in the manufacturing and services sector. This will lead to the growth in individual wealth and we estimate that Tier 2 & 3 cities will have a significant contribution to the development story and as a result would witness elevated investments, primarily in financial assets.

In FY19, financial assets continued their growth trajectory and maintained the pole position in the distribution of wealth in India. This reconfirms the trend forecast of the shift from investments in physical assets to financial assets as, first identified in the India Wealth Report 2015. We are expecting this trend to continue through the next decade. Direct equity maintained the leading position among the financial assets, despite growing by only 6.39% in FY2019. The recent landmark move by the Finance Minister, to reduce corporate tax, will give a generous fillip to our ailing economy and will have a positive effect on the equity markets. The tax-reduction will lead to increase in productivity as it is an investment-led rather than expenditure-led consumption stimulus, which is more sustainable from a long-term growth perspective.

On the Global front, the US–China trade war, sanctions on Iran and the Brexit issue have resulted in dampened investor sentiment and an increase in volatility and uncertainty. This led the World Bank to revise its global GDP growth forecast from 3% to 2.6% in 2019, whereas on the Domestic front, the liquidity crisis and the slowdown in consumption have resulted in similar consequences, with Q1 GDP growth in FY20 dropping to a 6-year low of 5%. We believe that this trend is short-term and would be overturned by powerful measures and reforms being undertaken by the Government to tackle this problem.

A wide variety of investment avenues in India often confuses the investors. To demystify the Indian investment landscape, in this India Wealth Report 2019, we have arranged the various asset classes and investment avenues in a "smart way" where S.M.A.R.T stands for Safe, Market Linked, Alternative Investments, Retirement Planning and Tax Saving investments.

Over and above the analysis and forecast of trends across all physical and financial asset classes, we have penned down 4 Exclusive Notes to discuss contemporary themes of Wealth creation and the subsequent investment of this wealth:

1: A million millionaires in a US$ 5 trillion economy
2: Small but mighty wealth creators (MSME)
3: India, Bharat and Beyond
4: Changing trends in NRI Investments

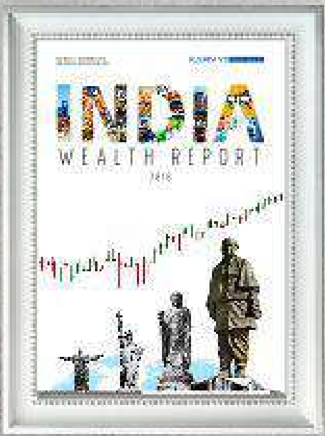
Karvy research projects that by FY24 the total individual wealth in India will have a strong growth of 13.619% p.a to reach ₹ 799 lakh crore, which is nearly twice the current wealth holdings by individuals; wherein the lead of the Financial Assets over the Physical Assets will be a significant proportion at 66% vs 34%.

Please read on to know all the details, I am certain that you will find the India Wealth Report 2019 useful both as a reader and as an investor. Please write to me at abhijit1.bhave@karvy.com with your valuable feedback.

Happy reading & happy investing

Abhijit

Abhijit Bhave
CEO
Karvy Private Wealth



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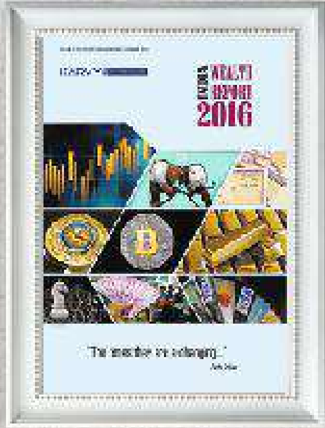

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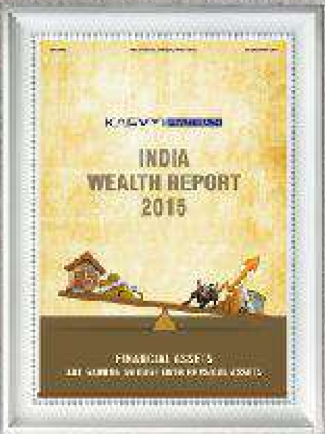

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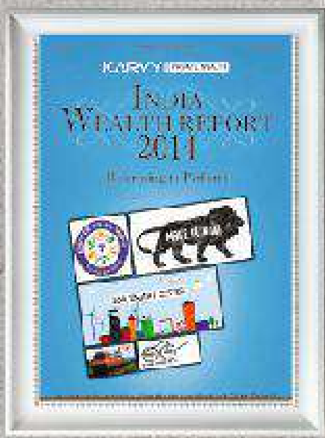

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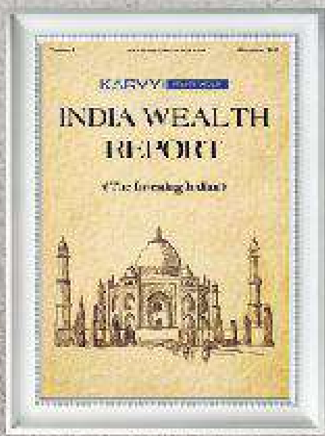

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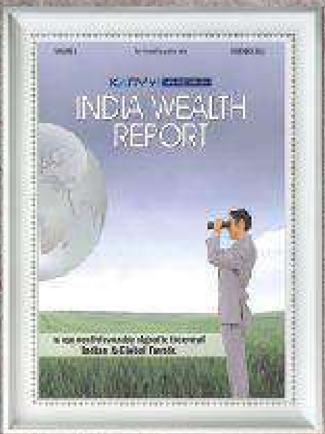

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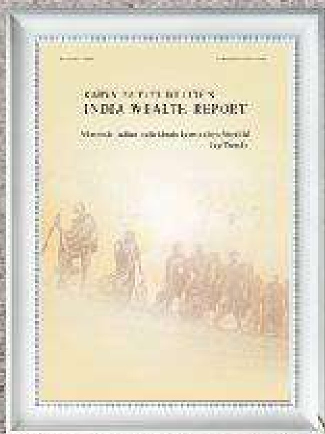
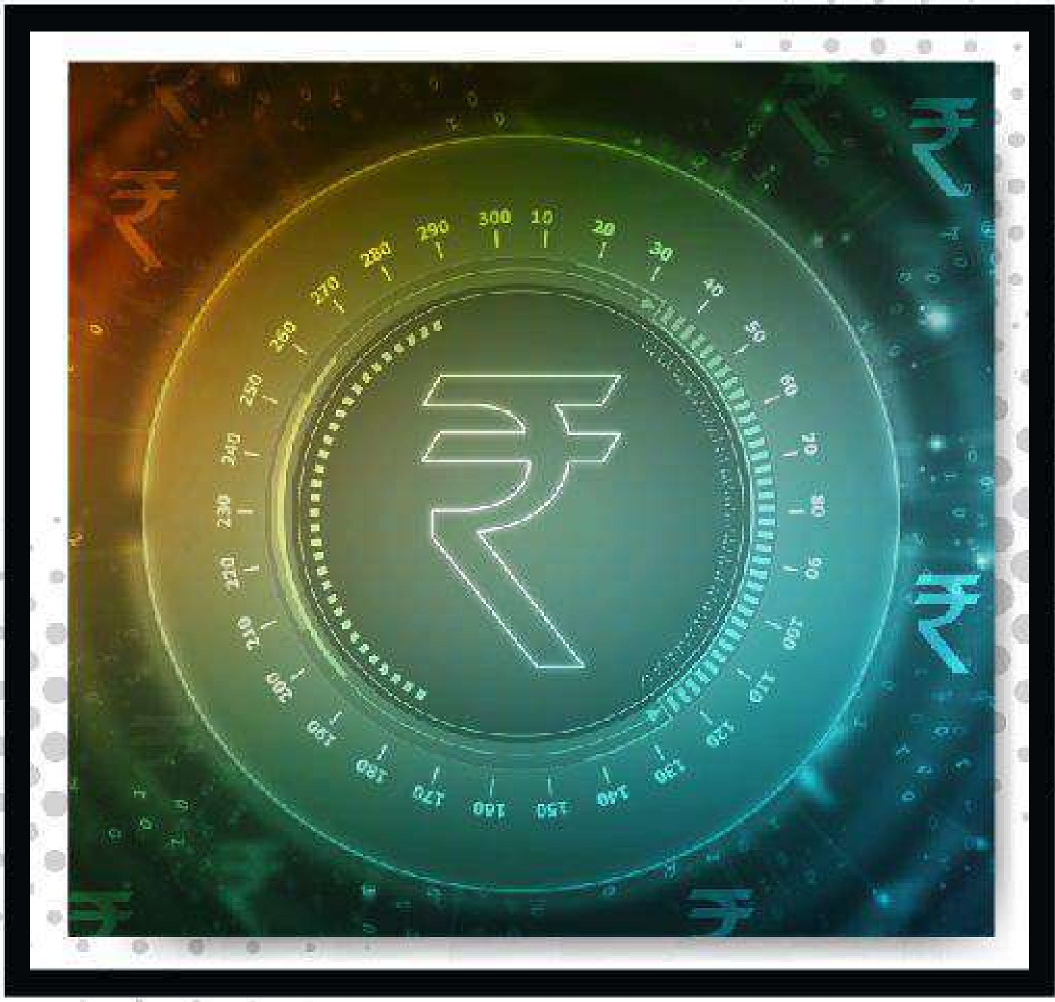


2010

TABLE OF INDEX



SECTION 01

EXECUTIVE SUMMARY

Over the last decade...

Karvy Private Wealth's India Wealth Report (IWR) has proven to be a guide for both observers and investors in the financial markets about the composition and trends in the Global and domestic wealth holdings of Indian individual investors.

In this report it is our endeavour to track every rupee invested, in every asset class, by every individual in India. The purpose of the report is to understand the overall wealth distribution and the key movements among the asset classes in India and also project the future trends. The India Wealth Report 2019 (IWR 2019) has been prepared after thorough analysis of the quantitative data culled out from a wide variety of sources. This was combined with qualitative discussions with the Karvy Research team to identify major changes in the last financial year and to estimate the future trends.

The Worldwide wealth graph shows a downward trend in the last year and a 3% fall in the Worldwide HNI population, primarily due to the decrease in the equity market valuation combined with the slowdown in the Global economic growth. In contrast we find that there was a 9.62 % rise in individual wealth in India to ₹430 lakh crore in 2019. The rise in wealth was on the back of higher domestic participation in the capital markets, mutual funds and a rise in the gold prices. A distinctive move was also witnessed towards alternative investments (having low correlation with other asset classes) which have become an attractive investment option for the high net-worth individuals (HNI)* population. Going forward, we anticipate a reduction in global volatility and renewed equity flow to India. According to the World Bank study, worldwide GDP growth is projected to ease to 2.60% in 2019, before reaching 2.70% in 2020.

*HNIs are defined as those having investable surplus of USD 1 million or more investable surplus excludes primary residences, collectibles, consumables, and consumer durables.

Individual wealth in India grew by 9.62% in FY19 to ₹430 lakh crores. The major growth rate of 10.96% was seen in Financial Assets as compared to Physical Assets, which grew by 7.59%. In the last 5 years the HNI population in India has grown by 64.10% to reach 256,000 in 2018 from 156,000 in 2014[1].The distribution of the individual wealth in India is mainly biased towards the metros with Mumbai and Delhi being home to over 70%[2] of the ultra high net-worth Individuals (UHNI)* population.

Table 1: Total Individual Wealth in India in FY19

Category	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18	Proportion FY19 %	Proportion FY18 %
Financial Assets	2,62,10,624	2,36,22,167	10.96	16.42	60.95	60.21
Physical Assets	1,67,94,231	1,56,10,118	7.59	9.24	39.05	39.79
Total	**4,30,04,855**	**3,92,32,285**	**9.62**	**13.45**	**100**	**100**

5 years trends of Individual Wealth in India

There has been a talk of increased financialisation of savings in the recent past. Evidence of this has been clearly seen in the last five years of our India Wealth Report. The proportion of financial savings has gone up from 57.25% to 60.95% in last 5 years. We expect a continued shift towards financial assets in India in near future as well.

Table 2: Wealth trend of last 5 years

Category	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	FY17 Amount (₹ Crore)	FY16 Amount (₹ Crore)	FY15 Amount (₹ Crore)
Financial Assets	2,62,10,624	2,36,22,167	2,01,14,718	1,77,88,216	1,60,55,686
Physical Assets	1,67,94,231	1,56,10,118	1,42,89,371	1,32,26,838	1,19,89,287
Total	**4,30,04,855**	**3,92,32,285**	**3,44,04,089**	**3,10,15,054**	**2,80,44,973**

Table 3: Wealth Allocation trend of last 5 years

Category	FY19 %	FY18 %	FY17 %	FY16 %	FY15 %
Financial Assets	60.95	60.21	58.47	57.35	57.25
Physical Assets	39.05	39.79	41.53	42.65	42.75
Total	**100**	**100**	**100**	**100**	**100**

Source: 1 Capgemini World Wealth Report 2019
2 The Wealth Report 2019 by Knight Frank

*Ultra-HNIs are those having USD 30 million or more investable surplus excludes primary residences, collectibles, consumables, and consumer durables.

Individual Wealth in Financial Assets

The individual wealth in financial assets witnessed an increase of 10.96% and grew to ₹262 lakh crore in FY19 as compared to ₹236 lakh crore in FY18. Again like last year, the Top 5 destinations for investment allocation were Direct Equity, Fixed Deposits, Insurance, Saving Accounts and Cash with a total of 72.33% contribution in overall financial assets.

In FY19, the investments in direct equity moved up by 6.39% despite volatility & bank deposits saw a stable growth of 8.85%. The popularity of Mutual Funds (MFs) as an investment vehicle has collected speed which is evident from higher systematic investment plans (SIP) flows and an exponential increase in AUM size, which stood as a cushion for the capital markets. The data shows that there is a net inflow of ₹ 92,693 crore[3] in MFs through SIPs which is a 38% increase when compared to FY18.

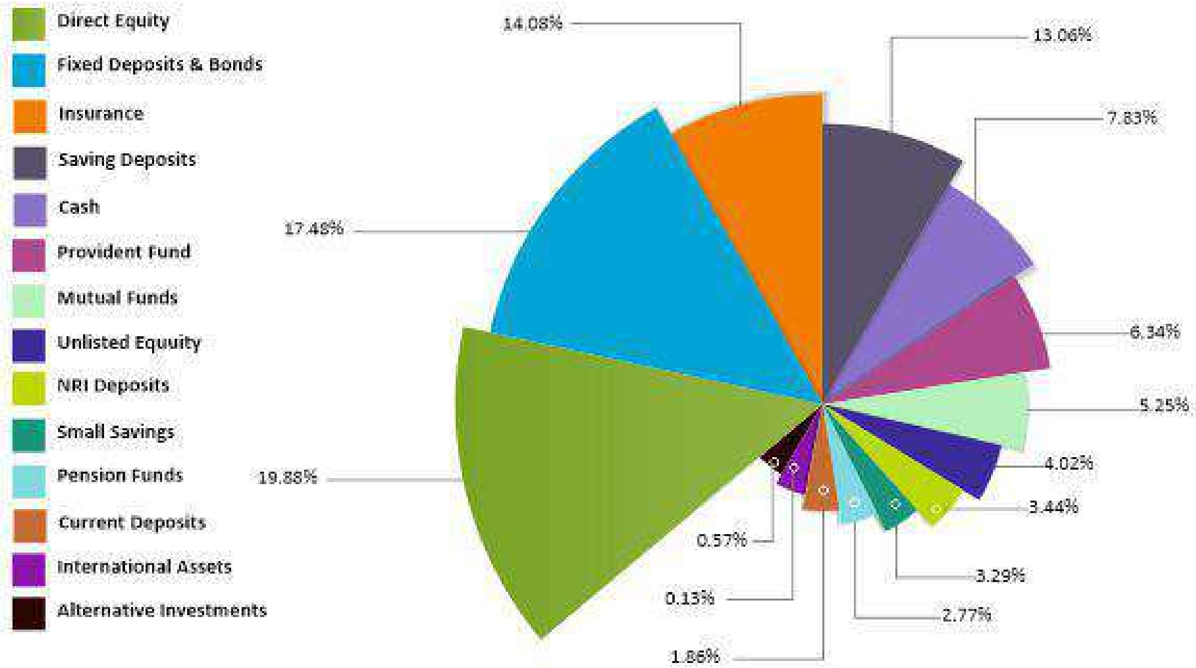
Table 4: Classification of Individual Wealth in India in Financial Assets

Financial Assets	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18	Proportion FY19 %	Proportion FY18 %
Direct Equity	52,10,394	48,97,574	6.39	30.32	19.88	20.73
Fixed Deposits & Bonds*	45,82,098	42,09,745	8.85	4.86	17.48	17.82
Insurance	36,90,729	33,35,713	10.64	11.14	14.08	14.12
Saving Bank Deposits	34,22,381	30,96,806	10.51	7.39	13.06	13.11
Cash	20,52,220	17,59,712	16.62	31.79	7.83	7.45
Provident Fund	16,62,863	14,46,366	14.97	10.89	6.34	6.12
Mutual Funds	13,77,036	11,67,954	17.90	34.50	5.25	4.94
Unlisted Equity	10,54,325	9,55,930	10.29	36.83	4.02	4.05
NRI Deposits	9,02,087	8,19,725	10.05	8.26	3.44	3.47
Small Savings	8,61,047	7,57,058	13.74	13.40	3.29	3.20
Pension Funds	7,24,907	5,94,550	21.93	25.11	2.77	2.52
Current Deposits	4,87,281	4,30,935	13.08	4.30	1.86	1.82
Alternative Investments	1,49,118	1,24,073	20.19	33.46	0.57	0.53
International Assets	34,138	26,027	31.16	25.84	0.13	0.11
Total	**2,62,10,624**	**2,36,22,167**	**10.96**	**16.42**	**100**	**100**

* Fixed Deposits includes - Bank+ NBFC & RNBC + Corporate Deposits + Bonds

Source : 3 AMFI

Figure 1 How Financial Wealth reshaped in FY19.



Last year despite the volatility in equity markets, liquidity and credit quality issues in debt markets; AUM of equity mutual funds grew by 20.27% to ₹ 9.53 lakh crore and debt mutual funds AUM by 12.89% to ₹4.23 lakh crore. Total individual wealth in mutual funds in India in FY19 stood at ₹13.77 lakh crores which is an increase of 17.90% over the previous year.

Alternative Investments have caught flavour with the Indian investors who are looking for diversification, resulting in growth of alternative investments to 1,49,118 crore which is 20.19% growth as compared to last year.

We witnessed around 31.16% increase in exposure to international assets, albeit on a smaller base. Awareness of the benefit of international diversification in combination with a faster depreciating rupee vis-à-vis US Dollar would be the likely cause.

Individual Wealth in Physical Assets

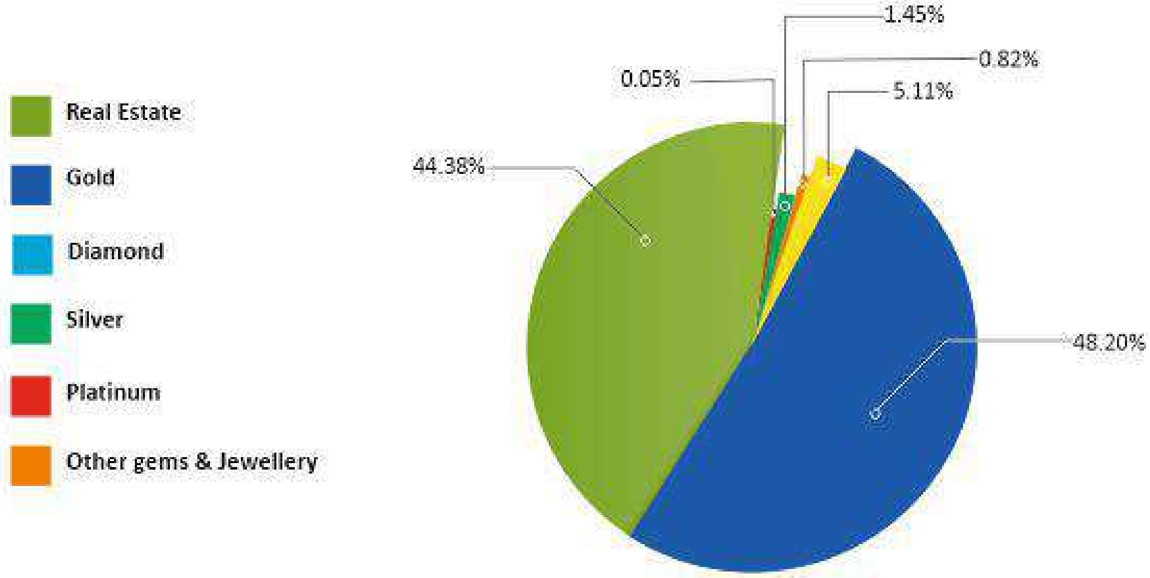
In FY19 the individual wealth in Physical assets increased by 7.59% with Gold and Real Estate together covering 92.57% of this space. This fiscal year the total wealth held by individuals in physical form stood at ₹ 167 lakh crores.

Table 5: Classification of Individual Wealth in India in Physical Assets

Physical Assets	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18	Proportion FY19 %	Proportion FY18 %
Gold	80,94,187	74,51,305	8.63	8.85	48.20	47.73
Real Estate*	74,52,944	69,56,802	7.13	10.35	44.38	44.57
Diamond	8,58,156	8,38,142	2.39	5.00	5.11	5.37
Silver	2,42,771	2,24,276	8.25	-2.03	1.45	1.44
Platinum	8,517	7,683	10.86	9.78	0.05	0.05
Other Gems and jewellery	1,37,656	1,31,911	4.36	24.61	0.82	0.85
Total	**1,67,94,231**	**1,56,10,118**	**7.59**	**9.24**	**100**	**100**

*It may be worthwhile to note that for the purpose of this report, primary residence and commercial properties are not considered.

Figure 2 How Physical Wealth reshaped in FY19.



Classification of individual wealth in Key Asset Classes

In terms of asset allocation, FY19 saw an overall growth in equity investments by 8.84% as against 29.09% growth last year. This is on the backdrop of various socio economic factors such as the US & China trade war, depreciating rupee, liquidity crisis in India and slow consumption demand. Debt investments have shown a growth rate of 11.83%. Real estate remained under pressure but still managed to grow by 7.13%.

Table 6: Classification of Individual Wealth in India in Key Asset classes

Physical Assets	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18	Proportion FY19 %	Proportion FY18 %
Equity	81,25,252	74,65,296	8.84	29.09	18.89	19.03
Debt (including cash)	1,78,49,707	1,59,61,406	11.83	12.47	41.51	40.68
Alternate Assets*	95,76,952	88,48,781	8.23	8.71	22.27	22.55
Real Estate	74,52,944	69,56,802	7.13	10.35	17.33	17.73
Total	**4,30,04,855**	**3,92,32,285**	**9.62**	**13.99**	**100**	**100**

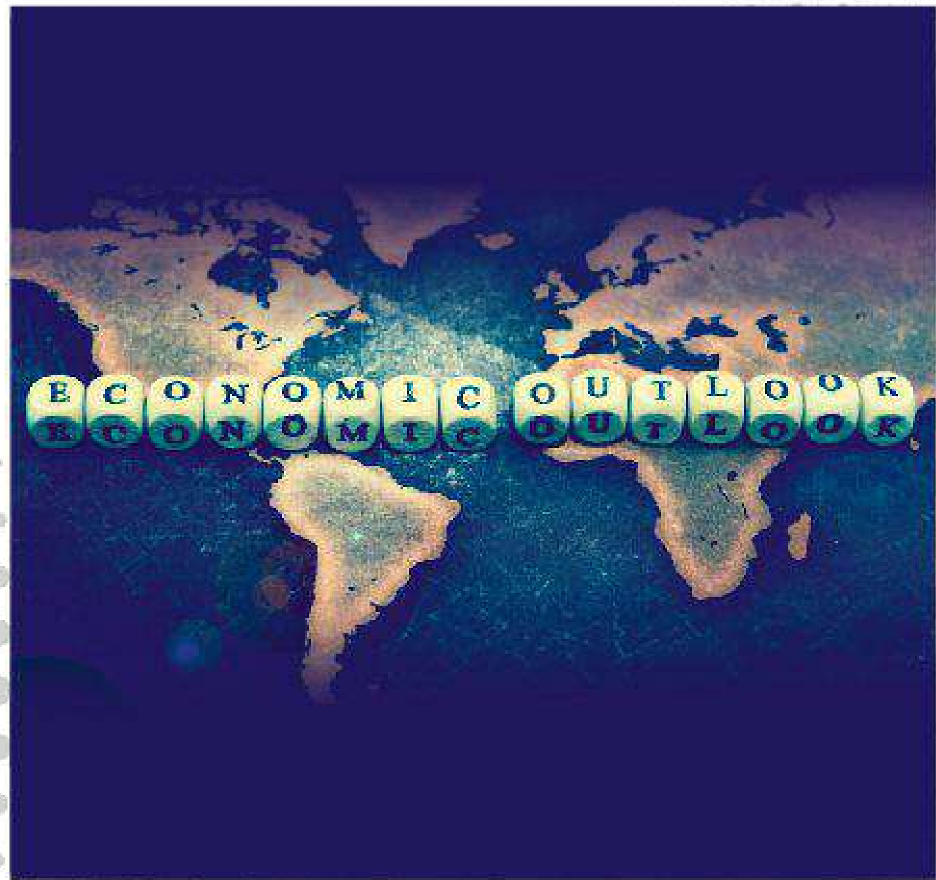
*Alternate Assets includes Gold and other Precious Metals & Gems

Future of Individual Wealth in India FY24

By FY24 the total individual wealth in India is estimated to have a healthy growth rate at a CAGR of 13.19% to reach nearly ₹ **799** lakh crores from the current wealth of ₹ 430 lakh crore. The allocation to Financial Assets is estimated to be 66.11% while the allocation to Physical Assets would be 33.89%.

Table 7: Individual Wealth Forecast in FY24

Physical Assets	FY19 Amount (₹ Crore)	FY24 Amount (₹ Crore)	CAGR %	Proportion FY19 %	Proportion FY24 %
Financial Assets	2,62,10,624	5,28,16,171	15.04	60.95	66.11
Physical Assets	1,67,94,231	2,70,78,359	10.03	39.05	33.89
Total	4,30,04,855	7,98,94,530	13.19	100	100



SECTION 02

ECONOMIC
OUTLOOK

The slowdown in India's economic growth since the second half of FY19 was a consequence of global and domestic factors resulting in the lower GDP growth numbers; i.e. from 7.2% in FY18 to 6.8%[4] in FY19. Globally, the escalating US-China trade war has had a domino effect on other economies. The US GDP growth decelerated in 2Q2019, while subdued GDP growth was witnessed in Europe. Slowing external demand and declining industrial production cast its shadow on the emerging economies too; Chinese GDP growth decelerated to multi year low while the Brazilian economy struggled and economic growth in Japan remained muted in FY19. Other major asian economies like Singapore, South Korea and Thailand faced contractions in GDP growth. The World Bank has projected the global growth at 2.6% in 2019. Slower economic growth and low inflation scenario has forced the Central banks across the Globe to go for monetary easing which indicates further interest rate cuts in times to come.

Anaemic rural consumption, declining auto sales and loan rationing in the aftermath of liquidity problems in the NBFC space has caused the Indian economic growth to decelerate. The escalating trade war between US and China has impacted our exports. A resurgence of development requires reduced interest rate scenario and enhanced liquidity in the system. The transmission of RBI rate cuts, restoration of public sector banks (PSBs) and providing financial sufficiency for the manufacturing sector would assure cyclical recovery in FY21. The drop in oil prices globally, low bond yields and benign inflation will act as tailwinds for the Domestic economy. We foresee RBI would undertake further rate cuts of 25-50 bps in FY20, to push the decelerating domestic GDP, towards the 7% plus mark. The 2019 Economic Survey of the Finance Ministry reiterated the need to kick-start the Investment cycle in India. In the next five years, the government has indicated a capital outlay of ₹1 lakh crore led by expenditure in infrastructure on highways, inland waterways and affordable housing.

We expect that the US and China would reach a trade truce in the near future. US Fed will continue with lower interest rates in FY20, while China is expected to undertake major financial reforms and easy monetary policy to maintain growth rate of above 6%. This will prove to be positive for the Global economy. An amicable Brexit and Germany loosening its fiscal purse along with more assets buying program will help the World economy. On the Domestic front the Government is targeting India's GDP to reach US$ 5 trillion by FY25. This will be supported by growing middle class, favorable demographics, increase in rural income and the Government's push towards infrastructure. The recent positive move to stimulate the economy by undertaking fiscal stimulus by reducing corporate tax rates will surely provide impetus to the entire economy. On the Macro front, India is in a stable position with the twin deficits under control, low interest rate scenario and low inflation. Inflation is projected at 3.4-3.7% for the 2nd half of FY20 and an expectation of a higher GDP growth is on the cards as we expect a pickup in economic activities coupled with a lower base effect. We estimate that the Brent crude prices will remain around the US$ 65 per barrels mark while the rupee would stabilize around the 71 mark vis-à-vis USD in FY20. Going forward we estimate that the growth rate in India will pick up pace again and India will outshine its peers in 2020.

Source : 4 RBI

SECTION 03

GLOBAL PRIVATE FINANCIAL WEALTH

The major global market indices closed in red in 2018, with the benchmark indices falling by as much as ~15%. There was a 3% decrease in wealth of the Worldwide high-net-worth individuals (HNI)[5] on the background of the declining equity market indices combined with the slowdown in the Worldwide economic growth. We have seen a significant decrease in wealth for South East Asia and Europe while the only sweet spot was the Middle East region (witnessing a rise in HNI population). China contributed around 50 % of the total decrease in HNI assets of US$ 2 trillion, followed by Europe at 24 %[6].

Among the top four markets (covering 61% of the HNI population), the United States continued to dominate in 2018 as the number of HNIs increased by 1% from 5,285,000 to 5,332,000. On the other hand Japan, Germany and China lost on the HNI population count, with China having a negative growth rate of 5%, i.e. the population fell from 1,256,000 to 1,181,000[7]. With regard to the asset allocation, we note that cash / cash equivalent and safe haven assets such as gold substituted equities, to become the favoured asset classes for the incremental inflows. A unique move was also observed as alternative investments became an appealing investment option for the HNI population due to its low correlation to market volatility. Going forward, we anticipate that as the Global volatility ebbs in the second half of FY19, renewed flow into equity will commence.

Table 8: Global Individual Wealth in Key Asset Classes[8]

Key Assets	Proportion FY19 %	Proportion FY18 %
Equity	25.70	30.90
Debt (including cash)	45.50	43.00
Alternative Assets*	13.00	9.40
Real Estate	15.80	16.80
Total	100	100

*Alternate Assets includes Gold and other Precious Metals & Gems

Source: 5 - HNIs are defined as those having investable surplus of USD 1 million or more and ultra-HNIs are those having USD 30 million or more investable surplus excludes primary residences, collectibles, consumables, and consumer durables.

6, 7, 8 - Capgemini World Wealth Report 2019

SECTION 04

INDIVIDUAL WEALTH
INDIA VS WORLD

In India, as compared to worldwide asset allocation there has been a much lower preference for equity as an asset class. The low level of financial awareness is a significant cause but we think the situation is undergoing a paradigm shift with the latest efforts of the incumbent governments to emphasize on financial inclusion.

The Debt investments which includes cash holdings is on similar lines with the Global standards (41.51% in India vs 45.50% globally).The fall in yields globally had resulted in an increase in proportion in the Debt holdings by ~2%. over the last years.

The alternate asset category which includes gold, structured products, venture capital/ private equity funds and real estate funds stands at 13% globally while in India it is approximately 22.27%. The increase in the share of the alternative assets (13% growth in FY19 compared to 9.40% in FY18) globally is on the back of the crisis, volatility across geographies which harbored a shift towards the alternatives and away from volatile asset classes.

Real Estate proportion remained consistent in India while globally we see a change on the downside by ~1%. Going forward we believe that we will see domination of financial assets over the physical assets and incremental allocation to equity v/s physical alternative assets. This will lead to the Indian proportion being aligned to the global proportion slowly and steadily in the next decade.

Table 9: Individual Wealth - India vs World[9]

Key Assets	FY19 Proportion (%)	
	India %	Global %
Equity	18.89	25.70
Debt (including cash)	41.51	45.50
Alternative Assets*	22.27	13.00
Real Estate	17.33	15.80
Total	100	100

*Alternate Assets includes Gold and other Precious Metals & Gems

Source : 9 - Capgemini World Wealth Report 2019

SECTION 05

INDIVIDUAL WEALTH IN INDIA

On the domestic front, there have been a slew of government reforms in recent years. The expectations are that although the reforms like GST, Insolvency and Bankruptcy Code (IBC) and demonetisation had a negative effect on the GDP in short term, in the long run they will boost the GDP growth. The following table offers an insight into the wealth held by Individuals across physical and financial assets in India. In FY19, India's individual wealth rose to about ₹430 lakh crore, a 9.62 % increase on a Y-O-Y basis, compared to a 13.45 % increase in FY18 (almost ₹392 lakh crore).

Financial Assets grew at a faster rate of 10.96% whereas Physical Assets showed a growth rate of 7.59%. Financial Assets accounted for 60.95% of individual wealth and the balance 39.05 % was held in Physical Assets. This trend is likely to continue as we foresee investors moving more towards financial assets against physical assets, in the next decade.

Table 10: Total Individual Wealth in India in FY19

Category	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18	Proportion FY19 %	Proportion FY18 %
Financial Assets	2,62,10,624	2,36,22,167	10.96	16.42	60.95	60.21
Physical Assets	1,67,94,231	1,56,10,118	7.59	9.24	39.05	39.79
TOTAL	**4,30,04,855**	**3,92,32,285**	**9.62**	**13.45**	**100**	**100**

The Top Five allocations of individual wealth in FY19 were in Direct Equity, Fixed Deposits, Insurance, Saving Bank Deposits and Cash which was 72.33% of the total Financial Assets. The lackluster performance of equity in 2018 hit the investor sentiment and we saw a marginal increase in direct equity (6.39%[10] growth in FY19 compared to 30.32% in FY18). The increased volatility in the capital markets had its effect on the financial assets with Mutual Funds, Cash, Unlisted Equity all witnessing lower growth rates when compared to FY18. The alternative investments also saw lower growth (20.19% in FY19 compared to 33.46% in FY18). We witnessed around 31.16% increase in exposure to international assets, albeit on a smaller base; this can be attributed to the recent emerging market currency depreciation which has renewed the interest in the international investments.

Individual wealth growth in physical assets grew at a lower rate of 7.59% in FY19 as against 9.24% recorded in FY18. The trend of domination of Real Estate and Gold in the portfolio of individual investors in comparison with other physical assets continues with 92.57% of the entire allocation into Gold and Real Estate.

The recent slowdown in consumption, stress in the NBFC space and piling of unsold inventory cast shadow on the Real Estate sector, as we witness a deceleration in growth (7.13% growth in FY19 compared to 10.35% in FY18). Gold as a whole had a fairly decent run up and we see demand remaining constant in FY19. Going forward we may see an increase in allocation towards gold, if the volatility in the capital markets continue.

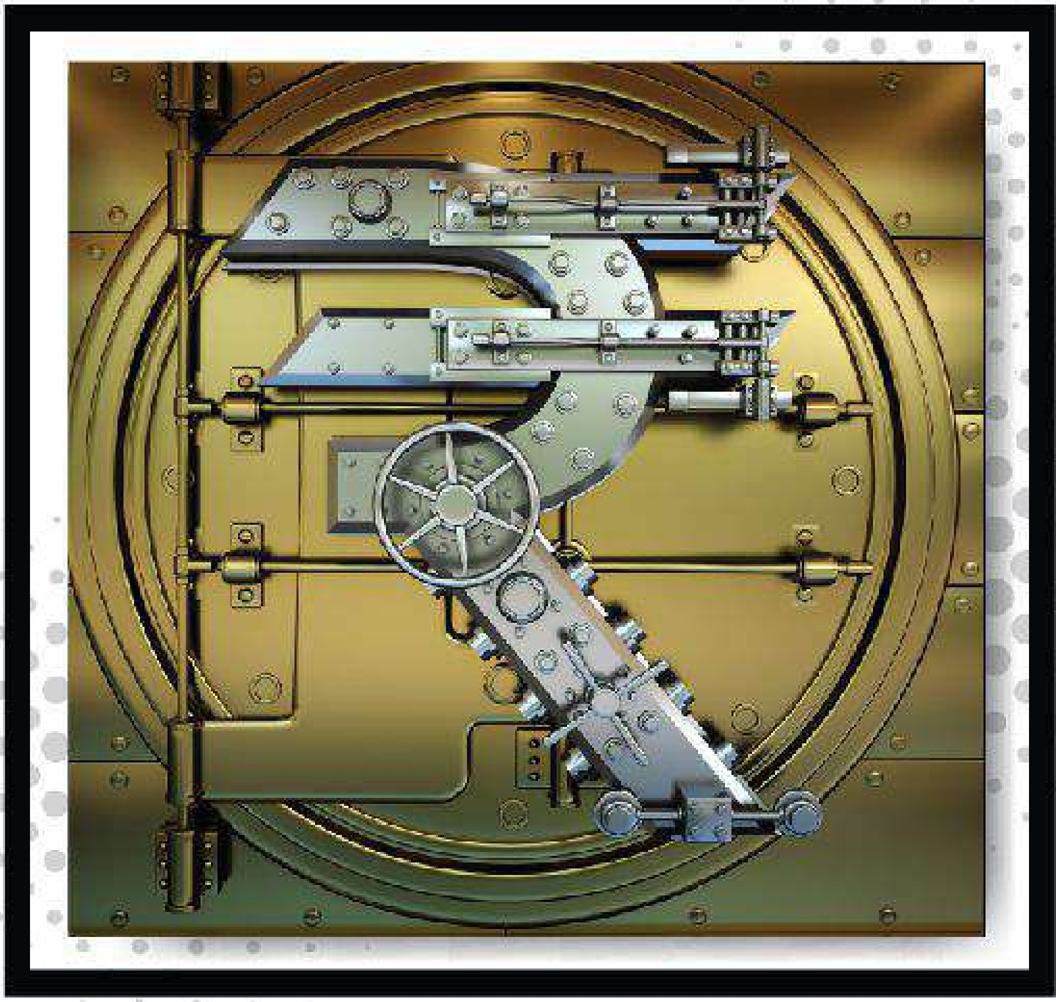
It is estimated that the individual financial wealth in India will almost double to ₹528 lakh crore by FY24 at a CAGR of 15.04%. Unlisted Shares, Direct Equity and Mutual Funds are expected to be the growth drivers of this northward trend, growing by 247% , 163% and 132% respectively over the next 5 years.

Source : 10 - BSE

SMART

Smart Investing is a term which is extensively used in wealth management. It signifies prudent investment; asset allocation and responsible investing by taking into account the risk and return matrix. We have defined the term SMART based on various asset classes and major investment avenues which have seen interest and investments in 2019 and are expected to remain among the top areas of focus for individual investors in the near future.

- **S** — SAFE
- **M** — MARKET LINKED
- **A** — ALTERNATIVE INVESTMENTS
- **R** — RETIREMENT PLANNING
- **T** — TAX SAVING



SECTION 6.1

SAFE

Safety is the most important aspect of investment. Traditionally, fixed deposits and Gold have been considered as safe investments and continue to be considered so even today. This theme signifies capital preservation.

6.1.1: Fixed deposits & Bonds

As we move onwards on our nation's journey of financial inclusion & financialisaton of savings, there is an increased interest to place money in fixed return debt instruments like fixed deposits from banks for broadly two categories of investors

1.First time bank account holders & savers who are learning the ropes of investments

2.Risk averse, conservative investors looking for a fixed & regular return

For a slightly higher interest rate return, we have also seen a move towards bonds & debentures issued by Government owned PSUs & highest rated corporates including NBFCs.

At the same time there is a movement away from fixed deposits from existing FD holders, who are looking to get a higher post tax return towards other instruments like mutual funds.

2018 was a year of turmoil for debt markets as defaults happened from large high rated entities like IL&FS and DHFL to name a few. The contagion effect created a scenario of distrust in the debt markets leading to liquidity drying up, especially for lower rated corporate entities. The equity market volatility combined with these debt market issues have made investors play safe and opt for bank fixed deposits and corporate debentures & bonds where they have clear 'credit quality' visibility. Further the expectation is that these bonds should benefit in terms of capital gains from the future interest rate cuts by the Reserve Bank of India.

Hence in FY19 we saw a good growth in bank fixed deposits and bonds & debentures but a slow growth in NBFC deposits and a negative growth in corporate deposits.

Table 11 : Break-up of assets held in Fixed Deposits and Bonds[11]

Category	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Fixed Deposits	44,18,151	40,64,745	8.69	7.17
Bonds & Debentures	1,26,812	1,08,316	17.08	30.91
NBFC Deposits	34,292	33,455	2.50	3.98
Corporate Deposits	2,843	3,229	-11.95	102.33
Total	**45,82,098**	**42,09,745**	**8.85**	**7.69**

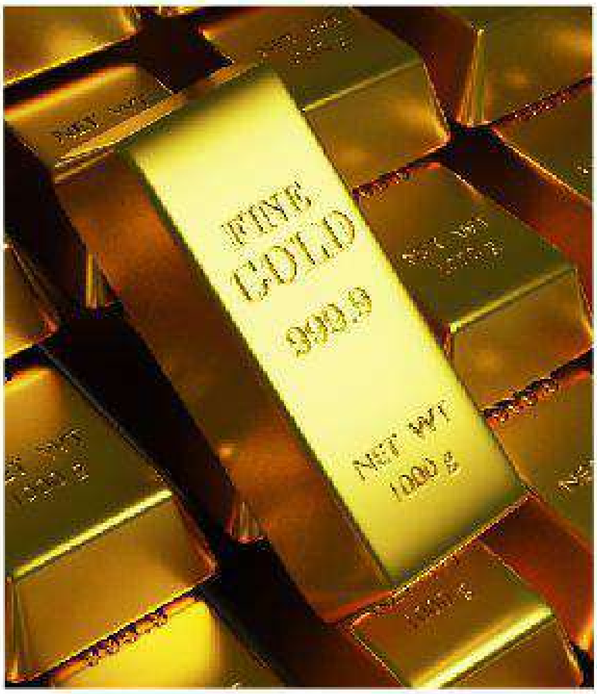
Source : 11 – RBI, SEBI, NSDL

As we move ahead towards the US$ 5 trillion economy, we expect more savings to move towards fixed deposits and bonds with allocations from conservative & first time investors. Despite movement of older fixed deposits towards other investments like mutual funds, which would offer higher post-tax returns, we still believe that this investment category would demonstrate good growth rates.

Karvy Research predicts that the total amount invested in Fixed Deposits and bonds will grow by a CAGR of 11.76 % to nearly ₹ 80 lakh crore by FY24.

Figure 3 **Actual and Projected Wealth in Fixed Deposits & Bonds in FY24**

6.1.2: Gold



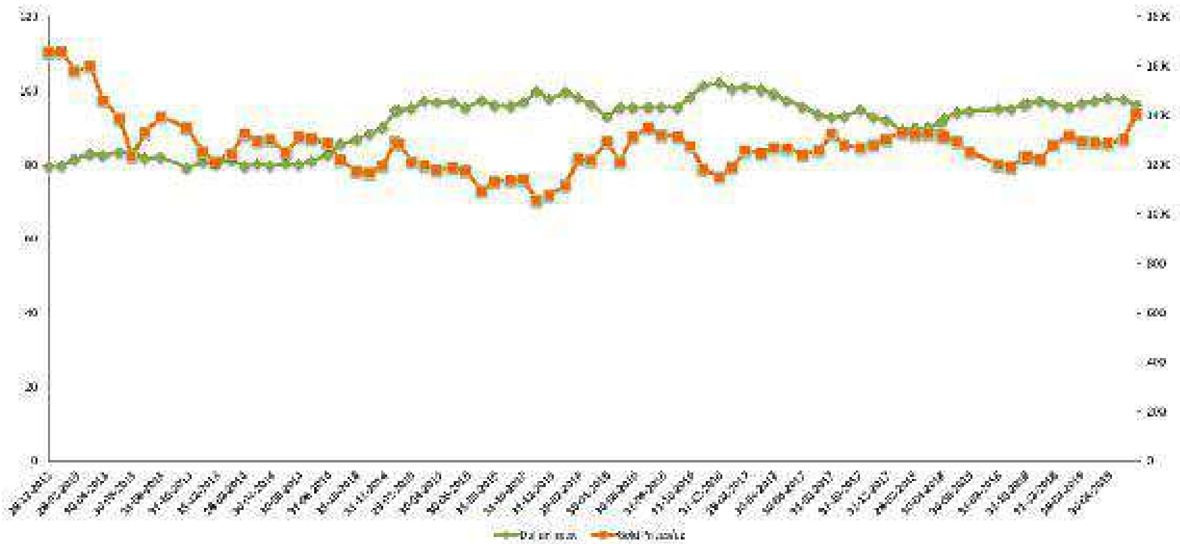
Gold is considered as the alternative to the fiat money (a term used for current global currency since they are not backed by any asset but only Central Bank guarantee), and well accepted as the universal medium of exchange. Easy liquidity, lower volatility and the tag of safe haven asset along with a hedge against inflation has made gold attract the attention of the investors worldwide. Thus apart from buying it in anticipation of a price hike, traditionally gold should also be a part of an investor's portfolio for diversification and hedging mechanism.

- India has been tagged as the second highest consumer of gold in the world, as the yellow metal is considered auspicious and has high emotional value.
- The significant rise in standard of living and a huge population would ensure the demand for the metal remains unabated in near future.

Pricing outlook

- US fed rate cut, heightened geopolitical (US-Iran) crisis and economic (Trade War) uncertainty, coupled with an anticipated slowdown of the Global economy, has driven the price of Gold higher in 2019.
- Central banks' gold holdings have grown and globally gold-backed ETFs also saw growth
- In short, the increased demand in gold had been a primary contributor to the rise in prices, and going forward we anticipate the strength in demand to remain strong over the short term. Any reduction in interest rate or peaking out of the US dollar index would have positive impact on the gold prices (historical data portrays negative correlation between the US Dollar index and gold prices).
- On the domestic front the Gold prices are dictated by the international prices as well as movement of the Indian rupee against US dollar.

Figure 4 **Correlation between USD Index & Gold Price**



Total wealth held by individuals in gold was ₹ 80.94 lakh crore in FY19 with a steady growth of 8.63%.

Gold ETFs

Gold Exchange Traded Fund (ETF) allows investors to gain exposure to gold without the hassles of physical ownership and can be bought at close to real-time prices as ETFs, they are traded on the exchanges i.e. NSE & BSE, making buying & selling easy. Gold acts as hedge against inflation and is generally negatively correlated to equity in uncertain/ volatile times which makes the outlook on gold attractive keeping in mind the Trade war fears & consequent global growth slowdown forecasts. However, individual wealth in Gold ETFs continued to fall even in FY19 to ₹ 2,661[12] crore, as Sovereign Gold Bonds which also offer additionally a periodic interest found more flavor with investors.

Source : 12 AMFI

Sovereign Gold Bonds (SGB)

SGBs are government securities denominated in grams of gold issued by Reserve Bank of India. They score over ETFs (Exchange Traded Funds) as they receive the market value of gold at the time of maturity, and also periodic interest as per terms of the bond. The SGB are cash settled and can be held in Demat (Dematerialized) form, and thus the risks and costs of storage are eliminated. The Interest paid on SGBs is taxable in the hands of the investor, though the capital gains tax arising on redemption to an individual has been exempted. The risk of capital loss exists if the price of Gold declines on redemption/maturity though the investor does not lose in terms of the units of gold which he has paid for. Most of these issuances are currently trading at a discount and liquidity is low. Government issuances have been slow.

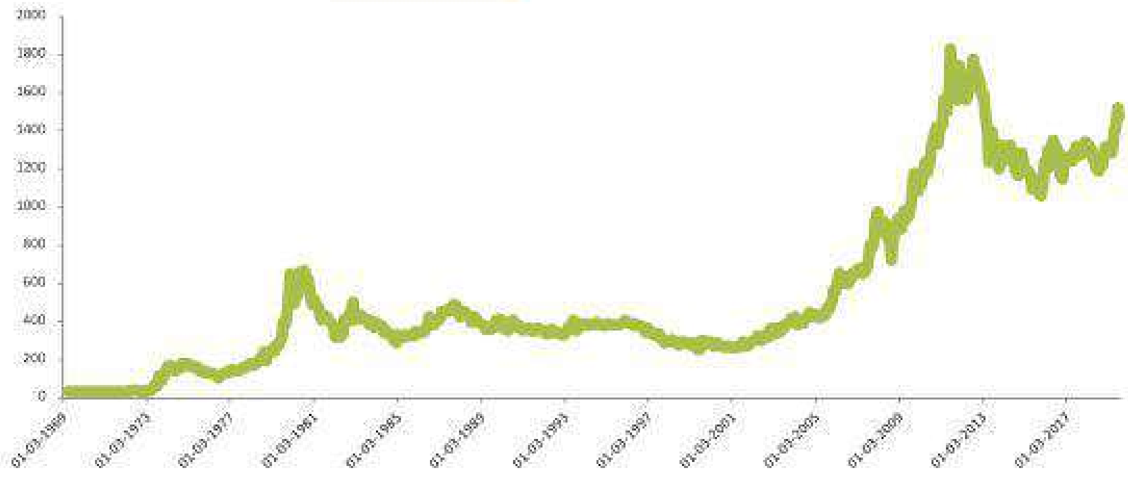
Individual wealth in Sovereign Gold Bonds has grown to ₹ 7960[13] crore in FY19 against ₹ 6,960 crore in FY18

Gold: Dazzling Future

Finally, gold stirred from a multi-year sleep. Gold lost shine when it fell below the US$ 1200 per ounce level in August 2018 but recouped well in a year's time after it hit the US$ 1548 per ounce level in September 2019. Factors in general, which influence Gold prices are demand and supply, interest rates, geopolitical uncertainty and the currency movements.

Knowing how gold has performed in the past is critical to estimate and project the future price of gold. Looking back at the fifty years old history we find that low of ~US$235[14] an ounce in 1970 was followed by a high of US$ 2165 in 1980s followed by a downtrend till 2000 and then skyrocketing towards the US$ 2067[15] an ounce level in 2011 post the 2008 crisis. We can put forward the argument that the present situation may not be as grim as 2008, but higher debt level globally, geopolitical crisis and trade war issues do warrant a 5 - 10% allocation towards safe haven assets like gold.

Figure 5 Gold Price History Globally



Source : 13 - RBI

In short we see that the coming 5 years may support a gold rally, with gold flirting with the US$ 2100 an ounce level. **We believe that the wealth held by individuals in Gold will rise at a CAGR of 10.25% to reach ₹ 131 lakh crore.** The proportion investment in the SGBs and Gold ETFs may increase over time, as Indian millennial may stay away from buying jewellery and rather treat gold as a safe haven asset.

Figure 6 **Actual and Projected Wealth in Gold in FY24**

Source: 14, 15 Bloomberg

SECTION 6.2

MARKET LINKED

Market linked investments are subject to volatility in the short term, but would always give higher returns in the long term. Mutual funds and direct equity are linked to the equity and debt markets. This theme signifies capital appreciation and protection against inflation.

6.2.1: Direct Equity

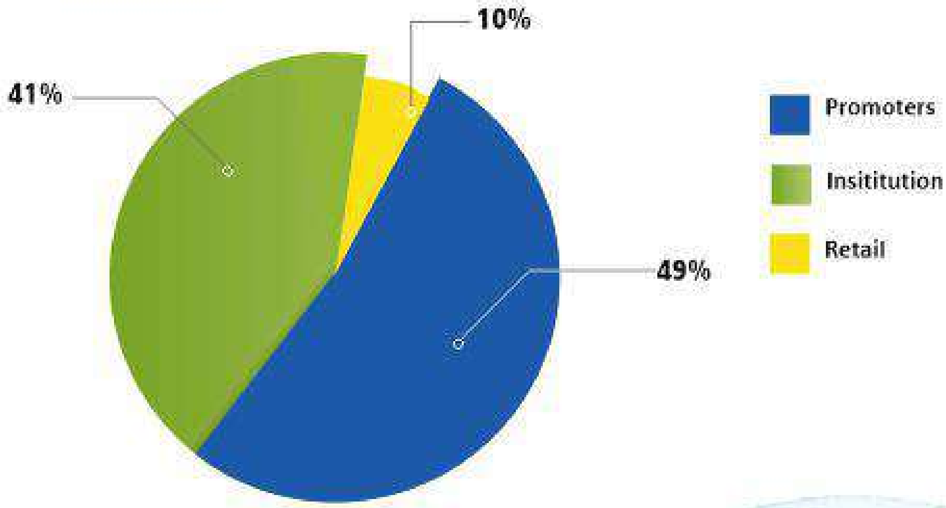
The Benchmark Index (Nifty 50) ended in positive for FY19 by ~15% while the mid and small cap indices moved contrary and ended the fiscal year in deep red. Within Nifty, it was handful of heavyweight stocks which moved significantly higher and pushed the benchmark indices into green in FY19. The lackluster performance of the mid & small caps could be attributed to the following reasons; reclassification of the mutual fund schemes, stretched valuations, low earnings growth, and the introduction of the long term capital gain tax (LTCG) in equity, in February 2018. Going forward we foresee the earnings growth to recover in 2nd half of FY20 though bouts of volatility- both domestic and global will play its part.

In FY19, individual wealth in direct equity increased by 6.39% to ₹52.10 lakh crore

Table 12: Composition of Direct Equity holding based on Investor class

Category	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Promoters	73,84,703	69,62,292	6.07	27.31
Institution	61,56,349	57,35,970	7.33	9.21
Retail	15,67,659	15,26,735	2.68	21.43
Total	1,51,08,711[16]	1,42,24,997	6.21	18.76

Figure 7 Share of Investors in overall Equity Market



Source : 16 - BSE

Table 13: Break-up of Individual Investments in Direct Equity

Individual Investments	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Promoter Individuals	36,42,735	33,70,839	8.07	34.78
Retail Individuals	15,67,659	15,26,735	2.68	21.43
Total	**52,10,394**	**48,97,574**	**6.39**	**30.32**

Indian Equity Market at an inflection point

India is the 6th largest economy in the world, with a reform oriented Government at the centre. Implementation of reforms like "Jan Dhan Yojana" has resulted in savings moving rapidly away from customary investment avenues like gold and real estate into financial assets.

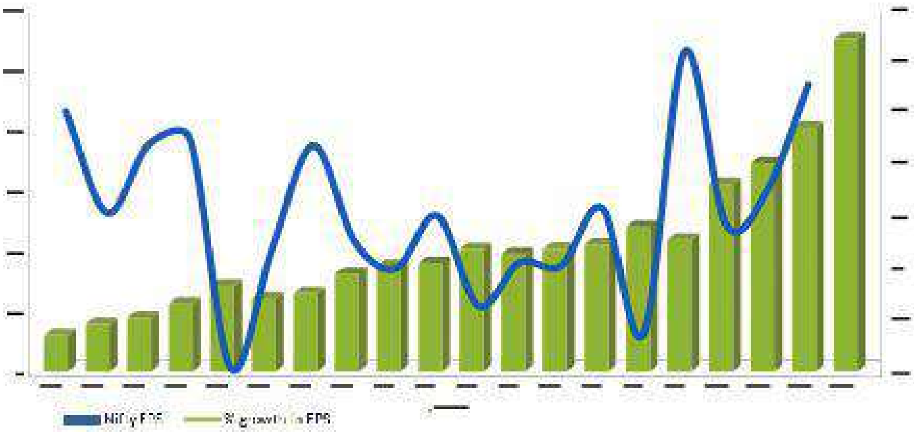
- India has around 5,000 listed companies, second only to the United States in terms of investment universe, thus providing ample opportunities to the equity investors to participate in the India's growth story resulting in wealth creation.
- Stable currency, benign inflation, lower interest rate scenario indicates that it is the right time to invest in equities with a long term view of 5 years.
- The 2018 selloff poses an opportunity for the investors, as the market trades at an attractive valuation level.
- The Indian equity market will undergo major re-rating on the back of lowering of corporate taxation (post the corporate tax rate cut, we believe that 25% EPS growth rate is achievable for FY20) and positive reforms like GST, IBC along with a focus on the infrastructure developments. The recent Fiscal and monetary stimulus will lead to economic recovery and positive effect on the equity markets.
- Sticky domestic fund flows in the equity market and expected resumption of impact inflow of FII money, on the back of Global easy monetary policy puts the domestic equity market on a stronger platform.

Table 14: Nifty and EPS growth - 2004 to 2024[17]

Particulars	1 Apr 04	1 Apr 09	1 Apr 14	1 Apr 19	1 Apr 24 (Estimated)
Nifty	1819	3060	6721	11669	27000
Return CAGR		10.96%	17.04%	11.67%	18.27%
EPS	152	224	430	473	1150
EPS CAGR		8.06%	19.93%	1.92%	19.44%

Source : 17 - Bloomberg

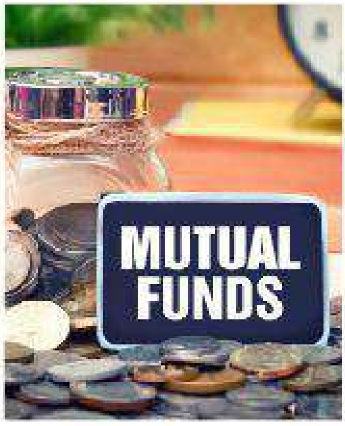
Figure 8 **Nifty and EPS return - 2004 to 2024**



We are optimistic that the investors would do well to make a strategic long-term allocation to Indian Equity market. India offers the rare combination of size and growth. Reasonable equity market valuation positions India as an attractive destination for wealth creation through equity investments. **At Karvy Research we project that the wealth in Direct Equity will grow at a CAGR of 21.31% and to reach ₹ 136 lakh crore in FY24.**

Figure 9 **Actual and Projected Wealth in Direct Equity in FY24**

6.2.2: Mutual Funds



Mutual Funds continued to be the preferred investment vehicle in financial assets for HNIs/UHNIs and retail investors in FY19. Despite the volatility in equity markets and difficult times in debt markets post the IL&FS episode there was an all round growth in Mutual Funds AUM as can be seen in the table below:

The easiest way to participate in the Indian growth story is taking the mutual fund route, which has been well identified by both the Foreign and the Domestic players. Millennials have started investing in mutual funds in a big way. Around 16 lakh[19] new mutual fund investors were millennials, falling in the age bracket of 20 and 35 years which accounts for 47% of the new investors in mutual funds of 11 lakh crore in FY19[18].

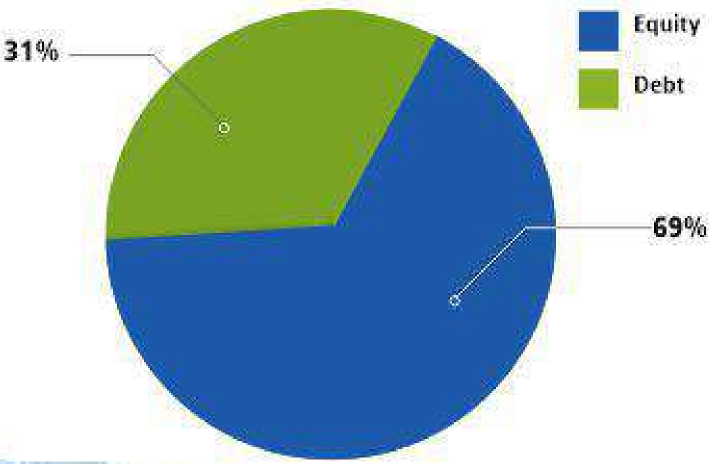
Simplification of norms and standardization and rationalization of schemes along with increased transparency with lower Total Expense Ratio(TER) and the Mutual Fund Sahi Hai educational campaign by AMFI has helped in promoting Mutual Fund as an investment vehicle.

Table 15: Individual Wealth in Mutual Funds[19]

Type	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18	Proportion %
Equity	9,53,727	7,92,989	20.27	46.98	69.26
Debt	4,23,309	3,74,965	12.89	14.02	30.74
Total	**13,77,036**	**11,67,954**	**17.90**	**34.53**	**100.00**

Total individual wealth in Mutual Funds in India in FY19 was at ₹13.77 lakh crore which is an increase of 17.90% over the previous year.

Figure 10 Debt-Equity proportion in Mutual Fund FY19



Source : 18 CAMS Registrar
19 AMFI & Karvy Research

Future prospects of the Mutual Funds industry

The growth in the mutual fund industry has been rapid. Last two years saw ~40% rise in Asset under Management (AUM) from ~₹ 17.5 lakh crore to ~ ₹ 25 lakh crore with average SIP contributions almost doubling from ₹ 4300 pm to ~ ₹ 8500 pm. We believe that these high growth rates will continue due to the following reasons

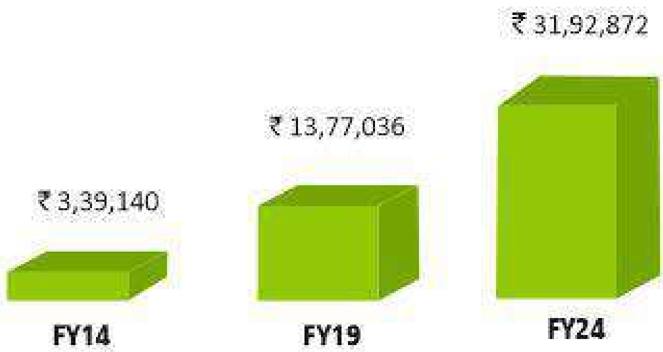
- Though the rise in mutual fund AUM has been dramatic but in terms of mutual fund AUM, India ranks at 17th among its Global peers. Less than 2% of the 1.3 billion people in India invest in mutual funds; thus providing huge opportunity for the segment to grow. We find that the participation of the Individual investors have grown at a fast pace and accounts for 58% of the Industry AUM with Equity as an asset class growing in prominence.
- Increasing penetration across the B30 cities and investments from tier 2 cities and beyond will add to the AUM in near term. In addition to this the contribution of the millenials and the middle income households will contribute to the next leg of the mutual fund growth.

We project that the individual financial wealth in mutual funds will grow at a rate of 18.32% to reach ₹ 32 lakh crore by FY24.

Over the years mutual funds have transformed from being a 'push' product where investors had to be convinced about investing in them to being a 'pull' product where investors have started understanding the necessity of allocating some part of their corpus in mutual funds. Discussions are now based around which category to invest instead of whether to invest or not. In fact, the mutual fund industry is eyeing a four-fold rise in AUM to ₹ 100 lakh crore from existing ₹ 25 lakh crore and an increase in investor base to 10 crores from current 2 crores over the next decade[20].

Large cap and multi-cap equity funds should be the major categories which will see robust AUM growth in the years ahead being the core allocation in investor portfolios. Midcap funds also should see growth as the re-classification has ensured that fund managers largely do not go below the top 250 stocks and will help in participating in stocks which will benefit from formalization of the economy with GST implementation falling in place.

Figure 11 Actual and Projected Wealth in Mutual Funds in FY24



Source : 20 AMFI-BCG vision document

SECTION 6.3

ALTERNATIVE INVESTMENTS

Alternative investments have slowly and steadily achieved an important position in investors portfolio. These investments do not have a strong co-relation with other primary asset classes namely equity and debt. From traditional investments like real estate and commodities, Indian investors have progressed towards more sophisticated asset classes like venture capital, private equity, structured products and high yield debt.

6.3.1: Real Estate

Out of the two corner stones in real estate, i.e. residential housing and commercial real estate; the residential housing sector has been on a slow path for nearly a decade now.

- The residential housing space is in a consolidation stage with stagnant prices, overhang of inventories and subdued demand as the developers grapple with regulatory changes like RERA and GST.
- The office space development and leasing have witnessed steady upward growth, while the residential segment has recorded below moderate growth.
- One of the biggest real estate trends of last year and a major sign of revival for the Indian property market was the increase in investments by foreign investors. Increase in India's credibility, thanks to an improved regulatory framework, has made it an attractive destination for global institutional investors.

Total wealth held by individual investors in Real Estate was ₹ 74.52 lakh crore with a growth of 7.13% in FY19

Table 16: Individual Wealth in Real Estate

Category	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-o-Y % Change FY19	Y-o-Y % Change FY18
Total	74,52,944	69,56,802	7.13	10.35

*It may be worthwhile to note that for the purpose of this report, primary residence and commercial properties are not considered.

Future of Indian Real Estate investment:

Commercial Real Estate

- Pre-leased Commercial Real Estate (CRE) provides high rental yield in the range of 6 to 8% combined with the expectation of a reasonable capital gains would take the gross IRR to 9 to 12% in long term.
- Low to medium risk, with stable debt-like return during the entire holding period along with lease accelerations, makes it an attractive investment option.

Warehousing

- Total warehousing space has been estimated to be 68 million sq.m (739 million sq.ft) in 2019 for the manufacturing sector and it is projected to grow at a CAGR of 5% in the next five years to 86 million sq. m (922 million sq. ft) by 2024[21].
- With e-commerce players expanding operations across the country, there has been a corresponding rise in demand for warehousing space from these companies in both tier I and 2 markets and it is expected to add to a robust growth in select markets like Delhi NCR, Mumbai, Pune, Bengaluru and Chennai markets.

Student Housing & Co-living :

- The current demand for purpose-built student accommodation (PBSA) bed spaces across the country is estimated to total more than 8 million[22].
- Co-living is a new age, shared economy business enabled by technology, providing affordable housing solutions to the migrant urban youth in the age group of 18-35 (students & working professionals).
- The co-living segment is expected to offer a business opportunity of ₹ 1 lakh crore by 2023 as demand for shared rental space is rising[23].
- Student housing sector is expected to grow at 38% CAGR until 2020, to reach ₹2,400 crore which is a yield of more than 12%[24].

Though we do not expect any sea change in the residential real estate scenario in near term, we do expect a slew of Government reforms to pull out the sector from its nadir. Specific sub sectors like commercial real estate, the warehousing, student housing and co - living hold good opportunities for the investors.

We believe that the individual wealth in real estate sector will grow at a CAGR of 9.67% to reach ₹ 118 lakh crore by FY24

Figure 12 **Actual and Projected Wealth in Real Estate in FY24**

Source: 21 - India Warehousing Market 2019 Report by Knight Frank,
22 Global Student Property 2019 Report by Knight Frank
23 Co-Living - Reshaping Rental Housing in India and
Co-Working - Reshaping Indian Workplaces by JLL & FICCI
24 – JLL Real Estate Report FICCI

6.3.2: Unlisted Equity

We first included this section in India Wealth Report in 2016. In the past few years, we have seen a considerable growth in the OTC market for trading of unlisted shares. Unlisted Shares are the shares which are not enrolled with any Stock Exchange. These shares are generally privately placed between the buyers and sellers and traded in the OTC markets. We saw a huge spurt in public issues in 2016 & 2017 with successful listings of RBL Bank, Avenue Supermarts, Ujjivan Finance, Apex Frozen foods and many more. Most of these shares were actively traded in the OTC market pre-IPO where investors saw significant gains on listing.

Some important points to note about unlisted shares.

- Since IPOs today usually get oversubscribed in multiples, allocation of shares is limited in the issue. The prices also tend to be at a premium during IPO whereas there is potential for getting the same stock at an attractive valuation at the unlisted stage
- The valuation of these shares is a major point of discussion as there is no formal method to discover the same.
- There is a risk of the listing getting delayed due to market sentiment hence only patient money should be allocated here.
- This has become a new asset class for investors where we saw a few funds as well on the AIF platform focused on investing into pre IPO shares.
- There is a large amount of wealth locked into small and medium enterprises in India and many of these businesses will eventually grow big as the economy grows and create substantial wealth eventually for the promoters and investors.

Table 17: Individual Wealth in Unlisted Equity

Asset Class	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Unlisted Equity	10,54,325	9,55,930	10.29	36.83

The individual wealth in Unlisted Equity has increased to ₹ 10.54 Lakh crore in FY19 from ₹ 9.56 lakh crore in FY18 with a growth of 10.29%

Future Trends

The secondary market for unlisted equity has grown popular globally in the past 5 years, with exponential increase in the transaction volumes. The private secondary market for trading unlisted shares has many benefits, including price discovery and price stabilization, which is especially helpful before the company goes for IPO or direct listing. In 2018, we saw this exercise executed by Spotify (a Stockholm based music streaming company), before they went for direct listing on the New York stock exchange. This was a brilliant case study of successful price discovery in the private markets prior to direct listing in the public markets. A direct listing is when a company goes public by listing its outstanding shares directly on the exchange without any underwritten offering, and all the shareholders are free to trade their shares on the exchange. This is becoming an increasingly popular mode of listing, owing globally, to its transparency, among most of the new age businesses. Recently an Indian private sector bank also announced its intent to go for direct listing of the company on the exchange.

Though the growth in the size of the private secondary market is a positive development, there are some concerns like liquidity constraint and price risk which need to be addressed and the investors have to be aware of before participating in this market. There is also a risk of fraudulent counterparties, since this market does not come under SEBI's purview. This issue is faced by most of the regulators globally and there have been a lot of discussions regarding the mode of regulation for these transactions. A venture exchange is the most popular solution, where small and medium enterprises, startups and private companies can come to the platform to trade in their shares with accredited investors. This regulation might be implemented by the Indian regulator as well in the future, which will give a further boost to this market with formalization and regulation.

We expect individual wealth in unlisted equity to reach ₹ 36 Lakh crore by FY24 at a CAGR of 28.27%.

Figure 13 **Actual and Projected Wealth in Unlisted Equity in FY24**

6.3.3 Alternate Assets

The Indian HNI of late has been diversifying investments across a variety of channels outside the traditional product basket such as Fixed Deposits, Bonds and Gold. Today the rich in India have displayed a liking for alternative assets that satisfy their relatively higher risk appetites and also challenge there intellect. Alternative investments are not for masses or retail investors as these are high ticket and mostly high risk products. Alternative investments also include Gold ETF and Sovereign Gold Bonds which are not necessarily HNI products. Detail breakup of alternative investments is given below.

The individual wealth in Alternate Assets grew by 20.19% in FY19

Table 18: Individual Wealth in Alternate Assets

Asset Class	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Structured Products	43,086	38,541	11.79	36.08
High Yield Debt	26,360	27,336	-3.57	26.60
Private Equity Funds	36,266	23,445	54.69	43.95
Real Estate Funds	17,708	12,473	41.97	21.50
Hedge Funds	10,390	8,811	17.92	38.49
Sovereign Gold Bonds	7,960	6,960	14.37	32.34
Gold ETF	2,661	2,798	-4.90	-5.57
Infrastructure Funds	1,290	1,147	12.47	38.19
Venture Capital Funds	2,012	1,510	33.28	39.81
InvIT Funds	1,384	1,052	31.57	-
Total	**1,49,118**	**1,24,073**	**20.19**	**33.47**

Structured Products

Structured products comprise mainly of Market Linked Debentures (MLD). These instruments are designed using derivatives to replicate returns of the underlying index, stocks, G-Sec yields, or commodity price. The most popular strategy in the market is equity index linked debentures. These MLDs can either be 100% capital protected, partially protected or non capital protected. These instruments can be customised as per market view, return expectations and willingness to take risk. The capital protected structures are usually listed on exchanges offering tradability subject to demand. The underlying risk is of the credit worthiness of the issuer.

High Yield Debt

High yield debt is usually issued by companies with lower credit rating, either investment grade or below investment grade. Some of these issuers can also be unrated and might offer security in the form of physical and financial assets. As the name suggests, the returns from this asset class are higher, inversely proportional to the credit quality of the issuer, implying the highest return to the lowest credit quality. Owing to the liquidity crisis in the latter half of FY19, investments in this asset class have seen a small decline due to the increase in perceive risk of default.

Private Equity Funds

Private equity funds by definition invest into companies which are not listed in the public markets. These unlisted companies, for multiple reasons are not yet eligible for listing or choose not to list on the stock exchanges. Market forces have a lower impact on private equity investments. The valuations for these companies are determined basis fundamental evaluation. These funds typically have a longer tenure and higher risk reward ratio. The exits from underlying investments usually are done via mergers and acquisitions, IPOs, leveraged buyouts and management buyouts. Private equity funds saw a substantial growth over the past 3 years. This is a preferred investment class globally and some family offices have started making direct private equity investments or co-investments along with the funds. The Alternative Investment Funds norms have helped formalize and boost investments into this segment leading to 54.69% growth.

Real Estate Funds

Real Estate funds are part of Category 2 Alternative Investment Funds (AIF) as per SEBI guidelines. These funds invest in various projects in the real estate sector including commercial, residential, developed or under-development properties in pursuit of capital appreciation and/or regular rental returns. Of late these funds have been impacted by the overall slowdown in real estate, however, new funds have been launched last year in the specific areas of commercial rental, student housing and warehousing.

Hedge Funds

Hedge funds are categorized under category 3 of the AIF regulations. These funds can generate profits from mispricing in the market and on both the positive and negative movements in the market based on the positions taken. Other terms used for these funds are Long Short Funds and Absolute return strategies. These funds require intensive and active fund management to maintain positions in the cash and derivative segments, managing the risk at the same time. The portfolio can be a mixture of various asset classes like equity, debt and currency. However, it is in the nascent stage of development where many schemes have raised money under category 3 AIF. It is becoming increasingly popular in the UHNI segment and the family offices.

Future Trends

Globally, we have seen a rapid increase in the allocation towards alternative investments in portfolios, especially within the family offices, endowments, pension funds and institutional treasuries. The Yale endowment for example, has delivered 12.3% dollar return on its portfolio in 2018 by increasing exposure consistently over the last 5 years into Absolute return strategies (hedge funds) and venture capital.

The overall allocation in alternative investments was over 70% in their June 2018 portfolio disclosure. This trend is now being increasingly followed by many other endowments, family offices and pension funds since they have long investment horizons. This trend is gradually catching up in India as well where we have seen a steady shift towards alternative investments over the last decade. Yet, India's exposure in alternative investments in the individual portfolios is still very low at just 0.57% of the financial assets. At Karvy Private Wealth we expect an increase of flows into this asset class by over 20% to gain a higher share of financial assets over the next decade.

We expect individual wealth in Alternate Assets to grow at a CAGR of 21.62% for the next 5 years.

Figure 14 **Actual and Projected Wealth in Alternate Assets in FY24**

6.3.4: International Assets

The Liberalised Remittance scheme (LRS) was introduced by RBI on February 4, 2004, with a limit of US$ 25,000 per individual per financial year. The LRS limit has been revised in stages consistent with prevailing macro and micro economic conditions. Funds transfers under the LRS scheme have been increasing over the past five years following the RBI's decision to expand the scope by including certain transactions under overseas travel and education spends. As per the latest guidelines of Reserve Bank of India's Liberalized Remittance Scheme (LRS), residents may remit up to US$ 250,000 in a financial year to obtain and retain immovable property, stocks, debt instruments, or any other assets outside India

Investments in global markets through mutual funds, Exchange Traded Funds (ETFs), direct equity, and even immovable property contribute to portfolio diversification and also act as a portfolio hedge from negative domestic events. The long-term average shows that INR has depreciated against the US dollar by 4% per annum over the last 40 years. With globalization and enhanced technology the accessibility of global products has dramatically risen allowing an average investor to take benefit of these products at a fair cost. Though, home country bias remains strong but decent performance of global indices has encouraged investments abroad. The base however still remains small.

Table 19: Individual Wealth in International Assets[25]

Category	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Equity & Debt	21,912	17,798	23.12	19.63
Fund of Funds	1,481	1,112	33.14	-20.63
Deposits	10,745	7,116	51.00	61.62
Total	34,138	26,026	31.17	25.84

There has been an overall increase to ₹ 34,138 crore, an increase of 31.17% y-o-y in the wealth held by individuals into international assets in FY19.

Outward remittances under LRS jumped from US$ 4.6 billion in FY16 to US$ 13.8 billion in FY19. These comprise expenses on overseas travel, education, maintenance of close relatives, gifts to family and friends abroad and medical expenses.

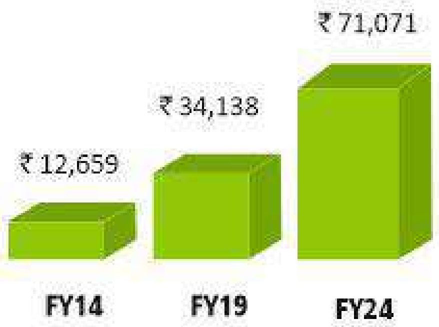
Table 20: Outward Remittances under the Liberalised Remittance Scheme (LRS) for Resident Individuals

Category	FY19 (₹ Crores)	FY18 (₹ Crores)
Deposit	3513	2690
Purchase of immovable property	584	581
Investment in equity/debt	2925	2865
Gift	9478	7584
Donations	60	55
Travel	33228	26079
Maintenance of close relatives	19374	19046
Medical Treatment	198	178
Studies Abroad	24693	13106
Others	1675	1301
Total Outward Remittances	95,369	73,485

Source: 25 - RBI

There has been a increased level of interest in emigration schemes and many HNIs have been looking at shifting their base to International locations as their future generations opt to stay abroad. Major amount of remittance is going towards education of children abroad, supporting family members abroad or buying property abroad.

Figure 15 **Actual and Projected Wealth in International Assets in FY24**



With increased globalization and domestic volatility we expect investors to seek diversification into International markets. This will help grow exposure into International Assets at CAGR 15.80% to ₹ 71,071 crore by FY24.

SECTION 6.4

RETIREMENT PLANNING

Indians do not have sufficient social security benefits on retirement, especially in the private sector. This fact has shaped the psyche of the Indian investor towards saving for retirement. Provident fund and new pension scheme are popular modes of retirement planning. This theme signifies the utility of wealth in later stages of life.

6.4.1: Provident Fund

Provident fund provides employees with lump sum payments at the time of exit from their place of employment. This differs from pension funds, which have elements of both lump sum as well as monthly pension payments.

Table 21: Individual Wealth in Provident Fund

Composition of wealth in PF	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
EPF	11,08,004	9,50,589	16.56	10.89
PPF with banks	4,79,168	4,25,792	12.54	15.99
PPF with post	75,691	69,985	8.15	10.45
Total	**16,62,863**	**14,46,366**	**14.97**	**12.33**

There are two Provident Fund schemes in India namely, Employee Provident Fund (EPF) & Public Provident Fund (PPF).

EPF, a defined benefit plan predominant in the salaried class is widely being used with a long term perspective for corpus accumulation for retirement along with tax benefit under sec 80C. The EPF scheme involves contribution by the employer and employee both - 8.33% of employer's contribution is diverted to Employees' Pension Scheme and the remaining deployed in EPF scheme. The returns are fixed by Employee Provident Fund Organisation (EPFO) and announced every year. It is fixed at 8.65% for FY19. We additionally have Voluntary contribution to this under Voluntary Provident Fund (VPF) and many people opt for this over and above their limit laid down by government.

The Public provident fund (PPF) is extensively used in India as a very lucrative option in the debt investment to save for the long term and also as a tax saving instrument. It is fully guaranteed by the central government, has an investment period of 15 years with blocks that can be extended in tranches of 5 years. The most notable feature is that the balance in PPF is not subject to attachment under any order or decree of court. Any individual can open a PPF account with a minimum yearly deposit of ₹500 and a maximum of ₹1.5 lacs in a financial year. The PPF account has loan facility and partial withdrawal facility as well.

Together, individual wealth in Provident funds grew by 14.97% yoy to ₹16.62 lakh crore in FY19.

With reducing interest rates in India, PF is gaining importance for a huge number of people for tax exempt returns in the debt category and retirement planning. We expect both these schemes to remain popular as they offer high fixed returns with tax benefits. **We estimate that the total AUM of Provident Fund would grow by 13.87% by FY24.**

Figure 16 **Actual and Projected Wealth in Provident Fund in FY24**

6.4.2: Pension Fund

Pension Funds provide financial security and stability during old age when people don't have a regular source of income, specially in the private sector and for the self employed. With no social security system in India, these pension schemes give an opportunity to invest and accumulate funds for regular cash flows after retirement thereby funding for inflation adjusted expenses.

Due to better medical advancements and facilities, the life expectancy in India has been on the rise, not just in the urban population, but also in the rural

Table 22: Individual Wealth in Pension Schemes

Schemes	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Employee Pension Scheme	4,06,693	3,59,971	12.98	19.72
National Pension Scheme[27]	3,11,353	2,30,761	34.92	33.64
Atal Pension Yojana[28]	6,860	3,818	79.69	102.54
Total	7,24,907	5,94,550	21.93	25.11

The total individual wealth in pension funds has increased by 21.93% to ₹7.25 Lakh crore in FY19

Employee Pension Scheme (EPS)

In India the Employee Pension Scheme (EPS) is clubbed with the Employee Provident Fund (EPF) to receive pension on a permanent basis. The individual wealth held in Employee Pension Scheme stood at ₹ 4.06 lakh crore in FY19 and increase of 12.98% on YoY basis

National pension scheme (NPS)

The National pension scheme (NPS) is a pension scheme with contribution allowed throughout the working life and annuity post retirement. Total Individual wealth in NPS stood at ₹ 3.11 lakh crore in FY19, showing a growth of 34.92% over the previous year.

Due to the additional tax benefit under section 80CCD, it is lucrative as an investment avenue for both for tax benefits and returns. NPS is also gaining popularity because of an increased focus on lowering the fixed cost. The fund management of these schemes has improved in the last year making it competitive in comparison with the other investment schemes.

Source: 27,28 - NPS Trust

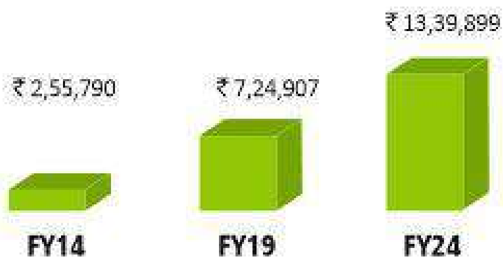
Atal Pension Yojana (APY)

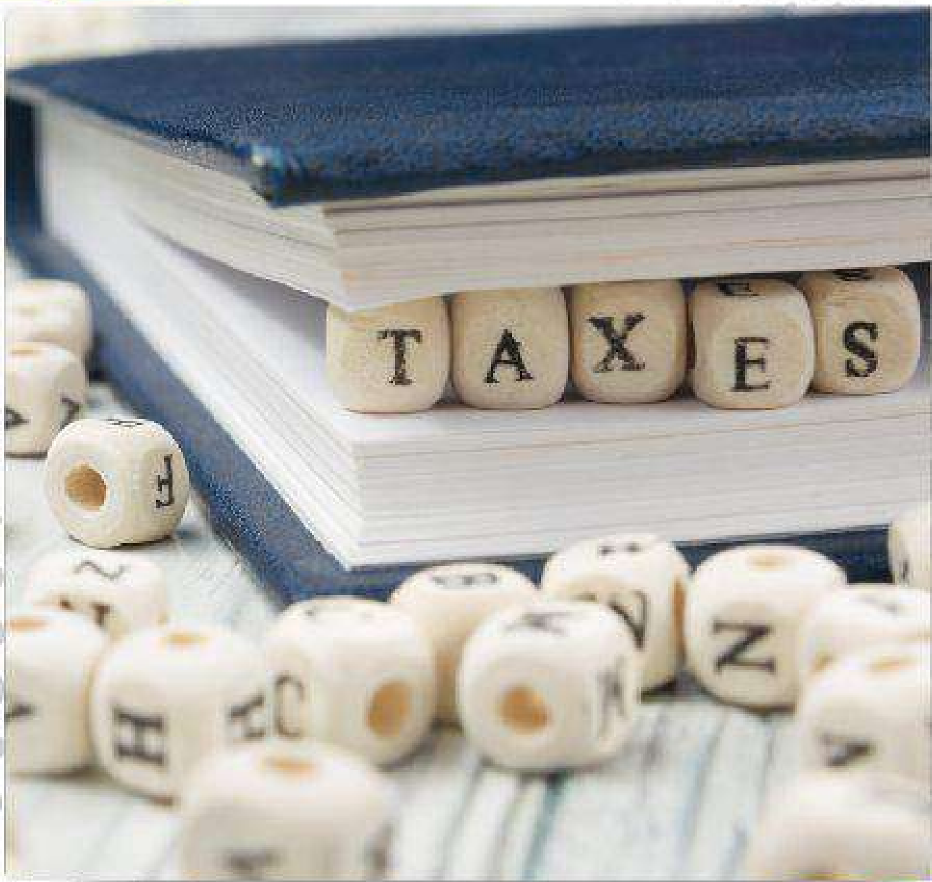
The Atal Pension Yojana was started for the unorganized sector and weaker section. The individual wealth in Atal Pension Yojana stood at ₹6860 crores in FY19, a growth of 79.69% over the previous year.

There are already more than 1.26 crore subscribers in NPS within a short period of time. Both the number of subscribers and assets under management are expected to grow at a very high rate.

At Karvy Private Wealth we estimate that the investment in pension scheme will grow at 13.07% CAGR to reach 13.39 Lakh crore in FY24.

Figure 17 **Actual and Projected Wealth in Pension Fund in FY24**





SECTION 6.5

TAX SAVING

Tax savings increases the surplus income in one's hands and thus enhances returns. Provident fund, Equity Linked Savings Schemes & Insurance are some of the popular tax saving instruments. Along with tax-savings investors have now started focusing on tax efficient investments like mutual funds to reduce their tax outflow. This theme signifies portfolio construction and investment choices to optimise tax incidence.

Tax Planning

The word "taxation" in particular, places every individual under duress as it affects the investment returns, and for this reason tax planning and optimisation plays an important role in the investment process. In India, section 80C under the Income Tax Act, 1961 primarily outlines the investment avenues, which allow the investors to save tax. This includes:

1. Insurance - Premium paid for life insurance policies, with maximum of 10% of the sum assured is tax deductible and one of the most popular instrument used

2. Provident Fund (PF) - Both Employee Provident Fund (EPF) for salaried employees and Public Provident Fund (PPF) more popular with self employed are popular instruments for tax saving

3. Fixed Deposit (FD) - Five year deposits with banks, with a lock-in period of 5 years and no pre withdrawal facility, also helps in tax savings. The point to note is that the interest earned on the tax saver fixed deposits are taxable

4. Equity Linked Saving Scheme (ELSS)- ELSS of Mutual Funds with a mandatory locked-in-period of three years have attracted a lot of investor's interest, as they combine the advantage of tax savings and equity investment

5. Sukanya Samriddhi Yojana (SSY)- SSY has been launched keeping in view the welfare of the girl child. The scheme helps in tax savings together with the benefit of guaranteed return by the Government and provides an additional tax benefit of ₹ 1.5 lakh under section 80C. There has been a big growth in SSY as can be seen in table below

Table 23: Individual Wealth in Sukanya Samriddhi Yojana

Asset class	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Sukanya Samriddhi Yojana	28,045	21,602	29.83	56.26

6.5.1: Insurance

Insurance has been an integral part of allocation of savings & investments for individual investors for many years now. It all started with our friendly neighbourhood Life Insurance Corporation (LIC) agent, making us invest in term plans & endowment plans of LIC. The private sector insurance companies entered the industry in the year 2000 and along with traditional plans, launched innovative insurance solutions like unit linked insurance plans (ULIPs) which started attracting a lot of individual investments.

Today the Life Insurance industry of India has as many as 24 life insurance companies.

In FY19, first year premium collection from new life insurance business increased by 10.73% to ₹ 2,14,673 crores from ₹1,93,866 crores in FY18[29].

Table 24: Growth in Life insurance industry – 2018 vs 2019[30]

Type	2019	2018	Growth %
Premium (Crores)	2,14,673[31]	1,93,866	10.73
Number of Policies	2,86,87,812	2,81,98,778	1.73
Sum Assured (Crores)	**43,33,541**	**38,82,172**	**11.63**

At the same time, there are huge assets under management of all life insurance companies collected over the years.

Insurance forms the 3rd largest asset class with 14.08% share in total individual financial assets. In overall individual wealth it holds 8.58% share.

In FY19, the individual wealth in insurance has grown by 10.64% to ₹36.90 lakh crore

Table 25: Individual Wealth in Insurance

Type	FY19 Amount (₹ Crore)	FY18 Amount (₹ Crore)	Y-O-Y % Change FY19	Y-O-Y % Change FY18
Life Insurance	36,65,743	33,13,048	10.65	11.15
EDLI	24,986	22,665	10.24	9.98
Total	**36,90,729**	**33,35,713**	**10.64**	**11.14**

Source: 29 LIC
30 The Hindu Business line
31 Life Insurance Council

The Employees' Deposit Linked Insurance (EDLI) is an insurance life cover for coverage against death while at work, based on the salary levels (Insurance coverage 30 times of salary) covered under the EPFO ACT.

In a nation of 1.3 billion people, it is quite surprising that our insurance coverage is as low as 20% and in that too majority of Indians are not adequately insured. This means more than 80 % of Indians are yet to buy sufficient life insurance cover under any life insurance scheme.

Hence, Government of India has launched the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) in 2015 available to people between 18 and 50 years of age with a bank account. It has an annual premium of as low as ₹330 with a life insurance cover of ₹2 lakh. This scheme is also linked to the bank accounts opened under the Pradhan Mantri Jan Dhan Yojana scheme.

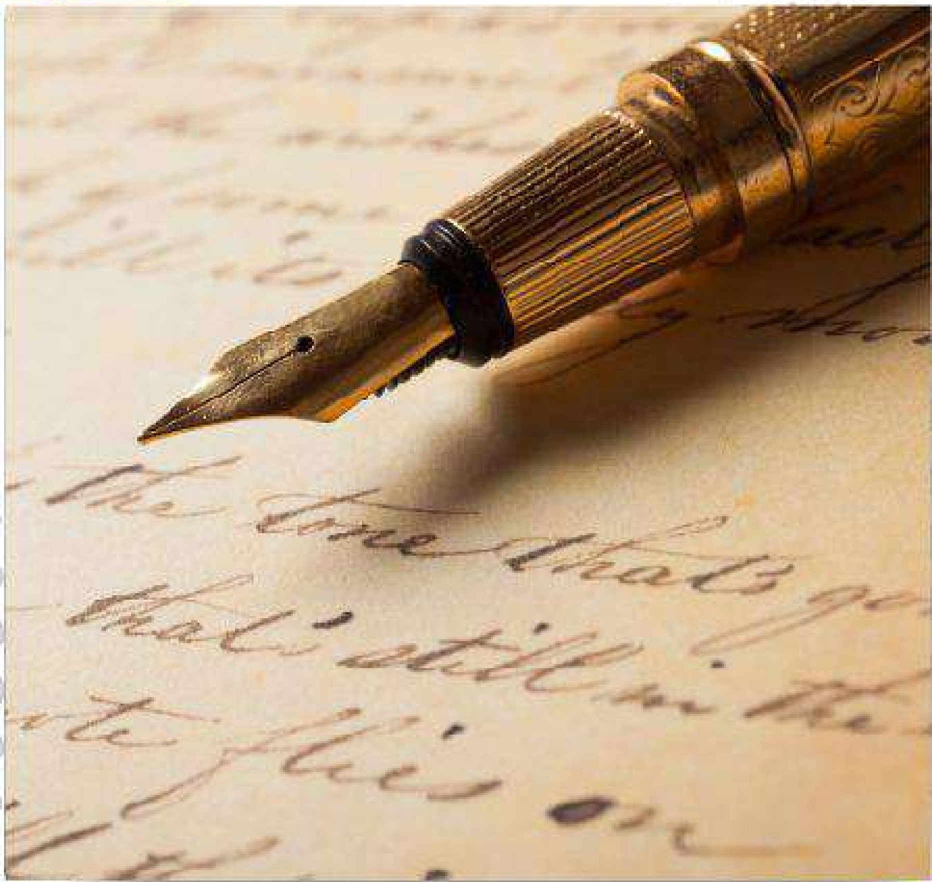
While the number of Indians having life insurance cover will indeed go up, what is important to note that proportion of people having an adequate life insurance covered as calculated by the Human Life Value (HLV) would be even as low as 5 %. Therein lies the potential for growth of this sunrise sector. There will be multiple growth drivers –

(1) Increased awareness about the importance of buying an adequate insurance cover, with efforts by life insurance companies for educating Indians across the length & breadth of India.
(2) Increased availability & ease of purchase with the use of technology for online purchase, including from mobile applications on smartphones.
(3) Regulatory changes and continuation of income tax benefits
(4) Changes in demographic factors such as growing underinsured younger population with need of child plans & older population with need of retirement plans

With the Indian GDP growth towards the US$ 5 trillion economy & the growth in financial inclusion across India, Bharat & beyond, we expect the Life insurance industry to grow by nearly 15% annually for the next five years.

We expect individual wealth in Insurance to grow at a CAGR of 14.46% for the next 5 years.

Figure 18 **Actual and Projected Wealth in Insurance in FY24**



SECTION 07

EXCLUSIVE NOTES

7.1: A million millionaires in a US$ 5 trillion economy

A million millionaires in a $5 trillion economy

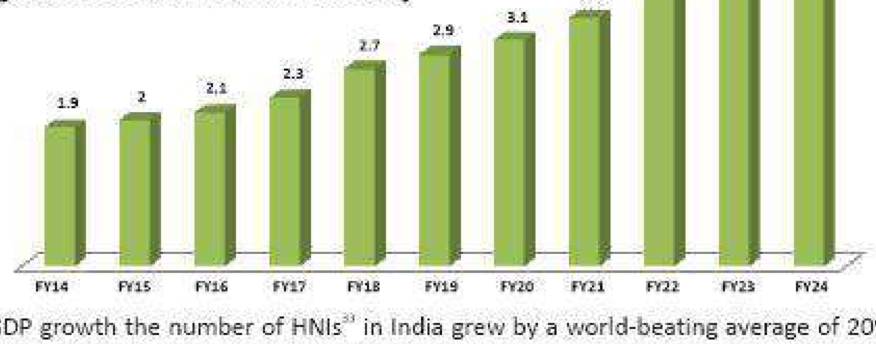
An aspiration to become a $5 trillion economy with a million millionaires will be the ultimate test to see if we can dream big.

Numbers tell stories, but the more interesting ones are what the numbers don't tell, at least not directly. Earlier this year when the annual Economic Survey said India has the potential to become a US $5 trillion economy by the end of the FY25, there were some serious and heated discussions and debates in the media about what we need to do (and equally important what we need to avoid) to get there, but very few naysayers. The fact that there were hardly any doubters of this larger than life national aspiration says a lot about India that is changing right in front of our eyes and that we are not scared and a more confident nation, willing to take more risks.

The recent last-minute glitch in Chandrayaan-II mission and how the nation rose as one to take it in its stride is just a sign of this newfound confidence in India.

A US $5 trillion GDP by 2025 against US $2.97 trillion today means we should be growing at a rate of ~11% every year for the next five years. While per capita income would have also grown somewhat proportionately, a whole new generation of millionaires will be joining an already growing number of High Networth Individuals (HNIs) in the country.

Figure 19 Inching towards US$ 5 Trillion Economy



Last year with a 7% plus GDP growth the number of HNIs[33] in India grew by a world-beating average of 20% (global average at 9.5%). Karvy's India Wealth Report 2018 estimated the number of HNI at around 263,000. For a country with a population north of 1.3 billion, this is still a minuscule percentage but when the Indian economy grows to US $5 trillion by 2025, the story is likely to be much different.

Some recent market studies have suggested that by 2027, there could be nearly a million millionaires (HNIs) in India, though these estimates were made before the latest Economic Survey reset India's GDP target to surpass the US $5 trillion mark by 2025.

It is almost a foregone conclusion now that India's strength in the coming years will be her numbers and more particularly how we harvest the demographic dividend. In 2018, India's working-age population (15-64 years) outgrew its dependent population (14 or below and above 65 years) and this is expected to grow for the next four decades thereby adding to the country's biggest strength - production and consumption.

A large and economically able and active population alone will not guarantee the kind of economic growth we are aspiring to reach a near-term target like $5 trillion GDP. The Government of India has critical role to play

Source : 33 HNIs are those having investable surplus of USD 1 million or more and ultra-HNIs are those having USD 30 million or more investable surplus excludes primary residences, collectibles, consumables, and consumer durables.

to create a vibrant economic environment. Some of the recent intent and policy announcements by the government indicate that we are on the right track.

Consider these:

- A new task force has already been set up to provide a roadmap for investing ₹ 100 lakh crore in infrastructure development over the next five years aided with Skill India Mission
- A ₹ 50 lakh crore investment in railways, spread up to 2030 has been announced by the government in July 2019, thereby expanding the network and increasing the freight share.
- Massive investments in renewable energy are already underway to create a generating capacity of 175 GW by 2022 from the present 80 GW. More recently the Prime Minister said that this would further be pushed to 450 GW. Such a massive investment in the green economy will have a three-way benefit - creating fresh job opportunities, reducing dependence on imported crude (saving foreign exchange) and reducing carbon footprint in the long run
- After replacing Japan as the second-largest producer of steel in the world, India is on its way to reaching a 300 MT capacity by 2030(nearly thrice the current level)
- Massive investments in highways and waterways are being implemented through Bharatmala and Sagarmala projects
- India is on its way to triple exports to US $900 billion by 2030

But the road to this big aspiration is going to come with a few speed bumps, some expected and a few surprises too perhaps.

The first quarter of FY20 saw GDP growth slip to 5% for a variety of reasons, key among them being a general global slowdown triggered by the ongoing US - China trade war and reduced consumption in India. Setbacks such as these that are beyond India's control will happen.

The marked growth in the number of HNIs in India will open up new opportunities too. The recent trends are already indicating that the share of equity and other financial assets as a share of individual wealth has been growing at the cost of physical assets like real estate. This will not only be good for the stronger financial market in the country but will also increase the role of professional financial advisors to manage the growth of wealth in the hands of private individuals, thereby triggering a virtuous cycle of growth for individual wealth with a marked shift from a parallel economy to the mainstream economy.

A growing army of HNIs is not just about a small portion of the population getting super-rich but is an indication of general prosperity in the country. Just as a rising tide lifts all boats, a galloping growth in the number of HNIs would also mean that India's massive middle class, estimated to be in the region of 350 million in a population of 1.3 billion, will also gain. The sheer spending power of this middle India will significantly contribute to the might of the US $5 trillion Indian economy as it breaks into the elite G-3 club and becomes the third largest economy of the world by 2025.

7.2: Small but mighty wealth creators (MSME)

By their very nature MSME are not big in terms of turnover or capital. But they are wealth creators with few parallels.

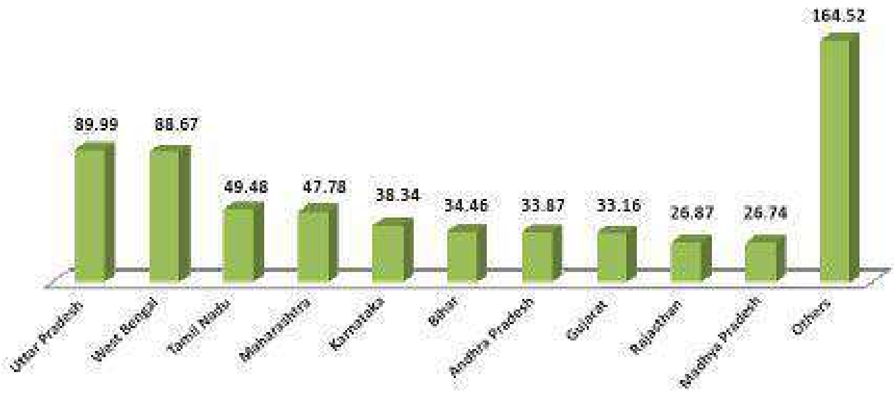
It is easy to forget that every large business today was once a small enterprise, started by one person with very limited resources and a burning desire to succeed.

Most large economies around the world are built on the strength of these multitudes of small businesses, each on its own may be small, but as a collective, become a force to reckon with. The Indian economy and its small businesses are no different.

The Indian Micro Small and Medium Enterprises (MSMEs) are the single largest contributor to the economy. MSMEs today account for nearly a third of India's GDP (~29%)[34] and is in fact a lot larger than the farm sector (~18%). Ambitious economic goals that lead to large scale wealth creation are possible only when the country's MSME thrive.

There are more than 63 million MSMEs, which account for 45% of industrial production and around 31% of the service sector in India and collectively employ close to 110 million people[35].

Figure 20 **Number of estimated MSME(in Lakhs)**



In their own right, MSMEs are very potent wealth creators. For example, since 2012 the number of MSMEs listed on BSE-SME exchange[36] has gone up to 308 with total capital raised of around ₹ 3200 crore and a combined market capitalisation of around ₹ 18,300 crore. The potential is much more if the government creates an environment where MSMEs can thrive and reach their full potential is perhaps the most foolproof way to create wealth in the country.

For MSMEs to succeed they need three fundamental things:

A) Capital

According to a recent report by International Finance Corporation, the credit gap in India's MSME sector is a whopping ₹ 16.7 lakh crore or around US$ 250 billion. Yet, only 16% of these small enterprises are

Source: 34 Government of India data
35 India Briefing
36 BSE

funded by the formal banking system. Even within this complex financing challenge, the shortage of working capital is the biggest issue. Small business owners who depend on larger businesses run their shops are often left with a massive working capital gap due to delays in settling their invoices. Access to capital is further curtailed by their inability to provide collateral, an advantage that larger businesses enjoy.

B) Technology

Small businesses in India also suffer from a lack of access to cutting-edge technologies. For example, the Mittelstands (small businesses in German-speaking states like Germany, Austria, and Switzerland) is the backbone of premium automobile brands like BMW, Mercedez, and Audi. There are few examples of these India too, but these are too few and too far between. Access to the latest technology will help MSME, mainly in the manufacturing sector, to reach global standards both in terms of quality and productivity. The recently announced 'Tech-Saksham', a three-year programme launched by the government is one of our first attempts to bridge the massive technology gap in the Indian MSME sector.

C) Market Place

Access to market has been a perennial Challenge for Indian MSMEs. It is partly being corrected by the emergence of digital marketplaces. The fundamental challenge with market access for small businesses comes from a basic handicap of lack of experience and more importantly the money power to back any serious marketing campaign. Unlike their larger competitors, small businesses are constrained by their ability to reach larger global markets. The digitalization of the marketplace today that has created new and more efficient marketplaces like e-commerce platforms are helping small businesses to address markets they did not have access to until now. Efforts to also improve the digital literacy of small business owners is essential to bridge this gap.

The Government for its part is trying to create an environment more conducive for MSMEs in the country with a goal to increase the sector's contribution to 50% (from 29% now), increase the contribution of exports to 75% (from 50% now) and job opportunities to 15 crores (from around 11 crore now with the organised and unorganised segments).

Large economies like the US and China are good examples of riding on small businesses as an effective way to create wealth on a scale never imagined before.

7.3: India, Bharat and Beyond

India is the world's 6th largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). Due to its young population and corresponding low dependency ratio, the Indian economy's long-term growth prospects remains positive. Diving deep into the Indian growth story, we find that there is a paradigm shift in the investment scenario in India. "Financial inclusion" is one of the top most agenda for the government in current times. The participants to India's growth story are not restricted to Metros and Urban areas. They have extended to semi-urban and rural areas as well, thereby reaching the hinterland of country i.e. "India, Bharat and Beyond".

The financial inclusion program including, Pradhan Mantri Jan Dhan Yojana (PMJDY), has made it possible for the previously unbanked population to enter the banking system with the "basic savings account" facilitating direct credit remittances from government and easier access to loans and insurance. More than 33 crore accounts were opened under the scheme with more than 80% being active accounts having greater than ₹ 5.47 lakh crore. The access to easy banking processes like Direct Benefit Transfer (DBT) and insurance schemes like "Ayushman Bharat", together with a focus on financial literacy has resulted in accelerated financialization of the economy.

Easy access to internet, cheaper smart phones and lower telecom tariffs ensured effortless access to information, goods and services. It is projected that internet users in India will cross the 635.8mn by 2021. The increasing digital economy combined with increasing per capita income and shifting demographics offer enormous potential for the financial markets.

Moving away from physical assets to financial assets is a visible trend among the Indian investors, which is clearly portrayed in the growing Asset under Management (AUM) of the mutual fund industry and increased participation in the capital markets. Though India ranks 6th in terms of nominal GDP, on the mutual fund AUM size it ranks only 17th globally thus providing tremendous opportunity for growth for the industry.

The mutual fund industry has played an important part in creating investment awareness as well as bringing the small investors to participate in capital markets. There is a growing participation in capital markets from cities beyond top 15 (B15) cities. These tier 2 & 3 cities (where 90% of Indian households are located) are investing through lump sum and regular investment plans like Systematic Investment Plans (SIPs) indicates an inclusive growth of investment. In short we find increased investor awareness, government support , easy access to information, outperformance by mutual funds vis-à-vis other asset classes like, gold and real estate had drawn the general masses towards the capital markets. We are a new India today with growing hope & ambition from small cities and towns especially from young India.

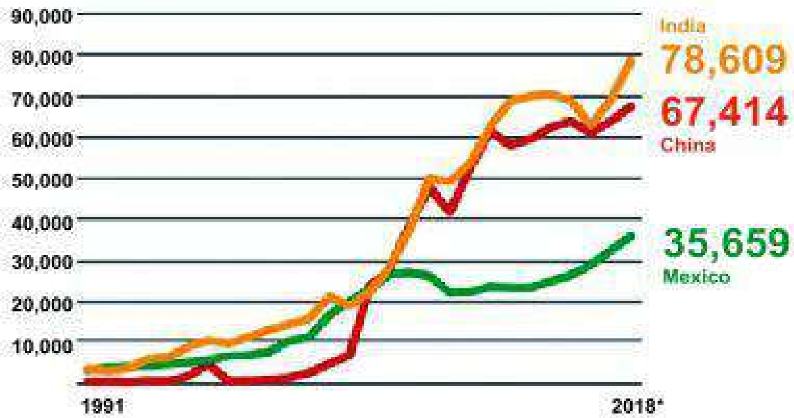
Source : 37 World Bank Data (April 2018)

7.4: Changing trends in NRI

India continued to be the top recipient of remittances in 2018 worldwide with US$ 78.6 Billion followed by China with US$ 67.4 Billion and Mexico with US$ 35.6 Billion. In India remittances grew by 13.98% while the Global remittances, increased by only 8.8% from US$ 633 billion in 2017.

Figure 21

Migrant Remittance Inflows ($ mn)[37]



India is still the preferred investment destination among working class NRIs (Annual Income less than US$ 165,000) and they continue to remit almost 60- 80% of their annual savings to India for investment into avenues like NRE fixed deposits, mutual funds, PMS, residential properties including land & apartments, commercial properties etc. Higher income NRIs (Annual Income more than USD 165,000) have in the past preferred to keep majority of their investments to be in US Dollars only. Below have been 3 primary reasons:

- Currency Depreciation - INR has been depreciating around more than 5% p.a. over the last decade.
- Returns have been low in both Financial Assets & Physical Assets over a decade.
    - o Financial Assets- Sensex has delivered 8.5% CAGR (INR) while the performance of S&P 500 is 11% CAGR (USD) over last one decade.
    - o Physical Assets- Global markets like US, UAE offer higher annual rental yield of 4-6% in USD Vs 2%-3% rental yield in India (INR) in Residential Properties.
- The next generation wants to settle abroad

But this is changing now, with even this segment increasing this investment allocation to India.

They too believe in India's Growth story and prefer to participate in Indian equity market through Dollar route to have ease of execution. We have seen the increased participation into AIFs and unlisted equities in India by NRIs to complement their traditional portfolios.

Non Residential Indians (NRI) are moving fast from being Non Investing Indians (NII) to Investing Indians (II). They are investing through both INR and USD with preferred asset class as equity and various other instruments like direct equity, PMS, private equity and mutual funds. **NRIs have invested around ₹93,500 Crores in Indian Mutual Funds and almost 50% of it has come from GCC itself**

SECTION 08

FUTURE OF INDIA'S INDIVIDUAL WEALTH

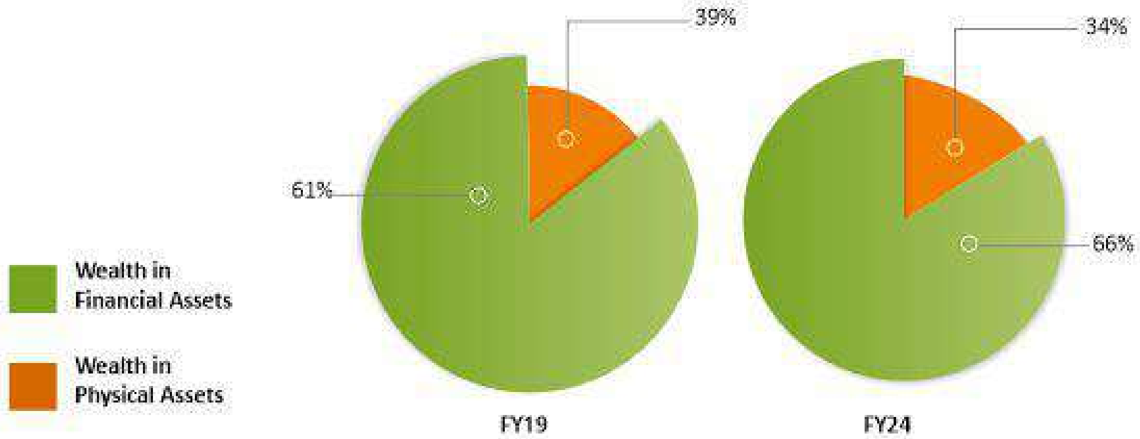
We estimate that Individual wealth in India would grow at a CAGR of 13.19% over the next five years to reach a total of ₹799 lakh crores.

Table 26: Individual Wealth Forecast

Asset Type	FY 19 Amount (₹ Crore)	FY 24 Amount (₹ Crore)	CAGR %	Proportion FY19 %	Proportion FY24 %
Financial Assets	2,62,10,624	5,28,16,171	15.04	60.95	66.11
Physical Assets	1,67,94,231	2,70,78,359	10.03	39.05	33.89
Total	**4,30,04,855**	**7,98,94,530**	**13.19**	**100**	**100**

The share of financial assets is estimated to grow from 61% to 66% by FY24.

Figure 22 **Figure 19: Breakup of Financial and Physical Assets in FY19 and FY24**



Projected Financial Wealth –Asset class wise distribution in FY24

Total Individual Wealth in India in financial assets is expected to be more than double to ₹ 528 Lakh crore by FY24 at a CAGR of 15.04%. The top growth drivers for financial assets over the next five years are going to be Direct Equity, Unlisted Equity, Mutual Funds and Alternate Assets at 21.31%, 28.27% ,18.32% and 21.62% CAGR respectively.

Figure 23 **Proportion of Financial Wealth in FY24**

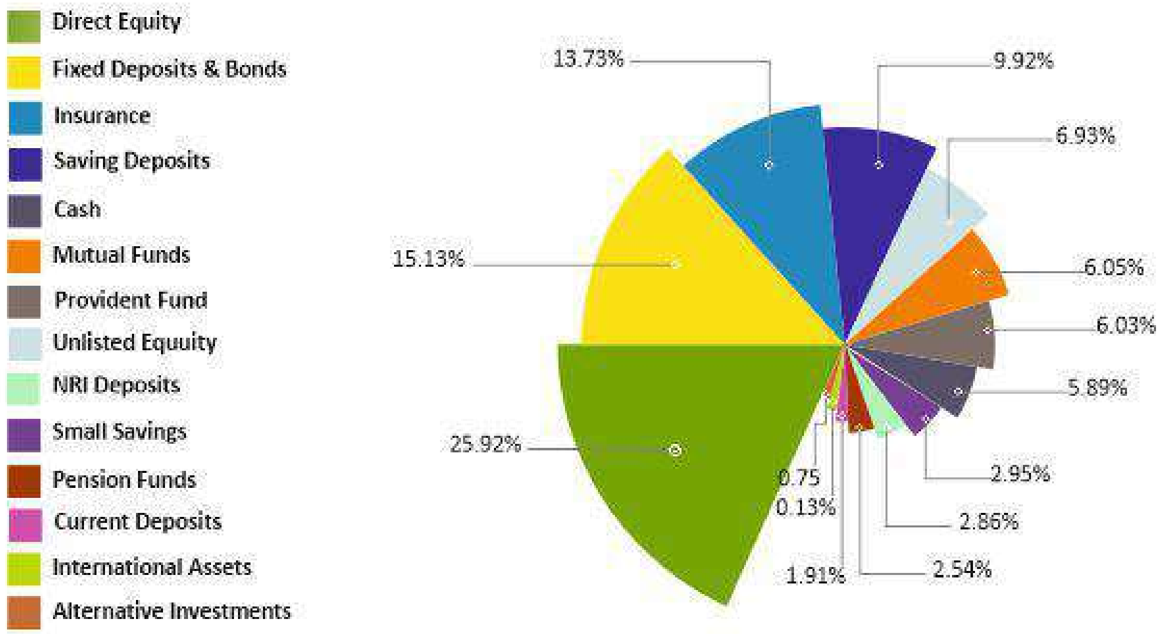


Table 27: Projected Wealth in Financial Assets - distribution in FY24

Asset Class	FY19 Amount (₹ Crore)	FY24 Amount (₹ Crore)	CAGR %	Proportion FY24 %
Fixed Deposits & Bonds	45,82,098	79,89,166	11.76	15.13
Direct Equity	52,10,394	1,36,88,202	21.31	25.92
Insurance	36,90,729	72,49,606	14.46	13.73
Savings deposits	34,22,381	52,38,517	8.89	9.92
Cash	20,52,220	31,08,992	8.66	5.89
Provident Fund	16,62,863	31,82,940	13.87	6.03
Mutual funds	13,77,036	31,92,872	18.32	6.05
NRI Deposits	9,02,087	15,09,668	10.85	2.86
Unlisted Equity	10,54,325	36,61,267	28.27	6.93
Small Savings	8,61,047	15,57,170	12.58	2.95
Pension Funds	7,24,907	13,39,899	13.07	2.54
Current Deposits	4,87,281	6,29,975	5.27	1.19
Alternative Investments	1,49,118	3,96,827	21.62	0.75
International Assets	34,138	71,071	15.80	0.13
Total	**2,62,10,624**	**5,28,16,171**	**15.04**	**100**

Projected Wealth in Physical Assets - distribution in FY24

Total Individual Wealth in India in Physical Assets is expected to rise to ₹ 270 lakh crore by FY24 from the current ₹ 168 Lakh crore in FY19 at a CAGR of 10.03%. As per Karvy estimate investment in both Gold and real estate are expected to comfortably cross ₹ 1 lakh crore each

Figure 21 Proportion of Physical Wealth in FY24

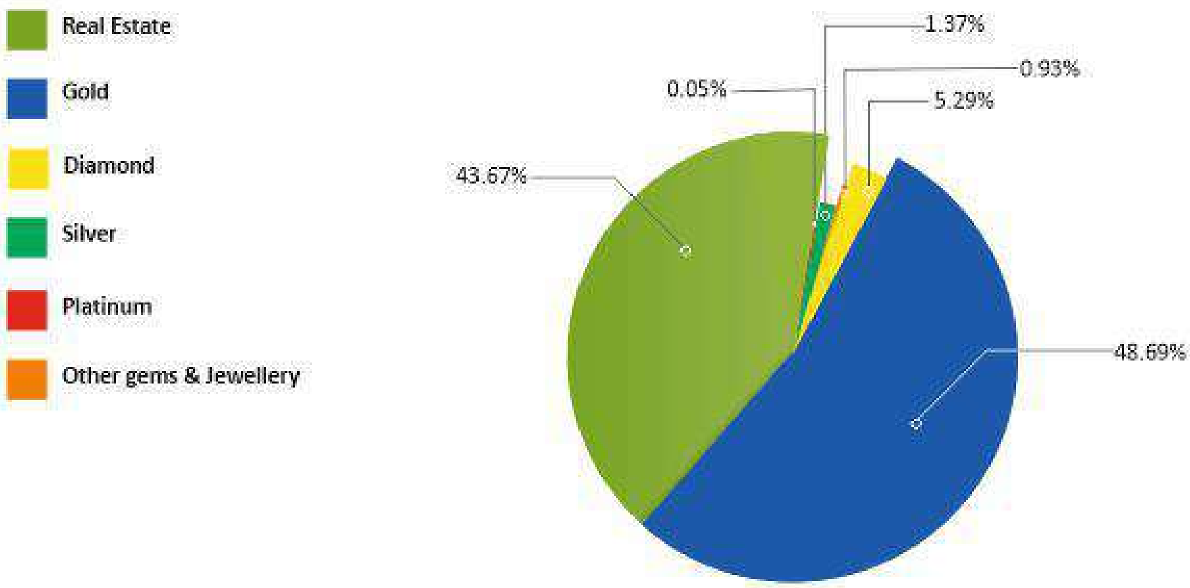


Table 28: Projected Wealth in Physical Assets - distribution in FY24

Asset Class	FY19 Amount (₹ Crore)	FY24 Amount (₹ Crore)	CAGR %	Proportion FY24 %
Gold	80,94,187	1,31,84,895	10.25	48.69
Real Estate*	74,52,944	1,18,24,781	9.67	43.67
Diamond	8,58,156	14,31,834	10.78	5.29
Silver	2,42,771	3,71,864	8.90	1.37
Other Gems & Jewellery	1,37,656	2,52,075	12.86	0.93
Platinum	8,517	12,909	8.67	0.05
Total	1,67,94,231	2,70,78,359	10.03	100

*It may be worthwhile to note that for the purpose of this report, primary residence and commercial properties are not considered.

KEY TRENDS

1

Total wealth held by Individuals in India has grown by 9.62% to ₹ 430 lakh crores. Individual wealth in Financial Assets grew by 10.96%, while that in Physical Assets grew by 7.59%.

2

Financial Assets have continued its growth trajectory to create wealth and now constitute 60.95% of total individual wealth in India.

3

In the last 5 years HNI population in India has grown by 64.10% to reach 2,56,000 in 2018 from 1,56,000 in 2014.

4

Top 2 financial assets in FY19 are Direct Equity and FD & Bonds with 19.88% & 17.48% proportion respectively.

5

Mutual funds grew by 17.90% in FY19 and the proportion of Equity in Mutual Funds stood at 69% and debt was 31%.

6

International Assets, Pension Funds and Alternative Investments are the three areas within financial assets which have shown the highest growth in Fy19 at 31.16%, 21.93% & 20.19% respectively.

7

Investments in equity as an asset class in India are 18.89% of the total investments whereas globally the figure is as high as 25.70%.

8

By 2024 total individual wealth is expected to grow at a CAGR of 13.19% to reach ₹799 lakh crores. Financial assets will nearly double to ₹528 lakh crores with CAGR of 15.04% and Physical Assets will grow at 10.03% CAGR to reach ₹270 lakh crores.

9

Share of Financial Assets in total individual wealth is expected to increase to 66.11% in FY24 while that of Physical Assets would be only 33.89%.

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