Milliman India Study

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June 2013

India finance sector gratuity funding study

An analysis of gratuity funding among BSE 200 private sector finance companies

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INTRODUCTION

Milliman conducts continual and extensive research on issues connected to the employee benefits offered by Indian companies.

We present here our first annual study of the gratuity obligations among private sector finance companies in India to report the major trends with regard to these obligations. The main aim of the study is to educate and create awareness about the state of employer-sponsored retirement programs and foster a healthy dialogue among policy builders, employers, employees, and the general public about the future of retirement plans in India.

We focus our analysis on the 22 private sector finance companies listed in the BSE 200 index as of 31 December 2012. We have extracted data from their 2011-2012 annual reports. The specific companies under consideration are outlined in Figure 1.

FIGURE 1: FINANCE COMPANIES IN BSE 200 AS OF 31 DECEMBER 2012

COMPANY NAME	FISCAL YEAR-END
AXIS BANK LIMITED	31 MARCH 2012
BAJAJ FINSERV LIMITED	31 MARCH 2012
BAJAJ HOLDINGS & INVESTMENT LIMITED	31 MARCH 2012
CRISIL LIMITED	31 DECEMBER 2012
FEDERAL BANK LIMITED	31 MARCH 2012
HDFC BANK LIMITED	31 MARCH 2012
HDFC LIMITED	31 MARCH 2012
ICICI BANK LIMITED	31 MARCH 2012
IDFC LIMITED	31 MARCH 2012
IFCI LIMITED	31 MARCH 2012
INDIABULLS FINANCIAL SERVICES LIMITED	31 MARCH 2012
INDUSIND BANK LIMITED	31 MARCH 2012
ING VYSYA BANK LIMITED	31 MARCH 2012
KOTAK MAHINDRA BANK LIMITED	31 MARCH 2012
LIC HOUSING FINANCE LIMITED	31 MARCH 2012
MAHINDRA & MAHINDRA FINANCIAL SERVICES LIMITED	31 MARCH 2012
MANAPPURAM FINANCE LIMITED	31 MARCH 2012
MULTI COMMODITY EXCHANGE OF INDIA LIMITED	31 MARCH 2012
POWER FINANCE CORPORATION LIMITED	31 MARCH 2012
RELIANCE CAPITAL LIMITED	31 MARCH 2012
SHRIRAM TRANSPORT FINANCE COMPANY LIMITED	31 MARCH 2012
YES BANK LIMITED	31 MARCH 2012

Note that we consider only the company-specific obligations rather than the consolidated obligations, taking into account all their subsidiaries.

Throughout the remainder of this report we shall refer to the companies as A to V. (The nomenclature to A to V may not directly correspond to the ordering of the firms outlined above).

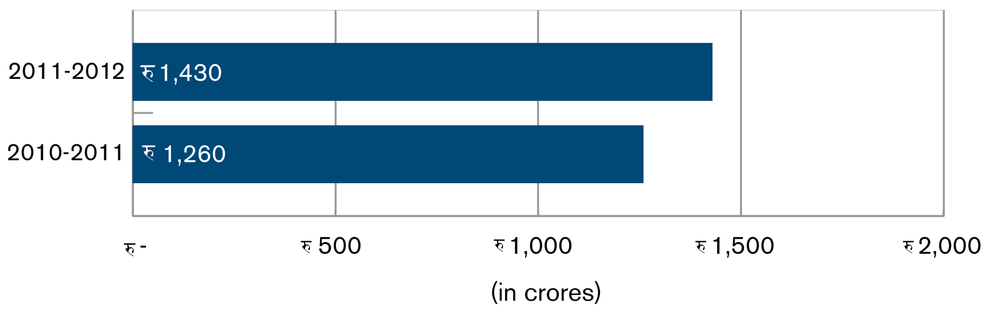
2012 MILLIMAN STUDY OF GRATUITY FUNDING AMONG PRIVATE SECTOR FINANCE COMPANIES IN THE BSE 200

HIGHER PROJECTED BENEFIT OBLIGATION LEVELS RECORDED IN 2011-2012, BUT SLIGHT DROP IN EXPENSE

The 22 private sector finance companies under consideration registered a rise in their projected benefit obligation (PBO) from the prior year. From 2010-2011 to 2011-2012, their combined PBOs increased by about 13%, from approximately Rs 1,260 crores to approximately Rs 1,430 crores.

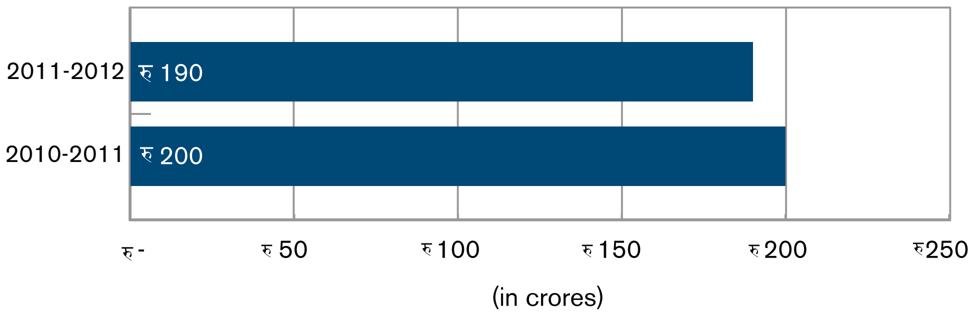
The combined increase among the companies can be attributed to several factors, including accrual of extra service, aging of the covered populations, demographic experience and changes in economic assumptions.

FIGURE 2: PBO



There was little change in gratuity expense in 2011-2012. Total charges to earnings were approximately Rs 190 crores, compared with Rs 200 crores in 2010-2011.

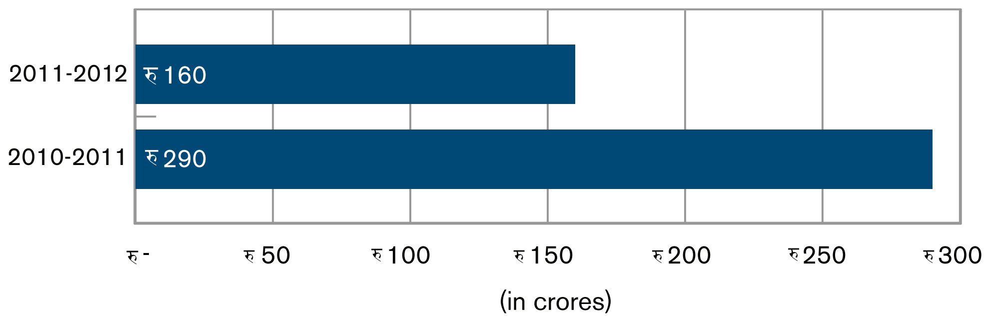
FIGURE 3: EMPLOYER EXPENSES



EMPLOYER CONTRIBUTION LEVELS AND FUNDED STATUS HAVE BOTH FALLEN

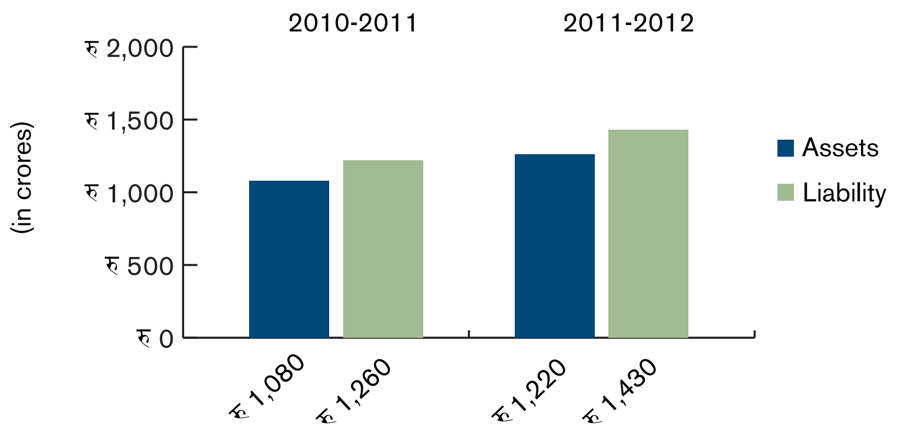
The companies contributed approximately Rs 160 crores to their gratuity plans in 2011-2012. This is a decrease of 46% relative to the figure for 2010-2011.

FIGURE 4: TOTAL ER CONTRIBUTION



The funded ratio of the companies' combined gratuity plans fell slightly during 2011-2012, reaching 85%. The aggregate gratuity deficit of approximately Rs 180 crores in 2010-2011 rose by approximately Rs 30 crores during 2011-2012 to approximately Rs 210 crores.

FIGURE 5: PLAN ASSETS AND LIABILITIES

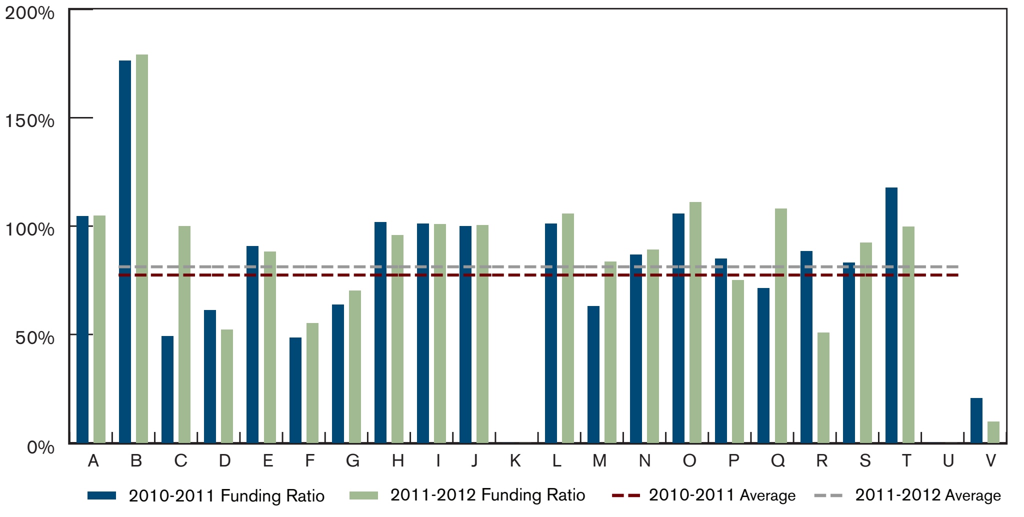


A MIXTURE OF FUNDING POLICIES HAVE BEEN PURSUED

Two of the 22 companies studied have not provided any advance funding of their gratuity obligations. For the remaining 20 companies, the 2010-2011 PBO funded ratios ranged from a low of 21% to a high of 177%, with an overall funded status of 87%. In 2011-2012, the overall funded status fell to 86%, ranging from a low of 10% to a high of 179%.

Reasons for the changes in funded ratios include the level of employer contributions, changes in the discount rate and the level of investment return.

FIGURE 6: CHANGE IN FUNDING*

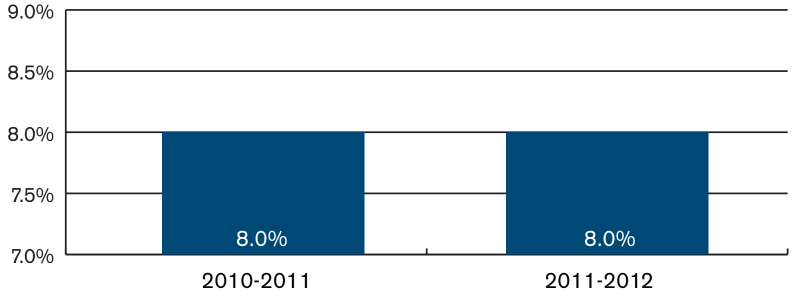


** The fiscal year for company D ends on 31 December. All other companies have a fiscal year-end of 31 March..*

Among the 20 companies with substantial advance funding to meet their gratuity obligation, the median expected rate of return on invested assets in 2011-2012 was 8.0%. The median expected investment return in 2010-2011 was also 8.0%.

Fifteen of the 20 companies under consideration maintained the same expected rate of return between 2010-2011 and 2011-2012. Of the other companies, four raised their expected rates of return and one reduced it.

FIGURE 7: MEDIAN EXPECTED ASSET PERFORMANCE

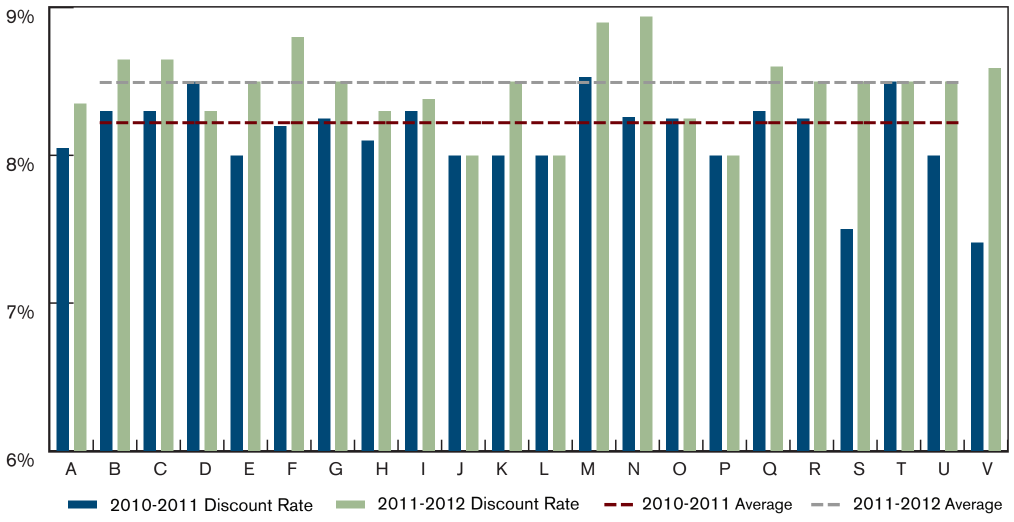


DISCOUNT RATES HAVE RISEN

The companies will have set their discount rates with regard to the yield on Indian government bonds at the end of their fiscal years. It should reflect the notional yield on a bond with the same duration as weighted average expected future working lifetime of the covered employees. All else equal, a higher discount rate results in a lower disclosed benefit obligation.

Twenty-one of the 22 companies under consideration take a fiscal year-end of 31 March. Among these companies, there was a rise in discount rate between 2010-2011 and 2011-2012 for 16 and an unchanged discount rate for the remainder. The remaining company lowered its discount rate. Overall, the median discount rate increased from 8.2% in 2010-2011 to 8.5% in 2011-2012.

FIGURE 8: DISCOUNT RATE DISTRIBUTION*

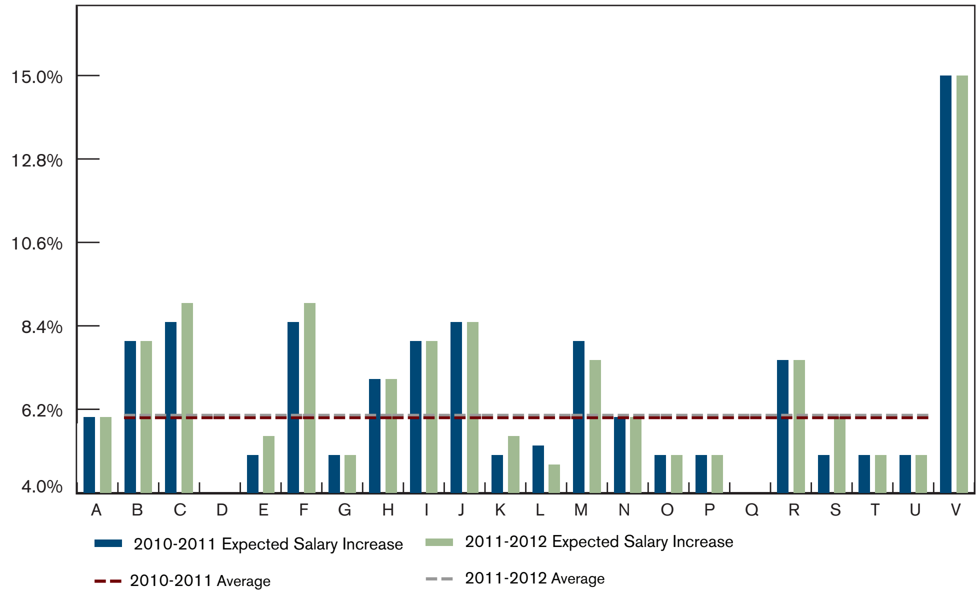


** The fiscal year for company D ends on 31 December. All other companies have a fiscal year-end of 31 March.*

EXPECTED SALARY INCREASES HAVE REMAINED STABLE

In measuring the obligation, an assumption is made about the expected long-term rate of increase in the salaries of prospective future recipients of the gratuity benefit. Two of the companies did not state the assumption made about future rates of salary increase. Of the remaining 20 companies under consideration, 13 did not change the assumption for the rates of future salaries between 2010-2011 and 2011-2012, five raised their assumption and two lowered it. The median salary increase assumption did not change from 6.0% between 2010-2011 and 2011-2012.

FIGURE 9: EXPECTED SALARY INCREASE DISTRIBUTION*



** See footnotes below for details:*

1 *Company C: 2010-2011 assumption presented as 8.5%, but actual assumption was 8.0% for 'junior' employees and 9.0% for 'senior' employees. (The 2011-2012 of 9.0% only relates to 'junior' employees.)*

2 *Company D: Salary increase assumption not specified.*

3 *Company L: 2010-2011 assumption presented as 5.25%, but actual assumption is a range of 4.5% to 6.0%. 2011-2012 assumption presented as 4.75%, but actual assumption is a range of 4.5% to 5.0%.*

4 *Company M: 2010-2011 assumption presented as 8.0%, but actual assumption is a range of 3.0% to 13.0%. 2011-2012 assumption presented as 7.5%, but actual assumption is a range of 3.0% to 12.0%.*

5 *Company N: In both 2010-2011 and 2011-2012, presented as 6.0%, but actual assumption is 15.0% in the first two years post valuation, and then 10.0% in the subsequent two years, and then 6.0% thereafter.*

6 *Company Q: Salary increase assumption not specified.*

ABOUT THIS STUDY

MILLIMAN 2012 INDIA FINANCE SECTOR GRATUITY FUNDING STUDY

This study covers the 22 private sector finance companies listed in the BSE 200 as of 31 December 2012.

The results of this study are based on the gratuity obligation accounting information disclosed in the footnotes to the companies' annual reports for the 2010-2011 and 2011-2012 fiscal years. These figures represent the generally accepted accounting principles (GAAP) accounting information that public companies are required to report under Accounting Standard 15 (Revised 2005).

Milliman also publishes similar studies for other Indian and international industry groupings.

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ABOUT MILLIMAN

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit **milliman.com**.

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