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India, China -
The Consumption Boost

A Comprehensive Guide

MIRAE ASSET
Mutual Fund

India - China Consumption Theme

The India, China growth story is well recognized today across the world. Factors like aspiring population, demographic dividend, urbanization etc. are the key reasons behind the superlative growth witnessed by the two countries. If one were to dig deeper into the factor driving this growth, the common thread connecting the dots on the growth trajectory leads one to the **'Consumption'** theme.

The following paragraphs dwell on the various aspects of the consumption theme as being experienced by these two emerging growth engines of the world.

Factors propelling consumption in India and China:

- **Consumption Spending:** Asian middle class' consumption spending will rise from US$2.9 trillion to US$5.1 trillion over the next five years. Of the US$2.15 trillion increase, China is likely to account for 69% and India 16%. While China will see the largest increase in absolute terms, India's middle-class spending will rise faster at an 18% Compounded Annualized Growth Returns (CAGR) (versus 15% for China).
- **Burgeoning Middle Class:** As per estimates, the middle class makes up for 19% of Asia ex-Japan's population and this will rise to 30% in 5 years, translating to 11% CAGR. During the same period, the aggregate number of Asians in this social group will increase from 570 mn presently to 945 mn. China will account for two-thirds of those entering the Asia ex-Japan middle class, growing its middle-class members to 600 mn with India's total reaching 140 mn.
- **Urbanization:** Rising urbanization is set to drive consumption in both India and China. Urban population (30%) in India generates 44% of income, similar being the case with China. Nearly half of India's population (at 530 mn i.e. 2x the size of US population) will be urbanized by 2025. In China over 270 mn rural residents moved into urban area during 1990-2009, averaging 13 mn per year.
- **Demographics:** In 2010, 945m Chinese (68% of population) were in the key consuming 15-59 age bracket. In India, the corresponding figures were 725m or 63% of population.
- **Large Populations & Rising Incomes:** India and China together constitute 2.5 billion consumers. India & China have the largest populations in Asia and their disposable incomes are expected to grow at the fastest rates of nearly 10% in the region. For developing countries, higher incomes are the biggest driver of consumption growth.

(Source: CLSA & Enam Research, Nov 10)

Consumer sectors which could benefit from hyper growth:

Auto

- India's car market has been growing by a factor of 1x nominal GDP per capita growth in the last 5 years. This multiple should rise to 1.3 x over the next 10 years, as we have crossed the income threshold, similar to other markets. (Note: China's multiple during the high growth phase was 1.7 x). Using this approach, car sales are expected to accelerate to 20% CAGR in FY10-FY20E from 14% CAGR witnessed during 2005-10.

- With around 16 mn unit sales in 2010, China has firmly established itself as the world's largest car market. Car ownership rates in China still remain low (20%) despite the strong growth in sales since 2005.

(Source: Enam Research, 2010)

Demand Driver	China	India
Vehicle Penetration	46/1,000 as of 2009, very low. Likely exponential growth.	13/1,000 equal to that of China 10 years ago. Suggests hyper growth phase is about 3 years away.
Infrastructure Development - Roads	Focused on providing world class infrastructure with more capacity to support vehicles. Rural highway length set to rapidly expand, increasing rural employment & income.	Infrastructure lagging economic growth. Major plans to increase development. Target to build 20km per day.
Public transport Development	Mass transit systems investment increasing. Expecting 33% increase in length of passenger railways.	Indian railways making a turn around - employee productivity set to double by 2015.
Availability of Financing	High savings rate of 49.2%.	Savings rate of 32.9%. Improved credit penetration.
Consumer Preferences	Higher demand for luxury vehicles. More emphasis on mid sized to large vehicles. Bike sales of 20mn expected in 2009.	Predominantly small car market. 2010 Auto Show saw release of smaller concept cars.
Demographics:	Dependency ratio set to turn adverse by 2025. Median age predicted to be 37.9 by 2020.	About 50% of population to be in earning age. Low dependency ratio, nuclear families.
Regulation:	Urbanization policy restricts free movement of population. Government focus on ecological sustainability; emission control laws.	Open to FDI. No urbanization restrictions. Fuel subsidies decreasing, still over regulated labour markets.

(Source: Enam Research, 2010)

FMCG

- India is amongst the fastest growing FMCG markets (Home & Personal Care (HPC) and Foods) in the world with 15% CAGR in the last 5 years, valued at USD 28 bn in 2009. India's per capita spend on HPC category is at USD 8 vis-à-vis USD 19 in China and USD 187 in Brazil. (Source: Enam Research, 2010)

- Rising per capita income, increased literacy and rapid urbanization have caused rapid growth and change in demand patterns. Apart from the demand for basic goods, convenience and luxury goods are growing at a fast pace too in India & China.

- Nearly half of India's population (at 530 mn i.e. 2x the size of US population) will be urbanized by 2025. China has been experiencing fast urbanization in the past two decades with urbanization ratio surging from 26.4% in 1990 to 46.6% in 2009, averaging 1% per year. Over 270 mn rural residents moved into urban area during 1990-2009, averaging 13 mn per year. (Source: CLSA, 2010) This would unleash a latent demand in FMCG sector with more money and a new mindset in India & China.

Retail

- India is the 5th largest retail market in the world. The market size in FY09 was estimated at USD 350 bn (Source: IBEF) and is expected to reach USD 590 bn by FY12.

- According to Euro Monitor, India is projected to have the lowest per capita spending amongst emerging markets at USD 690 (fixed USD constant terms) in 2010, followed by Vietnam (USD 793), the Philippines (USD 1,301) and China (USD 1,399). Thus, with tremendous potential and huge populations, India and China are both set for high growth in consumer expenditure.

- Retailing in India has witnessed tremendous growth in the last few years. Organized retail (5% of the total retail market at USD 450 bn) touched around USD 20.5 bn in size in 2009 (Source: IBEF) and is on a high growth path. The sector is poised to grow up to USD 535 bn by 2013, with 10% coming from the organized retail segment.

- In A.T. Kearney's Global Retail Development Index in 2010, India is currently at the 3rd place, whilst China is ranked as No.1. India ranks higher when compared to other emerging markets like Brazil and Russia.

- According to the National Bureau of Statistics (NBS) report published in 2010, total retail sales of consumer goods reached 12,534.3 billion Yuan in 2009, nominally up by 15.5% year-on-year (YOY). Beating market expectations, the real growth was 16.9% YOY, 2.1 ppt higher than that achieved in 2008. In the first five months of 2010, total retail sales climbed nominally by 18.2% to 6,034 billion Yuan.

- The Internet penetration rate in China reached 28.9%, surpassing the world average and online retail sales accounted for 1.98% of the country's total retail sales in 2009. Online transactions would account for more than 5% of domestic retail sales value by the end of the 12th Five-Year Programme period. (Source: PRC, Chinese Ministry of Commerce, 2010)

Consumer Durables

- India's household appliance industry (TV, refrigerators, washing machine and air conditioners) totaled upto USD 5 bn in 2009. Consumer electronics in India is the largest consumer category and is expected to be one of the fastest growing over the coming five years (22% per annum). Computers should grow at a higher rate given the low penetration rate for PCs.

- Chinese domestic demand of AC is 17x and washing machine is 11 x that in India. While India's passenger car penetration lags by only 6 yrs to that of China, for consumer durables its around 12 yrs. (Source: Enam Research, 2010)

Media

- India is poised to become Asia's largest DTH market and the 2nd largest cable TV market with China close behind in 2020.

- In India, Internet advertising is expected to be the fastest growing segment over the next 5 yrs at compounded annual growth rate (CAGR) of 30%, followed by radio advertising at 16%, television advertising at 13.8% and print advertising by 10%. Taken together, the Indian media industry is set to grow at a CAGR of 12.3% per annum in the next 5 years.

- New distribution technologies like DTH and IPTV in India & China hold the future of the media industry as increasing digitalization will radically alter the ways in which consumers receive channels. (Source: Enam Research, 2010)

FAQ's

India China

1. **What is Mirae Asset India-China Consumption Fund?**

   Mirae Asset India-China Consumption Fund is an open ended equity oriented scheme that offers Indian investors a flavor of Indian & Chinese consumer stocks. It provides an opportunity for Indian investors to benefit from the long term structural growth story in consumption & consumption led sectors, driving demand in these two nations.

2. **When does the new fund offer (NFO) open & what would be the end date?**

   The new fund offer for Mirae Asset India-China Consumption Fund opens on 9th March 2011 & will close on 23rd of March 2011.

3. **What is the investment objective of Mirae Asset India-China Consumption Fund?**

   The investment objective of the scheme is to generate long term capital appreciation through an actively managed portfolio investing in equity & equity related securities of companies that are likely to benefit either directly or indirectly from consumption led demand in India/China. The Scheme does not guarantee or assure any returns.

4. **What kind of consumption themes will the fund focus on?**

   The fund will seek to invest in a basket of Consumer Stocks benefitting either directly or indirectly from consumption led demand in India/China. An illustrative list of these sectors includes Consumer Discretionary, Consumer Staples, Autos, Realty, Healthcare, Education, Media & Entertainment, Banks & Financial Services, Telecom, Transportation, Food and Tourism & Hospitality but not limited to the above.

5. **How is this fund offering different from the competition?**

   There are very few funds available in India which have a dual theme of investing in India & China. In fact, this fund is the first of its kind to focus on the consumption theme in both India & China simultaneously. (Source: AMFI - Dec. 2010)

6. **What is the asset allocation pattern of the scheme?**

Instruments	Indicative Allocation (% of total asset)
Indian Equities & Equity Related Securities that are likely to benefit either directly or indirectly from consumption led demand in India	65 - 90%
Chinese Equities & Equity Related Securities that are likely to benefit either directly or indirectly from consumption led demand in China	10 - 35%
Money Market Instruments / Debt Securities Instruments in India and/or units of debt/liquid schemes of domestic Mutual Funds.	0 - 25%

7. **What benchmark index will the fund track?**

The benchmark index for Mirae Asset India-China Consumption Fund will be MSCI India Consumption Index (65%) + MSCI China Consumption Index (35%) [Price in INR].

8. **What plans and options are offered under the scheme?**

The scheme shall have a Regular Plan with Growth & Dividend options. The Dividend option will offer Dividend-Payout and Dividend-Reinvestment facilities. One may also opt for the Systematic Investment Plan (SIP) route while making investments in the fund.

9. **Does the scheme have any entry or exit load?**

In terms of SEBI circular no. SEBI/IMD/CIR No.4/168230/09 dated June 30, 2009, no entry load will be charged by the Scheme to the investor effective August 1, 2009. Upfront commission shall be paid directly by the investor to the AMFI registered Distributors based on the investors' assessment of various factors including the service rendered by the distributor. Exit load would be 1% if redeemed within 1 year (365 days) from the date of allotment for the Regular purchase (Including SIP, STP & SWP) & NIL if redeemed after 1 yr (365 days) from the date of allotment.

10. **What is the minimum amount of investment required to be made in the fund?**

Investors can invest under the scheme with a minimum amount of Rs.5,000/- & in multiples of Re.1/- thereafter. Additional investments in an existing folio can be made for Rs.1,000/- & in multiples of Re.1/- thereafter. The minimum application amount for making SIP investments in the fund is Rs.1000/- for the monthly option & Rs.1500/- for the quarterly option.

11. **When would the scheme re-open for continuous Sale and Repurchase?**

The Scheme will re-open for continuous sale & repurchase on or before 5th April, 2011.

12. **What is the new fund offer price per unit?**

The new fund is offered at a price of Rs. 10 per unit.

13. **What kind of investment approach will the fund manager adopt?**

The fund managers will analyze macro economic, political, regulatory, industry trends & business cycles. They will focus on companies that stand a chance to benefit from macro economic, political, industry trends. In addition, the fund manager would pursue a bottom up analysis of the companies' financial strength, competitive position, profitability, growth prospects & quality of management in terms of corporate governance & commitment to minority shareholders.

14. **Who will be the fund managers of the scheme?**

The investments in India under the Scheme will be managed by Mr. Gopal Agrawal, Dy. CIO & Head - Equity & Mr. Neelesh Surana, Sr. Fund Manager (Equity). Mr. Basavraj Shetty will be the dedicated fund manager for overseas investments. The Fund may also appoint any other advisor appointed by the AMC to advise on the overseas investments in equity & equity related securities in Chinese Markets to the AMC (dedicated Fund Manager).

15. What kind of risks is associated with the fund?

The following risk factors need to be considered while investing in the fund:

- **Equity Risk:** Equity markets are volatile & subject to daily price fluctuations.
- **Liquidity Risk:** This can be defined as the risk of being unable to sell an asset quickly at its fair market value when there are few potential buyers. This may happen particularly when the market is unidirectional.
- **Foreign Securities Risk:** The risk of investing in foreign securities carries exchange rate risks related to depreciation of foreign currency & the country risk.
- **Currency Risk:** Foreign securities are issued & traded in foreign currencies. As a result, their values may be affected by changes in exchange rates between foreign currencies & the Indian Rupee as well as between currencies of countries other than India.

For detailed risk factors, kindly refer section **"RISK FACTORS"** in the SID.

16. Is KYC mandatory to invest in the fund? Where can one get the KYC done in the fund?

Yes, it is mandatory to be KYC compliant to invest in Mirae Asset India-China Consumption Fund. For the details of the process refer to the dedicated section on KYC norms at the end of this booklet.

17. Can one invest through application supported by blocked amount (ASBA) facility in the fund & how?

Yes, investors can invest in this fund through ASBA facility which has been made available to all investors subscribing to new fund offers of mutual fund schemes with effect from October 01, 2010. If applied using the ASBA form, investors will not have to pay the money at the time of application. The amount would be retained in the investor's bank account but blocked for the NFO application. The amount will be debited from his account only after the allotment of units. If there is no allotment of units, the amount will get unblocked & the investor will be able to utilize it immediately.

18. Will the Asset Management Company (AMC) accept third party cheques?

SEBI, with effect from November 15, 2010 had asked Mutual Fund companies to reject third party payment cheques in its bid to curtail any type of fraudulent activities. However there are certain exceptions wherein AMC's accept such cheques in case of payments made by parents/grand-parents/related persons on behalf of a minor for a value not exceeding Rs 50,000 or payment by an employer on behalf of employee under lumpsum or systematic investment plans (SIP) through payroll deductions & a custodian on behalf of a Foreign Institutional Investor (FII) or a client.

19. Can the investors invest in this fund through the stock exchange route and how?

Yes, investors can invest in the fund using the stock exchange route through BSE Stock Exchange Platform for Application and Redemption of mutual fund units - BSE StAR MF platform wherein interested investors can buy the scheme in a much simpler and hassle free manner. In order to avail this transaction facility through BSE StAR MF, investors simply need to register themselves with AMFI certified stock exchange brokers who have signed up with Mirae Asset Mutual Fund and are also registered with the BSE as participants.

20. Can investors hold the units in demat format?

Yes, investors can hold the units of the scheme in a dematerialized format for which they will have to register with BSE StAR MF platform.

Know Your Customer (KYC) Norms

W.e.f. 1st January, 2011, the Know Your Customer (KYC) norms have been extended to all investors irrespective of the amount of investment. Investors will therefore have to comply with the Know your Customer (KYC) norms as against earlier wherein they were required to be KYC compliant only if their investments exceeded Rs. 50,000.

What is KYC?

KYC norms are required under the Prevention of Money Laundering act to keep a check on the legality of the funds used for investment. Key documents and details such as bank details, permanent account number (PAN) card, residence proof are captured by way of KYC process to ensure that the investor is genuine and can be traced if need be.

How to get your KYC done?

To facilitate the KYC process, the mutual fund industry has collectively entrusted the responsibility of collection of documents for KYC, as well as related record keeping, to an independent agency (presently CDSL Ventures Limited) that acts as a central record keeping agency ('Central Agency'). Investors may submit their applications for KYC at any 'Point of Service' designated by the Central Agency or at our Investor Service Centre's (ISC's). All you need to meet the mandatory requirements is to submit the following documents:

- KYC Application Form (KAF) duly signed by each applicant including joint Unit holders
- Documents evidencing Proof of Identity and Proof of Address along with a self-attested photo-copy of each of them (list mentioned in the KAF)

After verification of the above documents, a KYC Acknowledgment Letter is allotted to each applicant. Investor(s) must note that providing a copy of the KYC Acknowledgment Letter is mandatory at the time of submission of the first subscription request with the designated Official Points of Acceptance.

The KYC Acknowledgment is presently being issued free of cost.

How to check?

You can visit www.cvlindia.com and click on “inquiry on KYC”. A small window will pop up on your screen that will ask for your PAN card number. Fill it up and submit it. If your KYC is approved you will get a notification on the screen saying so.

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Statutory Details: Trustee: Mirae Asset Trustee Company Private Limited; **Investment Manager:** Mirae Asset Global Investments (India) Private Limited (AMC); **Sponsor:** Mirae Asset Global Investments Company Limited.

Disclaimer: Mirae Asset India-China Consumption Fund (An Open ended Equity Oriented Scheme) - **Investment Objective:** The investment objective of the scheme is to generate long term capital appreciation through an actively managed portfolio investing in equity and equity related securities of companies that are likely to benefit either directly or indirectly from consumption led demand in India/ China. **The Scheme does not guarantee or assure any returns. Load Structure:** Entry Load: Nil. In terms of SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged by the Scheme to the investor effective August 1, 2009. Upfront commission shall be paid directly by the investor to the AMFI registered Distributors based on the investors' assessment of various factors including the service rendered by the distributor. Exit Load: Redemption within 1 year (365 days) from the date of allotment (Including SIP/STP/SWP) - 1.00%. Redemption after 1 year (365 days) from the date of allotment - NIL. **Asset Allocation:** (1) Indian Equities and Equity Related Securities of companies that are likely to benefit either directly or indirectly from consumption led demand: 65%-90% (2) Chinese Equities and Equity Related Securities of companies that are likely to benefit either directly or indirectly from consumption led demand: 10%-35%; (3) Money market instruments / debt securities Instruments and/or units of debt/liquid schemes of domestic Mutual Funds : 0%-25%. **Terms of Issue**: The units are available at the face value of Rs.10/- per unit during the New Fund Offer Period. The AMC will calculate and disclose the first NAV not later than 5 business days from the date of allotment. Subsequently, the NAV will be calculated at the close of every working day and shall be published in two daily newspapers and on the AMC/AMFI website. **Risk Factors: Mutual fund investments are subject to market risks and there is no assurance or guarantee that the objectives of the scheme will be achieved. As with any investment in securities, the Net Asset Value (NAV) of the units issued under the Schemes can go up or down depending on the factors and forces affecting the capital markets. Investments in mutual funds are prone to risks of fluctuation in NAVs, uncertainty of dividend distributions etc. Past performance of the Sponsor / AMC / Mutual Fund does not guarantee the future performance of the Schemes of Mirae Asset Mutual Fund.** The sponsors are not liable or responsible for any loss resulting from the operation of the fund beyond the initial contribution made by them of an aggregate amount of Rupees One Lakh towards setting up of the fund. The Scheme should have a minimum of 20 investors and no single investor should account for more than 25% of the corpus of such scheme/plan(s). In case of non-fulfillment with either of the above two conditions in a three months time period or the end of succeeding calendar quarter, whichever is earlier, from the close of the New Fund Offer (NFO) or on an ongoing basis for each calendar quarter, the schemes /plans shall follow the necessary guidelines as prescribed by SEBI in this regard. **Mirae Asset India-China Consumption Fund is only the name of the scheme and does not in any manner indicate either the quality of the scheme or its future prospects or returns. Investors in the scheme are not being offered any guaranteed / indicative/ assured returns**. Please see "Risk Factors", "Scheme Specific Risk Factors and Special Consideration" and "Right to limit redemptions" in the Scheme Information Document (SID). **Please read the Scheme Information Document (SID) & Statement of Additional Information (SAI) carefully before investing.** A copy of SAI / SID/ Key Information Memorandum cum Application form will be available at AMC offices/AMC web-site www.miraeassetmf.co.in / Investor Service Centre / Distributors on request.

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