

# **WIRC – Seminar on Mutual Funds, PMS and Investment Advisory Services**

**Investment Advisory Services  
Advisor v/s Transaction Execution, Asset Allocation  
and Equity Selection**

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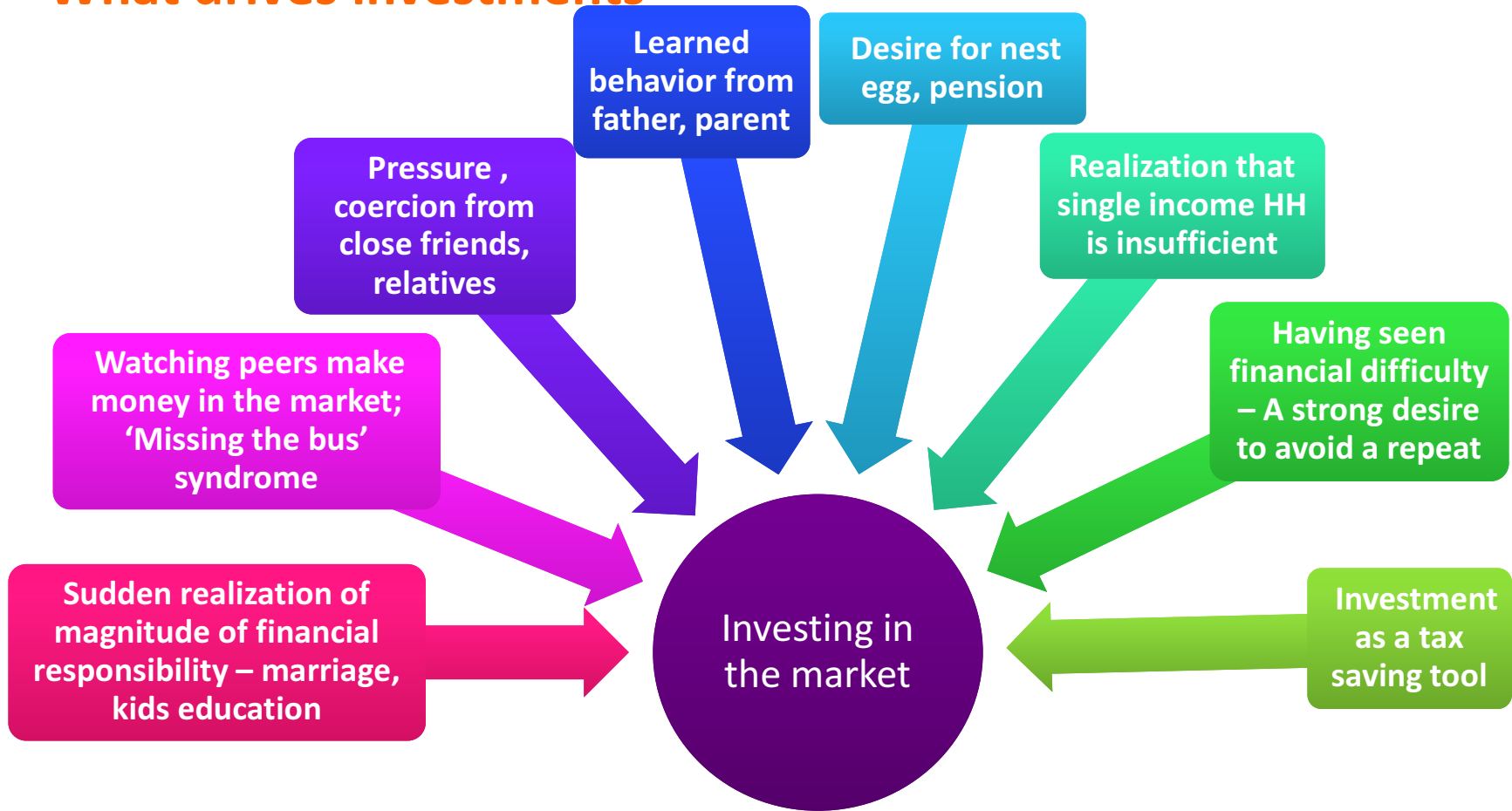
**Nani Palkhivala shared this thinking...**

“As new discoveries are made, new truths discovered and manners and opinions change, with the change of circumstances, institutions must advance also and keep pace with the times.” *...Thomas Jefferson*

# Agenda

- Need for investment advice
- Current industry status
- Requirements of an investment advisor
- Steps to avoid liability
- Case study
  - Asset allocation framework
  - Equity framework

# What drives investments



## Investment experts being approached for advice

- CAs
  - Brokers
  - Wealth advisors/ Financial planners
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## Revenue model

- Transaction driven

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
India Real GDP (in Rs. crores)	3,253,073	3,564,364	3,896,636	4,158,676	4,516,071	4,937,006	5,243,582	5,503,476
Real GDP growth (%)		9.57	9.32	6.72	8.59	9.32	6.21	4.96
India Nominal GDP (in Rs. crores)	3,390,503	3,953,276	4,582,086	5,303,566	6,108,903	7,266,967	8,353,495	9,461,979
Nominal GDP growth (%)		16.60	15.91	15.75	15.18	18.96	14.95	13.27
<b>MOTILAL OSWAL</b>								
Broking revenues (in Rs. crores)						433	320	300
Broking volumes					+ 40%	-5%	-26%	-7%
Total customers					621,215	709,041	746,932	773,716
Brokerage customers					550,401	628,012	657,119	
Outlets					1,397	1,644	1,579	1,484
Cities					568	611	552	527
<b>BNP PARIBAS</b>								
Broking revenues (in Rs. crores)					288.88	271	235.5	232
Total customers					529,000	591,000	644,000	672,000
Outlets					513	555	541	522

\* Source: Motilal Oswal annual reports, BNP Paribas, conference call, website

**Transaction based business model has failed...**

## What has proven successful?

Investing in companies like

- Asian Paints
- HUL
- ITC
- HDFC
- Bajaj Auto  
..... and being lazy!

## To provide credible advice, one needs

- Knowledge that such opportunities exist today
- Framework to identify such opportunities
- Data to support decision making



## Why are CAs considered as experts/ trustworthy advisors

- Strong accounting and finance knowledge
- Ability to analyze companies/ industries
- Analyze portfolios
- Bound by CA act and principles for
  - Integrity
  - Ethical services
  - High service standards
  - Professional competence and due diligence
  - Maintaining professional knowledge

# Documentation required to avoid liability

**All documents need to be maintained for a period of five years**

- Client profile
  - KYC (Up to date)
  - Client risk profiling & risk assessment (Up to date)
  - Client investment objectives
  - Copies of agreements with clients
  
- Research framework
  - Investment research framework
  - Documented rationale for arriving at a decision
  - Mapping of research with client risk profile
  - Investment advice provided (written or oral)
  
- Communication
  - Client interaction (All calls, e-mails, letters, etc.)
  - Document detailing client interaction

## Other requirements to avoid liability

- Contravenes any of the provisions of the Act or any regulations or circulars issued thereunder
- Fails to furnish any information relating to its activity as an investment advisor as required by SEBI
- Furnishes to SEBI information which is false or misleading in any material particular
- Does not submit periodic returns or reports as required by SEBI
- Does not co-operate in any enquiry, inspection or investigation conducted by SEBI
- Fails to resolve the complaints of investors or fails to give a satisfactory reply to SEBI in this behalf

## **Investment framework case study**

- Asset allocation**
- Evaluating underlying instruments (Equity)**

## Finding the right sector after analyzing performance across various regimes

Period	Regimes	Interest rate Start - End	Nifty Start - End	Debt Funds Top	Indices Top	India GDP		USD/INR		US Nominal GDP (Avg.)
						Start - End	Avg	Range	Avg.	
Current		8.95%	6313.80				4.80%		61.9	3.20%
01/01/2009 - 14/11/2011	Increasing Interest rates	5.242% - 8.972%	3033 - 5148	Templeton India Short Term Income (G)  HDFC High Interest Fund - STP (G)	CNX Auto Index  S&P BSE Consumer	3.5% - 6.0%	7.90%	44.05 - 51.97	46.647	1.80%
14/11/2011 - 27/5/2013	Decreasing Interest rates	8.972% - 7.12%	5149 - 5986	Kotak Bond - Plan A (G)  SBI Magnum Income Fund - (G)	CNX FMCG  S&P BSE Healthcare	6.0% - 4.4%	5.10%	48.825 - 57.17	53.561	4.10%
13/6/2012 - 31/12/2012	Drifting Interest rates	8.036% - 8.05%	5121 - 5905	SBI Magnum Income Fund - (G)  Templeton India IBA - (G)	CNX Media Index  CNX Realty Index	5.4% - 4.7%	5.10%	51.555 - 57.17	54.808	4.40%
01/01/2008 - 31/7/2008	Increasing Interest rates - High Credit Spread	7.76% - 9.319% (150bps)	6144 - 4333	Birla Sun Life Dynamic Bond Fund (G)  ICICI Pru Flexible Income Plan - Regular	S&P BSE Healthcare  S&P BSE FMCG Sector	8.6% - 8.5%	9%	39.265 - 43.25	41.059	2.6%
Jan 2008 - Jan 2009	Steep Fall - NIFTY	7.76% - 6.255%	6287 - 2678	IDFC SSIF - Invest - A (G)  ICICI Pru Income Plan - (G)	S&P BSE FMCG Sector  S&P BSE Healthcare	8.6% - 5.8%	8.20%	39.265 - 50.35	43.834	1.70%
Jan 2009 - Jan 2011	Increasing NIFTY	5.242% - 8.164%	2678 - 6157	Templeton India Short Term Income (G)  HDFC High Interest Fund - STP (G)	S&P BSE Auto  S&P BSE Consumer Durables	3.5% - 9.2%	8.10%	44.1 - 51.97	46.956	0.90%
Jan 2011 - Jan 2013	Drifting NIFTY	7.959% - 7.911%	6157 - 6082	SBI Dynamic Bond Fund (G)  Templeton India IBA - (G)	CNX Media Index  CNX FMCG	9.9% - 4.7%	6.60%	44.05 - 57.17	50.282	4.20%

## Upcoming events

<b>Country</b>	<b>Event</b>	<b>Period</b>
INDIA	3rd Quarter Earnings	15-Jan-14
INDIA	RBI Monetary Policy	28-Jan-14
US	FOMC Rate Decision	29-Jan-14
INDIA	General Elections	May 2014

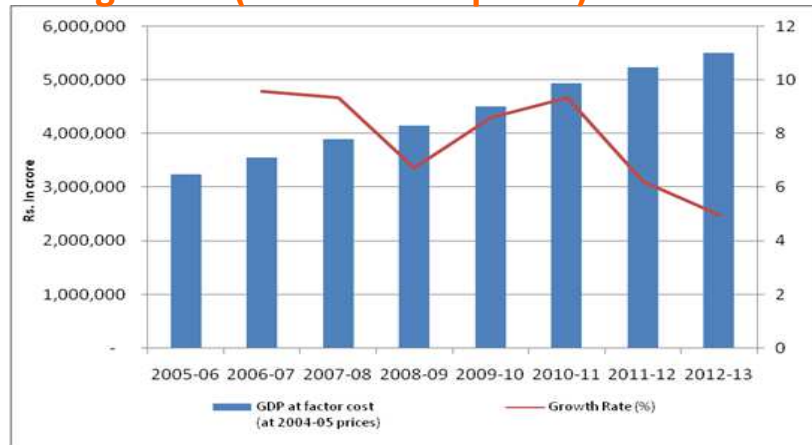
## Drifting interest rates regime

Period	Interest rate Start - End	Nifty Start - End	Debt Funds Top	Indices Top	India GDP		USD/INR		US Nominal GDP (Avg.)
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			Templeton India IBA - (G)	CNX Realty Index					

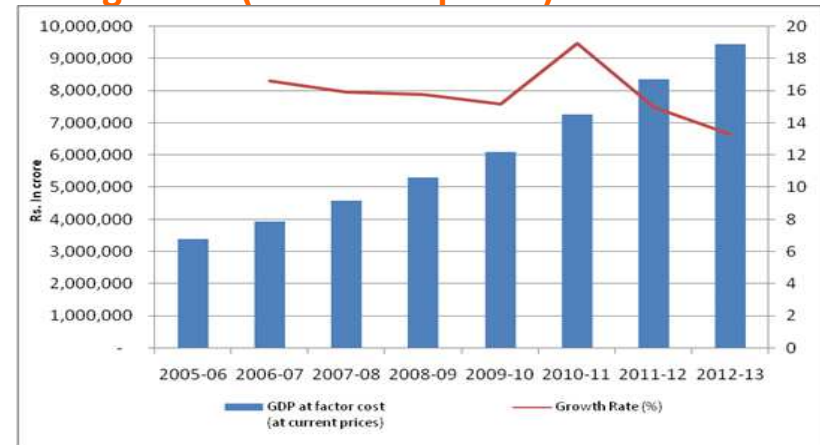
## Drifting NIFTY regime

Period	Interest rate Start - End	Nifty Start - End	Debt Funds Top	Indices Top	India GDP		USD/INR		US Nominal GDP (Avg.)
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			Templeton India IBA - (G)	CNX FMCG					

## GDP growth (at 2004 – 05 prices)



## GDP growth (at current prices)



(in Rs. crores)	GDP at factor cost (at 2004-05 prices)	Growth Rate (%)
2005-06	3,253,073	
2006-07	3,564,364	9.57
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## Investing in a universe consisting of non-cyclical companies

- Which are likely to grow at 1.5x to 3x volume growth consistently across all cycles (on a conservative side, India's real GDP to grow at 5%)
- Having a reasonably large owner holding (i.e. owners have skin in the game)
- Having low drawdowns and faster recovery
- Which are debt free (growth funded by clients rather than debt)

## Who is investing in India

- Multi national companies
  - **Unilever NV**: USD 3.5bn – Increased stake in HUL
  - **GlaxoSmithKline PLC**: USD 1bn – Increased stake in GlaxoSmithKline Pharmaceuticals

## Domestic companies investing abroad

- Large business houses
  - **Hindalco**: USD 5.7bn – Acquired Novelis
  - **Tata Steel**: USD 12.7bn – Acquired Corus Group
  - **Tata Motors**: USD 2.3bn – Acquired Jaguar Land Rover

**Invest in a business and not a number**

**Thank You**