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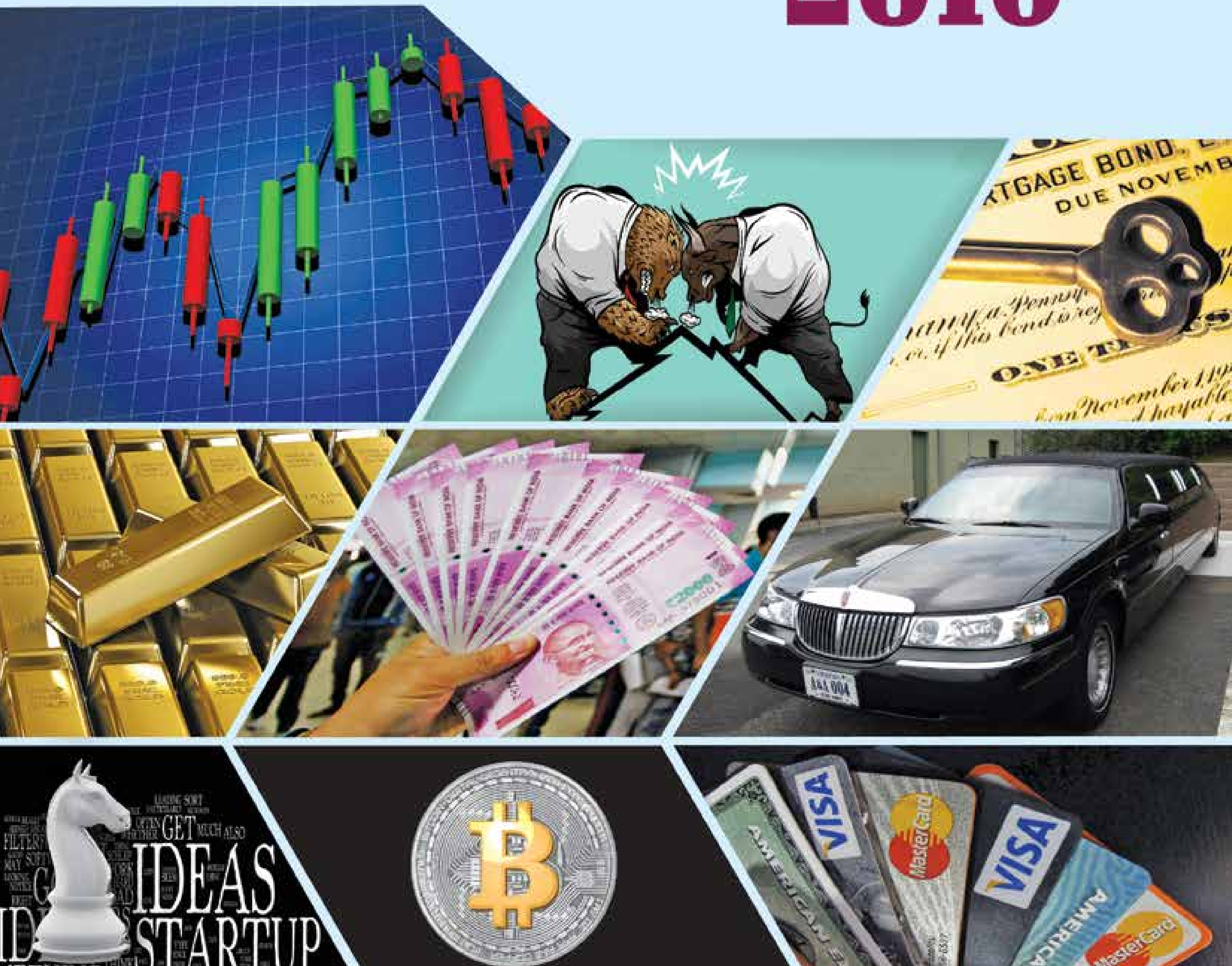
KARVY PRIVATE WEALTH

INDIA WEALTH REPORT 2016



"The times they are a-changing..."

-Bob Dylan

KARVY PRIVATE WEALTH

Of demonetisation, 'less cash' and more wealth

It gives me immense pleasure in presenting to you the 7th edition of our India Wealth Report. Every year, we analyse in detail, through in-depth data collection, where and how Indian individuals have placed their hard-earned monies; which are the asset classes where the investor confidence is growing and which are the ones where it is falling. This year, our research throws up some new, interesting trends.

Financial assets came in for some pain in FY16, as the under-performance of the equity markets reduced investors' wealth, especially retail participants. However, this was reasonably compensated by a rise in wealth held in avenues such as fixed deposits, bonds and small savings schemes.

Investments in alternate asset classes have also risen, albeit on a low base. Investments in physical assets also revived, especially in gold. In this edition, for the first time, we have also started tracking a new physical asset class: other gems & jewellery, where individual wealth amounted to around Rs 78,000 crore in FY16.

In the years ahead, the financial landscape in India is bound to considerably change owing to reforms such as the Goods & Services Tax (GST), Real Estate (Regulation and Development) Act, the Bankruptcy Code, etc. Of special mention are also the changes that will be heralded by the government's demonetisation exercise (which we prefer to call remonetisation): financial inclusion, a systematic campaign against black money and active discouragement of tax evasion.

One has to now factor in a possibility of another 'black swan' event like demonetisation in any future crystal ball gazing. Such events can be termed ***Na Bhuto, Na Bhavishyati*** (What had never happened in the past will not repeat in future) events as described in ancient times. The outcomes of these events can be totally unpredictable. At the same time, as 'change is the only constant', one needs to be ready to wholeheartedly accept the same.

To this end, we also feature two exclusive notes — **"Demonetisation: A leap ahead or a step back?" and "Is India still fighting shy of the BitCoin-BlockChain duo?"** — that examine the metamorphosis with respect to money and whether India is on the cusp of adopting technologies that can revolutionise the entire financial services spectrum.

We end this report with our projections of asset class preferences over the next 5 years. By FY21, we expect total individual wealth to reach Rs 558 lakh crore, growing 12.90%. Investments in financial assets are expected to grow at a faster pace vis-à-vis physical assets. Please read on for more details.

I am confident that you will find this study useful both as a reader and an investor. Please write to me if you wish to have a more detailed discussion on any of the contents of this report, at abhijit.bhave@karvy.com.

Happy reading,

Keep Growing with Karvy Private Wealth

Abhijit Bhave
Chief Executive Officer
Karvy Private Wealth


India

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KARVY PRIVATE WEALTH

In FY16, total wealth held by individuals in India grew by 8.5% to ₹ 304.2 lakh crore (see table 1). Investments in financial assets too grew, although at a slower 7.14%, mainly dampened by the bleak performance of direct equities. Among financial assets, there was reasonable growth in fixed deposits and bonds, provident funds and small savings schemes, the last mainly due to the success of the Jan Dhan Yojana (under which 25 crore accounts have been opened currently). Individual wealth in physical assets (such as gold and real estate) grew sharply at 10.32% vis-à-vis a 2% fall in FY15. Stupendous growth was also witnessed in alternate and international asset classes. This could however, be explained away by a low base, as most of these are just HNI[1]-specific asset classes and account for a small share of the investments pie in India.

On the macroeconomic front, GDP growth for FY16 has come in at 7.6%, rising from 7.2% in FY15. Growth was largely propelled by an 8% rise in the closing quarter of FY16, led by a spurt in consumption, despite some pressure on corporate earnings and investments. Key sectors that drove up this number included manufacturing, financial services, etc.

However, progress in terms of actual reforms was slower in FY16, with the passage of key bills such as the Goods & Services Tax (GST) taking more than the expected time for various reasons. Key indicators such as inflation also affected cheer; retail inflation touched a 14-month high of 5.4% in December 2015.

However, the economy is in for some stormy change amid events such as demonetisation, Donald Trump's victory in the US presidential elections and the rate hike by the US Federal Reserve. Already, indications are that India's GDP will grow at a slower rate in FY17 than rates of 7.4-7.5% expected earlier. However, on the positive side, demonetisation is expected to help India leverage on the power of a digital economy, turning it cashless gradually.

Note | 1 - HNI refers to individuals having investible assets of USD 1 million and more excluding primary residence, collectibles and consumer durables

Global Private Financial Wealth

In 2015, Global Private Financial Wealth grew by 5.2% y-o-y in 2015 to $168 trillion[2], much slower than the 12% growth observed in 2014. For the first time, Asia-Pacific has come to the forefront in terms of the growth in HNI wealth surpassing even North America.Total private financial wealth in the region grew by almost 13%[3], while the wealth held by UHNI[4] grew by 15%.

Year-on-year growth in UHNI population was also a bit slower than in 2014, with the number barely rising to 200 million in 2015 from 198 million in the previous year[5], largely due to underperforming equity and real estate market in various economies. Nevertheless, China, India, and Hong Kong, and the financial services, technology, and healthcare sectors are expected to drive Asia-Pacific growth through 2025, while the region's UHNI wealth could surpass $42 trillion by 2025[6]. By the same time, India's HNI population is expected to reach nearly 6 lakh by 2025.

Table 1: Total Individual Wealth in India in FY16

Asset Type	FY16 Amount (₹ Crore)	FY15 Amount (₹ Crore)	Proportion (%)	YoY Chg (%)
Financial Assets	1,72,02,099	1,60,55,687	56.53	7.14
Physical Assets	1,32,26,839	1,19,89,286	43.47	10.32
Total	**3,04,28,938**	**2,80,44,973**	**100**	**8.50**

Individual wealth in India

India's individual wealth is calculated by collating the private wealth in all asset classes in which individual investors make their investments. It does not consider government and institutional investments. In this report, investments made by all individuals in financial and physical assets are considered.

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

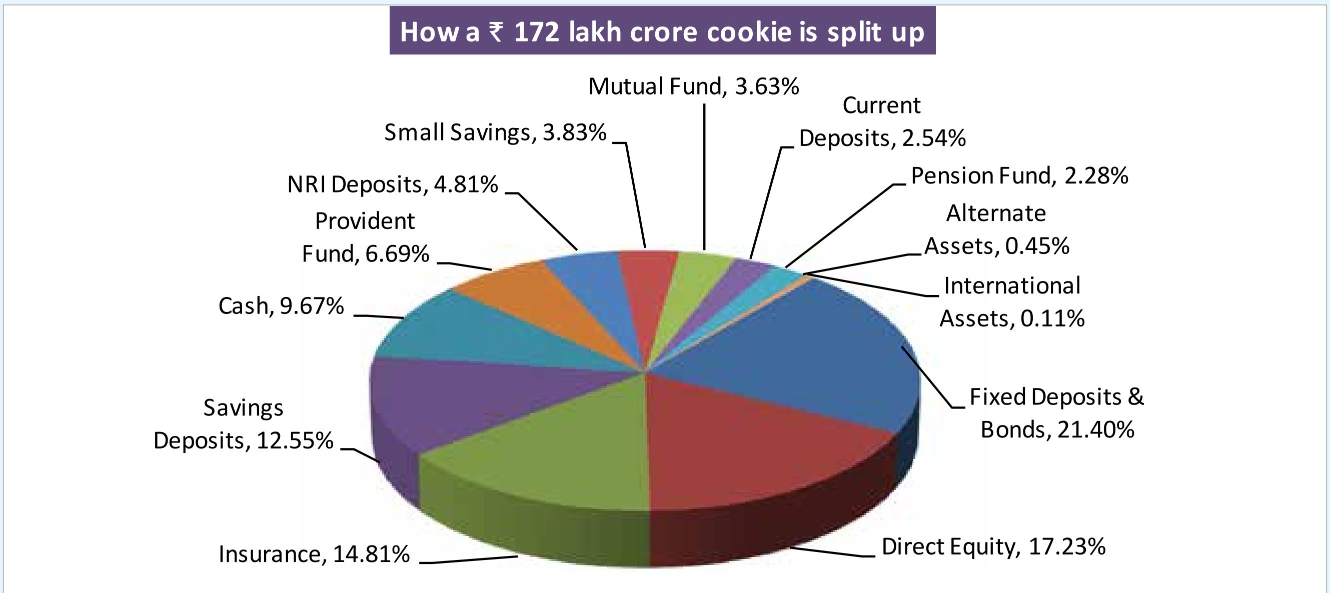
Assets	FY16 Amount (₹ Crore)	FY15 Amount (₹ Crore)	FY16 Proportion	FY15 Proportion	YoY Change
Fixed Deposits & Bonds	36,81,658	33,26,429	21.40%	20.72%	10.68%
Direct Equity	29,63,883	34,39,861	17.23%	21.42%	-13.84%
Insurance	25,47,563	23,59,790	14.81%	14.70%	7.96%
Savings Deposits	21,59,478	19,90,249	12.55%	12.40%	8.50%
Cash	16,63,432	14,48,320	9.67%	9.02%	14.85%
Provident Fund	11,51,027	9,24,026	6.69%	5.76%	24.57%
NRI Deposits	8,26,727	7,20,997	4.81%	4.49%	14.66%
Small Savings	6,58,596	5,78,990	3.83%	3.61%	13.75%
Mutual Fund	6,23,825	5,52,325	3.63%	3.44%	12.95%
Current Deposits	4,37,262	3,42,785	2.54%	2.13%	27.56%
Pension Fund	3,92,682	3,15,915	2.28%	1.97%	24.30%
Alternate Assets	77,503	41,960	0.45%	0.26%	84.71%
International Assets	18,462	14,040	0.11%	0.09%	31.50%
Total Financial Assets	**1,72,02,099**	**1,60,55,686**	**100.00%**	**100.00%**	**7.14%**

Total individual wealth in financial assets grew by only 7.14% in FY16 (see table 1), much slower than in FY15 when wealth had grown nearly 19%. Direct equity reversed positions with fixed deposits & bonds as its share dropped to 17.23%. Insurance retained the third spot, while all other classes gained marginally over FY15 (see figure 1).

Note 2,3 BCG Wealth Report 2016 | 4 - UHNI are individuals having $30 million or more investible wealth. | 5 ,6: Source: Capgemini RBC Wealth anagement Asia-Pacific Wealth Report 2016.

The year FY16 witnessed a resurgence in terms of investments in physical assets. Over FY16 to FY21, we expect individual wealth in financial assets to clock a CAGR of 14.73% to ₹ 342 lakh crore, while that in physical assets is expected to clock a CAGR of 10.32% to ₹ 216.3 lakh crore. Direct equity investments are expected to clock more than a 20% CAGR over the next 5 years and regain their position as the most preferred asset among financial assets by FY20 (or may be even by FY18). Similarly, in terms of real estate, while growth is expected to slow, in line with a likely fall in prices, investors should observe the market movements and exit the property at the right time in order to maximize their returns.

Figure 1: How financial wealth reshaped in FY16



Indian wealth in Physical Assets in FY16

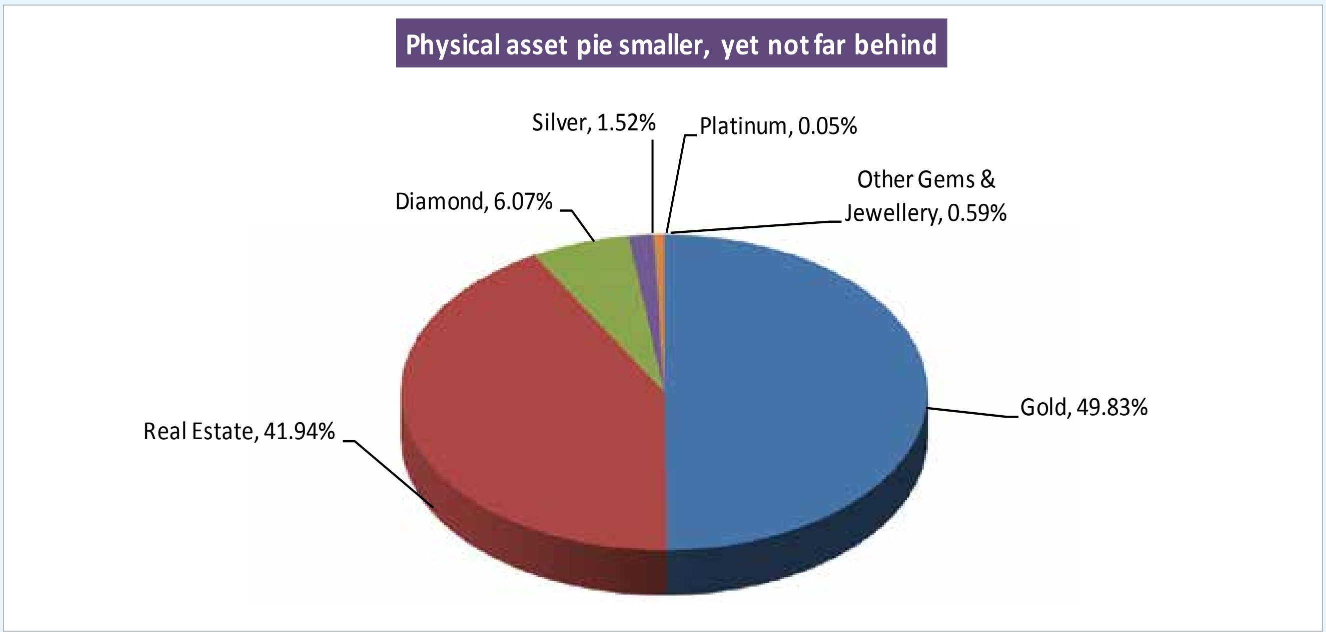
The story with physical assets seems much better. While in FY15, total investments in physical assets fell 2.3%, wealth in physical assets rebounded sharply, growing by 10.32% in FY16 (see table 3).

Table 3: Classification of Individual Wealth in India in Physical Assets

Assets	FY16 Amount (₹ Crore)	FY15 Amount (₹ Crore)	FY15 Proportion	FY15 Proportion	YoY Change
Gold	65,90,575	57,15,605	49.83%	47.67%	15.31%
Real Estate	55,47,254	52,85,577	41.94%	44.09%	4.95%
Diamond	8,02,840	7,98,934	6.07%	6.66%	0.49%
Silver	2,01,170	1,84,472	1.52%	1.54%	9.05%
Platinum	6,452	4,698	0.05%	0.04%	37.34%
Other Gems & Jewellery	78,548		0.59%	0.00%	
Total Physical Assets	**1,32,26,839**	**1,19,89,286**	**100.00%**	**100.00%**	**10.32%**

Individual Wealth in physical assets stood at ₹132 lakh crore, having grown 10.32% in FY16 compared with a 2% decline in FY15. Individual wealth in gold stands at ₹ 65.90 crore having almost half the share, whereas monies in real estate (excluding primary residences) come a distant second at ₹ 55.47 lakh crore. Gold and real estate together form nearly 92% of the physical wealth in India.

Figure 2: How physical wealth reshaped in FY16



Classification of Individual Wealth in Key Asset Classes

Table 4: Classification of Individual Wealth in India in Key asset classes

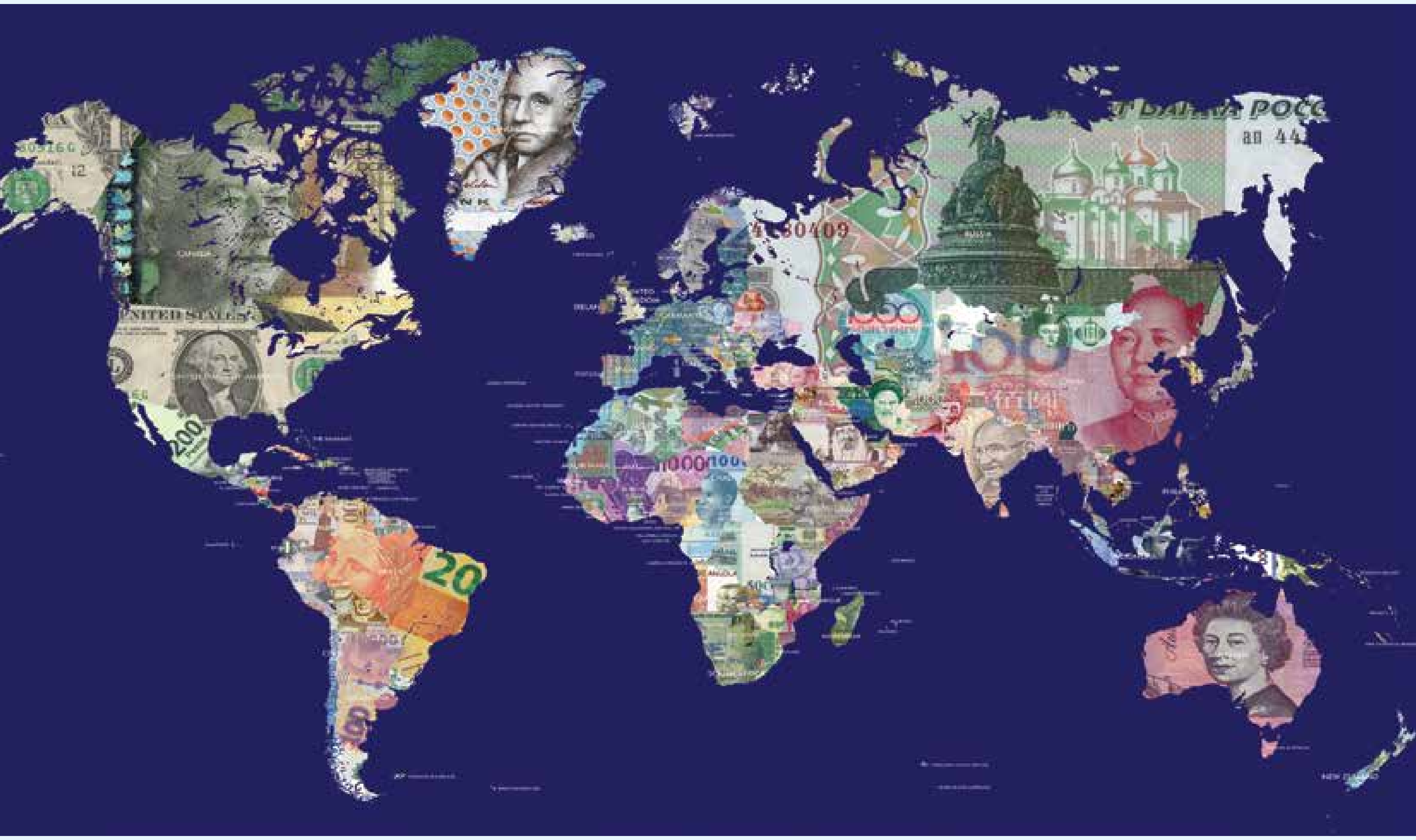
Asset Class	FY16 Amount (₹ crore)	FY15 Amount (₹ crore)	FY16 Proportion	FY15 Proportion
Equity	39,56,303	44,45,496	13.00%	15.85%
Debt (Including Cash)	1,31,15,652	1,15,53,990	43.10%	41.20%
Alternate Assets (Including Gold & Other Precious metals & gems)	78,09,728	67,59,710	25.67%	24.10%
Real Estate	55,47,254	52,87,577	18.23%	18.85%
Total	**3,04,28,9378**	**2,80,46,973**	**100.00%**	**100.00%**

In terms of overall individual wealth in India, FY16 witnessed an increase in the share of debt and alternate assets, while the proportion of equity and real estate dropped.

Key Trends

1. Total wealth held by Individuals in India has grown by 8.5% to ₹ 304.2 lakh crore. Individual Wealth in financial assets grew by 7.14%, while that in Physical Assets grew by 10.32%. This is in contrast to the previous year when wealth in physical assets had declined and those in financial assets had grown by 19%
2. Owing to the turbulent year in the equity markets, which fell 4-5%, Fixed Deposits regained the top spot as the most preferred vehicle among financial assets. Considering the demonetization of old high-value notes leading to a surge in bank deposits, Fixed Deposits are expected to continue holding the top spot for the next one year
3. Small Savings and Saving Bank Deposits have seen a huge growth on account of the government focus on the Jan Dhan Yojana
4. As per our estimates, over the next 5 years, the overall individual wealth in India is expected to grow to ₹ 558 lakh crore from the current ₹ 304 lakh crore, at a CAGR of 12.90%. Financial assets are expected to grow at a faster pace of 14.73% CAGR to nearly double in the next 5 years
5. The current demonetization drive is expected to slow down the GDP growth rate in 2017 for the short term. However it is expected to regain its speed from FY18. The Real Estate sector is expected to see a price correction in the urban markets, leading to an increase in end-user demand
6. The last year has seen a dip in individuals' wealth proportion held in equities (16% to 13%), owing to the equity market giving negative returns of 4-5%. The significant gain on the other hand has been in Gold where not only have prices increased but also there is a positive sentiment seen in investors to flock towards gold
7. There is an increasing trend of HNIs investing in exotic and exclusive kind of investment options, especially Alternative assets. The category grew by 84.70% over FY15 and the growth is expected to continue in the next 5 years although at a slightly slower pace
8. Direct Equity is expected to grow at a more than a 20% CAGR over the next 5 years. It is expected to regain its position as the most preferred asset among Financial assets anytime before FY20
9. We expect India as a nation to move towards a 'less-cash' economy and also a differently-taxed economy in the coming years
10. A new trend may be that HNIs also try out investing and allocating some portion of their wealth in the coming years in opportunities such as Bitcoins which although popular in many developed economies, are yet to catch up and gain acceptability in India

Section 1

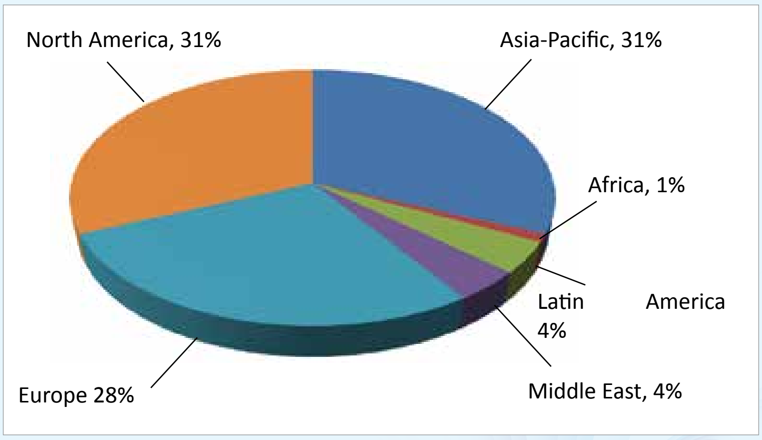


Global Individual Wealth

In 2015, Global Private Financial Wealth grew by 5.2% y-o-y in 2015 to $168 trillion[7] compared with a 12% growth in 2014. However, an interesting trend is that for the first time, Asia-Pacific has come to the forefront surpassing even North America - growth in North America was a meagre 1.8%, whereas Asia-Pacific grew at 13.4%. The Asia-Pacific was also home to the largest proportion of UHNIs (31%). In Europe, Private Financial Wealth grew by 4-6%.

Japan and China together drove nearly 60% of UHNI population growth.

Figure 3: Global HNI Population



Note 7 - Source: BCG Wealth Report 2016

Global UHNI wealth is projected to surpass $100 trillion by 2025, nearly three times the 2006 number, again led by strong growth in Asia-Pacific, where the number could rise to $42 trillion[8], far outstripping North America's expected $25.7 trillion. By 2025, using historical growth rate assumptions Asia-Pacific's HNWI population would more than double to 11.7 million individuals, well ahead of the anticipated 7.6 million for second-place North America. If past growth rates hold, this region would remain a dominant force over the next decade, representing 40% of the world's HNWI wealth, more than that of Europe, Latin America, and the Middle East and Africa combined.

Figure 4: Global UHNI Wealth Allocation

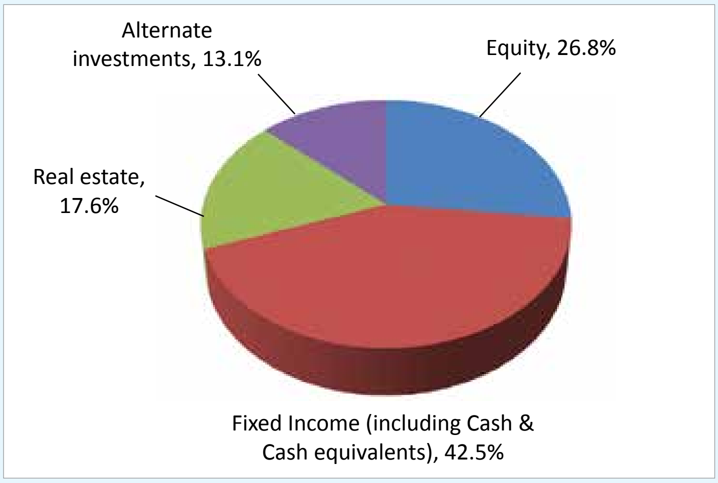


Table 5: Classification of Global Wealth Across Key Asset Classes

Key Assets	2016 (%)	2015 (%)
Equity	24.8	26.8
Debt (Including Cash)	41.6	42.6
Alternate Assets	15.7	13.0
Real Estate	17.9	17.6
Total	**100.0**	**100.0**

In the past decade too, the region has bested other regions, growing its UHNI population as well as wealth levels by 100% or more. In terms of asset allocation, globally, equity retained a slight lead vis-a-vis cash (and equivalents),

Note 8 - Source: Capgemini RBC Wealth Management World Wealth Report 2016

Economic Outlook

2.1 Global Economy

For 2015, the IMF (The International Monetary Fund) cited increasing financial turbulence' as the reason for a weak global recovery. Activity softened toward the end of 2015 in advanced economies, and stresses in several large emerging market economies showed no signs of abating. Adding to these headwinds are concerns about the global impact of a slowdown in China's economy as it transitions to a more balanced growth path after a decade of strong credit and investment growth, along with signs of distress in other large emerging markets, including from falling commodity prices[9].

On the other hand, financial market sentiment toward emerging market economies has improved with expectations of lower interest rates in advanced economies, reduced concern about China's near-term prospects following policy support to growth, and some firming of commodity prices. But prospects differ sharply across countries and regions, with countries such as Indonesia, Malaysia, Thailand, etc, in general and India in particular showing robust growth — 6-6.5%, while sub-Saharan Africa is amid a sharp slowdown.

In advanced economies, a subdued outlook subject to sizeable uncertainty and downside risks may fuel further political discontent, with anti-integration policy platforms gaining more traction. Several emerging market and developing economies still face daunting policy challenges in adjusting to weaker commodity prices. These worrisome prospects make the need for a broad-based policy response to raise growth and manage vulnerabilities more urgent than ever. The US was the fastest-growing developed economies in 2015 but Canada continued to lose momentum in the wake of lower oil prices.

Reduced commodity prices including the sharp fall in crude oil prices, choppy financial markets, substantial contraction in world trade, the rebalancing of the global economy including China and volatility in exchange rates were the main reasons of slow economic growth in 2015. Key developments were as follows:

- The **Eurozone** recovered because of solid domestic conditions backed by an improving labour market, low crude oil prices and an ultra-loose monetary policy.
- **Latin America's** overall economic activity contracted amid lower commodity prices, decelerations in major trading partners and persistent domestic challenges. With GDP falling in Brazil, Ecuador and Venezuela, South America saw overall economic growth turn negative, to an estimated -2.1% in 2015.
- **Middle East and North Africa** expanded with a stable growth of 2.5% in 2015.

Elsewhere, regional growth was slightly negative, against a backdrop of weaker commodity prices, tightening financial conditions, domestic headwinds, and dampened medium-term prospects.

Projections

Latest projections by the International Monetary Fund (IMF), projects the world economy to grow by 3.1% in 2016, before further recovering to 3.4% in 2017[10]. The subdued forecast reflects events such as the Brexit. Such developments highlight the need for global monetary policy to remain accommodative, which will keep up the downward pressure on global interest rates.

China's growth is projected to decline from 6.7% in 2016 to 6.5% in 2017 and 6.3% in 2018[11], as the economy continues to rebalance toward consumption, services and higher-value-added activities, and as excess industrial capacity is reduced.

Japan's growth is projected to remain weak at 0.5% in 2016, before rising to 0.6% in 2017[12]. Countries that are deeply integrated with the world's second largest economy felt the brunt of the pain in 2015 due to fall in Chinese demand and sharp swings in China's financial and exchange rate markets reverberated across these countries.

The **Eurozone's** recovery is expected to proceed at a slightly lower pace in 2016–17 relative to 2015. Low crude oil prices, a modest fiscal expansion in 2016 and easy monetary policy will support growth, while weak-

Note | 9 - IMF | 10, 11, 12 - IMF, World Bank er investor confidence on account of uncertainty following the Brexit vote will weigh on activity.

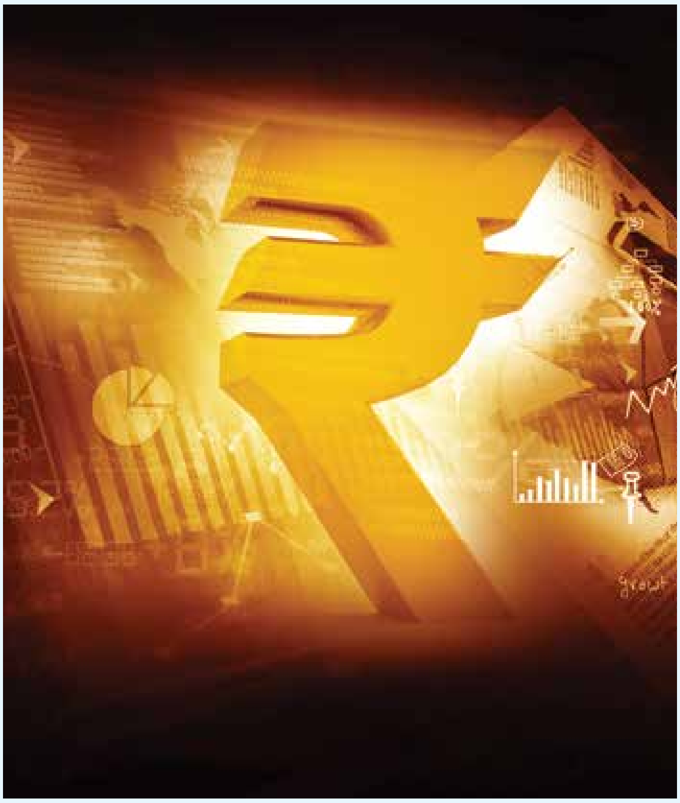
Sub-Saharan Africa's GDP growth slowed to 3.4% in 2015 from 5.1% in 2014[13]. External factors like lower commodity prices, slowdown in major trading partners (e.g. China), and decline in capital flows (Normalising monetary policy of the US) were responsible for slowdown. Furthermore, domestic factors like political instability (South Africa & security threats in Kenya, Nigeria), Boko Haram insurgency, electricity shortages were major reasons behind the declining effect.

In **Middle East and North Africa,** growth is expected to jump to more than 5% in 2016 and 2017[14]. Rapid growth picked up in the Islamic Republic of Iran, the largest developing economy in the region, as sanctions were suspended under the Joint Comprehensive Plan of Action.

2.2 India: A bright spot among emerging markets

Despite the uncertain global economic background, India remained a largely positive among emerging economies, registering a GDP growth rate of 7.2% in 2014-15 that rose to 7.6% in 2015-16. India remains one of the fastest growing major economies in the world and has been declared a bright spot in the global economic development by both, the World Bank and the IMF. The recent demonetization exercise is expected to impact GDP growth in the short term, with the number averaging at 6-6.5%.

Foreign exchange reserves stood at around $360 billion — and as such helped India meet the redemption of foreign currency non-repatriable deposits through the course of FY17 — at end April 2016[15]. Despite occasional volatility, the rupee was among the best-performing currencies in FY16 posting a return of 1.04%, aided by the government's reforms push, the RBI's support and lower crude oil prices among other factors.



The years ahead...

The Indian economy has held its ground firmly amidst global headwinds; with record high foreign exchange reserves and a declining current account deficit (CAD) and trade deficit. While in the long run, India's growth prospects look sharp, some short-term pain is due in FY17, given events such as the Brexit, Donald Trump's surprise win in the US polls, and more lately the government's surprise demonetisation. About ₹ 14.6 lakh crore was dredged from the system in one swoop, affecting multiple stakeholders.

In the coming years, however, the Indian economy is expected to outperform its global peers and clock an average growth of 7% over the next five years.

Note 13, 14 - IMF, World Bank | 15 - RBI

Individual Wealth in India

Classification of physical and financial assets

Financial Assets

- Fixed Deposits & Bonds
- Direct Equity
- Insurance
- Savings Deposits
- Cash
- Provident Fund
- NRI Deposits
- Small Savings
- Mutual Fund
- Current Deposits
- Pension Fund
- Alternate Assets
- International Assets

Physical assets

- Gold
- Real Estate
- Diamond
- Silver
- Platinum
- Other Gems & Jewellery

In FY16, financial assets retained their dominance in the wealth pie held by individuals in India, though investors' faith in physical assets moved up by one percentage point. This change could be explained by the massive exit from equity markets by retail investors in the direct equities space. Such an exit was triggered by negative sentiment surrounding events such as sluggish growth in China and plummeting crude oil prices. Back home, delay in key reforms such as the GST Bill and the Land Bill added to the depression.

In terms of overall individual wealth in India, FY16 witnessed an increase in the share of debt and alternate assets, while the proportion of equity and real estate dropped.

Table 6: Total Individual Wealth in India

Asset Type	FY16 Amount (₹ Crore)	FY15 Amount (₹ Crore)	Proportion (FY16)	YoY Change
Financial Assets	1,72,02,099	1,60,55,687	56.53%	7.14%
Physical Assets	1,32,26,839	1,19,89,286	43.47%	10.32%
Total	**3,04,28,937**	**2,80,44,973**	**100.00%**	**8.50%**

Individual Wealth in Financial Assets

4.1 Fixed Deposits And Bonds

In FY16, fixed deposits and bonds regained the top spot as the largest financial asset class to hold individual wealth. This segment comprises fixed deposits (both bank and corporate); deposits with NBFCs and RNBCs (Residuary Non-banking Companies), besides bonds & debentures. Total wealth in this category grew almost 11% (see table 7).

Table 7: Break-up of assets held in fixed deposits and bonds

Sub Assets	FY16 Amt (₹ Crore)	FY15 Amt (₹ Crore)	YoY Chg (%)
Bank Fixed Deposit	35,12,655	31,76,491	10.58%
NBFC & RNBC Deposit	37,211	30,687	21.26%
Corporate Fixed Deposit	15,356	29,887	-48.62%
Bonds & Debentures	1,16,436	89,363	30.30%
Total	36,81,658	33,26,428	10.68%

Bank Fixed Deposits

Bank fixed deposits continue to hold fort even today. **The total individual wealth in bank fixed deposits has grown almost 10.58% to a whopping ₹ 35.12 lakh crore as of FY16.** This is because FDs are a safe investment avenue.

Table 8: Composition of Individual Wealth in Bank Fixed Deposits

Bank Category	FY16 Amt (₹ Crore)	FY15 Amt (₹ Crore)	YoY Chg (%)
Scheduled Commercial Banks	3,358,832	3,032,491	10.76%
Scheduled Co-Operative Banks	153,823	144,000	6.82%
Total	3,512,655	3,176,491	10.58%

The movement in interest rates is a significant indicator of investors' preference for fixed deposits. At the height of the crisis and until 2013-14, FD rates hovered at 8.5-9%[16], but they have come down to 7.25-7.75%[17] in FY16, mainly because of a cumulative cut of 125 basis points (bps) in the repo rate by the RBI.

Demonetisation impact: Demonetization of old high-denomination notes has led to banks turning slush with deposits in the days since November 8, prompting some of them to cut deposit rates, which could be a negative for those with an eye on fixed deposits as an asset class. However, as the idle money in the system has found its way to the bank, we expect it to remain in savings deposits and FDs.

Note 16, 17 - RBI

Corporate Fixed Deposits

Corporate fixed deposits are suited for investors who want slightly higher returns on their investments as compared to bank fixed deposits over a fixed tenure. However, they have a higher default risk attached to them and hence offer higher rates than a bank fixed deposit.

Individual wealth in corporate FDs fell further by almost 49% y-o-y to ₹ 15,356.47 crore in FY16, mainly on account of a provision in the Companies' Act 2013 that mandates firms to obtain credit rating, provide deposit insurance, maintain a deposit repayment reserve account. Though the law has made it safer for investors, it may affect issuances of these instruments in the market.

NBFC and RNBC Deposits

In line with the trends in bank deposits, growth in deposits with non-banking financial companies (NBFCs) also took a hit, growing 29-30% in FY16 (see table 10) as such deposits offered higher interest rates as compared with FDs. Residuary Non Banking Companies (RNBCs) are a classs of NBFCs whose principal business is to receive deposits, under any scheme or arrangement[18] or in any other manner and not being investment. Amount parked in RNBCs have been going down continuesly. In FY16, deposits with RNBCs in fact, plunged by over 50%. **Total individual wealth in NBFC deposits grew at a reasonable 21.26% y-o-y in FY16.** In the years ahead, deposits with NBFCs are expected to grow further, as the demonetisation exercise brings in more money into organised banking channels.

Table 9: Composition of assets in NBFCs and RNBCs

Type of NBFCs	FY16 Amt (₹ crore)	FY15 Amt (₹ crore)	YoY Change
NBFCs	35,653	27,504	29.63%
RNBCs	1,558	3,183	-51.05%
Total	**37,211**	**30,687**	**21.26%**

Bonds and Debentures

In all, FY16 was a busy year in the bond market, as regulators hiked the cap on investment for FIIs in government bonds to 5% of outstanding stock (to be done in phases by March 2018), which is expected to create room for additional inflows of ₹ 1.2 lakh crore by that date. The move was made to set right the huge exit by FIIs in the equity markets and more importantly to avoid any adverse repercussions of a potential interest rate hike by the US Federal Reserve.

For domestic investors, there was a re-entry of tax-free bonds after almost one year. Tax-Free Bonds (TFBs) to the tune of ₹ 40,000 crore, were allowed in FY16[19], starting October with varying tenures of 10, 15 and 20 years.

Table 10 – Individual wealth in bonds

Bond Type	FY16 Amt (Rs Crore)	FY15 Amt (Rs Crore)	YoY Chg
Corporate	22,017	17,910	22.93%
PSU	94,419	71,453	32.14%
Total	**116,436**	**89,363**	**30.30%**

In 2016 so far, the bond market's prospects have only brightened further riding on the back of a slew of reforms from the RBI and SEBI to open up the bond markets. In late August, around the time the equity markets took a severe blow, the RBI allowed banks to:

- Use corporate bonds under the liquidity adjustment facility
- Issue masala bonds to shore up their Tier-II and –III liquidity reserves

Note | 18, 19 - RBI

The SEBI's attempt to deepen the corporate and municipal bond markets further will help companies and local bodies raise capital from the public, reducing their reliance on banks, which have become risk-averse because of rising bad loans.

Similarly, the RBI allowed retail investors to directly invest in government bonds and T-Bills in July 2016, an area so far limited only to institutional investors like banks and mutual funds. Such moves are expected to ratchet up interest in the debt segment and heighten investor interest in this segment. In FY16, individual wealth in bonds and debentures.

Demonetisation impact: As an immediate response to demonetisation, the benchmark 10-year bond yields dived 36 basis points to a 7.5-year low of 6.4%, in expectations of an early cut in interest rates, which could in effect spark a rally.

4.2 Direct Equity

In FY16, direct equity investments seem to have taken a hit. Overall, direct equity investments declined by 13.84%, purchases by both institutional and retail investors declined even more sharply. The primary reason was the massive exit by foreign institutional investors (FIIs) — who pulled out nearly ₹ 18,000[20] crore in a single fiscal, the largest withdrawal since 2008-09. The sell-off by FIIs was especially sharp during the recurrent market crashes that occurred through the year.

Retail investors too burnt their hands last financial year, what with the markets crashing in at least three distinct instances in May, August and September 2015. The second of these was the most massive, where the BSE Sensex crashed almost 1624 points in a single session, eroding almost ₹ 7 lakh crore of investors' wealth. This episode was preceded and succeeded by two similar events in May and September, where too the benchmark indices — Sensex and Nifty — cumulatively slid by almost 2000 points owing to multiple factors, not the least of which was the slowdown in China and the rapid sell-off in the equities market and a weak rupee. Another constantly looming threat was the US Federal Reserve's warnings of a rate hike that spooked markets from time to time.

The sluggishness in equities could also be explained by investors' preference for physical assets. Compared with FY15, when gold and real estate did not attract any eyeballs— and investments in gold had dropped by almost 9% — FY16 witnessed a definite resurgence, where funds parked in gold have grown by almost 15%. **Total individual wealth in direct equities declined 13.84% to ₹ 29.6 lakh crore.**

Table 11: Direct equity classification

Investors	% of Mkt Cap	FY16 (₹ crore)	FY15 (₹ crore)
Promoter	**44.88**	41,78,798	33,04,892
Institution	**43.85**	40,82,629	50,34,880
Retail	**11.27**	10,49,043	13,25,147
Total	**100.00**	**93,10,471**	**96,64,919**

The stock markets began FY17 on an optimistic note with the introduction of key reforms such as the Goods & Services Tax; Bankruptcy Code and relaxation of foreign direct investment (FDI) norms across sectors. Other announcements such as the 7th Pay Commission implementation which will drive up wages by 22-23% also played a crucial role in boosting sentiments. The year also had its share of headwinds including the Brexit early on in June, constant reminders of a US Fed rate hike (something that looks even surer come December 2016); rising bank NPAs and a lackluster Q1 earnings season and the surprise victory of real estate mogul Donald Trump in the US presidential elections.

As to later events such as the government's move to remonetise ₹ 500, ₹1000 notes. Both the above events shaved off nearly 4-5% of the indices affecting investors. Demonetisation is as yet an unfinished story and its impact on the economy markets will be visible through the long run.

4.3 Insurance

The Insurance asset class consists of Life Insurance and the Employee Deposit Linked Insurance (EDLI) Fund. **Total individual wealth in this asset class grew 7.6% to reach ₹ 25.48 lakh crore in FY16.**

Table 12: Individual Wealth in Insurance

Type of Insurance policy	FY16 Amt (₹ cr)	FY15 Amt (₹ cr)	YoY Chg
Life Insurance	25,29,390	23,44,227	7.90%
EDLI	18,173	15,563	16.77%
Total	**25,47,563**	**23,59,790**	**7.96%**

Note 20 - SEBI

Life Insurance

In FY16, India's life insurance sector, touted to be the largest in the world[21], collected premiums of almost Rs 1 lakh crore, up 18-19% y-o-y. However, even with the state-owned Life Insurance Corporation of India and 23 private companies, penetration of this asset class is much lower in India as compared to economies such as the UK and the US, where insurance penetration is at 10.6% and 7.5%, respectively. A report by Swiss Re revealed that insurance penetration (premiums as a percentage of GDP) rose only to 3.4% in FY16 from 3.3% in FY15. This is not to say that the sector underperformed but only that its potential has not been fully unleashed.

Sample this: While emerging economies such as India house 40% of the world's population, it contributes less than a fifth of the world's premiums. This indicates huge potential for such economies in the long run. As to why short-term progress may not be visible can be explained by the lack of correlation between investors' incomes and the propensity to buy insurance as an asset. **In fact in FY16, individual wealth in life insurance grew by 7.9% y-o-y (see table 12).**

However, going by the recent regulatory initiatives, especially the Insurance Laws (Amendment) Bill, 2015, which has raised the cap on foreign investment in insurance joint ventures (JVs) to 49%, is expected to bring in almost ₹ 10,000-12,000 crore of investments into the sector[22]. FY17 so far has also been positive for the insurance sector, given the thrust on digitized insurance policies and a proposal to sell insurance policies via e-commerce portals. With respect to the same, customers would benefit the most. The IRDAI's draft clearly mentions that insurers will be allowed to differentially price products sold on the e-platform, which could lead to a spate of discounts in the insurance space. Making a choice will also be easier as the regulator has mandated that products sold via e-commerce sites be prefixed with an 'i' to make it easy for subscribers. The focus on related measures such as mandatory e-KYC is also expected to bode well for insurance in India, whose insurable population is estimated to touch 750 million in another 4-5 years, as life expectancy touches 74 years.

Employees' Deposit Linked Insurance Scheme (EDLI)

The Employees' Deposit Linked Insurance came into force on August 1, 1976 and is administered by the EPFO. While employees do not directly contribute to the EDLI scheme, employers are required to contribute to the Insurance Fund at the rate of 0.5% of wages of the employee (subject to a maximum of 15,000/-per month). All those who have subscribed to the EPF scheme are automatically enrolled under the EDLI. From 1997-98 onwards net accretions are being invested as per prescribed investment pattern notified by the Ministry of Labour & Employment. The maximum sum assured under the EDLI scheme was increased in September 2015 to ₹ 6 lakh from ₹ 3.6 lakh[23]. **Total individual wealth in EDLI has jumped by just around 17% to ₹ 15,563 crore in FY 16** (see table 12).

4.4 Savings deposits

Savings deposits are the most basic form of bank accounts used by Indians for their regular transactions owing to its liquid nature. It provides the convenience of easy withdrawals as well as acts as an avenue for parking short-term fund to earn interest. Ever since the deregulation of savings deposit interest rates in 2011, they have hovered at 4-4.5%[24], while some private banks offer rates of as much as 6-7%[25] as well. **In FY16, overall savings deposits grew by 8.5%** (see table 13).

Table 13: Individual wealth in savings deposits

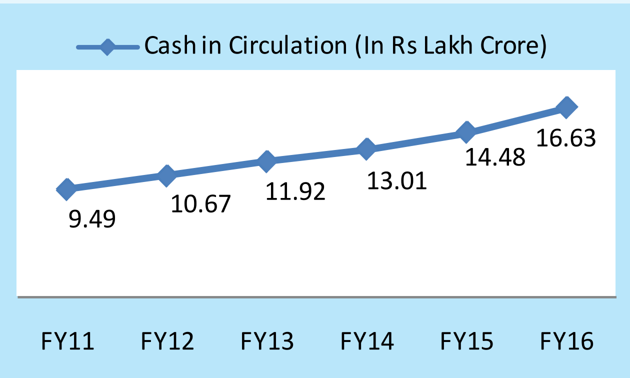
Category	FY16 Amt (₹ Crore)	FY15 Amt (₹ Crore)	YoY Chg
Scheduled Commercial Banks	21,12,339	19,52,499	8.19%
Scheduled Co-operative Banks	47,139	37,750	24.87%
Total	**21,59,478**	**19,90,249**	**8.50%**

Note | 21 - IBEF | 22 - Assocham | 23 - EPFO | 24, 25, 26 - RBI

4.5 Cash

In FY16, the amount of cash (notes in circulation) with the public increased by 14.9% (see chart below), at the fastest rate in the past three fiscals. RBI data reveals that cash in circulation was estimated to be ₹ 16.63 lakh crore. The demonetisation of old high-value notes is primarily aimed at curbing the flow of black money and counterfeit currency that is used to finance terror activities.

Figure 5 – India's 'cash-in-hand' problem



With this move, cash in circulation is expected to drastically come down, at least over the next two quarters. Almost ₹ 14.6 lakh crore of rupee notes in value terms have been flushed out.

However, in FY17, cash as an asset came in for a sea change, building up via a number of signals. Initiatives with respect to financial inclusion – the Jan-Dhan-Aadhaar-Mobile (JAM) combine – as well as a renewed thrust on 'cashless' currency, via tools such as Rupay debit cards, the Unified Payments Interface, Aadhaar-enabled Payment Systems hinted at a firm move to 'digital money' from paper money.

Demonetisation impact: The surprise demonetization of ₹ 500 and ₹ 1000 notes by the government, has withdrawn 86% of the currency in circulation (in value terms, i.e. almost ₹ 14.6 lakh crore). While the modus operandi was swift, it left a huge chunk of the population stranded, as they found their wallets shrunk in one stroke. While cash may be no longer the undisputed king, the demonetisation does hold significant benefits in bringing more people under the cashless regime. For a detailed analysis of the demonetisation episode and its impact, read the exclusive note: **'The metamorphosis of money'**.

4.6 Provident Funds

In India, the provident fund is among the primary means of saving for retirement and a prime tax-saving option too. This asset class has three components – the Employee Provident Fund (EPF), Public Provident Fund (PPF) held with banks and PPFs with post offices. **Together, individual wealth in provident funds grew by a whopping 24.57% y-o-y, to ₹ 11.51 lakh crore in FY16[27] (see table 14).**

Table 14: Individual wealth in Provident Fund

Composition of PF	FY16 Amt (₹ Crore)	FY15 Amt (₹ Crore)	YoY Chg
Employees' Provident Fund	7,85,312	6,14,780	27.74%
PPF with Banks	3,07,495	2,58,981	18.73%
PPF With Post Office	58,220	50,265	15.83%
Total	**11,51,027**	**9,24,026**	**24.57%**

Yet, each of the sub-classes merit attention, given the regulatory changes attempted in FY17 with respect to the EPF.

Employees' Provident Fund (EPF)

Contributions to the EPF scheme begin between the ages of 20-25 when one starts working in an organization having over 10 employees, ensuring that the subscriber (employee) has at least 35-40 years worth of invested wealth at the time one retires, usually at the age of 58 or 60.

EPF was in the news again in FY17 as major regulatory changes were attempted as to EPF withdrawals in

Note | 27 - EPFO

FY17 and taxation, all of which were stoutly opposed by the Central Board of Trustees (CBT) of the Employee Provident Fund Organisation (EPFO) and were not implemented. The government also mulled using up the unclaimed corpus to create a fund for senior citizens, a proposal which was also shot down. While these proposals seem unrelated to the perception of the EPF as an asset class, they are no doubt significant from a returns perspective. Perhaps, the most significant change in this respect was the CBT's move reverse a decision made in 2011 and pay interest on all dormant EPF accounts, which means that the amount (employee + employer's contribution) amassed in PF account(s) will continue to earn interest for ever, until the subscriber retires.

The returns make the EPF attractive from a long-term perspective, as the compounded return at the time of retirement is tax exempt.

Public Provident Funds

Public Provident Funds (PPFs) is one of the most tax-efficient investment options introduced in 1968 as both the interest earned and the maturity amount are tax-exempt. Deposits in PPF accounts can (via authorised banks or post offices) be claimed as tax deductions u/s 80C. The interest rate for PPF has been revised to 8.1% in the 2016 Union Budget[28].

- **The total individual wealth in PPFs with banks grew almost 19% y-o-y to ₹ 3,07,495 crore.**
- **The total individual wealth in PPF with post offices stands at ₹ 58,220.5 crore, rising 16% y-o-y.**

4.7 NRI Deposits

Deposits in banks by non-resident Indians (NRIs) are of three types: foreign currency non-resident (bank) or FCNR-(B), non-resident ordinary or NRO, and non-resident external (rupee account) or NRE-(RA). In NRE-(RA) and NRO, the foreign exchange risk is borne by the depositor, while in case of FCNR-(B), the foreign exchange risk is borne by the bank. Similarly, while NRE and FCNR-(B) deposits are repatriable, NRO deposits are non-repatriable.

Growth in NRI deposits is largely influenced by the rupee's fortunes in the currency market. In FY16, the conditions were perfect, as NRI deposits started surging within the first two months of the fiscal itself, touching almost ₹ 27,000 crore, while during April-September, the number surged almost 55% y-o-y to ₹ 8.28 lakh crore aided by a weak rupee and attractive interest rates, especially, vis-a-vis the US, where interest rates have hovered at near-zero, ever since the global financial crisis broke out in 2008-09. **As at the end of FY16, total individual wealth in NRI deposits grew by almost 15% to ₹ 8.26 lakh crore[29].** Another factor to consider is that carry trade (NRIs borrowing in foreign currencies and parking these funds as deposits with banks in India) may have lured NRIs to park their funds back home.

Table 15: Individual wealth in NRI deposits

Scheme	FY16 Amt (₹ cr)	FY15 Amt (₹ cr)	YoY Chg
NRE-(RA)	4,72,945	392,832	20.39%
FCNR-(B)	2,86,646	268,106	6.91%
NRO	67,136	60,059	11.78%
Total	**8,26,727**	**720,997**	**14.66%**

4.8 Small Savings

Basically small savings schemes are considered safe schemes that have been attracting the common man's savings since India achieved independence. They are mainly accessed through post offices. However, interest in these schemes varies according to the changes in interest rates as notified from time to time. Some of the options in this asset class are the Sukanya Samriddhi Account (SSA), Post Office Monthly Income Scheme, Senior Citizen's Savings Scheme, Kisan Vikas Patra, Post Office Savings Bank Account, among others.

FY16 proved to be a good year for the entire set of small savings schemes as interest rates on headline options such as the Sukanya Samriddhi Yojana and Senior Citizens Savings Scheme, were revised upwards by 10 basis points each to 9.1% and 9.3%[30], respectively, while rates on other schemes stood unchanged. **As a result, overall individual wealth parked in small savings schemes surged almost 14% in FY16 to ₹ 6.58 lakh crore[31].**

However, in FY17, the ball game with respect to small savings schemes has changed, as the government has decided to revise interest rates every quarter. With more frequent reviews, people's interest in this scheme remains to be seen in the coming years. Among all small savings schemes, growth in Post Office Savings

Note 28 - Finance Ministry | 29 - RBI | 30 - Finance Ministry | 31 - RBI, Karvy Research

Table 16: Individual wealth in Small Savings schemes

Scheme	FY16 Amount (₹ cr)	FY15 Amount (₹ cr)	YoY Chg
Kisan Vikas Patra	96,893	88,184	9.88%
NSC Issues	89,443	74,275	20.42%
Post Office Monthly Investment Scheme	1,97,596	2,01,035	-1.71%
Post Office Recurring Deposit Account	79,706	84,462	-5.63%
Post Office Time Deposit Account	72,549	50,876	42.60%
Post Office Savings Bank Account	83,703	46,427	80.29%
Senior Citizen Savings Scheme	22,901	18,176	26.00%
Other Certificates and Deposits	11,328	9,337	21.32%
National Savings Scheme 87, 92	3,590	5,421	-33.78%
Indira Vikas Patra	887	797	11.29%
Total	**6,58,596**	**5,78,990**	**13.75%**

Bank accounts has been the highest, largely because of the surge in Jan Dhan Savings accounts as part of the government's financial inclusion drive.

Demonetisation impact: The demonetisation exercise is expected to bring a large part of the Indian population into the formal banking fold by prompting people to open bank accounts under schemes such as the Jan Dhan Yojana. Also, Jan Dhan account holders who normally keep their savings in cash will be now compelled to deposit the same in banks, leading to a huge surge in overall wealth held in small savings schemes.

4.9 Mutual Funds

For mutual funds, FY16 was a positive year, despite the volatility in the equity markets. The surge in investments could also be explained by the flight of retail investors from direct equity into this professionally managed asset class. Of the ₹ 4.77 crore poured into mutual funds[32] (59 lakh folios), 99% came from individual investors, while half of the folios came from smaller towns and cities. The extent of the divergence vis-a-vis traditional equity becomes clearer when we observe that interest in MFs did not recede even during the late months of January and February 2016, when the Sensex and Nifty came off nearly 15%.

As a matter of trends, retail investors primarily hold equity-oriented schemes while institutions hold liquid and debt-oriented schemes.

Table 17: Individual wealth in mutual funds

Asset Class	FY16 Amt (₹ Crore)	FY15 Amt (₹ Crore)	YoY Chg
Equity	3,53,411	3,15,987	11.84%
Debt	2,70,414	2,36,338	14.42%
Total	**6,23,825**	**5,52,325**	**12.95%**

AUMs across categories showed that 57.21% of individual investments in mutual funds were parked in equity funds while the rest was in debt-based funds.

The wealth held by individual investors in mutual funds grew by almost 13% to ₹ 6.23 lakh crore.

We expect MFs to grow at a faster pace as compared to other financial assets in the long run.

4.10 Current deposits

Being the most liquid deposits, these are usually meant for businessmen & professionals. Current deposits offer a great amount of flexibility through the overdraft facility. **In FY16, total individual wealth in current accounts grew by 27.56% y-o-y[33].**

Note 32 - AMFI | 33 - RBI

Table 18: Individual wealth in current deposits

Category	FY16 Amt (₹ Crore)	FY15 Amt (₹ Crore)	YoY Change
Scheduled Commercial Banks	4,25,761	3,35,170	27.03%
Scheduled Co-operative Banks	11,501	7,615	51.03%
Total	**4,37,262**	**3,42,785**	**27.56%**

Demonetisation impact: Demonetisation has made banks flush with low-cost current and savings accounts deposits, albeit during the short-term.

4.11 Pension Funds

With the World Bank pegging India's aged population at 323 million, constituting 20% of the total population, by 2050, pension funds assume immense importance. In India, pension products may be classified into — the Employee Pension Scheme (EPS) administered by the EPFO, the New Pension Scheme (NPS), managed by the Pension Fund Regulatory & Development Authority (PFRDA). There are also schemes such as the Atal Pension Yojana offered by the government. **Wealth in pension schemes grew by 24% to ₹ 3.92 lakh crore in FY16 (see table 19).**

Table 19: Individual wealth in Pension Schemes

Pension Scheme	FY16 Amt (₹ Crore)	FY15 Amt (₹ Crore)	YoY Chg
Employee Pension Scheme	2,73,366	2,35,060	16.30%
National Pension Scheme	1,18,810	80,855	46.94%
Atal Pension Yojana	506	63	700%
Total	**3,92,682**	**3,15,978**	**24.27%**

Employees' Pension Scheme (EPS)

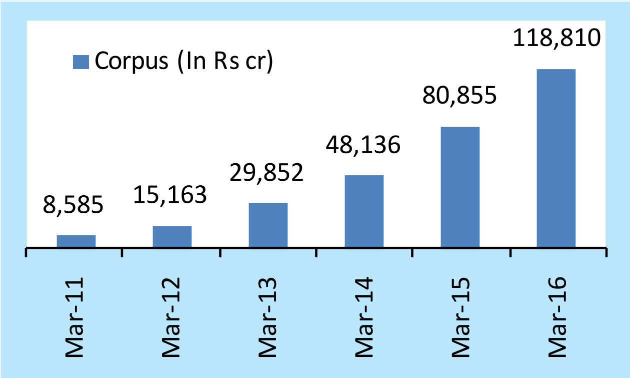
The Employees' Pension Scheme run by the EPFO is a long-term investment product that works on the concept of a "defined contribution - defined benefit" for salaried employees. Contributions to the EPS are generated by diverting 8.33% from the monthly employer's share of provident fund contributions as well as a contribution of 1.16% of an employee's monthly wages by the government[34].

National Pension Scheme

The National Pension Scheme (or the New Pension Scheme) is managed by the Pension Fund Regulatory and Development Authority (PFRDA). This scheme's contribution to the the pie is expected to increase steadily in the coming years (Growth has also been much sharper on a lower base). While the government has been trying to allow subscribers to choose between the EPF and NPS, it is a matter of contention as the EPF contributions are fully tax exempt, whereas the NPS is not. **Individual wealth in the NPS grew almost 47% y-o-y to ₹ 1.18 lakh crore in FY16.**

The added benefit of claiming an extra Rs 50,000 as deduction under Section 80 C of the Income-tax Act also prompted people to invest in NPS. **Individual wealth in the EPS grew nearly 16% y-o-y to ₹ 2.73 lakh crore.**

Figure 6: NPS corpus



The corpus is invested across three asset classes.

Atal Pension Yojana

The Atal Pension Yojana (APY) was launched in June 2015 to benefit unorganised workers who do not fall under the EPF or NPS schemes and do not pay income tax. Under the APY, guaranteed minimum pension of ₹ 1,000/- or 2,000/- or 3,000/- or 4,000 or 5,000/- per month will be provided at age 60 years depending on contributions. The government would also co-contribute 50% of the total contribution or Rs. 1000 per annum, whichever is lower, to each eligible subscriber, for 5 years. Total individual wealth garnered in the Atal Pension Yojana amounted to ₹ 506 crore in FY16.

4.12 Alternate Assets

This asset class is broadly focused towards HNIs who are interested in different and exotic products. Some

Note | 34 - EPFO

Table 20: Individual wealth in Alternate Assets[35]

Asset Class	FY16 Amount (₹ Crore)	FY15 Amount (₹ Crore)	YoY Change	Proportion
Structured Products	23,030	12,080	90.65%	29.72%
High Yield Debt	20,426	14,232	43.52%	26.35%
Private Equity	13,569	6,255	116.94%	17.51%
Real Estate Fund	8,471	3,622	133.87%	10.93%
Gold ETF	6,345	3,439	84.51%	8.19%
Hedge Fund	3,283	1,346	143.92%	4.24%
Sovereign gold bonds	1,373	-	-	1.77%
Infrastructure Fund	458	215	112.89%	0.59%
Film Funds	305	679	-55.14%	0.39%
Venture Capital Fund	243	92	164.06%	0.31%
Total	**77,503**	**41,960**	**84.70%**	**100.00%**

of these such as sovereign gold bonds and gold exchange traded funds (ETFs) bridge the chasm between physical assets and financial assets and are also for the larger masses. However, most of the options are less liquid and non-traditional with a high ticket size. They are therefore usually invested in by HNIs. Most sub-asset classes in this category such as private equity, real estate funds, hedge funds, infrastructure funds, and venture capital funds, attracted double the investments as compared to FY15.

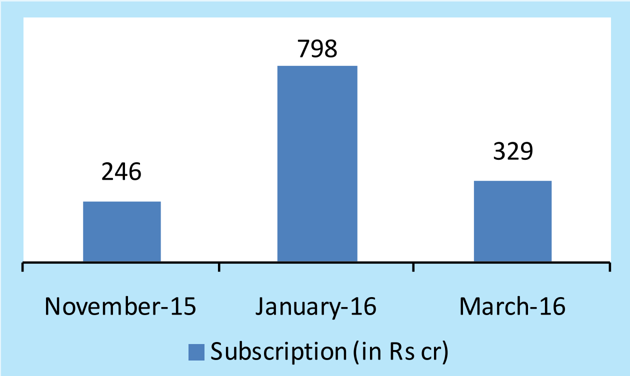
Total investments in alternate assets rose by 84.70%, to ₹ 77,503 crore in FY16 (see table 20)[36]. Investments in alternate assets still hold a lot of potential and are expected to grow very fast as acceptability among HNIs increases. led largely by real estate funds, venture capital funds and private equity funds. Sovereign gold bonds, a new asset class, was introduced by the government in FY16.

Sovereign Gold Bonds

Sovereign gold bonds (SGBs) are securities issued by the government as a convenient alternative to physical gold. Suffice to say that with India holding roughly a tenth of the world's gold reserves (we import almost 1000 tonnes of gold per annum), weaning the public away to alternatives from physical gold may prove a boon for the economy. The bonds are issued by RBI on the government's behalf. Individuals, Hindu Undivided Families (HUFs), trusts, universities, charitable institutions, etc, can invest in SGBs.

In the three tranches issued in FY16, total collections amounted to Rs 1,373 crore .

Figure 7: Sovereign gold bonds



Here are some advantages of SGBs:

- Investors can also hold SGBs in demat form, which eliminates the risk of losing physical certificates
- There is no need to worry about purity (the bonds track the prices of 0.999 purity gold), making charges as the gold units you have invested in is held in electronic form by the RBI and stay as it is until redemption.
- Investors can also purchase SGBs on the secondary market, however, capital gains on sale and transfer of these will be taxable.
- The bonds are priced based on the rate at which domestic gold ends in the week preceding the issue.

Note | 35 - SEBI, RBI, Karvy Research | 36 - RBI, AMFI

- Other benefits include the fact that on sale, you will get the full value for units held (@.999 purity), as against physical gold, where jewellers could claim losses 3-4%. You can also use these bonds as collateral for loans from banks.
- The interest earned 2.75% per annum is over and above the benefit from the appreciation in the price of gold

High-yield Debt

This alternate investment sub-asset class has various instruments like mezzanine debt, non-convertible debentures, and structured debt, which can be considered as high yielding assets. Real estate non-covertible debentures (NCDs) are the most popular high yield debt instrument among high net-worth individuals since most of them offer a regular coupon ranging from 18-22%. **Prima-facie, individual wealth in this asset class has risen by 43.52% y-o-y in FY16 to ₹ 20,425 crore.**

Structured Products

Though the returns of structured products are linked to the performance of underlying assets such as equities or commodities, they possess unique risk-return profiles that allow investors to alter their desired level of exposure. There are structures that provide capital protection and ones that do not. The tenures on such products can vary from as low as 2 years to 9 years. They are listed on the exchange but are not very liquid, owing to the volatility in the equity markets. **Individual wealth in this asset class grew almost 90% to ₹ 23,030 crore in FY16.**

Private Equity Funds

Gaining popularity among high-networth individuals (HNIs) and ultra HNIs, private equity (PE) investments soared by 117% in FY16 to 13,569 crore. Top investments by value also included large buyout transactions in sectors such as broadband, cash management and BPO services. In a recent survey by Karvy Private Wealth, with HNIs, Private Equity Funds ranked as the most preferred alternative asset investment option, primarily on account of volatility in equity markets, which makes these products more attractive.

Real Estate Funds

These funds are invested in different properties and hence offer the advantage of diversification. They can be development-based funds or rental-based funds or debt-based funds. The latter two do not take development risk. Unlike stocks or direct buying of real estate, realty funds start appreciating only after 2-3 years and generally have tenure of 5-8 years. **Individual wealth in this class grew by 134% y-o-y to ₹ 8,470.90 crore.**

Hedge Funds

Hedge funds frequently use instruments like derivatives and strategies like shorting of stocks or leveraging to generate higher returns. **The total AUM of Hedge Funds grew by almost 144% in FY16 to ₹ 3,283.1 crore,** as UHNIs flocked to this asset class given the volatility in the equity markets in FY16.

Film Funds

While film funds cannot be unheard of in a country, which houses the world's largest film industry in terms of ticket sales, prudent investors can use this asset class to diversify. Besides traditional music rights and copyrights, movies have online streaming rights, cable and satellite rights and a plethora of other rights associated with it. However, these are risky funds since there are very few blockbusters. Thus, these funds are generally meant for investors who have a very high risk appetite. **In FY16, wealth held by individuals in film funds dropped 55% y-o-y to ₹ 304 crore.**

Infrastructure Funds

The government through various measures is focusing on increasing infrastructure projects. On this backdrop, infrastructure funds under the Category I of AIFs are gaining momentum. **Total individual wealth is estimated to be approximately ₹ 457.71 crore at the end of FY16 nearly up 113% y-o-y.**

Venture Capital Funds

The main difference between venture capital funds and private equity funds is that the former is often an early stage investing outfit and the latter invests in unlisted companies, with existing cash flows that may be needed to be restructured to increase efficiency. Venture capital funds usually invest in start-ups and are often termed as riskier capital investments.

With the increase in the number of startups, investors have a vast number of options to choose from. **Total individual wealth in venture capital funds rose 164.06% to ₹ 243 crore in FY16.**

Gold ETFs

Gold ETFs combine the flexibility of stock investment and the lure of holding gold. They trade on the National Stock Exchange, like any other company stock, and can be bought and sold continuously at market prices. They are a risk-free alternative to holding physical gold and can be bought and sold instantly in the market in much smaller units. Direct linkage to market prices ensures transparency and also lowers its costs compared with physical gold. **Total individual wealth is estimated to be approximately ₹ 6,345.47 crore at the end of FY16 nearly up 84.51% y-o-y, due to a rise in gold prices and improved sentiments surrounding the yellow metal.**

4.13 International Assets

Investors can also diversify their assets across geographies through the Reserve Bank of India's (RBI's) liberalized remittance scheme where Indian residents can freely remit $250,000 overseas every financial year for a permissible set of current or capital account transactions for overseas education, travel, medical treatment and purchase of shares and property, apart from maintenance of relatives living abroad, gifting and donations. Individuals can also open, maintain and hold foreign currency accounts with overseas banks for carrying out transactions.

In a recent survey of HNIs by Karvy Private Wealth, it was found that only 7% of HNIs invest in international assets.

Table 21: Individual Wealth in International Assets

Category	FY 16 Amount (₹. Crore)	FY15 Amount (₹ Crore)	YoY Chg
Equity/Debt	12,288	10,181	20.70%
Fund of Funds	3,548	1,962	80.86%
Deposits	2,626	1,897	38.40%
Total	**18,462**	**14,040**	**31.50%**

Individual wealth in international assets rose 31.50% to ₹ 18,462 crore in FY16 (see table 21)[36].

Section 5

Individual Wealth in Physical Assets

Overall, investments in physical assets saw a resurgence in FY16 given the choppy state of the capital markets, though the growth within this asset class continued to be dominated by gold.

Table 22: Classification of Individual Wealth in India in Physical Assets

Assets	FY16 Amount (₹ crore)	YoY Chg %	Proportion (%)
Gold	65,90,575	15.31%	49.83
Real Estate	55,47,254	4.95%	41.94
Diamond	8,02,840	0.49%	6.07
Silver	2,01,169	9.05%	1.52
Platinum	6,452	37.34%	0.05
Other Gems & Jewellery	78,548		0.59
Total	**1,32,26,839**	**10.32%**	**100.00**

5.1 Gold

In India, gold jewellery is a store of value, a symbol of wealth as well as status and fundamental part of many rituals. In the country's rural population, a deep affinity for gold goes hand in hand with practical considerations of the portability and security of jewellery as an investment. Nearly 3/4th of the country's gold demand is in the form of jewellery.

Gold is considered to be auspicious, particularly in Hindu and Jain cultures. Families begin saving soon after the birth of a girl and the 'Streedhan' or gift of gold to the bride, gives her financial security once she is married.

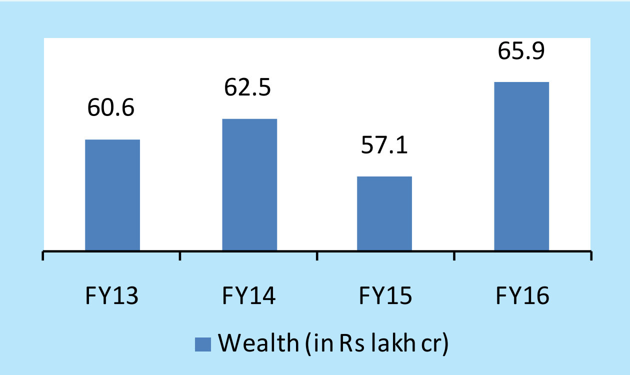
How will gold fare in the long run?

Gold prices have taken a knock after hitting an all time high of $1921/ounce in 2011, ever since the US started withdrawing its quantitative easing programmes. Spot prices slipped to $1050/ounce in December

2015, before rallying nearly 30 % in 2016 so far hitting a high of $1388/ounce in July. With the election of Donald Trump as US's 45th President and the demonetisation shock given by the government, gold prices are only expected to inch up further.

Another signal to watch out for would be how the Goods & Services Tax (GST) regime affects gold. Currently, gold purchases (jewellery) are taxed at 11.5% (10% import duty + 1-1.5% VAT). While a rate of 4-6% is being mooted under the GST regime, taxing it at the standard rate would probably have a positive impact on demand.

Figure 8: Individual wealth in gold



Gold prices are expected witness next bull-run by 2021, where the levels of $3000/ounce looks like an achievable target. **Total individual wealth in gold is estimated to be ₹ 65.9 lakh crore, up 15% from FY15.**

Demonetisation impact: While the crackdown on black money through the demonetisation exercise was expected to bring down prices, panic reactions led to a sudden rise in demand for gold, which spiked up prices.

5.2 Real Estate

India's real estate sector contributes 5-6% of its GDP and is expected to be worth $180 billion by 2020. Though the sector has seen a sustained slump in the past few years — recent reports reveal that sales of residential units dropped by 2.2% in FY16, to 1,58,211 units from 1,61,875 units in the previous fiscal — a silver lining is visible. In the first three months of 2016 itself, sales have risen by 9% to 42,541 units from 39,001 units compared with the same quarter in 2015[37]. Commercial real estate sales saw a revival in FY16, rising significantly to above 35 million sq ft. A gradual fall in vacancies — currently at a 7-year-low of 15.9%, in tandem with the rise in absorption, has led to faster rise of rental rates, especially in Pune, Bengaluru and Hyderabad, which are IT/ITeS hubs.

Passing of Real Estate (Regulation and Development) Act (RERA) and also opening the Real Estate Sector to FDI has sent the stone rolling for the reforms in this sector and hint at reviving the sector in the long run. The government's decision to demonetise old Rs 500 and Rs 1,000 currency notes from the market has put a curb on the black money in the Indian market which will adversely impact the Real Estate market in the short run but make it more viable and sound investment destination in the long run.

Among other provisions, the RERA Act gives the buyer a right to demand the amount paid with interest (at prescribed rates) in case of failure to give possession by the developer. Mandatory disclosure of projects, including details of the promoter, project, land status, clearances, approvals, etc. would increase the credibility of developers and would protect consumer rights. The Indian real estate market has historically been one of the most preferred investment destinations for major overseas funds in the Asia Pacific region. This would further encourage investments in the real estate sector from foreign and domestic financial institutions and also individual retail investors as their interests are well protected under this act.

Meanwhile, relaxation of FDI norms is expected to improve the liquidity scenario in the real estate and construction sector which could help revive projects that could not receive capital due to conditions applicable for getting FDI investments.

The real estate sector will also be definitely be affected by the demonetisation exercise, as it has traditionally seen a very high involvement of cash transactions. However, almost all such incidences have been in the secondary sales market in some urban cities, where cash components have traditionally been a veritable 'must'. In other words, the resale properties segment is expected to take a big hit. However, short-term pain is inevitable when we look for any eventual long-term cure for the disease. The luxury and high-end segments of residential real estate will also be impacted as it is another segment, which witnesses a lot of payments done in cash. With black money suddenly being wiped out of the market, a lot of investors who have been investing in projects with unaccounted-for money – and raising prices to book profits – will be eliminated from the system, thereby aiding a much-needed correction.

Note | 37 - Credit Suisse Global Wealth Report, JLL Wealth Report, Nigh, Knight Frank Wealth Report

The overall impact could be summarised as:

Governance: RERA and demonetization will turn real estate transactions more transparent.

Social: Land prices are expected to come down in short to medium run which in turn will make housing affordable.

Economic: With the banking system flush with cash post demonetisation, interest rates are likely to fall (including those on home loans), which will help a larger section of the population borrow funds to invest in end-use property.

Developmental: As unorganized construction will be hit hard, it will mitigate the problems arising out of Unplanned Urbanization & put a curb on Urban sprawl.

Sectoral growth: Freeing up of trapped black money as well as a likely rise in investments from the private as well as foreign players will boost employment opportunities in the sector.

Policy: The government can look at accelerating its initiatives such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT) , Housing for All (HFA) by 2022, and smart cities due to increased investment. In addition, it will plug the loopholes of the recently passed the RERA Act.

Investors need to be guided in the right direction to invest in areas which have good social infrastructure, connectivity and development potential where the government is expected to improve the standard of living by spending on infrastructure. Finally, the investor should observe the market movements and exit the property at the right time in order to maximize their returns. What can be said with any degree of certainty is that there are some very interesting times ahead for the real estate industry.

In FY16, individual wealth in real estate grew 4.95% y-o-y, to ₹ 55.47 lakh crore.

Table 23: Individual wealth in Real Estate

Category	FY 16 Amount (₹ Crore)	FY15 Amount (₹ Crore)	YoY Chg
National	55,43,572	52,82,671	4.94%
International	3682	2,906	26.70%
Total	**55,47,254**	**52,85,577**	**4.95%**

Demonetisation impact: Overall, the real estate market is expected to see a huge negative impact as prices are likely to correct with cash component in transactions reducing. Agricultural land prices are also likely to get impacted as these also account for large amount of unaccounted cash.

5.3 Diamond

Gross exports of cut and polished diamonds in FY16 dropped 13.66% to $19,996.06 million as compared to $23,160.18 million in FY15. Increased inventory carrying cost and rise in rough diamond prices have led to reduced profitability. **Individual wealth held in diamonds grew by just 0.5% to ₹ 8.02 lakh crore.**

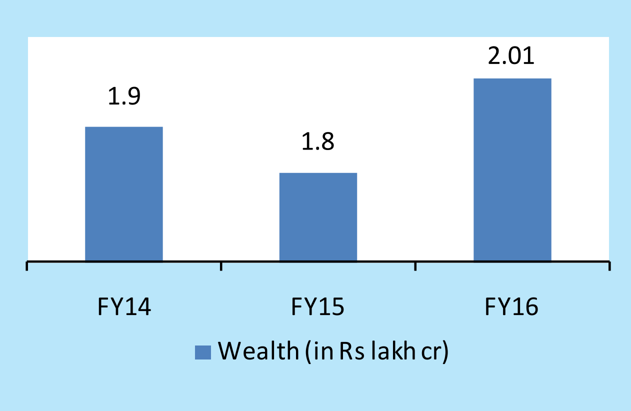
5.4 Silver

Total physical demand for silver in the world rose to a record high of 33,183 tonnes in 2015, up 3% from the previous year. Worldwide silver mine production increased for a 13th consecutive year to a record high of 25,146 tonnes, although the rate of growth declined by 2% as compared to last year. Mexico remained as the top silver producing countries while India moved one step up to 15th spot with 340 tonnes.

Domestic demand

- **Total individual wealth stands at ₹ 2.01 lakh crore a rise of 11.8% from FY15.**
- Indian investment in physical bar increased by 31% to 2,567 t, the highest since 2008.
- Similarly jewellery fabrication increased by 16% to 2,254 t in 2015 to the highest level on record and marked the fourth consecutive annual rise in demand.
- India resumed its position as Asia's second largest silver coin fabricator in 2015, producing 278 t.

Figure 9: Individual Wealth in Silver



5.5 Platinum

As per the annual retail barometer report released by Platinum Guild International, retail sales grew by 24% in 2015 as compared to 28% in the previous year. Studded platinum jewellery (primarily women's rings, pendants, earrings and neckpieces) continue to be favored at 53% of sales where as increasing acceptance of platinum by men raised plain platinum jewellery demand to 47%. **Total individual wealth in platinum is estimated to be ₹ 6,452 crore, up 37% from last fiscal.**

Table 24: Individual wealth in platinum

Platinum Individual Wealth		
Year	Wealth (in Rs crore)	YoY Change
FY14	5678.00	63.82%
FY15	4698.00	-17.22%
FY16	6452.39	36.17%

5.6 Other Gems & Jewellery

The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 6-7% of the country's GDP. In India, the market for gemstones includes Diamonds and coloured stones (precious, semi-precious and synthetic stones) . The gems and jewellery market in India is home to more than 500,000 players, with the majority being small-scale players. **Total individual wealth in gems & jewellery is estimated at ₹ 78,548 crore in FY16.**

Section 6

Individual Wealth - India Versus World

The table below shows how the Indian individuals' investment pie is split up, via-a-vis their global counterparts, similar to trends around the world. Debt instruments continued their unstinted dominance in India, gaining 2 percentage points. Equities lost share both in India and globally, though the impact was much severe in case of the former.

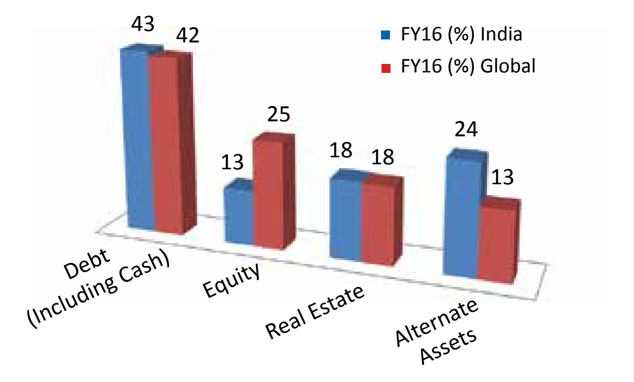
Perhaps led by the change from equities, investments in alternate assets such as structured products, venture capital/ private equity funds and hedge funds, apart from gold, increased significantly. Globally, investments in equities ranks just next to debt investments, Indians however rank equities at the bottom with just a 13% contribution.

With faster growth in equities and slower growth in gold, the coming decade is likely to witness a trend reversal between equity and alternate assets leading to India broadly aligning with the world in all asset classes.

Table 25: Individual Wealth – India Vs World

	FY16 (%)		FY15 (%)	
Key Assets	**India**	**Global**	**India**	**Global**
Equity	13.0	25.0	16.0	26.0
Debt (Including Cash)	43.1	42.0	41.00	42.6
Alternate Assets	25.7	16.0	24.0	13.0
Real Estate	18.2	18.0	19.0	17.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

Fig 10: India Wealth



Exclusive Note: The *Metamorphosis* Of Money

7.1:Demonetisation: A leap ahead or a step back?

The government unleashed a financial storm on November 8 by demonetizing old Rs 500 and Rs 1000 notes, the debate surrounding it has revolved around multiple factors: eradication of black money and counterfeit currency and terror funding, the promise of a cashless economy, to even some voices across the political landscape that claim the move as an undue financial emergency. True, given that the government will take at least six months to replace the cash dredged from the system —an estimated ₹ 14.6 lakh crore exited the system, as soon as the high-value notes ceased to be legal tender —some short-term pain is likely especially for consumption-oriented sectors such as agriculture, automobiles, consumer durables, fast-moving consumer goods (FMCG) and also for the larger ecosystem that depends on cash transactions. But then, is this the moment for change?

One baby-step, yet a lot remains

Various reports echo the dominance and significance of cash in India's monetary ecosystem — a 2015 report pegs cash transactions at 98% of consumer transactions in value terms and 68% in volume terms[38], much higher than comparable economies such as China, Brazil and South Africa. In light of this, the government's demonetisation exercise could also be viewed as the eventual culmination of steps taken to foster financial inclusion. Let us examine the extent to which these have succeeded:

Jan-Dhan-Aadhaar-Mobile (JAM) Combine — While this triad has been touted as the hallmark of the government's efforts to bring more people into the formal

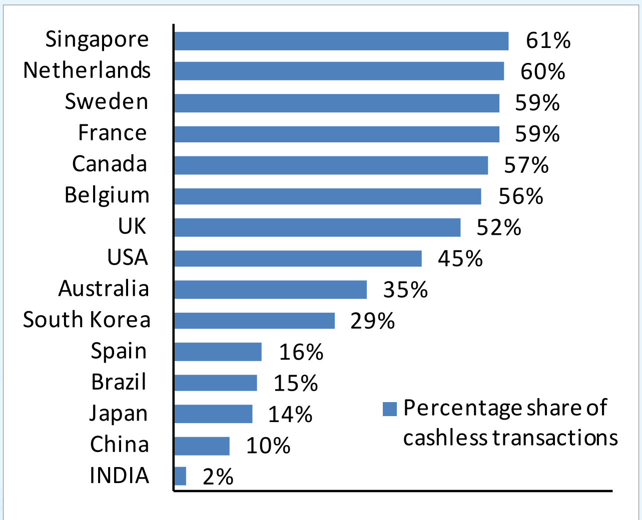
Note | 38 - PricewaterHouseCoopers

financial fold, it is just the beginning. While as of 2014, fewer than 40 crore Indians had a bank account[39]; with the launch of initiatives such as the Jan Dhan Yojana, nearly 65 crore Indians have a bank account, of which 25 crore are Jan Dhan accounts. On the Aadhaar front, India's performance is more promising, while nearly 1.05 billion Indians today have an Aadhaar card. On the mobile front too, almost 22 crore people have a smartphone that could act as a gateway to basic banking. A mix of the JAM initiative will usher India into a 'less-cash' economy as it provides the right mix of convenience (mobiles), authentication (Aadhaar) and financial linkages (bank account).

Rupay cards: While the National Payments Corporation of India's (NPCI's) RuPay debit cards made a splash on India's payments scene in 2014 with the launch of Jan Dhan accounts —they comprised almost 40% of total debit cards in India as of January 2016.

Unified Payments Interface (UPI) – The UPI is the most recent of the government's and the RBI's efforts to propel India into the cashless era. In two clicks, the UPI allows consumers to make payments from ₹ 50 to ₹ 1 lakh per transaction. Yet, the challenge for the government's is to create adequate underlying infrastructure. It is also essential that the UPI is accepted by all stakeholders: banks, payment service providers, merchant establishments and customers, especially given the servicing costs of alternate forms of money. As a PricewaterHouseCoopers (PwC) report notes, cash is virtually free for consumers today, being heavily subsidised by the government as the sovereign issuer, banks, payments aggregators, acquirers and merchants have

Figure 11: Percentage share of cashless transactions



Source: Mastercard Advisors

traditionally shared the cost of infrastructure as well as the onus of recovery of investment, which distort the incentives to electronic payments. However, even though there are 104 crore debit/ credit cards in circulation as of October 2016[40], 88-90% of debit card transactions are at ATMs, while only 10-12% of transactions occur at point of sale (PoS) terminals. Moreover, India barely has 2.1 lakh ATMs and 12 lakh PoS terminals to service a huge card population. These numbers also reflect the huge potential that India holds in turning into a cashless economy (See figure 11).

E-wallets a sunrise segment

In this respect, the emergence of e-wallet service providers and other digital fund transfer options is significant. For example, post demonetisation itself, transactions at service providers such as Paytm and Mobikwik have risen by 200-300%. In India there are about 25-30 e-wallet companies. Similarly, the potential with RBI-managed payment options such as the Immediate Payment Service (IMPS) is also huge (the UPI is built on the IMPS framework). Over the past one year itself, transactions under the IMPS have grown by a whopping 150% to almost ₹ 34,300 crore, in value terms.

On an endnote, demonetisation alone can't turn India cashless. It is only long-term a signal to India and Indians that money in their hands has changed shape. Yet, with only a miniscule proportion of transactions currently switching over from cash, it is ***Dilli ab door ast*** for a truly cashless India.

7.2: Is India still fighting shy of the Bitcoin-BlockChain duo?

For India, this may be the right time look at Bitcoin-Blockchain concept. Broadly, *the blockchain is a decentralized ledger, or list, of all transactions across a peer-to-peer network[41]. This is the technology underlying Bitcoin and other cryptocurrencies.* In other words, what Blockchain does is eliminate the need not only for physical cash but also for third parties such as banks and merchants, when money is transferred over the Internet. The underlying transaction is secured even while the transacting parties don't divulge personal details. An experiment on the lines of Blockchain is already unfolding in India with the launch of the Unified Payments Interface (UPI), which is developed by the National Payments Corporation of India and the government.

Note | 39 - World Bank | 40 - RBI | 41 - PricewaterHouseCoopers

What is Blockchain?

Blockchain has multiple forms too, chief among which are virtual currencies such as Bitcoin. Blockchain can not only change the way money is looked upon but also alter the payments landscape, given the promise of a decentralized transaction ecosystem. This is the technology underlying Bitcoin and other cryptocurrencies, and it has the potential to disrupt a wide variety of business processes.

Using this technology, participants can transfer value across the Internet without the need for a central third party. The buyer and seller interact directly without needing verification by a third-party intermediary. At the same time, transactions are not anonymous, but are pseudonymous: a transaction record is created, but identifying information is encrypted, and no personal information is shared[42].

What is Bitcoin?

Bitcoin is the best-known virtual currency, the one for which blockchain technology was invented. A cryptocurrency is a medium of exchange, such as the US dollar, but is digital and uses encryption techniques to control the creation of monetary units and to verify the transfer of funds[43].

Blockchain-Bitcoin: Would they be the future for the financial universe?

Broadly, Blockchain can revolutionise the way various sectors work, including banking, securities market, IT services, insurance, supply chain and e-governance to name a few. For banks, blockchain could significantly cut investments in managing payment and clearing systems — a report[44] pegs the potential savings for banks worldwide at $15-20 billion. The adoption of blockchain could end the need for banks to independently process transactions in different scenarios, be it domestic or cross-border.

Similarly, with respect to government services, especially for India, where a large section of the population depends on federal aid, blockchain can remove the need for middlemen and end corruption and diversion of funds. The use of Blockchain as a decentralized ledger will enable seamless and secure exchange of information between different banks. KYC is an apt candidate for the use of blockchain technology, as it results in significant reduction in of the time, cost, and effort involved in KYC validation[45].

Regulatory acceptance

Yet, India's tryst with Bitcoin and the very concept of virtual currency has been too shifty. Leaving aside the challenges of a populace that is not entirely technologically evolved, regulatory shyness too is responsible for the concept remaining niche. While in 2014, the Reserve Bank of India applied the brakes on the widespread use of Bitcoins. The central bank's worries pertained to areas such as taxation, security risks, losses due to the volatility and money laundering. Yet, perhaps two years down the line, the message seems to have sunk in, when the RBI accepted the potential that Blockchain technology holds, in that "blockchain' is likely to bring about a major transformation in the functioning of financial markets, collateral identification (land records for instance) and payments system."[46]

However, such change is not possible unless there is a change in the mindset of regulators both globally and in India. Sample this: In its 2016 annual report, The Financial Stability Oversight Council has stated that "Like most new technologies, distributed ledger systems (Blockchain) also pose certain risks and uncertainties which market participant and financial regulators will need to monitor." Market participants have limited experience working with distributed ledger systems, and it is possible that operational vulnerabilities associated with such systems may not become apparent until they are deployed on a large scale."

In essence, the full-fledged adoption of Bitcoin as a virtual currency may still be some time away, given the RBI's tight leash on the money markets and the rupee's partial convertibility. A gradual adoption of Blockchain could transform the functioning of the back offices of banks, increase the speed and cost efficiency in payment systems and trade finance.

Why may HNIs look at Bitcoins in future?

For one, the very non-physical nature of Bitcoins makes it appealing to HNIs, given that there is no risk of inflation. Major players in India such as Unocoin, Zebpay and CoinSecure offer Bitcoin trading platforms. For HNIs, key trends to watch out for are the volatility in this asset class and regulatory clarity. Once, acceptability improves globally and regulatory clouds move away in India, Bitcoins could emerge as a niche investment opportunity for HNIs.

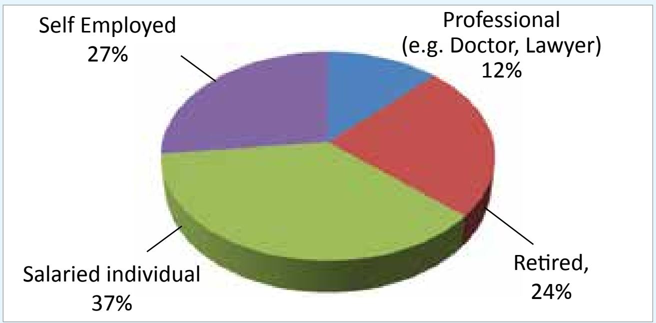
Note | 42, 43 - PricewaterHouseCoopers | 44 - Deloitte University Press | 45 - TCS White Paper | 46 - RBI

Section 8

Survey of HNI Investment Behaviour in India

Karvy Private Wealth conducted a research across 12 cities in India with more than 475 HNIs to gauge their behavior according to market trends and also try to identify future trends. Here are some key takeaways:

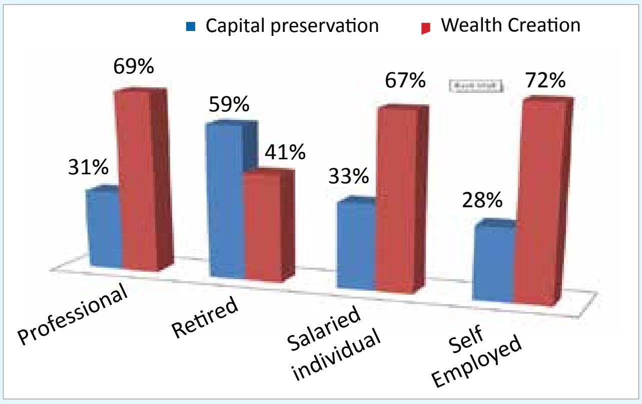
Figure 12: Profile of respondents



Philosophy behind investing

Almost 57% of the HNIs follow asset allocation strategy of which 38% HNIs review their strategy every year. Among the different classes of respondents, 63% of HNIs chose wealth creation over capital preservation as their main motive behind investment. Retired individuals were an obvious exception, choosing the relative safety of capital preservation.

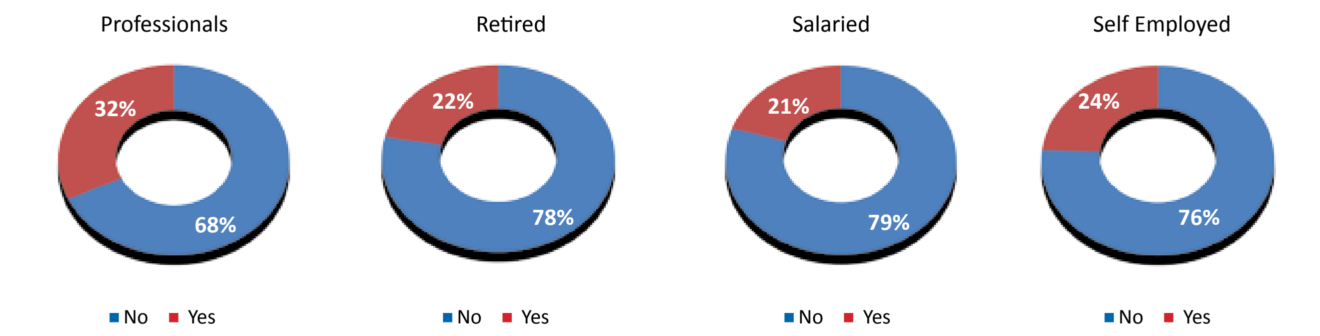
Figure 13: Philosophy behind investing



Asset class preference

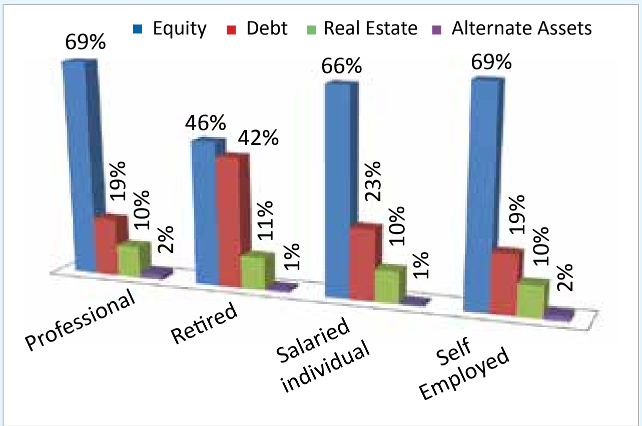
Equities remained the most preferred asset class across all categories of HNIs, even though the markets declined 4-5%. The share of equities in asset class preference ranged at 66-69%.

Figure 14: Investment in Alternate Assets



Debt retains its second place, however, its proportion vis-à-vis last year has increased considerably, especially for retired people and the salaried class, who needed some relief from a stormy equity market. HNIs' interest in real estate has reduced further as compared with FY15. Alternate assets remained the least favourite, with even the professionals shunning it.

Figure 15: Asset class preference



Alternate assets

As noted above, HNIs are not entirely comfortable in investing in to alternate assets: a significant 77% of respondents denied investing in this segment. Yet, among the rest, almost 53% of respondents preferred private equity, while 48% preferred high-yield NCDs.

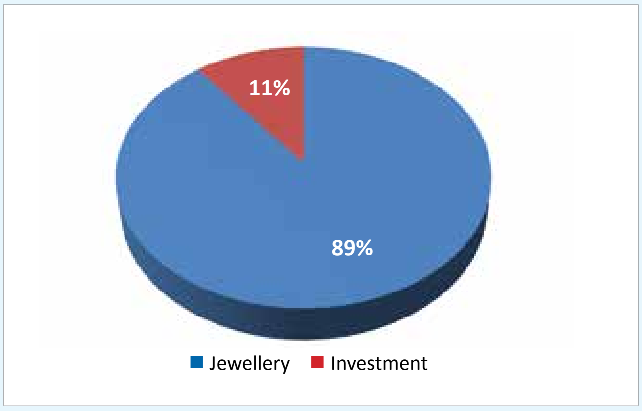
International funds

Investing in international funds is uncommon in Indian HNIs as only 7% of the HNIs have invested in international funds.

Gold

Gold made a comeback in FY16, with investments in this eternal asset class rising 15% and accounting for almost half of the total individual wealth in physical assets. In keeping with these sentiments, almost 89% of HNIs stated that they purchase gold in the form of jewellery, given the perennial use in festive seasons and marriages.

Figure 16: Gold glitters again



Diamond

Interestingly, HNIs' love for gold didn't extend to diamonds, as 72% of respondents preferred not to invest at all, while 24% held it as jewellery.

Real estate

Besides prices, location mattered for 65% of respondents, while choosing to invest in real estate. While investment in this asset class has remained sluggish in recent years, given the high prices, things are expected to change with the passage of the RERA Bill and the demonetization exercise which aims to curb black money in this segment and may bring down prices, making it attractive for first-time investors. However, interestingly, 54% of respondents quoted rentals and resale as primary motives.

Figure 17: Do you own a second home?

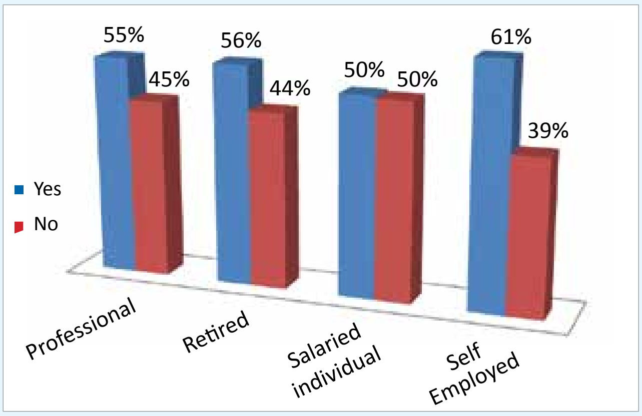


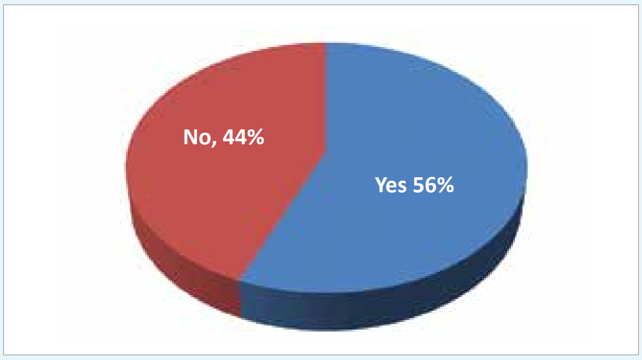
Figure 16 also explains that a majority (55%) of respondents own a second home. Usually, HNIs perceive it as a source of regular income through rent and for few individuals it is used for resale purpose. It is also noteworthy however that real estate no more seems to be an attractive asset class for the HNIs as almost 67% of the HNIs said they are not looking to invest in to real estate in the near future.

Discretionary spends/ Philanthropy

In a sign of conservatism, 52% of HNIs said that they have not planned any discretionary spends in the coming year. At a distant second, nearly one-fourth said that they would open their purse-strings to pursue their hobbies.

However, interestingly, most respondents wanted to back socially relevant causes. However, the proportion reduced; as majority of them were willing to spend 1% of their income, compared with 3% last year.

Figure 18: The spirit of giving



Future Of Indian Individual Wealth

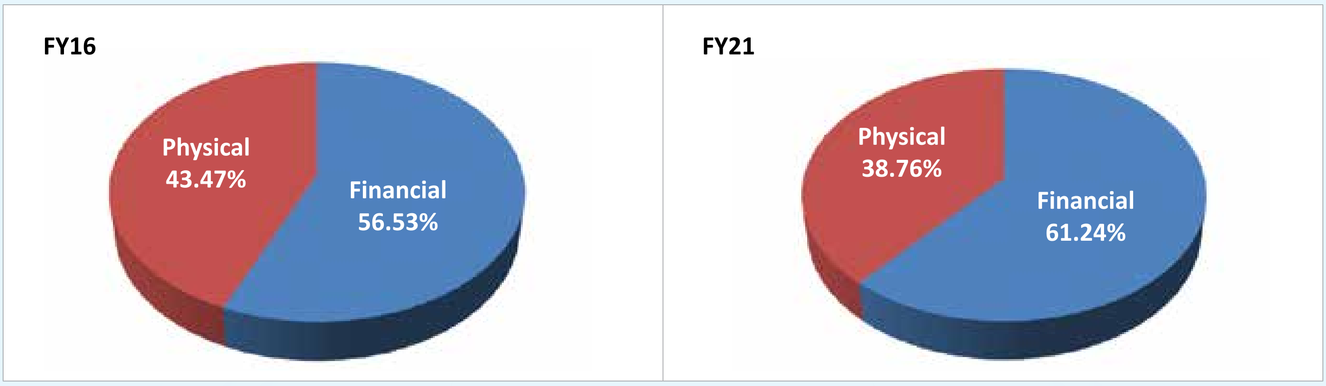
FY16 was a year of reversal with respect to how Indian individual wealth spread itself across various asset classes, primarily because of the sharp volatility in the equity markets. Investments in physical assets, especially gold, surged. With India's GDP expected to average 7-7.5% in the long run, India would still remain a bright spot among its peers.

By FY21, financial assets are expected to regain their foothold. While total individual wealth is expected to reach ₹ 558 lakh crore by FY21, at a CAGR of 12.90%, financial assets are expected to grow much faster. Proportion-wise too, financial assets will make up almost 61% of the pie in the next five years.

Table 26: Individual wealth forecast

Asset Type	FY16 Amt (₹ cr)	FY21 Amt (₹ cr)	CAGR (%)	Proportion FY16 (%)	Proportion FY21 (%)
Financial	1,72,02,099	3,41,89,835	14.73%	56.53%	61.24%
Physical	1,32,26,839	2,16,37,435	10.34%	43.47%	38.76%
Total	**3,04,28,938**	**5,58,27,270**	**12.90%**	**100.00%**	**100.00%**

Figure 19: Breakup of Financial and Physical Assets in FY16 and FY21



Individual wealth in financial assets is expected to almost double to ₹ 342 lakh crore at a CAGR of 14.73% by FY21, riding on the faster growth in equity markets as well as consistent investments in asset classes such as fixed deposits and insurance. We therefore expect that by FY21, the share of financial assets in the investments pie will rise to 61% from 57%.

Table 27: Projected financial wealth – asset class wise distribution in FY21

Asset class	FY16 Wealth (₹ cr)	FY21 Wealth (₹ cr)	CAGR (%)	Proportion (%)
Direct Equity	29,63,883	87,85,014	24.27%	25.69%
Fixed Deposits	35,65,222	66,58,739	13.31%	19.48%
Insurance	25,47,564	52,58,676	15.60%	15.38%
Savings deposits	21,59,478	39,59,713	12.89%	11.58%
Provident Fund	11,51,027	21,52,477	13.34%	6.30%
NRI Deposits	8,26,727	14,79,008	12.34%	4.33%
Mutual funds	6,23,825	15,67,242	20.23%	4.58%
Cash	16,63,432	13,15,713	-4.58%	3.85%
Small Savings	6,58,596	12,17,914	13.08%	3.56%
Pension Funds	3,92,682	7,44,897	13.66%	2.18%
Current Deposits	4,37,262	6,00,119	6.54%	1.76%
Bonds	1,16,436	2,22,586	13.84%	0.65%
Alternate Assets	77,503	1,95,868	20.37%	0.57%
International Assets	18,462	31,869	11.54%	0.09%
Total	**1,72,02,099**	**3,41,89,835**	**14.73%**	**100.00%**

Figure 20: Projected financial wealth – asset class-wise distribution in FY21

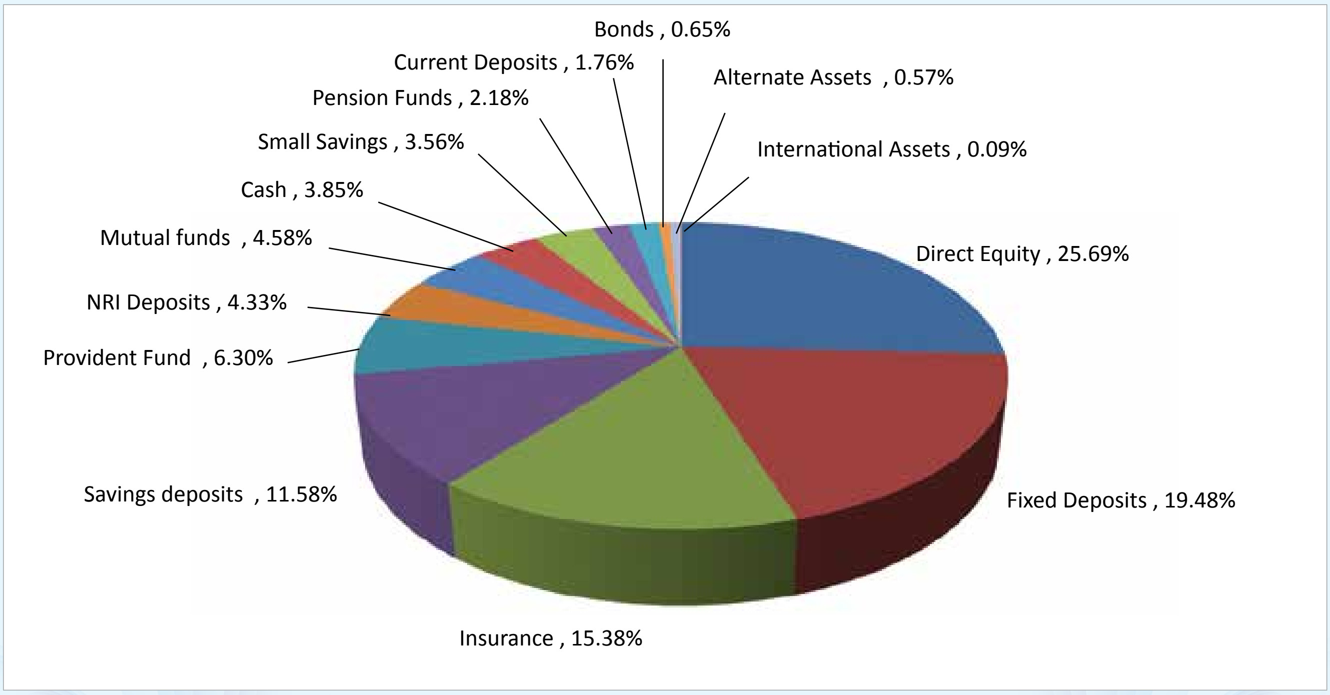
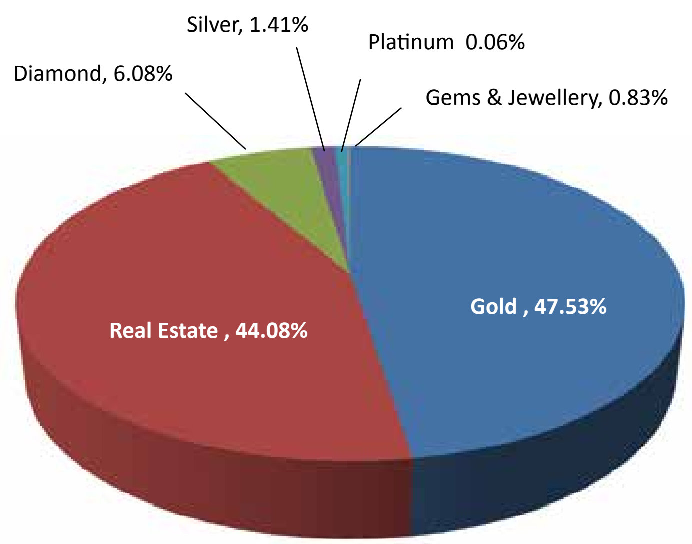


Table 28: Projected physical wealth – asset class-wise distribution in FY21

Asset class	FY16 Wealth (₹ cr)	FY21 Wealth (₹ cr)	CAGR (%)	Proportion (%)
Gold	65,90,575	1,02,85,234	9.31%	47.53%
Real Estate	55,47,254	95,38,297	11.45%	44.08%
Diamond	8,02,840	13,16,313	10.39%	6.08%
Silver	2,01,170	3,04,532	8.65%	1.41%
Gems & Jewellery	78,548	1,80,573	18.11%	0.83%
Platinum	6,452	12,486	14.11%	0.06%
Total	**1,32,26,839**	**2,16,37,435**	**10.34%**	**100.00%**

This means that physical assets will remain resilient to an extent. This would be true especially of gold, demand for which is only expected to stay steady in the long term, despite incidences such as demonetisation and the recalibration of taxes under the GST regime.

Figure 21: Projected physical wealth – asset class-wise distribution in FY21



Key Trends

1. Total wealth held by Individuals in India has grown by 8.5% to ₹ 304.2 lakh crore. Individual Wealth in financial assets grew by 7.14%, while that in Physical Assets grew by 10.32%. This is in contrast to the previous year when wealth in physical assets had declined and those in financial assets had grown by 19%
2. Owing to the turbulent year in the equity markets, which fell 4-5%, Fixed Deposits regained the top spot as the most preferred vehicle among financial assets. Considering the demonetization of old high-value notes leading to a surge in bank deposits, Fixed Deposits are expected to continue holding the top spot for the next one year
3. Small Savings and Saving Bank Deposits have seen a huge growth on account of the government focus on the Jan Dhan Yojana
4. As per our estimates, over the next 5 years, the overall individual wealth in India is expected to grow to ₹ 558 lakh crore from the current ₹ 304 lakh crore, at a CAGR of 12.90%. Financial assets are expected to grow at a faster pace of 14.73% CAGR to nearly double in the next 5 years
5. The current demonetization drive is expected to slow down the GDP growth rate in 2017 for the short term. However it is expected to regain its speed from FY18. The Real Estate sector is expected to see a price correction in the urban markets, leading to an increase in end-user demand
6. The last year has seen a dip in individuals' wealth proportion held in equities (16% to 13%), owing to the equity market giving negative returns of 4-5%. The significant gain on the other hand has been in Gold where not only have prices increased but also there is a positive sentiment seen in investors to flock towards gold
7. There is an increasing trend of HNIs investing in exotic and exclusive kind of investment options, especially Alternative assets. The category grew by 84.70% over FY15 and the growth is expected to continue in the next 5 years although at a slightly slower pace
8. Direct Equity is expected to grow at a more than a 20% CAGR over the next 5 years. It is expected to regain its position as the most preferred asset among Financial assets anytime before FY20
9. We expect India as a nation to move towards a 'less-cash' economy and also a differently-taxed economy in the coming years
10. A new trend may be that HNIs also try out investing and allocating some portion of their wealth in the coming years in opportunities such as Bitcoins which although popular in many developed economies, are yet to catch up and gain acceptability in India

About Karvy

Karvy Group

The Karvy Group, established in 1982 and headquartered at Hyderabad, India is the Country's leading financial services conglomerate. The Group has grown steadily over the years, establishing a global presence with a wide range of financial services offerings. The Groups enjoys leadership positions and competitive advantage in most business segments. A highly diversified enterprise has over 13,000 employees, spanning a vast network of over 1000 offices in about 600 cities / towns across India, UAE, Bahrain and the United States of America. Given such a well-established network, that touches the lives of millions, Karvy enjoys significant brand loyalty among investors, both individual and institutional.

The Group covers the Entire spectrum of financial services, such as registry and share transfer, stock broking, distribution of financial products (including equities, mutual funds, bonds, IPOs, and fixed deposits), wealth management, corporate finance, commodities broking, NBFC, data management services, insurance broking, investment banking, and depository participant, among others.

In order to ride new opportunities presented by the changing business scenario, Karvy has diversified into two new businesses viz. data analytics and market research.

Karvy Private Wealth

Karvy Private Wealth is the Wealth management arm of Karvy Group providing exclusive and customised wealth management solutions to High net-worth individuals (HNIs) and families based on their specific needs. With the widest range of product offerings backed by industry' s finest brains, Karvy Private Wealth is a complete wealth management boutique.

This of course is built upon the Strong belief of the Group of providing clear , unbiased and most appropriate investment solutions to our esteemed clients and prospects.

Karvy Private Wealth is an open architecture firm at 2 levels – asset class level and product level, offering a comprehensive range of investment solutions across all asset classes including debt, equity, real estate and alternate assets.

At Karvy Private Wealth, we constantly work to grow your wealth over a long period of time to fulfill your financial aspirations and goals.

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KARVY PRIVATE WEALTH

Mumbai Office Address: 702, Hallmark Business Plaza,
Sant Dnyaneshwar Marg, Bandra (East),
Bandra Kurla Complex, Mumbai - 400 051

Registered Office Address: Karvy Stock Broking Ltd.,
Karvy House 46, Avenue 4, Street No 1, Banjara Hills, Hyderabad - 500 034

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