



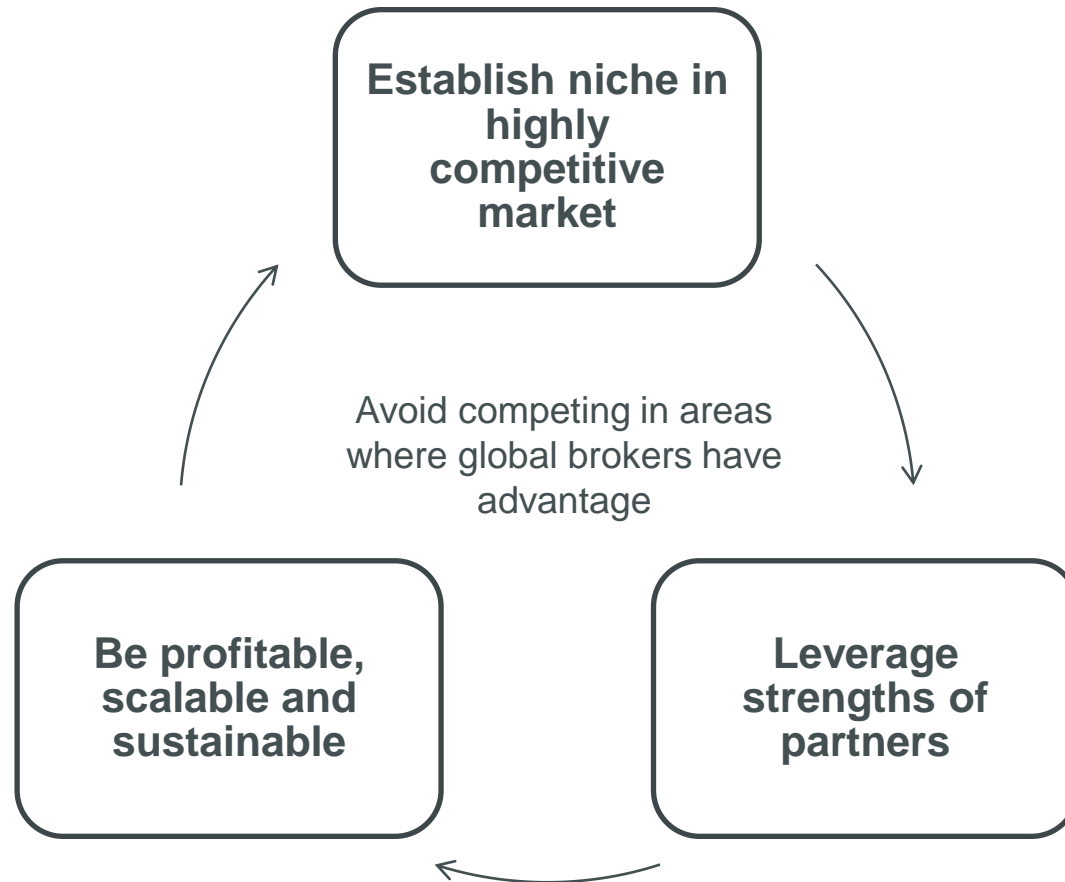
A Disruptive Approach to Institutional Brokerage in India

Concept by
GAUTAM CHAND

May 30, 2012

Objective of Study

High-level Strategy for Indian Institutional Brokerage (Newco)



Key Influencers



Investors: FIIs and DIIs

EARLIER MODELS OF BROKER SUCCESS LESS USEFUL SINCE FIIs ARE MOVING BEYOND THE “PLANT THE FLAG” STRATEGY



Policy makers: Government and RBI

OPEN TO ENGAGEMENT SINCE ECONOMIC GROWTH AND FOREIGN INVESTMENT SLOWING



Management: Indian and foreign

LOOKING BEYOND DOMESTIC ISSUES AS INDIA INTEGRATES SWIFTLY WITH WORLD WITH GROWTH MODEL CLOSER TO USA THAN CHINA

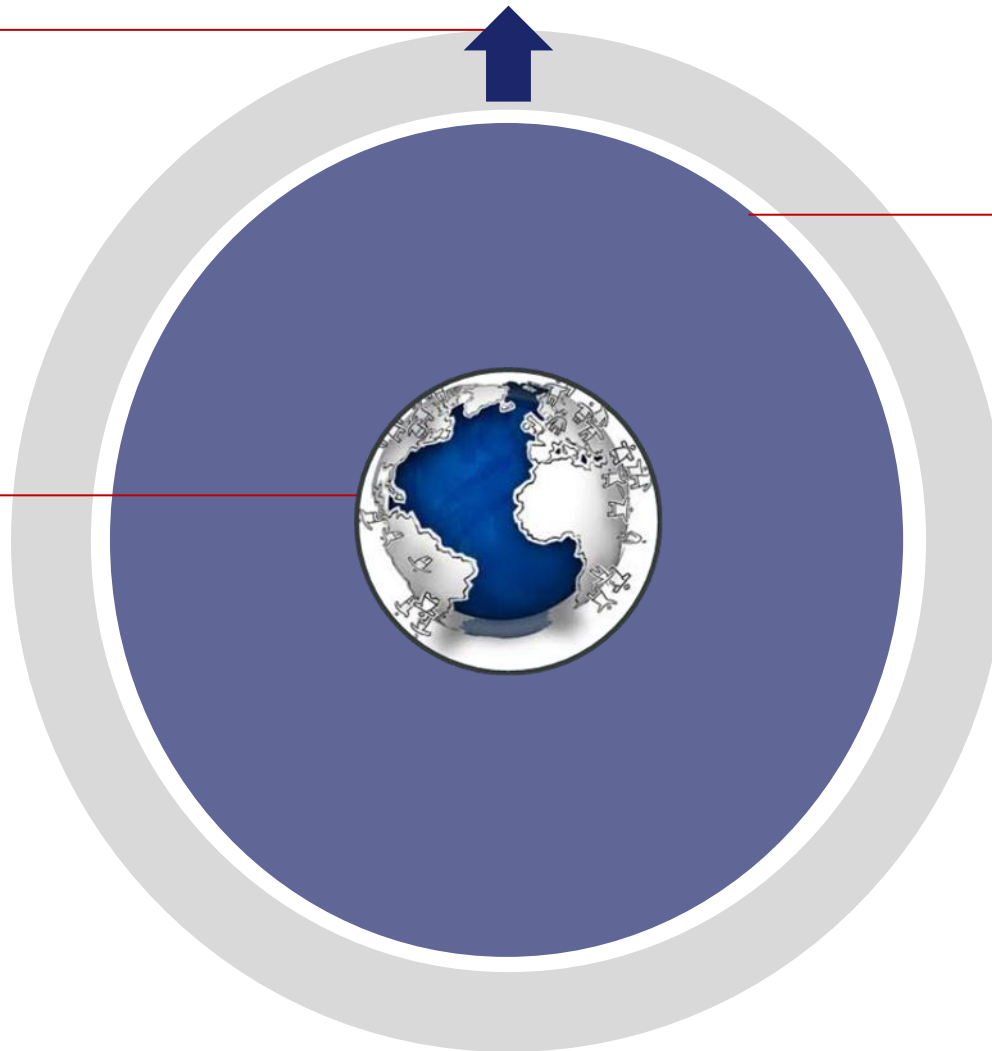
Growth Drivers

High GDP Growth

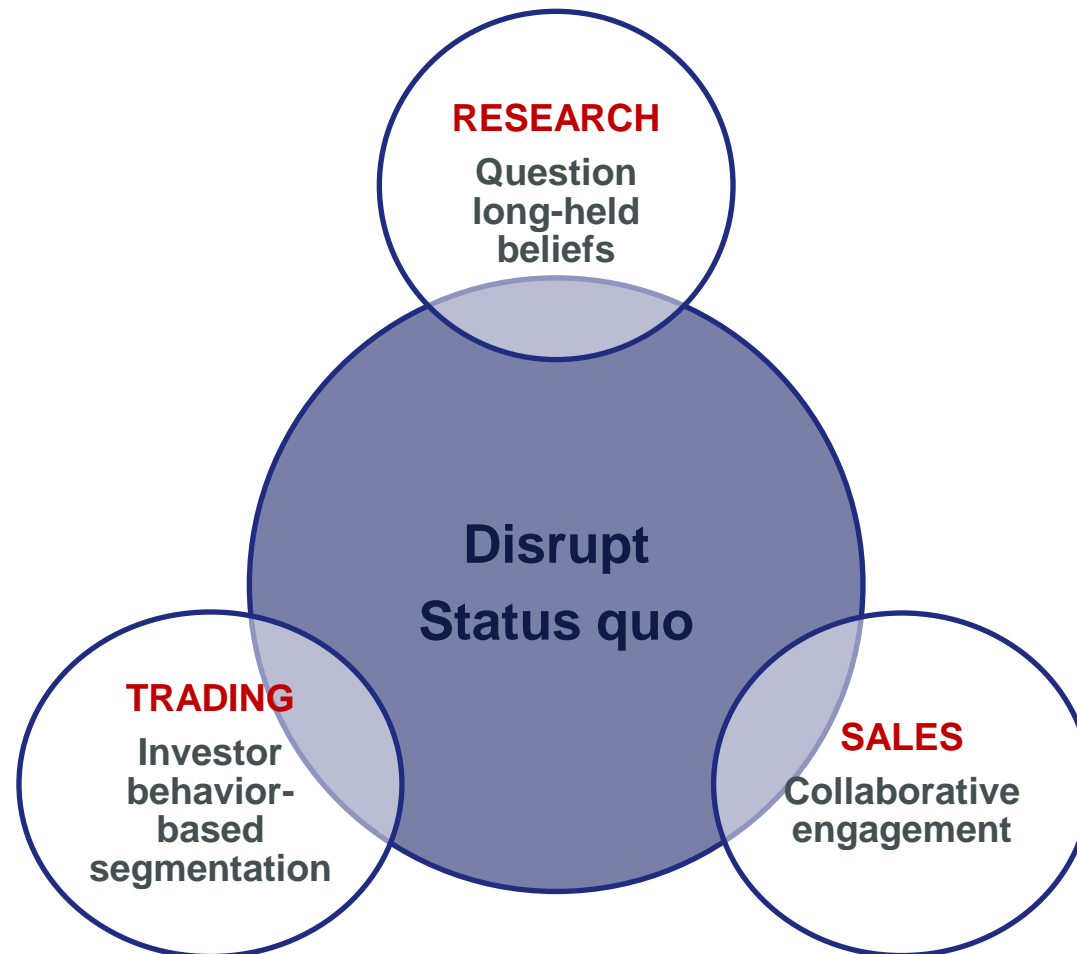


Increase in Free-float

Newco Market Share



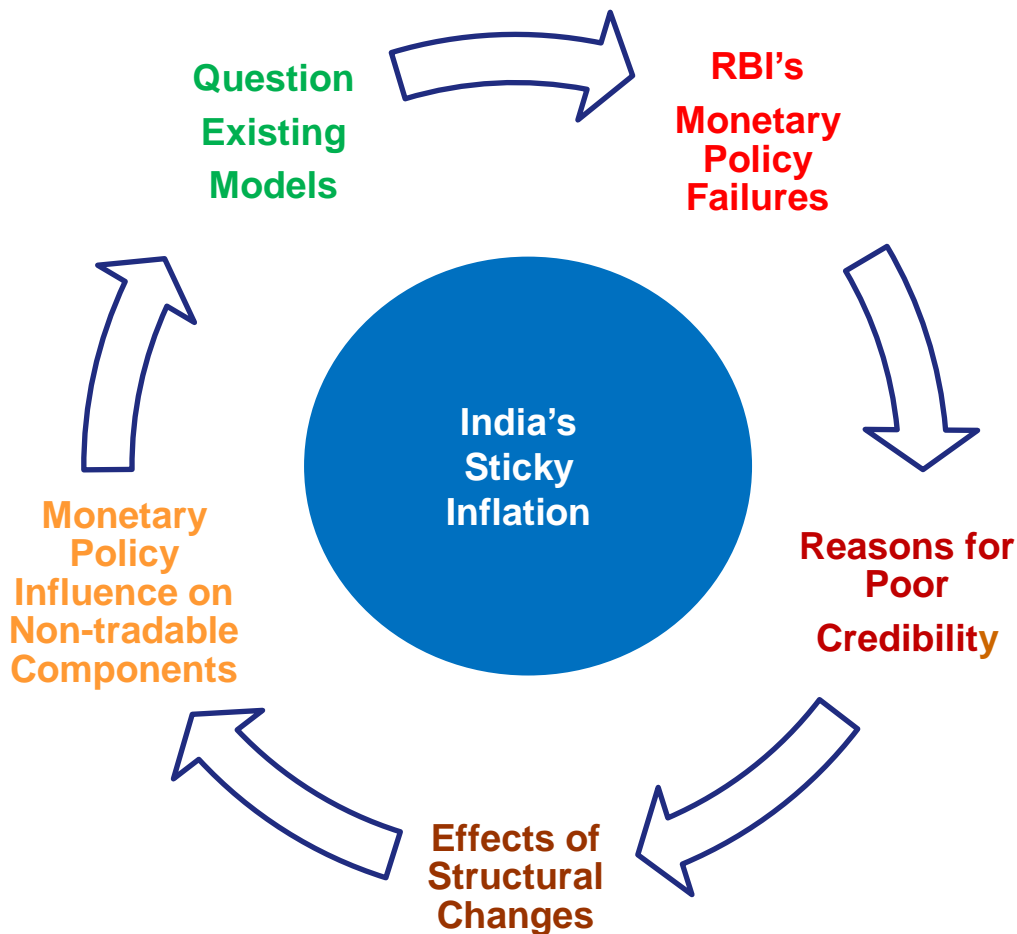
Recommendation



Research Strategy:

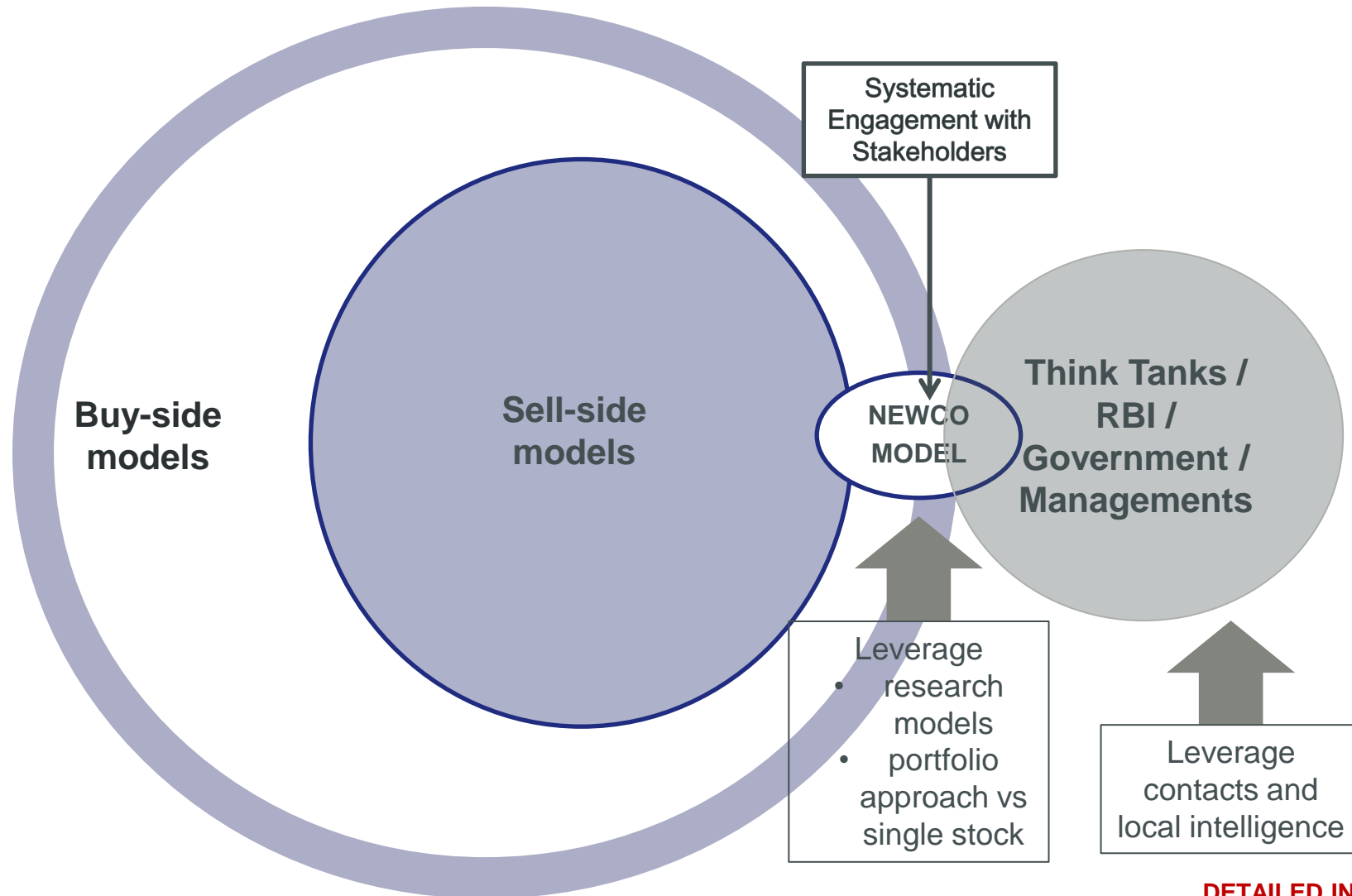
Gently Question Long-held Beliefs (competition not 'questioning RBI models')

Example:
Analysis of
Monetary
Policy Failure -
detailed in
ANNEXURE 1



Sales Strategy:

Engage Stakeholders (competition not 'collaborating')



Trading Strategy:

Investor Behavior-based Segmentation (Instanex models can be quantified)

Investment Needs

FIIIs

Growth; Liquidity; Branded
management

DIIIs

Income; Diversification;
Relationships

Reaction to Events

FIIIs

Global

DIIIs

Domestic

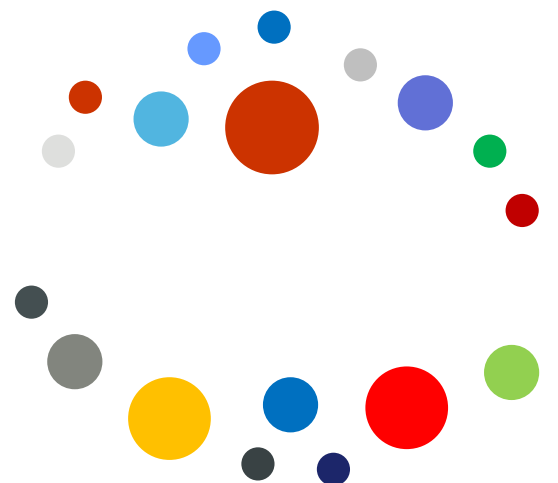
INSTANEX HAS DONE EXTENSIVE INDIAN EQUITY MARKET INVESTOR SEGMENTATION THAT HAS LEAD TO THE CREATION OF ITS “OWNER INDEXES” –
DETAILED IN ANNEXURE 3

ANNEXURES

Annexure 1: Analysis of Monetary Policy Model

CURRENT RBI INFLATION FORECAST TARGETING MODEL

- current inflation rate (an expectations-augmented Phillips curve);
- exchange rate (a relation embodying uncovered interest parity, a variable risk premium, and long-run purchasing power parity);
- monetary policy objective function (a loss function which weights deviations of inflation, output gaps, and interest rate variability—in place of a Taylor-type rule for the policy interest rate)



Tradable (global prices) and non-tradable (domestic prices) factors

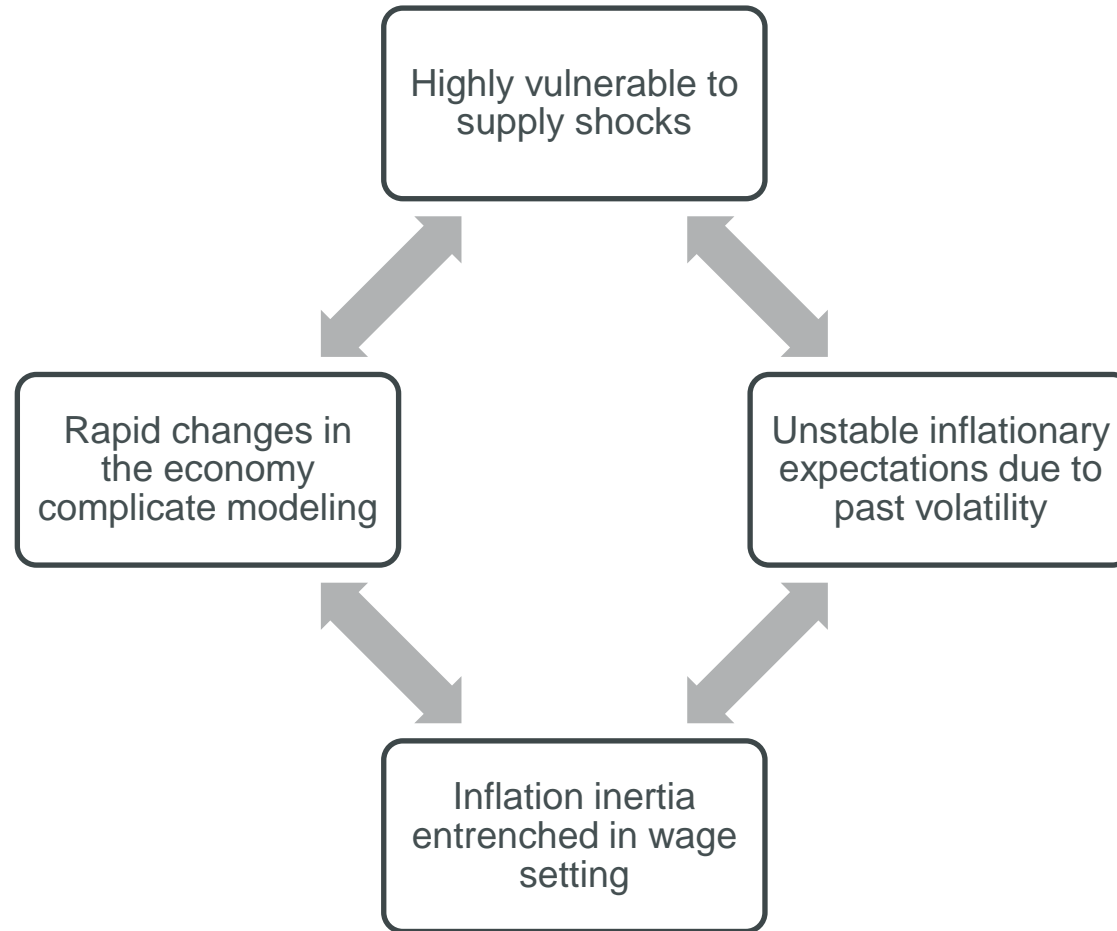


Faulty Transmission due to fundamental changes in economy

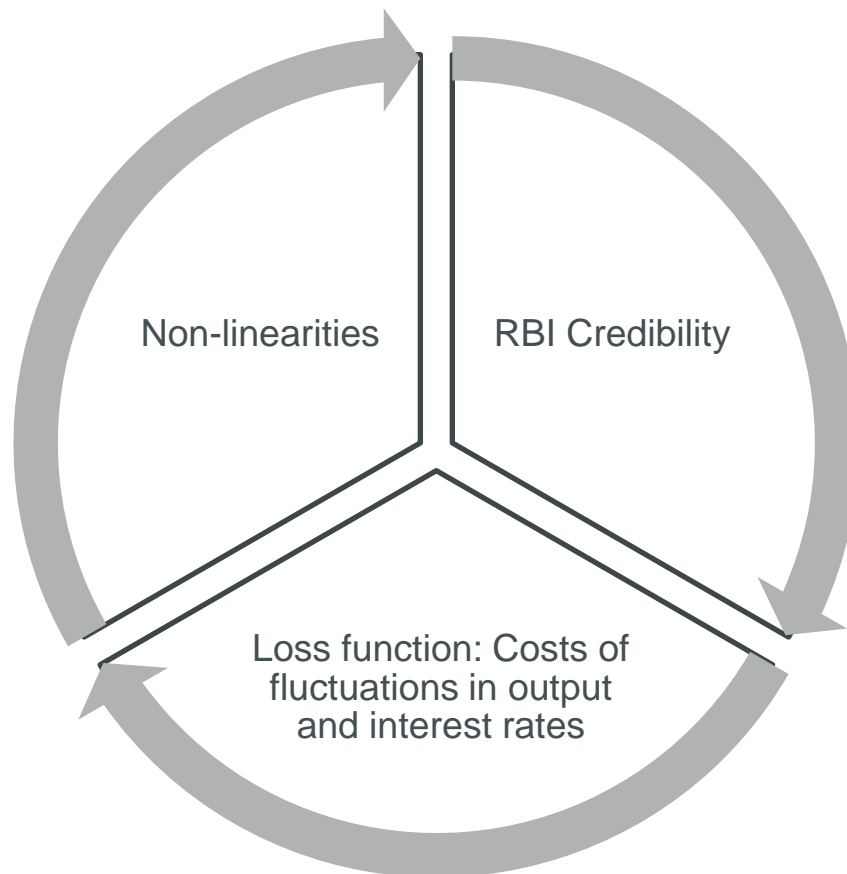
RESULT
Sticky Inflation;
High Inflationary Expectations

Annexure 1: Analysis of Monetary Policy Model

Key Issues for India

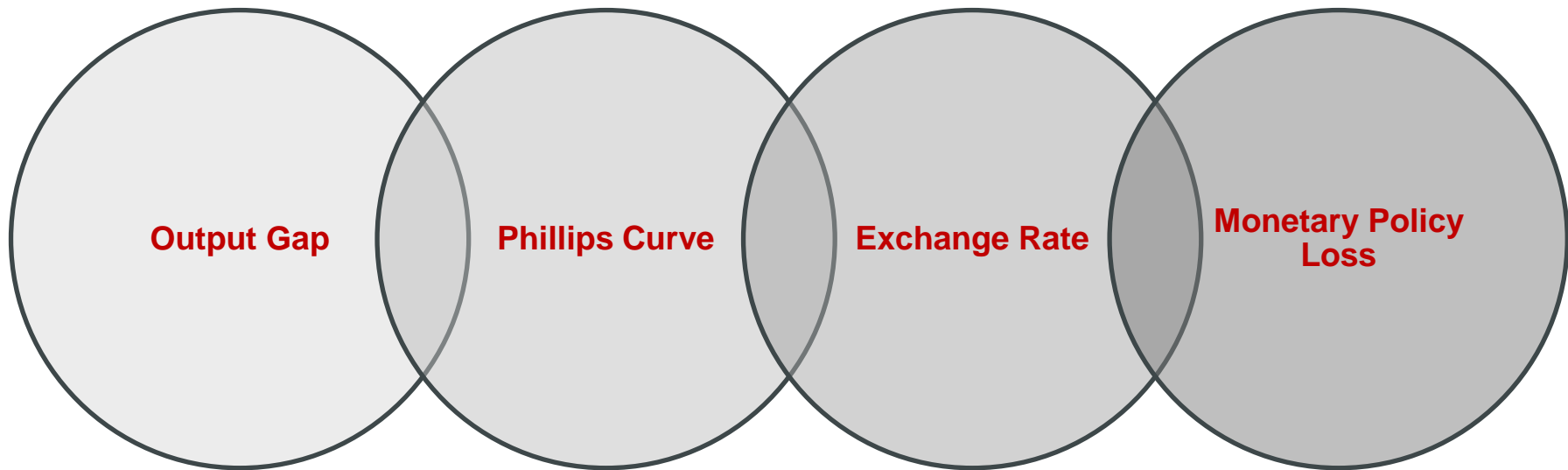


Annexure 1: Analysis of Monetary Policy Model Challenges



Annexure 1: Analysis of Monetary Policy Model

Components of Updated Model



Annexure 1: Analysis of Monetary Policy Model

Scenario 1: RBI Raises Policy Rates Aggressively



**Imperfect
Credibility of RBI**



**Inflationary
Expectations
Deep-rooted;
Poor monetary
policy
transmission**



**Effect on GDP,
FX, external
trade, FDI, FII**

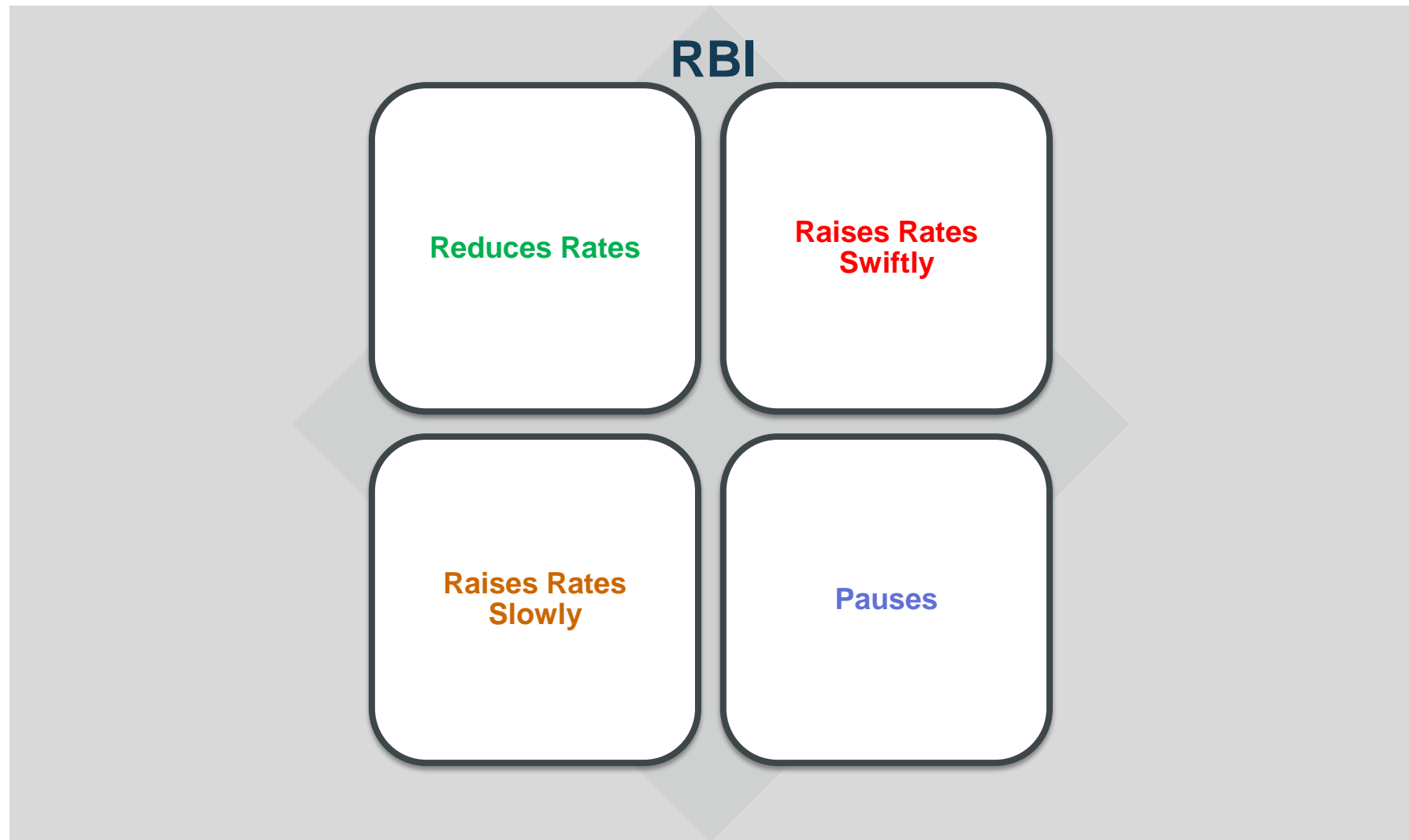


**Policy Rate
needs to be 20%
to reduce
inflation to 4%**

Effect on Future P&L / Balance Sheet = Winners and Losers

Annexure 1: Analysis of Monetary Policy Model

Additional Scenarios: Stress Tests for Companies



Annexure 2: Collaborative Strategy with Stakeholders



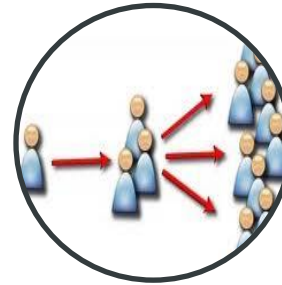
- Conferences / research meetings where inputs requested from stakeholders
- White papers generated
- Debate through media
- Models provided to buy-side / policy makers and updated periodically from Newco data



Differentiates
value
proposition



Provides
genuine
credibility



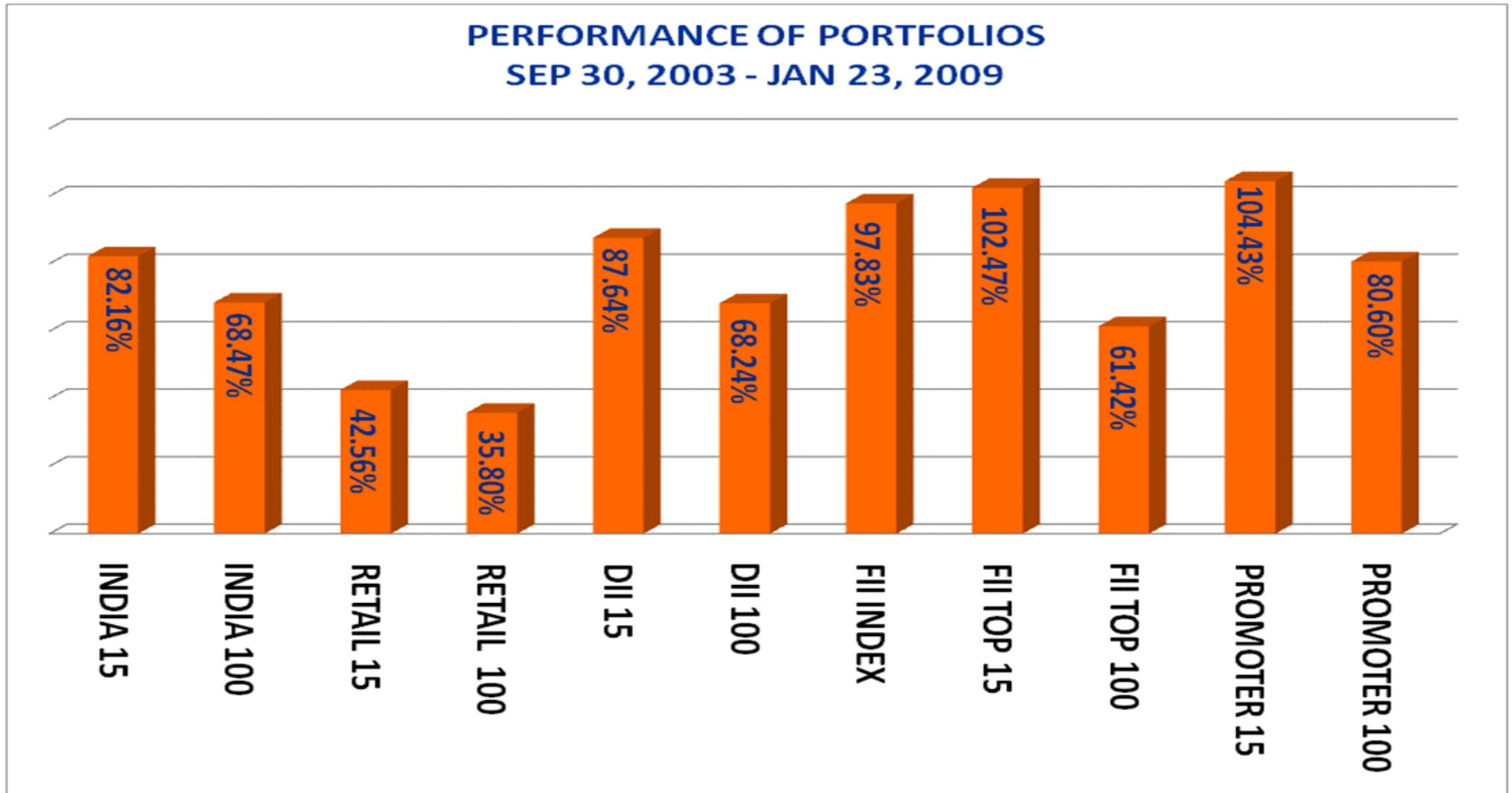
Increases
awareness of
research



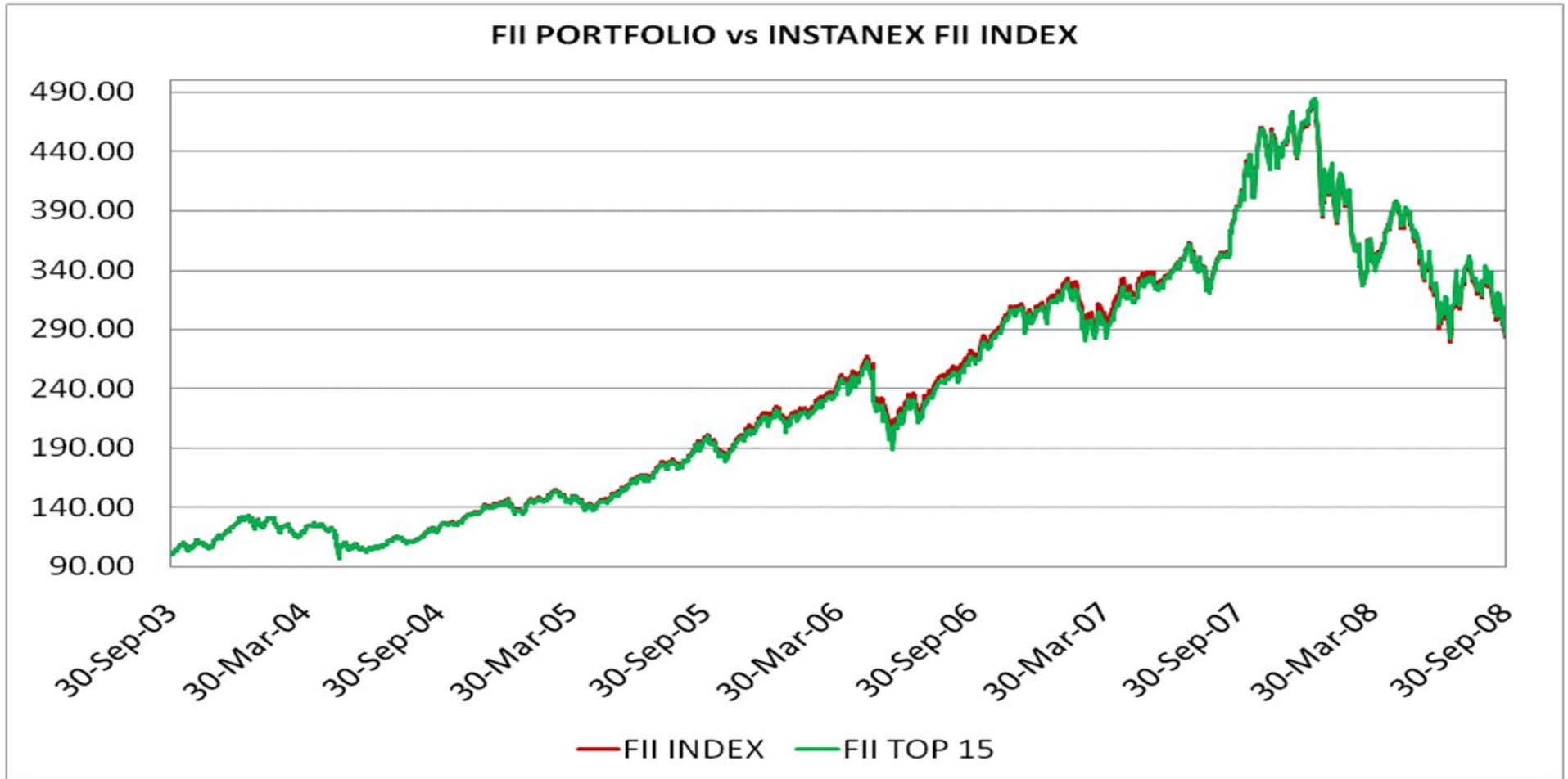
Provides
additional tool to
interact with
buy-side, RBI
and Government

Create Demand Pull – Buy-side will value participation

Annexure 3: Investor Behavior-based Segmentation



Annexure 3: Investor Behavior-based Segmentation



Annexure 3: Investor Behavior-based Segmentation

% Change	DAILY NET INVESTMENT FLOWS : JAN - DEC 2008					
	DII Stock-Cash	FII Stock-Cash	FII Stock-Futures	FII STOCK C+F	FII Index-Futures	FII-NET
Instanex FII Index	-26.39%	<u>46.28%</u>	0.55%	<u>44.00%</u>	<u>61.95%</u>	<u>61.50%</u>
Nifty	<u>-29.82%</u>	45.06%	-5.78%	38.70%	58.74%	56.70%
Sensex	-27.82%	45.51%	-1.35%	42.03%	60.41%	59.51%

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