

Webinar - Opportunities in the Indian Asset Management Industry



Australian Government
Australian Trade Commission

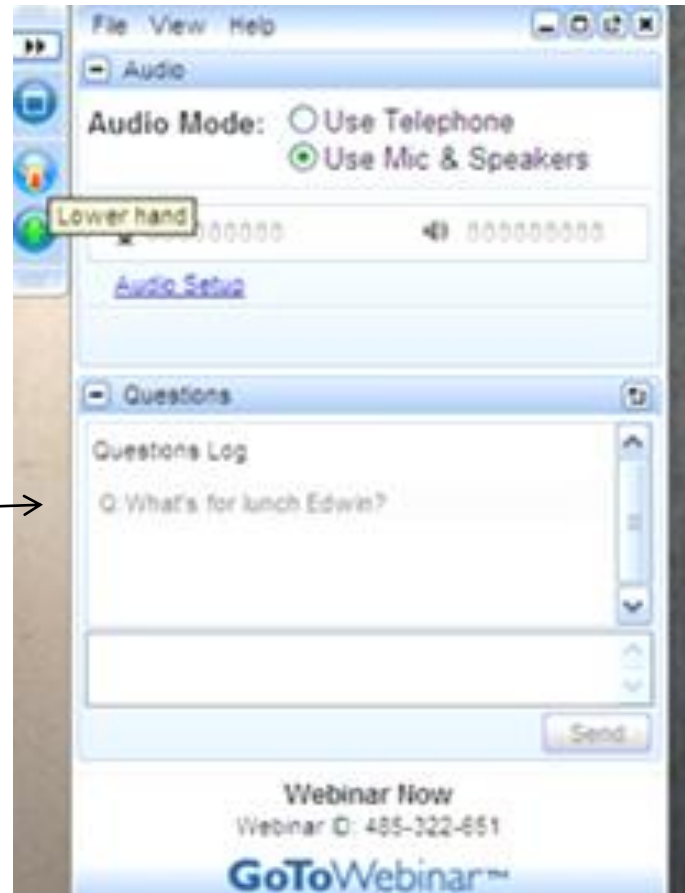


- Ask a question

Raise your hand



Type question



Introduction



**Patrick Kearins, Trade Commissioner
Austrade, Mumbai**

Content

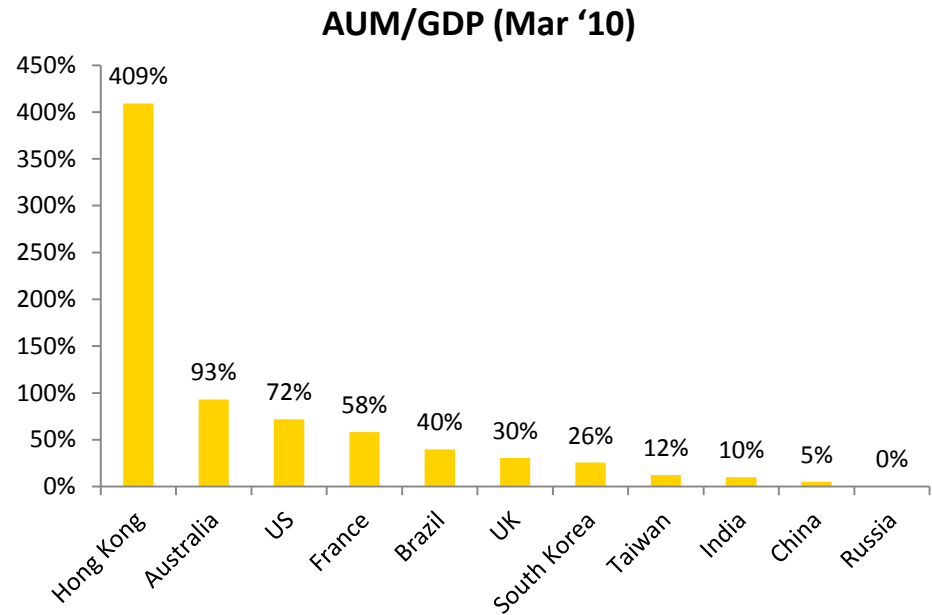
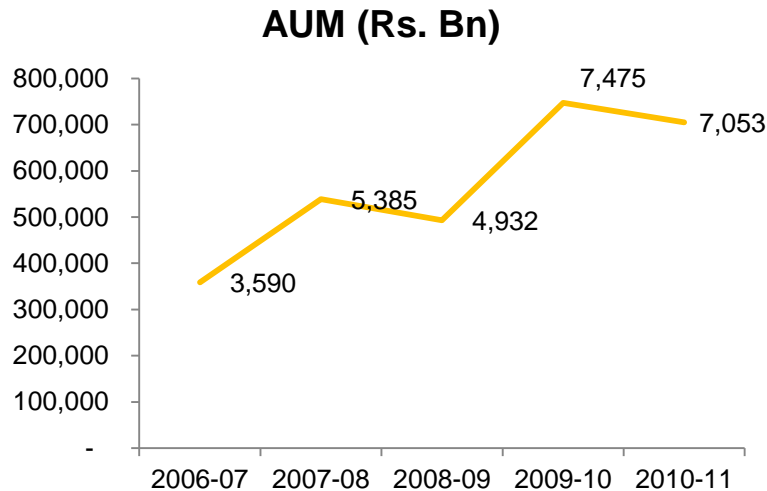
- Introduction to Indian Asset Management Industry
- Regulatory Frame work in India
- Opportunities & Challenges
- Entry Strategies and exploring synergies between India and Australian Market

Introduction



**Ashvin Parekh, Partner & National Leader
Global Financial Services
Ernst & Young**

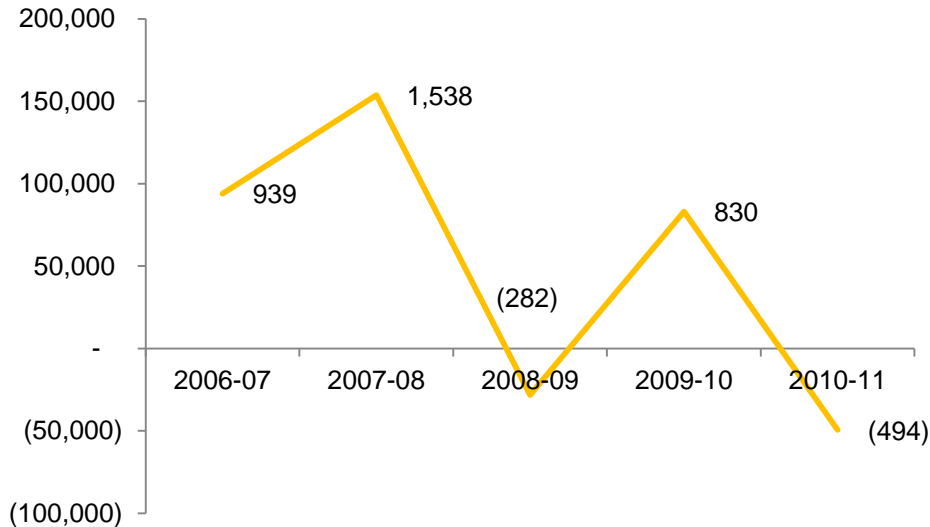
Industry landscape (1/2)



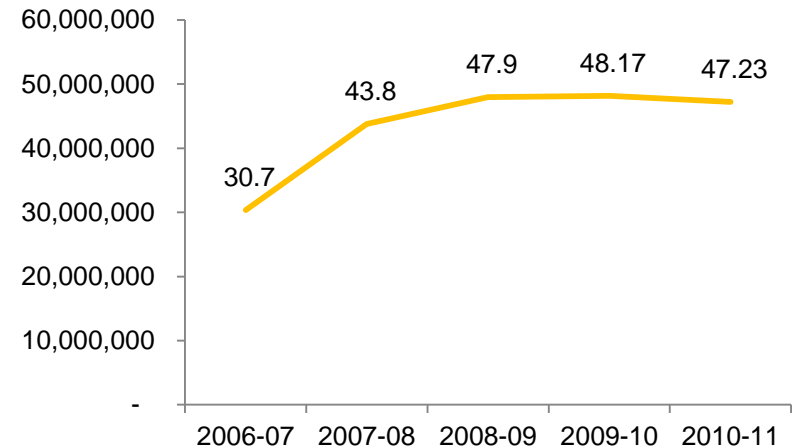
- 41 AMC's with AUM of US\$137bn and 47.72 million accounts as on March 31, 2011
- Industry Growth at 5 yr CAGR of 25%
- 70% of market dominated by Income/ Debt oriented schemes
- ETFs account for 0.91% of the AUM, Gold ETFs account for US\$907mn while other ETFs account for US\$526mn; Gold ETFs have grown at a 3 year CAGR of 101% from US\$ 100 mn in FY2008 to US\$ 1bn in FY2011
- ETFs are a huge emerging opportunity

Industry landscape (2/2)

Net Inflow (Rs.bn)



Investor Accounts (Mn)



- The industry is witnessing sharp fluctuations in fund flows, the industry saw a net outflow in FY11, however in April '11 the net inflow has been US\$ 40bn
- Investor accounts have reached a plateau and have dipped slightly in FY11
- Retail investors account for 97% of accounts and 40% of AUM, huge opportunity in increasing the penetration among retail investors

Mutual fund regulation

SEBI – Mutual Fund Regulations 1996

Regulatory aspects

- ▶ Registration of mutual fund
- ▶ Constitution and management of mutual fund and operation of trustees
- ▶ Constitution and management of AMCs and custodian
- ▶ Schemes of mutual fund
- ▶ Investment objectives and valuation policies
- ▶ Real estate mutual fund schemes
- ▶ General obligations
- ▶ Inspection and audit

Norms for funds

- ▶ Offer document for schemes
- ▶ Conversion and consolidation of schemes and launch of additional plan
- ▶ New products
- ▶ Risk management system
- ▶ Disclosures and reporting norms
- ▶ Governance norms
- ▶ Secondary market issues
- ▶ Net asset value
- ▶ Valuation
- ▶ Loads, fees and expenses
- ▶ Dividend distribution procedure
- ▶ Investment by schemes
- ▶ Advertisements
- ▶ Investor rights and obligations
- ▶ Certification and registration of intermediaries
- ▶ Transaction of mutual fund units

Distribution

- ▶ Abolition of entry load from August 1, 2009
- ▶ Move from commission to a fee structure
- ▶ 114,000 AMFI certified distributors as on June 30,2010
- ▶ 92,500 as on March 31,2009 of which 73% are individuals
- ▶ Emergence of multi-product distributors
- ▶ 77% of distributors in top 10 cities, need for expansion beyond to tier II,III towns

Distribution channels

- ▶ Banks
- ▶ Independent financial advisors (IFAs)
- ▶ National distributors

Qualification of distributors

- ▶ AMFI certification

Typical incentive structure for distributor

- ▶ 0.5%-1.0% fee at entry stage from clients
- ▶ Upto 0.5% trail commission from AMCs

Move towards more professional advice, cost-efficient processes and customer servicing

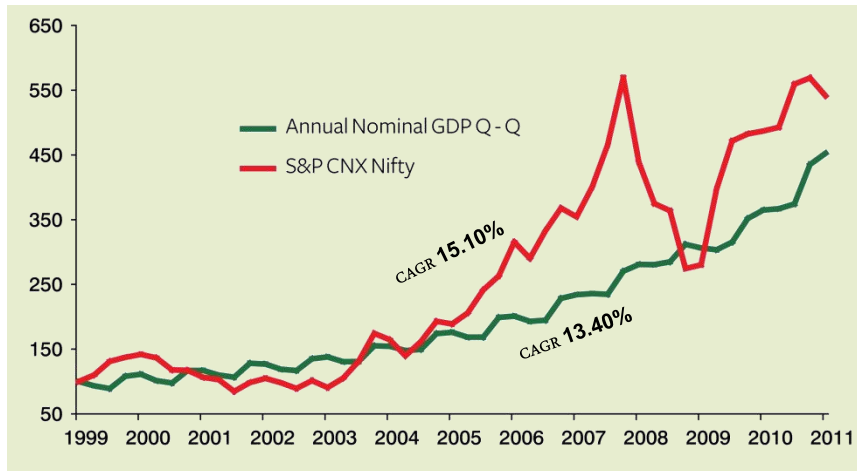
Introduction



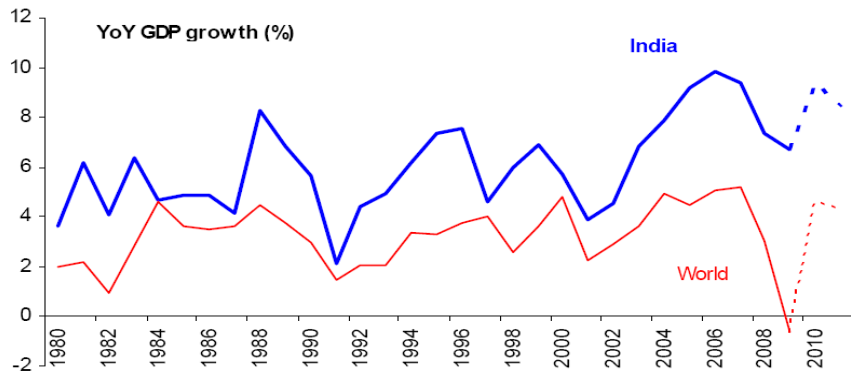
**Saurabh Nanavati, CEO
Religare Asset Management &
Member of Association Of Mutual Funds of India (AMFI)**

India – Growth on Fast Track

Strong Economy and Rising market

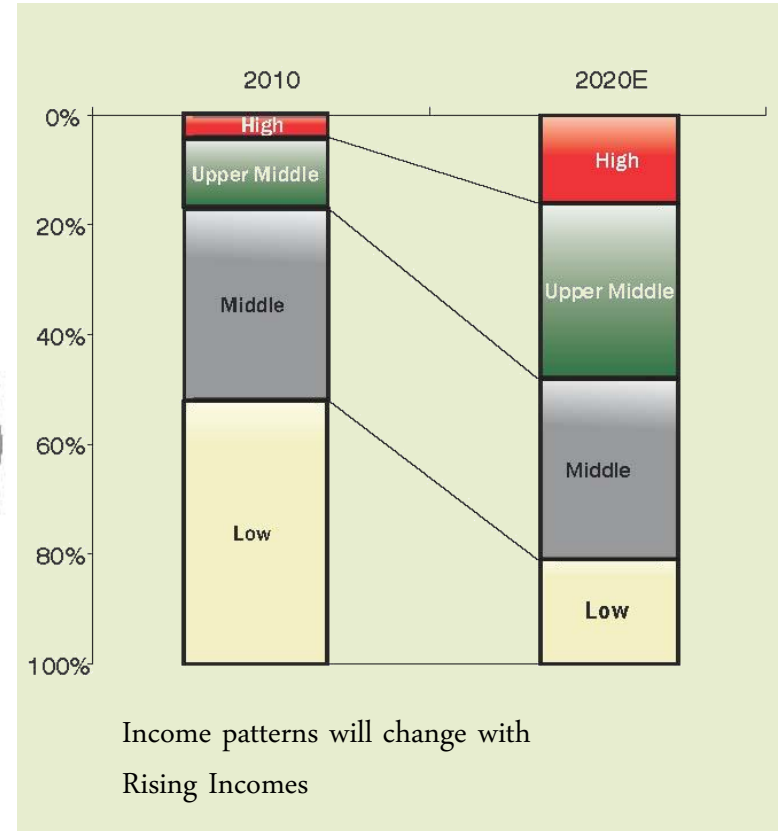


Much Better than Global Average



Source : RMF, Morgan Stanley

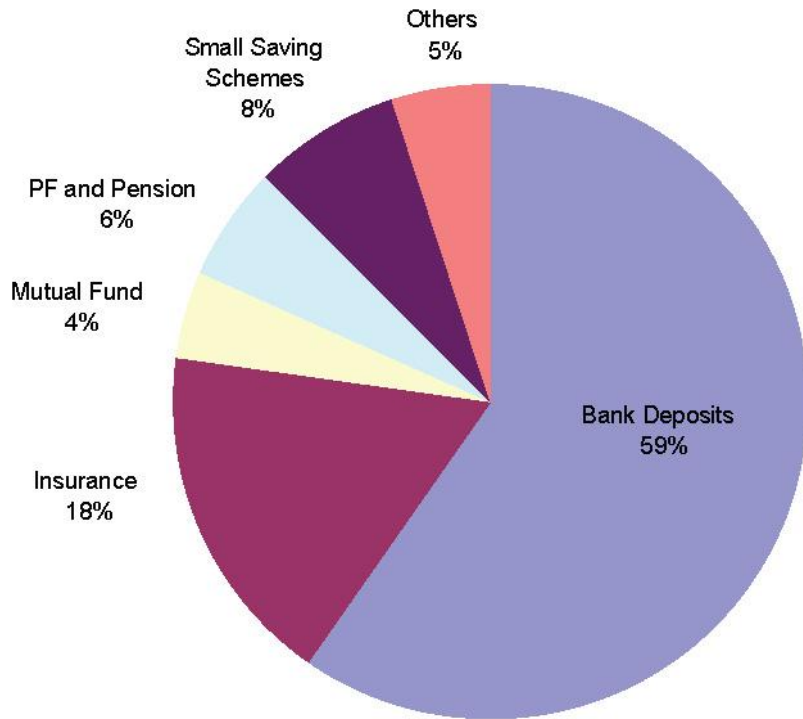
Rising Affluence



Income patterns will change with Rising Incomes



Indian Household Financial Assets Opportunity for Mutual Funds

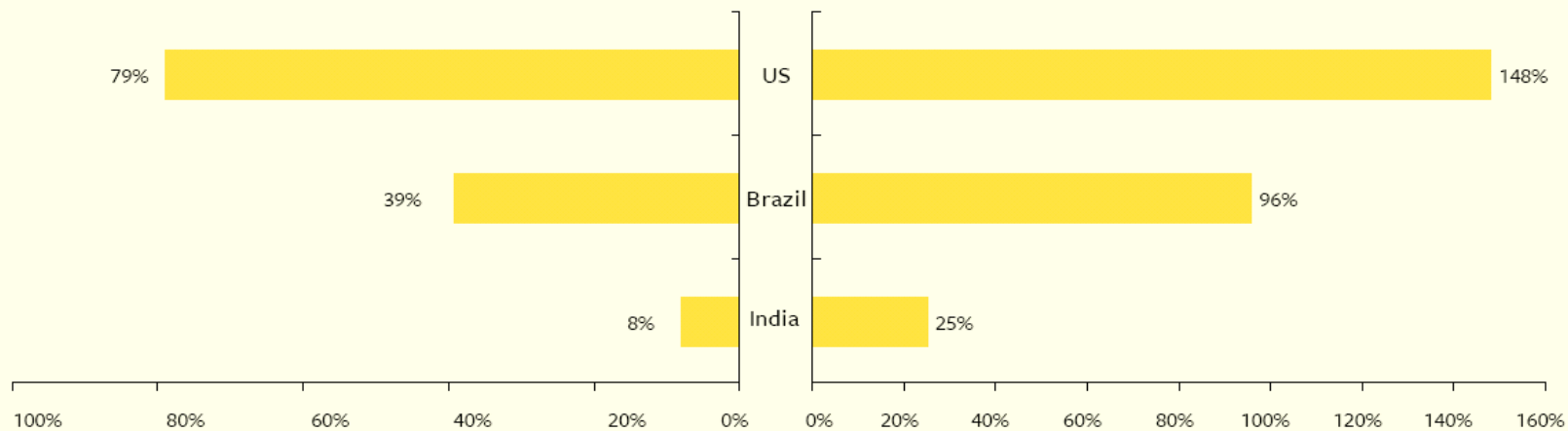


Growth in personal financial assets coupled with low penetration of mutual funds offers significant opportunity to convert cash and deposits in MFs

Confluence of many factors to drive Industry growth – Rising Income Levels / High Savings Rate /Demographics/ Consumer aspirations, etc.

Opportunity for Asset Managers

- Mutual fund penetration among Indian Households : 4 %
- Contribution of mutual fund assets from top 10 cities : 80%



MF AUM as a percentage of GDP : 8%

MF AUM as a percentage of bank deposits : 25%

The Indian asset management industry is still nascent and therefore, represents a huge opportunity.

The next growth impetus expected to come from Tier II & Tier III cities.



Opportunity for Asset Managers

Regulatory Changes to create more opportunities

- **Foreign investors, other than FIIs, would be allowed to invest up to \$10 billion in domestic mutual funds** – Regulator to notify framework by August 1, 2011
- **New Pension Bill** – Significant growth is expected if pension funds are permitted to invest
- **Existing Retirement Schemes:** Opening up of funds such as EPF/Central & State government schemes
→ Size : USD 84bn
- **Insurance:** Outsourcing of fund management can open up huge AUM's
- **Infra Debt Funds** – The Regulator is exploring options to come out with infra fund for fund houses
- **Regulation for Distributors** – Help reduce mis-selling and reduce asset churn, which would boost fund house profitability
- Shift from transaction based model to advisory based model



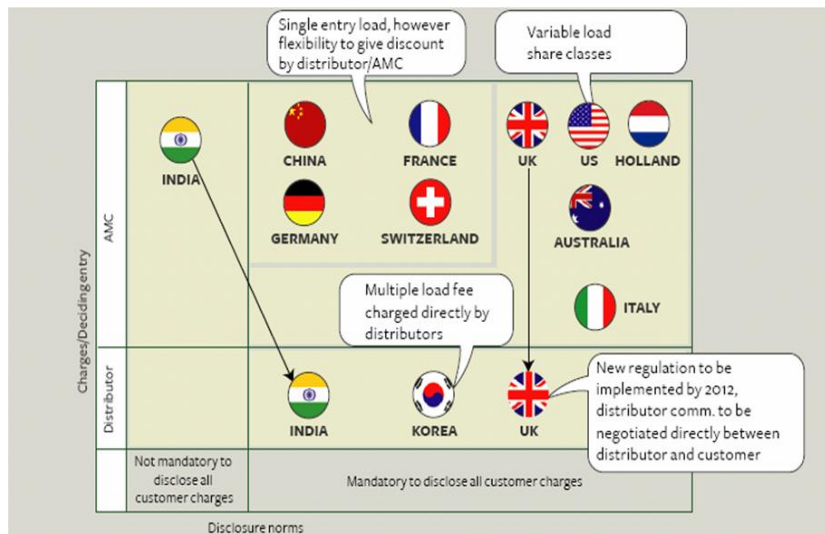
Opportunity for Asset Managers

- **Offshore Advisory & Investments** – India an attractive investment destination, fund houses with their expertise can channelize overseas investments into Indian Markets
- **Distribution**- PSU banks rising to the opportunity, as large number of investors, across geographies bank primarily with public-sector banks – this will increase penetration of MFs in Tier II & III cities
- **Top 5 PSU Banks** have a total of over **28,000 branches**
- **Direct Sales** - Proportion of investors buying directly is currently low, but has a strong potential to increase further – Collaboration of technology to aid this further
- **New Products** – Can further boost Industry AUM
 - New Avenues – Feeder Funds Eg. Emerging Markets Funds, Alternative Asset Classes, etc.
 - Introduction of REITs can boost AUM growth
 - Commodity funds are already being considered by SEBI

Challenges for Asset Managers

Changing Distribution & Business Environment

- No Load Regime – India among few countries where entry load is not charged to the investor – Fee Charged Directly by Distributors



- Impact
 - IFA Channel – disappearance of smaller IFA's. Larger IFAs focusing on the big tickets.
 - Minimal incentives for intermediaries to sell mutual funds led to investors losing out on investment opportunities.
 - No significant innovation in distribution; the distributor community is risk averse
 - Sensing Opportunity, banks have cued in more aggressively and are trying to leverage distribution networks
 - Decline in New Fund Offers (NFOs)
 - Objective of reducing churn has not been met



Challenges for Asset Managers

Changing Distribution & Business Environment

- **Investor Awareness**
 - For sustainable growth of the industry it is critical for the investor to understand the product and equip with the right kind of products to fulfill his financial goals
 - Investor Awareness Programs key to growth of Industry
- **KYC Norms**
 - KYC Requirement compulsory for Indian MF Investor
 - Availability of customer data poses a huge challenge. Industry does not have a centralized database.
 - KYC Process not uniform- Banking, Insurance and MF Industry



Market Entry Strategies for Foreign Players

Entry Strategies

Direct Route

Acquisition

Product & Distribution Tie-Up

Key questions for Management

Setting up of AMC – Gestation Period/
Invest Capital / Setting- up of Infrastructure/
Build Brand & Investment / Distribution
Capabilities

100% Buy-out. For Eg – Goldman Sachs buy out of
Benchmark Mutual Fund.
Valuation ~2% - 4% of assets
Stake Sale – Eg. Robecco – Canara MF

Onshore and offshore Feeder and
Distribution Structures
Tie-up with an existing asset manager

- Ask a question

Raise your hand



Type question



Contact Details

Austrade India

Kala Anand

T: +91 22 6116 7115

E: kala.anand@austrade.gov.au

Wendy D'souza

T: +91 22 6116 7118

E: wendy.dsouza@austrade.gov.au

Speakers

Ashvin Parekh

E: ashvin.parekh@in.ey.com

Saurabh Nanavati

E: saurabh.nanavati@religare.com

Austrade Sydney

Caroline Hutchings

T: +61 2 9392 2179

E: caroline.hutchings@austrade.gov.au