India in FY2016
Driving Inclusive Economic Resurgence

An annual review of key macroeconomic and sectoral trends

Produced by the Accenture Institute for High Performance
Building a strong foundation to drive inclusive economic resurgence is an imperative for India in FY2016* if the nation hopes to launch itself on a double-digit growth trajectory. The time is right, and expectations are high. With inflation under control, a trade deficit of about 1 percent of gross domestic product (GDP), substantive foreign-exchange reserves and an expanding digitally literate populace, growth stakeholders—government and industry—can now aggressively push a reform agenda. Key elements of the agenda include:

• Putting the nation’s macroeconomic health back on track
• Commissioning state-of-the-art physical infrastructure and building a talent pool with the right skills to drive growth
• Creating a policy environment conducive to attracting manufacturing investment
• Raising public participation in decision making and in execution of socioeconomic policies

Since assuming power in May 2014, India’s new government has been actively leveraging a range of policy instruments available at its disposal to achieve such goals. For example, through proceeds gathered from disinvestment in profitable public-sector undertakings, auctions of coal blocks and sale of telecom spectrum, the government is generating revenues for bridging fiscal-deficit numbers. By moving toward promulgation of a single goods and service tax (GST) regime across the nation and by launching programs such as “Make in India,” the government is actively wooing long-term inbound investments. In its first budget, the government has also announced a slew of steps toward creating legislative and financial mechanisms to develop high-quality infrastructure. And the “Digital India” campaign aims to promote adoption of digital technologies to deliver government services and promote scalable e-governance.

Introduction

FY2016 is the period between April 01, 2015 and March 31, 2016

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But to execute an aggressive reform agenda in a timely manner, government and industry must work together as a team. They will need to leverage digital-savvy citizens and digital technologies to target subsidies for meeting fiscal and governance targets inclusively. Workers will need to be equipped with skills needed by industry and an innovation economy capable of crafting novel solutions for local needs. Collaborative ecosystems that can foster creation of viable public-private partnerships (PPPs) in India’s infrastructure sector will need to be carefully nurtured.

In this report, we discuss macroeconomic themes that are powerfully shaping the nation’s inclusive economic resurgence. We also share our views on the evolving business landscape across major sectors. As always, we offer these ideas as starting points for a lively dialogue about new business directions.

We invite your comments—and we look forward to the ensuing discussions.

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This could be the year that

- India and Australia sign a free trade agreement
- India has 25 Wi-Fi-enabled cities
- The UID card, Aadhar, is linked to all social schemes
- Every Indian household has at least one bank account
- E-governance services are available over a digital platform in 250,000 village councils
- The first air-conditioned local train resumes operations in India’s financial capital, Mumbai
- Wealth tax is abolished
- The National Investment and Infrastructure Fund is set up
Calendar of events

2015

April
• India to be the ‘Partner Country’ at the prestigious Hannover Fair in Germany and PM Modi likely to attend
• Aadhaar to be linked to all social sector schemes
• India to adopt International Financial Reporting Standards (IFRS)

June
• Assam Gas Cracker facility may be commissioned
• PM Modi has directed the Unique Identification Authority of India (UIDAI) to ensure Aadhaar cards for all by June 2015
• 25 cities to be Wi-Fi enabled

August
• India to have one bank account per household under the Financial Inclusion plan

October
• IDFC to start banking operations
• Frontal car crash test to become mandatory for auto manufacturers

December
• India to purchase 262 Barak 1 missiles from Israel
• Goa to become a garbage-free state

2016

May
• Telecom firms to implement full mobile number portability (MNP)
• Delhi-Amritsar National Highway 1 will be completed

June
• Merger of state-run telecom companies, Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL) to be concluded
• HRD Ministry’s target for girl’s toilet in every school

July
• India Post to install 3,000 ATMs and 1.35 lakh micro-ATMs for post office saving account holders across the country
• Bangalore Metro’s Phase I to be complete

October
• Hand-written non-machine readable passports to be phased out
• The Sustainable Urban Transport Project (SUTP) expected to be completed

November
• First airport in Arunachal Pradesh to be made operational

December
• E-governance services offered over digital platforms to become operational across 250,000 gram panchayats (village councils) under the National Optical Fiber Network (NOFN) project
Macro trends for 2015-16

On January 30, 2015, India’s Central Statistics Office released a new GDP series. This revised series came out of four changes:

1. A shift in the base year from FY2005 to FY2012
2. A change in the way GDP and GDP growth are measured (from factor cost to market price)
3. A change in the method for measuring economic activities, including use of MCA21 (the e-governance database of the Ministry of Corporate Affairs)
4. A change in how the GDP deflator is calculated (base year changed to 2012 and weights changed per CES 2011-12, the Consumer Expenditure Survey)

As a result of these changes, GDP numbers as well as sectors’ contribution to GDP have been revised. Given these recent changes, and the fact that their implications are not yet fully clear, we have not provided forecast numbers for GDP and GDP growth in this edition of the report.

Economic growth

GDP at Current Prices

Source: Central Statistical Office, February 2015, and Accenture analysis
Foreign direct investment (FDI) flows

Source: Reserve Bank of India, February 2015

Note: * FY2015 data is from April 2014 to January 2015
Industrial production

Index of Industrial Production

Source: Reserve Bank of India, February 2015
Note: *FY2015 data is from April 2014 to February 2015

Current account

Current Account Position

Source: Reserve Bank of India, February 2015
Note: * FY2015 data is from April to September 2014
## Macroeconomic targets for FY2016

<table>
<thead>
<tr>
<th>Macroeconomic indicators</th>
<th>Target for FY2016</th>
<th>Likely</th>
<th>Probable</th>
<th>Unlikely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth rate</td>
<td>8.1% - 8.5%</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Fiscal deficit as a % of GDP</td>
<td>3.6%</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>5% - 5.5%</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Current account deficit as a % of GDP</td>
<td>1%</td>
<td></td>
<td>Yes</td>
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</tr>
</tbody>
</table>

Note: Target figures come from the “Economic Survey of India 2014-15” published by the Economic Advisory Council to the Prime Minister of India.
Key themes for the year ahead

As India enters FY2016, businesses and consumers are experiencing guarded optimism. While certain key economic indicators seem to have stabilized for the better, core elements of the macroeconomic foundation need reform if the nation expects to sustain its growth and to ensure that diverse sections of society share the benefits. The government faces heightened expectations to deliver reforms at speed, promote good governance and nurture a business-friendly environment—all while putting the economy back on a healthy growth trajectory.

In this section, we explore the key themes that will shape the nation's economic journey in FY2016 and the actions that government and industry must take to make growth not only inclusive but also sustainable.

Managing macroeconomic recovery

India's GDP, which grew at an average of 6 percent year-over-year (y-o-y) for the last couple of years, is expected to grow by 7.4 percent in FY2015. If it does, it would boast the highest such growth since FY2011.\(^1\) Industrial production has also improved in anticipation of pro-growth policy reforms. In the first three quarters of FY2015 (April to December 2014), the industrial production index increased by 1.7 percent y-o-y.\(^2\) By contrast, during the same period in FY2014, industrial production was a negative 1.5 percent y-o-y. Production in the manufacturing sector overall witnessed stronger growth—1.2 percent y-o-y for the first three quarters of FY2015, as compared to negative 0.4 percent in the corresponding period during FY2014. Basic metals, the largest contributor to the manufacturing index, has enjoyed an especially pronounced turnaround since the national elections, growing by 10.7 percent in the first three quarters of FY2015; it had declined by 1 percent in the same period during FY2014.\(^3\) (See Figure 1.)

Meanwhile, inflation has eased. The Wholesale Price Index for commodities dropped to negative 0.39 percent in January 2015, the lowest since July 2009. The average inflation for the first 10 months in FY2015 stood at 3.03 percent, a major improvement over the 6.07 percent seen during the same period in FY2014 and 7.54 percent in FY2013.\(^4\) (See Figure 2.)

Figure 1: Industrial production has witnessed strong growth in the past year

Index of Industrial Production

\[\text{Source: Database of Indian Economy-Reserve Bank of India (DBIE-RBI)}\]
The Consumer Price Index,** too, has dipped to a five-year low of 4.38 percent in November 2014, below the central bank’s target of 6 percent set for January 2016. Prices of basic commodities will likely stabilize further in the coming year, thanks to the establishing of the Agricultural Price Stabilization Fund, which stands at INR 5 billion (US$82 million). This fund will shield consumers and farmers from price fluctuations while also minimizing hoarding and speculation in commodity markets.

Operating Imperatives

For government

Sustain reform momentum: To sustain growth momentum, the government will need to aggressively push and execute reforms freeing the agricultural, manufacturing and services sectors from structural and operational inflexibility and ambiguity. For example, efforts such as the merging of the Forward Markets Commission with the Securities and Exchange Board of India (SEBI) should be executed with speed. This merging will go a long way toward arresting price speculation around key agricultural commodities and will help the government efficiently manage inflation.

Promote adoption of digital technologies in government: Promoting digitization of government operations across levels and functions would help drive low-inflation growth. For example, by digitizing its processes for procuring and storing food grains, the government could maintain real-time data on food-grain stocks, prevent leaks and plug grain deficits more efficiently.

For industry

Prepare for high growth and high demand: With the economy showing signs of revival and consumer confidence reaching new highs, Indian companies should prepare for a period of high growth and high demand—by building the capabilities and capacity required to serve their targeted markets. And given consumers’ rising confidence, businesses will also have to establish strong service networks to retain existing customers and acquire new ones. Early investment in new talent acquisition could give them a head start beginning this fiscal year.

Stay focused on flexibility and productivity: Companies must take advantage of the low-inflation/high-growth environment to build flexibility and productivity into their operations. By doing so, they will be better positioned to access new markets at lower costs as well as embrace volatility from a vantage point of strength.

** CPI calculations have changed starting in January 2015. They now include a base-year revision, consumer basket weightage is based on the Consumer Expenditure Survey of 2011-2012 and Arithmetic Mean has given way to Geometric Mean in computation of the indices.
**Containing fiscal deficit**

With gross fiscal deficit estimated at INR 5.31 trillion (US$87 billion) for FY2015, the Indian government has set a target for the deficit to move to 4.1 percent of GDP by March 31, 2015. If the target is achieved, the deficit would be the lowest since FY2008. Moreover, the government has committed to reducing the deficit to 3 percent of GDP by FY2018—an admirable goal, but one that will require thoughtful policy interventions on the expenditure and revenue fronts.

The government will need to prioritize expenditure realignment initiatives. The gap between revenue expenditure and capital expenditure has grown almost threefold since FY2008. (See Figure 3.) The subsidy bill in FY2015 is expected to be higher than capital expenditure by almost INR 200 billion (US$3.2 billion). Controlling subsidy expenditure and channeling more public investment toward capital creation will prove critical.

With crude prices falling by almost 60 percent since July 2014, India’s oil-import bill has shrunk. In January 2015, the value of oil imports dropped 38 percent compared to the same month in 2014. (See Figure 4.) A 22 percent drop in fuel retail prices since July 2014, has given the government an opportunity to reduce fuel subsidy expenditure.

The government has already embarked on an ambitious disinvestment program to lower the deficit. For example, sale of its equity in the Steel Authority of India in December 2014 raised INR 16 billion (US$278 million), and sale of its 10 percent stake in Coal India raised INR 218 billion (US$3.6 billion). Additional disinvestment in companies such as Oil and Gas Corporation and Bharat Heavy Electricals Limited is planned for FY2016.

In FY2015, gross tax revenues (net to central government) had a shortfall of INR1.1 trillion (US$18 billion). The government has raised the service tax rate and revamped its excise duty structure to make up the shortfall. But if such measures prove imprudent from a social-welfare standpoint, they may be replaced with measures aimed at rapidly expanding the tax base and injecting higher levels of efficiency into tax collection.

**Operating Imperatives**

**For government**

**Execute expenditure reforms:** The government will have to focus planned and unplanned expenditures on building capital assets that drive industrial and economic growth. It will need to assess risks to prevent higher sunk costs and lengthening of time horizons for implementing reforms. Furthermore, governments must actively partner with local communities to make smaller investments focused on upgrading local infrastructure.

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**Expenditure of the Central Government**

![Figure 3: The gap between consumption and investment expenditure is widening](image-url)

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Source: Economic Survey of India, 2014–15

Note: * FY2015 data is from April to December 2014.
Use digital to deepen impact of social programs: The government will need to extract more value from every rupee invested in social programs. Digital technologies can help it better monitor such programs’ progress and effectiveness. The government will also have to take advantage of communication technologies such as videoconferencing and high-speed Internet to exponentially extend the reach of basic services such as education and healthcare. Moreover, it can leverage cloud platforms to maintain data on the impact of essential citizen services, such as the National Cloud initiative called ‘Meghraj’ that is used to deploy e-Governance applications. The resulting efficiencies would not only lower program costs but also improve responsiveness of the developmental machinery supporting these projects.

For industry

Capitalize on low interest rates: With the Reserve Bank of India (RBI) cutting the repo rate by 25 basis points after the Union Budget of 2015, and with inflation showing no signs of increasing, India’s economy may be heading into a low-interest-rate period, at least in the short to medium term. Businesses may therefore be able to secure operating capital at lower costs, and consumers might see increases in their disposable income thanks to reductions in equated monthly installments. Businesses must take this opportunity to kick-start investments in technology and research and development (R&D) that can deliver decent returns in the short to medium term. They must also step up their marketing efforts to persuade consumers to spend more of their disposable income on products and services.

Strategize on commodity prices: Global commodity prices have decreased across the board, and the trend is expected to continue into FY2016. Net commodity importers, including energy-intensive industries, are set to benefit from this trend and should look to bolster their cash reserves. However, India’s domestic commodity prices have yet to reflect global trends, showing no significant reductions. At least for now, businesses that had inked contracts for high-priced commodities cannot pass on benefits of existing low prices to customers. Moreover, rising railway freight rates may put further pressure on margins and drive domestic commodity prices up even more. Businesses must therefore take into account these twin commodity-price effects while planning their operational spending.
Wooing long-term investment

Transforming India into both an investor and an investment-friendly destination will be vital for driving growth. The government has already sent the right signals by easing foreign direct investment (FDI) restrictions in single-brand retail as well as in the defense and insurance sectors.

It has also launched a range of programs and institutional reforms to welcome investors in key sectors such as manufacturing and infrastructure. The government’s flagship “Make in India” campaign aims to boost manufacturing’s share of GDP from the current 16 percent to 25 percent by 2022, as well as create some 100 million new jobs. The freshly formed National Industrial Corridor Development Authority will oversee development of four industrial corridors, numerous investment and manufacturing zones along the various corridors and nearly 100 “smart” cities. In addition, the government has digitized the Industrial License & Industrial Entrepreneur Memorandum application process by establishing an online eBiz portal. To ease investor regulations, the government has also decided to make a common investment cap for FDI and foreign portfolio investment (FPI) at a sector level. It has also created one unified form for filing returns and has aligned patent applications to global standards. Timely implementation of these mechanisms and their seamless operation in the coming year will go a long way toward removing investment bottlenecks.

Investors are responding positively to these efforts. In the first three quarters of FY2015, foreign investment inflows exceeded INR 1.5 trillion (US$25 billion), logging a 20 percent y-o-y growth over the same period in FY2014. Conservative estimates expect FDI inflows to cross INR 2 trillion (US$35 billion) by the end of FY2015. (See Figure 5.)

Figure 5: FDI inflows for FY2015 may reach a six-year high

FDI Inflow

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI Inflow (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2009</td>
<td>41.7</td>
</tr>
<tr>
<td>FY2010</td>
<td>33.1</td>
</tr>
<tr>
<td>FY2011</td>
<td>29.0</td>
</tr>
<tr>
<td>FY2012</td>
<td>33.0</td>
</tr>
<tr>
<td>FY2013</td>
<td>27.0</td>
</tr>
<tr>
<td>FY2014</td>
<td>30.8</td>
</tr>
<tr>
<td>FY2015*</td>
<td>30.9</td>
</tr>
</tbody>
</table>

Source: DBIE-RBI
Note: * FY2015 data are for April 2014 to January 2015.
Operating Imperatives

For government

Execute reforms efficiently: Business leaders are excited about India’s new policy reforms. To capitalize on their enthusiasm, the government will have to ensure efficient execution of changes. Defining the right metrics to monitor progress and deploying robust analytical processes to identify barriers and best practices will prove critical. For example, in addition to measuring actual investments made, the central and state administrations must also measure the amount of time a business needed to commission its operations after making an investment.

Include states and district administrations in reform: Encouraging state and local governments to “own” investment policy reforms will help the central government scale up the impact of reforms. For instance, the government can create “digital hotlines” connecting district and state administrations with relevant central agencies to enable them to swiftly share best practices related to addressing investment barriers. As a result, state and district agencies will capture more benefits from incoming investments.

For industry

Collaborate to build a stronger ecosystem: With new sectors opening up and fresh investment flowing into most of them, Indian businesses will need to forge new partnerships with other ecosystem players, such as suppliers, communities where businesses operate, customers and local government agencies. Investors will not only evaluate each company seeking investment, but also monitor its entire ecosystem to decide where to channel their money. Businesses that collaborate across the ecosystem to build business models for future growth will attract more investment and win more project assignments. Spotting and seizing opportunities to partner with global majors as well as companies in entirely new sectors will also be critical for diversifying product and service portfolios.

Developing industry-friendly infrastructure

Since FY2009, the average quarterly y-o-y increase in the value of new investment projects announced was about 2.4 percent. In contrast, the average quarterly y-o-y increase in the value of investment projects dropped was close to 60 percent. (See Figure 6.)

Figure 6: Dropped investment projects’ value increases more than announced investments’ value

Value of Investment in Capital Projects

![Graph showing the value of investment in capital projects](source: Center for Monitoring Indian Economy (CMIE))
However, the situation has begun turning around since the new government came to power. Value of new investment projects announced saw an average quarterly y-o-y growth of 183 percent during September through December 2014, the highest in eight and half years.

What explains this impressive increase? The government’s sharper focus on infrastructure development, along with announcements of numerous regulatory reforms, has boosted private investors’ confidence. In the budget released in February 2015, the government earmarked an additional expenditure of INR 700 billion (US$11.5 billion) for roads, railways, ports and other infrastructure projects in the coming year. The government is also working to accelerate clearance of infrastructure projects to speed up their implementation.

In addition, the new administration has signaled its intent to revisit current PPP models with an eye toward making them friendlier to investors. For instance, public agencies are now expected to bear the burden of project implementation risks such as delays in land acquisition, environmental clearances and variability of inputs.

Further, to reduce costs of project financing options for infrastructure projects with long gestation periods, the government plans to establish a National Investment and Infrastructure Fund (NIIF) in FY2016, with an annual boost of INR 195 billion (US$3.2 billion). The fund is expected to invest in companies such as the Indian Railway Finance Corporation and National Housing Bank. Moreover, the government plans to allow tax-free infrastructure bonds for projects in the rail, road and irrigation sectors.

To make the new PPPs work, the government will need to collaborate closely with project partners as well as district and state administrations to ensure that infrastructure investments deliver the intended results.

Operating Imperatives

For government

Invest in best practices management: According to India’s 14th Finance Commission, a larger chunk of public spending on development and welfare will now be managed by state and local governments. These governing bodies would benefit from a local language-enabled knowledge management platform that can transfer best practices from the central to the state and local governments. This will go a long way toward ensuring uniform standards of infrastructure development, while also improving ease of doing business across states.

Invest in dispute-resolution mechanisms: Delays stemming from administrative hurdles and disputes imperil stakeholders’ interests in infrastructure projects by raising transaction costs. Moreover, delays in dispute resolution lead to time and cost overruns, jeopardizing projects’ viability and returns. To prevent such problems, the government will need to establish a high-powered, fast-track administrative tribunal dedicated to resolving administrative disputes associated with implementation of capital projects above a certain investment threshold.

For industry

Craft customized solutions for completing projects on time: Industries must customize world-class technologies to address local complications that prevent timely completion of infrastructure projects. In collaboration with local engineering bodies, academic institutions and local administrations, companies must find ways to engage local communities, entrepreneurs, students and experts to generate valuable ideas. One approach is to conduct innovation fairs where companies can gather and share ideas for solving project design and execution challenges.
Building talent pools with the right skills

India is home to one of the largest pools of young employable talent in the world. How the nation leverages this potential will prove crucial to its economic future. Studies conducted by the National Skill Development Corporation (NSDC) suggest that, for the period 2013 through 2022, India's non-farming sectors will need to employ 120 million new skilled workers. However, the nation’s current vocational education system will not be able to equip that many individuals with the required skills.

The new government has responded to this challenge by granting ministerial status to Skill Development, Entrepreneurship Youth Affairs and Sports. The government has also recently launched new programs including the Rashtriya Uchchatar Shiksha Abhiyan (RUSA), Technical Education Quality Improvement Programme (TEQIP) and National Skill Qualification Framework (NSQF)—all aimed at encouraging more young people to take advantage of vocational education opportunities. The Deen Dayal Upadhyaya Grameen Koushalya Yojana (DDU-GKY), a placement-linked skill development scheme for low-income, rural youth, is another scheme that seeks to improve employability. Almost 52,000 candidates have been trained under DDU-GKY, and nearly 29,000 had found jobs by November 2014.

The government has also launched new initiatives to develop skills that are not covered by traditional vocational education approaches. For example, Nai Manzil (“A fresh destination”) focuses on educating high school dropouts. A program called Upgrading Skills and Training in Traditional Arts/Crafts for Development (USTTAD) seeks to build the capabilities of traditional artisans and craftspeople. Nai Roshni (“New enlightenment”) is dedicated to leadership training for women.

To build a labor pool equipped with the skills that industry needs, India will have to broaden training efforts across geographies, communities and industry sectors. Moreover, it will have to complement investments in skilling infrastructure with degree and certificate programs that recognize completion of training and help in job placements.

Operating Imperatives

For government

Make skill development more attractive: The government must frame vocational education and training as a national priority, including conducting awareness campaigns to help citizens appreciate the advantages of mastering new skills and of building careers in particular sectors. In addition, it must motivate young people to enroll in vocational education programs; for instance, by providing lucrative internship opportunities and certifications.

Leverage digital technology: To close skill gaps in India's labor market, the government will need to make savvy use of digital technology, such as mobile training apps, cloud-based learning platforms and traditional e-learning capabilities backed by reliable Internet connectivity. Such technology will extend the reach of India’s existing training infrastructure as well as improve the quality of trainee-trainer interactions.

For industry

Partner with academia: Businesses need to partner with academic institutions to develop curricula that provide general education (in disciplines such as mathematics, history, geography, English and computer science) as well as specialized skills training.

Make digital skills a priority: Every business, in every industry, will require employees with digital skills, including individuals who are conversant with analytics software and who can use complex automated systems. Digital skills will therefore become just as essential as language and general computer skills.

Collaborate with government to fund apprenticeships: Indian companies must partner with the government to gain funding for trainee stipends during apprenticeships. In addition, they need to learn from exemplars such as Germany and Australia how to develop robust apprenticeship programs. Collaboration among industry, academia and government can help India bridge its skills gap by generating the quality and quantity of talent that Indian businesses need. Moreover, aligning existing training modules to apprenticeship programs can help trainees and their future employers.
Deepening digital governance

Digital technologies and platforms will play a central role in enabling India’s governance systems to achieve unprecedented levels of efficiency. The new government is aware of the importance of going digital, especially for delivering inclusive government services. Indeed, it created the MyGov.in portal as a platform for crowdsourcing ideas from citizens for improving government service quality across nationally important economic and social issues. Within 15 days of its launch in July 2014, the portal received more than 200,000-plus suggestions.15

Meanwhile, the “Digital India” initiative, another government milestone project, is expected to address the nation’s last-mile broadband connectivity deficit, support development of digital identities for India’s entire population and create a cloud platform for citizens. The INR 1.1 trillion (US$18 billion) project aims to lay down 750,000 kilometers of optical fiber for broadband Internet under the National Optical Fiber Network Programme (NOFNP). This program will also work to provide seamless Internet connectivity to as many as 250,000 villages by 2019. In addition, project leaders plan to make this same number of village schools Wi-Fi enabled and help as many as 1 million people become digitally literate in 2015 alone.16 The government has set a budget appropriation target of INR 25 billion (US$398 million) for FY2016 for “Digital India”.17 The initiative is already receiving tremendous interest from businesses, investors and non-profit organizations. (See Figure 7.)

Figure 7: The “Digital India” campaign is attracting widespread interest

Interest in “Digital India”

Source: Google Trends
For seamless and effective governance, India will need to complement last-mile Internet connectivity with easy mobile accessibility. Mobile applications will play a critical role in better connecting governments and citizens. With that in mind, the government has already launched the Government of India Calendar 2015 social media application, which will provide information on the launch of government flagship schemes and a medium for real-time communication between the government and citizens. \(^{18}\)

In addition to improving e-governance, “Digital India” will likely create new avenues and platforms for information-for-all services, bolster electronics manufacturing industries and create a slew of IT jobs. Government ministries and departments will be responsible for deploying their individual information and communication technology (ICT) projects in the areas of healthcare, education and judicial services. Land records will be made available online. E-literacy training programs in local languages will be delivered in 200,000 community service centers across the country. \(^{19}\) Moreover, government departments will likely hire CIOs from industry to oversee implementation of “Digital India”.

**Operating Imperatives**

**For government**

**Collaborate to scale digital infrastructure:** The government is spending big to create physical network infrastructure to enhance last-mile digital connectivity. But India’s diverse topography is bound to present challenges. To ensure a high-quality, reliable digital experience for people living in remote parts of India, local governments must collaborate with startups and private enterprises to build software and applications that can help scale the impact of the physical network infrastructure at lower costs.

**For industry**

**Build a smart infrastructure ecosystem:** Digital governance will create a multibillion-dollar business for enterprises in a wide range of sectors, not just technology. For instance, it will open up a massive market for smart physical infrastructure, including smart buildings, grids, transport networks, utilities and cities. Leaders in industries as diverse as infrastructure, construction, automobile and IT must join hands to develop a thriving market for smart products and services. They will also benefit by collaborating with local engineering colleges and universities to develop coursework in the area of smart technologies. The result will be an expanding talent pool comprising employees who know how to design, develop and maintain smart infrastructure.
Spotlight

India’s new policy framework: Opportunities for cross-pollination

The new Indian government has shouldered the task of overhauling policy frameworks governing the nation’s businesses today. The aim is to make policies more actionable and effective. While some reforms focus on encouraging new investment, other more strategic initiatives seek to simplify doing business in India. The government has also renewed efforts to support inclusive growth, reengineering populist policies with an eye toward making their deployment more effective.

All new policy initiatives share a central characteristic: the introduction of digital technologies and channels to enable efficient delivery. The government has allocated significant budgetary funds for numerous nationwide policy initiatives, most of which will launch in 2015.

Below, we describe some of the big-ticket policy initiatives that could help put India on a stronger growth trajectory.

Jan Dhan Yojana (Financial Inclusion)

Description: The government’s foremost policy initiative on financial inclusion, Jan Dhan Yojana promises to open 75 million bank accounts for people who were formerly excluded from the nation’s financial system. These zero-balance bank accounts will come with additional benefits of accident insurance coverage and overdraft protection. Together with the direct benefits transfer (DBT) scheme, Jan Dhan Yojana will enable the government to disburse subsidy benefits directly to beneficiary accounts, making the process more efficient.

Implications for business: The banking sector will shoulder most of the responsibility for executing this financial-inclusion program. As of February 2015, 132 million bank accounts had already been opened under the scheme. In addition, Jan Dhan Yojana will benefit telecom service providers, with mobile banking becoming a chief channel that banks nationwide will leverage to push volumes. A bank account for each household in the country will also ensure direct transfer of subsidies and benefits, leading to higher disposable incomes for Indian citizens. Moreover, a large diverse pool of connected and bankable consumers will generate huge volumes of data from which consumer durable and fast-moving consumer goods (FMCG) companies can derive actionable business insights.
Swachh Bharat (Clean India) Mission

Description: Swachh Bharat Mission aims to "clean up" all Indian villages and cities by 2019, including removing garbage from public and common areas, cleaning up of riversides and lakes across the country, and repairing and maintaining public conveniences such as toilets. This initiative has already received tremendous support through social network channels. The government also plans to build 60 million toilets across the country in FY2016.

Implications for business: The mission will expand the market for personal, household and societal hygiene companies as well as those that make "green" technologies. Moreover, recent regulation permits businesses to include spending on this program as part of their corporate social responsibility (CSR) allocation. To take advantage of this opportunity, businesses must explore partnerships, including PPPs with government utility agencies and foreign collaborators.

Shramev Jayate Karyakram (Labor Reforms)

Description: This blanket platform for labor reform comprises five initiatives: (1) creation of universal account numbers for provident fund accounts, (2) a portal for simplifying compliance with labor regulations for businesses, (3) a computerized mechanism for monitoring regulatory compliance, (4) a funding pool for apprenticeships and (5) an insurance smartcard for workers in the unorganized sector.

Implications for business: Technology and IT companies have a significant opportunity to collaborate with India’s Ministry of Labour and Employment to establish software platforms for nationwide deployment of these schemes. Manufacturing and other labor-intensive businesses will benefit from simplification of labor regulations. They will also have an opportunity to build a talent pipeline by tapping the funding pool for apprenticeship programs. The scheme will also be a big boon for manufacturing as it will reduce labor unrest and help build quality talent pools. For instance, the government will reimburse 50 percent of the stipend paid to apprentices during the first two years of their training. This will help manufacturing companies engage and groom apprentices from industrial training institutes.

Policy Name: Smart Cities Program

Description: The government has allocated INR 75.1 billion (US$1.2 billion) to build 100 new smart cities—which use digital technologies to enhance performance and well-being, to reduce costs and resource consumption, and to engage more effectively and actively with their citizens. The proposed 100 cities will be chosen in the following manner:

- One satellite city for each city with a population of 4 million or more (9 cities)
- Most cities with populations of 1-4 million (35 out of 44 cities)
- All state and Union Territories capitals, even those with populations of fewer than 1 million (17 cities)
- Cities of tourist, religious and economic importance not included in above (10 cities)
- Cities with populations of 0.2-1.0 million (25 cities)

Inclusive growth will be at the heart of this program, in terms of creating employment for and improving quality of life for all. The Indian government has already set benchmarks for the Smart Cities in areas ranging from transport, water and waste management, electricity, mobile and Wi-Fi connectivity to healthcare, education and disaster management.

Implications for business: Smart Cities is a multi-trillion dollar national opportunity that spans all sectors of India’s economy. Organized and sustainable urbanization will be key to India’s economic growth story, given that 70 percent of the nation’s GDP will be generated in cities by 2030. Digital technology will be vital to this program, enabling better planning, design, measurement and monitoring of citizen services. Established technology companies as well as startups will have an unprecedented opportunity to contribute to smart, digital urbanization by creating new platforms and applications that make cities more livable for their inhabitants. The program will also open up long-term business opportunities, through PPPs and other models, in sectors such as construction, tourism, retail and automotive. Power generation and transmission companies, particularly in the area of renewable energy, will also gain access to a large market thanks to the Smart Cities Program. Opportunities will open up at every level, from small community projects to large multi-city programs.
As India’s economy and consumer confidence show signs of revival, “India Inc.” is taking action to capitalize on growth opportunities profitably. Companies in a wide array of sectors expect to drive growth by expanding their product and geographic footprint, and they are counting on increased investment in India’s domestic sectors and positive changes in government policy to further fuel growth.

In this section, we share our perspective on trends and opportunities that will shape key industry sectors in FY2016.
Automotive

Growth drivers for FY2016

Alternative-fuel vehicles to attract more attention

Inspired by the “Make in India” campaign, a number of Indian automotive manufacturers are set to make and market alternative-fuel vehicles in India during the coming year. Ashok Leyland had already begun selling its electric and hybrid buses in India in early 2015. Hero Electric intends new launches and a foray into specialty vehicles once the long-pending National Electric Mobility Mission Plan (NEMMP) 2020 is passed.

Automotive companies to make substantial domestic investments

Anticipating revived growth and a jump in demand, several Indian automotive companies plan to make large investments to increase capacity. While Tata Motors will invest more than INR 40.8 billion (US$651 million) to expand its plant at Chakan in Pune district, Mahindra and Mahindra (M&M) and Volkswagen expect to invest INR 40.8 billion (US$651 million) and INR 15.4 billion (US$246 million), respectively, in their own plants in Pune. Bajaj Auto will invest INR 20.4 billion (US$326 million) to expand its facility in Aurangabad.

Foreign automotive companies to make India an “auto hub”

With the new prime minister reaching out to several countries for investment, a number of companies around the world are looking to invest in India’s automotive sector. For instance, China Electric Vehicle Consortium Pvt Ltd. has decided to make Gujarat’s Sanand an electric-vehicle (EV) manufacturing hub, at an estimated investment of INR 6.3 billion (US$100 million). Japan’s Honda Motors plans to make its unit in Rajasthan a manufacturing base for supply of manual transmissions to emerging markets across Asia and Latin America. In addition, Honda intends to set up the world’s largest scooter plant in Gujarat.

Moreover, many foreign automobile companies with an existing presence in India are looking to expand that presence. French automobile manufacturer Renault, for instance, plans to launch two new models as well as enter new verticals, including the used-car business, in India in the coming year. Ferrari and Maserati plan to establish marketing and sales operations in India and sell cars there starting in FY2016.

Potential growth decelerators for FY2016

Prices rising after end of excise duty cut

With the withdrawal of the excise duty cut starting in January 2015, prices have jumped 4–6 percent across passenger-vehicle categories, and this will likely cool down demand. The inverted duty structure will present further challenges. For instance, while excise duty on commercial vehicles is 8 percent, it is 12 percent for raw materials and engineering inputs.

New regulations to sharpen focus on vehicle safety

The Draft Road Transport and Safety Bill, floated by India’s Ministry of Road Transport and Highways, proposes that auto manufacturers recall a vehicle model if 100 or more people report a defect. However, automotive industry leaders think that 100 complaints is too low a threshold to trigger a recall. They argue that the threshold would best be decided on a case-by-case basis, depending on the nature of the problem, the seriousness of the issue and the solution (among other factors). If this bill passes, automobile manufacturers will also be penalized if a faulty vehicle is detected.
Banking and financial services

Growth drivers for FY2016

New entrants to start banking operations

India’s Infrastructure Development Finance Company (IDFC) has recently won a commercial banking license and plans to start banking operations by October 2015. IDFC has already reduced its foreign shareholding to less than 50 percent of the company. Micro lender Bandhan Financial Services has also been issued a new banking license by the RBI and is expected to begin operations this year. Bandhan specializes in lending to low-income borrowers, and the new financial-inclusion plan should help it build on its core strength.34

Financial-inclusion policy to create millions of new bank accounts

The government aims to provide banking services to 100 million new households under its new financial-inclusion plan, Jan Dhan Yojana. The objective of the plan is to open 200 million new bank accounts by August 2015 – two bank accounts for each uncovered household, of which one will be for a female member of the household.35 Microfinance companies plan to open at least 30 million new accounts by August 2015 through partnerships with banks under the plan.36

Potential growth decelerators for FY2016

Bad loans and non-performing assets could impede growth

Sluggishness in India’s overall economy is leading to deterioration in asset quality and a slackening of credit demand. According to RBI’s Financial Stability Report (FSR) if the current conditions worsen, overall gross non-performing assets (GNPAs) for India’s banking sector will worsen from 4.5 percent as of end September 2014 to 6.3 percent by March 2016.37

Service-tax hike may cool insurance demand

Insurance premiums will become costlier owing to the service-tax hike proposed in the Union Budget FY2016.38 Further, the proposed 2 percent Swachh Bharat Cess on the value of any taxable service will likely further drive-up the cost of insurance services.39
Chemicals

Growth drivers for FY2016

M&A activity could pick up

India’s chemical industry could witness several merger and acquisition (M&A) deals this year. A state-run consortium led by National Mineral Development Corporation (NMDC), including Rashtriya Chemicals and Fertilisers; National Fertilisers Ltd.; Travancore Ltd.; and fertilizer cooperative Kribhco, plans to buy a 30 percent stake in the Russian potash firm Acron, which may result in an investment of around INR 10.1 billion (US$161.4 million).40 Gujarat Alkalies & Chemicals Limited, India’s major caustic soda maker, plans to acquire an existing caustic soda plant in Eastern India.41

Chemical companies to expand capacity

Several Indian fertilizer and chemical companies intend to expand capacity in the coming year. For instance, Rashtriya Chemicals and Fertilisers will create new urea capacity at its Thal plant near Mumbai with an estimated investment of INR 45.5 billion (US$726.1 million). The Indian government will also give special priority to the company’s Thal project in Maharashtra. The new plant will have capacity to produce about 1.27 million tons of urea per year and will also produce ammonia.42 Meanwhile, Gujarat Alkalies & Chemicals Limited intends to spend INR 35.4 billion (US$564.8 million) on an expansion effort that includes a new caustic soda plant at Bhavnagar and a power plant at Dahe.43

Additional duty cuts to boost demand

To give the chemicals sector a push, the Union Budget FY2016 has proposed a slew of customs duty cuts, including a 50 percent reduction in duty on isoprene, liquefied butane, antimony metal and antimony waste; a 66 percent reduction in customs duty on anthraquinone; and a reduction in customs duty to 5 percent from 7.5 percent on butyl acrylate.44

Potential growth decelerator for FY2016

High fertilizer prices could decelerate demand

Several fertilizer manufacturers in India plan to raise prices to manage a 7-15 percent increase in the cost of raw materials such as phosphoric acid and ammonia and increased freight rates. For instance, Coromandel, GSFC, Indian Potash and Paradeep Phosphates, Kribhco and IFFCO have indicated likely price increases early in the coming year.45 Owing to a 33 percent increase in natural gas prices, Rashtriya Chemicals and Fertilisers plans a 2-3 percent price increase to protect its margins.46
Consumer goods

Growth drivers for FY2016

Expected policy-rate cuts will fuel consumption

India’s FMCG sector, which was hit hard by the global economic slowdown, expects to recover in the coming year, thanks to a continued decline in fuel prices, a rising stock market, stabilizing commodity prices and anticipated interest-rate cuts.47

Demand from rural Indians is also expected to rise with the Union Budget FY2016’s focus on uplifting the rural economy with allocation of funds for irrigation, roads and rural development schemes.48

Indian FMCG players looking at portfolio strategy

Pinning their hopes on a recovering economy and anticipated rate cuts by the RBI, Indian FMCG players are considering acquisitions and entry into new segments to grow their top line in FY2016. For instance, Emami and Marico are in talks with Punjab-based SBS Biotech to acquire its INR 20.3 billion (US$324.2 million) ayurvedic hair-oil brand Kesh King, and Wipro is eyeing the INR 6.1 billion (US$97.2 million) ayurvedic hair-oil and soap brand Indulekha, which is owned by Kerela-based Mosons Extractions.49 FMCG companies seeking to enter new segments include tobacco-to-hospitality conglomerate ITC, which will make a foray into the instant- and filter-coffee segments.50 Meanwhile, CavinKare plans to expand its organized retail stores, Cavin’s Parlours, to other parts of the country, after opening its 50th outlet in Chennai.51

Potential growth decelerators for FY2016

Farmers’ woes to dampen rural consumption

In March 2015, many regions in India experienced unseasonally heavy rainfall. Uttar Pradesh (2.7 million hectares damaged) and Rajasthan (1.4 million hectares damaged) were hit the hardest. But the rainfall damaged unlikely areas as well, including parts of Andhra Pradesh and Karnataka. The unexpected torrential downpour has left little hope for a bumper harvest this year and will likely make it difficult for farmers to pay down their debts. As a result, their spending power could erode, in turn dampening consumption throughout rural India.54

Foreign players will stay focused on the Indian market.

Most foreign players will maintain their focus on the Indian market – aiming to expand their market share there, strengthen their manufacturing capacity or launch new products faster than rivals can. For instance, Sony India started selling smartphones to Indian consumers in 2013. With smartphone sales contributing 35 percent of the company’s revenue, Sony hopes to claim a 10 percent market share in India during FY2016.52 Another foreign player, Haier’s Indian subsidiary, will invest INR 1 billion (US$16.2 million) to expand capacity at its Pune plant, as well as introduce premium products such as side-by-side refrigerators and wine cellars through its exclusive brand stores.53

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Energy

Growth drivers for FY2016

Renewable-power production to attract higher investment

A number of renewable-power plants are expected to become operational in India during FY2016, adding to the nation’s energy-production capacity. GE Energy Financial Services, for example, has invested in two wind-farm projects. In addition, India’s national action plan on climate change calls for the country to generate 10 percent of its power from solar, wind, hydropower and other renewable sources by the end of FY2016 and 15 percent by 2020. India’s wind-energy market alone is expected to receive about INR 200.5 billion (US$3.2 billion) in investment in the coming year as companies across sectors add 3,000 megawatts (MW) of wind-power capacity.

New oil and gas production to strengthen the industry

A number of new facilities in India’s energy sector are expected to become operational, boosting national production. The Assam Gas Cracker project, which Brahmaputra Crackers and Polymers Limited is setting up at Lepetkata, Dibrugarh (Assam), is expected to start production in FY2016. This project is the first petrochemical project in all of North East India and is expected to fuel substantial investment in downstream plastic-processing industries. In addition, Reliance Industries Ltd. plans to start production of natural gas from coal seams in Madhya Pradesh. Meanwhile, Oil and Natural Gas Corporation’s mega petrochemical plant at Dahej in Gujarat, which originally planned to initiate operations in 2012, will be commissioned this year.

India to receive uranium shipments

As India plans to move to 25 percent nuclear power by 2050, Australia’s uranium industry hopes to make trial shipments of the element to India in FY2016. India and Australia signed a civil nuclear deal in September 2014. According to an estimate by the International Energy Agency, share of nuclear power in India is expected to grow to 12 percent by 2030 from the current 3 percent. However, reaching this target will require a total investment of INR 6 trillion (US$96 billion) in nuclear plants by 2040; Australia, the world’s largest owner of uranium resources, will likely play a substantial role in this effort.

Potential growth decelerator for FY2016

Intensifying fiscal pressure to affect power-distribution companies

State utilities’ dependence on government subsidies remains a major challenge for India’s power sector. Such subsidies will likely amount to INR 726.8 billion (US$11.6 billion) in the coming year, a 17 percent increase over the previous year. Among all the utilities, the new government in Maharashtra recently withdrew the INR 84.7 billion (US$1.4 billion) subsidy granted to residential and commercial consumers, resulting in a 20 percent hike in power tariff beginning January 2015, followed by a 15 percent hike in March 2015. In Jammu and Kashmir, subsidies are projected to rise by 51 percent owing to continuous funding to make up for high transmission and distribution losses.

Companies to get no service-tax relief

Oil exploration and production companies have not received a much-anticipated respite in the form of a service-tax credit in the Union Budget FY2016. For these companies, service tax takes away a significant share of funds. Further, because crude oil and natural gas do not qualify for excise duties, these companies cannot get a central value-added tax (CENVAT) credit of service tax incurred for exploration and production.
Healthcare

Growth drivers for FY2016

Healthcare firms to raise funds for expansion

Many Indian healthcare players are expected to launch initial public offerings (IPOs) in FY2016, including private-equity-backed diagnostic chains (such as Thyrocare, Metropolis and Dr. Lal Pathlabs), multi-specialty hospitals (including Max Healthcare, Manipal Hospitals, Narayana Hrudayalaya, Aster DM Healthcare, HealthCare Global and Yashoda Hospital) and single-specialty hospital chains (for instance, Vasan Eye Care, Dr. Agarwal’s Eye Hospital, Shalby Hospitals and Cloudnine).65

Medical tourism to fuel healthcare growth

The medical tourism industry in India is expected to reach INR 125.3 billion (US$2 billion) by 2015, with an estimated 320,000 tourists visiting the country next year.66 To capitalize on this opportunity, several industry partnerships are under way. For instance, UAE-based Emirates Airlines recently formed a joint venture with Apollo Hospitals to provide reduced round-trip fares to patients from 19 countries across the Middle East and Africa who want to visit Apollo’s flagship hospitals in Chennai, Hyderabad, New Delhi, Kolkata, Ahmedabad and Bangalore.67 Hospitality players (like Hyatt, Hilton and Crowne Plaza) are also developing properties located near healthcare chains and will offer customized packages to medical tourists, along with a host of recreational activities.68

Government initiatives to provide further impetus

India’s new government has announced several measures aimed at growing the Indian healthcare industry and promoting medical tourism. These include a medical circuit that will connect hubs of Ayurveda and modern medicine.69 Under the National Health Assurance Mission, the government is also empaneling private hospitals to offer guaranteed health benefits to the entire population. The first phase of this project will be rolled out early in FY2016, at a total estimated cost of INR 1.6 trillion (US$26 billion).70 Additional measures include efforts to attract investment and boost domestic manufacturing of healthcare products. To illustrate, the government plans to relax FDI regulations, allowing such investment in brownfield projects and existing companies, as well as greenfield and new ventures in healthcare.71

Potential growth decelerator for FY2016

Inadequate public-health spending could constrain growth

In 2014–2015, India’s healthcare budget was cut by INR 60 billion (US$ 948 million) owing to fiscal strain, a nearly 20 percent decline over the previous year.72 Public expenditure on healthcare in 2013–2014 was already low—just 1.4 percent of GDP,73 compared to 3 percent in China and 8.3 percent in the US.74 Indeed, India continues to rank among the bottom five countries globally in terms of public-health spending.75 Even though the government is moving to correct this, increasing spending on healthcare and improving India’s ranking will take time, presenting an ongoing challenge for this sector in the coming year.
Information technology

Growth drivers for FY2016

Government to raise IT spending

The “Digital India” project was approved in August 2014, and the government has been working to create a road map for this extensive program. While the project is expected to attract investment upward of INR 1 trillion (US$16.2 billion) over the next three to four years, the government plans to raise spending for its own IT by 5 percent in FY2016 to INR 450.7 billion (US$7.2 billion) to ensure electronic delivery of services to all of India’s population segments.

Big private players are also gearing up to support “Digital India”. Google is a case in point. The digital giant is willing to provide affordable Internet access to India’s hinterlands by building a network of helium-filled balloons. Meanwhile, Facebook is keen to partner with the NOFNP. Similarly, tech biggie Microsoft has expressed interest in using “white space” (unused spectrum between two TV channels) to provide Internet access to remote areas in India, including use of Doordarshan’s unused spectrum in the sub-gigahertz band.

Indian players eyeing foreign expansion

Indian IT majors will move to expand their global footprint, with most players buying stakes in foreign companies, increasing global headcount or setting up delivery centers. In a bid to enter the US network market, Tech Mahindra Ltd. acquired US-based telecom network services provider Lightbridge Communications Corp. for INR 15 billion (US$240 million) through an all-cash deal. And to boost its healthcare business, Cognizant Technology Solutions Corp. will soon complete the INR 169 billion (US$2.7 billion) deal to acquire healthcare IT service provider TriZetto Corp from London-based private-equity firm Apax Partners LLP.

When it comes to increasing global headcount, Indian IT majors seeking to improve customer service are looking to hire staff closer to their customers. For instance, HCL Technologies will expand its workforce in North Carolina in the US by hiring almost 1,240 new professionals. Along similar lines, Infosys Ltd. will strengthen its 8,000-strong workforce in the US by adding 2,100 professionals in the coming year. Wipro will raise its headcount in Ireland by up to 50 percent, from its current strength of 200 professionals delivering services to banks and financial services companies across Ireland and the UK.

As for establishing delivery centers, Tech Mahindra plans to augment its two existing centers in Europe by setting up a 200-seat center in Hungary. The tech major plans to hire 50 professionals in the first round of this expansion.

Tax reductions to drive innovation

The Indian government announced a reduction in withholding tax that will lead to a decrease in royalty tax from 25 percent to 10 percent. This lower tax will enable Indian IT as well as IT-enabled services (ITeS) companies to use the latest global technologies at lower costs. The government has also proposed reducing the tax on R&D and innovation investments to 10 percent. This will enable technology transfer as well as encourage innovation in the sector.

Potential growth decelerator for FY2016

Skills shortages could imperil industry growth

According to industry association NASSCOM, growth in India’s IT sector will be driven by higher demand for new services such as digital technology, mobile applications and cloud computing. However, a shortage of skilled engineers in these fields could pose a serious threat to the sector’s growth prospects.
Infrastructure

Growth drivers for FY2016

SEBI to let foreign venture funds invest in infrastructure

The Securities and Exchange Board of India (SEBI), which regulates foreign investment into the country, has recently closed gaps in norms that had prevented foreign venture-capital investors from directing funds into the Indian infrastructure space. The move is expected to bring INR 68.8-81.4 billion (US$1.1-1.3 billion) in investment into this space in the immediate future.87

Privatization to present opportunities for industry

To meet its fiscal-deficit target of 4.1 percent of GDP for FY2015, the Indian government has announced a disinvestment program.88 Disinvestment of its 10 percent stake in Coal India has fetched INR 225.3 billion (US$3.6 billion) for the government, making the most of the current stock-market run.89

The government has also relaxed FDI norms to allow foreign players to invest in the Indian infrastructure sector and further boost the country’s economic growth. For instance, 100 percent FDI is now permitted in rail projects including high-speed trains, suburban service, dedicated freight corridors, and freight and passenger terminals. Further, to encourage PPP projects, the government also plans to develop new lines and double the number of existing freight lines.90

Similarly, to strengthen road infrastructure, the government has set an objective to build 30 kilometers of road every day up to 2016. More than two-thirds of these projects (under programs such as the National Highway Development Project) have yet to be awarded, thereby offering a massive opportunity to private players.91

Meanwhile, India’s Ministry of Steel has proposed setting up special-purpose vehicles at the state level. Such vehicles will acquire land and obtain the necessary environmental clearances for greenfield and brownfield investments.92

Foreign governments to offer funding and technical cooperation

The Indian government seeks an INR 62.6 trillion (US$1 trillion) investment by 2017 to upgrade the nation’s infrastructure. To that end, it has invited
funding and technical collaboration from foreign governments around the globe. Beginning this year, Japan has committed to investing INR 438 billion (US$7 billion) each year, over five years, in infrastructure projects in India, including building of smart cities, new roads and highways as well as renewal of heritage cities. Along similar lines, France has proposed a credit line of INR 87.6 billion (US$1.4 billion) through the French development agency, Fabius. The line will be available over three years to fund sustainable infrastructure and urban development projects in India.

To facilitate technical cooperation, India’s Railway Ministry has signed a memorandum of understanding (MoU) with the Czech Republic and the Association of Czech Railway Industry for a period of three years, extendable by a year thereafter. Potential cooperation areas under this MoU include improving railway speeds to 200 kilometers per hour, developing new stations and modernizing signaling.

Funds and bonds to raise investment

The Indian government intends to set up the National Investment and Infrastructure Fund (NIIF) with INR 200.3 billion (US$3.2 billion) to help infrastructure finance companies raise debt. Moreover, these funds can be used to invest in equity of infrastructure finance companies such as the Indian Railway Finance Corp. and National Housing Board. The companies can then leverage this extra equity in manifold ways. The government also plans to introduce tax-free bonds for projects in railways, roads and irrigation sectors.

Potential growth decelerators for FY2016

Government may fall short of its infrastructure-investment target

The RBI issued guidelines in July 2014 barring banks from investing in infrastructure bonds issued by other banks, with the goal of preventing risks arising from circular trading (whereby lenders agree to buy each other’s bonds). This move has made it highly unlikely that the government will meet its target of raising INR 519.5-619.7 billion (US$8.3-9.9 billion) in infrastructure bonds in the current fiscal year.

High risk could limit private investment

Most private infrastructure players with the capacity to execute large-scale infrastructure projects are carrying extensive debt and lack the financial strength to invest more. Moreover, having suffered a slew of bad loans in the sector, banks are cautious about lending to infrastructure players. At the same time, slow bureaucratic procedures and land-acquisition issues are discouraging private players from investing in the sector. Even though the government has announced relief for private investors by revisiting the PPP model and shouldering most of the risk, high debt levels may constrain private investment in the sector in the coming year.
Pharmaceuticals

Growth drivers for FY2016

Indian phamas to continue expansion in foreign markets

With many drugs going off patent in the US, Indian pharma companies will continue to see strong growth in the US market, particularly in generics. Additional growth will stem from the strong Abbreviated New Drug Application pipeline, in which an increasingly high proportion of proposed products consist of complex generics that compare favorably with generics majors.100

Indian pharmaceutical companies will likely expand their operations in emerging markets as well. For instance, Cipla plans to enhance its presence in South Africa by collaborating with the world’s largest generics player, Teva Pharmaceutical Industries. Cipla Medpro, Cipla’s South Africa-based subsidiary, will exclusively market Teva’s broad pharmaceutical product portfolio in South Africa to strengthen its position in that market.101

Indian phamas have also considered Latin America an important market, as the region accounts for 8 percent of total pharmaceutical exports from India and is valued at INR 1.9 trillion (US$30 billion). With Argentina fully opening its INR 375.5 billion (US$6 billion) drug market to Indian companies recently, Indian phamas have an opportunity to export finished formulations to that country, rather than the raw materials proscribed earlier.102 Indian companies can gain a stronger foothold in Latin America, as the biopharma services potential in these markets remains untapped. Such markets may prove extremely profitable for Indian companies.103

Industry to step up R&D investment

With an eye toward claiming a larger share of the international market, Indian phamas intend to invest substantially more in R&D this year. They have stepped up their spending on R&D in the last few years as they sharpened their focus on more regulated markets and complex molecules and therapies. This trend is expected to continue as industry leaders push the government to incentivize innovation and to set up a simplified scheme of grants and “soft” loans to promote drug discovery in the private sector.104 The Indian pharmaceutical industry spends, on average, 6–8 percent of sales on R&D, considerably less than the 15–20 percent spent by companies in the developed world.105

Regulatory changes to stabilize market dynamics

The Indian government has ordered the National Pharmaceutical Pricing Authority (NPPA) to withdraw guidelines that gave the authority power to impose price controls on products not on the National List of Essential Medicines (NLEM). Armed with this power, the NPPA reduced prices for 108 non-NLEM drugs in the diabetes and cardiovascular segment in July 2014, and the reductions severely hurt many pharma companies’ operating profit. The industry has welcomed the government’s decision regarding the NPPA, as it will help stabilize product pricing.106

Potential growth decelerator for FY2016

Changing fee structure in major export markets could constrain margins

The US Food and Drug Administration (FDA) has announced increases in annual drug-manufacturing facility fees that are applicable for companies from all nations. Indian drug makers will have to pay 12–15 percent more for such fees between October 2014 and September 2015. Indian drug makers are the biggest source of medicines made in the US, and their costs could skyrocket in 2015 because of the increase in facility fees.107
Retail

Growth drivers for FY2016

E-commerce to maintain its upward trajectory

The Indian e-commerce industry is expected to reach INR 1.2 trillion (US$20 billion) in 2015, recording a compound annual growth rate (CAGR) of 37 percent since 2013, with e-tailing accounting for a significant proportion of the total market. Existing online players including Flipkart, Snapdeal and Amazon, as well as brick-and-mortar retail biggies, are gearing up to make the most of this upswing. For instance, Amazon will spend INR 125.1 billion (US$2 billion) in the Indian market to lower costs, get more small- and medium-size (SME) retailers to sell online, and boost warehouse capacity and logistics, as it expects India to become the first economy to touch INR 62.5 billion (US$1 billion) in online sales. Traditional retail players are also acting now to seize this opportunity. For example, Reliance Industries Limited and Aditya Birla Group plan to launch e-tailing operations in the coming year. While Reliance Industries will start offering multi-channel shopping, Aditya Birla Group is zeroing on business verticals to kickstart its e-commerce operations.

Global apparel players eyeing the Indian market

Inspired by rising consumer demand for foreign lifestyle brands and an international shopping experience, many global apparel retailers will enter the Indian market this year. US retailer Gap, for example, will open its first flagship stores in Mumbai and Delhi. Gap has partnered with Arvind Lifestyle to set up 40 franchise-operated stores in phase I of the effort, including 15-20 stores in tier I and II cities. Meanwhile, Swedish retailer Hennes & Mauritz will open its first store in India this year and plans to spend INR 7.1 billion (US$113.5 million) to set up 50 stores across India over the next few years. Regulatory changes to stabilize market dynamics.

Potential growth decelerator for FY2016

Service tax and excise duty could increase

With the Indian government proposing to increase the service tax from 12.36 percent to 14 percent in FY2016, household expenditures are bound to increase. Higher spending on phone bills, movies and dining out will leave little cash in consumers’ wallets to spend on products sold in the organized retail sector. Moreover, higher excise duty on products such as mineral water, carbonated drinks and condensed milk will also lead to heftier grocery bills, limiting growth in organized retail.
Skills and education

Growth drivers for FY2016

New education policy to close existing loopholes

The Indian government is framing a new education policy to close existing loopholes in the system and provide easy access to education for more people across the country. The policy is tailored especially for individuals who live in villages and who could not previously pursue education because they lacked the required resources and awareness of educational opportunities. The government plans to solicit suggestions on the policy from education specialists, academicians and bureaucrats. This policy is expected to be launched in the coming year.¹¹⁴

New skill-development program to create more jobs

The government is designing a multi-skill development program directed at job creation and entrepreneurship for all socioeconomic classes in India, slated for launch early this year. The government hopes that the program will help build a bridge between educational institutions and the labor market, with the goal of exceeding the target of training 500 million people by 2020. Under the program, the government also seeks cooperation from the German government, which runs a successful vocational education and training program and can serve as a model for best practices.¹¹⁵

New premier institutes to start operations

The government is allocating more money to six new Indian Institutes of Management (IIMs) and five new Indian Institutes of Technology (IITs) to make them operational during FY2016. If it succeeds, India will have a total of 19 IIMs and 21 IITs.¹¹⁶ According to the plan, the older IIMs and IITs in closest proximity to the new institutes will be asked to mentor and manage them until their directors are appointed. For instance, IIM Calcutta will mentor the proposed IIM in Odisha. Mentor institutes will also serve as temporary facilities until the new institutes have permanent campuses.¹¹⁷ In addition, it plans to upgrade the Indian School of Mines in Dhanbad to a full-fledged IIT in the coming year. Meanwhile, the existing National Institute of Speech and Hearing in Kerala will be upgraded to a university of Disability Studies and Rehabilitation.¹¹⁸

Government to push for innovations and startups

The general budget for FY2016 proposes establishment of a Self- Employment and Talent Utilisation (SETU) mechanism to support all aspects of startup businesses and other self-employment activities, particularly with a focus on technology. SETU will be a technological, financial, incubation and facilitation program aimed at encouraging technology startups to turn their ideas into profitable businesses. It will have a budgetary allocation of INR 10 billion (US$162.2 million). The government has also announced the ATAL Innovation Mission, a platform involving academics, entrepreneurs and researchers seeking to foster a culture of innovation, R&D and scientific research in India.¹¹⁹

Focus on higher education to increase

Even though India’s government has marginally reduced the budget allocation for education overall, it has beefed up the planned higher education budget by almost 22 percent. This clearly signaled a shift in the government’s focus from [secondary?] schools to higher education. The government’s decision to open more IITs and IIMs is another step toward improving quality and quantity of higher education. In addition, its Pradhan Mantri Vidya Lakshmi Karyakram program plans to monitor scholarships and educational loan schemes through an IT-based Student Financial Aid Authority.¹²⁰
Potential growth decelerators for FY2016

Mushrooming of business schools raising questions about quality

Even though India urgently needs more elite educational institutions, the speed at which they are being set up is spawning concerns about their quality. For instance, new institutes are running out of temporary and make-shift campuses and are facing challenges in ensuring high-quality teaching and research. The institutes also have teaching-staff shortfalls of 20-40 percent, raising further concerns about the quality of education they offer.121

Scaling up will remain challenging

Intensifying demand, faculty shortages and resource limitations are restricting the growth of India’s academic institutions, particularly in higher education. To achieve double-digit economic growth, India needs to increase its gross enrollment ratio in higher education to 30 percent by 2030 from the current 18 percent. This will require an investment of INR 22 trillion (US$350.8 billion) to add capacity in the form of new higher education institutes and to upgrade existing universities and colleges.122
Telecommunications

Growth drivers for FY2016

Faster mobile data services to launch

India has the third-highest number of Internet users in the world, and this number is skyrocketing. Increased data consumption on handheld devices is driving growth in the mobile services market, whose total revenues are expected to enjoy a CAGR of 5.2 percent and reach INR 2.3 trillion (US$37 billion) in 2017. The 3G subscriber base could achieve the highest five-year CAGR—a whopping 68 percent. In the handsets space, in the first quarter of 2014 alone, companies recorded a 186 percent explosion in smartphone sales, even as penetration was still only about 10 percent. These numbers highlight the burgeoning demand for mobile data services in India and the huge opportunity such demand presents for industry players.

Mobile consumers are also demanding faster services. To satisfy them, Reliance JIO will roll out 4G services starting this year. The telco has spent INR 713.6 billion (US$11.4 billion) so far on this effort, including INR 244.1 billion (US$3.9 billion) on airwaves. It has operating licenses in all 22 circles (2,300 MHz) in India and is expected to roll out services nationwide. Other players, such as Airtel, have already launched 4G in a few test markets, while Vodafone plans to test 4G services on LTE technology for the first time in the coming year.

Government to improve pan-India connectivity

In its effort to improve connectivity (including last mile) across the country, the Indian government plans to spend huge sums over the next few years. It has earmarked INR 50.6 billion (US$ 809.5 million) to extend basic mobile coverage, including voice, to rural areas in India’s North East, where 20 percent of villages still lack mobile connectivity. Similarly, to enhance telecom connectivity in the Andaman and Nicobar Islands, the government will establish a 1,200 kilometer direct sub-sea optic fiber cable extending from the Indian mainland to the archipelago.

Potential growth decelerators for FY2016

Expiration of spectrum-holding licenses may hurt operations

Leading Indian telecom players, including Bharti Airtel, Vodafone, Idea Cellular and Reliance Communications, are worried about their licenses expiring next year and have appealed to the government for an extension. Lack of a response from the government could impede telcos from offering affordable broadband data and could imperil the “Digital India” vision. Further, if these operators cannot renew or buy spectrum in the auction slated for early this year, one out of every six GSM phone users could face disruption of services.

Excise-duty and service-tax hikes could erode sales

The government’s proposal to increase the import cost of mobile phones and tablets to 12.5 percent from the current 6 percent could result in price increases for these products, discouraging consumers from buying them. Moreover, the service-tax hike from 12.36 percent to 14 percent will lead to higher bills for post-paid telecom subscribers, possibly further eroding sales.
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