



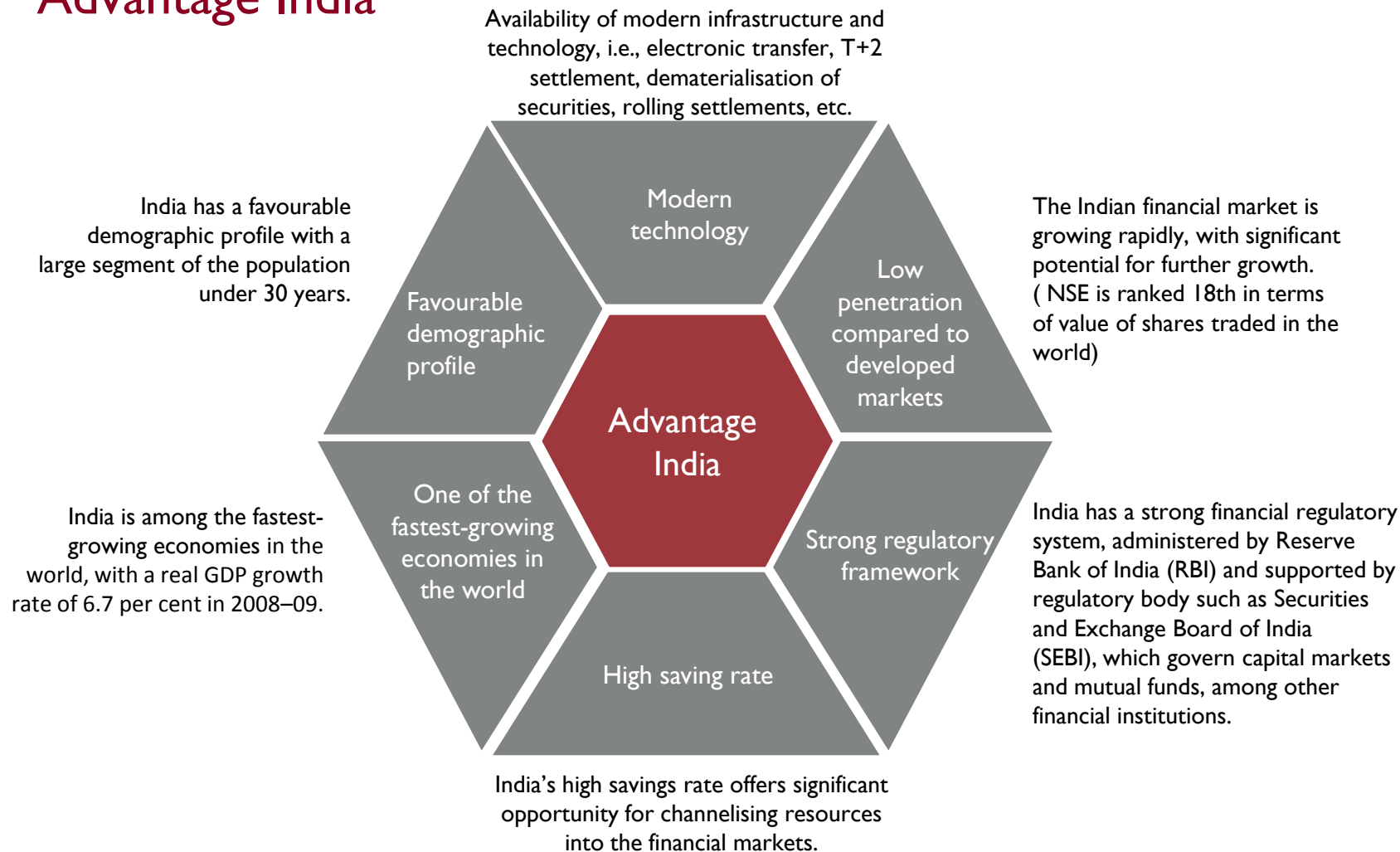
# FINANCIAL SERVICES

April 2010

# Contents

- ❖ **Advantage India**
- ❖ Market overview
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

## Advantage India

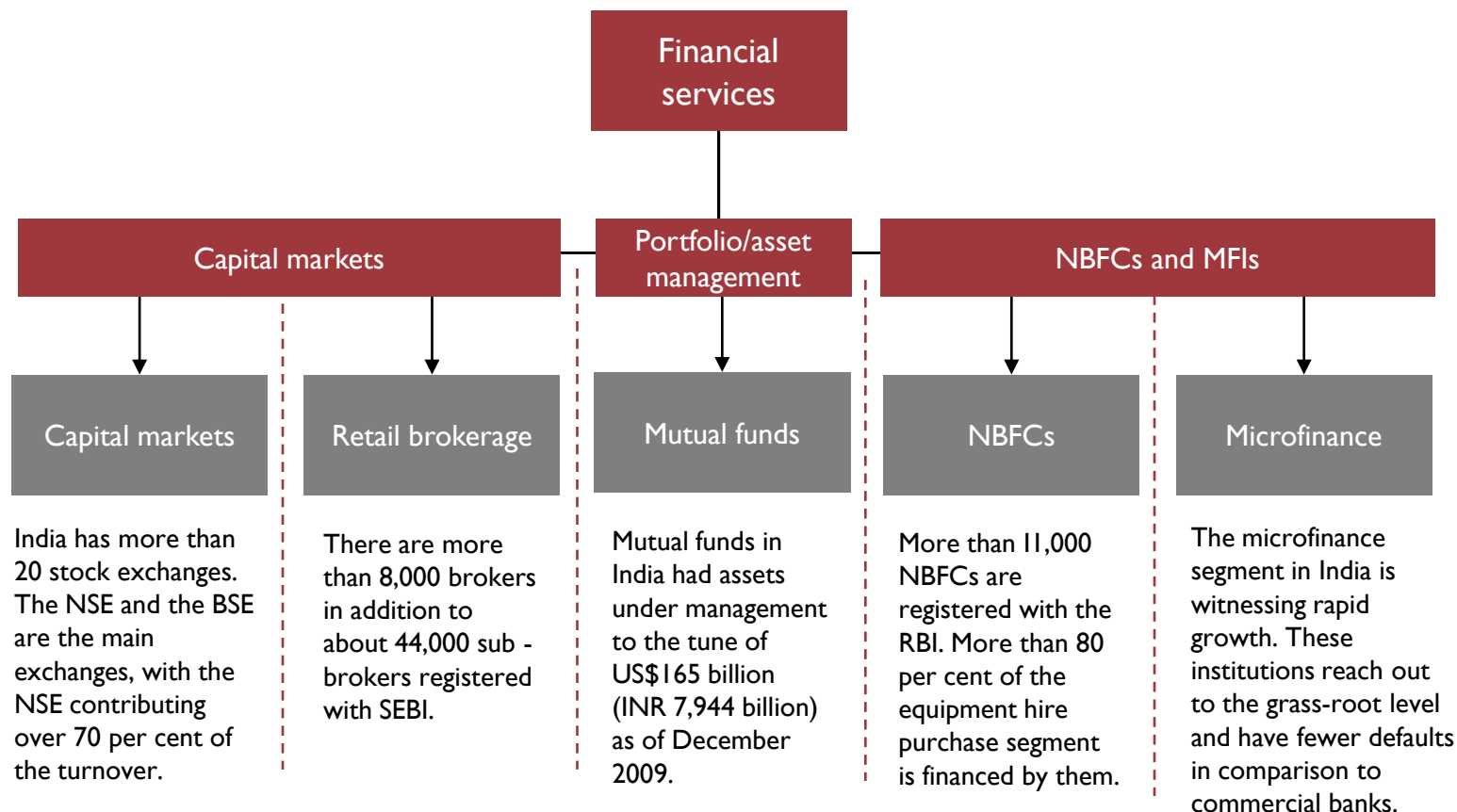


Source: EY research

# Contents

- ❖ Advantage India
- ❖ **Market overview**
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

## Market overview — key segments



Sources: SEBI annual report 2008–09; AMFI website; RBI website.

NSE – National Stock Exchange

BSE – Bombay Stock Exchange

SEBI – Securities and Exchange Board of India

MFIs – Microfinance institutions

## Capital markets ... (1/3)

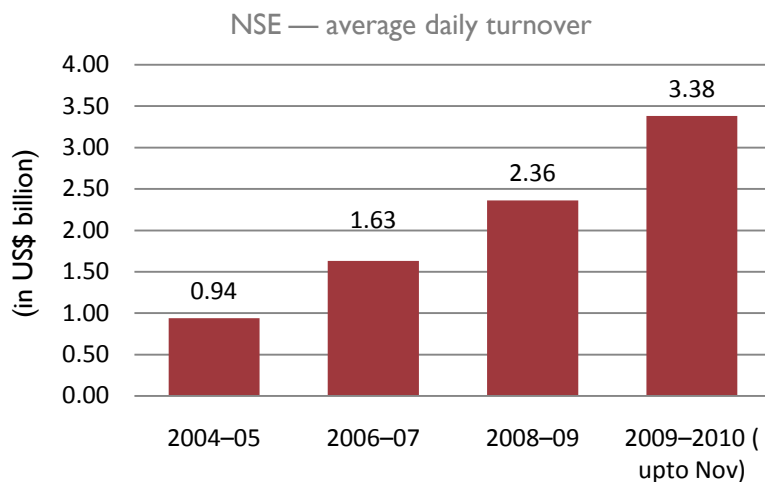
Market capitalisation of Indian companies on the stock exchange has more than tripled between 2004–05 and 2009–2010.



- The NSE is the largest stock exchange in India, followed by the BSE.
- The NSE alone contributes 70 per cent of the total turnover of Indian stock exchanges.

Source: National Stock Exchange (NSE) website

## Capital markets ... (2/3)

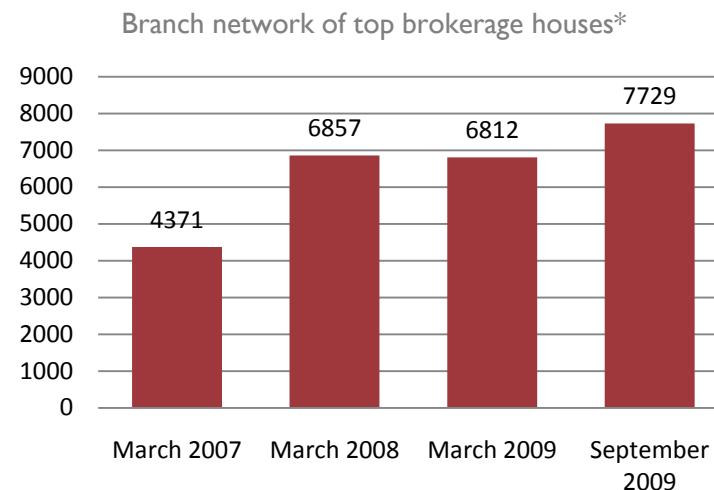


- The NSE ranks fourth among the top stock exchanges in the world, with respect to number of trades in equity shares.
- The cumulative net investments by FIIs was US\$ 59 billion (INR 2,832 billion) between 1992-93 and 2008-09.
- Foreign Institutional Investors (FII) investment in India in 2009 was over US\$17 billion (INR 816 billion).

Sources: National Stock Exchange (NSE) website; SEBI Annual Report 2008-09

## Capital markets ... (3/3)

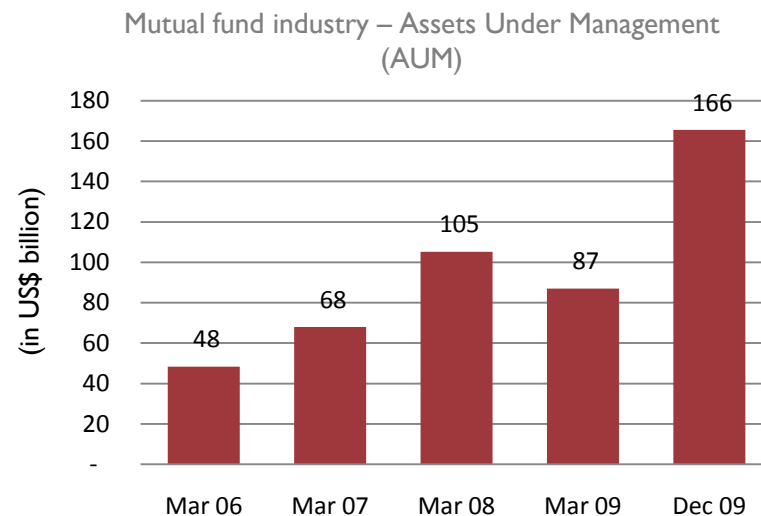
- More than 8,500 brokers, in addition to over 44,000 sub-brokers, are registered with the SEBI.
- Market share of the top 10 brokers in India grew from 12 per cent in 2001–02 to 24 per cent as of November 2009.
- Several foreign companies are entering the retail brokerage market.



Sources: \*EY research, data compiled for seven brokerage houses – India Infoline Ltd, Motilal Oswal Financial Services Ltd, Edelweiss Capital Ltd, Emkay Global Financial Services Ltd, Religare Enterprise Ltd, Kotak Securities Ltd and Sharekhan Ltd

## Portfolio/Asset management — mutual funds

- Gross mobilisation of resources by all mutual funds in India was US\$ 1,130 billion (INR 54,263 billion) in 2008–09 in comparison to US\$ 930 billion (INR 44,643 billion) in 2007–08.
- Several large banks and financial institutions are awaiting approval from SEBI to launch asset management services.



Sources: Association of Mutual Funds of India-AMFI website; SEBI Annual Report 2008-09.

## NBFCs — niche players, niche market

- NBFCs are prominent players in the transport finance business.
- More than 80 per cent of equipment leasing and hire purchase activity in India is financed by NBFCs.

### NBFC-ND

- These NBFCs are non-deposit companies. There are more than 11,000 NBFCs registered with the RBI. Kolkata has the highest base with over 5,000 companies.

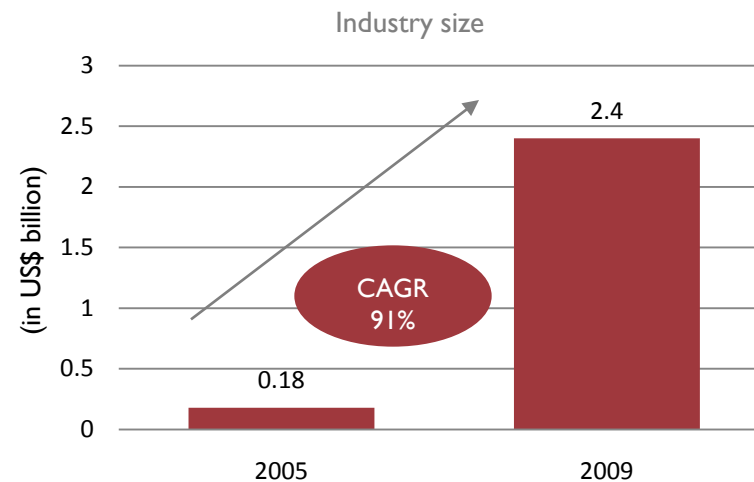
### NBFC-D

- These NBFCs are public deposit companies. 340 such NBFCs are registered with the RBI. Some of the key NBFCs in this category include Manappuram General Finance and Leasing company, Bajaj Finance, Sriram Transport Finance, Sundaram Finance, etc.

Sources: “NBFCs, now an essential component of financial sector,” The Economic Times, dated September 24, 2009; RBI website accessed on January 20, 2010.

## Microfinance institutions (MFIs)

- In India, most microfinance loans are between US\$ 100 (INR 4,800) and US\$ 415 (INR 20,000).
- In 2009, about 230 microfinance institutions added 8.5 million borrowers, taking the total number to 22.6 million.
- Microfinance institutions exist in many legal forms such as trusts, societies, non-profit companies and NBFCs.



Source: "Micro finance lenders to stop multiple loans,"  
Mint, dated December 17, 2009.

## Key players — retail brokerage

Company	Service offerings
India Infoline Investment Services Ltd	Online trading, equities, derivatives, commodity trading, IPO, MF distribution, personal finance, market and sector research, investment banking, wealth management
Motilal Oswal Financial Services	Equity, derivatives, portfolio management, online trading, insurance, commodity trading, mutual funds, margin funding
ICICIdirect.com	Online trading, market and research, personal finance and corporate services, equity, F&O, IPO, overseas trading, retirement solutions, life insurance
HDFC Securities	Online trading, call and trade, IPO, equity, derivatives
Religare Enterprises Ltd	Equities, commodity trading, personal finance, wealth management, asset management, portfolio management services, insurance solutions
Sharekhan.com	Equities, commodity trading, portfolio management, MF distribution, research
Emkay Global Finance Ltd	Wealth management, e-broking, research, commodity trading, equities, derivatives
Indiabulls Securities Services Ltd	Equities, research, commodities, MF distribution, derivatives
Edelweiss Capital Ltd	Equities, F&O, research, asset management services, investment banking
Geojit BNP Paribas Financial Services Ltd	Online trading, MF distribution, insurance services, PMS, IPO, property services

Sources: EY research, websites of brokerage houses.

Note: This is an indicative list.

## Key players — asset management companies (AMCs)

Company	AUM, March 2009 (US\$ billion)	AUM, December 2009 (US\$ billion)
Reliance Mutual Fund	16.87	25.00
HDFC Mutual Fund	12.07	20.25
Prudential ICICI Mutual Fund	10.72	17.17
Franklin Templeton Mutual Fund	3.98	6.66
Bharti AXA Mutual Fund	0.04	0.13
Kotak Mahindra Mutual Fund	3.79	8.63
DSP Blackrock Mutual Fund	3.00	4.20

- Players who have recently received approvals include Axis AMC, Motilal Oswal Financial Services and Peerless General Finance and Investment Company, among others.
- Players awaiting approvals include L&T Finance, Bank of India, Bajaj Allianz, SREI Infrastructure Finance, etc.

Sources: EY research, AMFI website

Note: This is an indicative list.

## Key players — NBFCs

Company	Service offerings
Sundaram Finance	Commercial vehicle finance, equipment finance, tyre finance, car and home finance
Shriram Transport Finance	Commercial vehicle finance, construction equipment finance, working capital loan, engine replacement loan, freight bill discounting
Bajaj Finance	Consumer durable loans, loan against shares, personal loan, loan against property, two-wheeler loan, IT product loan
Tata Finance	Commercial vehicle finance, car finance, used vehicle finance
Magma Fincorp	Commercial vehicle finance, construction equipment finance, car finance
HDFC	Housing finance services — home loan portfolio and home loan counselling, loans for home extension, improvement and land purchase loan
Mahindra Finance	Two-and four-wheeler loans, utility vehicle loans, tractor loans, commercial vehicle loans
Manappuram Finance	Loan against gold, business loans, security loans — against government instruments, insurance services

Sources: EY research, Websites of NBFCs

Note: This is an indicative list.

## Key players — MFIs

Company	Legal status	Lending model	Number of branches
SKS Microfinance Ltd	Private limited (NBFC)	JLG	1, 413
Share Microfin Ltd	Public limited (NBFC)	JLG, Individual	666
Bandhan Financial Services Private Ltd	Private limited (NBFC)	JLG	171
Cashpor Micro Credit	Section 25 company	JLG	247
Spandana Sphooty Financial Ltd	Public limited (NBFC)	JLG, Individual	696
Shri Kshetra Dharmathala Rural Development Project	Trust	SHG	22
Grama Vidiyal Micro Finance Private Ltd	Private limited (NBFC)	JLG	126

Source: EY research (Data as on Sep 30, 2008)

Note: This is an indicative list.

JLG-Joint Liability Group

SHG-Self Help Group

# Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ **Investments**
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

## Investments ... (1/2)

- The services sector in India, including financial services, attracted the maximum FDI between April 2009 and January 2010, amounting to US\$ 3,877 million.
- In 2009, the largest inbound deal in the sector was T. Rowe Price Group Incorporation's acquisition of a 26 per cent stake in UTI Asset Management Company Ltd for US\$ 140.1 million.

M&A scenario — details		
Period : January 1, 2009–November 30, 2009		
Deal type	No of deals	Total deal value (US\$ million)
Inbound	2	140.6
Outbound	1	1.3
Domestic	6	2.3

Cumulative FDI inflows	
Period: April 2000–January 2010	
Sector	Amount of FDI inflows (US\$ million)
Services sector (including financial services)	23,125
% of total FDI	22

Sources: Bloomberg, accessed 4 December 2009; “Fact Sheet On Foreign Direct Investment (FDI)”, Department of Industrial Policy and Promotion, www.dipp.nic.in; Ernst & Young analysis

## Investments ... (2/2)

Deal	Date of announcement	Announced total value (US\$ million)	Acquirer name	Target name	Target country
Inbound	November 12, 2009	0.5	Accion International (USA)	Saija Finance Private Ltd	India
Inbound	October 16, 2009	140.1	T Rowe Price group Inc (USA)	UTI Asset Management Co Ltd	India
Domestic	July 20, 2009	N/A	IFCI Ltd	MCX Stock Exchange	India
Domestic	May 29, 2009	N/A	Essar Investment Ltd	India Securities Ltd	India
Domestic	May 6, 2009	2.0	United Stock Exchange of India	International Multi Commodity	Britain
Domestic	April 20, 2009	N/A	Religare Enterprises Ltd	Vistaar Religare Capital Advisory	India
Domestic	March 30, 2009	0.3	A.K Capital Services Private Ltd	Girdhar Vanijya Private Ltd	India
Domestic	January 2, 2009	N/A	Future Capital Holding Ltd	Black Diamond Finance Ltd	India

Source: Bloomberg, accessed 4 December 2009

## Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ **Policy and regulatory framework**
- ❖ Opportunities
- ❖ Industry associations

## Policy and regulatory framework

Sector/Activity	FDI Cap/Equity	Entry route	Other conditions
<b>Financial infrastructure in securities market</b>			
a. Stock exchanges b. Commodity exchanges c. Depositories d. Clearing corporations	49%(FDI+FII) Investment by registered FII under portfolio investment scheme (PIS) will be limited to 23% and investment under FDI scheme limited to 26%	Foreign Investment Promotion Board (FIPB)	Conditions apply as per FDI Policy
<b>NBFCs</b>			
a. Merchant banking and underwriting portfolio b. Management services, investment advisory services and financial consultancy c. Stock broking, asset management d. Venture capital e. Custodial services f. Factoring g. Credit rating agencies h. Financial leasing and hire purchase finance i. Housing finance j. Forex broking k. Credit card business l. Money changing business m. Micro credit n. Rural credit	100%	Automatic	Conditions apply as per FDI Policy

Sources: Department of Industrial Policy and Promotion, [www.dipp.nic.in](http://www.dipp.nic.in), accessed 29 December 2009; Ernst & Young analysis

## Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ **Opportunities**
- ❖ Industry associations

# Opportunities

## Capital markets

- High GDP growth rate, driven by significant corporate earnings, is expected to create the need for more intermediaries in the capital market.
- Lower penetration of the retail investor segment in the capital markets, compared to developed countries, offers a significant opportunity across the value chain (brokerage, distribution, etc.).

## Asset management business

- Large number of high net worth individuals (HNIs), resulting from sustained GDP growth, offers a highly promising market for wealth management.
- Large number of mutual funds and increasing AUM require more distribution intermediaries and schemes for better market penetration.

## NBFCs and Microfinance

- Large proportion of India's population has limited access to bank credit.
- Unorganised money lending is a general practice in micro-credit. High level of professionalism, more transparency and low interest rates brought in by organised microfinance firms, is expected to expand the market.

# Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ **Industry associations**

## Industry associations

Association of Mutual Funds in India (AMFI)

706-708, Balarama

Bandra- Kurla complex

Bandra (east)

Mumbai – 400051

Phone: 91-22 26590382/ 26590243

Fax: 91-22-26590235

## Note

Wherever applicable, numbers in the report have been rounded off to the nearest whole number.

Conversion rate used: US\$1 = INR 48

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