CHALLENGES OF BIG BROKING HOUSE

FIGHTING THE MOTHER OF ALL SURVIVAL BATTLES

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Structural Issues

- ## Investor Education and Participation
  - Moderate Investor participation See Chart
  - Mindset Issues (erroneous approach/ enter during last leg of bull run)
  - Long-term and portfolio approach missing
  - Missing Tax efficient capital creation opportunity
- ## Corporate Education
  - Largest no. of listed companies in the world See Chart
  - 30% active stocks; balance either inactive/ vanished
  - Poor liquidity and impact cost
- ## Development of Intellectual Capital
  - India is amongst top10 equity market by market cap See Chart
  - Foreign brokerages are hiring talents at unrealistic levels
- ## Poor DIs participation
  - Subdued AUM of MFs/ insurance cos. See Chart
  - Compelled participation in disinvestments
  - Negligible participation by Pensions Funds

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Challenges – broking houses

- ## Change in Revenue Mix
  - Decline in cash market volume See Chart
  - Rise in option volume See Chart
  - Introduction of DMA (Direct Market Access)
  - Rise in online trading volume
  - Traders moving to Commodities and Currency See Chart
- ## Pressure on Profitability
  - Lower yield See Table
  - Competitive pressure
  - Moderate non-broking/ distribution revenue
  - Higher employee and operating cost
- ## Volatility of Earnings
  - Vagaries of Capital Market
  - Poor activity Ratio
- ## Operational Issues
  - State-level Stamp Duty
  - Stringent Penal provisions and rising compliance cost
  - Seamless Fund Transfer across India
  - Frivolous Investor Grievances and Criminal Actions

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Challenges – big broking houses

- ## Liquidity and capital management
  - Decline in fresh capital mobilisation
  - Increased borrowing levels See Chart
  - Rising interest cost
  - Need large war chest in volatile time
- ## Risk of refinance business
  - Aggressive promoter funding
  - Bigger ticket size, higher concentration risk and higher impact cost
- ## Increasing investment requirement
  - Risk Management and Surveillance System to mitigate associated risk
  - Program Trading
  - Computerisation and Automation of operations, processes and compliances
  - Scaling-up of non-broking businesses to diversify revenue stream
- ## Dominance of foreign brokerages
  - Global Platform – seamless trading
  - Balance Sheet Strength
  - Differential treatment in Disinvestment policy

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Opportunities – big broking houses

- Consolidation
  - Acquisition of brokerages
  - Acquisition of franchisees
  - Upgrade and automate processes
  - Cost control and Zero based budgeting
  - Focus on client and relationship acquisition
- Diversify and develop as fully integrated player
  - Push X sale
  - Optimum utilisation of resources and Address seasonality
- Get Ready for bigger leap
  - Improvise processes and invest in automation
  - Recent regulatory changes will create level playing field
  - Larger book, larger network and robust infrastructure will be a big driver
  - Position as serious long **term player**

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Thank You

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Growth % in Demat A/c on Y-o-Y basis

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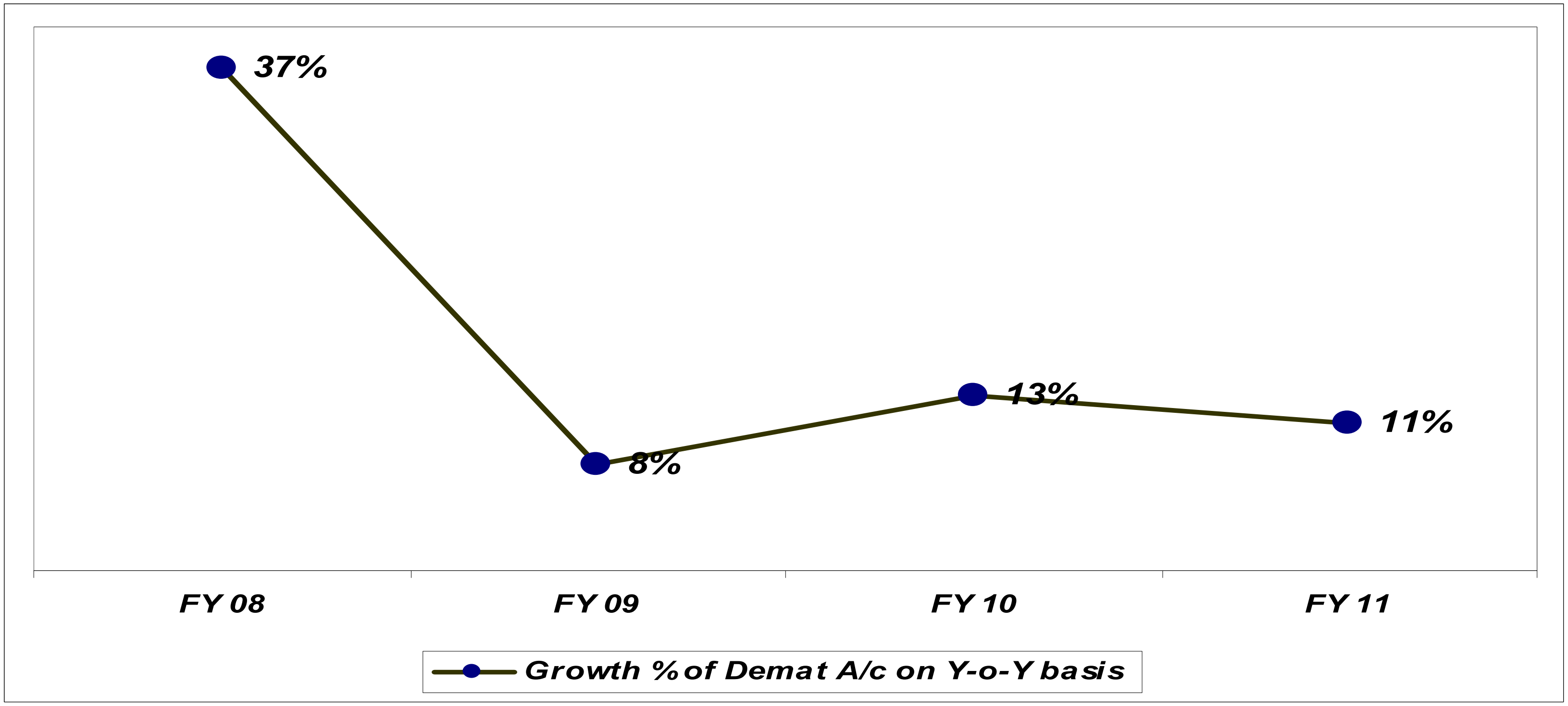

(In lacs)

Financial Year	CDSL	NSDL	Total	Growth % (YOY)
2007-08	47.98	93.09	141.07	37%
2008-09	55.27	96.85	152.12	8%
2009-10	65.85	105.84	171.69	13%
2010-11	74.79	115.44	190.23	11%

Source – CDSL & NSDL

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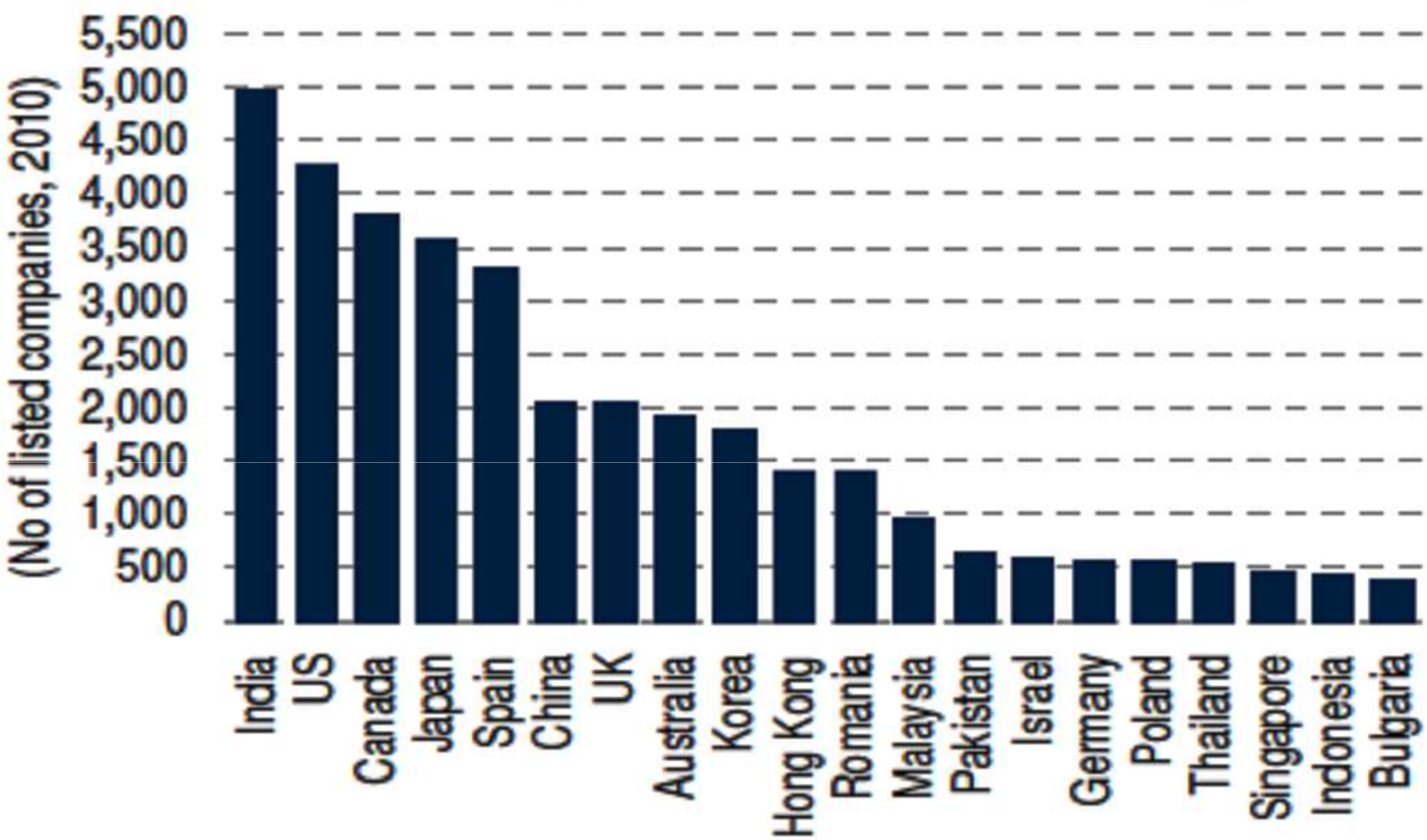
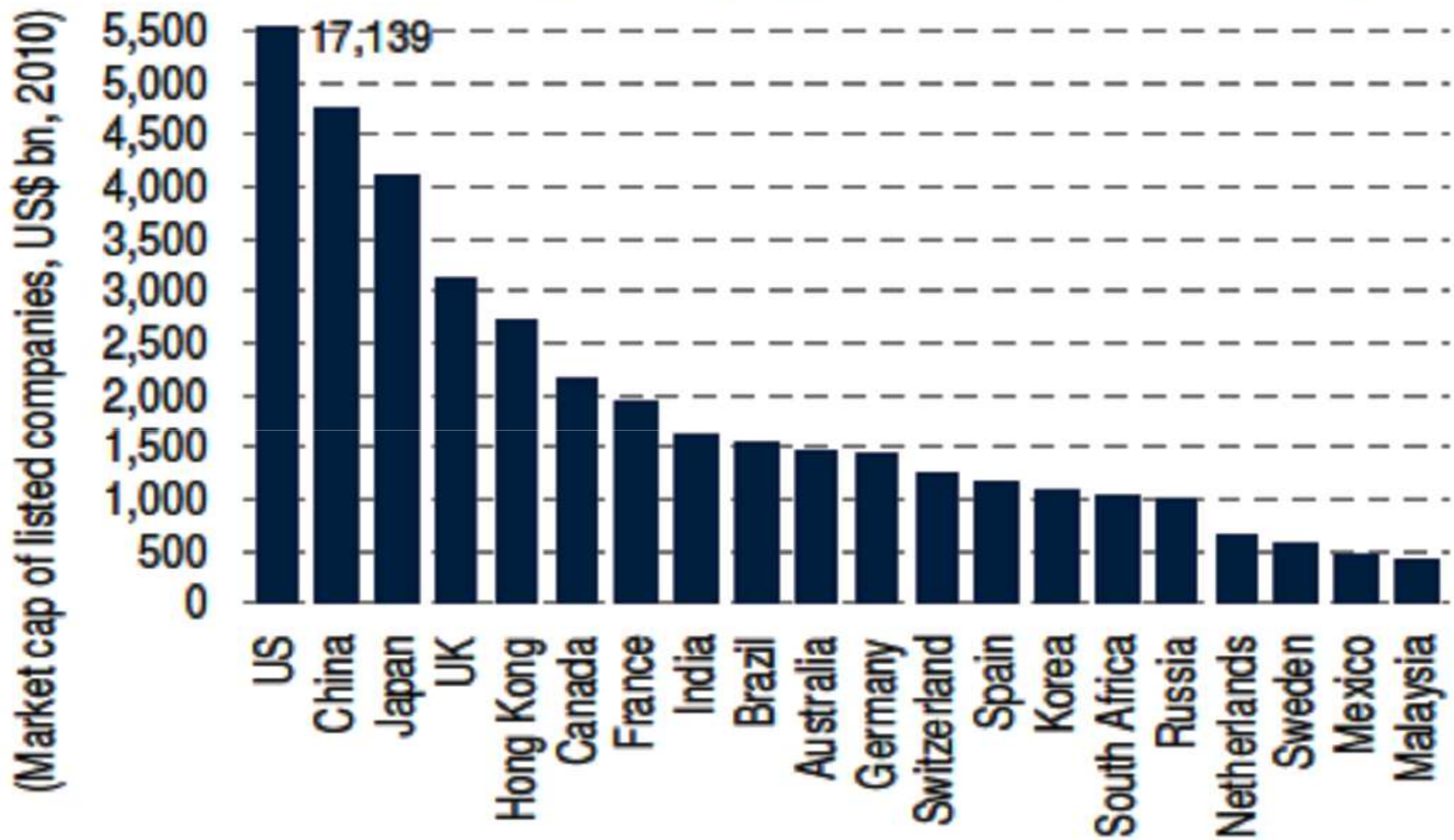
India has the largest number of listed companies



Source: World Bank and Anand Rathi Research

India is the 8th largest equity market by market cap



Source: World Bank and Anand Rathi Research

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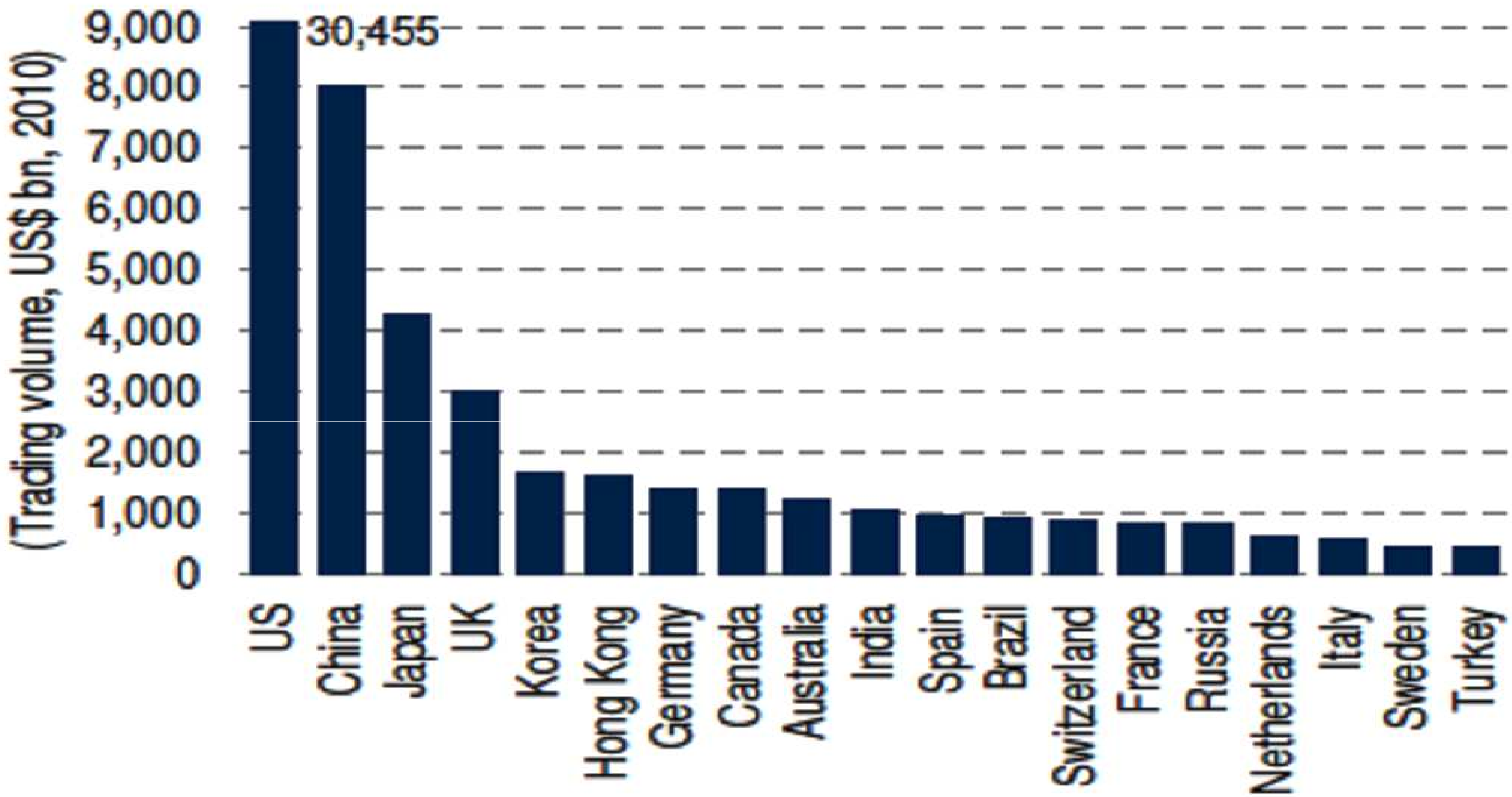
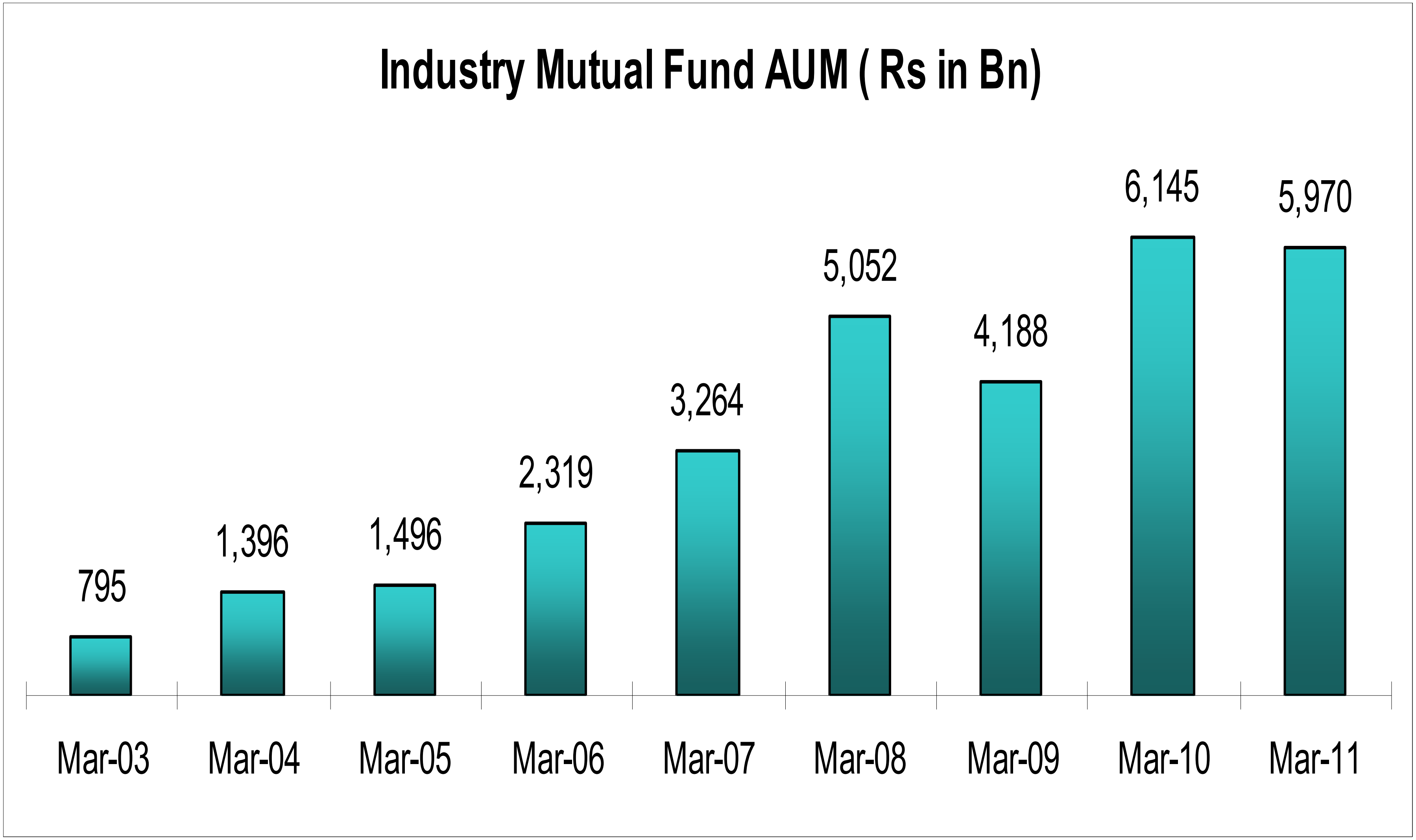
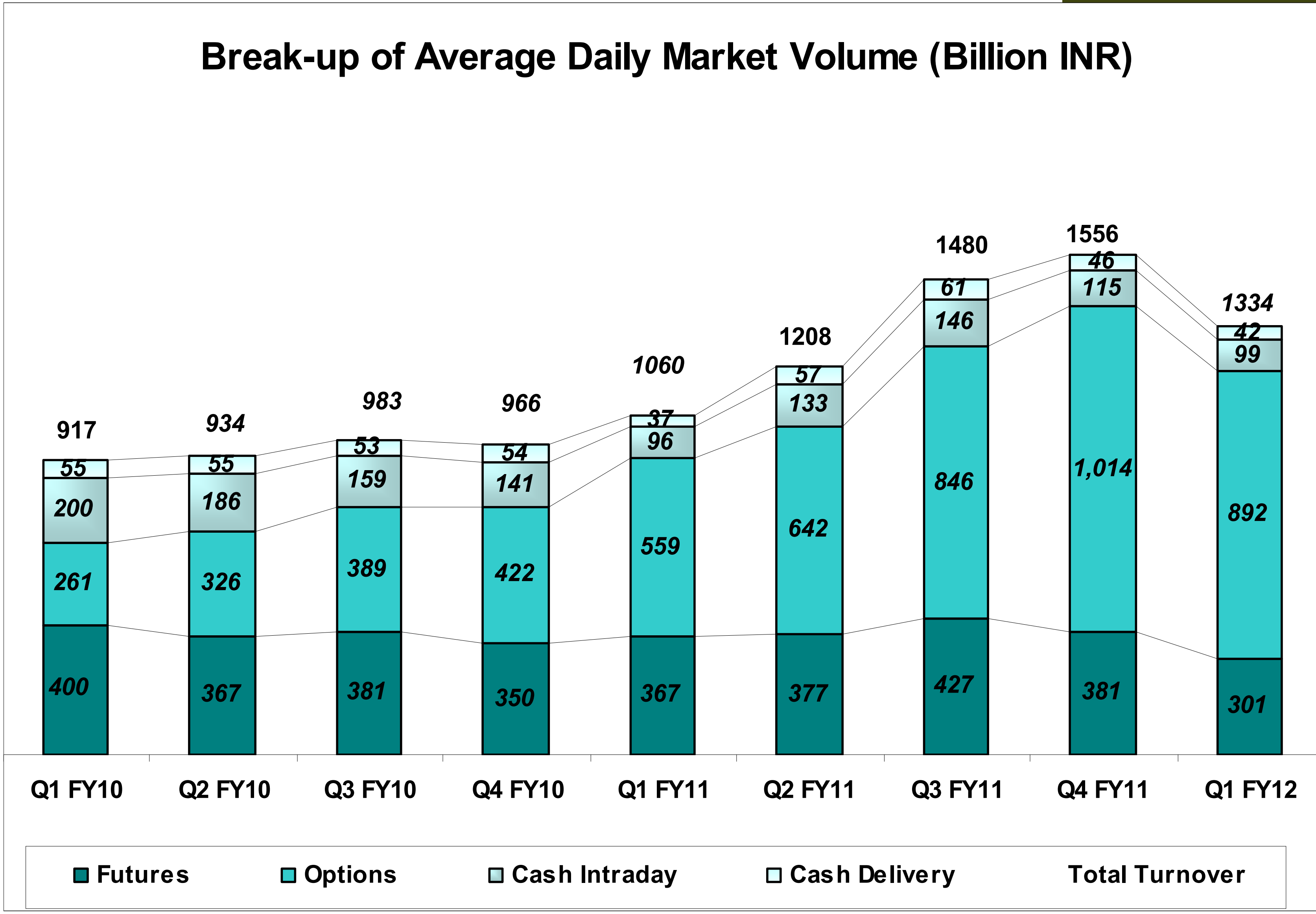
India in the top ten by equity market turnover



Source: World Bank and Anand Rathi Research

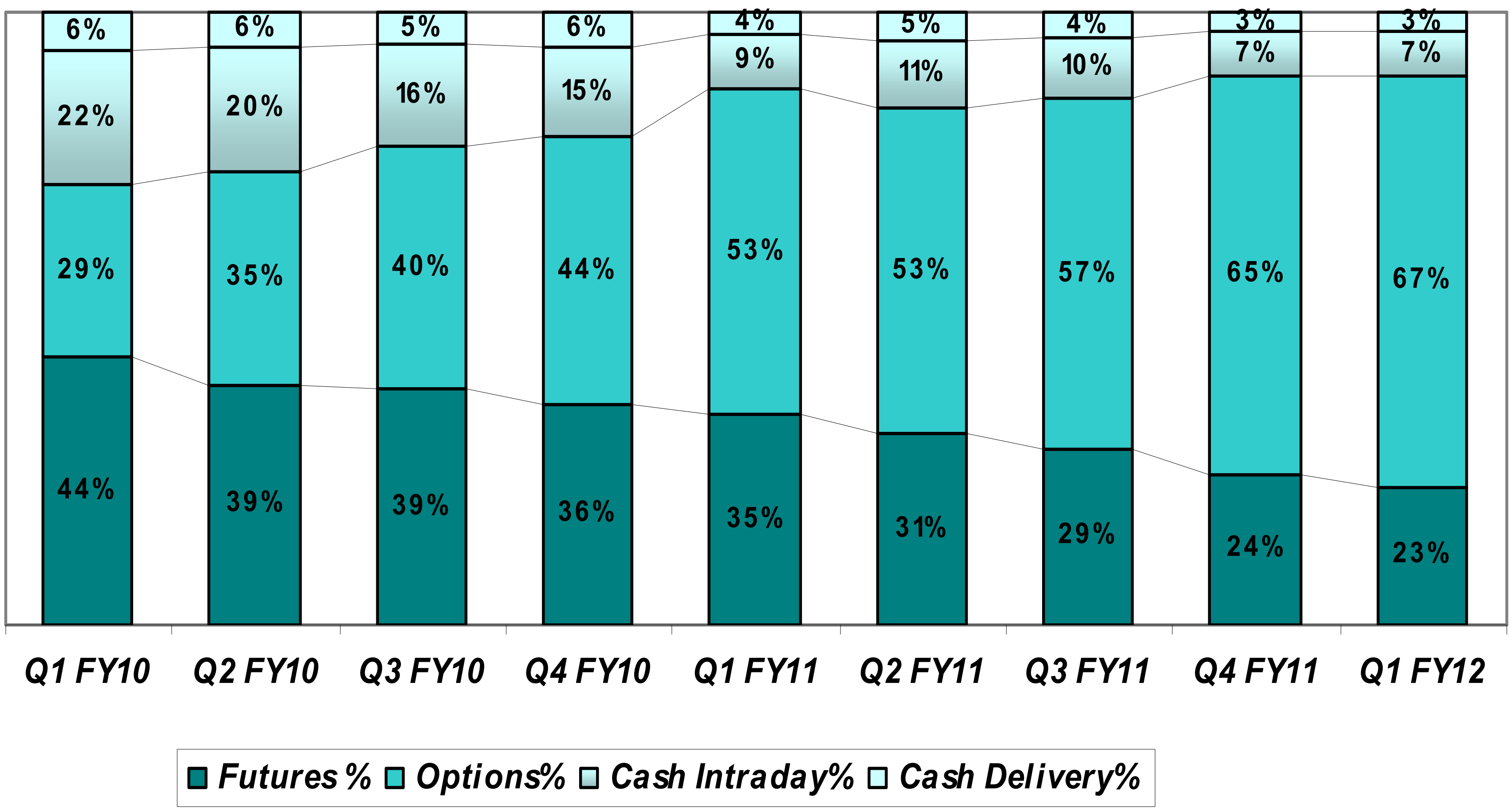

Industry Mutual Fund AUM (Rs in Bn)
795
1,396
1,496
2,319
3,264
5,052
4,188
6,145
5,970
Mar-03
Mar-04
Mar-05
Mar-06
Mar-07
Mar-08
Mar-09
Mar-10
Mar-11

Source – AMFI



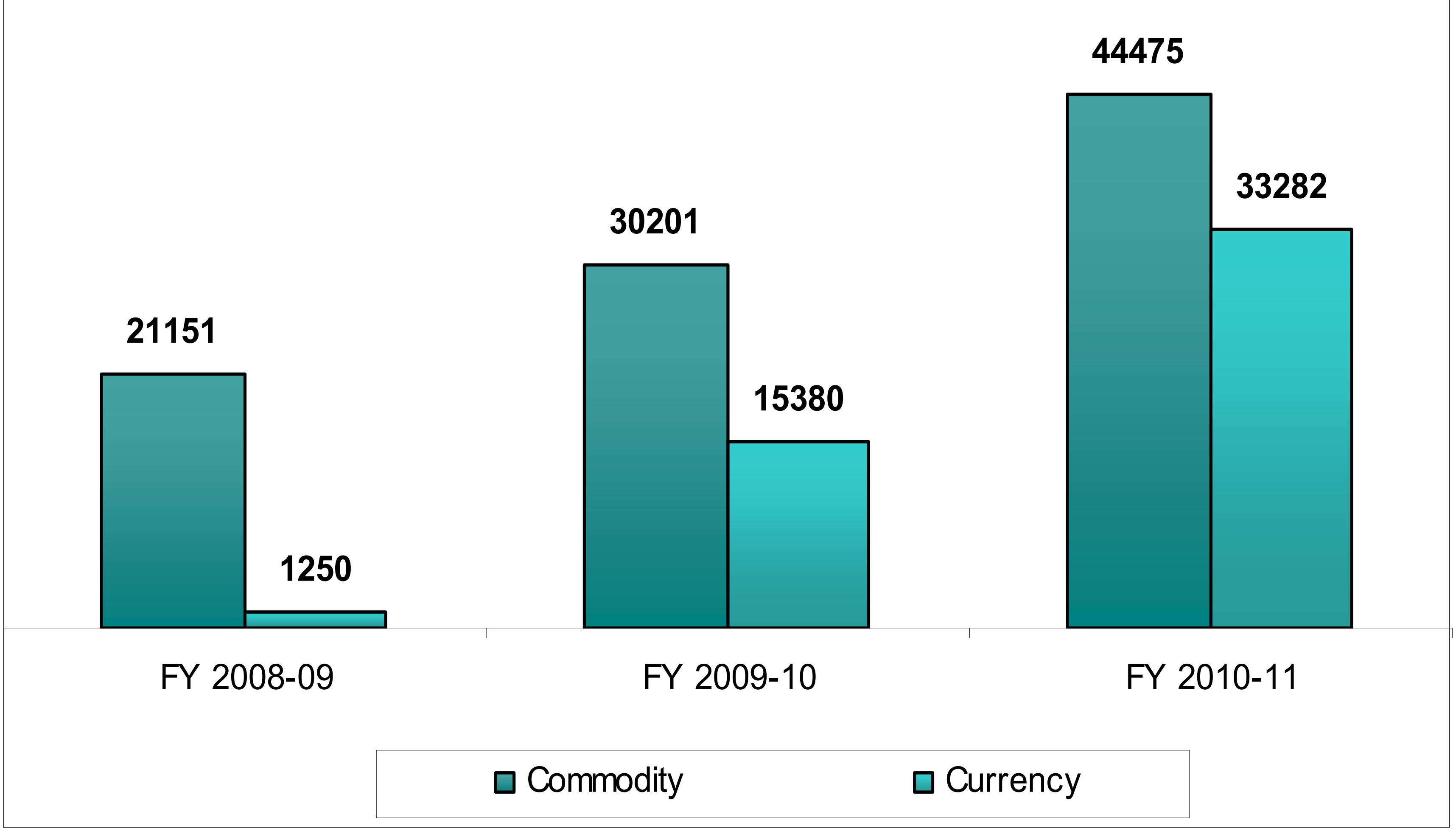
Source – BSE & NSE

Change of Market Mix as % Market Share



Source – BSE & NSE

Avg. Daily Volume - Commodity & Currency (Rs. in Crore)



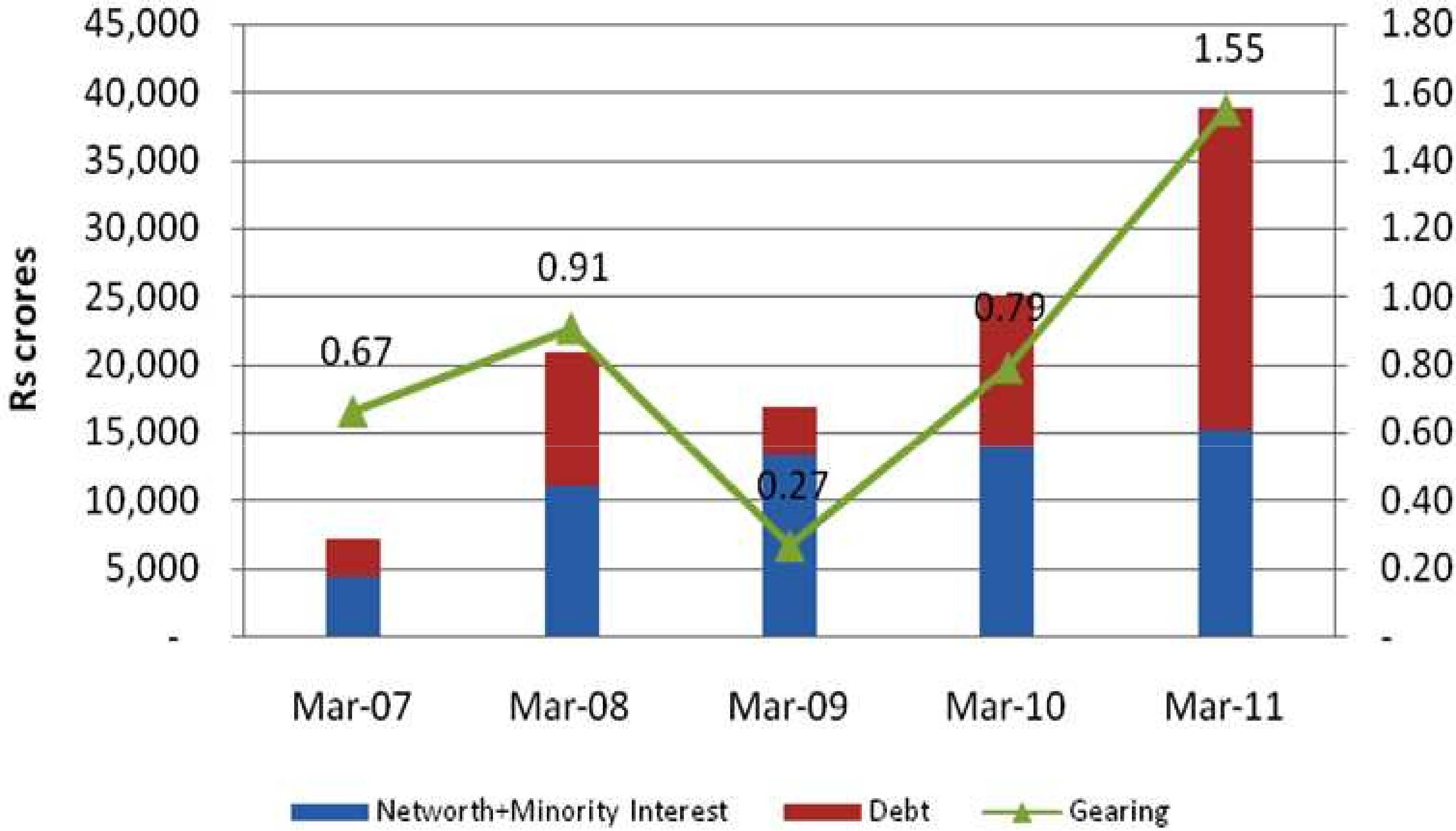
Source – NCDEX, MCX,MCX-SX, NSE-CD

Increased Market Turnover has not resulted into any revenue increase

	Exchange Volume (Rs. In billion)				
	Cash Delivery	Cash Intra-day	Future	Options	Total
FY 2010 (Cum)	13,236	41,931	91,296	85,340	231,804
FY 2011 (Cum)	12,831	31,226	98,525	193,957	336,539
% Growth (y-o-y)	-3%	-26%	8%	127%	45%
FY 2010 Avg Daily	54	172	374	350	950
FY 2011 Avg Daily	51	123	388	764	1,325
	Brokerage Yield (Rs. In crores)				
	Cash Delivery	Cash Intra-day	Future	Options	
FY 2010	(0.15%)	(0.03%)	(0.01%)	Rs.20 per lot	
FY 2011	(0.10%)	(0.02%)	(0.007%)	Rs.12 per lot	Total
FY 2010 (Cum)	1,985	1,258	913	711	4,867
FY 2011 (Cum)	1,283	625	690	820	3,417
% Growth (y-o-y)	-35%	-50%	-24%	15%	-30%

Source – NSE, BSE and AR Research

Gearing levels increased



Source: ICRA Research