



Retail Investor's Survey: October 2012

A survey of Rural, Urban & Metropolitan Segments

1. Introduction

With the onset of the sovereign debt crisis in the Euro-Zone, and with the consequent spreading of the contagion across the advanced and now the emerging economies, the risks to India's growth have risen significantly. Although, India's growth remains one of the highest in the world, but a range of factors have weighed it down. It is worrying to note that the economy has slowed more than most other major emerging economies as concerns over governance and policy uncertainty have dampened investments.

Presently, the domestic scenario has witnessed deceleration in almost all the lead economic indicators. The growth of real GDP has been impacted significantly in the recent times. The real GDP growth decelerated to 6.5% during FY 2012 as compared with 8.5% in FY 2011 and 8% in FY 2010 while Q1 FY2013 real GDP growth stood at 5.5%. Recently, many apex bodies have lowered India's growth forecasts on account of the weakening growth prospects. While the Prime Minister's Economic Advisory Council has estimated growth of 6.7%, RBI has revised downward the growth projection for 2012-13 to 6.5%. The credit rating agencies like Moody's and CRISIL have estimated it to be around 5.5%. The recent move by the Fitch to revise India's Outlook to BBB- has further raised concerns amongst investors on the country's growth prospects.

The investment situation in India is turning from bad to worse. The difficulty of forecasting returns in a highly volatile economic environment, governance concerns, heightened global uncertainty, rising funding costs and structural rigidities have all played a part. Gross domestic capital formation as a percentage of GDP has been stagnating year after year. The ratio stands at 35% in 2011-12 as against 38% in 2007-08. In addition, the rising global risk aversion has reduced the flow of capital. The FDI investments have been impacted significantly which is indicated from the sharp de-growth in FDI by -41% during April FY2013 as compared to a robust growth of 88% during FY 2012. The portfolio investments also, in terms of FIIs have shown a volatile trend causing instability in the domestic stock markets.

1.1 Growth Potential of India

India has entered the high growth trajectory since the last many years. The economic growth rate during the last decade (2000s) was 7.3% (GDP at factor costs and constant prices) supported by robust growth in many segments in the industry and services sectors. Now, the per capita income in India doubles in very few years, domestic consumption is growing at a fast pace and consumer markets are expanding each day, savings and investment rates are now comparable to many competitive economies. A home to 1.21bn people, which is about 17.4% of the global population, India however, accounts for only 2.4% of world GDP. Hence, there exists a huge potential for achieving the higher growth trajectory and expanding production possibility



frontiers. With a stagnating investment environment India has huge potential to increase the investments (particularly financial investments) in terms of favorable consumer demographics, low level of penetration, rising income and consumption levels etc.

1.1.1 Favorable consumer demographics

India is standing at the threshold of a great opportunity. With a vast pool of working age population, joining the economy's workforce in the coming years, the advantage of 'demographic dividend' is emerging in India. So by 2020, the average Indian will be only 29 years old, compared to 37 in China and US, 45 in West Europe and 48 in Japan. India's human capital could thus emerge as the key source of its economic growth. Hence, India has a great comparative advantage and has huge opportunities to save in productive investment. We believe the demographic transition will drive the financial investment in the country. The significant increase in younger population will offer a huge market for financial products like-- insurance, mutual funds and wealth management etc. and thereby, the structural opportunity for enormous growth of financial investment in the coming years.

1.1.2 Spectacular rise in India's per capita income

India's real per capita income, which had taken four decades to double by 1991, doubled thereafter in 15 years and is likely to double again in 10 years. The recent trend in growth of nominal per-capita income is also very inspiring as it grew steady from Rs33394 in FY2006 to Rs55191 in FY2010 and Rs73676 in FY2012 marking an increase of about 121% during FY2006-12. Thus, given the strong income effect -- the spectacular rise in per capita disposable income, expanding middle class, and rapid urbanization, investments are expected to grow manifold in the coming years.

1.1.3 Rising consumption levels

India is a consumption lead fast moving economy. It is worth mentioning here that though India's exposure to the global economy has increased, it remains an overwhelmingly domestically-driven economy. Domestic demand in India continues to be supported by strong consumption demand led by fiscal expansion, increased spending on rural employment generation programmes, robust growth in the services sector, rising incomes and changing consumption pattern of the middle income population. The final consumption expenditure of India contributes to a sizable proportion of its GDP at 68% which is highly comparable to BRICS economies, considered as an emerging hub of consumer demand, globally. The rise in the middle income population with higher disposable incomes, which comprise about 11.4% of the total Indian households have driven the consumption story.

1.1.4 Low level of financial penetration

India's low levels of penetration in financial products provide for immense untapped potential for expanding investment opportunities in the coming years, in our view. The retail sector financial indicators such as bank accounts (only 40% of the population have bank accounts), credit cards, insurance, housing finance, education loans etc., among others offer huge penetration opportunities.

1.2. Major challenges faced by Indian Economy

1.2.1 Lack of financial knowledge

Financial illiteracy is one of the major hurdles in expanding the markets for financial investment products in India in general and in rural segments in particular, in our view. Notwithstanding the initiatives taken so far, financial institutions, therefore, should come forward to set up literacy centers in these segments and guide the consumers about the features, benefits and risk of various financial products to promote the penetration at higher levels.

1.2.2 Macroeconomic risks

One of the most important aspects as far as the financial savings is concerned is that the sector is highly vulnerable to many macroeconomic risks--such as inflation, oil prices, real estate prices, employment and consumers' spending capacity. These risks are not only restricted to domestic economy but are related to international economies as well. The recent sovereign debt crisis in Europe has further worsened the situation by creating rampant volatility across the financial markets. These developments have hurt investors' confidence.

2. Objectives of the Study

At this juncture, the economy needs a push to induce investments in key areas like core industries and infrastructure to revive the growth momentum. Since it is savings which when mobilized into proper channels, culminates into gross investment, increased savings has the potential to generate higher funds with the government to invest in infrastructure, going forward. Hence, it is imperative to analyse savings and investment behavior of individuals belonging to different segments to get an idea on the pattern of investment in the economy.

Hence, with the backdrop of a volatile and uncertain investment environment, the present study was undertaken to understand the investment dynamics of the economy across various segments of population, reflecting diverse origin and occupational demography. The survey based analysis covers a sample of more than 1000 people. The survey considered persons from four basic occupations viz. Agriculturists, Businessmen, Professionals, and Salaried class.

3. Research Methodology

The present study is an attempt to analyse the investment behaviour, pattern and trend of individuals who belong to diverse origins and occupations. It studies the investment awareness among people, their preferences of investment products (financial or physical), their inclination towards investment and attitude towards risk. It's a survey based report that requires different methods and techniques at various levels. The key activities pertaining to conduct the survey ranged from preparation of questionnaires, data retrieval, verification of the survey findings, data compilation and analysis and deriving conclusions.

During the course of the survey, a total of 1074 responses from individuals were received. In all, a total of 305 respondents were surveyed in the rural segment, 352 in the urban centres and



417 in the metro cities. With regards to occupation, 246 people were surveyed from the business class, 285 among professionals, 362 from the salaried, and 181 among agriculturists. The responses received have been put together and inferences on the aggregation have been represented in terms of averages and percentages.

Number of People Surveyed across Regions & Occupations

Demographics	Businessmen	Professionals	Salaried	Agriculturists	Total
Rural	42	31	104	128	305
Urban	76	79	155	42	352
Metropolis	128	175	103	11	417
Total	246	285	362	181	1074

Source: PHD Research Bureau, A Survey of Investment Patterns in India, October 2012.

The study suggests that amidst the uncertain financial environment, the financial markets across the globe have been sluggish for a sustained period now. Hence, at this juncture, investors were keener towards safe and less risky investments as compared with highly volatile investment avenues such as stock market and preferred for a traditional mode of investment like real estate and gold & silver. The extremely high preference real estate can be attributed to the recent sharp rise in rural income driven by implementation of several income generating flagship programmes of the government and its subsequent spillover in the urban and metro cities.

It was observed that respondents' investment preferences varied across different segments of individuals. While the people residing in rural, urban and metropolitan India have been found to be more inclined towards investing in real estate, they have also attracted towards investing in gold and silver over other investment tools, as they considered it to be a safe investment option. Fixed deposits have also been an important avenue of investment across all segments, whereas, others (mainly including informal investment tools) have been relatively more popular amongst the rural people. These differences in the behavior across rural, urban and metropolitan India may be due to the differences in risk perceptions, literacy levels, and lack of access to financial markets etc. associated with the available investment option.

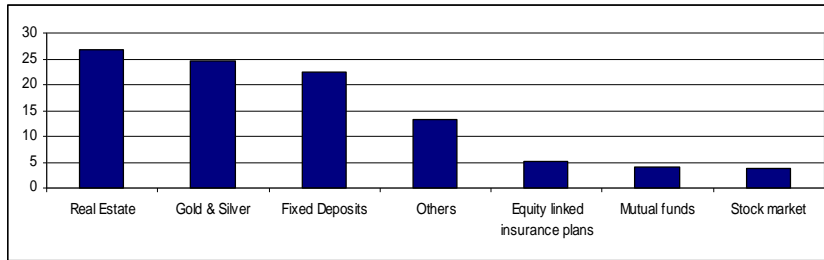
4. Findings of the survey:

4.1 Rural India

There is no doubt that rural market forms an integral part of India's growth story. The growing significance of rural India can be identified through its robust contribution to the GDP of the economy. Rural consumption demand has been a major driver of India's domestic demand and it was found that even when the global recession hit urban demand in 2009, it is believed that it was the strong rural demand that rescued the economy. One of the most important factors that catalyze this growth also includes increase in rural purchasing power as a result of several factors like increase in procurement prices by government, various schemes like NREGA. But despite this, the investment pattern of the rural economy has been into traditional assets or physical assets which prevent the effective channelization of savings into investment.

Out of 305 respondents from the rural segments, the survey revealed real estate is the most popular instrument of investment in rural India, attracting about 26.75% of the investments, followed by 24.5% in gold & silver, 22.5% in fixed deposits, 13.25% in others, 5.25% in equity-linked insurance schemes, 4% in mutual funds and 3.75% in stock market.

Investments across rural India



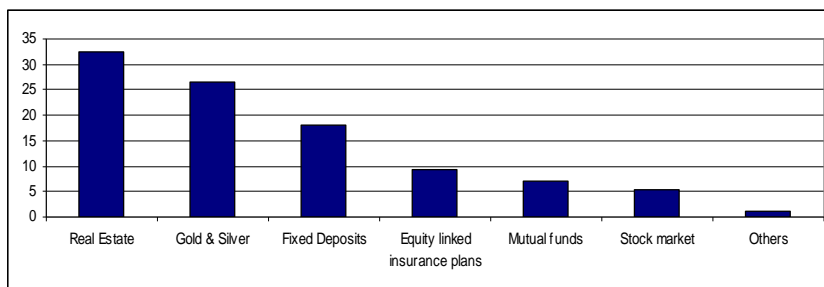
Source: PHD Research Bureau, A Survey of Investment Patterns in India, October 2012.

4.2 Urban India

The urban population of India is rising at tremendous rate. The urbanization trends in India are a direct reflection of the structural changes that are taking place in the economy. Occupational shift from agriculture to urban-based industry and services is one part of the change. However, the investment behavior of the urban population, as the major chunk of investment has remained traditional with a stark inclination towards safe investment options.

Amongst the 352 respondents, real estate has emerged as the most popular tool of investment in urban India with a share of 32.5% investments, followed by 26.5% in gold & silver, 18% in fixed deposits, 9.25% in equity linked insurance schemes, 7% in mutual funds, 5.5% in stock market and 1.25% in others.

Investments across urban India



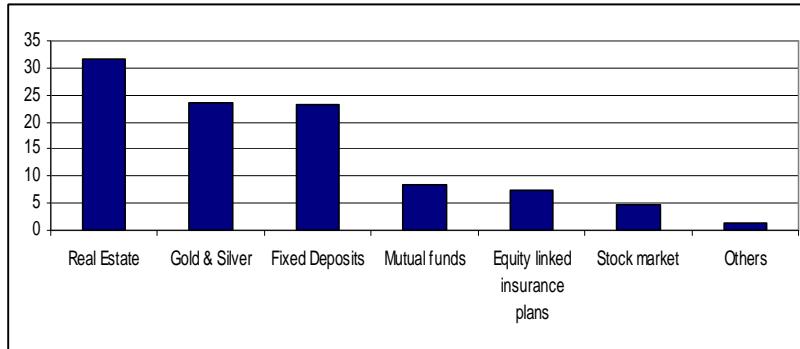
Source: PHD Research Bureau, A Survey of Investment Patterns in India, October 2012.

4.3 Metropolitan India

A closer look at metro cities that include all the Tier I cities like Delhi, Mumbai, Chennai, Kolkata, Hyderabad and Bangalore, has revealed that out of the 417 people surveyed, 31.5% of investments went in real estate, 23.5% in gold & silver followed by 23.25% in fixed deposits,

8.25% in mutual funds, 7.5% in equity linked Insurance schemes, 4.75 % in stock market and 1.25% in others investment tools.

Investments across metro cities

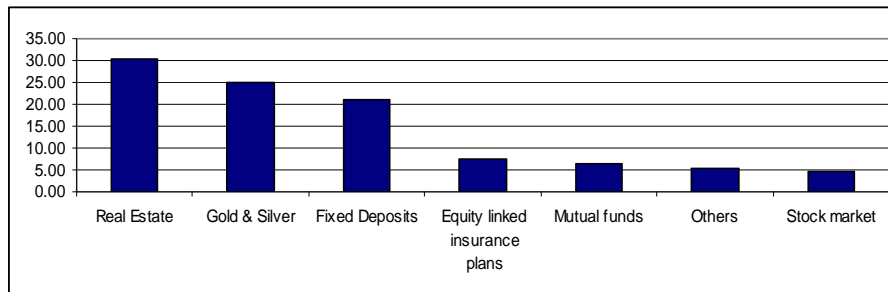


Source: PHD Research Bureau, A Survey of Investment Patterns in India, October 2012.

4.4 Investments at all India level

On all India level, people across diverse segments have expressed interest in physical assets, which have overshoot their inclination towards the financial counterparts. It is evident from the fact that 30.25% investments were in real estates, 24.83% in gold & silver, 21.25% in fixed deposits, 7.33% in equity linked insurance schemes, 6.42% in mutual funds 5.25% in others investment tools and 4.67% in stock market.

Investments across all India level



Source: PHD Research Bureau, A Survey of Investment Patterns in India, October 2012.

4.5 Occupation wise investment pattern

The occupation wise investment pattern across rural, urban and metropolitan India suggests that the investment preferences are inclined towards safer options like Fixed Deposits amongst salaried people and Real Estate especially among the professionals and business people. Although, the business class has been found to be more risk taking with stronger preferences towards market determined options like stocks, the agriculturists have shown very strong preferences towards Gold & Silver. While a large share majority of investments (25.67%) among business class has gone to gold & silver, around 36.67% of investments amongst the professionals have gone in Real estate. Fixed Deposits have been the most preferred option

among the salaried class whereas a large chunk (28.67%) of the investments amongst Agriculturalist were in Gold & Silver.

Investment pattern across Occupation (in %)

Occupation	Real Estate	Gold & Silver	Fixed Deposits	Equity linked insurance plans	Mutual funds	Stock market	Others
Businessman	33.67	25.67	10.00	8.33	4.00	10.33	8.00
Professionals	36.67	22.00	19.67	9.33	6.00	3.33	3.00
Salaried	21.67	23.00	30.00	7.33	12.33	3.33	2.33
Agriculturists	29.00	28.67	25.33	4.33	3.33	1.67	7.66

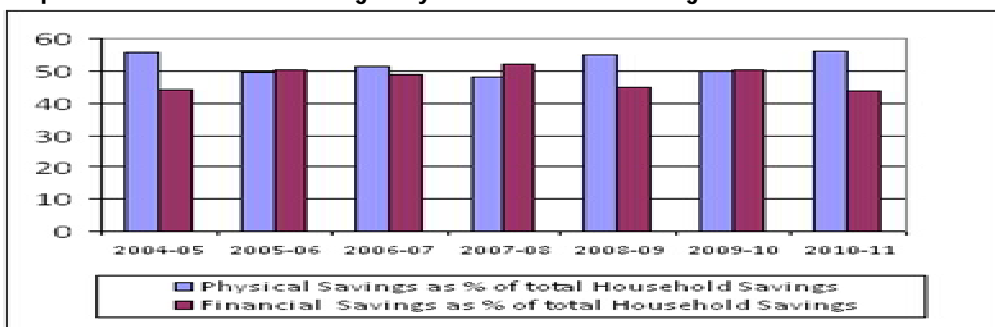
Source: PHD Research Bureau, A Survey of Investment Patterns in India, October 2012.

5. Roadmap Ahead: Need to channelize savings into investments

India needs effective channelization of savings into investments to maintain the gross capital formation at 39-40% of GDP and to reduce dependency on foreign capital flows which are often volatile and vulnerable to external shocks. With expanding horizons of growth in the economy, the capital requirement will also be increasing in the coming years to facilitate the increase in production possibilities.

However, a large part of household savings (56%) is in the form of physical savings and remaining (44%) is in the form of financial savings. Moreover, a significant portion of households’ financial savings is parked in bank deposits. Equities form merely a small part of the total household savings as compared with the US where equities comprised 45%. To deepen the penetration levels, we believe, there is a strong need to mobilize households’ savings into market linked financial products. We need to create a conducive environment that will act as a catalyst and facilitate households’ higher penetration into financial products.

Composition of households’ savings: Physical and Financial savings



Source: PHD Research Bureau, A Survey of Investment Patterns in India, October 2012.

There is a need to alter the pattern of investment of the Indian economy. The government needs to promote the financial sector and increasing the size of the financial market is the need of the hour. In spite of the phenomenal growth in the security market and quality Initial Public Offerings (IPOs) in the market, the individual investors prefer investments according to their risk preference.

6. Conclusion

The investment pattern in the country suggests that investment flow have been highest in the traditional modes of investment such as in real estate market followed by gold and silver. This suggests that investors prefer to invest in less risky and relatively less volatile markets such as real estate market and bullion market. It was observed that respondents' investment preferences varied across different segments of individuals.

While the people residing in rural, urban and metropolitan India have been found to be more inclined towards investing in real estate, they have also attracted towards investing in gold and silver over other investment tools, as they considered it to be a safe investment option. Fixed deposits have also been an important avenue of investment across all segments, whereas, others (mainly including informal investment tools) have been relatively more popular amongst the rural people. The extremely high preference real estate can be attributed to the recent sharp rise in rural income driven by implementation of several income generating flagship programmes of the government and its subsequent spillover in the urban and metro cities.

The occupation wise investment pattern across rural, urban and metropolitan India suggests that the investment preferences are inclined towards safer options like real estate especially among the professionals and business people. Although, the business class has been found to be more risk taking with stronger preferences towards market determined options like stocks, like fixed deposits amongst salaried people and the agriculturists have shown very strong preferences towards gold & silver.

The trend has shown that Indians have a higher propensity to save in terms of physical assets due to the more attractive returns, compared to the financial modes, comprising 56% and 44% respectively. However, increased financial savings can act as a major driver of growth, as it is the financial investments which can help the funding of infrastructure development.

As per the assessment of the Planning Commission, during the Twelfth Plan (2012-17) India may need infrastructure investments of over US\$ 1 trillion. This poses a mammoth financing task. The infrastructure gap of India, both in relation to other major countries and its own growing demand has been a key factor affecting the overall productivity of investments. The requirement of high initial capital outlay, that too over longer terms, necessitates measures to address the financing constraint to capacity expansion in infrastructure. Infrastructure investment during the Twelfth Plan will need to be funded by both, public and private sectors. Despite increasing participation of the private and household sector in bridging the infrastructure gap, investment deficit persists. Since it is only the financial savings which can cumulate to the investments in the country, the need is to channelise the physical savings into financial savings.

Hence, to deepen the penetration levels of financial investment opportunities among households, we believe these is a need to create a conducive environment that will act as a catalyst and facilitate in mobilizing households' savings into market linked financial products – stock market, equity linked insurance, and mutual funds etc.