

Analyst Meet

Outlook on Capital Market & Financial Services

Nirmal Jain

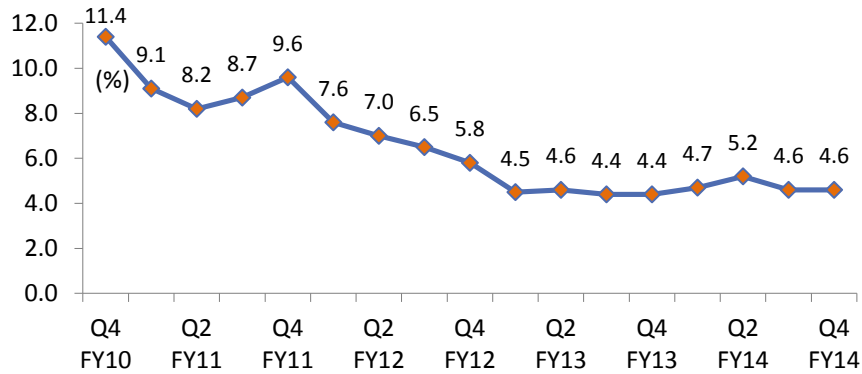
July 2, 2014

Macro Outlook on Financial Services

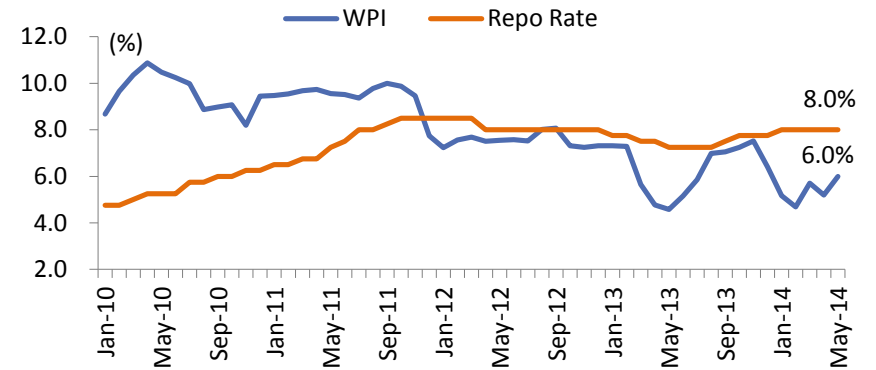


Politics & Macros turning favourable

GDP growth has bottomed-out



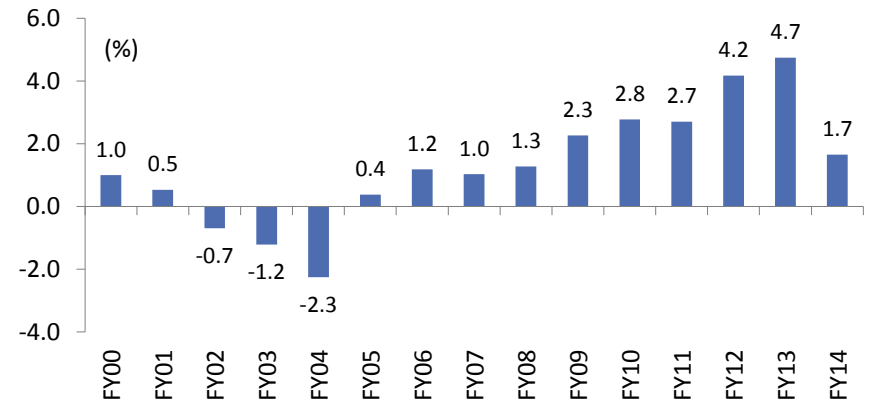
Rates have peaked; easing early next year



Fiscal consolidation in progress

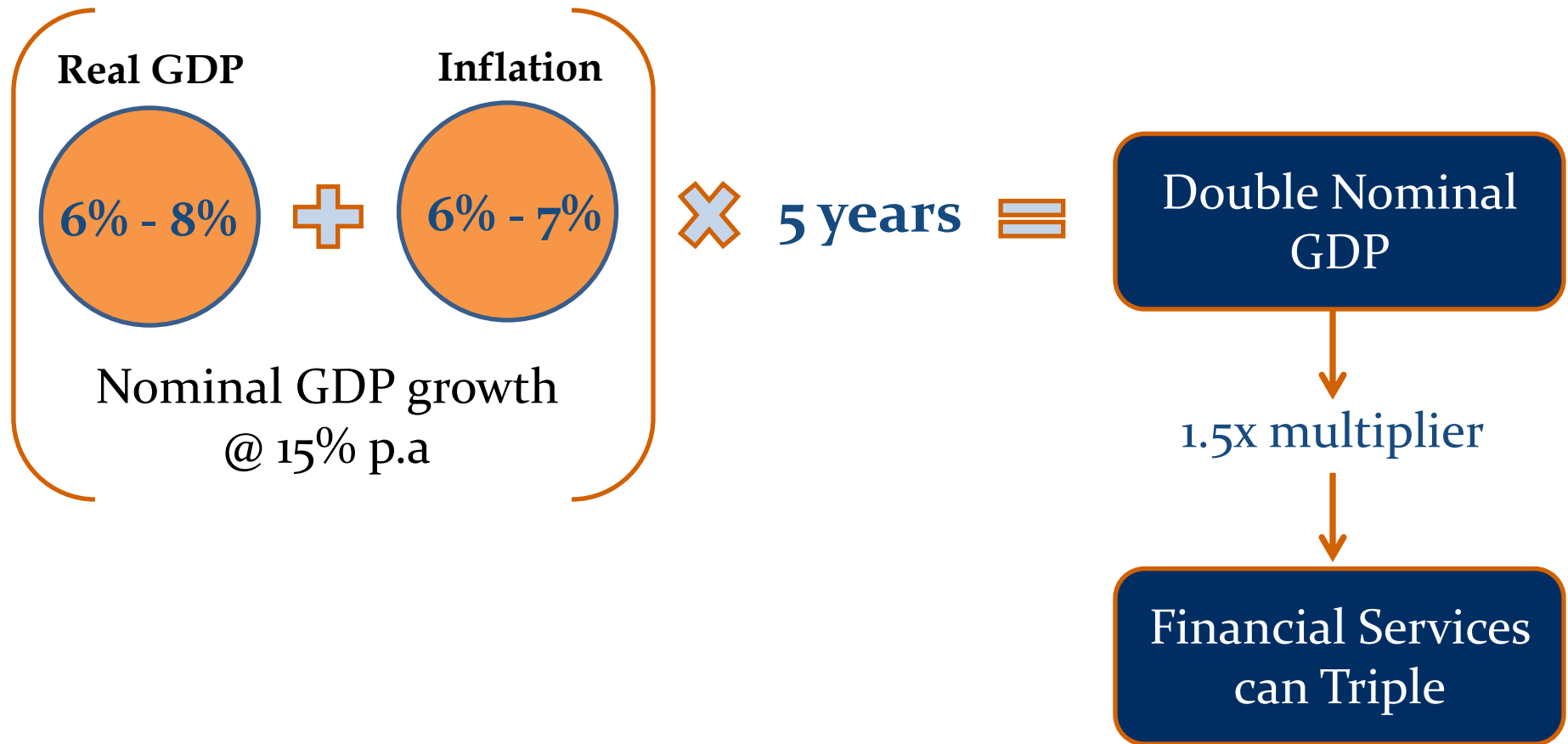


CAD under control & comfortably funded



Source: Bloomberg

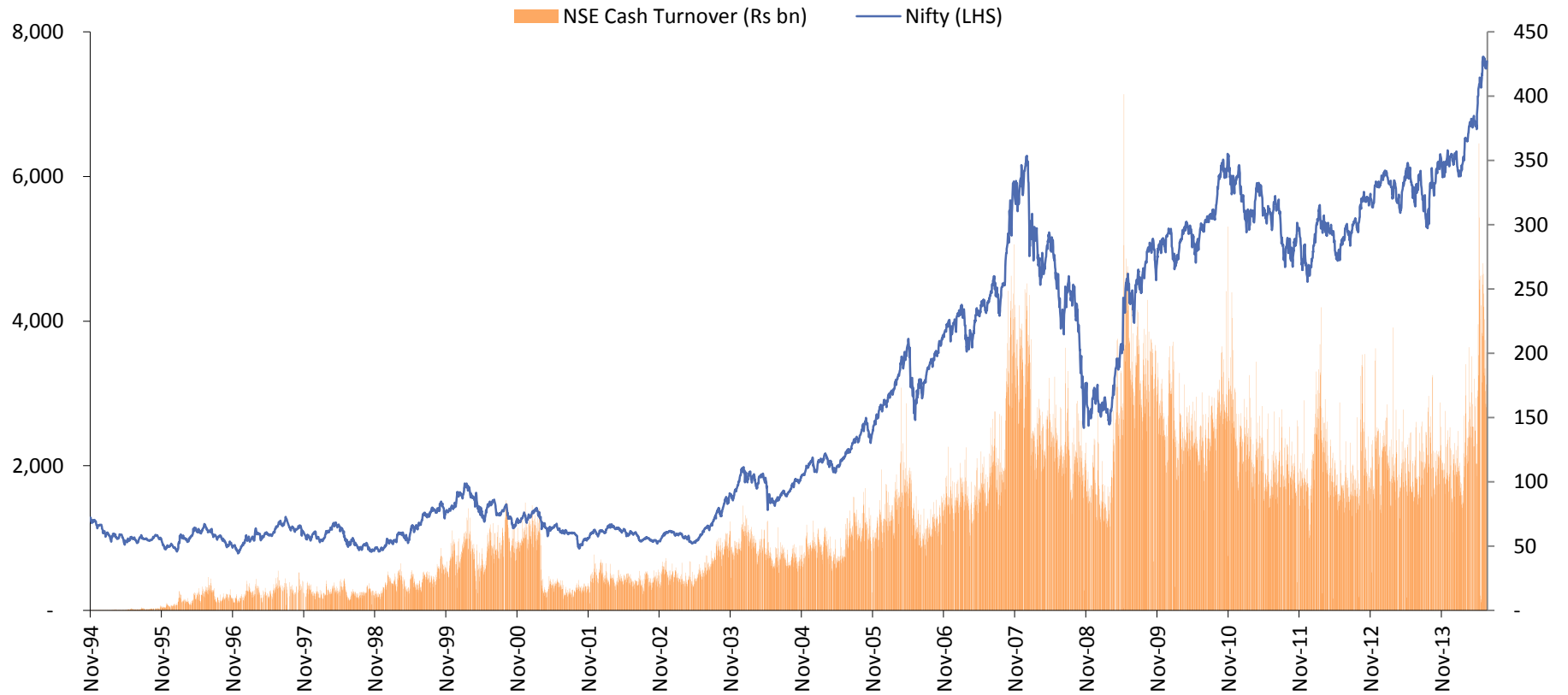
Financial services growth opportunity enormous



Capital Market Outlook



Market cycle has turned positive after a long time correction

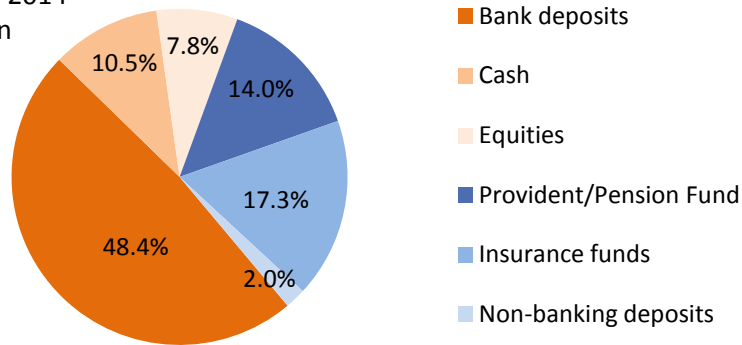


Source: Bloomberg

Retail investment in equities has troughed

Equities just 8% of household fin savings

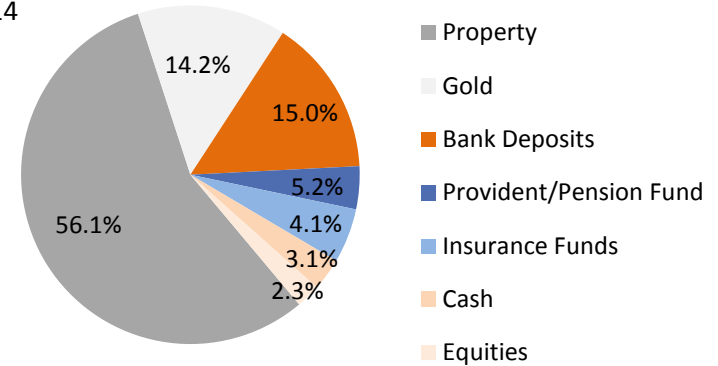
March 2014
US\$2tn



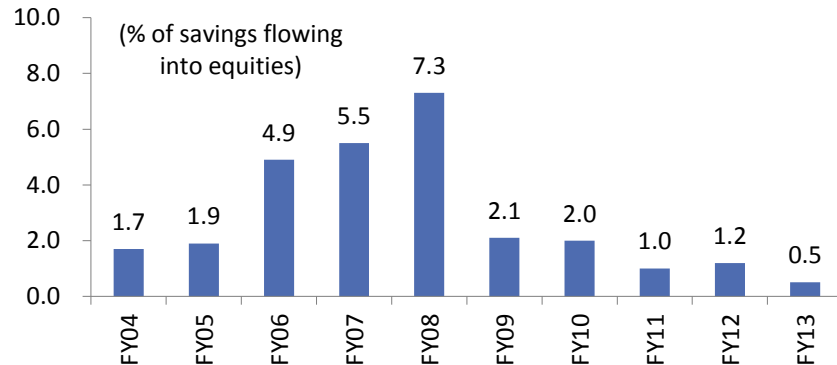
Source: RBI, SEBI

... Only ~2% of aggregate savings

March 2014
US\$6tn

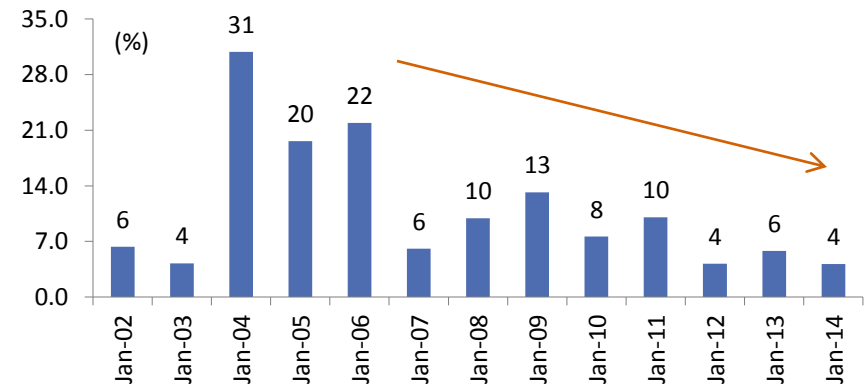


Retail flows in Equity have dried up; a rise to historical levels can trigger big jump in domestic liquidity



Source: RBI

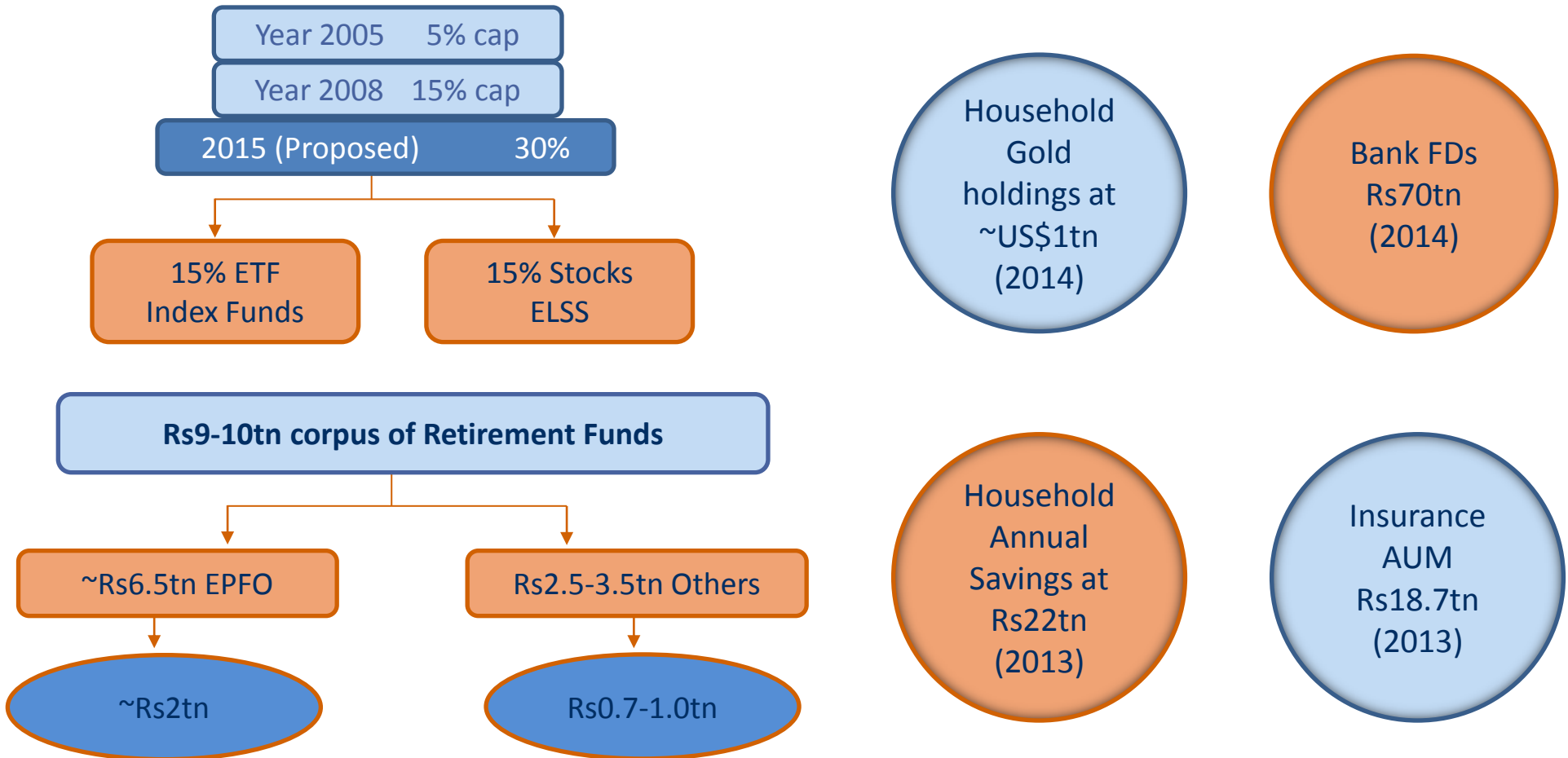
Growth in Demat account has decelerated sharply; should pick-up like it did 2003-04 onwards



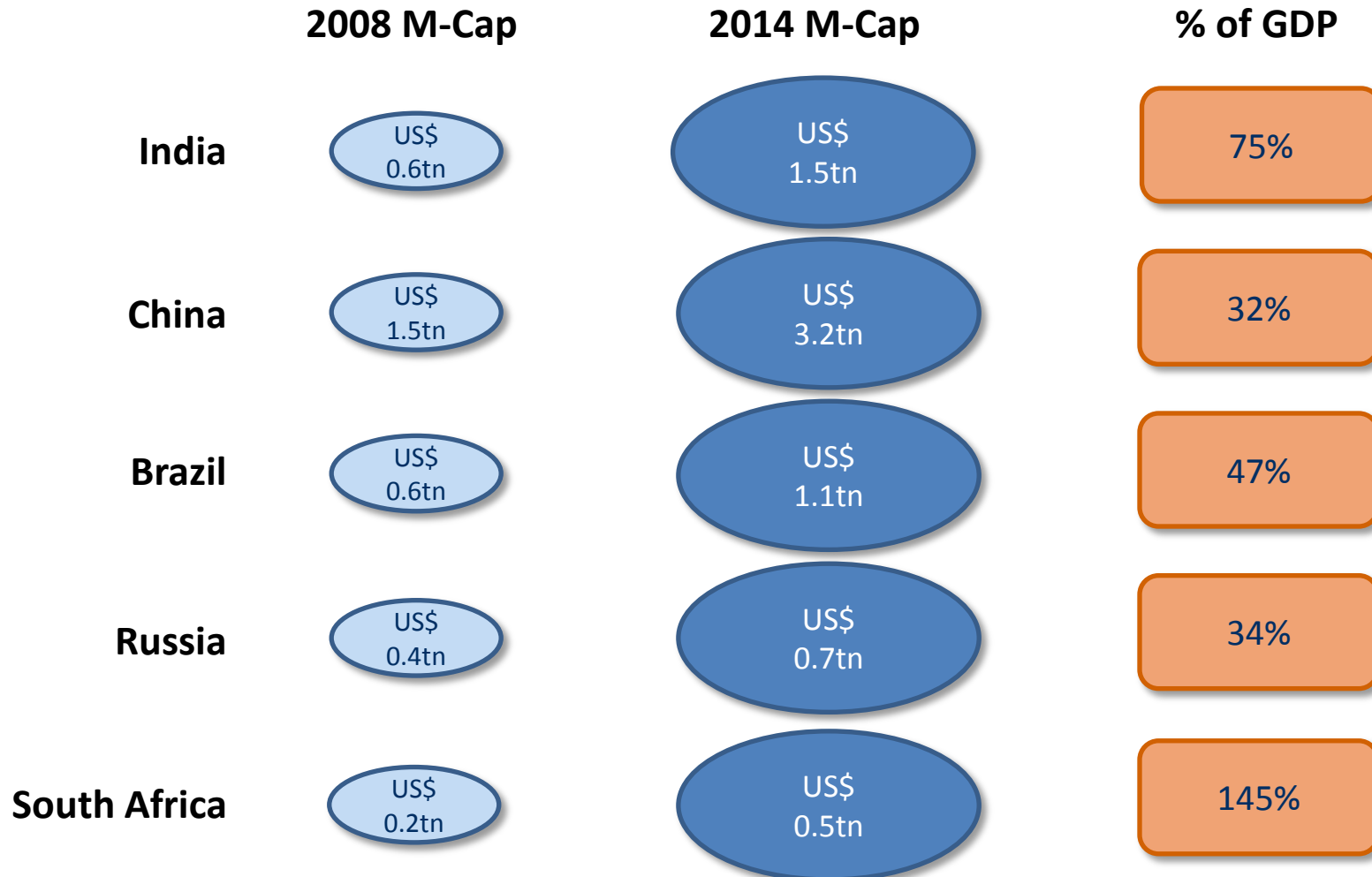
Source: NSDL

Domestic liquidity into equities can rise with shift in asset allocation and hike in investment limits

Investment Limit in Equities for Retirement Funds

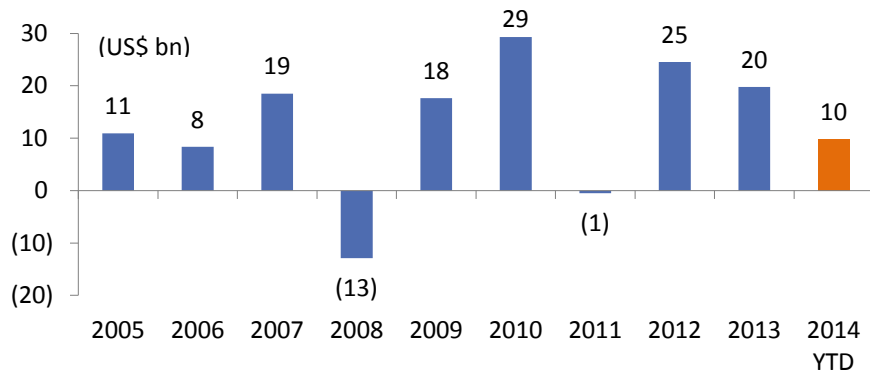


India better placed to attract foreign money with bigger size of equity market cap within BRICS and other EMs

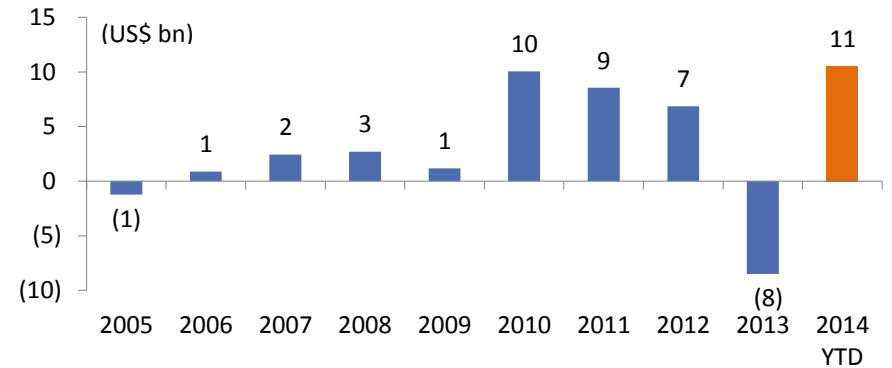


India currently receives only a small share of global capital

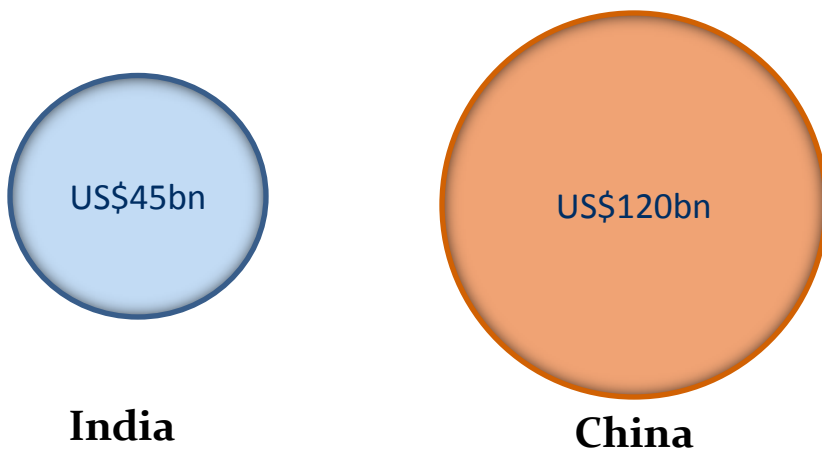
FII flows in equity market to accelerate



FII flows in Indian debt has revived in 2014



FII Flows to India below potential (2012 & 2013)

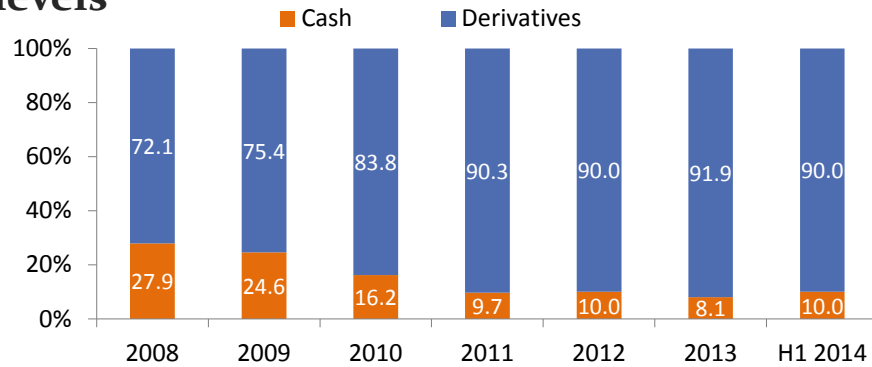


High growth visibility for institutional business

- ✓ Institutional Brokerage industry revenue pool at Rs25-30bn p.a. currently
- ✓ Domestic Brokerages account between 25-34% market share
- ✓ Share typically shifts 3-5% towards domestic brokerages during strong capital markets

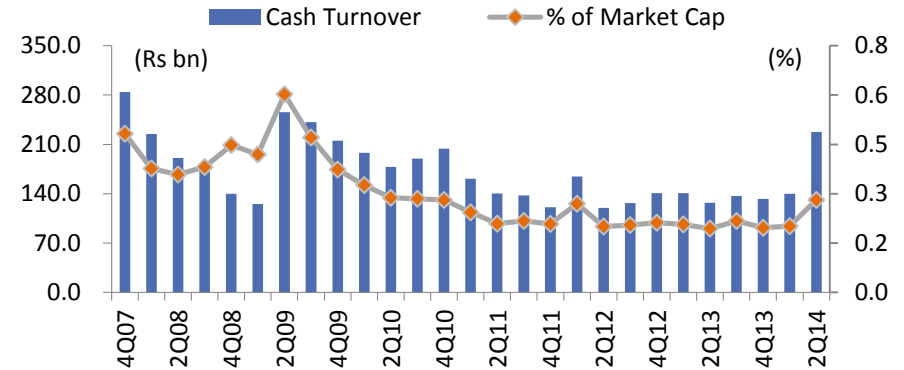
Recent dynamics in the Broking industry

Share of cash market can only rise from current levels



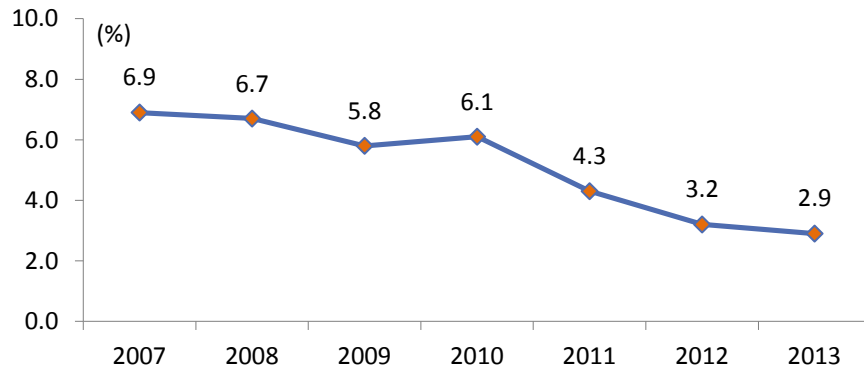
Source: Bloomberg

Signs of revival in cash market turnover



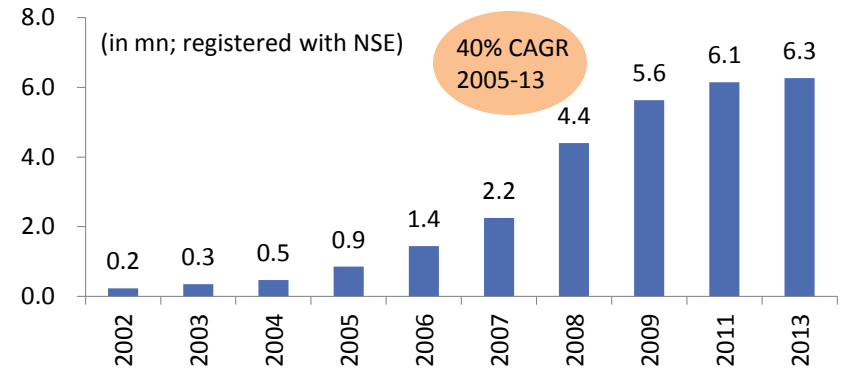
Source: BSE & NSE

Blended yields have bottomed-out



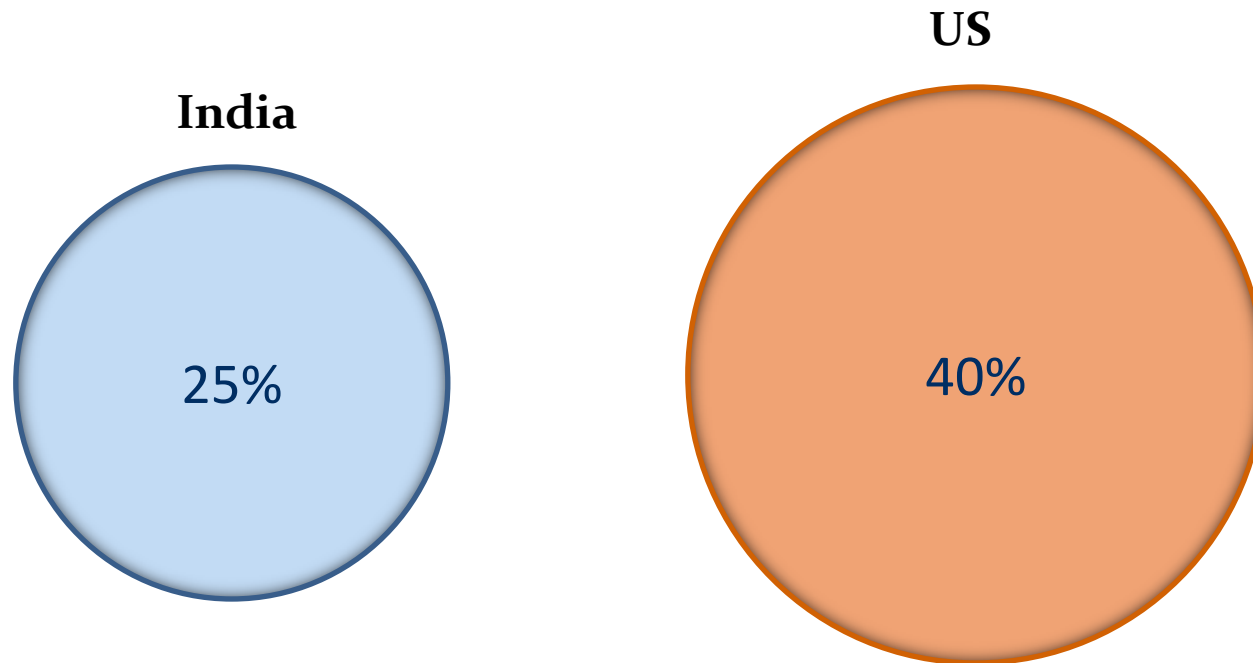
Source: CRISIL

Improved dynamics with surge in the number of online clients



Source: NSE

Consolidation by large Brokers to continue

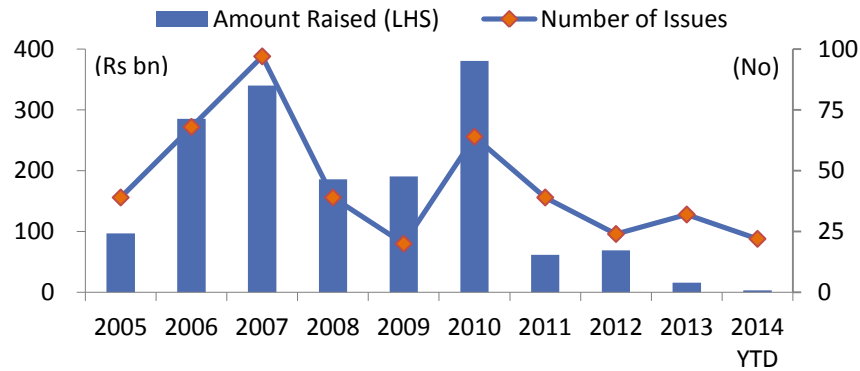


Share of Top 10 players

Source: NSE, McKinsey

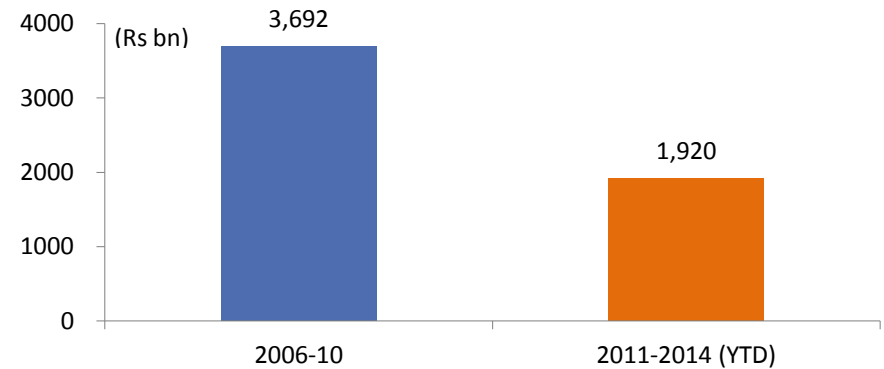
Primary market activity to revive

IPO activity has been lackluster



Source: Bloomberg

Other equity raising (QIP, Rights, etc) too has been lower



Boost to Investment Banking & Distribution Business

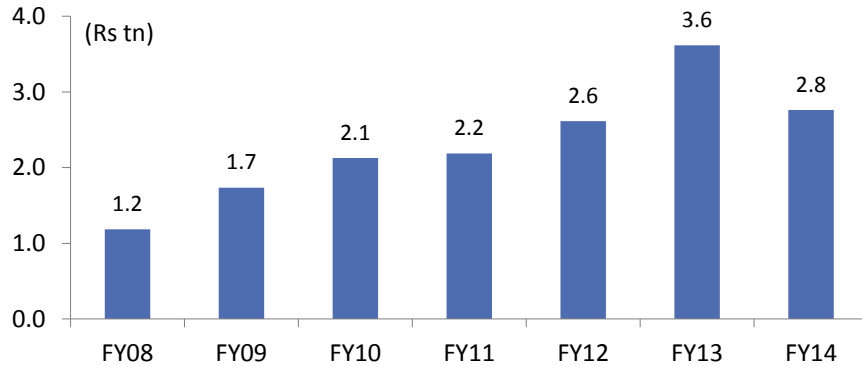
- ✓ Government's disinvestment drive
- ✓ As per ICRA (March 2013), SEBI reported that more than 130 companies deferred public issues worth ~Rs600bn in the past 3-4 years

Possible listings that can grow India's equity market cap substantially

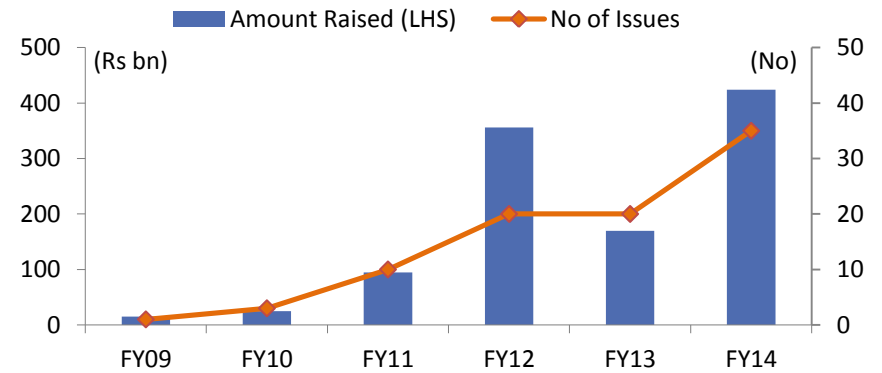
- ✓ Insurance companies - LIC & Others
- ✓ Air India
- ✓ E-commerce companies
- ✓ Indian Railways

Debt market activity on the rise

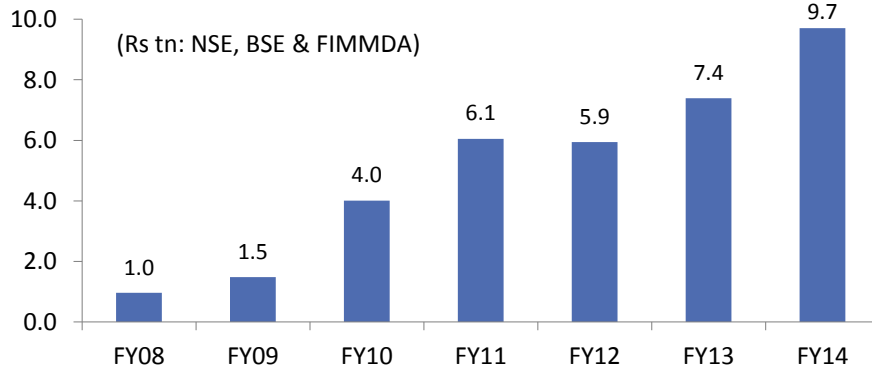
Increasing private placement of corporate debt



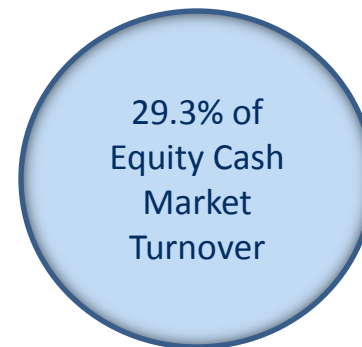
Sharp uptick in public issue of corp bonds



Trading of corporate debt on the rise

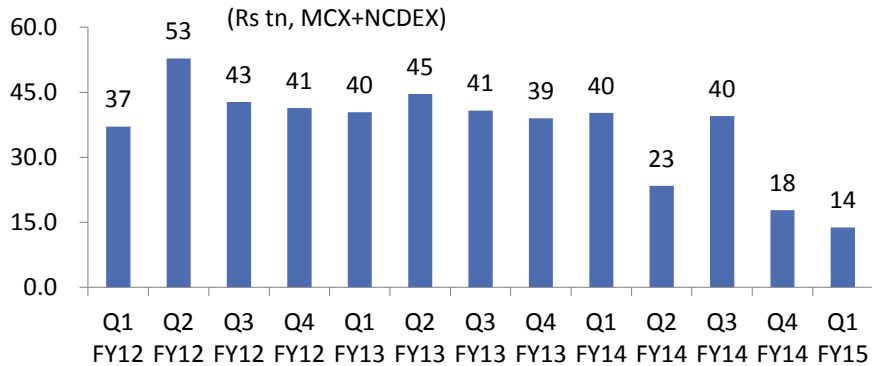


Debt market activity small compared to Equity



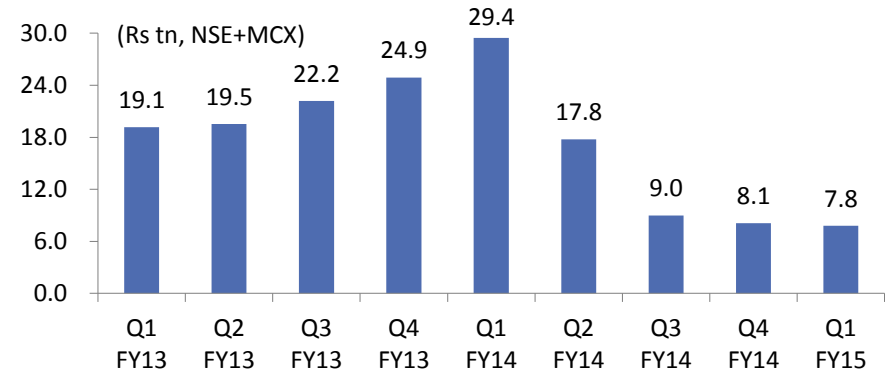
Potential for Commodities and Currency Trading

Commodity market turnover



Source: MCX, NCDEX,

Currency market turnover



Source: NSE, MCX-SX

India

US

India

US

24% of
Equities

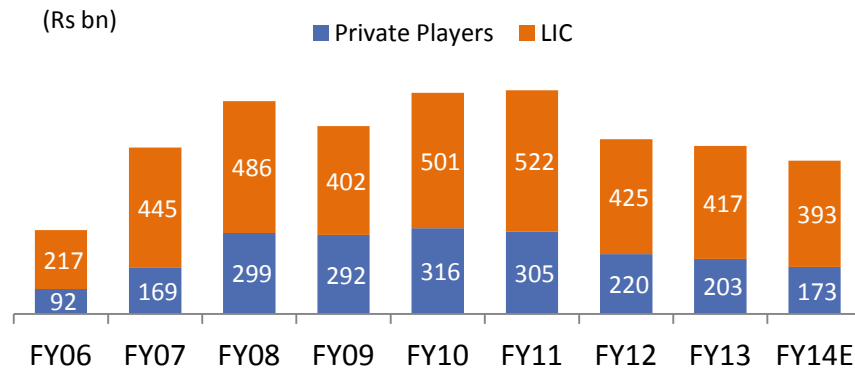
258% of
Equities

15% of
Equities

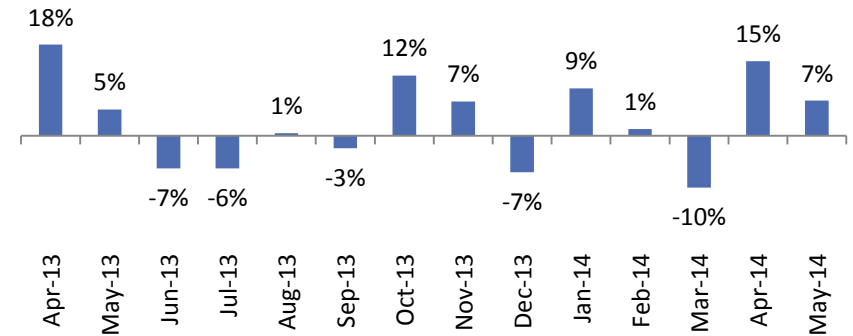
37% of Equities

Insurance and Mutual Fund mobilization to revive

Insurance - Private sector growth declining



Revival in Mutual Fund inflows



- ✓ Low penetration of Insurance and Mutual Fund products remains a structural driver of growth
- ✓ New business based on bond, interest rate and Vix products will pick up over time

Budget Wishlist

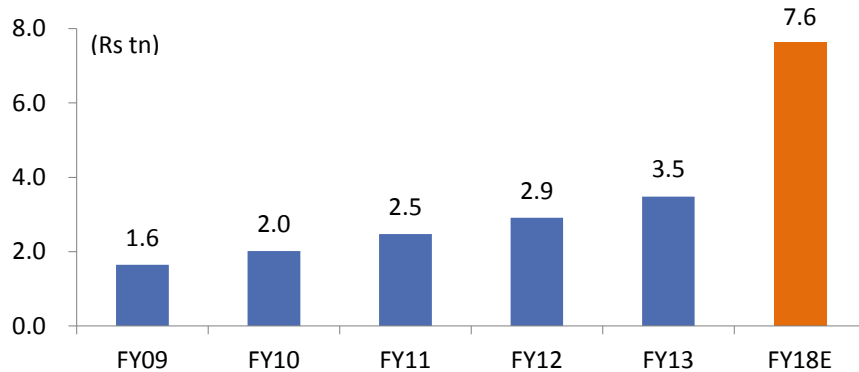
- ✓ Stamp duty and STT both charged on share market transaction (nowhere else in the world)
- ✓ Reduction of short-term capital gains tax to 10% from 15% presently
- ✓ Modify RGESS to boost new investor participation in Equities
- ✓ Removal of CTT (commodity market volumes have dropped 35-40%)
- ✓ Remove tax anomalies in bond market as specified by Mr. UK Sinha
- ✓ Increase retail limit in public issues to Rs3-5 lakhs from present Rs2 lakhs
- ✓ Industry status to Broking

Credit & Wealth Outlook

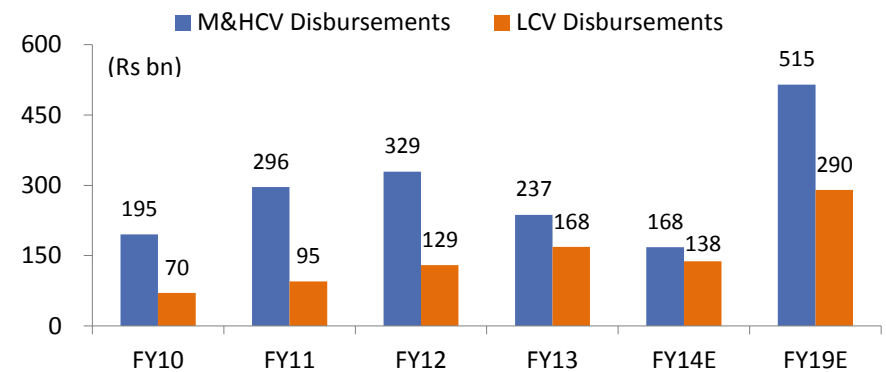


NBFCs on strong growth trajectory

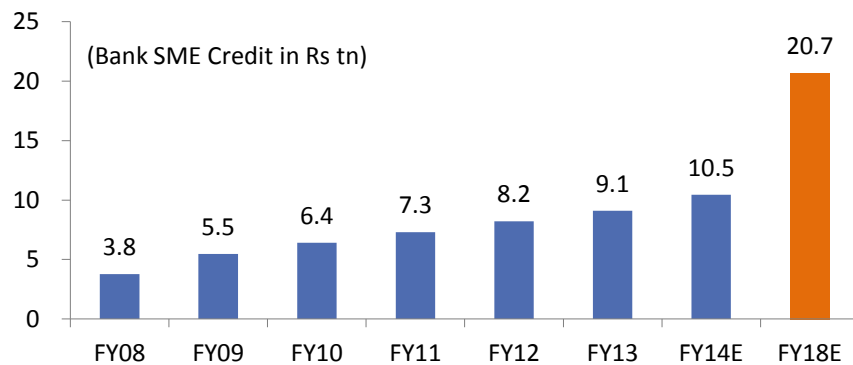
Home finance by NBFCs to grow faster than banks



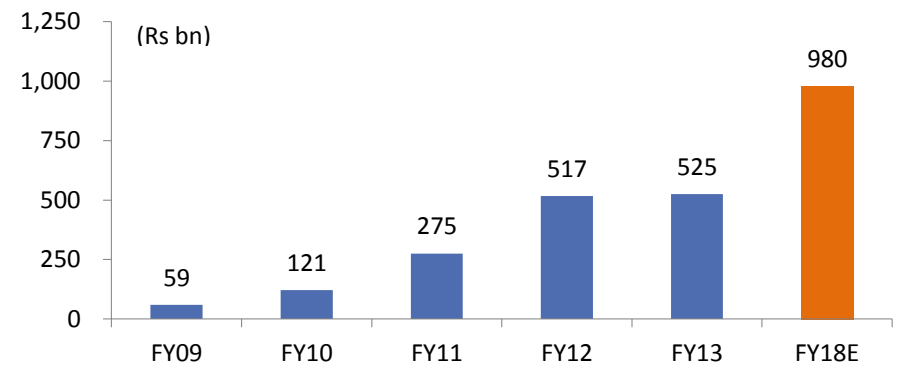
CV financing to revive with the macros



NBFC share in SME loans negligible at ~2%

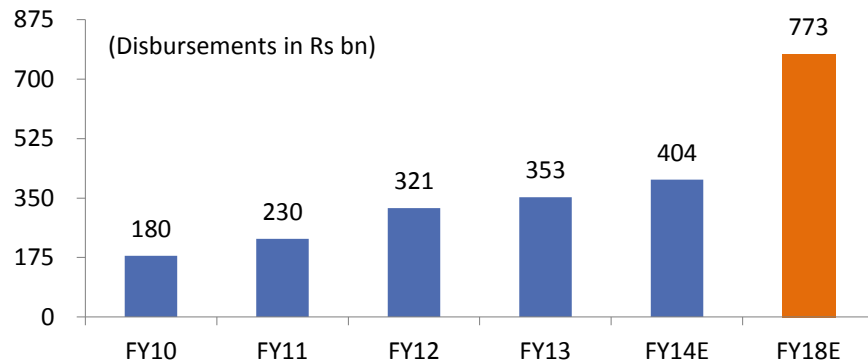


Organized gold loan market to grow rapidly

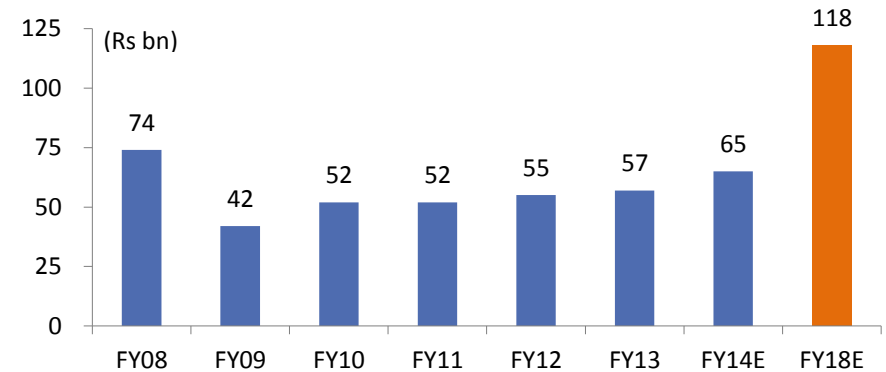


NBFCs on strong growth trajectory

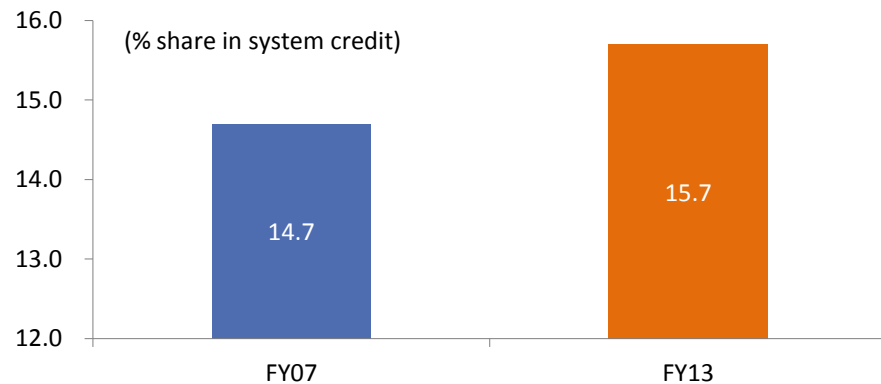
LAP is one of the fastest growing market



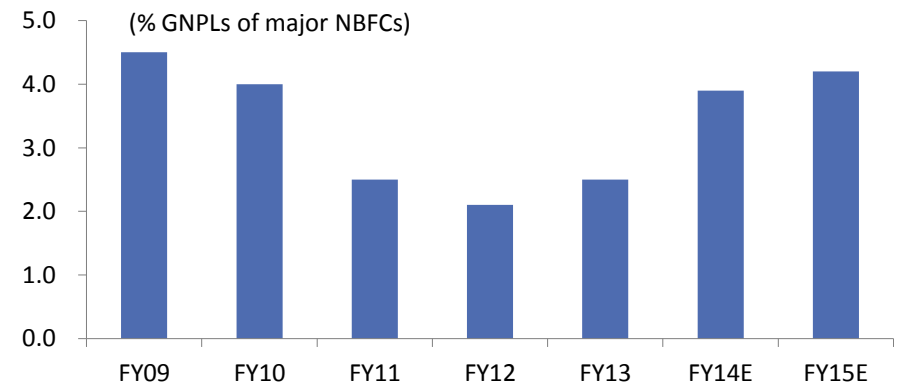
LAS to receive fillip from buoyant markets



NBFC's gaining share in system credit

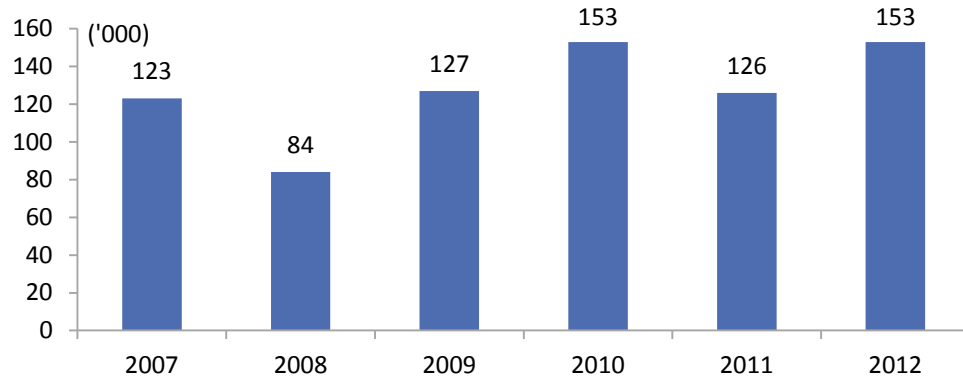


Good credit track record of NBFCs



Wealth Management industry booming

Number of HNWI's (Networth >US\$1mn)



Source: Capgemini Lorenz Curve Analysis, 2013

7,850
 Number of ultra high net worth individuals in India, 2013 with >\$30mn

51%
 The percentage of HNWI Indian respondents willing to pay more for customized services

7
 The average number of products an affluent client uses

32.6%
 The percentage of HNWI Indians who turn to lawyers for wealth planning advice

Source: The Guide to Wealth Management in India (January 2014 issue)



Thank you

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