

South Asian Capital Market Integration

Sourajit Aiyer

Economies

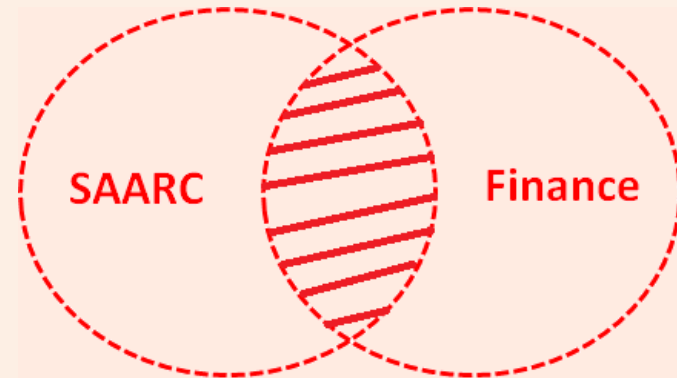
Asset Classes

Companies

Products

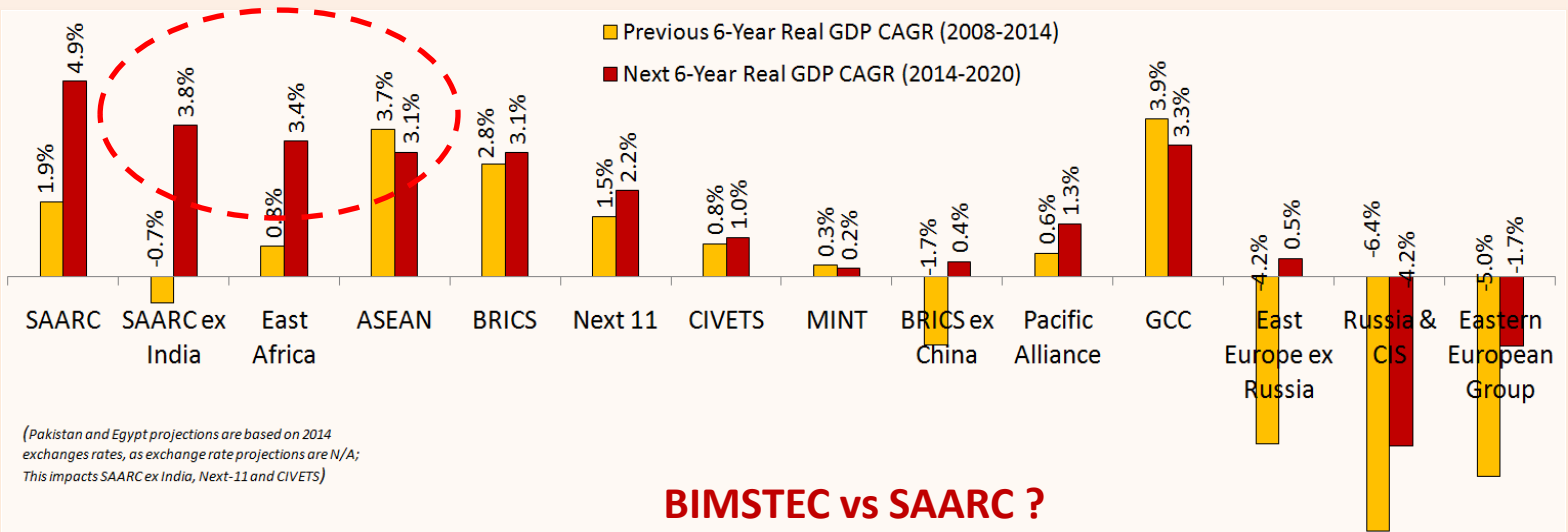
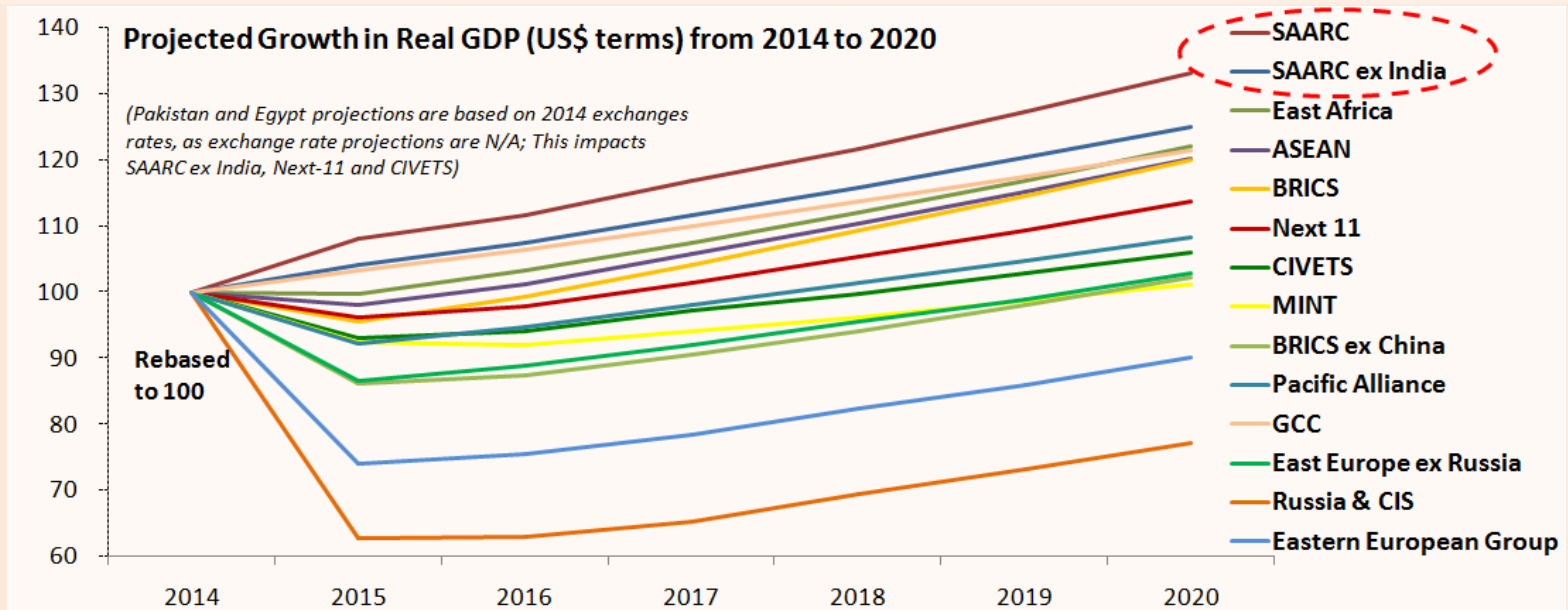
Really??? **Seriously???**

Book



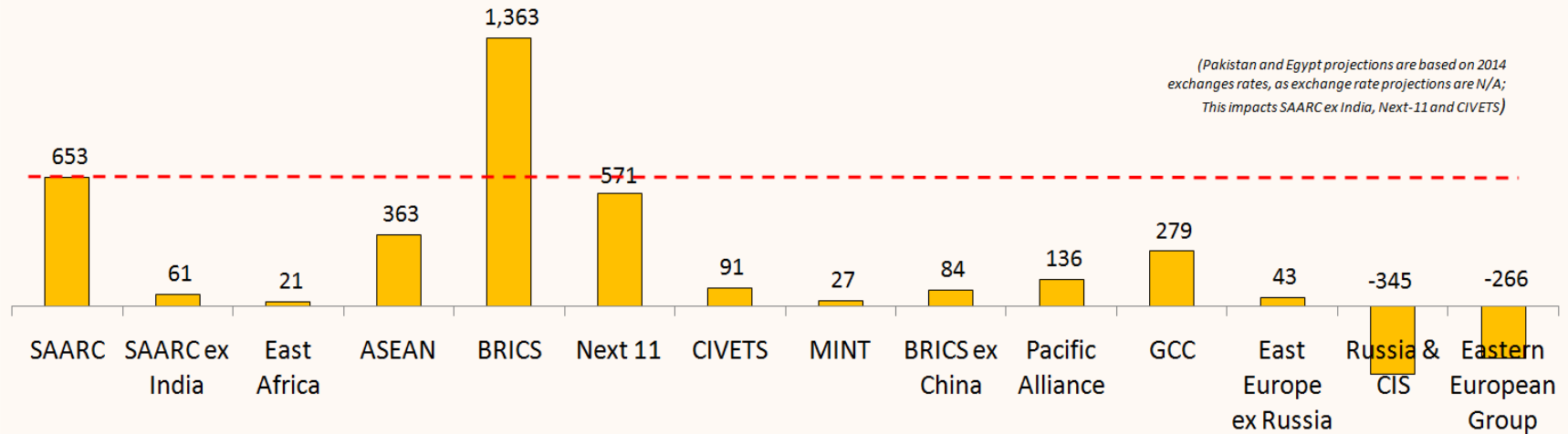
- **What?** Opportunity
- **Why?** Performance
- **Whom?** Awareness
- **How?** Geo-politics

The Growth expected?



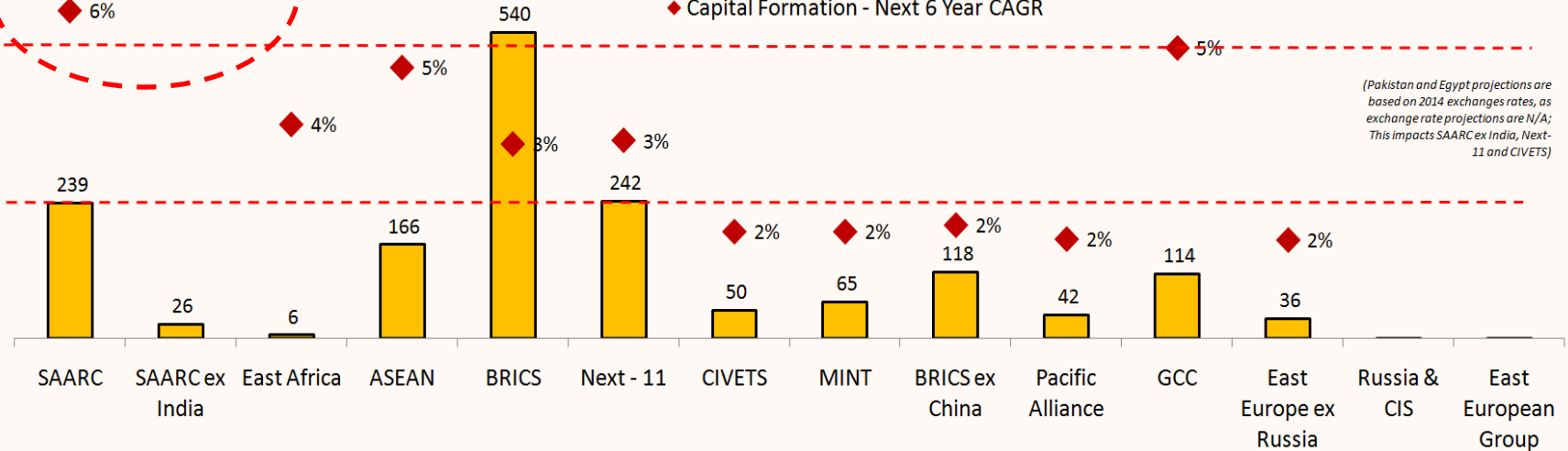
Growth is not sufficient; what also matters is Size & Investment

Incremental Real GDP (economic size) to be added from 2014-2020 (US\$ bn)

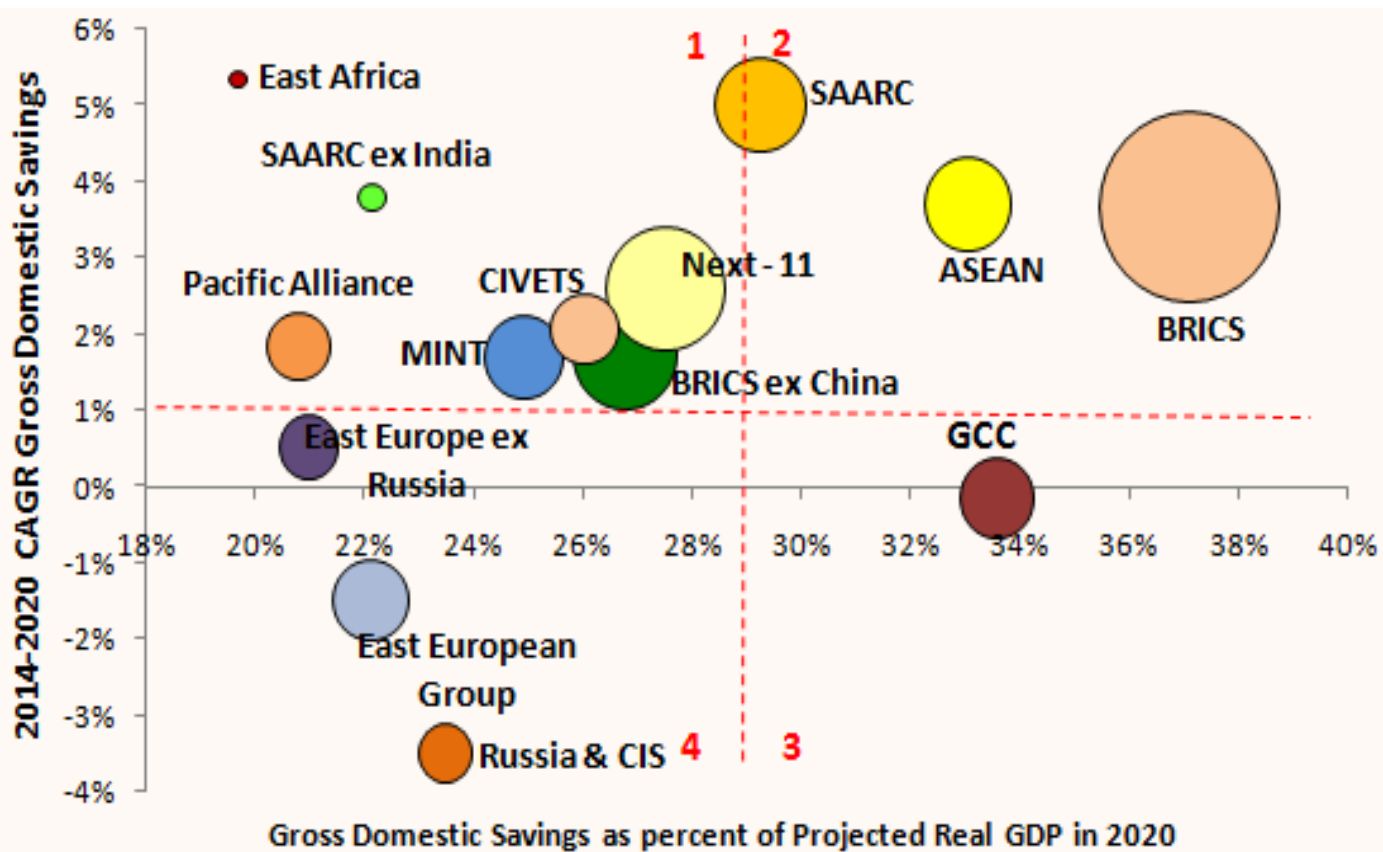


Incremental Capital Formation between 2014 to 2020 (US\$ Billion)

Capital Formation - Next 6 Year CAGR



Size & Growth are not sufficient; what also matters is Savings



Savings vs Consumption, Discretionaries, Social Security?

India and SAARC: Top-200 listed companies of 4 SAARC nations

Combined Revenues					
US\$ Billion	2014	2013	2012	2011	2010
Bangladesh	22.6	19.3	17.3	15.4	12.7
India ●	853.4	836.7	832.1	697.3	534.6
Pakistan	72.6	68.4	68.1	62.3	52.4
Sri Lanka	17.5	16.6	16.5	13.4	10.4
Total	966.1	941.0	934.0	788.4	610.1

PAT Margin					
%	2014	2013	2012	2011	2010
Bangladesh	10%	10%	11%	13%	17%
India	8%	8%	8%	10%	10%
Pakistan ●	8%	7%	7%	7%	6%
Sri Lanka	8%	8%	10%	10%	8%
Total	8%	8%	8%	10%	10%

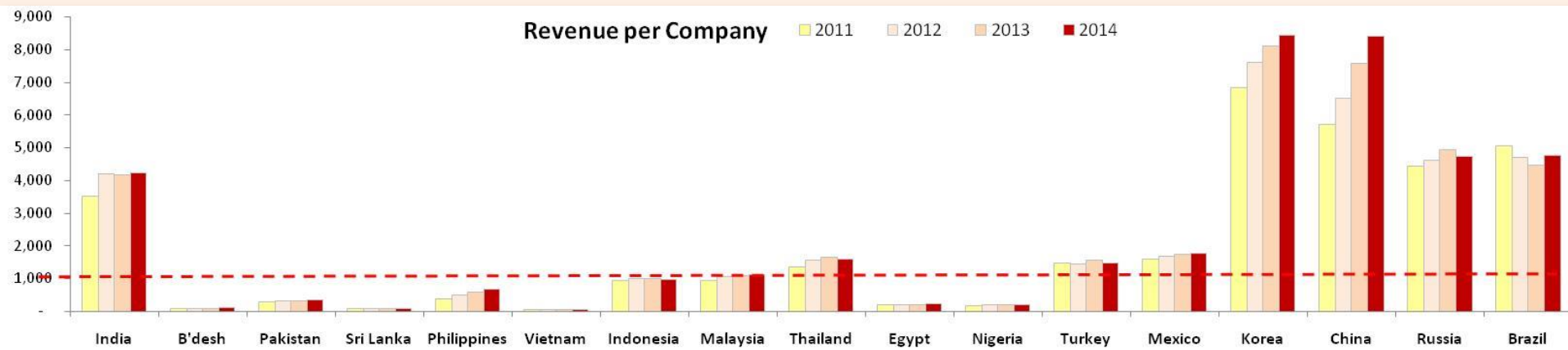
Return on Equity (ROE)					
%	2014	2013	2012	2011	2010
Bangladesh	15%	15%	16%	21%	31%
India	14%	15%	16%	18%	17%
Pakistan ●	18%	18%	17%	18%	14%
Sri Lanka	10%	11%	15%	16%	12%
Total	14%	15%	16%	18%	17%

Average Debt:Equity Ratio					
%	2014	2013	2012	2011	2010
Bangladesh ●	0.63x	0.65x	0.73x	1.02x	0.60x
India	1.27x	1.26x	1.09x	1.06x	0.97x
Pakistan	0.79x	0.76x	0.83x	1.24x	0.82x
Sri Lanka ●	0.59x	0.58x	0.64x	0.54x	0.73x
Total	0.82x	0.81x	0.82x	0.97x	0.78x

Average Dividend Yield					
%	2014	2013	2012	2011	2010
Bangladesh ●	2.4	2.1	1.8	1.2	0.9
India	1.6	1.6	1.4	1.3	1.2
Pakistan	4.2	4.6	5.4	5.1	4.5
Sri Lanka	2.7	2.5	2.7	1.6	2.1
Total	2.7	2.7	2.7	2.3	2.2

Average P/E Ratio					
%	2014	2013	2012	2011	2010
Bangladesh ●	14.9x	12.8x	11.9x	11.6x	5.3x
India	19.8x	14.9x	14.7x	11.5x	24.0x
Pakistan	12.7x	11.6x	9.2x	7.4x	12.3x
Sri Lanka	16.0x	12.6x	10.0x	13.4x	23.6x
Total	19.1x	14.6x	14.2x	11.3x	22.7x

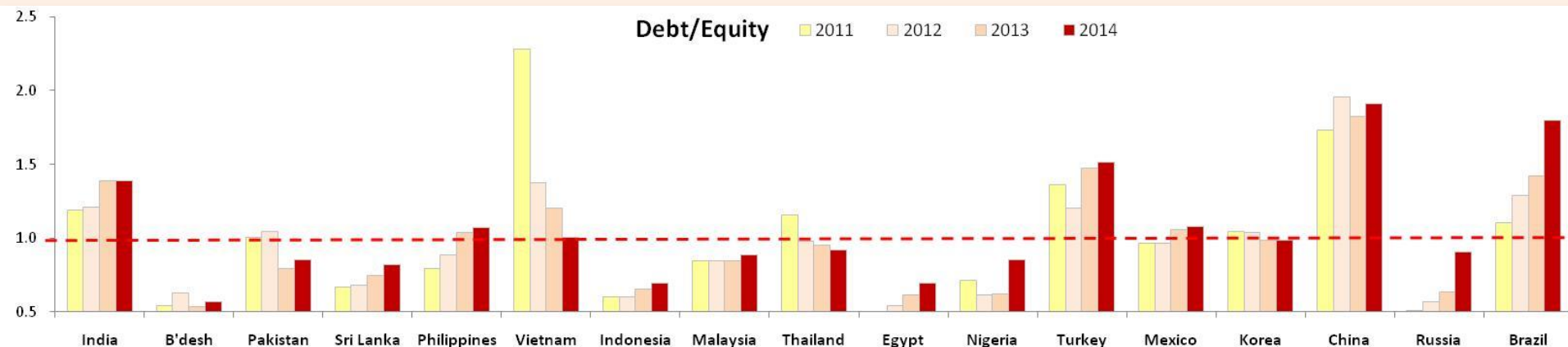
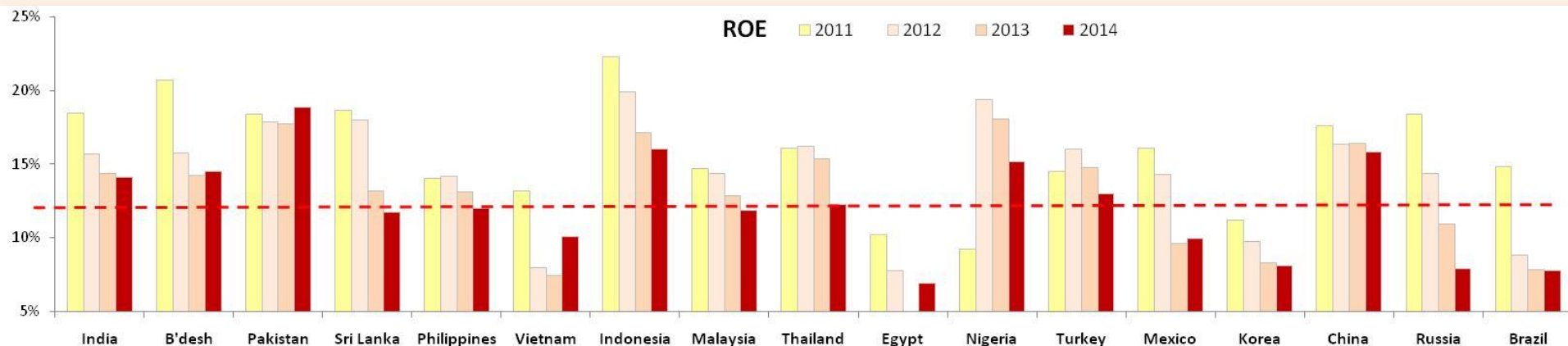
India, SAARC and Others: Who needs to “catch-up” ?



Profit Per Company in Top-200 cos. steadily growing

Revenue growth YoY higher

India, SAARC and Others: Who needs to “catch-up” ?



ROE is above the average, and not declining

P/E ratios picking up in most smaller markets

CDCF Portfolio Idea for SAARC Asset Class

Ticker	Short Name	Crtry	NAV: Jun 2015	NAV: Mar 2015	NAV: Dec 2014	NAV: Sep 2014	NAV: Jun 2014	NAV: Mar 2014	NAV: Dec 2013	NAV: Sep 2013	NAV: Jun 2013	NAV: Mar 2013	NAV: Dec 2012	NAV: Sep 2012	NAV: Jun 2012	NAV: Mar 2012	NAV: Dec 2011	NAV: Sep 2011	NAV: Jun 2011	NAV: Mar 2011	NAV: Dec 2010	NAV: Sep 2010	NAV: Jun 2010	NAV: Mar 2010	NAV: Dec 2009
ABOT PA Equity	ABBOT LABS PAK	Pakistan	22	-	-	-	-	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ECLX IN Equity	ECLERX SERVICES	India	22	-	-	-	-	2	2	1	1	1	1	2	1	1	1	2	2	1	2	1	1	1	1
OGDC PA Equity	OIL & GAS DEVELO	Pakistan	23	-	-	-	-	12	14	11	12	10	10	10	8	9	8	8	9	8	10	8	8	8	8
UPFL PA Equity	UNILEVER PAK FDS	Pakistan	-	-	-	-	-	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NDB SL Equity	NATL DVLV BANK P	Sri Lanka	-	-	-	-	-	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1
SAMP SL Equity	SAMPATH BANK PLC	Sri Lanka	-	-	-	-	-	1	1	1	1	1	1	1	1	1	1	1	1	2	1	1	1	1	1
GDPL IN Equity	GATEWAY DISTRI PA	India	-	-	-	-	-	1	1	1	1	1	1	1	1	1	1	2	1	1	1	1	1	1	1
PPL PA Equity	PAKISTAN PETROLE	Pakistan	-	-	-	-	-	9	8	7	7	5	6	6	5	5	5	6	6	6	6	5	4	5	5
DABUR IN Equity	DABUR INDIA LTD	India	-	-	-	-	-	18	15	15	15	15	13	14	12	12	11	12	16	13	12	12	14	10	10
OINL IN Equity	OIL INDIA LTD	India	-	-	-	-	-	7	7	6	9	8	8	8	8	9	8	10	10	10	11	12	11	9	9
APNT IN Equity	ASIAN PAINTS LTD	India	-	-	-	-	-	19	16	14	13	15	15	13	14	14	9	13	17	12	14	14	12	12	12
GAIL IN Equity	GAIL INDIA LTD	India	-	-	-	-	-	15	14	12	13	12	12	14	11	11	11	12	13	13	14	12	12	10	10
ONGC IN Equity	OIL & NATURAL GA	India	-	-	-	-	-	19	16	11	15	16	13	13	12	12	11	13	13	13	12	13	12	10	10
HEXW IN Equity	HEXAWARE TECHNOL	India	-	36	20	24	19	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	0	0	0
JKBK IN Equity	J&K BANK	India	-	15	22	17	18	4	4	3	4	3	4	3	3	3	2	3	3	3	3	3	3	3	3
MMFS IN Equity	M&M FIN SERVICES	India	-	18	25	18	20	7	10	7	8	6	7	6	4	4	4	5	5	5	5	4	3	3	3
HCLT IN Equity	HCL TECH LTD	India	-	28	19	22	19	19	17	19	13	18	14	16	11	14	11	11	14	15	15	14	10	10	10
ITC IN Equity	ITC LTD	India	-	20	21	22	16	19	14	15	14	15	14	13	13	13	12	13	15	15	13	14	12	11	11
NELI IN Equity	NAVNEET EDUCATIO	India	-	14	15	16	16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NTB SL Equity	NATIONS TRUST BK	Sri Lanka	-	8	8	8	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BATBC BD Equity	BRIT AMER TOBACC	Bangladesh	23	27	20	24	18	2	2	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1
PAG IN Equity	PAGE INDUSTRIES	India	25	27	31	21	20	3	3	2	2	2	2	2	2	2	1	2	1	1	1	1	1	1	1
TCS IN Equity	TATA CONSULTANCY	India	23	23	19	21	20	17	17	18	13	17	13	13	13	12	13	11	14	14	17	15	10	11	11
LUCK PA Equity	LUCKY CEMENT	Pakistan	27	20	27	18	23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HUMNL PA Equity	HUM NETWORK LTD	Pakistan	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MCHM IN Equity	MONSANTO INDIA	India	23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FATIMA PA Equity	FATIMA FERTILIZE	Pakistan	24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HBL PA Equity	HABIB BANK LTD	Pakistan	28	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Price based NAV only			248	235	226	211	195	178	164	148	146	150	137	138	122	127	111	124	143	136	142	133	116	105	100
Gross NAV (Incl Dividend)			248	235	230	211	195	178	168	148	146	150	141	138	122	127	114	124	143	136	144	133	116	105	100

SAARC Basket @ 18-20%: Correlation, Size & Growth in one basket?

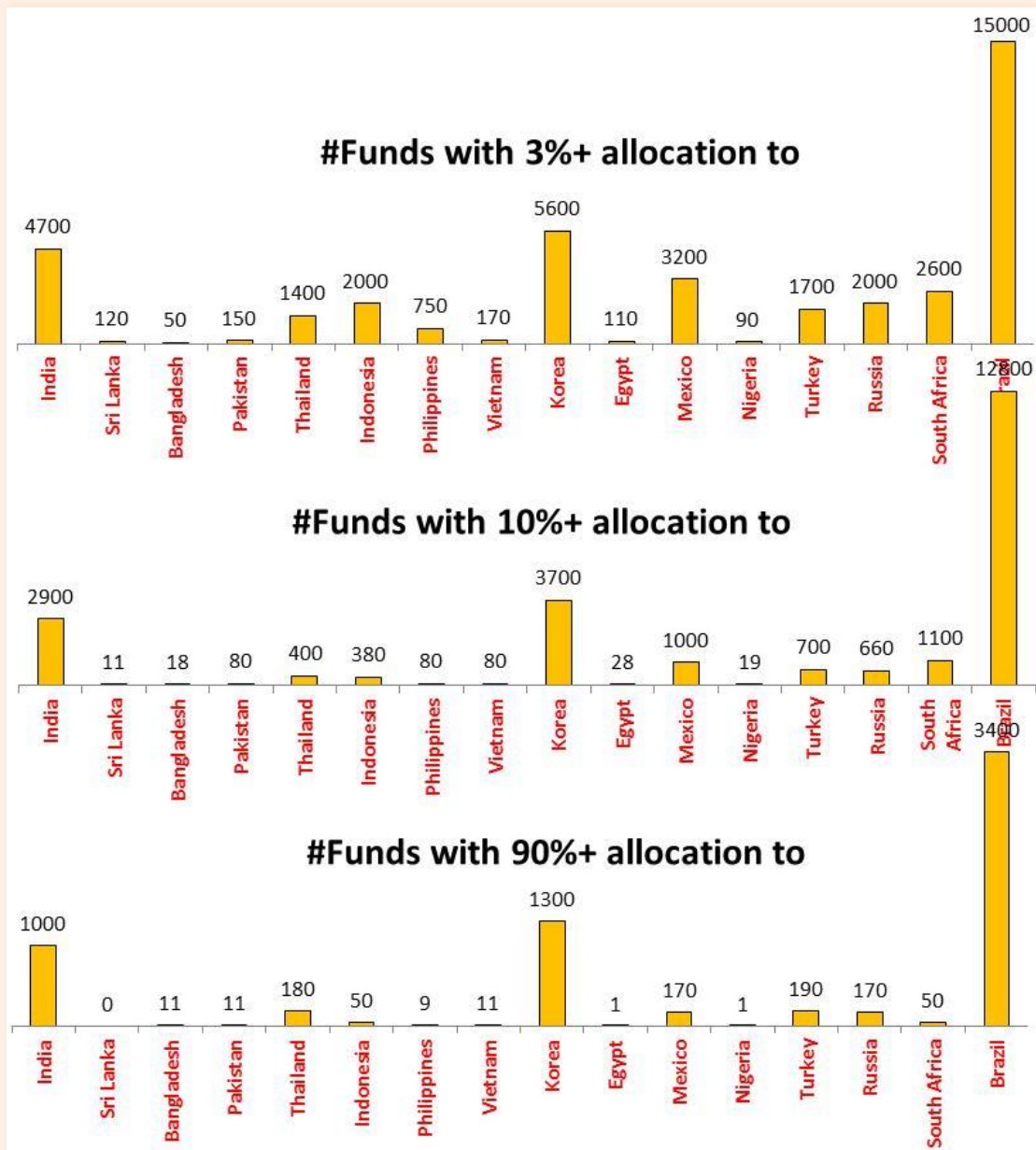
Unexplored as an asset class, then performance is kingmaker?

US\$ terms	CDCF Basket		DJ SAFE 100 INDEX			MSCI Emerg Mkt Index			MSCI Front Mkt Index			ASEAN40 INDEX			MSCI BRIC Index			MSCI Asia EM Index		
	Annual Basis	NAV	Return s	Value	Returns	Excess Returns	Value	Return s	Excess Returns	Value	Returns	Excess Returns	Value	Return s	Excess Returns	Value	Return s	Excess Returns	Value	Return s
Jun-15	248	21%	1,777	-1%	22%	972	3%	18%	578	-11%	32%	10,038	-13%	35%	279	14%	8%	475	8%	13%
Dec-14	225	38%	1,783	20%	17%	956	-5%	42%	612	3%	35%	10,781	3%	35%	262	-6%	44%	457	2%	35%
Dec-13	164	19%	1,480	9%	10%	1,003	-5%	24%	595	21%	-2%	10,449	-7%	26%	278	-6%	26%	446	0%	19%
Dec-12	137	24%	1,352	14%	10%	1,055	15%	9%	490	5%	19%	11,190	16%	8%	297	11%	13%	447	18%	6%
Dec-11	111	-22%	1,182	-29%	7%	916	-20%	-1%	467	-22%	0%	9,651	-6%	-16%	268	-25%	3%	379	-19%	-3%
Dec-10	142	42%	1,656	28%	14%	1,151	16%	25%	600	19%	23%	10,278	24%	17%	356	7%	34%	468	17%	25%
Dec-09	100		1,298			989			504			8,256			332			402		
Annualized Return	18%		6%			0%			2%			4%			-3%			3%		
Volatility	15%		15%			17%			16%			13%			19%			15%		
Sharpe Ratio	0.7		(0.1)			(0.2)			(0.3)			0.1			(0.5)			0.0		
Correlation			0.89			0.56			0.52			0.61			0.53			0.61		
Alpha			12.0%			16.6%			12.8%			14.6%			15.9%			15.1%		
Risk-free rate	7.1%		7.2%			2.9%			7.9%			2.9%			6.0%			2.5%		

US\$ terms	CDCF Basket		NSE Nifty Index			NSE CNX Midcap Index			Karachi KSE100 Index			Karachi KSE Index			Dhaka DSEX Index			MSCI Bangladesh Index			Colombo CSEALL Index		
	Annual Basis	NAV	Return s	Value	Returns	Excess Returns	Value	Return s	Excess Returns	Value	Return s	Excess Returns	Value	Return s	Excess Returns	Value	Return s	Excess Returns	Value	Return s	Excess Returns		
Jun-15	248	21%	132	1%	20%	205	6%	16%	338	12%	9%	236	3%	18%	59	-11%	32%	14	-8%	29%	52	-11%	32%
Dec-14	225	38%	131	29%	9%	199	53%	-15%	319	33%	5%	232	31%	7%	62	14%	24%	15	47%	-10%	56	23%	15%
Dec-13	164	19%	102	-5%	25%	130	-16%	35%	239	38%	-18%	177	44%	-25%	55	na	na	10	1%	18%	45	2%	17%
Dec-12	137	24%	108	24%	0%	155	35%	-11%	174	38%	-14%	123	41%	-17%	-	na	na	10	-12%	36%	44	-17%	41%
Dec-11	111	-22%	87	-37%	15%	115	-42%	20%	126	-10%	-12%	87	-10%	-11%	-	na	na	11	-44%	22%	53	-11%	-11%
Dec-10	142	42%	137	23%	19%	198	24%	18%	140	26%	15%	98	24%	18%	-	na	na	20	43%	-2%	60	102%	-60%
Dec-09	100		112			160			111			79			-			14			30		
Annualized Return	18%		3%			5%			22%			22%			12%			0%			11%		
Years	5.5		5.5			5.5			5.5			5.5			2.3			5.5			5.5		
Volatility	15%		20%			28%			19%			19%			16%			23%			31%		
Sharpe Ratio	0.7		(0.2)			(0.1)			0.8			0.8			0.3			(0.3)			0.1		
Correlation			0.88			0.80			0.51			0.49			(0.04)			0.51			0.49		
Alpha			13.5%			11.8%			4.6%			5.2%			11.6%			13.6%			10.1%		
Risk-free rate	7.1%		7.5%			7.5%			7.0%			7.0%			6.5%			6.5%			7.0%		

CDCF vs External & Internal; SAFE 100 vs ASEAN ?

Appetite of FPI funds ?



% of 90%+ allocation funds domiciled locally (local AMC) ?

Migration from overweights to underweights ?

How much allocation can go only to the best basket ?

In which stage is SAARC now ?

Stage of evolution of local corporates?

(Co. Size vs Journey, Chasing Growth or Size -- Mkt Size vs Mkt Share, More New Cos & Sunrise sectors)

Stage of evolution as a Consumer?

(Discretionaries & aspiration itch, Pool of middle-income, Digital adoption)

Stage of evolution as a Producer?

(Headstart of big-brands, New-age disruptor brands)

Scope for integrated products?

(ASEAN products also delayed, Sub-Mekong, Product structures separate at country-level)

Asset class outperformance?

(CDCF vs external & internal, SAFE vs Asean, Active basket balancing correlation, size & growth)

Scope for RVCs?

(Products on local problems, Production migration in value-chain)

Why integrated financial markets ?

Who needs capital ?

(Growth cos + Count opportunity)

Performance deepens interest?

(Country-dedicated funds with higher allocations)

Who can give it ?

(Savings Story, Banks NPA, Ret. Earning, FPI, Closed-end, VCs, Superpower)

Better for local companies ?

(Valuation, Volumes, Cost of capital, More FPIs)

Concentration pushes diversification?

(Wealth concentrating, Demand for diversified ideas)

Economics + Money > Politics + Military?

(Risk is also the reason itself, China's Silent Army Book)

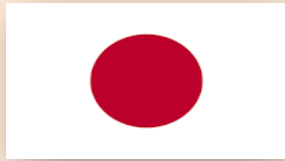
Anchors first for the Geo-political mistrust?



Bringing in a partner country as an anchor investor

Might help hasten the process of agreements

Partner countries may need this as much as SAARC



- has strong relations with SAARC members individually

- has institutional-entities in investments

- is eyeing investment returns from overseas investments

- is in proximity to SAARC to have geostrategic stake



Really? Seriously?

Logically, better to partner with others than SAARC ?

(Corporate Performance, Growth in eco & inv, RVC, CDCF & SAFE performance, Who in Asean, China role)

Yes we can vs Yes we know

(Is it sufficient? Objective: Is Saarc best or bad?)

Designing product ideas for a volatile region like this?

Keeping structures separate at country-level?

Convert region's unique challenges into ideas?

Awareness is itself a product?

Long-term story, so long-oriented institutions?

Performance has to be kingmaker?

Marry size, growth & correlation in ONE?

Products Ideas Based on Integrated Capital Markets for SAARC



**Master ETF with Country-wise
Feeder/Investment funds**

CDCF Basket Portfolio Idea

Solar Energy Bonds

Medical Tourism + Insurance

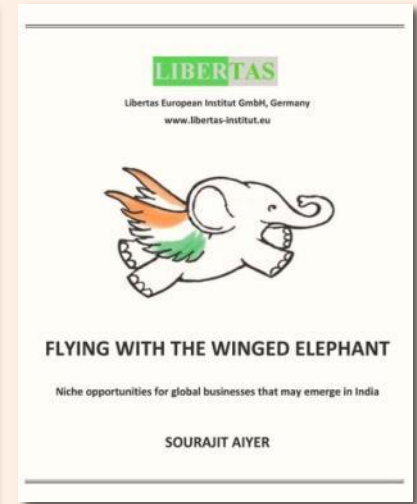
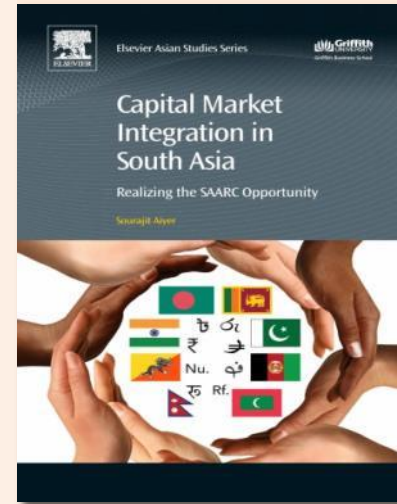
Thematics & Frameworks

Start-ups for SME Platform

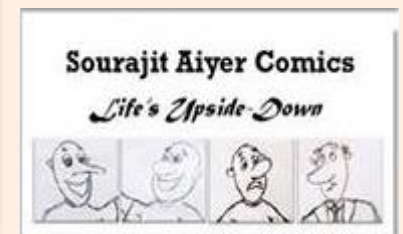
Brands worked for...



Books written...



Brands written for...





Q&A

Sourajit Aiyer

Linkedin: [sourajitaiyer](#)