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The global economy has been facing headwinds in the recent years and the Indian economy too was not immune to it. Amidst this global uncertainty, the Indian subcontinent has been gradually charting a slightly different path by focusing on the infrastructure led spending and domestic consumption story. By doing this, India had demonstrated itself as one of the few glimmers of hope off late corroborated with the fact Indian economy grew at 7.9% in FY 2015-16, becoming the world’s fastest growing large economy. The International Monetary Fund (IMF), predicts that India would retain this status until 2020. This has been achieved through a measures which can be broadly categorized in one of the following key themes:

Fiscal prudence and discipline

Thrust on infrastructure and allied activities

Slew of measure to encourage investment to kick start the CAPEX investment cycle.

Sector specific measures to aimed arresting bottlenecks plaguing the respective sectors.

As the country paces itself for the next phase of growth in its domestic market, consequent increase in consumer confidence and greater stability in its macroeconomic fundamentals, the structural reforms and flagship initiatives introduced by the Indian government, in the recent past, have started gaining momentum. The reforms and initiatives are multi-pronged, cutting across sectors, with the prime objective of amplifying the collective growth impact.

This report focuses on the major flagship initiatives that hold the potential to have a transformational impact on the Indian economy and accelerate India’s growth rate and the potential impact it could have on human recourse requirement in the 24 sectors considered for the study.
Executive Summary (2/5)

The following are some the recently announced flagship programs which are going to act as catalyst to attracting investments in various sectors:

Infrastructure investments

As per NITI Ayog’s directional framework released in 2015, the government plans to focus on 5 major areas of infrastructure in order to augment overall infrastructure, attract investments and facilitate overall growth.

Railways
Roads
Sagarmala project (for ports and coastal development)
Inland waterways
Housing for All by 2022.

Make In India: It has been launched with an aim to boost industrial growth and make the country a global manufacturing hub. The programme aims to enhance manufacturing through initiatives designed to facilitate investment, foster innovation, protect intellectual property and build best-in-class manufacturing infrastructure.

Smart Cities: Combined outlay of about USD 2.2 billion to create 100 Smart Cities and rejuvenate 500 cities (through AMRUT). These programs are expected to improve the efficiency of cities and enable local area development, thereby driving economic growth and improving the quality of life. This urban transformation is expected to be driven by adopting technology-based interventions.
Executive Summary (3/5)

Hygiene Infrastructure: Combined outlay of USD 10 billion for Clean India Mission & Clean Ganga. USD 6.5 billion investments towards construction of solid waste management plants, individual and community toilets.

Swachh Bharat Abhiyaan (Clean India Mission)
This mission aims at eliminating open defecation, eradicate manual scavenging, adopt modern and scientific municipal solid waste management, effect behavioural change for healthy sanitation practices, generate awareness about sanitation and its linkage with public health, augment capacity of Urban Local Bodies (ULBs) and to allow an open environment for private sector participation in capex (capital expenditure) and opex (operational expenditure).

National Mission for Clean Ganga (NMCG) / Namami Gange: This mission is expected to ensure effective abatement of pollution and rejuvenation of the river Ganga by adopting a river basin approach to promote coordination within different sectors for comprehensive planning and management. Additionally, it aims at maintaining minimum ecological flows in the river to ensure better water quality and environmentally sustainable development along its entire course.

Digital India: This initiative aims to transform India into a digitally empowered society and knowledge economy. This umbrella programme lays emphasis on the national e-governance plan with an estimated outlay of USD 17.5 billion.

Financial & Communications inclusivity: The JAM Number Trinity, or the Jan Dhan Yojana – Aadhar – Mobile Number Trinity, aims at enabling direct subsidy transfers in order to enable the government to provide targeted subsidies, reducing distortion and subsidy leakages while expanding financial inclusion.

Ease of Doing Business: The initiative has been launched with an aim to create a conducive business environment by streamlining regulatory structures and to create an investor-friendly business climate by cutting through red tape.

Skill India: The program seeks to provide the institutional capacity to train a minimum of 300 million skilled workforce by 2022. 300 million youth to be skilled by 2022. The flagship scheme under the Ministry of Skill Development & Entrepreneurship is Pradhan Mantri Kaushal Vikas Yojana, aimed at imparting short term skill development programs.

Entrepreneurship Development through Start up India & Stand up India: This initiative aims at creating an optimal environment to enable both existing and prospective entrepreneurs to carry out business effectively and seamlessly.
## Executive Summary (4/5)

### Figures in million

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Executive Summary (5/5)

The study suggests that compared to the previous study, recently announced flagship programs have the potential to incremental human resource requirement of 33.6 million people across the 24 sectors which formed a part of the study.

With a slew of measure across varied sectors some of which have been mentioned, the human resource requirement can be indeed higher. However, a lot would depend on the execution of projects in a time bond manner given the lag effect of investments translating into growth and employment.
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<td>Leather</td>
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Environmental Scan for the Sector

Construction Sector Dynamics

- Construction
  - Real Estate
    - Industrial & other buildings
    - Commercial
    - Residential
    - Power / Utility Projects
    - Transport projects
  - Infrastructure
    - Other Civil works

- Factories, SEZ, warehouses, wholesale depots
- Education institutions, hospitality, hospitals, retail & entertainment space, garages, etc.
- Houses, apartment complexes, mixed use space, societies
- Power plants, telecom towers, sewage and waste treatment, urban pipelines
- Motorways, railways, airfields, ports, ICDs
- Dams, industrial facilities, waterways, dredging, stadiums
Environmental Scan for the Sector

**Engine of economic growth:** The sector, which has forward and backward linkages with more than 250 different sub sectors, is the second largest employment generator in India after agriculture. The sector correlation with GDP is high at 0.78x (every INR1 invested in the sector directly adds INR0.78 to the GDP) and there is significant room for improvement, as real estate sector correlation in other large economies (such as China, the U.S., the U.K., Germany, Spain) is at least 0.9x.¹

**Contribution to GDP:** According to the Economic Survey 2015-16, the real estate sector constituted 7.4 per cent of India's GDP in 2014-15. Both domestic and global slowdown affected the sector, with growth decelerating from 4.4 per cent in 2014-15 to 3.7 per cent in 2015-16.

**Improving liquidity:** The private equity deals in the Indian real estate sector increased to 80 per cent year-on-year in 2015 to INR19,500 crore.² However, the Foreign Direct Investment (FDI) was almost negligible in 2015-16 (April to December) to INR673 crore (USD105 million)³ as most foreign investors preferred quasi-debt deals, which is not captured in FDI.

**Prices decline:** The property prices have corrected, either directly or indirectly (through promotions, schemes, etc. offered by private players), by about 10 to 15 per cent nationally. Major correction was witnessed in Delhi-NCR, Mumbai and Chennai markets.⁴

**Housing credit:** The institutional credit growth for housing sector is expected to have improved in 2015-16 to 19.5 per cent from 16.8% witnessed in 2014-15.⁵

**Significant supply gap:** The urban housing shortage is 19 million units, of which 95.6 per cent is in Lower Income Group (LIG) and Economically Weaker Section (EWS).⁶

**Commercial office space leasing strong:** The commercial office space maintained its positive momentum through 2015, led by corporate expansion and consolidation as a result of improving business sentiments. In 2015, about 36 million sq ft. of office space was absorbed, which is second best after 2011. Vacancy level fell from 22 % in 2014 to 17 % in 2015.⁷

One of the key aspects which differentiate the sector in the current scenario is that the sector finds itself at the forefront of “government focus” and is one of the key vehicles driving the growth of the country.

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1 Housing: The Game Changer, Cushman & Wakefield, January 2014
2 PE investment in realty up 80% at Rs19,500 crore in 2015, Business standard website, 8 February 2016
3 FDI Statistics, DIPP website, accessed 26 February 2016
4 What will 2016 mean for property prices?, NDTV website, accessed 26 February 2016
5 Housing Finance, Crisil Research, November 2015
6 Report of the technical urban group (TG-12) on urban housing shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012
7 Net cos take Bengaluru office space leasing to new high, The Times of India website, 5 February 2016; KPMG in India analysis 8. Economic Survey 2015-16, Government of India
Environmental Scan for the Sector

Key Projects expected to spur construction activity

**Sagarmala:** This project aims at transforming the existing ports and creating new ones with world-class technology and infrastructure. This project is also expected to integrate them with industrial clusters and the hinterland through rail, road, inland and coastal waterways. The government is expected to invest USD16 billion for its completion. Sagarmala would also complement the Golden Quadrilateral project and would provide sea connectivity to major industrial centres approachable through sea route.

**Bharatmala:** Bharat Mala is an ambitious programme of the road built along India’s vast west-to-east land border, from Gujarat to Mizoram, at a cost of around Rs 14,000 crore, and linking that to a road network in coastal states, from Maharashtra to Bengal. This is a road network that will, as it were, garland the territory of India.

**Metro Rail Projects:** Various metro rail projects are currently developed across cities of Delhi, Mumbai, Bengaluru, Chennai, Hyderabad, Kolkata, Kochi and Jaipur. Other cities where metro rail projects have been approved are Ahmedabad, Pune, Nagpur and Lucknow.

**Dedicated Freight Corridor:** The plan envisages an investment of USD12.5 billion project for eastern and western freight corridors and eastern corridors. The implementation of the same is underway and are expected to be completed in 2019.

**Industrial Corridors:** The government has embarked on a process of increasing connectivity to its neighbouring economies, both domestic and international. Connecting roads, highways and industrial corridors such as the Amritsar–Kolkata Industrial Corridor (AKIC), Bengaluru–Mumbai Economic Corridor (BMEC), Chennai–Bangalore Industrial Corridor (CBIC) and Delhi–Mumbai Industrial Corridor (DMIC) is expected to spur construction activity.

Similarly, steps such Bangladesh, Bhutan, Indian and Nepal Motor Vehicle Agreement, roadways agreements with ASEAN nations is further expected to spur construction and economic activity.

**Urban Infrastructure:** The government also formalised several initiatives directed towards improving urban infrastructure. It has already identified 100 cities to be developed as Smart Cities (list of 20 such cities recently announced), identified 500 cities for urban rejuvenation under ‘Atal Mission for Rejuvenation and Urban Transformation’ (AMRUT), and launched Heritage City Development and Augmentation Yojana (HRIDAY), which would transform urban infrastructure in 12 Heritage Cities.
Environmental Scan for the Sector

Smart Cities Mission

- The Smart Cities initiative has set out on an ambitious task of creating new cities and modernisation of existing cities.
- A total of 100 smart cities are expected to be developed with 20 being in the first phase over the next five years each entailing to an approximate outlay of Rs 500 crores per year per city.
- A total of USD 7.58 billion (INR 50,803 crores) is expected to mobilized over the next five years. These initiatives have the potential to create a multiplier effect on growth with its ripple effects on employment.
- Estimates suggest that over 5 lakh new jobs would be created in FY17 alone on the project side.

Steps take to ease liquidity condition

- The government relaxed foreign direct investment norms by removing the size and investment restrictions. Further, the lock-in restriction was relaxed allowing easy exit to investors. Lastly, the government allowed investors to invest in completed properties, which was not allowed earlier.
- The Reserve Bank of India reduced the risk weight for individual housing loans of up to INR75 lakh from 50 % to 35 %. Further, it increased loan-to-value ratio to 90 for loans up to INR30 lakh.
- Introduction of Real Estate Investment Trust (REITs) is expected to aid the sector by opening up of avenues to monetize assets. Removal of Dividend Distribution Tax (DDT) on REITs, and reduction in capital gain period to two years was perhaps the most major announcement in the Union Budget.

1 Economic Survey 2015-16, Government of India
2 RBI allows 90% loan to value ratio on home loans up to INR30lakh, Livemint website, 9 October, 2015
3 Conversion rate of INR67 to USD 1 is considered
Environment Scan for the Sector

Real Estate Regulation & Development Act

The Real Estate Regulation & Development Act was passed in 2016 aims to bring transparency to the sector which would in turn benefit both buyers and sellers. This legislation is expected to create a contusive environment for all stakeholders of the sector.

Ease of Doing Business

The initiative has been launched with an aim to create a conducive business environment by streamlining regulatory structures and to create an investor-friendly business climate by cutting through red tape. Initiatives such a Digital India, single window clearance on key projects would further complement such initiatives.

Housing for All by 2022

The government formalised its vision – ‘Housing for All by 2022’ viz. Pradhan Mantri Awaas Yojana, which encompasses building six crore housing units through public-private partnership model. Of these, about two crore houses would be built in urban regions and rest in rural regions. Initially, the vision would entail housing stock development in 1,049 cities (278 Class I cities) of 22 states

The Housing for All by 2022 initiative aims provide housing to all sections of the society through the following initiatives:

• Slum Rehabilitation and Redevelopment
• Affordable Housing through credit linked subsidy
• Encourage PPP participation in affordable housing
• Subsidy for beneficiary led housing or construction

1 India soars high, KPMG in India, 2016
Environmental Scan for the Sector

**Budget 2016-17 announcements in roadways and railways**

- Budgetary allocation for Roads and Railways in the Union Budget 2016 has been increased to Rs 218,000 crore (US$ 32.53 billion)\(^1\), substantial portion of which would be to source raw materials with an aim to boost the private investment cycle

- The Ministry of Road Transport and Highways plans to build five more greenfield expressways across the country, which are expected to reduce travel time and propel economic growth

- Increasing the track-length by 20 per cent from 114,000 km to 138,000 km and increasing the annual freight carrying capacity from 1 billion to 1.5 billion tonnes

- Approximately 920 under and over-bridges construction to replace approximately 3,450 railway crossings at a cost of USD1 billion

- About 400 railway stations (category A and A1) would be redeveloped/modernised in FY2016-17 through PPP model expected to be one of the largest PPP railway projects in the world

- The recently announced Nation Civil Aviation Policy (NCAP) 2016 proposes to introduce Regional Connectivity Scheme to make 375 airstrips operational as No Frills airports

**Other key developments expected to impact the sector**

- Roll out of Seventh Pay Commission

- Easing inflation trends and falling interest rate cycle

- Expectation of above normal monsoons

- Continued trend towards urbanisation

\(^1\) Conversion rate of INR67 to USD 1 is considered
Impact assessment on human resource requirement

- Easing macro economic conditions leading to uptrend
- Kick starting the economy through government infrastructure spend
- Creating an enabling environment for buyers and sellers
- Favourable demography drive consumption
- Improved employment scenario

Estimated human resource requirement (nos. in million)

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Source: KPMG in India analysis
The way forward and support required

Housing for All by 2022’, smart cities and infrastructure development has been focus of this government, and there have been some key announcements in this regard. However, some of the areas that were expected to be addressed but have not been, are discussed hereunder:

• Granting infrastructure status to real estate sector to help channelise higher investment in the sector

• Clarity of key bills such as the Goods & Services Act, FDI in multi brand retail would provide additional impetus to the industry

• Single window clearance mechanism to reduce gestation period of realty projects

• Rationalise and revitalise laws related to land acquisition and development, introduce single-window clearance, eliminate multiple local levies and taxes to foster growth of the real estate sector

• Going ahead, we hope that certain key legislations such as Real Estate Regulatory Bill, Land Acquisition Bill and GST Bill to be tabled in the Parliament soon, which would help support the growth of the realty sector.
Construction Material & Building hardware

Environmental Scan 2016
The four key components of construction material and building hardware sector are housing, infrastructure, commercial construction & the industrial sector contributing 67%,13%,11% and 9% respectively.
Environmental Scan for the Sector

Cement

The installed capacity of the big and small cement plants, a key input for the sector is estimated at approximately 400 - 450 mtpa. While the capacity utilisation hovered between 70% – 72% between 2014-16, the capacity utilisation is expected to improve to range between 75% – 80%. The industry is expected to create incremental capacity of 8% in line with the 7-8% overall growth of the country.

Steel

Soft demand in the global market have lead to softening of metal globally, especially China a major consumer of the raw material has impacted the Indian steel industry adversely.

However, recent measures by the government such as raising of import duty on steel and ban on certain imports will provide much need relief to the industry. Also given the fact the domestic demand is showing signs of pick up the industry prospects as looking cautiously better

Reserve Bank of India’s guidelines on restructuring of stressed assets will also be a step in the right direction in restoring the confidence of the industry which has been grappling with multiple challenges.

Bricks

Electrification of rural areas would aid move towards greener technology would also drive resumption of the Capex cycle which has an impact on the skilling, up skilling and re-skilling of the workforce in the sector.
Environmental Scan for the Sector

Thrust on infrastructure development leading to a revival

Total investment in the road sector, including PMGSY allocation, would be INR 97,000\(^1\) crore during 2016-17.

Award new highways awards for nearly 10,000 kms of National Highways in 2016-17, highest level in terms of kilometers of new highways.

Total outlay on infrastructure alone during 2016-17 is expected to be approx. INR 2.21 lakh crore (US$ 32.53 billion)\(^1\), most significant portion of which would be used for procuring raw materials.

Key Projects expected to spur construction activity

**Sagarmala Project** : This project aims at transforming the existing ports and creating new ones with world-class technology and infrastructure. This project is also expected to integrate them with industrial clusters and the hinterland through rail, road, inland and coastal waterways. The government is expected to invest USD16 billion for its completion.\(^{1,2}\) Sagarmala would also complement the Golden Quadrilateral project and would provide sea connectivity to major industrial centres approachable through sea route.

**Metro Rail Projects** : Various metro rail projects are currently developed across cities of Delhi, Mumbai, Bengaluru, Chennai, Hyderabad, Kolkata, Kochi and Jaipur. Other cities where metro rail projects have been approved are Ahmedabad, Pune, Nagpur and Lucknow.

**Dedicated Freight Corridor** : The plan envisages and investment of USD12.5 billion project for eastern and western freight corridors and eastern corridors. The implementation of the same is underway and is expected to be completed in 2019.

**Industrial Corridors** : The government has embarked on a process of increasing connectivity to its neighbouring economies, both domestic and international. Steps such as connecting roads, highways and industrial corridors such as the Amritsar–Kolkata Industrial Corridor (AKIC), Bengaluru–Mumbai Economic Corridor (BMEC), Chennai–Bangalore Industrial Corridor (CBIC) and Delhi–Mumbai Industrial Corridor (DMIC) is expected to spur construction activity. Similarly, steps such Bangladesh, Bhutan, Indian and Nepal Motor Vehicle Agreement, roadways agreements with ASEAN nations are further expected to spur construction and economic activity.

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1 Budget 2016-17, Conversion rate of INR 68 for 1 USD
Environmental Scan for the Sector

Actions expected to benefit the industry

• Introduction of Goods & Services Tax would result in reduction of logistics cost, one of the key cost drivers of the industry.

• The Ministry of Road Transport and Highways plans to build five more greenfield expressways across the country, which are expected to reduce travel time and propel economic growth.

• Increasing the track-length by 20 per cent from 114,000 km to 138,000 km and increasing the annual freight carrying capacity from 1 billion to 1.5 billion tonnes.

• Approximately 920 under and over-bridges construction to replace approximately 3,450 railway crossings at a cost of USD1 billion.

• About 400 railway stations (category A and A1) would be redeveloped/modernised in FY2016-17 through PPP model expected to be one of the largest PPP railway projects in the world.

• Recently announced Nation Civil Aviation Policy (NCAP) 2016 proposes to introduce Regional Connectivity Scheme to make 375 airstrips operational as No Frills airports.

Key policies and projects in the which are expected to push up demand

<table>
<thead>
<tr>
<th>Real Estate</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Regulation &amp; Development Act</td>
<td>Sagarmala</td>
</tr>
<tr>
<td>Introduction of REITS</td>
<td>Bharatmala</td>
</tr>
<tr>
<td>Housing for all by 2022</td>
<td>Dedicate Freight Corridor</td>
</tr>
<tr>
<td>Smart Cities Mission</td>
<td>Industrial Corridors</td>
</tr>
</tbody>
</table>
Impact assessment on human resource requirement

Scanning the past and expected developments in the sector, provides reasonable grounds to believe a continued trend of a gradual but a certain uptick in sectoral prospects. All above are expected to create a positive bias towards the incremental manpower trend.

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline -2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>Cement</td>
<td>0.46</td>
<td>0.49</td>
<td>0.53</td>
</tr>
<tr>
<td>Bricks, Mortar, Stones &amp; Other Refractory Materials</td>
<td>7.00</td>
<td>8.32</td>
<td>9.54</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>0.85</td>
<td>0.90</td>
<td>0.95</td>
</tr>
<tr>
<td>Total</td>
<td><strong>8.30</strong></td>
<td><strong>9.71</strong></td>
<td><strong>11.01</strong></td>
</tr>
</tbody>
</table>

*Source: KPMG in India Analysis*
The way forward & support required

The demand for raw materials is going to be driven by the thrust on infrastructure and increased consumption demand driven by higher disposable incomes, lower, interest rates we believe will act as enablers to penetrate further deeper markets for cement companies and could contribute to their bottom line in future.

With the government introducing initiatives such as Make in India, Digital India and investor friendly environments, the sector will grow and take India's economy forward along with it.
The Indian handicrafts exports were about $3.2 billion in FY 2015-16 as can be seen from the graph and are expected to soon cross the $3.5 billion mark.¹

The production in the handloom sector was 7203 million sq. meters in FY 2014-15; the sector also contributes to about 15% of the total cloth production in India. The table below shows the production of handloom cloth and associated exports. The handloom exports have been forecasted to reach $597 million in the next three years, an increase of 60% from the present export levels.

<table>
<thead>
<tr>
<th>Year</th>
<th>Handloom cloth production (million sq. Meters)</th>
<th>Handloom exports ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>6806</td>
<td>186</td>
</tr>
<tr>
<td>2010-11</td>
<td>6907</td>
<td>235</td>
</tr>
<tr>
<td>2011-12</td>
<td>6901</td>
<td>391</td>
</tr>
<tr>
<td>2012-13</td>
<td>6952</td>
<td>419</td>
</tr>
<tr>
<td>2013-14</td>
<td>7104</td>
<td>333</td>
</tr>
<tr>
<td>2014-15</td>
<td>7203</td>
<td>335</td>
</tr>
</tbody>
</table>

Exports of handmade carpets and other floor coverings is shown in the table below. About 90% of the total carpets manufactured in India are exported. The government has set a target of about $1,591 million for exports of carpets and floor coverings for this fiscal year.

<table>
<thead>
<tr>
<th>Year</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports ($ million)</td>
<td>955</td>
<td>1,080</td>
<td>1,175</td>
<td>1,383</td>
</tr>
</tbody>
</table>

¹ http://epch.in/index.php?option=com_content&view=article&id=76&Itemid=182
² KPMG budget analysis 2016 -2017
Key Policy Initiatives

**National Handloom Development Programme** – It has been revised in June, 2015 to make it flexible to suit requirements of clusters for their holistic development. The following are some of the new provisions of the programme. All these provisions will attract more handloom weavers, increase earning of the weaves, and facilitate growth and revival of the sector\(^1\)

- Development of clusters at the block level i.e. concentration of handlooms. Around 175 block clusters in 21 states have been sanctioned as per the revision in the programme. The cluster can use the financial assistance to set up of Common Facility Centre (CFC), technology and skill up-gradation, engagement of textile designer and marketing executives, etc.

- Increase in total spending per cluster from $ 90,000 to $0.3 million per block cluster

- Widening of category of implementing agencies to include Primary Weavers’ Cooperative Societies and Self Help Groups (SHGs) and other appropriate legal entities working for handlooms is a new provision

- Involvement of designers to develop designs with support from National Institute of Fashion Technology (NIFT). These designs will help artisans incorporate the latest fashion trends into their products and thus enhance product appeal

- Financial assistance for construction of work-shed for individual weavers has been increased from $520 to $ 1044

**India Handloom Brand** - The prime minister launched the India Handloom brand on 7\(^{th}\) August, 2015 to improve positioning and marketing of Indian handloom products. The brand would signify high quality, social and environmental compliance, and would be targeted towards high-end consumers looking for niche handmade products. By registering under the India Handloom Brand, handloom producing agencies, can use the brand to differentiate their products in terms of quality. However, registration is given after stringent tests conducted at government laboratories.

The rejection rate at the labs has been about 65% to ensure that only premium quality products are registered under the brand. About 170 registrations have been granted to various agencies under the brand in about 41 categories. Also, in the past four months, the registered handloom producers have clocked in sales to the tune of $2.24 million after associating with Brand Handloom India\(^2\). By launching a national level brand, the government is raising the market positioning of the handloom products and instilling confidence in consumers about the quality of Indian handloom products.

As a part of the Digital India campaign, the government has launched an official website of the India Handloom Brand. The website will provide information about retail store, e-commerce platforms, brief description of every product category, contact details of handloom producers for bulk purchase, etc. This platform is a huge step to create a marketplace, where producers can showcase their products and where buyers can purchase good quality products in bulk. This increased exposure with customers directly will encourage weavers to produce quality handloom fabrics in bulk, and thus increase their wages/ earnings.

1 http://pib.nic.in/newssite/PrintRelease.aspx?relid=133970
3 http://handlooms.nic.in/writereaddata/2459.pdf
E-commerce policy – The government has also formulated a policy framework to promote marketing of handloom products through e-commerce in a transparent and competitive way. The policy has been designed keeping in mind the interest of both the consumer and producers. Under the policy, the DC (handlooms) will partner with e-commerce players to market handloom products in a transparent and effective manner.

In fact, the government is already in talks with two e-commerce firms – Amazon and e-bay to expand reach of India Handloom Brand. Amazon, as a part of a pilot will charge only 8% as referral rate to sellers of handloom products as opposed to the standard rate of 15%1. There is a specialised store called Crafted in India on the Amazon website through which these products will be sold. Such pilots together with popularity of India Handloom brand would provide the necessary push to propel the handloom sector forward considering the increasing trend of purchasing apparel online, especially among the youth.

Infrastructure and technology development scheme – The Infrastructure and technology development scheme aims to create world class infrastructure in India to support the production and enhance quality of handicrafts products. As a part of the scheme, several initiatives such as integrated handicraft park, craft village, state initiative design centres, raw material banks, etc. will be set up. Ten projects amounting to about $0.75 million have already been completed under this scheme. Development of this infrastructure would enable artisans to produce top quality handicrafts at competitive prices, thereby increasing the supply of Indian handicrafts.

Demand driven strategy for handlooms – The first meeting of the All Indian handloom board was held in April this year. At the meeting, a new demand driven strategy to provide the right impetus to the sector was formulated. The objective of the strategy is to increase the earnings of the weavers through skill and loom up-gradation, improving availability to raw materials and credit facilities, and effective branding. Some of the initiatives planned at the meeting are2

- Health and life insurance to weavers will now be given under various national social security schemes. The health assistance provided to the weavers has been increased from $ 220 to $ 450 with immediate effect. The insurance cover under the Pradhan Mantri Jeevan Jyoti Yojna of $ 3,000 compared to the present provision of $ 2,200 in case of accidental death
- A four year course in Handloom technology has been introduced at the Indian Institute of Handloom Technology (IIHT)
- Increasing the wage of skilled handloom weavers to $ 7.5 per day
- Development of an Enterprise Resource Planning (ERP) project of National Handloom Development Corporation Ltd for weavers to place and track indents online, obtain information about unused yarn quota, and material dispatch information via SMS in local languages

All the above efforts will most definitely help stimulate growth within the sector by attracting new weavers and artisans to take up different trades. By ensuring social security and facilitating adequate credit, the artisans and weavers will be empowered to introduce innovative technique and expand their business. Lastly, by increasing the earning of handloom weavers, the initiative will also attract the younger generation to take up employment in the sector.1 http://articles.economictimes.indiatimess.com/2015-12-05/news/68790666_1_handloom-mark-handloom-products-handloom-industry

2 http://pib.nic.in/newsite/PrintRelease.aspx?relid=138987
Environmental Scan for the Sector

Key Policy Initiatives

Schemes for handicrafts– The government has launched a series of schemes for promotion of handicrafts across different states in the country, some of these schemes are

• Development of other crafts of J&K for development and growth of Handicrafts Clusters of J&K

• Programmes for Integrated Development & Promotion of Handicrafts by SC/ST artisans in the states of Uttarakhand and Jharkhand. Within this programme, numerous design and technology up-gradation workshops ranging from 25 days to 5 months will be conducted. The assistance provided under this programme ranges from $5,000 to $ 15,000. The training provided to the artisans will enable them to improve the quality and competitiveness of their products

• Comprehensive development and Promotion of Indian Handmade Carpet for SC/ST Weavers

• Setting up of three new Mega Clusters in Bareilly, Lucknow and Kutch. A total sum of $74 million has been budgeted for setting up various mega clusters. The mega clusters would consist of world class infrastructure to help artisans expand their production lines with the help of latest technology and adequate soft skill and technical training

Under the interest equalisation scheme, the government announced a 3% subsidy scheme for all exports of micro, small and medium enterprises (MSME), and 416 tariff lines spread across 25 sectors. The sectors covered under the scheme are handicrafts, handmade carpet (including silk), handloom products, coir items, jute, among others. The exporters can avail loans from banks at a 3% lower rate. The financial implication of the scheme will be about $402 million. However, the scheme will make these labour intensive exports globally competitive and thus give the much needed push to increase Indian exports.

1 http://pib.nic.in/newsite/PrintRelease.aspx?relid=133970
3 http://www.thehindubusinessline.com/economy/cabinet-approves-longawaited-interest-subvention-scheme-for-exporters/article7891735.ece
4 http://www.thehindubusinessline.com/economy/handloom-weavers-to-be-extended-more-credit-to-spin-a-better-future/article8607992.ece
Environmental Scan for the Sector

Flagship Initiatives

The weavers and other workers in the handloom sector face a major working capital crunch. As per an estimate, the working capital requirement of the weavers varies from $700 to $600. The government has thus introduced the Mudra weaver scheme to tackle this. Handloom weavers are eligible for credit under the Mudra Weaver Scheme, which will permit the beneficiary to withdraw money from the ATM using Rupay cards. Under the scheme, the ministry of textile is collaborating with large public sector banks such as Punjab Bank, UCO Bank, Canara Bank, United Bank, etc. to extend concessional loans to weavers up to $ 7,500 across all states in the country. The successful pilot of this scheme in Varanasi and Bhubaneswar triggered the expansion to this scheme. Under the pilot, the credit disbursed doubled to about $ 750 for the 500 weavers compared with a disbursement of only $ 350 under the Weaver Credit Card scheme.

However, this scheme has been modified from the original Mudra scheme to include the 3% interest subsidy provided to handloom weavers for three years. The government aims to cover 5 lakh weavers under the MUDRA scheme in the next three years. Moreover, the government has also started organising awareness camps across numerous mega clusters in order to provide information to weavers about the scheme. The increased loan opportunity provided to the weavers will pump in the much needed capital in the cash starved handloom sector.

Environmental Scan for the Sector

New Entrants

Apart from established e-commerce players like Amazon, e-bay, Flipkart, that are partnering with the government to market traditional handloom & handicrafts in India, there are a few other start-ups that have also emerged in the recent years. Some of these are mentioned below

Banna Creations – It is an online boutique store that has a range of products in textiles, hand embroidery, folk art, etc. The Company partners with handloom makers across the country in order to co-design its products. It has sold to 25,000 customers to date, 20% of which comes from outside India. The artisans received about 30-40% of the revenue from each piece sold

Craftisan – It is a curated marketplace that lists over 2,500 artisanal products from 150 artisans and sells them at 50-150% above the original cost. The company provides data to craftsman based on the data collected on customer preference. The artisans receive money within 30 days after their product has been sold and unsold products are returned back after being on display for 3 months. The average order on the website is around $60.

Go-Coop – It is also a marketplace that charges a subscription fee to the artisans for showcasing their products on the website. The artisans are also charged an additional fee for every transaction completed

Utsav – It purchases the products from the artisans upfront and then sells via its website. The company has sold about 800 products in the past two years

The reach of e-commerce should be leveraged in order to effectively promote Indian handicrafts and handlooms. As more and more e-commerce companies mushroom, we can hope to see a wider range of the artisan community moving online to showcase their products both domestically as well globally. This would eliminate the middlemen and ensure that the craftsmen receive fair trade prices for their art. And thus, encourage new weavers and artisans to pursue the trade as a full time occupation.

Government schemes achievement

<table>
<thead>
<tr>
<th>Design and Technical Upgradation</th>
<th>Financial implication of $ 6 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research &amp; Development Scheme</td>
<td>Financial implication of $ 0.5 million</td>
</tr>
<tr>
<td>Human Resource Development scheme</td>
<td>Financial implication of $2.2. million</td>
</tr>
<tr>
<td>Infrastructure and Technological Development</td>
<td>Financial implication of $ 0.7 million</td>
</tr>
</tbody>
</table>

Environmental Scan for the Sector

New Projects

The Ministry of Minority Affairs has asked National Institute of Fashion Technology (NIFT), Institute of Packaging (IIP), and National Institute of Design (NID), to design and upgrade packaging of 40 handloom fabrics. Good packaging entices consumers to buy products and also enhances the value of a product. As a part of this initiative, IIP will also develop training courses for specialized packaging in various languages for artisans from minority communities that are associated with the sector. These initiatives prove that the government is thinking on re-branding and creating a grand image of India Handloom Brand globally and in the process creating employment opportunities and new job roles. In addition to this, the government should also issue guidelines for packaging of both handloom and handicraft products, in order to ensure a uniform customer experience.

To facilitate marketing of handlooms and handicrafts, the government will continue organise periodic exhibitions and sale festivals in large cities. The funding for this initiative will come from existing schemes of Ministry of Textiles. As a part of this endeavour, the following measures have been undertaken:

• The Ministry of Tourism will also help promote the event by passing on the relevant information to the tour operators and hotels
• The development commissioner of handloom and handicrafts will provide accommodation to artisans and weavers at low cost to participate in these events. Lastly, cities will be identified in states in which tourism projects have been sanctioned

The Ministry of textiles in collaboration with Ministry of Tourism has created an action plan to exploit tourism for marketing of handicraft products, salient features of this action plan are:

• Setting up mega showrooms in metros
• Setting up sales counters in places of tourist attraction

New Projects

The Handloom Entrepreneur course is a new four month course launched by the Ministry of Textiles to groom weaves to become successful entrepreneurs. The weavers will be trained in subjects such as e-commerce, quality control, marketing, and financial management. The course is NSQF compliant and the assessment will be done by the Textile Sector Skill Council. 60 entrepreneurs have already completed training in this course at different IIHTs. Moreover, in order to produce graduates and post graduates that possess the necessary skills to meet the requirements of the handloom sector, the government has undertaken the following measures:

• Setting up of new IIHT in Central Sector in West Bengal
• Setting up of new WSCs in Central Sector
• Degree course B.Tech. in Handloom & Textile technology has been started at one of the IIHTs for the academic year 2015 -16
• Continuation of IIHT, Bargarh

The Indian carpet export promotion council opened handmade carpet weaving centres across the country. It trained about 1,956 persons in 163 batches during April 2015 to March 2016.

2 http://indiatoday.intoday.in/story/govt-to-organise-exhibitions-to-promote-handlooms-handicrafts/1/554635.html
Impact assessment on human resource requirement

- Revision in National Handloom Development Scheme
- Launch of India Handloom Brand and website
- Emergence of start-ups in e-commerce space for handicrafts
- E-commerce policy framework
- Weaver mudra scheme
- Programmes for Integrated Development & Promotion of Handicrafts by SC/ST artisans
- Interest equalization scheme – 3% subsidy
- Setting up of new IIHTs

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline - 2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>Handloom</td>
<td>4.33</td>
<td>4.33</td>
<td>4.33</td>
</tr>
<tr>
<td>Handicraft</td>
<td>7.32</td>
<td>9.60</td>
<td>13.46</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11.65</strong></td>
<td><strong>13.93</strong></td>
<td><strong>17.79</strong></td>
</tr>
</tbody>
</table>

Source: KPMG in India Analysis
The way forward and support required

There is need for educating and training small town entrepreneurs, artisans, weavers, etc. about the government’s initiatives to market handloom products digitally and how to use the platforms to showcase their products. Without this, some of the indigenous handlooms may not be marketed to globally.

There is a need to create a similar brand of India Handicrafts to instil customer confidence in the quality of Indian handicrafts. The learnings and best practices from launching Indian Handloom Brand can be incorporated to enhance the marketing of Indian handicrafts.

There needs to be a means by which different artisans and weavers are informed about the changing consumer preferences and latest market trends. This will enable them to modify their products in line with market expectations by using technological support provided to them.
Textile & Clothing
Environmental Scan for the Sector

India accounts for ~14 per cent of the world’s production of textile fibres and yarns (largest producer of jute, second largest producer of silk and cotton, and third largest in cellulosic fibre). India has 59% of the world’s installed looms capacity including handlooms.¹

The textile industry has one of the biggest contribution to the industrial output of the country as well as the second largest contributor to the employment after agriculture sector. The textile Industry in India contributes 10% of manufacturing production, 2% of India’s GDP and 13% of the country’s export earnings².

There are many macroeconomic trends that are driving the growth of textile industry. Rising per capita income, favorable demographics, shift in preference to branded products etc are some of the key drivers which are enabling an increase in the growth rate of the sector.

According to Sector Skill gap study, the Indian Textile sector is growing at a CAGR of 10.01%³.

Even after having 63% of the looms of the world, Indian textile industry lags behind Chinese textile industry mainly due to lower productivity, which needs to addressed in subsequent Textile policies.

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¹ Make in India report on textile sector
² Ministry of Textile annual report 2015-16
³ IBEF report on textile sector
Environment Scan of the sector

Flagship Schemes

**Make in India**: Make in India is the flagship scheme of the government of India in order to increase private participation in the Indian industries. Textile is one of the priority sectors of Make in India scheme. Under Make in India scheme, investment opportunities for foreign companies and entrepreneurs are available across the entire value chain of Textile Sector

- The first Make in India week was held in Mumbai in 2016, and Maharashtra government announced various measures to improve the ease of doing business in Textile sector in the state
- During the Make in India week in Mumbai, 2016, Raymond Industries committed to invest Rs 1400 Crores for manufacturing linen yarn and fabric facility

Make in India, together with the National Textile Policy aims to create an additional 35 million jobs in India by 2025

**Pradhan Mantri Mudra Yojana**: Pradhan Mantri Mudra Yojana was launched in the Union Budget 2016-17. The purpose of Mudra is to provide funding to the non-corporate small business sector. Loans worth about USD 1.5 billion has been sanctioned under this scheme. There are three categories under this scheme:

- Shishu :- Loan up to USD 740
- Kishore :- Loan ranging from USD 740 to USD 7,400
- Tarun :- Loan above USD 7,400 and below USD 15,000

This scheme is beneficial to people who want to start small businesses in Apparel manufacturing, small scale manufacturing of textile products etc

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2 [http://www.mudra.org.in/](http://www.mudra.org.in/)
Environment Scan of the sector

Pradhan Mantri Rozgar Protsahan Yojana

Pradhan Mantri Rozgar Protsahan Yojana was launched in the budget of 2016-17 to incentivize employers for employment generation with an initial allocation of USD 151 millions. This scheme will cover approximately 350 thousand establishments which employ more than twenty people and under this scheme the government will pay 8.33% of wages to Employee Pension Scheme on behalf of employers for workers during first three years of employment. Under the special package for Textile sector announced in June 2016, Ministry of textiles will contribute an additional 3.67% of the employer’s contribution amounting to USD 177 millions.

This scheme is expected to increase the formal employment in the textile sector and help in increasing the attractiveness of the sector for employees. Industries will be able to hire additional permanent employees without any additional cost on EPS.

Foreign Direct Investment

- FDI in 2015-16 stood at approximately USD 257 million, an increase of 69% from 2015 (USD 152 million) due to the affect of flagship schemes like Make in India and Startup India
- Mauritius remains the biggest FDI contributor in textile sector with approximately 50% of FDI coming from Mauritius, efforts should be initiated to attract FDI from other countries

With a favorable trade policies in textile sector and scope of growth in modernization, Textile sector is expected to be one of the largest recipient of FDI and manpower demand in the sector is expected to increase.

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1 http://pib.nic.in/newsite/PrintRelease.aspx?relid=142605
3,4. DIPP statistics on FDI
Environment Scan in Textile Sector

Select Incremental Investments

• 24 new clusters have been sanctioned from 2014-16 facilitating an investment of over USD 681 million and will help in creation of jobs for 66,000 people

• There are three new textile parks proposed by Uttarakhand in the Kumaon region

• USD 4.5 billions investment is expected in 74 textile parks in 2016-17

• New regions are also explored for setting up Integrated textile Parks. Apparel and Garment making centers are being opened in every state of North East India and recently Ministry of Textile rolled out USD 64 millions for geotechnical textile projects in North East

Emerging Global Trends

• Due to poor market conditions in 2015-16 the growth of Textile exports across the world, the exports from India remained flat at USD 40 billion, while exports from other countries declined due to poor recessionary trends in US and EU

• After the trade sanctions has been lifted from Iran in 2016, Iran can be one of the large export destinations of Indian textiles

• Trans Pacific Partnership between US, Canada, Japan and nine other nations will have an impact on the export of the Indian textiles making it less competitive in its biggest three markets mentioned above

• Indian government is looking into a free trade agreement with European Union for making the prices of the textile more competitive compared to other countries

1 http://pib.nic.in/newsite/PrintRelease.aspx?relid=146112
3 Times of India news article captured on February 18,2016
4 http://pib.nic.in/newsite/mberel.aspx?relid=117645
Environment Scan of the sector

Key Policy Initiatives

• New was announced in June 2016, the central government approved a USD 909 million special package for textiles and apparel sector on Wednesday to create 1,00,00,000 new jobs in 3 years, attracting investments of $11 billion and generating USD 30 billion in exports. Key highlights of the policies are:
  • Reduction of working days from 240 to 150
  • 10% extra production and employment based subsidy under ATUFS
  • Government to bear entire 12% EPF contribution of employer
  • Overtime not more than 8 hours per week
  • Introduction of Fixed term employment
  • EPF to be optional for employees earning less than USD 230
  • Special scheme for remission of state levies for three years
  • Drawback at all Industries Rate for domestic duty paid inputs

• In December 2015 Government approved a budget of USD 2.7 billion under Amended TUFS (ATUFS) Scheme, from which USD 780 million is set aside for new projects which will increase the automation in Indian industries.

• A region centric strategy has been launched to boost up Textile production in north east states by the name “North East Regional Textile Promotion Scheme” with a provision of USD 157 millions. Under the umbrella scheme, the government would provide USD 2.7 millions for setting up manufacturing units in each of the north-eastern states together with financial aid to run the units including installation of 300 Japanese sewing machines. This Project is expected to create over 1 lac employment. With the inception of this initiative, other region specific strategies can be launched to take care of challenges according to geographies.

The Amended TUFS (ATUFS) scheme will continue to address the technological upgradation of the sector which is currently the need of the hour, improving the productivity of the sector. Similarly the region centric strategies will be followed in near future and region specific interventions will be implemented to bring a homogeneity in production as well as productivity across geography.

The flagship schemes coupled with budgetary provisions for the textiles are expected to increase the growth rate of the sector to more than 10%.

1 Press Information Bureau, captured on 22nd June 2016
2 http://pib.nic.in/newsite/mberel.aspx?relid=117645
The new schemes, coupled with special package and Pradhan Mantri Rojgar Protsahan Yojana will aid private sector participation in the setting up of industries, increasing the formal employment and infrastructure development.

With the Pradhan Mantri Mudra Yojana financial inclusion of weaker sections of the society will increase and small businesses in Textile sector can flourish. Region Specific textile policies will help in creating regional clusters with local employment and increasing the skill sets of local population.

### Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline -2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017 2022</td>
<td>2017 2022</td>
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<tr>
<td>Spinning Weaving and Finishing of Textiles</td>
<td>3.1 3.14</td>
<td>3.18 3.18</td>
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<tr>
<td>Manufacture of Other Textiles</td>
<td>8.04 10.64</td>
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<tr>
<td>Manufacture of Wearing Apparel</td>
<td>4.09 4.28</td>
<td>4.58 4.34</td>
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<td>Total</td>
<td>15.23 18.06</td>
<td>21.56 18.33</td>
<td>25.00</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis
The way forward & support required

- Fluctuating prices and uncertainty of availability of raw materials add to the raw material shortage, especially of cotton, which the industry struggles with. To add to this, India has one of the lowest cotton productivities, (of approximately 639 kg/hectare) in comparison to other major cotton producing countries like China and European countries. All these factors, severely impact production cost efficiencies and create problems in the initial planning stages. Government should spend more on modernization activities. The upcoming “Textile Policy” is also expected to address some these challenges

- In lieu of the technological advancements and introduction of new technologies such as geotechnical textiles in the sector, efforts need to be made to up skill the existing workforce to build their knowledge and skill regarding these technologies, and thus increase their productivity. Geotechnical textiles are one of the fastest growing export products.

- The fragmented and complex nature of the textile industry is one of the reasons for widespread child labour in this sector. Children are forced to work long hours and are paid wages below the official minimum level. Government should make more provisions to incentivize formal employment and increase vigilance to stop such criminal activities

- The effects of Trans Pacific Partnership may affect the competitive pricing to top export destinations like US, Canada and Japan. India can try to become a part of this group along with having Free Trade Agreements(FTA) and Regional Comprehensive Economic Partnership (RCEP) with other countries to boost growth in exports
Environmental Scan 2016
Environmental Scan for the sector

The Indian retail sector is characterized by unorganized play with nearly 93% (2015) share. Currently at ~$600 billion, the retail sector is expected to double in size by 2020. Retail sector accounts for 23% of GDP and 8% of employment and continue to have growing labour demand.

The retail industry is evolving with new technology-enabled distribution channels and growing organized retail. Rising per capita income, evolving consumer preferences, growing digital proliferation (especially mobile) are key drivers of growth. The digital disruption has aided growth of e-commerce retail, supported by increasing use of data analytics and technology for greater cost efficiencies. Technology adopted for retail operations, allied services such logistics, inventory management and last mile delivery will improve operational efficiency.

**Growth in e-commerce retail has led to demand for new jobs in retail operations.** At the same, both traditional and e-commerce retail, across sub sectors, are exploring Tier 2 and Tier 3 for untapped growth potential. Expansion of modern retail in Tier 2 and Tier 3 markets will result in high frontline manpower demand.

Government policy initiatives such as Digital India, Model Shop and Establishment Act, 100% FDI in single brand retail1, 100% FDI in trading for food products (including e-commerce) will boost investment in the sector. Major international firms such as IKEA, Adidas, Hennes and Mauritz etc are early investors. The sector could potentially attract further investments from players such as Amazon, LeEco, Xiaomi and Apple.

Overall the growth prospects of the sector remain strong with significant employment generation potential. Apart from traditional sales roles, technology driven growth will create demand for specialized skills such as data analytics, supply chain management.

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1 100% FDI allowed in single brand retail with easing of local sourcing norms by 3 years (the relaxation period can be extended by 5 years for products having state-of-the-art and cutting edge technology

Source: Retailers Association of India, Economic Times, KPMG in India analysis
Environmental Scan for the sector

The retail landscape in India is characterized by a majority of unorganized players. 92% (2014-15) of the business is generated by fragmented, unorganized ‘kirana’ or other traditionally run family stores.

The sector is poised for significant growth, nearly doubling in size to USD 1 trillion by 2020. While the retail sector may grow 12% annually, organized retail is expected to grow at ~20% per annum (Refer to Figure 1). The e-commerce retail sub sector is expected to witness explosive growth at 52% per annum to touch USD 36.7 billion by 2020. Indian retail sector growth is driven by changing consumer preferences, purchasing behavior, rising per capita income and rapid urbanization.

![Figure 1: Comparison of growth rates of retail, 2015-2020E](image)

Source: retailer’s Association of India, KPMG in India analysis

Technology has disrupted the competitive landscape. Growing access to internet-enabled mobile devices and shift in purchasing behavior has resulted in higher growth of m-commerce. E-commerce retail is driven by large domestic players such as Snapdeal, Flipkart which offer stiff competition to international players such as Amazon and Ebay.

E-commerce sub sector is expected to create 250,000 jobs in 2016-17 and 500,000 to 800,000 jobs in 2 to 3 years. The sub sector continues to offer attractive employment options for even highly skilled labour as even managerial roles are in high demand.

An expanding middle class and growing consumerism among Tier 2 and Tier 3 cities has created new markets for organized play. Both brick-and-mortar and e-commerce models will compete for the customer wallet. 68% (2014) of the populated is estimated in rural India and remains largely underserved. Expansion of organized brick-and-mortar retail will lead to increased demand for frontline sales, customer service personnel.

1 M-commerce or mobile commerce refers to sales or purchase transactions made via mobile internet
2 World bank statistics
3 Including jobs along the e-commerce supply chain, logistics
Source: Retailer’s Association of India, Assocham, Economic times, KPMG in India analysis
Environmental Scan for the sector

The impetus for growth in the Indian retail sector is both consumer led and policy action. Both domestic and foreign investment has driven up competition, led to improved cost efficiencies, allowed small and medium enterprises and regional artisans, to sell nationwide.

Key developments and corresponding impact can be analysed as follows;

Flagship initiatives:

Ease of doing business

As part of government initiatives to boost the retail sector, in June 2016, the cabinet cleared the Model Shops and Establishment Act. This regulation would facilitate 365 days, 24x7 operations of food outlets, cinemas, malls and local markets. This would boost employment prospects of both full time and part time labour. Women can now work 24x7. States such as Maharashtra, Andhra Pradesh (January 2016) and Karnataka have taken a lead to pass state retail policies. Under state norms, retailers can apply for a single window clearance, relaxed stocking limits and benefit from simplified labour laws. States such as Andhra are expecting 20000 new jobs to be created by 2020 as a result.

It is expected that Telangana, Uttar Pradesh, Rajasthan and Gujarat will follow suit with respective state retail policy.

Smart Cities

Under the Smart Cities initiative, it is proposed that incubation and trade centers will be set up which could further boost retail activity.

Digital India

Initiatives under Digital India, setting up of payment banks and similar measures are improving access to internet, credit and payment options in Tier 2 and Tier 3 towns. With ~50% (2015) of e-commerce retail orders via mobile, the growth of internet-enabled mobiles in Tier 2 and Tier 3 will continue to boost demand. A boost in the e-commerce sector is expected to boost investment in logistics, transportation, warehousing and packaging and in turn create jobs.

Other policy initiatives:

A significant policy push for retail comes from 100% FDI in single brand retail and easing of 30% local sourcing norms for 3+5 years. This could attract international investments especially in electronics, apparel and furniture and furnishing sub sectors.

100% FDI via automatic route for food retail, including retail through e-commerce is expected to boost growth. 100% FDI will be permitted for locally manufactured or produced food products.

1 The Model Shops and establishment act will act as an advisory to states and can be subjected to state modifications.

Source: KPMG in India analysis, Livemint, Wall Street Journal
Environmental Scan for the sector

New players:

International players such IKEA already intends to open up to 10 stores across India. Each IKEA store is expected to generate 2000 (direct and indirect) jobs.

In apparel, Hennes and Mauritz AB (H&M) proposed to invest ~USD 115 million over the next 5 years. Banana Republic, a fashion brand under the Gap banner, is expected to open retail outlets by the end of this fiscal year in partnership with Arvind Retail. In 2015, Adidas will open its first 100% owned store in 2016 after receiving government approval.

In electronics, Apple, Xiaomi, LeEco are likely to invest in building a retail presence in India.

In the food segment, sector could witness investments from Amazon (Amazon Fresh) and Walmart in India.

Other developments:

A key impending policy that will have a significant impact will be rollout of Good and Services Tax (GST). Rationalisation of central-state taxes will aid in location optimization of warehouses, inventory cost optimization, consolidation of distributors, reduce administrative complexity, all of which lowers working capital requirement and improves operating efficiency. Introduction of GST will have a positive impact on sector growth.

Financial inclusion initiatives, through Jan Dhan Yojana link a large section of the population with formal banking system. This improves access to personal credit lines. This in turn will increase household spending including on sectors such as retail.

The MUDRA scheme targets micro enterprises and opens up credit lines for working capital which could further boost the large unorganised retail enterprises in India.
Way forward and support required

Key areas for action:

While the retail sector is poised for sustained growth, it is important to note key focus areas which could in turn affect employment prospects.

These include:

• Timely rollout of GST is essential. Rationalisation of taxes and a uniform tax code nationally, will improve warehousing, line haul, inventory management related costs leading to operational cost efficiencies.

• Integrated central and state policy making and timely rollout of a comprehensive state retail policy. Lack of integrated policy action leading to multi-level (central, state and local) regulations lead to complex licensing and other regulatory compliance costs. Timely rollout of state retail policies will provide the retail sector much needed clarity for conducting multi-city operations.

• Demand for skilled labour, especially for organised retail in frontline roles, such as sales and service, remains a challenge. Cost of training also remains high due to high frontline labour churn among organised retailers. Hence, public and private sector investments in skilling should be a priority focus area.
Impact assessment on human resource requirement

Estimated human resource requirement (nos. in million)

<table>
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<tr>
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<tbody>
<tr>
<td>Health and Personal Care</td>
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<td>1.86</td>
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<td>Lifestyle</td>
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<td>Auto Sales</td>
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<tr>
<td>Jewellery sales</td>
<td>1.50</td>
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<tr>
<td>Food services</td>
<td>4.60</td>
<td>7.05</td>
<td>10.49</td>
<td>6.86</td>
<td>10.21</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>38.61</strong></td>
<td><strong>45.11</strong></td>
<td><strong>55.95</strong></td>
<td><strong>45.16</strong></td>
<td><strong>55.97</strong></td>
</tr>
</tbody>
</table>

- Reduction in operational complexity and corresponding costs
- Employment generation through creation of jobs in retail and allied services

1 GST or Goods and Service Tax that is expected to be rolled out soon
2 State retail policies are expected to be rolled out soon following the central government Cabinet decision to clear the Model Shops and Establishment Act
Source: KPMG in India analysis
Private Security Services Sector

Private Security Services Sector

June 2016

KPMG.com/in
Environmental Scan for the Sector

Private Security Services sector is at the brink of rapid growth. With the rapid growth of economy, the need for security at offices, public places, industrial premises and other infrastructure has gone up. Government initiatives such as smart cities, Start up India and Make in India will lead to investments in residential and commercial real estate projects. This will in turn generate demand for support services. With manned guarding currently dominating the sector, the demand for manpower is likely to shoot up.

The sector will also boost due to favourable policy decisions. Relaxation in taxation policies and increased exemption limit will see more borrowers applying for home loans. The recent trends also show a decrease in the vacancy level in real estate sector. All these factors will drive the need for private security services. The increased FDI limited once notified in the PSAR Act will allow firms to raise capital from foreign markets providing a further boost to the sector. The growing banking industry will see increased demand for specialized services like cash handling. Nowadays, private security services are also utilized to manage crowd in public places and events. With overburdened policemen, security services may prove to be a solution for some of the functions currently performed by police. Also with rising instances of crime, people are becoming more wary of personal safety and security of property. All these factors will propel the demand of private security services in the country in the next few years.
The role of private security industry has gained importance over the years. Over the last two decades, with the rapid growth of economy, the need for security at offices, public places, industrial premises and other infrastructure has gone up. With manned guarding accounting for nearly 80-90% of the total private security services, the sector will see growth in employment opportunities in the sector.

**Eased FDI Norms and Tax Benefits**

Private security agencies can now bring in 49% FDI under the automatic route and up to 74% under government approval route from earlier 49% limit under government approval route. This will require an amendment to the PSAR Act post which private security agencies will be able to raise funds from foreign markets under new guidelines. Simultaneously, government has relaxed foreign direct investment norms by removing the size and investment restrictions in the real estate. Further, the lock-in restriction was relaxed allowing easy exit to investors. Lastly, the government allowed investors to invest in completed properties, which was not allowed earlier.

This will provide a boost for housing, townships, commercial and industrial construction by providing greater access to funding.

The tax benefits accruing from revised tax norms will provide stimulus to the real estate sector. Increase in exemption limit from USD 3077 to USD 3846 and limit on home loan interest from USD 2308 to USD 3077 will provide relief to home buyers from high inflation and high interest rates. As per Reserve Bank of India (RBI)’s directive, interest rates will have to be reviewed every month on the basis of MCLR (marginal cost of lending rate). The new methodology for computing benchmark lending rate will bring in transparency in loan pricing and expected to be favourable to people seeking home loan.

**Flagship Government Initiatives**

Government of India has envisaged around 100 smart cities under the ‘Smart Cities Mission’ and has allocated USD1.2 billion for Smart Cities in Budget 2014–15. The estimated outlay for the Smart Cities Mission from FY2015-16 to FY2019-20 is more than USD15 billion. The mission entails greenfield developments and other urban initiatives such as international airports and port cities apart from boosting the Industrial and Technology Parks and clusters, such as the Gujarat International Finance Tec-City (GIFT City) in Gujarat. One of the core infrastructure elements in a Smart City is Safety and security of citizens which will provide an impetus to the private security services. Intelligent physical infrastructure envisaged under the mission will also see need for security services going up.

‘Make in India’ and ‘Digital India’ will lead to a growth of industries in the country. With newer manufacturing enterprises coming up, jobs opportunities will be created to fulfil physical security needs for infrastructure, logistics, supply chain management and banking. Around 80000-100000 new companies are registered every year. The number of registrations stood at 70,043 in 2014, 92,039 in 2013 and 103260 in 2012. With more commercial enterprises coming up as a result of Startup India initiative, the requirement of security will grow and benefit the sector.

1 smartcities.gov.in/
2 Ministry of Corporate Affairs Website
Environmental Scan for the Sector

The government also formalised several initiatives directed towards improving urban infrastructure. It has already identified 100 cities to be developed as Smart Cities (list of 20 such cities recently announced), identified 500 cities for urban rejuvenation under ‘Atal Mission for Rejuvenation and Urban Transformation’ (AMRUT) and launched Heritage City Development and Augmentation Yojana (HRIDAY), which would transform urban infrastructure in 12 Heritage Cities.

The sector will also receive a boost from increased urbanization. Nearly 31% of India’s current population lives in urban areas and contributes 63% of India’s GDP (Census 2011). With increasing urbanization, urban areas are expected to house 40% of India’s population and contribute 75% of India’s GDP by 2030. ¹

### Enhanced Security Regulations for Educational Institutes

Ministry of Human Resource Development has come up with strictures to enhance safety in schools. As per the Standard Operating Procedures defined or dealing with possible terror attack, each school should have 3-4 gates and each gate should be manned by at least 3 guards on a 24 hour basis. With over 15 lakh schools (Planning Commission of India in 2011), a minimum of 0.9 Million security guards need to be deployed.

### Low policemen to people Ratio

India faces huge gap in terms of ratio of policemen to people. United Nations recommends one policeman for every 450 people, while India has one policeman for every ~700 people. Further, as per the National Crime Records Bureau, Indian faces a shortage of 0.5 million policemen. Given the shortfall in government security apparatus, there has been an impending need to have a private security system.

### Need for Cash Services in Banking and security

Growth in banking sector has led to increase in number of banks, bank branches and ATMs. Overall Number of ATMs (on-site and off-site) have increased from 95,686 in the year 2012 to 199,099 in the year 2016. With NFBSs applying for white label banks (which come with a mandate to set up ATMs in Tier-III to Tier-VI cities) demand for Cash Handling and electronic security services is expected to rise. The number of branches of scheduled commercial banks have increased from 68,681 in 2006 to 102,343 in 2013²

¹ Smart Cities Mission Statement & Guidelines
² RBI Website
Environmental Scan for the Sector

High ranking on global terrorism index

India ranked sixth out of the 162 countries on Global Terrorism Index. The country witnessed highest number of terrorist incidents and deaths in 2014 since 2010. The total number of incidents occurred in the year 2014 were 1545, with 624 terrorist activities, 404 killings, 619 injury incidents and 158 property damages. This calls for increasing the security services in India.

Focus on Skill Development

Focus on Skill Development

Under the Skill India initiative, skills training is being imparted through training programs which will create a need for training and assessment facilities and will see a demand for lead trainers, field trainers, lead assessors and field assessors.

Growing Need for Women Guards

Growing Need for Women Guards

The demand for women guards is rising mainly driven by metro stations, airports, malls, retail outlets, airports and other places where female visitors are being frisked.

Technology Driven Security

Technology Driven Security

Increasingly security service companies are providing services such as installation, operations and maintenance of electronic security products such as CCTVs. The trend is going to increase as companies decide to cut operational cost and invest more in technology driven products.

Also, as technology becomes affordable the sector will see more and more technological gadgets and automation. The sector will see a shift from a manpower-intensive industry to technology dependent industry. The sector will need to gear up for training its manpower in these technologies.

Biometric authentication through fingerprints, retinal, iris, voice scans and facial recognition will be the new big thing in the security industry. Indian firms are setting up indigenous centres to cut down manufacturing costs.

Increasing number of public events

Increasing number of public events

With the increase in number of public events such as sporting and entertainment events places of pilgrimage, political rallies, which draw large number of people, the demand for private security services will rise for crowd management and security.

Growing urbanization

Growing urbanization

Increasing urbanization will result in demand of security services in rural areas also. Under the Rurban Mission, 300 clusters would be developed with an investment of USD770 Million in three years boosting infrastructure development.

This will result in growth in number of establishments (townships, housing, built-up infrastructure such as hotels, malls, hospitals, religious places and other public places) which will create jobs for private security services.

1 Global Terrorism Index 2015
The way forward and support required

The demand for Private Security services is expected to surge in the next few years driven by a plethora of factors. However, there are a few key concerns which need to be addressed to realize the benefits of this demand driven growth. Currently, the certification through Ministry of Skill Development and Entrepreneurship is not accepted by the Controlling Authorities of the States of the Union appointed under the PSAR Act 2005 which is acting as a hindrance in the growth of and skilling requirements of the Security Sector. High cost of living in the cities, poor working conditions, low wage structure and sourcing from far off regions lead to high attrition rates in the sector. Currently, the attrition rate is estimated to be 40% and 20% among untrained and trained guards respectively. States have varying conditions for operation of private security agencies. Police verification requirements and timelines for applications differ from state to state. There is an urgent need to establish a single licensing framework under the PSARA Act.

With the Skill India initiative, there needs to be recognition of different skill levels/ training requirements for various services such as CCTV Operations or Manned Guarding. Currently, PSARA Act place all the services at the same level. Procurement of arms is an issue for Security service companies in India as they are not allowed to procure arms licenses and have to rely on guards who have procured licenses in their personal capacity. It curtails the ability to serve clients in case of inter-state transfer leading to hiring of personnel holding licenses from different states.

Studies show that the majority of workers are not covered under social security measures. Excessively long hours, wage discrimination and poor working conditions remain key issues. Many of the agencies get registered under Shops and Establishment Act to avoid obligations under the provisions of the Contract Labour Act. Sector is yet to witness premium attached to skills and training which creates a mismatch between employee aspirations and industry’s pay scales. Most employers stick to minimum wages to comply with labour norms.
• Eased FDI Norms
• Real Estate development due to Flagship Government Initiatives
• Technology Driven Security
• Need for Cash Services in Banking
• Growing urbanization
• Focus on Skill Development

Driven by the above factors and overall growth of the economy the sector is expected to generate 8.85 Million employment opportunities by 2017 and 12.05 Million opportunities by 2022.

Estimated human resource requirement ( nos. in million)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Baseline -2013</td>
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</tr>
<tr>
<td>Private Security Services</td>
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<td>8.81</td>
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</table>

Source: KPMG in India analysis
Auto and Auto component Sector

Environmental Scan 2016

June 2016

KPMG.com/in
Environmental Scan for the Sector

The automotive industry (both auto and auto component) today contributes approximately 22% to the country’s manufacturing Gross Domestic Product (GDP). The sale of domestic commercial and passenger vehicles grew in Jan to April this year grew by 9.43% and 8.13% respectively compared to the same period last year. It is evident from the graph below that the automobile sector has witnessed an upswing in the past years.

The auto component industry grew by 8.8% to about $38 billion in FY 2016 as can be seen from the table below. However, the exports took a hit on account of global market volatility and dropped by 3.7% to $10.8 billion\(^1\). But, the auto component industry is poised to grow to $100 billion by 2020 as forecasted by ACMA\(^2\).

<table>
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<td>Turnover</td>
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<td>31</td>
<td>32</td>
<td>32</td>
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<td>Growth rate (%)</td>
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<td>8.7%</td>
<td>5.6%</td>
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<td>11.1%</td>
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<td>Export</td>
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<td>6</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
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<tr>
<td>Growth rate (%)</td>
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<td>40.9%</td>
<td>23.2%</td>
<td>16.7%</td>
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<td>10</td>
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<td>12</td>
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<tr>
<td>Growth rate (%)</td>
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<td>34.2%</td>
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<td>3.6%</td>
<td>7.5%</td>
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<td>Investment</td>
<td>1.4 - 1.6</td>
<td>1.1 - 1.4</td>
<td>1.1 - 1.5</td>
<td>0.5 - 0.7</td>
<td>0.3 - 0.5</td>
<td>0.5 - 0.6</td>
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</table>

The auto component industry grew by 8.8% to about $38 billion in FY 2016 as can be seen from the table below. However, the exports took a hit on account of global market volatility and dropped by 3.7% to $10.8 billion\(^1\). But, the auto component industry is poised to grow to $100 billion by 2020 as forecasted by ACMA\(^2\).


A snapshot of India’s global position in the automotive sector is as follows

- **Tractor Manufacturer - largest**
- **Two wheeler manufacturer - 2nd largest**
- **Bus manufacturer - 2nd largest**
- **Heavy truck manufacturer - 5th largest**
- **Car manufacturer - 6th largest**
- **Commercial vehicle manufacturer - 8th largest**
Environmental Scan for the Sector

Key Policy Initiatives

The National Electric Mobility Mission was launched in 2013 with a view to promote hybrid and electric vehicles as a means to achieve national fuel security. Under the Mission, the government launched a scheme called FAME or Faster Adoption and Manufacturing of Hybrid and Electric vehicles. The focus of the scheme is on creating demand for hybrid and electric vehicles, developing technology and infrastructure, and conducting pilot projects. An amount of $119 million has been earmarked for Phase 1 of the scheme that is spread over a two year period from 2015 to 2017. It is estimated that the scheme will save the government $9 billion on account of the oil import bill. The estimated total requirement for the scheme is $2 billion crore by 2020. Hence, the likelihood of the government allocating more funds for the scheme is high based on the success of Phase-1. Thus, this inflow of funds would encourage manufacturers to come up with more offerings within the segment.

The Automotive Mission Plan 2016 – 2026, which, targets to make India among the top three countries in the world in the areas of engineering, manufacture, and export, of vehicles and auto components, is going to be launched shortly. The plan has set an aggressive target of growth of $260 billion to $300 billion by 2026 i.e. 3.5 to 4 times the present value of the automotive industry. Also, it suggests that the Indian automotive sector has the potential to create 65 million additional jobs and contribute about 13% to India’s GDP. The plan clearly recognises that both vehicle and auto components have the potential to scale up exports in the country to 35-50% in the next ten years.

In order to achieve these growth targets, several interventions such as development of automotive specific infrastructure, improvement in fiscal and taxation measures, rationalisation of custom duty on raw materials, etc. have been identified. All these interventions and others that are planned will aid manufacturers in ramping up their automotive output within the country and make automobile manufacturing the main driver of the ‘Make in India’ initiative.

The norms in the draft for the End of the Life Policy or Voluntary Vehicle Modernization will provide at least a 50% rebate in excise duty on new vehicles to buyers who surrender their old vehicles. If the policy goes through, it would result in a 40% increase in automobile production by aiding voluntary recycling of older vehicles that violate new safety and emission standards.

All the above policy initiatives, will create jobs in order to meet the higher automotive output requirements of the subcontinent.

The projection of vehicle production in India is shown below. In order to service the vehicles, the auto component service sector, will need a large number of mechanics, technicians, spare part helpers, etc. Additionally, the production of these units would create a demand for an equivalent number of drivers for driving commercial vehicles and construction equipment vehicles.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Production ('000 units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Vehicles</td>
<td>9,700</td>
</tr>
<tr>
<td>SCVs</td>
<td>1,220</td>
</tr>
<tr>
<td>LCVs</td>
<td>530</td>
</tr>
<tr>
<td>M&amp;HCVs</td>
<td>600</td>
</tr>
<tr>
<td>Two &amp; three wheeler</td>
<td>33,500</td>
</tr>
<tr>
<td>Construction equipment vehicles</td>
<td>1,050</td>
</tr>
</tbody>
</table>

Environmental Scan for the Sector

Key Policy Initiatives

There are also some allocations within the 2016-17 budget that will drive the automotive sector upwards as described below:

- The target for agricultural credit in this year’s budget has been increased to $134 billion, an increase of 6% from last year’s budget outlay. This increase in agricultural credit to the farmers, can be expected to boost the demand in the farm tractor segment.\(^1\)

- In the budget, the government has reduced the corporate tax rate to 29% plus surcharge and cess for companies, whose turnover was less than $1 million in the previous financial year. This move will help a lot of auto component manufacturers in India since many of them belong to this group as 85% of the auto component market is unorganised.

- Basic custom duty has been reduced to 7.5% from 10% for Ethylene–propylene–non-conjugated diene rubber (EPDM). This would reduce the input costs for the auto component manufacturers, particularly tyres and rubber profile manufacturers as they are one of the largest consumers of EPDM.\(^2\)

- There is a steep increase in custom duty on commercial vehicles imported as completely built units from 10% to 40%, which may encourage foreign automakers to set up plants in India. The indirect effect of this will be localization of components needed. Hence, this can be seen as a positive move for the auto component industry to an extent.

With a view to promote road safety and include robust safety regulations, the government in October last year, declared that all new cars will undergo mandatory crash tests from October 2017 and the deadline for upgrades of existing models is October 2018. These tests have been commissioned under the Bharat New Vehicle Safety Assessment Programme (BNVSAP). In order to conduct these tests, seven test centres will be developed across the country by the end of 2016. These centres will employ people that will need to be trained in new traits to successfully conduct the tests.

This is a much needed step for the sector, especially in light of the recent crash test results conducted on Indian cars by Global New Car Assessment Programme (GNCAP). Five of the most popular cars on India roads, scored a zero in adult frontal safety. This fact highlights a critical issue, that the safety quotient of Indian cars is much lower compared to the same models abroad. Hence, the government’s directive to enhance the safety of cars on Indian roads, will give a positive impetus to the demand within the sector. However, depending on the test results and the structural changes that the automakers have to make, it may also lead to an increase in the car cost.

With the 7th pay commission, the government has cleared the pension and pay related suggestions, that will result in an increase in governmental expenditure of about 24% and 16% respectively. This hike in salary of almost $15 billion, will result in an increase in disposable income, thus driving consumer demand in the country. However, the impact of this push may only be felt in 2018 and it may not be as much as the 6th pay commission.\(^3\)

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\(^1\) http://businessworld.in/article/Farm-Credit-Target-Raised-To-Rs-850-000-Crore/10-03-2015-79520/
\(^2\) http://www.icra.in/files/ticker/ICRA%20Comments%20Union%20Budget%202015-16.pdf
\(^3\) http://indianexpress.com/article/business/business-others/7th-pay-commission-orop-arun-jaitely-government-employee-2884447/
Environmental Scan for the Sector

Flagship Initiatives

The likely rollout of GST will have an encouraging effect on the auto and auto components sector on account of removal of the cascading that it will bring about, thus impacting sourcing, distribution cost, dealer profitability, and pricing of vehicles. For example, around 80% - 85%\(^1\) of the car sales, take place at dealerships that are outside the state in which the car was manufactured. Hence, the 2% CST will get eliminated by removal of original tax. Some of the benefits of GST for the auto sector are:

If GST is imposed, small car manufacturers, LCVs, and HCVs will enjoy a 0.5% reduction in taxes, mid-size/luxury cars a whopping 16.5% reduction, and tractors a 1% reduction. This tax saving will percolate into a cost reduction for the auto manufacturers, and may even get passed on to the end consumer.

There will be a reduction in logistics cost due to removal of different embedded costs applicable during interstate movement of goods.

It will also enable Indian manufactured automobiles to become globally competitive because of removal of restrictions on inter-adjustment of credits for various taxes imposed on the sector. Hence, there will not be an inflation of final prices of automobiles as compared to international markets.

Moreover, ease of doing business and land acquisition bill, will propel the sector forwards by introducing transparent and speedy measures to set up infrastructure and start a business in the country. Some of these measures that have been introduced under these initiatives are eBIZ platform (one stop access for investors), single window clearance for goods on the ICEGATE portal, stricter norms for contract enforcement, promotion of industry clusters and many more.

FDI

Post liberalisation, the automotive sector (auto and auto components) was de-licenced with automatic approval for Foreign Direct Investment (FDI) up to 100% equity. The automotive sector is the 5\(^{th}\) highest sector in terms of FDI inflow into the country; it amounts for 5% of the total inflow. A snapshot of how the sector has been attracting investments is shown in the table below.

\[
\begin{array}{|c|c|c|}
\hline
\hline
FDI & $ 1.5 billion & $ 2.7 billion & $ 2.5 billion \\
\hline
\end{array}
\]

\(^1\) http://www.moneycontrol.com/news/business/hello-gst-how-will-it-impactauto-industry_4625681.html
Environmental Scan for the Sector

Technology Changes

Electric vehicles - Apart from conventional vehicles, there are a variety of alternative fuel based vehicles on the road, such as CNG, LPG, electric vehicles, etc. Of all the alternatives available, Electric Vehicles (EVs) have been on the radar of the government and OEMs. In India also, the adoption of EVs is slow but is picking up; according to Society of Manufacturers of Electric Vehicles (SMEV) Sales of electric vehicles in India grew by 37.5% to 22,000 units in the last year. But, with policy level interventions such as NEMMP, the government can drive up the sales of Electric vehicles. The manufacturing of these vehicles will in lead to 0.25 – 0.3 million new jobs.

Automotive telematics - Automotive telematics combines telecommunication and informatics to provide various services such as live traffic updates, smart routing and tracking, roadside assistance in case of accidents, automatic parking / parking management, on-board entertainment, and much more. According to a study, by 2025, 90% of the new cars sold globally will come with embedded telematics, creating a value chain of $20 billion. Also an estimated 600 million cars, with fitted embedded telematics will be on the road, out of which India will have approximately 40 million cars.

However, the Indian telematics market has only been exposed to basic telematics services such as GPS-enabled navigation and vehicle tracking systems. In 2012, out of the 2.6 million new cars sold in India, only 7,000 came with an embedded navigation system. Some business models currently prevailing in the industry use telematics for car rental and self-driven cars. Though these business models use basic level of telematics, with increasing users of smartphones and more investments coming in, the sector is expected to grow in the future. India has a huge potential in telematics, as it has the world’s second and third largest users of mobile phone and internet, respectively, with the Indian telematics market expected to touch $280 million by 2021.

Electronics - Electronics has been one of the largest drivers for change and innovation in the automotive sector. Developing a less expensive electronics architecture is expected to expedite the demand for electronics and enable sophisticated functionalities as standard features. Presently, in India automotive electronics contribute to around 10 to 15% of the total cost of a car. Despite the fact that the average electronic content per vehicle in India is still less compared to European and other markets, the demand for advanced engine control and management systems and superior safety systems is increasing gradually in India, as car manufacturers demand components at competitive prices. Provision of in-vehicle communication and entertainment systems, known as connected infotainment, is a new opportunity in the Indian auto component market and is anticipated to drive the electronic component sector.

The existing manpower will require to be up-skilled to keep abreast with all the new trends and changes in technology. Additionally, incremental manpower will need to be trained to enable auto players to capture the electronics, electric vehicles, and telematics market share in the world.
Environmental Scan for the Sector

Investments

While the Indian automobile industry has witnessed a decadal CAGR of approximately 9 – 10% with exports recording 18- 19 % growth, last few years the industry has been struggling to even to grow on the back of sluggish economic growth. However, both auto and auto components is expected to resume its growth trajectory on account of almost $8.63 billion that has been committed by the leading global auto players that are looking to expand their capacity in India by 2020.

This committed investment sum is almost one third the present automotive sector in India. All these investments will most definitely make India a global manufacturing hub of the world and create approximately 27 lakh jobs in the future. (As per research done by the World Travel &Tourism Council, every $1 million of investment in the auto and auto component sector, creates 315 jobs)

Apart from making investments to expand manufacturing output, the OEMs and auto component manufacturers are also investing in training of employees. For example, a part of BMWs $73 million investment in India has gone towards training programs that the company is conducting across India. Hence, the auto sector is not only providing employment opportunities, but also imparting the necessary skill needed to master the job roles.

New Players

A new category of entrants that are creating ripples within the automotive sector in India are the taxi aggregators or cab start-ups. The app based taxi hailing service is an extremely competitive market with Uber and Ola emerging as the two front runners in the segment. These companies offer cars of different sizes under different fare slabs that a rider can avail. Ola has about 4, 50,000 cabs on its platform and operates in more than 100 cities across India. Whereas, Uber on the other hand, has about 2, 50,000 driver partners listed on its platform and is available in 26 cities. Uber world over has raised funding of about $10 billion compared to Ola that has raised a funding of about $1.3 billion1.

Both these companies, want to capture the $15 billion taxi market in India, most of which is unorganised and run by local operators. Hence, they are expanding fervently and are launching new products such as carpool, bike taxis, e-auto’s, shuttle bus, etc. They have created jobs for almost 6-7 lakh drivers across India and will continue to do so in the future. In fact, Ola has signed a MoU with the government of Haryana to invest $52 million over the next 5 years and also create about 10,000 entrepreneurs2.

Given the low cost of ridership in overcrowded metros, more and more individuals are hailing these taxi services instead of purchasing a car. Hence, the taxi aggregators are actually driving up the sales of cars so much so that companies like Hyundai, Maruti, Tata Motors, and Toyota are launching new models that are more suitable to run as taxis. Toyota Etios sedan volumes grew by 31% during the first seven months of last year because it is an extremely popular car with cab aggregators.

3 Economic times, Times of India, Business Line, Live mint, etc.
Considering a target of $300 billion by 2026 for India’s automotive output, committed investments of $9.6 billion, growth in disposable income, and push to increase product and consumption of electric vehicles by 2030.

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline -2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2017</td>
<td>2022</td>
</tr>
<tr>
<td>OEM</td>
<td>1.87</td>
<td>2.03</td>
<td>2.23</td>
</tr>
<tr>
<td>Auto component manufacturers</td>
<td>4.81</td>
<td>5.99</td>
<td>7.25</td>
</tr>
<tr>
<td>Service centres</td>
<td>2.80</td>
<td>3.10</td>
<td>3.44</td>
</tr>
<tr>
<td>Dealerships</td>
<td>1.50</td>
<td>1.68</td>
<td>1.95</td>
</tr>
<tr>
<td>Total</td>
<td><strong>10.98</strong></td>
<td><strong>12.80</strong></td>
<td><strong>14.87</strong></td>
</tr>
</tbody>
</table>

*Source: KPMG in India Analysis*
The way forward and support required

The government has levied an additional luxury tax on vehicles that cost over $15,000 and infrastructure cess on both diesel and petrol cars as a part of this year’s budget. Almost, 40% of all passengers cars in India are diesel based. Hence, this move is going to negatively impact the demand for diesel cars and SUVs because the additional cess on diesel cars will increase the price of cars for the end consumer. Additionally, certain other new tax measures that may reduce the demand of automobiles are

1. 1% infrastructure cess on petrol/LPG/CNG-driven motor vehicles of engine capacity not exceeding 1200cc
2. 2.5% cess on diesel-driven motor vehicles of engine capacity not exceeding 1500cc
3. 4% for other big sedans and SUVs

In a move to curb vehicular pollution, India will move directly to BS-VI norms for both petrol and diesel from April, 2020 as declared by the government. To meet these stringent norms, two thirds of India’s state refiners would need to be upgraded and this would require an investment of around $ 9 billion. However, this would also mean that the car manufacturers have very little time to upgrade directly to BSV-VI norms and thus, there is added pressure on them to quickly produce compliant vehicles.

A Supreme Court order has banned registration of diesel vehicles with engine capacity of over 2,000 cc in Delhi NCR to curb pollution levels within the capital. This order came after the capital was tagged as the world’s most polluted city. In line with this order, the National Green Tribunal (NGT) also banned all diesel vehicles registered ten years ago from operating in six major cities in Kerala. Furthermore, NGT has asked states to provide data that would help NGT collate and assess data pertaining to various aspects of pollution. Based on its findings, the NGT may extend the diesel vehicle ban to all parts of the country.

Even though the government’s regulations towards diesel vehicles are a positive directive to curb vehicular pollution, certain concerns such as the Supreme Court ban, infrastructure cess, and the move towards BSV-VI norms are worrying the industry players. In the first two months of this year, the share of diesel vehicles in overall passenger vehicle sales dropped by 3% compared to last year. So, some players are now re-thinking their strategies for the Indian market to introduce models that are in line with the country’s regulations. However, the government should take measures to ensure that the automakers have other avenues to route this investment in order to ensure flow of capital to India and also provide clarity on the regulations moving forward.

Given that the electric and hybrid vehicle phenomenon is relatively new in India and that there is push to making all cars in India electric by 2030, there should be stronger emphasis of upgrading curriculum and defining new job roles for electric vehicles. Additionally, with the changing BSV norms and advancements in auto technology, service workers, need to be trained in order to update their skills with changing market developments.

Environmental Scan for the sector

Summary

The IT and ITES sector is one of the critical sector of the Indian economy as it's a major contributor to the Indian exports thereby having a major impact on the current account and helping India earn valuable foreign exchange. The IT and ITES sector contributes approximately 9.88% to the GDP. This sector has been instrumental in putting India on to the Global map whilst projecting it as one of the pioneer in service delivery.

Over the years the sector has grown from providing nominal outsourcing services to provide critical and complex software solutions to diversified sectors like Manufacturing, BFSI, telecom and others and thereby help them in leveraging there true potential and saving them billions of US dollars in cost saving.

The Indian IT/ITES sector employs approx. 3.66 million\(^1\) people and has undergone one of the worst growth in the past couple of months owing to slow growth globally and concerns regarding the shifting of the Job to India. But with the Global markets showing an uptrend and Indian IT sector reinventing themselves to provide solutions focused upon higher end of the value chain, this is likely to change and would lead to an increase in job opportunity.

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\(^1\) Deity website accessed on June 30, 3016
Environmental Scan for the sector

Industry Overview & Characteristics

The IT and ITES sector is one of the pivotal sectors of the Indian economy contributing 9.5% of India’s GDP. As the sector is predominant export driven it’s one of the major contributors of foreign exchange in the Indian economy, it also accounts for approx. 3.66 million direct white collar jobs.

Key policy initiative since 2014

• The Indian Government has taken a number of initiatives which is going to lead to a significant increment in the size of the domestic market and thereby help in creation of jobs. Some of the recent initiatives are as detailed below:

  • **Digital India initiative** – The initiative includes the following 9 pillars:
    — Broadband Highways
    — Universal Access to Mobile Connectivity
    — Public Internet Access Program
    — e-Governance: Reforming Government through Technology
    — e-Kranti - Electronic Delivery of Services
    — Information for All
    — Electronics Manufacturing
    — IT for jobs
    — Early Harvest Programs

  — The Digital India initiative along with the above mentioned 9 pillars is going to drive the local domestic demand and fuel the requirement for trained skilled IT manpower and jobs.

  • Smart city initiative – India’s is urbanizing at an unprecedented rate, so much that estimates suggest nearly 600 million of Indians will be living in cities by 2030, up from 377 million as reported in the 2011 census.

    In a Smart Cities, all the data that is collected from sensors – electricity, gas, water, traffic and other government analytics – is carefully compiled and integrated into a smart grid and then fed into computers that can focus on making the city as efficient as possible. Hence the demand for skilled manpower to build and operate such cities is going to increase exponentially creating a ready job market.

  • Make in India – This is the major initiative of the Indian Government and focusses on local production/manufacturing of all goods be it electronic hardware, automobile etc. As technology is a core of any frugal and efficient manufacturing process and hence this initiative would need a strong IT/ITES industry to survive and flourish. The IT/ITES sector would provide the requisite impetus to the sector thereby creating a manifold increase in job opportunities.

  • Mr Ravi Shakar Prasad, Minister of Communication and Information Technology, announced plan to increase the number of common service centres or e-Seva centres to 250,000 from 150,000 currently to enable village level entrepreneurs to interact with national experts for guidance, besides serving as a e-services distribution point.
Environmental Scan for the sector

- Department of Electronics & Information Technology and M/s Canbank Venture Capital Fund Ltd plan to launch an Electronics Development Fund (EDF), which will be a 'Fund of Funds' to invest in 'Daughter Funds' which would provide risk capital to companies developing new technologies in the area of electronics, nano-electronics and Information Technology (IT).

- The Human Resource Development (HRD) Ministry has entered into a partnership with private companies, including Tata Motors Ltd, Tata Consultancy Services Ltd and real-estate firm Hubtown Ltd, to open three Indian Institutes of Information Technology (IIITs), through public-private partnership (PPP), at Nagpur, Ranchi and Pune.

Foreign Direct investment (FDI):

- Indian start-ups are expected to receive funding worth US$ 5 billion by the end of 2015 which is a 125 per cent increase over the year 2014,¹

- The IT space, including e-commerce sector has witnessed 240 deals worth US$ 3.8 billion in the year 2014,²

- India has also seen a ten-fold increase in the venture funding that went into internet companies in 2014 as compared to 2013. More than 800 internet start-ups got funding in 2014 as compared to 200 in 2012.³

- Microsoft Ventures is planning to incubate 500 start-ups in India in the next five years with a vision to create a viable and profitable business out of the booming start-up sector in India

The above FDI flows and initiative on part of the Venture capitalist would lead in strengthening the IT/ITES sector and also provide the fresh impetus in form of additional capital and new jobs in the sector.

¹ http://www.entrepreneurscouncil.in/IT_and_ITeS.php
² http://www.ibef.org/industry/information-technology-india.aspx
³ http://indiainbusiness.nic.in/newdesign/index.php?param=newsdetail/10697
Digital India:
The Government of India has launched the Digital India program to provide several government services to the people using IT and to integrate the government departments and the people of India. The adoption of key technologies across sectors spurred by the 'Digital India Initiative' could help boost India’s Gross Domestic Product (GDP) by US$ 550 billion to US$ 1 trillion by 2025\(^1\). The Government has initiated a number of programmes under the initiative which are detailed in our annexures. Some of the major initiative are as follows:
- Government of India is planning to develop five incubation centres for 'Internet of Things' (IoT) start-ups, as a part of Prime Minister Mr Narendra Modi’s Digital India and Startup India campaign, with at least two centres to be set up in rural areas to develop solutions for smart agriculture.
- Nasscom Foundation, a non-profit organisation which is a part of Nasscom, has partnered with SAP India to establish 25 National Digital Literacy Mission (NDLM) centres in 12 cities across India, as a part of Government of India’s Digital India initiative.

Smart city initiative
- This initiative coupled with Digital India initiative would help create a widespread local demand thereby providing employment for IT/ITES skilled employees.

National Association of Software and Services Companies (NASSCOM) plans to open four more tech start-up incubation centres in different parts of India, in addition to existing three, in support of Government of India’s ‘Start-up India’ initiative.

Andhra Pradesh has created a fund of USD 20 million to provide incubation support to start-ups in the state.\(^2\)

Nasscom is running a 10,000 startup initiative\(^3\) and working with various state governments to set up ‘startup warehouses’ wherein startups get mentorship support and physical infrastructure.

\(^1\) http://www.entrepreneurscouncil.in/IT_and_ITeS.php
\(^3\) http://www.nasscom.in/nasscom-10000-startups-invites-applications-funding-and-acceleration
Environmental Scan for the Sector

New trends

• **India is the fourth largest base** for new businesses in the world and home to over 3,100 tech start-ups, this number is set to increase to 11,500 tech start-ups by 2020.¹

• **Development Centres** - Apple Inc. plans to set up its first technology development centre outside the US in Hyderabad with an investment of US$ 25 million, which is expected to create 4,500 jobs².

• **E-commerce** - Indian e-commerce industry is expected to grow at a CAGR of 35 per cent to reach US$ 100 billion size in the next five years³. This is going to create a multitude of jobs for the IT/ITES skilled employees and also have a major impact on the logistics sector.

• **Internet of things** – The Global IoT industry would be having revenues of USD 1.7 trillion by 2020 with India contributing about USD 15 Billion⁴ to it with approx. 27 billion devices.

This trend of start-ups and government initiative to provide an environment conducive for incubation of such start up has been fuelling the Indian job market by creating a multitude of jobs including new job roles in the segment.

New projects

• The Indian government is expected to increase its spending on information technology (IT) products and services by 5.2 per cent to US$ 6.88 billion⁵ in FY 2015-16, this would lead to implementation of new projects by the Indian Government and thereby help in providing a ready domestic market for the Indian home-grown firm to tap.

• There are new cluster of development sprouting with Tier II and Tier III towns showing an increase in uptake of start up mainly owing to skilled workforce available at a competitive rate.

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¹ As per a report by NASSCOM and Zinnov Management Consulting Pvt Ltd
² ET Bureau – February 16, 2016
³ As per a study by Assocham-PricewaterhouseCoopers
⁴ recent study by IDC
⁵ According to research firm Gartner Inc
Environment Scan for the Sector

Macro Economic Factors effecting the Indian IT/ITES sector

Been a predominantly export oriented sector its generally plagued by changes in the macro economic environment. Some of the major changes that effect the sector are:

- **Appreciation of Rupee** – The appreciation of rupee can always be a challenge as it might make the contract unviable for the IT/ITES company and thereby forcing them to renegotiated the contract in order to maintain their profitability and earnings.

- **Global Slowdown** – There has been an unprecedented Global slowdown since 2008 which has effected the growth of the Indian IT/ITES sector that has almost tapered off since a past few years.

- **Protectionism Policies of the countries** – Due to the Global slowdown the local job markets in these countries has been adversely affected which has led to a backlash by the local populous against the Indian IT/ITES sector with allegation that outsourcing is been done only to save money. This has led to a number of countries putting restriction on onsite visas and advising companies to curtail outsourcing and thereby promote local employment.
Environmental Scan for the Sector

Growth Drivers

• Policy Support
  • Tax holidays have been provided by the Indian Government to the IT, ITES sector and SEZ's, this would provide incentive for the industry and start ups to focus on the sector. It also helps them to keep their cost down thereby increasing their global competitiveness in the field vis a vis their international peers and competitors.
  • Government of India start up initiative – The Indian government has established a USD 2 Billion start up fund for incubating start ups in India. Similar initiative have been taken by a number of states and trade bodies like Nasscom which have committed to incubate 10,000 start ups.

• Infrastructure
  • The domestic infrastructure is in for a major change wherein it would not be only limited to the major Tier I cities but would be extending to other cities as well. This change is been primarily driven by Indian government scheme like Smart city initiative and Digital India initiative (including broadband highways). This would provide a strong infrastructure for the development of the IT/ITES companies in the Tier II and Tier III cities increasing their competitiveness in terms of pricing by providing cheap manpower and also help in providing job opportunities to the young populous in these towns and cities.

• Talent Pool
  • 5.8 million graduate added to the talent pool in 2015. This number has been growing year on year and has been able to provide a sufficient talent pool to the industry to meet its growing requirement.

• Domestic Growth
  • Computer penetration increasing on account of Digital India initiative and Smart city initiative which would help nurture more start ups and also increase the local talent pool thereby creating more jobs and employability.
  • The Indian Government is implementing a number of ICT projects towards modernization of Government schools, connectivity to the gram panchayats etc. thereby creating a strong domestic demand for IT/ITES skilled jobs.

• Global demand
  • The Global demand for IT/ITES services has been increasing on a year on year basis with major demand coming from geographies like USA, European Union and Gulf.

1 Nasscom, TechSciResearch
Environmental Scan for the Sector

Impact of Brexit – Brexit is a recent phenomenon and pertains to the term coined for the Britain exit from European union. If Britain decides to go with the referendum and exit EU then it would have a negative impact on the sector in the short terms of:

• Contracts signed in pound might become a losing proposition (atleast in the short term) due to sudden depreciation of pound and might have to be renegotiated.

• Movement of skilled manpower across the EU would become a challenge as London was used as base for EU operations by most of the IT/ITES companies.

• This would delay the expansion plan of the industry in UK and EU to foresee the complete impact of the changes and would put in abeyance any contracts under negotiation.

The long term impact of Brexit is very difficult to envisage at the current moment and would be much clearer in the times to come and would also depend on how the new policies/trade agreements are framed and implemented by UK.

Impact of depreciation of rupee – Rupee depreciation over the years has had a positive impact on the IT and ITES sector as it has increased the margin of the sector in the short term and also helped them to be more competitive than their competition in other geographies. Being a predominantly export driven industry, rupee depreciation would always be a good news for the industry and is likely to increase its competitiveness and margins.

Impact of Mobile applications on the industry – The Indian IT industry has been positively impacted by the advent of mobile connectivity and use of mobile application with advent of smart phones and a good 3G/4G connectivity. This has provided them new avenues to develop platforms/software to allow seamless connectivity and experience across all the platforms of use.

With the advent and development of smart cities and internet of things, a further boost has been provided to the industry which is likely to see a further impact in the long run and thereby create a multitude of job opportunities in the sector.
Way forward and Support required for the Sector

- **Rising cost** – The current cost of the IT/ITES sector has been rising owing to increase in salary and rental cost in Tier I cities. Hence, to offset the imbalance, a lot of the companies have established their centers in Tier II and III cities but this has been plagued with lack of trained manpower and internet connectivity which might increase in the times to come based on the current scheme been implemented by the Indian Government.

- **Protectionism by the Global market** – Owing to local job loss due to automation and shifting of the jobs role to Indian IT/ITES companies a lot of countries have introduced protectionist policies in their geographies to stem the flow of jobs to outsourcing companies.

- **Increasing competition** from other countries especially China, Philippines and Brazil has been on the rise. The Indian IT/ITES companies need to establish product differentiators in order to protect the erosion of their market.

- **Concentrated Cluster** – The major business of IT/ITES sector is still been driven by the major 7 Tier I cities though this would change in the time to come owing to the advent of Broadband highway, Digital India push and development of new smart cities and would also help them to de-risk their books to avoid business getting effected by a single natural calamities like the Chennai flood recently.

- **Employability** – The Indian IT/ITES sector is plagued by a major issue of lack of trained students. As per some reports 75% of Indian graduates are not employable by the industry.¹ The problem might stem from many facts with a major contributor been untrained teachers and due to the fact that many post are still vacant.² One of the other issue that has been plaguing the industry is that the current curriculum is outdated. The Universities, Government of India and state need to make a conscious effort to engage with the industry in order to update the courses at regular interval in order to maintain its relevance and applicability. The Indian Government needs to make an effort to have regular Train the teacher program to help them Horne their skills and also ensure that any vacant positions are filled at the earliest.

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¹ ICEF Monitor accessed on June 29, 2016 http://monitor.icef.com/2015/10/indias-employability-challenge/
Impact assessment on human resource requirement

Impact Assessment

- Easing macro economic conditions leading to uptrend
- Kick starting the economy through government infrastructure spend
- Favorable demography drive consumption and talent pool
- Digital India promotes connectivity for and IT training for all
- Improved employment scenario

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Baseline number 2013</th>
<th>As per study in 2013</th>
<th>As per study in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT and ITES</td>
<td>2.96</td>
<td>3.85</td>
<td>5.13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.81</td>
<td>5.28</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis
Environmental Scan for the Sector

A glimpse of the performance of the travel & tourism sector in 2015 and its forecasted growth in 2026 is described below:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>2015 performance</th>
<th>2016 forecast</th>
<th>2016 - 2026 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP direct contribution</td>
<td>$ 40 billion (2% of GDP)</td>
<td>7.1% increase</td>
<td>7.9% per annum increase</td>
</tr>
<tr>
<td>GDP total contribution</td>
<td>$ 124 billion (6.3% of GDP)</td>
<td>7.3% increase</td>
<td>7.5% increase per annum</td>
</tr>
<tr>
<td>Visitor exports</td>
<td>$ 18 billion (4.2% of total exports)</td>
<td>5.3% increase</td>
<td>7.2% per annum increase</td>
</tr>
<tr>
<td>Investment</td>
<td>$ 33 billion (6% of total investment)</td>
<td>4.8% increase</td>
<td>6.3% increase per annum</td>
</tr>
</tbody>
</table>

India’s tourism sector’s contribution to the global GDP was $124 billion in 2015, over double the global average of $58.3 billion. The tourism spend in India is primarily dominated by domestic tourists. Approximately, 81% of the spending comes from them and the rest from foreign tourists.

The Indian tourism sector offers cost effective, yet quality travel and lodging options across all parts of the country. These are value for money factors that attract international tourists, when compared with developed and other developing countries, when holidaying. The below table corroborated in the World Economic Forum’s ‘The Travel & Tourism Competitiveness Index Ranking 2015’ shows that the Indian tourism sector is more price competitive compared to several countries:

<table>
<thead>
<tr>
<th>Region</th>
<th>Price competitiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe and Caucasus</td>
<td>4.19</td>
</tr>
<tr>
<td>South America</td>
<td>4.5</td>
</tr>
<tr>
<td>North America and Caribbean</td>
<td>4.68</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.71</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>4.75</td>
</tr>
<tr>
<td>The Middle East and North Africa</td>
<td>5.27</td>
</tr>
<tr>
<td>India</td>
<td>5.59</td>
</tr>
<tr>
<td>Best performer (globally)</td>
<td>6.62</td>
</tr>
</tbody>
</table>

The sector is expected to continue on its growth trajectory as the government supports the sector by upgrading physical infrastructure, creating integrated tourist circuits and building new airports, among others. These steps are expected to improve connectivity and promote various products to increase the scope of inbound tourism.

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The government launched an e-Tourist Visa (e-TV) scheme in November 2014 in order to make travel to India a hassle free experience. Under this scheme, a tourist can apply for visa by uploading their passport and photograph and paying the visa fee online, at least four days in advance of the arrival date. Initially, the scheme allowed e-visas for foreigners from 43 countries, but, recently this number has been increased to 150 countries. Over 4.45 lakh tourists arrived in India last year via the e-Tourist Visa scheme, a whopping increase of 1040% from 2014. The graph below depicts the increase in number of tourists and in foreign exchange earnings on account of this scheme1

![Graph showing increase in number of tourists and foreign exchange earnings](http://pib.nic.in/newsite/PrintRelease.aspx?relid=114843)

This new initiative has also positively impacted India’s position in the Tourism and Travel Competitive Index as per the World Economic Forum report as India has moved up 13 positions ahead. With the addition of more countries under the scheme, India’s tourism will definitely witness an upswing in the future.

In a move to boost medical tourism in India, the government has introduced a separate category of visa called medical visa or m-visa for foreign nationals that seek medical treatment in India for an extended period of time. This would further add to the inflow of foreign exchange into the country as the Indian Medical tourism market is expected to grow to around $10.6 billion by 2019.

Additionally, the government has launched a ‘Healthcare Tourism’ portal that has further eased the procedures for treatment seekers/medical tourists from around the globe, via a one-point information site, which encases hospital related information (stay-costs, benefits, visa formalities, etc.) on India. The portal hence benefits medical tourists to be better planned and informed in advance, to choose cost effective quality care at their preferred destination.

The government has launched a scheme called HRIDAY or Heritage Development and Augmentation Yojana to conserve and preserve the heritage sites across India. About $74 million has been allocated for the development of 12 cities. With 32 UNESCO sites, India is ranked 5th in the world and 2nd in Asia. Different stakeholders such as NGOs, private sector, and spiritual organizations will also be approached for the effective implementation. However, this scheme now has been dovetailed with the PRASAD scheme launched by the government.

1 http://pib.nic.in/newsite/pmreleases.aspx?mincode=36
2 http://pib.nic.in/newsite/PrintRelease.aspx?relid=114843
Environmental Scan for the Sector

Key Policy Initiatives

The Ministry of Tourism has launched two new schemes in January 2015 – (i) Swadesh Darshan to develop theme based circuits on the basis of high tourist value, competitiveness, etc. (ii) PRASAD (National Mission on Pilgrimage Rejuvenation and Spiritual Augmentation Drive) to develop and beautify selected pilgrim destinations. Both these schemes are aimed at developing world class infrastructure to create an enriching tourist experience and to enhance tourist attractiveness of the country.

A total of 12 cities under PRASAD and 13 circuits under Darshan have been identified for development as shown in the table below1

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Cities/ circuit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swadesh Darshan</td>
<td>North-East India Circuit, Buddhist Circuit, Himalayan Circuit, Coastal Circuit, Krishna Circuit, Desert Circuit, Tribal Circuit, Eco Circuit, Wildlife Circuit, Rural Circuit, Spiritual Circuit, Ramayana Circuit and Heritage Circuit</td>
</tr>
<tr>
<td>PRASAD</td>
<td>Ajmer, Amritsar, Amaravati, Dwarka, Gaya, Kamakhya, Kanchipuram, Kedarnath, Mathura, Patna, Puri, Varanasi and Velankanni</td>
</tr>
</tbody>
</table>

An amount of around $ 290 million has been sanctioned under various projects since the launch of the scheme as shown below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Projects</td>
<td>Total Investment ($ million)</td>
</tr>
<tr>
<td>Swadesh Darshan</td>
<td>3</td>
<td>23</td>
</tr>
<tr>
<td>PRASAD</td>
<td>4</td>
<td>12</td>
</tr>
</tbody>
</table>

The draft Tourism Policy 2015, has provided a detailed delivery mechanism to make India a world class tourist destination. It has highlighted measures to be undertaken for development of niche tourism products and social, core, and tourism infrastructure. Some of these initiatives are mentioned below2

• To enlist more heritage sites under UNESCO World Heritage list
• Special tourism zones similar to SEZs
• To appoint ex-servicemen and trained volunteers at major tourist spots
• Designated funds for protection of monuments
• Formation of National Tourism Board
• Reduction/exemption on import duties on adventure tourism equipment and accessories
• Establishing a dedicated university for tourism and hospitality education
• Online training programmes for overseas tour operators to create groups of “India Specialists” who could promote and sell India packages
• Free WI-FI at different tourist centres

1 http://pib.nic.in/newsite/PrintRelease.aspx?relid=138065
Environmental Scan for the Sector

Key Policy Initiatives

The Ministry of Civil Aviation has also taken several initiatives to warrant continuous international arrivals from all countries - from signing MoUs to introducing incentives within the new aviation policy. Not only this, the government is also trying to invest $ 7- 15 million for revival of old and construction of new regional airports to bolster domestic air travel. These moves are expected to increase air traffic to 300 million in 2022 from 70 million presently. Some of these initiatives taken up by the government are mentioned below:1

• During the International Civil Aviation Negotiations (ICAN), 2015 held in Turkey, the Ministry had signed numerous MoUs with countries such as Finland, Kazakhstan, Kenya, Sweden, Norway, Denmark, Oman and Ethiopia. These MoUs will enable India to share airline codes, increase airline frequency, and facilitate seat sharing with these countries

• In the aviation policy released recently, the government has capped the ticket price range for half an hour and one hour journeys to $ 18 and $ 37 respectively. Furthermore, to increase the business viability to travel from regional airports, the government has eliminated airport charges, reduced service taxes, and excise duty on aviation turbine fuel. This would increase the number of passengers travelling by air between Tier II and Tier III cities as there would be insignificant difference in rail and air fares

• The government will also enter into an Open Sky agreement with SAARC countries and countries located beyond 5,000 km from Delhi. This move would definitely enhance traffic coming into India from South Asian countries and vice versa.

Project MAUSAM, which is an initiative of the Ministry of Culture, intends to explore the multi-dimensional world of the Indian Ocean by collating research on cultural diversity, commercial and religious interactions among the different countries along the Indian ocean. This initiative, will help India to connect and build communications with its counterparts in the Indian Ocean through an improved understanding of world cultures. This improved understanding will thus enable knowledge sharing among the countries and increase awareness about India’s rich cultural heritage. So, in the future, project MAUSAM will have a positive bearing on the number of foreign tourists in India2.

Flagship Initiatives

In India tourism related economic losses from inadequate sanitation are about INR 12 billion as per a report of Water and Sanitation Programme (WSP). But, to tackle the lack of hygiene and sanitation at tourist spots, the government is taking various steps under the Swach Bharat Mission. Tourists can send pictures of unclean spots at tourist destinations for immediate action to be taken, with the help of ‘Swachh Paryatan Mobile App’.

The action plan that the government has released under its start-up India initiative, will aid all hotel and food start-ups equally by making it easier to incorporate a company and by offering various incentives to start-ups. These start-ups will then provide convenience and quality services to tourists such as budget accommodation, online bookings, food delivery, etc. via their innovative business models.

Environmental Scan for the Sector

New Trends

Online Booking - Increasing internet penetration (Internet user base in India and is expected to grow from 300 million in 2014 to 462 million in 2016) and smartphone usage in India has started a new phenomenon of online hotel booking through various online portals and applications. The online booking of hotel rooms is expected to increase to $1.8 billion from $0.8 billion presently. The increase in supply of affordable hotel rooms and convenience in making reservations are other encouraging factors that drive tourist confidence in hotel bookings. However, hotel bookings amount for only 16% of the total online bookings in India compared to Europe, were 70% of all hotel bookings are made online. Hence, there is tremendous scope for online bookings within the country.

Short Getaways - Short duration trips are becoming more popular among travellers as they intend to take two or more trips within the year. A survey conducted by Google last year showed that 64% of the respondents prefer short duration trips1. One of the main drivers for increasing number of trips is the increasing per capita gross net disposable income – it increased to $1,522 in 2014-15, a 9.98% increase from 2013-142. The growing net disposable income has led to increase in leisure spending from $82 billion in 2014 to $89 billion in 2015, a 9% increase. Furthermore, leisure spending is expected to increase at a rate of 7.8% per annum from 2016 to 2026. Thus, the increase in number of trips of domestic travellers will lead to discovery of new weekend getaways and increase footfall at popular locations, expenditure on hotels, restaurants, and tourist destinations.

Luxury Travel– Five star hotels and fine dining is expected to increase by 30-35% as per an ASSOCHAM report on account of rising disposable incomes, increasing brand awareness, and increasing purchasing power in Tier II and Tier III cities3.

Homestays and Bed and Breakfast – Homestays are an established concept abroad but still at a very nascent stage in India. According to an industry report, the number of homestays has increased from 17 in 2004 to 1,663 in 2014, this shows that the concept is beginning to gain acceptance among tourists. Homestays are a great way to experience the local culture and are also light on the pocket. However, 70% of the homestays are located in the South, which shows that there is a need to popularise this concept within the other parts of the country.

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3 [http://www.thehindubusinessline.com/companies/mbd-group-brings-steigenberger-hotels-to-india-to-open-20-units-over-15-years/article8765334.ece](http://www.thehindubusinessline.com/companies/mbd-group-brings-steigenberger-hotels-to-india-to-open-20-units-over-15-years/article8765334.ece)
The hotel occupancy in India crossed 60% in 2015, the highest since 2009 – 2010. In fact, in 2014-2015, the supply of hotel rooms grew at about 4% compared to a 7-8%\(^1\) growth in the demand of hotel rooms. This trend is expected to continue in the coming years, thus, give the much needed push to the tourism sector. In order to keep up with the rising demand, many domestic and international hotel chains are looking to expand their footprint in India. These chains are looking to invest almost about $3.5 billion within the next four to five year, move that will increase the number of branded hotel rooms in India by 30% to 155,000 rooms by 2020. This would thus translate into additional 290,000 beds across branded hotels, creating about 84,000 incremental jobs. A snapshot of their expansion plans is shown in the table below.

As per findings by Federation of Hotels & Restaurants Association of India there are just 103,000 ‘branded’ hotel rooms in India, of which just 35% are budget. As per its estimate India will need another 180,000 rooms by 2020 so as to meet the target for tourist arrivals. This means that additional investments will flow in in order to cater to this increase in demand, which in turn will create additional jobs within the industry.

### Investments

<table>
<thead>
<tr>
<th>Player/ Chain</th>
<th>Number of hotels</th>
<th>Proposed year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lalit Suri Hospitality Group</td>
<td>9 hotels</td>
<td>2016 – 2018</td>
</tr>
<tr>
<td>Berggruen Hotels</td>
<td>~40</td>
<td>2014 – 2016</td>
</tr>
<tr>
<td>Marriott/ Starwood</td>
<td>72 hotels</td>
<td>2015 – 2020</td>
</tr>
<tr>
<td>ITC group</td>
<td>50</td>
<td>2015 – 2020</td>
</tr>
<tr>
<td>Taj group</td>
<td>10 hotels</td>
<td>2015 – 2020</td>
</tr>
<tr>
<td>Oberoi</td>
<td>6 hotels</td>
<td>2019</td>
</tr>
<tr>
<td>Carlson Rezidor</td>
<td>100 hotels</td>
<td>2020</td>
</tr>
<tr>
<td>MBD Steigenberger</td>
<td>20 hotels</td>
<td>2016 – 2030</td>
</tr>
<tr>
<td>AP government</td>
<td>33 hotels</td>
<td>2015 - 2020</td>
</tr>
</tbody>
</table>

FDI policy

The tourism and hospitality sector is among one of the top 10 sectors to attract FDI investment into the country. The FDI equity inflows for the sector have shown an upward trend over the years as seen below\(^2\). Of the total FDI inflow in the sector, the largest contribution comes from hotels and restaurants.

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>$ 486 million</td>
</tr>
<tr>
<td>2014-15</td>
<td>$ 777 million</td>
</tr>
<tr>
<td>2015-16</td>
<td>$ 1333 million</td>
</tr>
</tbody>
</table>

Very recently, the government has liberalized the FDI norms within the civil aviation sector by allowing 100% FDI, a move that will encourage both foreign entities and airlines to come and set shop in India. For example, both Gulf and Qatar airlines are extremely keen to set up base within the country. Also, with more players entering the Indian market, tourist’s world over will have more options to connect to India. Competition among the airlines to fight for market share would increase, a situation that would be beneficial for the end customer.

With the aim to modernise existing airports and to ease pressure on existing airports, the government has permitted 100% FDI in brownfield airport projects under the automatic route. This will see inflow of foreign funds for up-gradation of airports, another move that will create employment.

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\(^1\) [http://www.livemint.com/Companies/E57JwQK0FNh11BQiQ7iQ/Hotels-expect-to-post-strong-showing-in-2016.html](http://www.livemint.com/Companies/E57JwQK0FNh11BQiQ7iQ/Hotels-expect-to-post-strong-showing-in-2016.html)

\(^2\) [http://dipp.nic.in/English/Publications/FDI_Statistics/2016/FDI_FactSheet_JanuaryFebruaryMarch2016.pdf](http://dipp.nic.in/English/Publications/FDI_Statistics/2016/FDI_FactSheet_JanuaryFebruaryMarch2016.pdf)
Environmental Scan for the Sector

New Projects

The government has identified niche products of tourism such as cruise, adventure, eco-tourism, golf tourism, etc. and is taking various steps to develop these products in order to promote India as a 365 days destination\(^1\). This will eliminate the seasonality within the tourism industry and guarantee a continuous supply of tourists to India all year round. The cities of Mumbai, New Delhi, Chennai, and Agra, as well as some other states including West Bengal, Rajasthan, Karnataka, Kerala, and Goa, attract the highest number of tourists for leisure, business, adventure, and medical tourism.

- **Cruise tourism** – Ministry of Tourism and Ministry of Shipping have jointly identified 8 tourist circuits along national waterways to improve existing infrastructure and tourist amenities.

- **Adventure tourism** – Central government is providing financial assistance to states to build necessary infrastructure for adventure tourism. Campaigns such as ‘777 days of incredible Indian Himalayas’ was launched by the prime minister internationally. The adventure tourism industry is poised to grow at a rate of 200%\(^2\) according to the Association of adventure tourism, a promising sign that this niche product is gaining popularity among thrill seekers. Thus, this niche product can account for a sizeable proportion of the tourism sector and support considerable jobs

- **Wellness and polo tourism** – The ministry is providing financial assistance to set up state of art wellness centres and organise and polo events. According to a recent study, the total wellness market in India will surpass $18 billion in the coming year, making India the number one country in wellness tourism globally\(^3\)

- **Golf tourism** - India has several golf courses of international stature, which are used to host golf tournaments attracting large number of tourists. According to a study, 52% of travelling golfers are likely to take two or more golfing holidays in a year, a fact that the government should capitalise on

- **Eco, sustainable, and film tourism** – There has been a committee set up to formulate guidelines for sustainable and eco-tourism. There is also a strong emphasis on hotels to use eco-friendly measures and on maintaining environmental integrity. Eco tourism is the fastest growing market in the tourism industry having an annual growth rate of 5% according to the World Tourism Organization. Hence, there is an opportunity for the government to promote India’s natural diversity, flora and fauna, and local culture by means of eco-tourism

Different states are developing different niche products based on the state’s topography, for example, Himachal Pradesh is developing the eco and adventure circuit, Madhya Pradesh is developing the wellness and spirituality circuit, and West Bengal is developing the Ganga cruise circuit. Even though, all these different forms of tourism are still at a nascent stage, they have a huge potential to grow in the future. With the government, establishing committees, issuing guidelines, and pumping funds to develop these products, they attract all kinds of tourists. It is expected that the number of foreign tourist arrivals will increase to 13.4 million by 2024. Hence, there will be incremental jobs created such as tour guides, guides for adventure activities such as water skiing, snow skiing, trekking, hot air balloon, etc., as popularity of all these niche products grows together with other governmental initiatives.

\(^1\) [http://tourism.gov.in/sites/default/files/Report_0.pdf](http://tourism.gov.in/sites/default/files/Report_0.pdf)
\(^2\) [http://www.basecampindia.com/images/BaseCamp_Articles/Adventure%20Tourism.pdf](http://www.basecampindia.com/images/BaseCamp_Articles/Adventure%20Tourism.pdf)
The emergence of budget hotels/hostels or hotel room aggregators is a new phenomenon that is offering pocket friendly options to tourists for budget travels. Most of these aggregators, instead of owning the hotels, have tie-ups with various hotels to form a branded hotel network; rooms can be booked through mobile apps and websites. Hence, they offer a by operating on an asset light model and are predominantly operated by start-ups. These start-ups are thus enhancing the discovery of hotels across the country and are improving their quality. Furthermore, these hotels are giving tourists quality accommodation in remote locations and Tier II and Tier III cities. A snapshot of the players within this segment is shown below

<table>
<thead>
<tr>
<th>Name of Player</th>
<th>Start Year</th>
<th>No. of Hotels</th>
<th>No. of Room Nights</th>
<th>No. of Cities</th>
<th>Investment Raised (MN USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OYO Rooms</td>
<td>2012</td>
<td>3000</td>
<td>30000</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td>Stayzilla</td>
<td>2014</td>
<td>1800</td>
<td>12000</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>ZO Rooms</td>
<td>2014</td>
<td>1000</td>
<td>10000</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Treebo</td>
<td>2015</td>
<td>300</td>
<td>4000</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Fab Hotels</td>
<td>2015</td>
<td>400</td>
<td>3000</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>OTHERS</td>
<td>2014</td>
<td>1500</td>
<td>18000</td>
<td>30</td>
<td>20</td>
</tr>
</tbody>
</table>

The advent of new entrants is not limited to only the hotel industry, but, with rapidly changing technology, varied forms of food tech start-ups are also emerging. These start-ups together with the existing network of restaurants are offering a wide range of food tasting options to both domestic and international travellers. The food industry players can be classified under the following broad categories:

Listing platforms: Easy finding of restaurants and user friendly mode of ordering food at the click of a button

Delivery: Heavy investment in logistics infrastructure reducing time to deliver food

Cloud kitchen: Start-ups specialized in bringing the world’s best cuisines from the master chefs’ kitchen right to your doorstep. This not only provides entrepreneurship opportunities for home chefs but also allows customers to enjoy quality food at the comfort of home

Indian chains: Home grown fast food and beverage chains such as Faasos, Box 8 bring the best of Indian cuisine. These operate in all major cities in India and take customer orders via mobile apps

Entry of International food brands: Major International brands have not only added more capital in India but newer chains have also entered the market thus giving foreign tourists options they are familiar with. Some of these chains are Burger King, Dunkin Donuts, Star Bucks, etc.

Co-working spaces cum restaurants: Food joints, which serve as co-working office spaces during the day with all infrastructure (Wi-Fi, Chairs, tables, office supplies) and popular eating/drinking joints during night time. These encourage entrepreneurs to come and work

QSRs (Quick Service Restaurants): Start-ups that deliver compact all in one meal boxes at the click of an app at home or at office. The QSR industry is pegged to reach $3.7 billion by 2020 from its present value of around $1.5 billion as per a report by ASSOCHAM
Environmental Scan for the Sector

New Entrants

Organic food: Start-ups that source organic ingredients direct from farms and local vendors and serve organic food. This category of restaurants is getting a lot of traction from foreigners residing/visiting India.

Food trucks: Bringing affordable International cuisine to the masses and mobile operations making it lean and with low overheads.

Railway kitchen: Start-ups that provide high quality, tasty meals to railway commuters in partnership with government agencies such as IRCTC.

Food and Culture gully’s and events by major international Hotel chains.

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Start-ups</th>
<th>Presence (# of Cities)</th>
<th>Example(s)</th>
<th>USP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discovery/Listing</td>
<td>2</td>
<td>100</td>
<td>Zomato</td>
<td>One stop discovery + Social Reviews</td>
</tr>
<tr>
<td>Delivery</td>
<td>6</td>
<td>50</td>
<td>FoodPanda, Swiggy</td>
<td>Easy Delivery at home</td>
</tr>
<tr>
<td>Cloud Kitchen</td>
<td>6</td>
<td>20</td>
<td>HolaChef, Bhukkad, Yumist</td>
<td>Homemade food + International cuisine</td>
</tr>
<tr>
<td>Fresh/Healthy Options</td>
<td>4</td>
<td>5</td>
<td>Freshmenu</td>
<td>Fresh food ; healthy</td>
</tr>
<tr>
<td>Indian Fast Food Chains</td>
<td>4</td>
<td>20</td>
<td>Fassos</td>
<td>Quick and tasty options</td>
</tr>
<tr>
<td>Indian Beverage Chains</td>
<td>4</td>
<td>5</td>
<td>Chaayos, Chai Point</td>
<td>Quick and local beverages</td>
</tr>
<tr>
<td>New International Brands</td>
<td>5</td>
<td>5</td>
<td>Burger King, Starbucks</td>
<td>International chains</td>
</tr>
<tr>
<td>Co-Working Spaces cum Restaurants</td>
<td>4</td>
<td>5</td>
<td>Social</td>
<td>Work plus eating out ; dual option</td>
</tr>
<tr>
<td>QSRs</td>
<td>5</td>
<td>4</td>
<td>Box8, Chef’s Basket</td>
<td>Ready to eat food</td>
</tr>
<tr>
<td>Organic Food options</td>
<td>3</td>
<td>5</td>
<td>Farm2Kitchen</td>
<td>Organic options</td>
</tr>
<tr>
<td>Railway Kitchens</td>
<td>3</td>
<td>50</td>
<td>Travel Khana</td>
<td>High quality, hygienic food while commuting</td>
</tr>
<tr>
<td>Food Trucks</td>
<td>50</td>
<td>4</td>
<td>Yolksonfire, Eggjactly, Madtrucker</td>
<td>Variety of cuisines at one place</td>
</tr>
</tbody>
</table>

The total investment received by these food start-ups is around $400 million as can be seen from the table below.1

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of deals</th>
<th>Funding ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>9</td>
<td>40</td>
</tr>
<tr>
<td>2014</td>
<td>13</td>
<td>70</td>
</tr>
<tr>
<td>2015</td>
<td>54</td>
<td>235</td>
</tr>
<tr>
<td>2016 YTD</td>
<td>3</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>79</td>
<td>397</td>
</tr>
</tbody>
</table>

With the emergence of these start-ups, both in the hotel and food space, there will be numerous employment opportunities as these companies will need manpower in order to meet their ambitious expansion plans.

Impact assessment on human resource requirement

PRASAD and SWADESH DARSHAN scheme of the government

Extension of e-visa scheme to 150 countries, launch of m-visa

Development of niche tourism products – golf, adventure, wellness, polo, rural, etc.

Emergence of budget hotels and room aggregators

$3.5 billion investment by domestic and global players to set up hotels

Increase in online bookings, short getaways, luxury travels, homestays, etc.

Widening of food industry segments and emergence of food startups across multiple categories

New civil aviation policy

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline -2013</th>
<th>2017</th>
<th>2022</th>
<th>2017</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels</td>
<td>1.90</td>
<td>2.08</td>
<td>2.30</td>
<td>2.16</td>
<td>2.94</td>
</tr>
<tr>
<td>Restaurants</td>
<td>4.60</td>
<td>7.03</td>
<td>10.48</td>
<td>6.94</td>
<td>10.89</td>
</tr>
<tr>
<td>Tour and Travel Operators</td>
<td>0.46</td>
<td>0.57</td>
<td>0.66</td>
<td>0.58</td>
<td>0.78</td>
</tr>
<tr>
<td>Total</td>
<td><strong>6.96</strong></td>
<td><strong>9.68</strong></td>
<td><strong>13.44</strong></td>
<td><strong>9.68</strong></td>
<td><strong>14.61</strong></td>
</tr>
</tbody>
</table>

*Source: KPMG in India analysis*
The way forward and support required

There is a need to provide skilling to people employed in ancillary activities of tourism such as farming, fishing, souvenirs etc. because these areas are an important means to provide a unique experience to tourists. Tourism is essentially a multidimensional industry, which demands that tour guides can direct tourists to participate in activities such as farming, fishing during sightseeing. Additionally, the training approaches need to be customised to suit the seasonal nature of the sector i.e. the individual who is being skilled within a tourism specific job role, should acquire the skills to be employed in another job role during the off season.

Lack of clean and hygienic environment and security threats of tourists are still major concerns for travellers coming to India. Unclean places and a few incidents of tourist harassment are tainting India’s image as a global tourist destination. Hence, the government needs to take adequate measures to address these concerns because it is crucial that the tourist have a great experience while visiting the country.

Safety is also a big concern for foreign tourists coming to India. Steps need to be taken to ensure safety of travellers, especially women and backpackers.

In both years 2013 and 2014, about 1.1 billion people travelled abroad globally. However, Indian only recorded tourist arrivals of 0.7 million in 2014 or approximately 0.7% of all tourists worldwide. This highlights the fact that India has a lot of ground to cover to get featured amongst the top countries in international tourism.

Maintenance is a major challenge while developing heritage tourism, which could be addressed through a PPP model. Private participation in the maintenance and upkeep of archaeological and heritage sites are expected to help ensure the availability of funds necessary for such activities. This is likely to provide better and more destinations to attract domestic as well as foreign tourists.

Along with the development of sightseeing sites, efforts are desired for providing an all-round experience to tourists through the presence of tour guides, children’s activities, availability of food outlets offering international cuisines, etc. These might ease tourists stay in India to engage them holistically, and increase the chances of repeat arrivals.

To meet the growing needs of tourists and meet the standards that are desired globally, both hard (transport and accommodation) and soft (safety, security, etc.) can be improved further. Air connectivity to non-metros is low, especially in the North eastern region and hilly regions. Railways, which is the second most preferred mode of travel in India for domestic tourists, is not preferred by foreign tourists for transportation. Thus, service standards and concerns about safety and security can be improved to cater to tourists.
Environmental Scan for the Sector

Summary

The Banking, Financial services and Insurance (BFSI) sector usually comprises commercial banks, insurance companies, non-banking financial companies, cooperatives, pensions funds, mutual funds and other smaller financial entities.

BFSI sector is one of the critical sector of an economy and has a bearing on the functionality and profitability of almost all the allied sectors. Hence it forms a critical sector for the growth of the economy.

As per the current trends the various segments of the BFSI sectors have been growing with a growth rate of 12-30% year on year and with the Government initiative and focus on financial inclusion for all, the sector is likely to grow with an aggressive growth rate. As per the current estimate the sector is likely to require an additional manpower for approx. 2.5 million people.
Environmental Scan for the Sector

The Banking, Financial services and Insurance (BFSI) is one of the critical sector for the Indian economy as it has an impact on the entire economy.

It accounts for about approx. 6% of India’s GDP\(^1\). According to a sample Survey conducted by NSSO in 2011-12, about 25 lakh workers are employed in the BFSI sector.

### Major Changes in Regulatory Framework since 2014

- 49% of FDI in Insurance has been allowed in 2015\(^2\) with FIPB approval and is likely to lead to a fresh capital infusion of USD 3 Bn\(^3\) to the sector. This would provide the much needed capital infusion to the sector providing the requisite impetus to increase their penetration and infrastructure.

- Precondition of FIPB approval for FDI in insurance waived off in 2016, hence this has resulted in decreasing the time required for the approval process and thereby making the FDI more attractive for foreign insurers and reinsurers.

- Pradhan Mantri Jan DhanYojna (PMJDY) launched, providing banking to the masses without the mandatorily KYC documents (which can be submitted in the next 1 year) and hence banking the unbanked population. This has also helped in bringing approx. USD 5 Bn\(^4\) capital to the sector.

- Micro Units Development and Refinance Agency or the MUDRA Bank launched in 2015 providing easy finance to the micro SME sector and bringing them into the fold of banking mainstream.

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Environmental Scan for the Sector

Ease of Doing Business

• 11 payments banks were issued licenses (August 19, 2015), these banks are expected to target India’s migrant labourers, low-income households and small businesses, offering savings accounts and remittance services with low transaction costs. Hence they would help in getting money to the main stream and moving towards financial inclusion.

• 10 small finance banks were also given license (September 16, 2015). These banks will complement the payment banks by providing the lending services especially towards small loan of INR 25 lakhs (50% lending should be below INR 25 lakh – as per RBI guidelines). Hence this should spur growth of small micro segment and would lead towards financial inclusion.

• The Government of India is looking to set up a special fund, as a part of National Investment and Infrastructure Fund (NIIF), to deal with stressed assets of banks. The special fund will potentially take over assets which are viable but don’t have additional fresh equity from promoters coming in to complete the project. This is going to decrease the cost of capital for the banks and hence provide the necessary impetus towards concentrating on their core business. Similar initiative have been taken by introducing schemes like Joint Lender’s Forum, Structured Debt Restructuring (SDR), 5/25 refinancing scheme for extension of tenure in case of infra loans, and Ujwal Discom Assurance Yojana (UDAY) scheme for salvaging loans taken by debt-ridden and loss-making SEBs.

• Micro Units Development and Refinance Agency or the MUDRA Bank on 8th April’15, created in order to facilitate the micro units (with a corpus of INR 20,000 Crore) and provide them sufficient funds in order to develop small businesses. As per government estimates there are almost 5.77 crore small businesses currently functioning in India. RBI has also increased the per loan limit for MFI from INR 50,000 to INR 100,000. This would provide much needed capital to the micro sector and promote the growth of the cottage industry.

• The Indian government has proposed a fund of funds of USD 1.5 Bn for start up initiative. Following the announcement, India’s largest public sector bank, State Bank of India (SBI), has opened its first branch dedicated to serving start-up companies, in Bengaluru. This would help start ups leading to growth in economy and job creation.

• Pradhan Mantri Jan DhanYojna (PMJDY) – 221 Million accounts opened with 174.6 million RuPay debit cards were issued. These new accounts have mustered deposits worth INR 38,779 crore (US$ 5.5 billion). The scheme has also extended insurance benefits to the poor whilst providing overdraft facility as well.

2http://www.pmjdy.gov.in/
3http://fortune.com/2016/01/16/modi-india-startup-fund/
4 http://www.pmjdy.gov.in/
Environmental Scan for the Sector

**FDI In India:**

- Insurance regulator IRDA has approved as many as 16 proposals amounting to USD 3 Bn[^1] as foreign investment in the sector. This will lead to insurance companies increasing their penetration and is expected to further create new employment opportunity.

- Lok Capital, a private equity investor backed by US-based non-profit organization Rockefeller Foundation, plans to invest up to US$ 15 Mn[^2] in two proposed small finance banks in India over the next one year. This sector is likely to see further FDI investment as total capital required would be approx. USD 200 Mn.

- Bandhan Financial Services (MFI having 2200 branches) raised US$ 234.8 million from two international institutional investors[^3] to help convert its microfinance business into a full service bank. Bandhan, one of the two entities to get a banking license along with IDFC, launched its banking operations in August 2015. This will help Bandhan increase its reach and footprint and provide increased employment opportunity.

**Flagship initiative of the Indian Government**

- Introduction of payments banks which would decrease the cost of transaction and lead to financial inclusion in India.

- Introduction of Small finance banks which is the next progressive stage for most of the MFI’s and would add to banking penetration and financial inclusion in India.

- To reduce the burden of loan repayment on farmers, a provision of US$ 2.2 billion has been made in the Union Budget 2016-17[^4] towards interest subvention. This would help the banks to focus on increasing their credit growth having cascading effect on the economy.

- Drafting of the IPO guidelines for the insurance sector which would bring in more transparency in the working of the companies and also would provide the capital to fuel the next level of expansion in the sector.

[^1]: http://profit.ndtv.com/topic/insurance/news/page-4
[^3]: http://www.livemint.com/Companies/n0nlyyYs2y4jKkQ1pF3DO/IFC-Singapores-GIC-invest-Rs1600-crore-in-Bandhan-Financi.html
Environmental Scan for the Sector

Key Drivers of Growth

• Credit uptake by corporates and development of new clusters which has been languishing for the past 2 years is likely to see an uptake on account of Government focus on low interest rate and infrastructure policy. Overall this would help the banks in deploying their capital more productively leading to an increase in manpower and branch requirement.
  • Low penetration of banking and insurance product:
    • Banks penetration at 66%¹
    • Life Insurance – 3.3%²
    • General insurance – 0.7%³
  • This provides a great opportunity towards the growth of BFSI sector and with the Government focus on financial inclusion and relaxing of FDI guidelines the BFSI sector is likely to expand their footprints further creating the next growth engine for employment.
  • Technology has helped the BFSI sector in order to decrease their transaction and operating cost (example: advent of handhelds terminals for financial transaction, insurance depository services etc.), with these cost saving the BFSI sector is likely to see a major uptake in the number of new branches in order to increase there reach and thereby providing more employment opportunities.

• Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth and coupled with Positive business sentiments, improved consumer confidence and more controlled inflation they are likely to prop-up the country’s the economic growth in the next 6 years.

¹ World bank report 2015
² Swiss Re report 2015
³ General insurance counsel report
Environmental Scan for the Sector

Key challenges and risks

• Increasing mobile penetration and smartphone usage and hence consumer behavior is changing towards rapid adoption of technology and digitization

• High NPA (in the range of 5% and 11% including stressed assets\(^1\)), might rise further as the banks are supposed to mandatorily declare the details of all the NPA by march 2017 as per new RBI norms

![Bank with higher NPA Percentages](image)

• Slow Credit uptake especially due to slowdown witnessed by the corporates and low growth rate of Automobile and Construction sector.

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Impact Assessment

- Easing macro economic conditions leading to uptrend
- Kick starting the economy through government infrastructure spend
- Favourable demography drive consumption
- Digital India leading to connectivity for all and easy access
- Improved employment scenario

The Way Forward

- On tap bank license to further ease the entry barrier for the sector
- FDI in insurance should be increased to 74% as per the industry demand
- FDI limit in broking should be allowed till 100%
- 100% FDI in foreign banks should be allowed as this will bring in fresh capital and provide the impetus to international banks setting operations in India.
- Consolidation of various PSB banks especially the PSU’s as this will create more synergies.
## Impact assessment on human resource requirement

### Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Baseline number 2013</th>
<th>As per study in 2013</th>
<th>As per study in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2017</td>
<td>2022</td>
</tr>
<tr>
<td>Banking and NBFC</td>
<td>1.89</td>
<td>2.38</td>
<td>3.20</td>
</tr>
<tr>
<td>Broking Houses</td>
<td>0.08</td>
<td>0.10</td>
<td>0.12</td>
</tr>
<tr>
<td>Insurance</td>
<td>0.34</td>
<td>0.42</td>
<td>0.49</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>0.16</td>
<td>0.21</td>
<td>0.31</td>
</tr>
<tr>
<td>Stock exchanges</td>
<td>0.08</td>
<td>0.09</td>
<td>0.13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.55</strong></td>
<td><strong>3.20</strong></td>
<td><strong>4.25</strong></td>
</tr>
</tbody>
</table>

*KPMG in India analysis*
The Indian Electronic and IT hardware manufacturing sector is poised for sustained growth and would be the one of the major driver of for the Indian economy in the coming decade.

As per the current market statistics, the domestic manufacturing in the electronic and IT hardware space is low with India meeting its main demand through imports which contribute around 65% of its domestic requirement. If the current growth rate persists than by 2020 this sector is likely to become the major contributor towards imports (surpassing oil and gas) and thereby having a major impact towards an unfavorable current account deficit.

The Indian Government over the years has realized the importance of this sector and its impact on the current account deficit and job creation, this coupled with various scheme of the Indian government like Make in India campaign, Smart city project, digital India initiative etc. are the steps taken by the Indian Government to promote and foster the local demand and manufacturing of Electronic and IT hardware.

By 2020, the Indian domestic market would be approx. USD 400 Billion and Global market is expected to reach a staggering USD 2 trillion. This would provide a ready market to the sector and would also ensure scalability subject to the Indian Government providing the right impetus in terms of infrastructure, raw material etc. for development of domestic manufacturing industry.
Environmental Scan for the Sector

Industry Overview & Characteristics

The Indian Electronics System Design and Manufacturing (ESDM) industry is at a huge inflection point. From being predominantly consumption driven, the Indian ESDM industry has a major potential to become a design led manufacturing industry. The industry is one of the fastest growing sectors in the country. The Indian ESDM industry was estimated to be $68.31 billion in 2012. The impressive guidance between 2011 and 2015 for this industry is expected to result in a Compound Annual Growth Rate (CAGR) of 9.88 percent.

The ESDM sector is been currently driven by imports and hence has a major impact on the Indian economy been one of the largest contributor to the current account deficit.

Key policy initiatives of Government of India

- **Make in India initiative** - This is one of the major initiative of the Indian government and is focussed upon promoting local manufacturing in India. The Government is targeting to establish approx. 200 EMC (Electronic Manufacturing cluster) by 2020 thereby scaling there number from the current 30 clusters. This would also help the government in achieving their target wherein the proposed manufacturing contribution to India’s GDP is going to be increased to 25% by 2022. This is going to lead to widespread job creation for skilled and trained manpower in the sector.

- **Digital India initiative** – The initiative is based on 9 pillars, which are:
  - Broadband Highways
  - Universal Access to Mobile Connectivity
  - Public Internet Access Program
  - e-Governance: Reforming Government through Technology
  - e-Kranti - Electronic Delivery of Services
  - Information for All
  - Electronics Manufacturing
  - IT for jobs
  - Early Harvest Programs

The Digital India initiative along with the above 9 pillars is going to drive the local domestic demand for Electronic and IT hardware and thereby provide a ready market for the goods manufactured.

1 http://deity.gov.in/content/fact-sheet-esdm-industry
2 Make in India website - http://www.makeinindia.com/article/-/v/direct-foreign-investment-towards-india-s-growth
3 http://www.digitalindia.gov.in/content/electronics-manufacturing
4 http://www.ibef.org/industry/manufacturing-sector-india.aspx
Environmental Scan for the Sector

Industry Overview & Characteristics

- **Smart city initiative** – India’s is urbanizing at an unprecedented rate, so much that estimates suggest nearly 600 million\(^1\) of Indians will be living in cities by 2030, up from 290 million as reported in the 2001 census.

  In a Smart Cities initiative, all the data is collected using sensors which would monitor – electricity, gas, water, traffic etc. and than this data would be carefully compiled and integrated into a smart grid and then fed into computers that can focus on making the city as efficient as possible. Hence the demand for skilled manpower to build and operate such cities is going to increase exponentially creating a ready job market. Based on estimates the job market is likely see an incremental manpower requirement of 1.6 million new jobs.\(^2\) from the new initiatives like make in India, Smart city etc.

- **Electronics Manufacturing Clusters (EMC)** – In 2012 through the electronic policy 2012, the Government has extended subsidies towards the infrastructure cost to set up special electronics manufacturing zones. Some of these schemes are listed below:

  - **Modified Special Incentive Package Scheme (MSIPS)** - Government will reimburse certain taxes and duties for 10 years, amounting to 20% (SEZs) to 25% (non-SEZs) of capital investment. Between January 2014 to June 2015, 58 new proposals worth USD 3 Bn in investment have been received under the scheme and out of it 30 have been given an in principle approval.\(^3\)

  - **Merchandise Exports from India Scheme (MEIS)** - As per Foreign Trade Policy (2015-2020), the Focus Product Scheme, Market Linked Focus Product Scheme and Focus Market Scheme are now under a single MEIS scheme. Export of notified goods (including AC, parts and compressor, refrigerating equipment compressor, fully automatic washing machines and color TV) to notified markets (includes countries in Latin America, Africa, CIS, Eastern Europe, and Asia-Oceania block) will be payable as percentage of realized FOB value (in free foreign exchange). Moreover, there will be a provision for higher level of rewards under MEIS scheme for export items with high domestic content and value addition.

  - **Export Promotion Capital Goods (EPCG)** - Zero duty EPCG scheme allows import of capital goods for pre-production, production and post-production (including CKD/SKD thereof as well as computer software systems) at zero Customs duty. As per the Foreign Trade Policy 2015-2020, the specific export obligation under EPCG


Environmental Scan for the Sector

Industry Overview & Characteristics

• Scheme where capital goods are procured from indigenous manufacturers has been reduced to 75% from 90% in order to promote domestic capital goods manufacturing industry. Favorable climate for foreign direct investment - 100% foreign direct investment is allowed in the electronics hardware manufacturing under the automatic route.
• Advance Authorization - Duty free imports of inputs allowed for exports provided minimum 15% value addition is achieved.
• Key goals for 2020 — The Indian Government has set up a goal to attract investment of US$100 billion in the sector, thereby increasing the exports to US$80 billion whilst achieving turnover of US$400 billion and create employment for around 28 million people. This has been a major driver for the government of India and is the focal point for their current strategy.

• Government of India has taken a number of Initiatives to reduce India’s dependence on imports of Electronic and IT hardware, some of them are as listed below –
  • Education cess and secondary and higher education cess is being levied on imported electronic products
  • End of concessions on excise duties on electronics goods, resulting in countervailing duties going up another 2% and leading to imports getting more expensive.
  • The GOI banned duty free imports of flat panel television sets beginning August 2014 and imposed a duty of 36.5%, as a step to boost local manufacturing.
  • Investment allowances and deductions - Investment allowance (additional depreciation) at the rate of 15% to electronics manufacturing companies that invest more than INR250 million in plant and machinery. This benefit will be available for three years i.e. for investment made up to 31 March 2017.

These initiatives of the India Government are a step towards reducing there dependence on imports with an increased focus on domestic/local manufacturing. These initiatives would provide the much needed impetus to the sector and promote companies to set up there local manufacturing units in India, thereby providing opportunity for widespread development and an exponential requirement for skilled/trained manpower.

Environmental Scan for the Sector

Major FDI in India

• Data for April-December 2015 indicates computer hardware and software segment attracted the highest FDI equity inflow of US$ 5.31 billion which has been invested in various FAB and EMC facilities in India, followed by services sector – US$ 4.26 and trading business – US$ 2.72 billion.¹

• The Government has given approval of US$ 8 billion for setting up of two integrated semiconductor manufacturing clusters led by consortia of:
  • Jaiprakash Associate Limited, IBM and Tower Jazz (Israel) and (though Jaiprakash group has withdrawn from the consortium but as per reports the other member of the consortium are looking for a partner and the project is still not abandoned)
  • HSMC technologies India Private Limited, ST microelectronics and Silteria (Malaysia)

This initiative of the Government will help solve a major issue with Electronic manufacturing in India i.e. lack of semiconductor manufacturing facilities/plants which is the major raw material for any Electronic and IT hardware and accounts for 30% of all input costs in manufacturing. This initiative is likely to provide direct and indirect jobs to ten of thousand of skilled manpower.

• Government impetus to develop 200 EMC by 2020² to promote domestic manufacturing which will lead to further the FDI inflows in the sector coupled with policy relaxation. About 14 Greenfield EMC proposals have been given in principal approval since 2014, while 2 have been given final approval. 2 common facility centers also have been accorded in principle approval.³

¹ [http://www.pmjdy.gov.in/](http://www.pmjdy.gov.in/)
² Refer Annexure 1 for details of EMC approved as on July 09, 2015 as per Skill Sector Council (SSC)
Environmental Scan for the Sector

Key Drivers of Growth

- Government focus on Smart city would drive the domestic consumption of Electronic and IT hardware thereby fuelling domestic demand. The Key focus of Broadband Highways for the rural and urban areas would also support an uptake in consumption for Electronic and IT hardware.

- Focus on reducing the dependence on Imports by promoting local manufacturing to help reduce the current account deficit and hence save valuable foreign exchange. As of now 65% of local demand is met by imports.¹

- Rising manufacturing cost in other markets including China.

- The total global market for Electronic and hardware is anticipated to increase to USD 2.4 trillion by end of 2020². Hence the government plans to promote Electronic manufacturing in India to meet the local demand as well make India the export hub of the future.

- Relaxation of local manufacturing rules for 3 years in case of single vendor retails is likely to see increased participation by companies like Apple which would bring cutting edge and state of art technology into India and promote local manufacturing in the long run.

¹ Make in India website - http://www.makeinindia.com/sector/electronic-systems
² http://iesaonline.org/microsites/visionsumit/12/Presentation/VS2012_PNDhoot.pdf
Environmental Scan for the Sector

Support required for the Sector and the Way forward

• Connectivity of the EMC’s to good sea ports, rails and roads in order to support the movement of raw material as well as the finished goods and thereby minimize the lead and delivery time, increasing the efficiency of the system.

• Increasing the current average speed of transportation in India which is around 25km/hr (they don’t travel more than 300 km in a day) \(^1\) to atleast 150 km/hr by creating integrated freight corridors etc.

• Availability of continuous power and water for manufacturing.

• Land acquisition while building FAB and EMC facility (which require significant land banks) might pose a challenge especially with the ever increase in compensation to farmers and long drawn litigation if challenged in court of law.

• Lack of FAB (fabrication Manufacturing facility), though two facilities have been approved recently but it would take sometime for them to become operational.

• Single Vendor retail – Though the government has relaxed the norms for single vendor retails in case of “state of art” and “cutting edge technology” but they still need to source 30% locally after 3-5 years once the relaxation come to an end which might be a challenge considering the lack of EMC and FAB facilities in India.

• Lack of research and technology has been a main challenge for the Indian electronic and IT hardware industry and hence the Government has taken an initiative to train 1500 PhD scholars\(^2\) yearly and also established a seed fund for incubating start ups doing research in Electronic and IT hardware.

The Way Forward

• Further Increase the import duties on fully build units and complete knock down kits in order to make local manufacturing more lucrative and stem the flow of cheaper imports.

• The Government of India needs to market India as a manufacturing hub for Electronic and IT hardware industry in order to promote domestic investment and manufacturing.

• Immediate aim should be to focus on meeting the domestic consumption requirement in order to decrease the imports and thereby reduce the current account deficit and stem the flow of precious foreign exchange. Once achieved, the focus can shift from meeting the domestic requirement to making India an export hub for the electronic and IT hardware sector.

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\(^1\) Study by IIIM Ahmedabad - http://www.iimahd.ernet.in/assets/snippets/workingpaperpdf/12319057932015-12-02.pdf

\(^2\) http://deity.gov.in/esdm/hrd
Environmental Scan for the Sector

Impact Assessment

- Easing macro economic conditions leading to uptrend
- Kick starting the economy through government infrastructure spend and thereby promoting domestic demand
- Favorable demography drive consumption
- Digital India would lead to creation of 200 EMC which would drive growth
- Improved employment scenario
### Impact assessment on human resource requirement

#### Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Baseline number 2013</th>
<th>As per study in 2013</th>
<th>As per study in 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2017</td>
<td>2022</td>
</tr>
<tr>
<td>Design and manufacturing</td>
<td>1.45</td>
<td>1.75</td>
<td>2.06</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>1.58</td>
<td>2.33</td>
<td>3.34</td>
</tr>
<tr>
<td>Repair, installation and maintenance</td>
<td>1.30</td>
<td>2.16</td>
<td>3.54</td>
</tr>
</tbody>
</table>

**Total incremental numbers in 2022 – 5.2 Million vis a vis 2013 numbers**

Source: KPMG in India analysis

#### Design and Manufacturing breakup

- 1 Electrical, Machinery and Apparatus
- 2 Radio, Television and Communication equipment
- 3 Medical, Precision and Optical Instruments, Watches and Clocks.

#### Repair and maintenance

- 1 Household appliances
- 2 Consumer electronics
- 3 Watches, clocks and their parts
- 4 Computers and peripheral equipment
- 5 Communication equipment
## Environmental Scan for the Sector

### Estimation percentage composition of Workforce: Organized v/s Un-organized Sector (KPMG in India analysis)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>2016</th>
<th>2017</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Organized</td>
<td>Unorganized</td>
<td>Organized</td>
</tr>
<tr>
<td>Passive Components</td>
<td>90</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>Active component and Semiconductor Devices</td>
<td>100</td>
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<td>100</td>
</tr>
<tr>
<td>PCB Design &amp; Manufacturing</td>
<td>100</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Consumer electronics</td>
<td>70</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>Solar &amp; LED Electronics</td>
<td>80</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>Medical Electronics</td>
<td>90</td>
<td>10</td>
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</tr>
<tr>
<td>Automotive Electronics</td>
<td>90</td>
<td>10</td>
<td>90</td>
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<tr>
<td>Communication and Broadcasting</td>
<td>70</td>
<td>30</td>
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<td>IT hardware</td>
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<td>Strategic Electronics</td>
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<tr>
<td>Electronics Manufacturing System (PCB Assembly)</td>
<td>80</td>
<td>20</td>
<td>90</td>
</tr>
<tr>
<td>Industrial Electronics</td>
<td>80</td>
<td>20</td>
<td>90</td>
</tr>
</tbody>
</table>
Environmental Scan for the Sector

**India's stronghold in the global generics market**
The Pharmaceutical industry in India accounts for around 2.4 percent of worldwide pharma industry turnover 10 per cent in volume terms. The industry is projected to reach a turnover of Dollar 55 Billion by 2020 s against the current size of $20 billion.

With 71 per cent market share, **generic drugs form the largest segment of the Indian pharmaceutical sector.** By 2016, India is expected to be the third-largest global generic Active Pharmaceutical Ingredient (API) merchant market. The country accounts for the second largest number of Abbreviated New Drug Applications (ANDAs) and is the world's leader in Drug Master Files (DMFs) applications with the US. India has the largest number US FDA compliant plants. Indian drugs are exported to more than 200 countries in the world, with the US as the key market. Generic drugs account for 20 per cent of global exports in terms of volume, making the country the largest provider of generic medicines globally and expected to expand even further in coming years. ¹

Indian pharmaceuticals industry with its unique blend of low-cost manufacturing, R&D infrastructure and skilled workforce makes it an appealing location for companies looking to outsource. On average, the cost of establishing an FDA-inspected plant in India is approximately 50 percent less than in developed countries. Operation and production costs run 40 to 70 percent lower than in developed nations (factors include local equipment sourcing, tax incentives and a focus on process innovation) and labor costs are on average 60 to 70 percent less than developed countries.

**Domestic Market:**
Indian domestic pharma market is estimated at $ 13 Billion ending FY15 and is expected to grow at approximately 12 per cent CAGR over the next three years. A significant increase in domestic consumption due to the higher incidence of lifestyle diseases, increasing health awareness, growing population, greater penetration in rural markets, and a nascent, yet fast growing health insurance industry, are some factors impacting the growth of the pharmaceutical market. ²

**Direct and Indirect Impact on Employment:**
Rapid growth in Pharma sector will result in substantial growth in workforce requirement. The setting up and expansion of existing manufacturing facilities will result in increased demand for technically trained workforce. Increased affordability and deeper penetration in tier 3 and rural areas would result in increased demand for Sales-force to cater to the increased customer base. Increased focus on Tier 3 and Rural Areas is likely to create job opportunities in Pharma wholesale and Pharma retail sales segments:

- The market share of hospitals in rural India is expected to increase from 13.1% in 2009 to 26% in 2020.
- With increasing penetration of chemists, especially in rural India, OTC drugs will be readily available.
- Pharma companies have increased spending to tap rural markets and develop better infrastructure. ³

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Environmental Scan for the Sector

**Key Government initiatives and Push to drive the Pharma Sector Growth:**

The pharmaceutical sector is one of the key 25 sector identified by the Government of India under the ambitious ‘Make in India’ initiative, which is likely to provide the necessary impetus to the sector in order to achieve its true potential.

Approval time for new facilities has been drastically reduced: A high-level committee would be set up to enable a single-window clearance system for the industry. A move to establish a separate pharma ministry in the next one year is expected to bring the Central Drugs Standard Control Organisation (CDSCO), Drug Controller General of India (DGCI) and National Pharma Pricing Authority (NPPA) under one ministry to streamline rules and regulations.

The government had declared ‘2015 as the Year of Active Pharmaceutical Ingredients’ and is now planning to announce the new bulk drug policy soon, which aims to bring down imports of bulk drugs and increase the domestic output. It also aims to make India self-reliant on bulk drugs by 2020. The government is also working on a proposal for setting up of a venture capital fund with corpus of about $76 Million.

The government announced to reinvigorate the supply of generic drugs and announced its plan to open 3,000 stores under the Prime Minister’s Jan Aushadhi Yojana, during 2016-17. The establishment of ‘Jan Aushadhi’ stores are likely to increase the accessibility to affordable generic medicines for the masses.

A new health protection scheme was introduced to cover poor and economically weaker sections of the society, under which a health coverage of ~$1500 for a family is expected to be provided. Further, to safeguard senior citizens of age group 60 years and above, within the same section of the population, an additional benefit of ~$460 has been announced.

The proposed health protection scheme is expected to increase the accessibility of healthcare services and consumption of pharmaceutical products. This is also likely to have a direct impact on reducing the burden of healthcare expenditure and increase the penetration of insurance.

- The proposed National Dialysis Services Programme is expected to upsurge the consumption of renal care drugs
- Govt. also plans to strengthen the drug regulatory system in the country with an investment of INR1,750 crore during 2015-16 to 2017-18

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2. [http://www.ibef.org/industry/indian-pharmaceuticals-industry-analysis-presentation](http://www.ibef.org/industry/indian-pharmaceuticals-industry-analysis-presentation)
Environmental Scan for the Sector

- **Aggressive incentives by State Governments:**
  Many States are providing incentives in areas like subsidised land cost, relaxation in stamp duty on sale/lease of land, power tariff incentives, concessional rate of interest on loans, investment subsidies/tax incentives, backward areas subsidies, special incentive packages for mega projects etc.

  - Telangana has proposed to set up India's largest integrated pharmaceutical city spread over 11,000 acres near Hyderabad, complete with effluent treatment plants and a township for employees, in a bid to attract investment of Rs 30,000 crore (US$ 4.41 billion) in phases. ¹
  - Karnataka government has earmarked around 500 acre of land for a pharma park at Yadgir. Karnataka government is also providing land at cheaper price and tax benefits to attract pharma companies to set-up facilities in the state. ²

  The Pharma parks will result in sizeable employment opportunities for technically trained youth and also create jobs through expansion of the sales network.

**Direct and Indirect Tax Incentives to attract investments**

For start-ups set up between April 2016 and March 2019, a 100 per cent deduction of profits for three out of five years has been introduced.

**Tax Benefits:**

- A weighted tax deduction is given under section 35 (2AA) of the Income Tax Act.
  - A weighted deduction of 200% is granted to assess for any sum paid to a national laboratory, university or institute of technology, or specified persons with a specific direction provided that the said sum is used for scientific research within a program approved by the prescribed authority.
  - Weighted tax deduction of 200% under section 35 (2AB) of the Income Tax Act for both capital and revenue expenditure incurred on scientific research and development.
  - The flat corporate tax structure of 25 per cent for companies commencing manufacturing operations after 1 March 2016 is expected to boost drug manufacturing in the country.
  - Expenditure on land and buildings are not eligible for deduction.
  - A special patent regime has been proposed with 10 per cent rate of tax on income from worldwide exploitation of patents developed and registered in India by a resident. The provision for a 10 per cent tax on income from patents is likely to benefit pharmaceutical companies with a global footprint and encourage the industry to invest in innovations and further leverage on them. ³

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³ [http://www.dsir.gov.in/forms/irdpp/Application%20for%20R&D.pdf](http://www.dsir.gov.in/forms/irdpp/Application%20for%20R&D.pdf)
Revised FDI norms is expected to enable the pharma sector to grow at a CAGR of 20% till 2020:

a. 100% FDI is allowed under the automatic route for greenfield projects.
b. For brownfield project investments, up to 100% FDI is permitted under the government route.
c. ‘Non-compete’ clauses are not allowed except in special circumstances, with the approval of the Foreign Investment Promotion Board.

The government's decision to increase foreign direct investment (FDI) to 74% in existing pharmaceutical companies through the automatic route is expected to boost mergers and acquisitions (M&As) and private equity investments in the sector in future.

India accounts for around 30% (by volume) and about 10% (value) in the $70-80 billion US generics market. Over the years, India has become a dominant player in the US generics space with a large number of plants and increased scale of operations, exporting key drugs and injectables from the country.

The following table show the FDI received (YTD) in Indian Pharma Sector:

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI ( In USD Billion )</td>
<td>1.28</td>
<td>1.50</td>
<td>0.75</td>
</tr>
</tbody>
</table>

Data also indicates that M&A activity almost doubled from 2014 to 2015 and trend is expected to continue over the coming years. The country is expected to take 25 per cent of bio-similars market over the next five years.

The FDI inflow will enable development of new manufacturing facilities and expansion of the existing one, thereby increasing the capacity to meet the growing demand in both international and domestic market. One of the direct consequences of the expansion of manufacturing capacity would be creation of additional jobs in the manufacturing segment.

1 http://dipp.nic.in/English/default.aspx
Impact assessment on human resource requirement

Analysis of sub-segment wise impact of environmental changes on the demand for workforce in the Pharma sector

<table>
<thead>
<tr>
<th>Segment</th>
<th>Policies</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>▪ Relaxed FDI norms, increased fund flow and PE activity</td>
<td>Increased Demand for Technically trained workforce:</td>
</tr>
<tr>
<td></td>
<td>▪ Aggressive State incentives (Telangana and Karnataka)</td>
<td>1. Engineers</td>
</tr>
<tr>
<td></td>
<td>▪ Increased USFDA Approval</td>
<td>2. ITI and Diploma Holders</td>
</tr>
<tr>
<td></td>
<td>▪ Growing Export Market</td>
<td>3. Managerial workforce</td>
</tr>
<tr>
<td></td>
<td>▪ Growing Domestic Market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Increased Rural Penetration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Make In India</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Increased Insurance Penetration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Pharma Parks</td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>▪ Incentives for Research funding</td>
<td>Increased Demand for PHDs and Engineers</td>
</tr>
<tr>
<td></td>
<td>▪ Increased fillings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ New IP laws ensuring better protection</td>
<td></td>
</tr>
<tr>
<td>Wholesale Sales</td>
<td>▪ Increased Sales Volume</td>
<td>Increased demand for trained salesforce</td>
</tr>
<tr>
<td></td>
<td>▪ Growing Domestic Market</td>
<td></td>
</tr>
<tr>
<td>Pharma Retail</td>
<td>▪ Increased penetration in rural Areas and Tier 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Increased OTC share</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Growing Domestic Market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Govt Schemes like universal health coverage</td>
<td></td>
</tr>
</tbody>
</table>

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Category</th>
<th>Baseline -2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2017</td>
<td>2022</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.69</td>
<td>0.89</td>
<td>1.15</td>
</tr>
<tr>
<td></td>
<td>0.07</td>
<td>0.09</td>
<td>0.11</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>0.2</td>
<td>0.29</td>
<td>0.42</td>
</tr>
<tr>
<td>Wholesale Sales</td>
<td>0.9</td>
<td>1.32</td>
<td>1.90</td>
</tr>
<tr>
<td>Pharma Retail</td>
<td>1.86</td>
<td>2.60</td>
<td>3.58</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.86</strong></td>
<td><strong>2.60</strong></td>
<td><strong>3.58</strong></td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis
The way forward and support required

In recent times, certain data integrity issues reported in the country by the United States Food and Drug Association (USFDA) has led to an import ban on products made by Indian companies and have marred the image of the Indian pharmaceutical industry. The companies and local regulatory bodies need to adhere to strict quality standards to avoid such incidences in future.

Make In India, FDI and other government initiatives are expected to have a significant impact in catalysing the growth of the pharma sector, however, the government needs to increase expenditure on public health from the current 1 per cent to 2.5 per cent of GDP in the next two years. This is expected to increase access for healthcare and pharmaceutical drugs.

A unified ministry could end the policy fragmentation as there are various departments under different ministries that are currently dealing with pharmaceutical regulations and approvals.

Small and Medium Enterprises (SMEs) in the pharmaceutical sector would benefit greatly from a soft loan facility from the government for upgrading existing manufacturing facilities in order to meet international standards of quality.

Skilling definitely needs more focus and push and further investments into development of skilling infrastructure would ensure availability of quality workforce to meet the growing demand of the sector.
Logistics, transportation, warehousing and packaging

Environmental scan 2016
Environmental Scan for the Sector

India’s transportation sector’s modal mix is heavily skewed towards roads especially for freight movement. The reliance on roads as opposed to railways, air, inland waterways and coastal shipping. Road-based freight, which is considered relatively inefficient, is significantly high in India at 60% compared to 30% in China and 46% in Europe. The share of rail-based freight has been steadily declining. Over the past 3 decades the share has halved to 31%.

Systemic inefficiencies in the logistics sector are evidenced by 13%\(^1\) logistics spend as a proportion of GDP. This indicates an unfavorable modal mix and a need for boosting rail freight in the immediate term and develop an integrated transportation system. In the long term, development of alternate medium for freight such as inland waterways is essential.

Logistics, transportation, warehousing and packaging is a large employment generator. There were an estimated 16.7 million workers employed in the logistics, transportation, warehousing and packaging sector in 2013. The largest sub sectors being passenger road transport and road freight. The sector is expected to grow by 12.17% (CAGR) till 2020. The growth will be driven by food processing and retail sectors- both organised brick-and-mortar retail and ecommerce retail sectors.

New FDI policies, Make in India initiatives are expected to lead to growth in third party logistics providers, cold chain and overall warehousing sub sectors. Announcement of dedicated freight corridors, increase in train speed, development of national (inland) waterways, an integrated transportation system etc key measures which will reform the transport sector and boost employment.

Rollout of the Goods and Service Tax (GST) is widely accepted to be a tremendous boost to the sector. A unified and rationalized tax structure reduces administrative costs associated with multi-level taxation, allows for optimization of warehousing and packaging units.

A robust logistics, transport, warehousing and packaging sector is the lifetime for the economy. Investments to enhance infrastructure will have a multiplier effect across other sectors due to operational efficiency, ease of conducting business, product pricing, international marketability etc

Source: World Bank statistics, Economic times,
Environmental Scan for the Sector

The logistics, transport, warehousing and packaging sector deals with freight and passenger movement and, storage and packaging of goods.

A well developed and efficient logistics sector is crucial for development of the economy as a whole. It is closely linked to and affects the performance of key sectors such as manufacturing, retail, food processing, agriculture etc. It is estimated that each manufacturing sector job created leads to 4 services jobs along the value chain.

The Indian logistics sector is fragmented and underdeveloped. It is characterized by a skewed modal mix with roads taking a lion’s share of passenger and freight (Refer to Figure 1). India’s logistics spend is 13-14% of GDP as opposed to 7-8% of developed countries. This presents significant opportunity for correction as cost per kilometer by road is INR 1.5 vs INR 0.2 by inland waterways. India ranked 54th on the World Bank’s global Logistics Performance Index.

Taking cognizance of criticality of a robust logistics sector, the government has announced a slew of initiatives to address key issues. While roads and railways get a lion’s share of focus and budgetary allocations, sub sectors such as inland waterways have received a new push.

Government initiatives to boost rail freight capacity, public transportation systems for passenger movement, identification of national waterways, development of logistics parks, inter city high-speed passenger railways, port modernization, are a step in the right direction.

Additionally, policy measures to boost private sector investment in infrastructure development, technology led innovation and support to new enterprises will supplement growth.

Overall, investments in logistics, transport, warehousing and packaging has direct and indirect growth implications for the entire economy. Sub sectors such as packaging and energy transport (petroleum, oil and lubricants is expected to witness high growth in land-side logistics in the future. Access to improved infrastructure will lower logistics costs, competitiveness of exports.

Source: Economic times, KPMG in India analysis

Figure 1: Modal mix of freight turnover, 2012

Source: KPMG in India analysis
Environmental Scan for the Sector

In order to meet the Government of India’s vision under Make in India, Start up India, Smart Cities etc, development of the logistics industry is imperative. Taking cognizance of this, government made several announcements for capacity enhancement and new areas of development.

At the same time, private investment in technology based and data driven solutions for last mile connectivity and line haul has led to growth.

Overall, India’s logistics sector growth rate is expected to be 1.5x-2x GDP growth

Flagship initiatives:

Smart Cities initiatives include investments for improving access to public transport, investment in ICT solutions for urban mobility etc will boost investment in urban transportation systems and generate employment opportunities in new skills.

Make in India initiatives to boost domestic manufacturing capacity will directly affect demand for logistics activities to connect demand and supply centers. Further liberalization of FDI regime across multiple sectors, infrastructure investment to improve the modal mix, setting up of logistics parks etc will boost activity and corresponding labour requirements. The set up and/or promotion of manufacturing hubs at coastal SEZs indicates government focus on greater exports with significant downstream impact.

India’s rank improvement in the ease of doing business as measured by the World Bank improved by 12\(^1\). Measures such as faster clearances, online application through eBiz portal, Insolvency and Bankruptcy code for speedy exit etc have been passed. States are competing among each to attract investments which in turn will boost economic activity and directly grow crucial sectors such as logistics.

Additionally, the impending The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Second Amendment) Bill, 2015 sought to create special categories of land use. Investments in infrastructure, industrial corridors were to be exempt from certain provisions. Such amendments are expected to boost investment activity further.

The announcement of the Direct Port Delivery facility at Jawaharlal Nehru Port Trust is expected to save logistics sped by INR 30000 per container. Additionally, JNPT offers direct delivery of single containers and not the previous norm of 300 containers a month. The facility is made available to all importers accredited to Accredited Client Programme.

Sub-sectoral investments:

Rail: 100% FDI via the automatic route for nearly 17 areas for railway infrastructure was announced in 2014. Subsequently, in 2015, GE (USA) and Alstom (France) were awarded contracts for investing in locomotive manufacturing and maintenance sheds. The deals were worth USD 2.6 billion and USD 3 billion respectively and generate manufacturing jobs.

\(^1\) ‘Doing Business Report’, as of May 2016. Reflects measures undertaken by central and state governments

Source: Economic times, Ministry of Railways website, Ministry of Road Transport and Highways website, KPMG in India analysis
Environmental Scan for the Sector

The announcement by railways ministry of 3 new dedicated rail freight (budget 2016-17) corridors and PPP funding model are important initiatives which will reduce freight transit time, free up capacity for passenger movement and create new jobs.

Roads and highways: With a USD 15 billion (2016) budgetary outlay, roads and highways continue to be a primary focus area. The revised 2016-17 target of 40 kilometers of roads per day, will directly boost job creation. The construction of 15000 kilometers of new roads will boost connectivity and facilitate movement of passenger and freight across the nation.

Initiatives such as Pradhan Mantri Gram Sadak Yojana, proposal for setting up 3000 driving schools, vehicle fitness and pollution centers will boost rural employment opportunities. The proposed Bharatmala Yojana will add 7000 kilometers of roads and correspondingly jobs. This will connect existing or build new roads along coasts, international borders.

The announcement of USD 4.6 billion worth investment to set up 5 logistic parks along the dedicated freight corridor will lead to demand for specialized skills.

**Growth of logistics technology and new players**

**Venture capital investments in logistics start ups jumped 800% to USD 617.7 million between 2014 and 2015 highlighting confidence regarding growth prospects. At USD 133 million, Ecom Express raised one of largest rounds of funding among logistics technology firms. Most start up activity is in hyperlocal delivery and long haul and usage of technology to optimize location, routes and/or modes of transport. (Refer to Figure 2). Existing e-commerce retail players also continue to invest heavily in logistics firms. In 2015 itself, Snapdeal added 1.3 million square feet of warehousing across 25 cities and invested USD 20 million in GoJavas. Paytm invested USD 10 million in Loginext for big data solutions to optimize route mapping. Flipkart co-invested USD 5 million in Blackbuck. Amazon announced set up of new fulfillment centers across India.**

<table>
<thead>
<tr>
<th>Company</th>
<th>Latest funding (USD mn)</th>
<th>Type of solution</th>
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</thead>
<tbody>
<tr>
<td>Ecomm</td>
<td>133</td>
<td>end-to-end logistics solutions</td>
</tr>
<tr>
<td>Dehivery</td>
<td>85</td>
<td>end-to-end logistics solutions</td>
</tr>
<tr>
<td>Blackbuck</td>
<td>30</td>
<td>online marketplace for freight transport booking</td>
</tr>
<tr>
<td>Rivigo</td>
<td>30</td>
<td>driver relay based trucking solution</td>
</tr>
<tr>
<td>Roadrunnr</td>
<td>21</td>
<td>hyperlocal delivery</td>
</tr>
<tr>
<td>Gojavas</td>
<td>20</td>
<td>end-to-end logistics solutions</td>
</tr>
<tr>
<td>Qikpod</td>
<td>9</td>
<td>national parcel locker system</td>
</tr>
<tr>
<td>Shadowfax</td>
<td>8.8</td>
<td>hyperlocal delivery</td>
</tr>
<tr>
<td>Opinio</td>
<td>8.3</td>
<td>hyperlocal delivery</td>
</tr>
<tr>
<td>The Porter</td>
<td>6.5</td>
<td>aggregator for mini trucks</td>
</tr>
</tbody>
</table>

*Figure 2: Top 10 recent funding in logistics startups in India, 2015*

Source: yourstory.com, economictimes.com, company websites

Source: Economic times, yourstory.com, KPMG in India analysis
Environmental Scan for the Sector

Technology will continue to play a major role in sub sectors such as warehousing and packaging. Employment generation through newer and bigger warehouses and bulk handling terminals will be offset with increasing automation.

Coastal shipping: Recognising the need to develop ports to support international trade, the government has announced the Sagarmala Yojana in 2015 for port mechanisation and modernisation which will add 10% of the 1000 million tons per annum incremental target for 2025. The overall Sagarmala scheme is expected to generate 10 million jobs in 5 years.

Other developments:

Rollout of GST is expected to provide a big boost to logistics industry. A unified and rationalized tax structure leads to lower administrative costs as the logistics sector spends nearly 50-60% of time on complex and multi-level tax and compliance procedures. GST is expected to lead to location optimization of warehouses, efficient route mapping and greater organized player participation as borderless (tax free) movement allows for economies of scale.

Investments to develop new modes of transport such as designation of 106 rivers as national waterways will boost intra-country connectivity and new kind of jobs in shipping and navigation. The average cost of cargo movement by inland waterways is estimated at 30% of rail and 20% of road. Employment from this announcement will come into effect once investments are announced.

Growth in organized retail and e-commerce retail are likely to have spillover effect on logistics industry. As the next phase of retail sector growth will come from Tier 2 and Tier 3 cities, connectivity and storage vis-à-vis emerging demand centers will be lead to greater investment in logistics.

Additional spillover effects from growth in food processing industry will boost investments in cold chain logistics and likely have spillover effects on manpower requirements.

Start up India initiatives to incentivize entrepreneurial investment through provision of legal support, fast tracking of patent examination, speedy exit etc are likely to support the momentum of growth of new ventures. This could directly affect both traditional and emerging tech-based businesses in this sector.

Source: Economic times, Livemint, KPMG in India analysis
Impact assessment of incremental human resource

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Courier services</td>
<td>0.23</td>
<td>0.32</td>
<td>0.39</td>
<td>0.32</td>
<td>0.43</td>
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<td>Packaging</td>
<td>0.22</td>
<td>0.30</td>
<td>0.37</td>
<td>0.30</td>
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<tr>
<td>Passenger railways</td>
<td>0.83</td>
<td>1.14</td>
<td>1.41</td>
<td>1.14</td>
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<tr>
<td>Passenger transport roadways</td>
<td>9.10</td>
<td>12.51</td>
<td>15.46</td>
<td>12.52</td>
<td>16.97</td>
</tr>
<tr>
<td>Rail freight</td>
<td>0.13</td>
<td>0.18</td>
<td>0.22</td>
<td>0.18</td>
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<tr>
<td>Road freight</td>
<td>5.79</td>
<td>7.96</td>
<td>9.83</td>
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<tr>
<td>Warehousing</td>
<td>0.43</td>
<td>0.59</td>
<td>0.73</td>
<td>0.59</td>
<td>0.80</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16.73</strong></td>
<td><strong>23.00</strong></td>
<td><strong>28.41</strong></td>
<td><strong>23.02</strong></td>
<td><strong>31.19</strong></td>
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</tbody>
</table>

Growth drivers and impact created

- Cross-sectoral growth implications
- Reduces logistics expenditure due to cost efficiencies
- Facilitating environment for domestic and international trade
- Employment generation in direct and allied sectors
The logistics, transport, warehousing and packaging sector is the lifeline of the country’s economy. Sector growth is closely linked to growth of key sectors such as retail, manufacturing, construction, power etc.

Future growth will be strongly dependent on key initiatives to be undertaken by the government. The growth of the sector will directly facilitate achieving goals under other government initiatives such as Make in India, Start up India etc. These include;

• Timely rollout of GST which could directly provide a significant boost to the sector and economy as a whole

• Development of new means of transport such as 111 inland waterways could significantly cut down operating cost of transporting goods across the country and generate significant employment opportunities in water based logistics. Details of expected investments by public and private sector would throw further light on the quantum of potential impact

• Continued healthy competition among states to attract investment will boost the size of the sector and generate new jobs
Beauty and Wellness

Environmental Scan 2016
Environmental Scan for the Sector

Increasing level of personal spending

- Consumer Spending in India increased to $256.43 Billion in the first quarter of 2016 from $244.8 Billion in the fourth quarter of 2015. Consumer Spending in India reached an all time high of $145 Billion in the first quarter of 2016.
- In 2015, the Indian counter sale of beauty products amounted to about $0.42 Billion. India is one of the fastest growing consumer markets in the world, moving from unorganized informal markets to organized retail, including shopping malls in major Indian cities as well as tier II cities in the country. The cosmetics/beauty industry is one of the booming retail sectors in India. The beauty and cosmetics sector in India has shown continued strong growth, with increasing shelf space in retail stores and boutiques in India, stocking cosmetics from around the world.

Changing consumer psyche towards beauty and wellness

- Customers are willing to pay a premium for a beauty and wellness ‘experience’. Spending on beauty and wellness is no longer considered a luxury. Customers are more aware of holistic approaches to wellbeing and setting aside quality time towards these activities. There is an increased preference for organic options.
- Beauty and wellness services are expanding among both men and women with men becoming increasingly conscious of their looks and wellbeing. Unisex beauty and wellness centres are increasingly finding acceptance among young, upwardly mobile customers. Several leading brands in the organized segment offer unisex services.
- Increasing Men specially in Urban areas are spending more of grooming needs

Advent of international beauty brands

There is an increased presence of foreign brands in the services as well as product segment. Increased penetration of organized retail augurs well for the sales of foreign brands in India. The advent of foreign brands is giving rise to niche skills and increased efficiency of operations and customer orientation.

Rising income, increasing awareness among consumers in tier 2 and 3 cities and low rental/manpower costs are some drivers for expansion into hitherto untapped regions. For a number of organized beauty and wellness players, over 50 percent of their new store additions during FY 2013 have been beyond tier 2 and 3 cities.

1http://www.tradingeconomics.com/india/consumer-spending
Environmental Scan for the Sector

Key Government Initiatives and their Impact on Beauty and Wellness sector:

**Make in India:**
India’s wellness market is estimated at $ 7.5 Billion, and wellness services alone comprise 40% of the market. Yoga is widely recognised and practiced in Asian as well as western countries and the demand for Ayurveda, Yoga, Naturopathy, Unani, Siddha and Homoeopathy (AYUSH) and herbal products is surging in India and abroad.

Make In India will have direct impact on alternative Therapies and services and create additional job opportunities in the rejuvenation, Fitness and slimming sub-sectors. Ministry of Tourism also promotes AYUSH Systems of Medicine by organising and participating in various wellness and medical tourism events and by running publicity campaigns and organising road shows in the overseas market.

India is one the leading destination for wellness tourism and further growth in wellness tourism will spur the growth of Ayurveda Spas and Services, there increasing the demand for skilled workforce to cater to the tourist inflow.

**Digital India**

Internet is set to influence $11 billion worth of sales in beauty and hygiene products segment in the country by 2020. Beauty and hygiene related searches on Google make it the 3rd largest vertical for shopping related searches, behind apparels and accessories and mobile phones.

With growing penetration of Internet beyond urban India and online shopping growing, there is a huge opportunity waiting to be unlocked by digital players in the country with their innovative ideas and approach. Backed by the strong growth in the number of online users in India, the beauty and wellness industry will continue seeing rapid adoption reaching about 650 million by 2020 with Innovation and digital intervention.

Technology has come to play a critical role in salons and spas being able to keep their schedules full, increase customer loyalty, increase visit frequency, properly manage staff, streamline operations, and grow revenue. The ability for them to support such rapid expansion is manageable because of technology. For chains that are dispersed geographically, cloud-based platforms provide accessibility and transparency to management at all times.

**Startup India**

Recent times have seen the advent of innovative startups in the sector, for example: Gurgaon-based Stylofie, a beauty and wellness startup, has raised $250k in seed funding from a Hong Kong-based company Swastika. Stylofie is an online marketplace for salons/spas around Delhi.

Many such startups that connect spas and saloons to end-customers have sprouted in the recent past, thus directly contributing to the utilization and sustainability of saloons. Practo, Asia’s largest online healthcare platform, too, is set to launch a wellness unit for bookings at spas and salons.

A host of startups like Hobbyix, FlexiPass, Fitternity and Gympik have sprung up in the fitness space recently. 159 Companies have entered in Fitness and Wellness sector in India and these companies are providing services like listing, appointment booking, Market place for fitness and fitness coaches, online training, personal fitness apps.
Environmental Scan for the Sector

Mudra Scheme to boost small entrepreneurs in the beauty and wellness sector:

- Mudra Bank stands for Micro Units Development Refinance Agency which will act as a regulator of all ‘Micro-Finance Institutions’. The aim of setting up Mudra Bank is to encourage small and medium business enterprises to expand their operations to survive in the competitive market by bringing down the cost of finance.
- The principal product of Mudra Bank will be providing security free financial aid up to Rs.10 lakhs to last Mile Financiers of the micro businesses/units.
- Mudra Bank Beneficiaries would be Small or Medium Business or Entrepreneurs in rural and urban areas having financing requirements up to Rs.10 lakh: including proprietorship/partnership firms running hair cutting saloon, beauty parlours etc.
- Over a million entrepreneurs have been given loan under the mudra scheme, 70% of beneficiaries of Mudra scheme are women and this scheme is likely to have a direct impact on growth and employment opportunities in the beauty and wellness sector.

Rapid growth in the organized segment:

The Beauty and Wellness segment is witnessing rapid growth across Tier I, Tier II, III markets, while the growth in Tier Markets is driven by increasing disposable income, increasing demand quality grooming services, entry of international brands, and increased visibility through marketplace startups. The demand for beauty salon services has also risen in Tier II, II cities, paving way for organized saloon chains to enter into newer marketplaces. Leading chains are upbeat about the positive market and have are on a fast track expansion route through PE funding and IPO:
- VLCC: The company's operational revenues more than doubled between FY11 and FY15. The company expecting to grow at around 35 per cent year-on year and the firm expects the turnover to touch $ 0.5 Billion crore in the next 3-4 years.
- Chennai-based Naturals, launched in 2000, has 380 salons across the country, and the company wants to increase to 3,000 centers by 2020.
- CavinKare's 12-year-old salon brand, Trends In Vogue, has 400 outlets and intends to add another 100 by 2016-2017

The demand for skilled workforce will also grow in line with rapid growth of the industry. A well trained salon professional is able to command a salary of $ 380 plus with just 2-3 years of experience, which is making it a lucrative profession for the young population. Allied segments like Spa and rejuvenation have also seen entry of luxury brands, specifically in a model where the brand associates with a chain of luxury hotels and resorts. Most of the prominent salon chains have vertically integrated and opened their own training institutions offering varied range of generic and specialist programs, thereby absorbing a portion of the their own trainees and providing credibility to the entire student base, as the trainees get access to industry experienced teachers and state-of art salon equipment.

Environmental Scan for the Sector

Booming Cosmetics Market and entry of International Players

Current Market and Trends
Mounting aspirations, emergence of a young urban population with increasing disposable income in Indian cities, an increase in the number of working women, changing lifestyles, increased affordability of lifestyle-oriented and luxury products, and greater product choice and availability are the main drivers of demand for imported cosmetics products in India.

The cosmetics market in India is growing at 20 percent annually, much faster than that of the United States and the European markets. Premium global brands are gaining sales as Indian consumers move from functional products to more advanced and specialized cosmetic products. With the beauty service industry growing rapidly in India, the spa segment in recent years has also been growing, not just only in the number of spas, but also in the diversity of spas and products available.

The growth rate in the cosmetics market reflects an increasing demand for beauty care products in India. Premium global brands are gaining sales as Indian consumers move from functional items to more advanced and specialized cosmetic products. Many international brands like Revlon (the first international cosmetics brand to enter India in the mid-nineties), Avon, Burberry, Calvin Klein, Cartier, Christian Dior, Estee Lauder, Elizabeth Arden, Lancome, Chambor, Coty, L'Oreal, Oriflame, L'Oreal, Yardley, Wella, Schwarzkopf, Escada, Nina Ricci, Rochas, Yves St. Laurent, Tommy Hilfiger, Max factor, Max Mara, Shiseido, Body Shop, Maybelline New York, MAC, and many more have been present in India for quite some years now.

With more and more international brands entering India in recent years, competition has increased. Lakme accounts for approximately 35 percent market share. With the beauty service industry growing rapidly in India, the spa market in India is also expanding rapidly. Local brands currently account for approximately 70 percent of the spa market in India and the balance is international spa firms many of whom have partnered with leading hotel brands and other partners. ¹,²

¹ http://articles.economictimes.indiatimes.com/2016-02-12/news/70568947_1_google-india-beauty-segment-internet
Impact assessment on human resource requirement

Increasing level of personal spending  
Changing consumer psyche towards beauty and wellness

Increasing Penetration in Tier II and Tier III Cities  
Increased share of Male customers

Mudra scheme  
Startup-India

Make in India  
Digital India

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline -2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>Beauty and salon segment</td>
<td>3.4</td>
<td>6.20</td>
<td>12.10</td>
</tr>
<tr>
<td>Beauty products and counter</td>
<td>0.7</td>
<td>1.00</td>
<td>1.80</td>
</tr>
<tr>
<td>sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fitness segment</td>
<td>0.07</td>
<td>0.09</td>
<td>0.11</td>
</tr>
<tr>
<td>Slimming segment</td>
<td>0.02</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td>Rejuvenation</td>
<td>0.03</td>
<td>0.08</td>
<td>0.21</td>
</tr>
<tr>
<td><strong>Total (report)</strong></td>
<td><strong>4.22</strong></td>
<td><strong>7.40</strong></td>
<td><strong>14.26</strong></td>
</tr>
</tbody>
</table>

Source: KPMG in India Analysis
The way forward and support required

The sector has undergone a rapid growth phase and is likely to sustain the growth owing to the large base of young population in both Urban and Rural areas and their lifestyle needs. While the sector has seen some consolidation from expansion of established brands, most of the sector is still un-organized play. To provide skilled manpower to meet the growing demand, Indian salons & beauty sector need knowledge & education to ensure that the products from these new brands can be used in the right manner.

Easy Access to capital is one of the key needs for small scale entrepreneurs like Hair saloon and Beauty Parlours. Government initiatives like Mudra will definitely be a step forward towards catalysing growth and self-employment in the sector, still there is a lot of scope for further accelerated growth through increased access to capital.

Skilling infrastructure will also a vital role in the sector, Most of the training courses offered by unorganized small time players are not recognized by the industry and the candidates do not receive a premium for completion of these courses. Training institutes are mostly centered around demand hubs, than sourcing hubs, such as the North-eastern states of India.
India is the second largest mobile market with over a billion subscribers at the end of Feb 2016, with 608.4 million urban subscribers and 443.5 million rural subscribers. There is a huge potential to grow in the rural sector where tele-density is still quite low at 50.76 as compared to urban tele-density at 153.93.

Major achievements of the telecom industry

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice rates</td>
<td>Lowest in the world</td>
</tr>
<tr>
<td>Employment</td>
<td>Contributes directly to 22 lakh jobs and indirectly to 20 lakh jobs</td>
</tr>
<tr>
<td>Investment growth</td>
<td>~220% in last 4 years</td>
</tr>
<tr>
<td>GDP contribution</td>
<td>6.1%</td>
</tr>
<tr>
<td>Investment in infrastructure</td>
<td>Top 3 operators invested over $ 33 billion in infrastructure during last 5 years</td>
</tr>
<tr>
<td>Number of sites put up in last 15 months</td>
<td>2 lakh - nearly equals the number put up in last 20 years</td>
</tr>
<tr>
<td>Villages covered</td>
<td>Over 5,00,000</td>
</tr>
<tr>
<td>Private sector investment</td>
<td>Second largest private sector investment in infrastructure – $ 119 billion, despite RoI&lt;1%</td>
</tr>
</tbody>
</table>

India is not only the second biggest mobile market in the world with 1.03 billion subscribers, but also the fifth largest producer of e-waste in the world, discarding roughly 18.5 lakh metric tonnes of electronic waste each year with telecom equipment alone accounting for 12% of the e-waste. The Ministry of Environment, Forest and climate change has notified e-waste management rules, 2016 in which producers are for the first time covered under Extended Producers’ Responsibility (EPR). The rules prescribe a waste collection target of 30% waste generated under EPR for the first two years, progressively going up to 70% in the seventh year of the rule. Given the inclusion of producers under the rule, the manufacturers will require manpower to help them collect the e-waste generated. Hence, this will give rise to new job roles and up skilling within e-waste disposal and collection, as the current workforce may not have the desired skills.

The GOI has instituted a differential duty regime to promote manufacturing of mobile components like batteries, chargers/adapters and wired headsets vide Budget 2016-17. This is expected to fuel significant manufacturing in the mobile components sector in coming months. In addition to this, there are certain other custom duty exemptions on different telecom equipment in the budget that will positively impact the sector - realignment and exemption of customs and excise duty rate structures to provide a boost to domestic manufacturing of several products, including products in the electronics/telecom sector. Since telecom equipment manufacturing sector in India is still at an evolving stage, lowering the customs duty will allow the sector to attain further maturity at a later stage. These relaxed duty regimes will boost production of the aforementioned equipment within the country, a move that will warrant incremental manpower to fulfil the demand within the sector.

Telecom tower companies continue to face challenges with respect to obtaining electricity connections, especially in rural and remote areas. So, the rural electrification scheme has a deadline of May 1, 2018 for 100% electrification will be a big respite for the industry. If the scheme implementation goes as per plan, it will help provide 24/7 power supply to telecom towers within the country and in turn promote telecom services.

1 Telecom Subscription Data as on 29th February
2 KPMG budget analysis 2016 -2017
Environmental Scan for the Sector

In order to support the growth trajectory of telecom service providers, the government has brought about and proposed certain key regulatory changes such as

**Right of Way Policy (RoW)**[^1] - RoW rules that are to be framed under the Indian Telegraph Act will enable telecom service providers to set up towers on government properties. The policy aims to provide standard rules to government agencies to follow when telecom companies submit proposals for setting up of towers. Once the policy is finalised this year, it will encourage development of telecom infrastructure in the country.

**Paperless e-KYC** - In February 2016, TRAI recommended DoT to allow electronic KYC through Aadhaar as one of the valid documents for getting a new mobile connection, in all telecom circles. The e-KYC is a significant step towards the vision of a digitally connected and empowered economy. For authentication and on-boarding mobile customers, e-KYC can help enable transparency and contribute towards prevention of frauds. This will lead to instantaneous activation, removal of paper verification, and hence, further drive mobile connectivity across the nation.

**Make in India**: The Make in India initiative has triggered talks of joint collaboration with Chinese companies that are looking to invest in mobile handset and component manufacturing over the next two years. Together with this investment, other manufacturers such as Foxconn, Micromax, Oppo, etc. intend to invest a sum of around $6 billion. Also, India has already surpassed the 100 million units – a promising sign that India will soon become a mobile manufacturing hub for the world. To promote large scale manufacturing and assembling of handsets in the country to achieve production of 500 million units by 2019, the Department of Electronics and Information Technology (Deity) has even formed a Fast Track Task Force (FTTF)[^2].

**Smart Cities**: The Smart Cities initiative will help create cities which optimally tap into digital and information technologies, urban planning best practices, public-private partnerships, and positive policy changes. The Smart Cities Mission is to be implemented as a centrally sponsored scheme with central government providing financial support to the extent of approximately $7.2 billion over 5 years. Telecom service providers are set to form the backbone and will be vital to the sustainability of the cities. All the infrastructure within the city will be embedded with sensors that will deploy telecom links to talk to each other – smart sensors will automatically transmit information about water leakages, electrical faults, car collision etc. to the concerned person or department to take necessary action. On the employment front, it is estimated that about 16 lakh jobs across all sectors would be added by 2020 because of Make in India and Smart cities. We can attribute about 15-20% of these jobs to be created by the telecom sector.

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Government’s Flagship Initiatives

Digital India: Under the digital India initiative, the following measures will provide the required impetus to the telecom sector

• The government intends to provide broadband connectivity to around 55,000 villages (~2.5 lakh gram panchayats (GP)) in a phased manner by 2019 and is funded by Universal Service Obligation Fund (USOF). Thus, to fulfill its endeavor to increase digital penetration across rural areas, the government has taken up the BharatNet also known as the National Optical Fibre Network project. This endeavor will open up avenues for better access for service providers such as telecom operators, cable TV operators, e-commerce companies, etc. to launch new services and in turn aid creation of local employment opportunities. Additionally, for the GPs to take advantage of this project, Wi-Fi-enablement will be necessary. Hence, the need to train resources within the villages to manage and service these Wi-Fi’s arises. An estimate places the number of people that need to be trained at 12.5 lakh

• It will launch a digital literacy mission to train 60 million people in the rural areas and make them digitally literate within the next three years. The government will spend around $268 million on this initiative. The scheme can help telecom operators expand their internet penetration and drive data consumption. Even, the employability of manpower is going to increase by making people digitally literate because now they can participate in technology related jobs such as mobile enabled banking, healthcare, etc. within their villages. It is expected that by 2019, digital inclusion to target job creation for approximately 1.7 crore people, trained in IT, telecom and electronics

• Lastly, one of the pillars of the digital India drive is that telecom service providers are expected to train 500,000 people in 5 years to create rural workforce to cater to their own needs. Thus, both the government and telecom sector are jointly participating in up-skilling of manpower through aforementioned measures.

Investments

$192 billion of investment by various telecom service providers, handset manufacturers, etc. has been announced in the last two years. Most of this investment is to expand and improve network quality, set up plants for handset manufacturing, expanding capacity of existing plants, research and development, and building data centres. As a result of this, the quality of the telecom network will improve, thus driving the sales of smart phones, which will give impetus to handset manufacturers. In the process, new jobs will be created to meet the requirements of the handset makers as well as the telecom providers. In fact, investments from companies like Foxconn are forecasted to create about 1 million jobs in the next 5 years. Similarly, investment by Intex technology is looking to create 3,000 jobs in the coming two years. Even, the first telecom manufacturing hub set up in Andhra Pradesh also aims to generate about 35,000 additional jobs within 2 years.

2 times of India, Business standard, Live mint, Economic times
Environmental Scan for the Sector

New trends in the sector

**Smartphones** - With the advent of affordable smartphones ($44 –$150) designed for the Indian user from indigenous manufacturers, as well as increasingly low-cost data connectivity options, more people are shifting to smartphones and mobile Internet. Out of a total handset sale of 30 crore units in FY15, smartphones contributed 11.40 crore units, i.e., 38 per cent. This contribution is projected to grow to above 50% by 2020. Boost in smartphone penetration is expected to cater to m-enablement of a variety of services such as mobile banking, e-commerce, mobile health, e-agriculture and services to small and medium scale businesses.

**Advent of 4G** – It is estimated that the advent of 4G will enable the service providers to unleash a host of data-based services over the next five years. By 2020, 4G connections are expected to account for about 17% of India’s total user base. The demand for high speed internet services shall receive a further push from key governmental initiatives, such as ‘Digital India’ and ‘Smart Cities. Handset manufacturers are already catering to the growing audience of current and future 4G users. The next two years are expected to see a large number of 4G handsets entering the market, across price ranges. Increased investments in 4G infrastructure can also lead to substantial demand generation for telecom equipment manufacturers as well as for infrastructure providers.

**Growth of Indian Handset Manufacturers** - The growth of Indian handset manufacturing companies has been nothing less than miraculous over the last five years. India manufactured 11 crore mobile phones worth a $8 billion in FY16, showing a year-on-year growth of 83% and 186%, in volume and value terms, respectively. With the ability to provide feature rich yet affordable handsets, domestic manufacturers’ share of the handset market is slated to grow further. This will be further enhanced by the increased penetration of telecom services in rural India.²

**Used smartphone market¹** – Recently, a new trend for purchasing used smartphones is picking up in India. It is very expensive to purchase a new smartphones for middle income people, so they are open to purchasing a second hand phone. Considering the high mobile penetration in the country, India is not only the third largest market for smartphones in the world but also a very big market for used smart phones. The used smartphone market is growing at a CAGR of 32% till 2020, this translates to about 46 million units that will generate a revenue of about $4 billion.

Environmental Scan for the Sector

FDI

The FDI limit in the telecom sector has been increased from 74% to 100%, out of which 49% will be via the automatic route and the balance will be via the Foreign Investment Promotion Boards (FIPB) approval. Given this liberalization, equity inflow in the sector has reached around $4 billion in the period of Apr’14 to Feb’16, which is more than double the equity inflow in Apr’12 to Mar’14 as can be seen from the graph below. Thus, this liberalization would help to attract global telecom operators and boost penetration of telecom services within the country¹.

FDI Equity Inflows Telecom ($ million)

New segment

Apart from the used smart phone market, the refurbished electronics/phones market is also flourishing. The size of the market is estimated to be around $15 - $ 20 billion in India. The difference between the two markets is that refurbished goods are not limited to second hand phones, but, also include factory seconds, dead on arrivals, and ecommerce/retail returns. Mobile phones contribute to about 50% of the total refurbished market in the country, followed by 15% from IT products, and 25% from home appliances². Even though, the market is primarily dominated by unorganised players, there are a number of start-ups and existing e-commerce players that are emerging to take advantage of this market. This new segment will create a demand for new job roles within the refurbishment market segment and thus require curriculum to be updated and new courses to be introduced. With the growing usage of phones (forecasted to grow to 520 million devices by 2020), this space will gather more steam and result in additional job opportunities.

<table>
<thead>
<tr>
<th>Company</th>
<th>Business Model</th>
<th>Number of centres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Dust</td>
<td>Offers 25-40% discount on the refurbished product</td>
<td>17</td>
</tr>
<tr>
<td>Reboot systems</td>
<td>The company sources IT products from corporate houses</td>
<td>hybrid model - both online and offline to sell</td>
</tr>
<tr>
<td>Overcart</td>
<td>Facilitates companies to sell their unwanted or excess stock. Overcart identifies the fault and then passes it on to authorised refurbishment centres</td>
<td>Online</td>
</tr>
<tr>
<td>Ingram Micro</td>
<td>Refurbishes smartphones at its own facility and distributes them through its existing brick-and-mortar retail channel</td>
<td>Existing brick-and-mortar retail channel</td>
</tr>
</tbody>
</table>

¹ http://www.dot.gov.in/investment-promotion/year-wise
The telecommunication sector finds itself amidst technological shifts at a fairly regular intervals. Given the same, along with the with thrust to ramp up telecom infrastructure throws up a reasonably high requirement of skilling, & re-skilling over and above the incremental numbers estimated above.
The way forward and support required

The debt to equity ratio of major telecom carriers has doubled since 2010-2011 with an increase in their cumulative debt burden of around 200% in the past six years. The financial duress faced by the companies can pose to be a risk for the government's Digital India initiative. The lack of a roadmap for sale of spectrum is further adding to the uncertainty of the companies to rollout more broadband networks.

Being highly capital intensive, the tower companies require huge investment and have long gestation projects. The government has already conferred ‘infrastructure industry status’ to the telecom infrastructure industry, which puts it at par with sectors engaged in other infrastructure development viz. road, water supply, ports, etc. to which the benefits under Section 80IA are extended. However, unlike the other infrastructure providers, there is no tax benefit for a 20 year period.

The curriculum packages for the telecom sector need to be updated frequently to match the latest technologies used in the industry – next generation 4G services, LTE, 3G, etc.

Recently, new IGCR (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2016 have been introduced via Union Budget 2016 replacing the earlier Rules notified in 1996, with an intention to enhance ease of doing business. Under the new rules, the utilisation period of the imported goods was reduced to three months. Considering the complex manufacturing/ assembling processes involved in mobile handsets manufacturing, an utilisation period of three months is not adequate.

Under the revised Preferential Market Access policy, the private sector was completely exempted. As per the PMA policy, all state departments and agencies are required to procure at least 30% of their equipment from the domestic market. By exempting the private sector from the policy, domestic manufacturers have not been able to gain access in private and government segments. This is also reflected by the fact that domestic telecom equipment manufacturers control 5% of the market share in India. But on the flip side, with the current technology and patented software solutions, global players are better positioned to support the huge infrastructure demand of the country. Hence, due to unavailability of certain specific components, raw materials and silicone grades in India, domestic players place heavy reliance on imports of these critical components and chipsets. So, the government needs to bring in regulation to not only promote local telecom equipment manufacturers but also to make it a level playing field for global manufacturers.
Environmental Scan for the Sector

Food Processing Industry is one of the largest sector industries in India in terms of consumption, production and exports. In FY 15 Food Processing constituted approximately 14% to India’s manufacturing GDP

The demand for processed food has been growing in India due to growing disposable income, increase in the income of middle class families, increased urbanisation and increase in nuclear families. The demand is also growing due to the change in consumption pattern of youth who look for packaged and branded foods. Food Processing industries are also serving health and wellness as a new ingredients in food processing taking into account the increase in demand for healthy foods and snacks. The organic food market though small in size, will continue to grow at the rate of 25-30% due to lifestyle changes and demand for healthy foods.

In terms of absolute value of Food Processing, India still lags behind other major countries. Processing of fruits and vegetables is a low 10%. By international comparison, these levels are significantly low - processing of agriculture produce is around 40% in China, 30% in Thailand, 70% in Brazil, 78% in the Philippines and 80% in Malaysia. Value addition to agriculture produce in India is just 20%. Also, wastage is estimated to be valued at around USD 9 bn every year due to lack of low usage of modern systems of warehousing and transportation.

1 IBEF report on Food Industry
2 Indian express article on food processing captured on 20th June 2016
3 Daily pioneer article on food wastage captured on 30th June 2016
Environmental Scan for the Sector

Flagship Schemes

Make in India  The much ambitious Make in India scheme which aims to improve private participation in manufacturing sector was launched in 2015. Food Processing is one of the focus sectors of Make in India scheme. Some of the major investments announced under Make in India Scheme are:

- Pepsi announced commissioned unit at Sri City
- Kellogg India announces to set up a R&D facility in Mumbai
- McDonald’s India plans to double the number of outlets with USD 115 million investment

The opportunities of growth for the Food Processing industry from make in India is immense. Under make in India scheme there is a potential for investment upto USD 22 billion in this sector. Firms can invest in supply chain infrastructure of the sector, which the Indian government is also promoting for investments, like cold storage, abattoirs and food parks. As part of the Make in India campaign for food processing, government has allowed upto 100% FDI in multi brand retail of food products. Government has also allowed 100% FDI for online grocery start ups. Make in India scheme coupled with FDI will increase in the investment on the supply chain thereby improving it and reducing wastage.

Pradhan Mantri Mudra Yojana: Pradhan Mantri Mudra Yojana was launched in the Union Budget 2016-17. The purpose of Mudra is to provide funding to the non corporate small business sector. Loans worth about USD 1.5 billion has been sanctioned under this scheme. There are three categories under this scheme:

- Shishu :- Loan up to USD 740
- Kishore :- Loan ranging from USD 740 USD7,400
- Tarun :- Loan above USD 7,400 and below USD 15,000

Food processing is an eligible activity covered in this scheme. This scheme will help small entrepreneurs setting up small manufacturing units, food processors, food service units, truck operators etc in rural as well as urban areas. The private participation in all these activities will help in increasing the growth rate of this sector and generate employment.

1 Captured from Make in India website
2 IBEF report on Food Processing
Environmental Scan for the Sector

Key Projects expected to spur Food Processing Sector

**Mega Food Parks**: A mega food park is basically a hub and spoke architecture comprising Collection Centres (CCs) and Primary Processing Centres (PPCs) as spokes linked to a Central Processing Centre as hub. Government has sanctioned 37 mega food parks and eight are operational as of May 2016. The other food parks are expected to be completed by 2019. Apart from them, center is also planning to operationalize 100 integrated cold chains. These projects will decrease the wastage of food by 10% amounting to about USD 1.4 billions.

**National Mission on Food Processing**: National Mission on Food Processing has been approved for advancement of technology in food processing sector for the twelfth five year plan 2012-17. Schemes covered in this mission are:

- Scheme for technology up-gradation / setting up /Modernization / expansion of food processing industries
- Scheme for supporting cold chain facilities for non-horticultural produces and reefer vehicles
- Scheme for creating primary processing centres/collection centres in rural areas
- Scheme for modernization of abattoirs Scheme For Modernization Of Meat Shops
- Scheme For Human Resource Development Scheme For Promotional Activities
- Scheme For Upgradation Of Quality Of Street Food

These schemes are expected to increase automation as well as manpower requirement in the Food Processing sector and help the industry to achieve a higher growth rate.

**NABARD Funds for Food Processing**: A sum of USD 303 million in NABARD has been set up to make available affordable credit to agro-processing units being designated as Food Parks in 2014-15. The main objective was to provide impetus to development of food processing sector on cluster basis in the country to reduce wastage of agricultural produce and to create employment opportunities, especially in rural areas. NABARD has sanctioned USD 76.3 millions for 12 Mega Food Park projects.

The ease with which this special fund creates credit for entrepreneurship who wants to set up projects in MFP will increase investments as well as manpower requirement in this sector.

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1 http://www.gktoday.in/mega-food-parks-scheme/
2 MoFP study
3 http://www.gktoday.in/national-mission-on-food-processing/
5 Report from Ministry of Food Processing
FDI Scheme

- 100% FDI is allowed through automatic route\(^1\)
- Some of the foreign investors in Indian Food Processing Industry are Kraft, Danone, Nestle, McCain, Ferrero, Del Monte etc
- FDI in 2015-16 stood at USD 505 million which is expected to increase after 100% FDI has been approved in June 2016\(^2\)
- Thailand based CP foods recently invested USD 18 million in Andhra Pradesh and are expected to invest USD 400 million in next 20 years\(^3\)

With the ease of FDI in food processing, the investment is likely to cross last year’s figure of USD 500 million. With FDI eased in single brand retail, there is an opportunity for players like Walmart for backward integration to improve their supply chain performance and hence increase their participation in Food Processing Industry.

Export of Food products

- India’s exports of processed food and related items rose at a CAGR of 23.3 per cent during FY11–15\(^4\)
- India’s exports of Processed Food was USD 4.8 billion in 2014-15, which including the share of products like Mango Pulp (USD 127 millions), Dried and Preserved Vegetable (USD 128 million), Other Processed Fruit and Vegetable (USD 389 million), Pulses (USD 183 million), Groundnuts (USD 708 million), Guar gum (USD 1.4 billion), Jaggery & Confectionary (USD 175 million), Cocoa Products (USD 128 million), Cereal Preparations (USD 460 million), Alcoholic and Non-Alcoholic Beverages (USD 338 million) and Miscellaneous Preparations (USD 369 million)\(^5\)
- Exports from India will go down following the signing of Trans Pacific Partnership by US, Canada, Japan and nine other nations as Indian products might loose their competitiveness

2 DIPP data on FDI statistics
4 IBEF report on food processing
5 http://apeda.gov.in/apedawebsite/six_head_product/PFV_OPF.htm
Environmental Scan for the Sector

Budget 2016-17 announcements in Food Processing

• 100% FDI through Foreign Investment Promotion Board route for marketing of food products produced and processed in India

• Allocation of USD 909 million dollars for National Mission on Food Processing (SAMPDA) which aims to invest majorly in Mega Food Parks, Integrated Cold Chain and schemes for creation of food processing and preservation

Other key developments expected to impact the sector

• Roll out of Seventh Pay Commission

• Easing inflation trends and falling interest rate cycle

• Expectation of above normal monsoons

• Continued trend towards urbanisation

• Start up ecosystem of the country

1 MoFPI data on budget
All these schemes and activities will increase the investment in all the activities of food processing ranging from storage, transportation, warehousing, and last mile delivery thus creating job opportunities. The infrastructure projects taken up by government like mega food parks and integrated cold chain projects will help to increase the private participation in this sector and improve the growth rate compared to previous expectations.

### Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline-2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>F&amp;V</td>
<td>0.14</td>
<td>0.15</td>
<td>0.16</td>
</tr>
<tr>
<td>Dairy</td>
<td>0.32</td>
<td>0.37</td>
<td>0.45</td>
</tr>
<tr>
<td>Meat and Marine</td>
<td>0.78</td>
<td>1.02</td>
<td>1.35</td>
</tr>
<tr>
<td>Grain Processing</td>
<td>2.59</td>
<td>3.28</td>
<td>4.36</td>
</tr>
<tr>
<td>Packaged Foods</td>
<td>2.60</td>
<td>3.23</td>
<td>4.23</td>
</tr>
<tr>
<td>Beverages</td>
<td>0.54</td>
<td>0.67</td>
<td>0.83</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6.98</strong></td>
<td><strong>8.72</strong></td>
<td><strong>11.38</strong></td>
</tr>
</tbody>
</table>

*Source: KPMG in India Analysis*
The way forward and support required

- Indian government needs to spend more on modernization to reduce wastage which will help in curbing inflation.
- Free Trade Agreements as well as Regional Economic Partnerships will help in increasing the exports in the sector.
- Bills like Goods and Services Tax Bill should be implemented sooner than later to improve the ease of doing business.
- Clarity in FDI in multi brand retail will improve the FDI flow in food and processing sector.
- Government as well as investors should focus on direct connect with farmers to improve the sourcing of the produce as well as increase the mechanization to increase the competitiveness of our industries with respect to other countries. This will help in reducing the wastage and increasing the quality of our produce thus helping in exports.
Environmental Scan for the Sector

As per the NSDC sector study on Furniture & Furnishing, the sector consists of following value chain:

- Procurement
- Designing
- Production
- Distribution

- Manufacturing
- Sales
- Installation
- Repair & Maintenance

Indian furniture and furnishing industry is predominantly unorganized (approximately 85% share), but the share of organized market is growing over the years. Organized players like Zuari, Godrej, Durian, Featherlite etc have seen their market share grow steadily over the years. As per NSDC study on furniture and furnishing sector, the sector is expected to grow at the rate of over 15% in the year 2013-17.¹

Although Indian furniture and furnishing market is growing at a healthy rate, the share of India in the export of the furniture and furnishing market is very low. The total export market of furniture and furnishing is over USD 240 billion and China leads in the export of furniture and furnishing market with over 41% market share at USD 98 billion. India’s export in 2015 was a paltry USD 1.3 billion². Efforts need to be taken to increase the growth of exports from the country.

¹ NSDC report on Furniture and Furnishing
² http://www.worldsrichelstcountries.com/top-furniture-exporters.html
Environmental Scan for the Sector

Key policies to boost up Furniture and furnishing Industry

**Make in India:** The much ambitious Make in India scheme which aims to improve private participation in manufacturing sector was launched in 2015. This campaign is intended to boost investments in manufacturing in India. IKEA, a Swedish furniture giant is set to open its first store in India in 2017 and plans to follow this up with setting up a manufacturing unit in India after easing of FDI norms. Apart from manufacturing facilities, many investors are also investing through equity route.

**Startup India:** Most of the skilled workers in furniture and furnishing sector choose self-employment and with this policy budding entrepreneurs can get support from government to start their businesses. Apart from the manufacturing, major focus in furniture and furnishing industry has been the growth of online market place. Pepperfry, Urban ladder are the niche market players for furniture industry while aggregators like Flipkart and Amazon have also entered into the business of retailing furniture. This scheme will help in the development of such market places in the future.

**Housing for All by 2022:** Housing for all by 2022 aims to provide affordable housing for all by 2022. Some of the key features of this scheme are:
  a) Slum rehabilitation of Slum Dwellers with participation of private developers using land as a resource;
  b) Promotion of affordable housing for weaker section through credit linked subsidy;
  c) Affordable housing in partnership with Public & Private sectors and
  d) Subsidy for beneficiary-led individual house construction or enhancement.

This scheme will increase in the disposable income of the weaker sections of the urban areas, whose most of the income is spent on rent (on an average 40% of the monthly income spent on rent1) which will decrease and hence disposable income will be available to spend on other areas like furniture and furnishing

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1 KPMG in India analysis
Environmental Scan for the Sector

New Trends

**Online Marketplaces:** - Increasing internet penetration (Internet user base in India and smartphone usage in India has started a new phenomenon of online purchase of furniture through various online portals and applications. Companies like Pepperfry, urban Ladder, Flipkart and Amazon are leading the way. The online furniture sales is approximately 1% of the total market size of approximately USD 12 billion\(^1\) and is expected to grow up to 7% by 2022. Pepperfry leads the business with an estimated Gross Merchandise Value (GMV) of over USD 100 million in 2015.

**Nuclear Families:** - According to the census data of 2011, there was more than 26 percent increase in number of households compared to the data of 2001\(^2\). This coupled with an increase in urbanization is driving the sales of furniture and furnishing in India.

**Renting of Furniture:** This is a predominantly urban trend, but its growing at a very fast rate in metros. Frequent movement of working professionals coupled with fast changing tastes is driving this trend. Prominent players in online segment of renting furniture and furnishing include Furlenco, Rentomojo, Cityfurnish etc. apart from online players there are many unorganized players in metro who rent out furniture and furnishing at a very affordable cost.

**Growth in Office Furniture market:** Office furniture market is one of the key revenue generators of the overall furniture market in India. Although it is dominated by unorganized sector but the scope of organized sector in this market is huge. This sector accounted for a 20.45%\(^3\) of market share in 2014 out of total market of furniture and furnishing. India’s office space absorption stood at 35 million square feet in 2015 (20% year on year increase from 29.9 million sq. ft. in 2014)\(^4\). The healthy demand of office space (15-20% growth rate in next five years) coupled with new infrastructure projects like smart cities, the contribution of this sector is further going to increase.

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2 Census 2011
3 Technavio report on office furniture and furnishing
Environmental Scan for the Sector

Major investments in furniture and furnishing industry

There have been couple of players who have come up in online market places for furniture and furnishing industry. Some of the major investment deals that have happened in past couple of years have been mentioned in the table below:

<table>
<thead>
<tr>
<th>Player</th>
<th>Investor</th>
<th>Deal Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pepperfry</td>
<td>Goldman Sachs, Zodius Technology Fund</td>
<td>USD 100 mn</td>
</tr>
<tr>
<td>Urbanladder</td>
<td>Sequoia Capital, TR Capital</td>
<td>USD 50 mn</td>
</tr>
<tr>
<td>Livspace</td>
<td>Helion Ventures, Jungle Ventures, Bessemer Venture Partners</td>
<td>USD 8 mn</td>
</tr>
<tr>
<td>Mebelkart</td>
<td>Askme.com</td>
<td>USD 20 mn</td>
</tr>
<tr>
<td>Rentomojo</td>
<td>Accel partners, IDG</td>
<td>USD 2 mn</td>
</tr>
</tbody>
</table>

The online space is currently one percent of the total industry size of furniture and furnishing, with these investments it is set to grow upto 7% by 2022. Apart from the aggregators above, there has been significant investment in manufacturing as well. Sumitomo Forestry, a Japanese company invested USD 14 million in furniture manufacturers Spacewood, first Foreign Direct Investment in Furniture industry in India. Swedish furniture retailer IKEA received permission from the government to invest USD 1.5 billion to start its operations in India. With the increase in FDI, Indian furniture and furnishing industry is set to grow by over 20%.

1 KPMG in India analysis
2 KPMF in India analysis
Impact assessment on human resource requirement

The growth of start up ecosystem coupled with the improved FDI norms have increased the skilled manpower requirement in this sector since last three years. Change in consumption pattern, increase in disposable income and improved ease of doing business will help in the growth of this sector in next five years.

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Major Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make in India</td>
<td>Increase the investment opportunities in the manufacturing of furniture</td>
</tr>
<tr>
<td>Start up India</td>
<td>Increase the ease of doing business and help new entrepreneurs</td>
</tr>
<tr>
<td>Online Retail</td>
<td>Better price discovery for consumers as well as manufacturers</td>
</tr>
<tr>
<td>Macroeconomic change</td>
<td>Increase in spending power with change in tastes will increase the sales of furniture and furnishing sector</td>
</tr>
<tr>
<td>FDI</td>
<td>100% FDI in single brand retail coupled with FDI in manufacturing to increase the investments across the entire value chain of furniture and furnishing sector</td>
</tr>
</tbody>
</table>

The growth of start up ecosystem coupled with the improved FDI norms have increased the skilled manpower requirement in this sector since last three years. Change in consumption pattern, increase in disposable income and improved ease of doing business will help in the growth of this sector in next five years.

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<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>Furniture manufacturing</td>
<td>2.16</td>
<td>3.39</td>
<td>5.95</td>
</tr>
<tr>
<td>Furniture retail</td>
<td>0.29</td>
<td>0.40</td>
<td>0.61</td>
</tr>
<tr>
<td>Furnishings</td>
<td>1.67</td>
<td>2.60</td>
<td>4.73</td>
</tr>
<tr>
<td>Total</td>
<td>4.12</td>
<td>6.39</td>
<td>11.29</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis
The way forward and support required

Export in the sector is very less compared to imports, resulting in major losses in terms of employment for the country. The global furniture and furnishing export market is more than USD 250 billion and the share of Indian export is just over USD 1 billion. With ease of FDI norms and flagship schemes like Make in India and Startup India, this figure is likely to increase.

About 85-90% of the industry is unorganized, resulting in migration of skilled youths to other countries or to other professions. Government should take steps to initiate Recognition of Prior learnings in this sector so that people improve their chances of getting jobs.

Going ahead, we hope that certain key legislations such as Real Estate Regulatory Bill, Land Acquisition Bill and GST Bill to be tabled in the Parliament soon, which would help support the growth of the realty sector.
Media and Entertainment Sector

Environment Scan 2016
Environmental Scan for the Sector

With favourable demographic scenario and increase in disposable incomes, India’s Media and Entertainment Sector is expected to continue the double digit growth. The rapidly increasing internet penetration due to roll-out of 3G and 4G services coupled with availability of cheaper devices will drive increased data consumption. The regional markets are expected to play a major role in sector’s growth story with the preferences shifting towards more regional content in native languages. This is expected to boost the demand for content development services.

The steps taken by the government in the past two years will provide conducive environment for sustained sectoral growth. With the liberalized FDI norms in key sub-sectors, including direct-to-home and radio, the sector will see increasing investments from foreign companies. First round of Phase-III of radio license auctions has been completed which will see roll-out of FM radio services from 86 to 294 cities and rural areas. Government’s Digital India Initiative and Smart Cities mission will help in last mile availability of digital infrastructure which will serve as ready platform for roll-out of media services. The electronic delivery of services will also spur need for content developers. State governments have been providing tax incentives and sops to boost the sector to promote films. All these factors will contribute to job creation for trained professionals in the sector. It also generates employment opportunities for technicians within the state. Recognizing the potential of Animation, Visual Effects, Gaming and Comics industry AVGC industry, many states are making provisions in state policies to promote the sector. There is also a thrust on establishing state of the art faculties to train professionals in the AVGC sector. National Centre of Excellence is being setup as an Institute of National Importance under the Ministry of Information and Broadcasting with a vision to offer world-class education. Print media has a huge potential to grow in Tier-2 and 3 cities owing to improving literacy and disposable income levels.

In the international arena, a shift is taking place from traditional outsourcing model to co-production. This allows Indian players to create content and IP Rights which may be monetized across various channels. All these factors will contribute to the sustained growth of the sector providing impetus to the trained manpower requirement in years to come.
Environmental Scan for the Sector

The media and entertainment sector is expected to continue its double digit growth resulting in demand for trained industry professionals. Various factors are expected to contribute to this growth including eased FDI norms, growing internet penetration, increase in disposable income and favourable demographics. Rising disposable incomes, has created a scenario where Media and Entertainment Industry is growing at a pace greater than that of the country’s economic growth. The Indian middle class has been growing and is expected to increase to 41% of the total population by 2025.1 Increasing urbanization will also lead to increased consumption of media and entertainment services.

Eased FDI Norms

The government has increased the foreign direct investment (FDI) limit in television news channels and private FM radio permitting 100% overseas ownership of digital cable and direct-to-home (DTH) services in 2015. Also, FDI limit in news channels and FM radio to 49%, up from existing cap of 26% which will facilitate access to institutional finance and see participation of foreign companies. Also, Indian film production houses will find it easier to raise funds from overseas with the government having relaxed rules related to limited liability partnerships (LLP), combined with the ease of contribution and withdrawal of capital by partners in an LLP. Enhanced FDI limits will spur last mile network development on a larger scale which is more capital intensive than pure digitisation of the networks. These factors will contribute to sector growth which will spur job creation in the industry. Information and broadcasting (including print media) saw FDI inflows of USD 1250.17 Million from April 2014 to March 2016 up from USD 832.56 Million from April 2012 to March 2014.

Increasing Content Consumption

Internet user base is expected to grow from 300 million in 2014 to 462 million in 2016. Urban mobile internet user base has grown from ~120 million in 2014 to ~197 million in 2015 registering a growth of 65%. Similarly, rural mobile internet user base has grown from ~40 million in 2014 to ~80 million in 2015 registering a growth of 99%.

4G rollout accompanied by aggressive promotional pricing will be a big driver for data consumption spurring content consumption. With most telecom companies looking to build audio and video libraries for potential users, majority of media consumed by mobile users would be video and audio in the next few years. Google has initiated a project to install Wi-Fi at 100 railway stations by end 2016 which will have up to 10 million users accessing Wi-Fi, by year end, using it for a range of apps including streaming video. Such partnerships are generating possibilities for media and content development industry.

2 Internet and Mobile Association of India (IAMAI)
Environmental Scan for the Sector

Flagship Initiatives

The government’s Digital India and Smart City initiatives are set to exponentially increase the internet penetration in tier II and tier III cities, revolutionising the data usage patterns.

The ‘Digital India’ initiative’s goal is to provide broadband in 0.25 million villages, four lakh public internet access points, Wi-Fi in 0.25 million schools and public Wi-Fi for citizens by 2019 boosting the data usage

- The government has budgeted USD 76 million for the National Rural Internet & Technology Mission, USD 1 billion has been set aside for Smart Cities which is expected to create infrastructure to provide content to the end user
- In order to provide e-Governance and e-Services to citizens, the need for content digitization is poised for growth. It is estimated that the initiative has the potential to generate over 17 million direct jobs and 85 million indirect jobs

India has become the largest market for e-learning after the US (as per the UK-India Business Council’s Report titled meeting India’s Educational Challenges Through E-Learning published in 2015) and is growing twice as fast as the global average. The sector is expected to receive a boost from the government’s Digital India’s e-Kranti initiative which calls for Digital Literacy program and developing pilot Massive Online Open Courses (MOOCs). The technology backed learning solutions will require a strong supply of for instructional designers, e-content developer, scriptwriters, Graphics Designer, Learning Management System Experts, Content Reviewers, Editors, Narrators, and testers among others.

Increasing consumption of regional content

Nearly 88% Indians are non-English speakers. Rural India accounts for over 81 million users of which 46 million users use internet in local languages in 2015-16. Also growing income levels have increased the spending power in tier-II and tier-III cities leading to increased content consumption. Broadcasters in the regional markets are focussing on improving the quality of content. Declining popularity of dubbed programmes has led to a shift from dubbed content to remakes of Hindi content both in fiction and non-fiction. While, original content productions costs between USD 1000 to USD 2500 per episode, dubbed content costs only around USD 350-400 per episode. ¹

With the shifting focus of regional film industry to produce more matured and professional movies, it is expected that there will be higher demand for Animation & VFX output from the industry. In Animation industry, broadcasters were largely dependent on imported content bought from studios across the world till a few years back. Broadcasters now realise that locally made content, is preferred by audience especially outside metros and has great potential in the long run.

With Indian government targeting to achieve universal literacy goal by 2060 and growing need for regional content, print media is focussing on delivering content in native language of the readers. Hindi and vernacular segments contributed approximately 64 per cent of the total print revenue in 2015.

Environmental Scan for the Sector

Shift from traditional outsourcing model to co-production

Indian studios which were earlier dependent on outsourced work from the United States or other European countries are increasingly collaborating with western studios. They are getting an opportunity to create content and IP Rights. It enables them to generate higher revenues and profitability by monetizing themes and characters across mediums which have a longer shelf life. India has entered into agreement with Canada, China and South Korea on various fronts of the sector including audio-visual co-production, film co-production among others. Utilization of Indian technical and non-technical personnel at these international destination is expected to generate new employment opportunities for the Indian youth.

Liberal State Policies and Benefits

State governments are looking to create sustainable infrastructure for state-of-the-art motion picture and television production along with post-production centres

- Information and cultural affairs department is setting up two integrated film cities in West Bengal through public private partnership model
- Uttar Pradesh government agreed to provide land for two film cities in the state
- Tamil Nadu Government had spent USD 1.2 million on upgrading infrastructure at the M.G.R. Film City

States governments provide incentives to film makers and cinema halls in the form of tax exemption grants, awards and hosting film festivals

- The Gujarat Government offers 100% exemption from Entertainment Tax for Gujarati films
- Hindi films that are shot at least 75% in Uttar Pradesh will be eligible for a grant amounting to 25% of their production cost or USD 150000
- The West Bengal Government is planning to initiate a single clearance window to process requests for films to be shot in the state
- New cinema halls in Rajasthan are exempted from Entertainment Tax for three years (75% in the first year, 50% in the second year and 25% in the third year)

These benefits create employment opportunities within the states for technicians and other job roles.

Investment in human capacity building

National Centre of Excellence is being setup as an Institute of National Importance under the Ministry of Information and Broadcasting with a vision to offer world-class education in Animation, Visual Effects, Gaming and Comics industry. Also, State governments have come up with a number of provisions in their policies to promote the AVGC sector

- The Karnataka Government has come up with initiatives in the AVGC Policy which includes setting up a Centre of Excellence and setting up Digital Art Centres
- The Maharashtra Government has also come up with provisions in its IT/ITeS policy to attract global companies, Intellectual Property creation and protection
- The Telangana Government is also actively promoting the AVGC sector e.g. the announcement of the incubation centre IMAGE in Hyderabad
Environmental Scan for the Sector

Vast untapped potential for print media

Newspapers which form the major share of the print media have a reach of just over 35 percent of Indians.\(^1\) Newspaper circulation is likely to maintain its growth trajectory and the expected growth could largely come from tier-II and tier-III cities. With large literate population with high disposable income, print media has maintained a dominant presence in metros and tier-I cities. However, increasing literacy rates and increasing commercial activities is improving the scope of print media in tier-2 and 3 cities. Indian print industry continues to see introduction of nearly 5,000 registered newspapers/periodicals each year. The total number of new registered publications showcased an increase of 3.1 per cent, growing from 5,642 in FY14 to 5,817 in FY15. \(^2\)

Tier-2 and 3 cities will also contribute to growth through advertising revenues. These cities, which are also the major consumption markets for sectors such as FMCG, retail, e-commerce which is resulting in a commensurate growth in advertising. This vast untapped potential in Tier-2 and 3 cities will drive the demand for manpower requirement in this sub-sector.

Consolidation in film exhibition industry

Consolidation in film exhibition industry

India is witnessing strong consolidation in multiplex business which will limit inorganic growth through acquisitions shifting the focus from national to regional markets

- Carnival Films Private Limited acquired BIG Cinemas, HDIL Entertainment Private Limited and Stargaze Entertainment Private Limited
- PVR Limited acquired DLF’s ‘DT Cinemas’ for USD 1.2 Million in 2015

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Environmental Scan for the Sector

Consolidation to improve monetization

National broadcasters are aggressively expanding and consolidating their positions in regional markets in order to improve monetisation from the entire host of channels across platforms. In 2015, Viacom18 rebranded their regional channels acquired from ETV in five languages under the Colors umbrella. Many print players are moving towards ‘Integrated News Room’ concept where print and digital media could grow together. CNBC TV 18 joined hands with Mint to share content and working on joint editorials. Zee news merged its broadcasting business with DNA in 2013.

Other Factors

- The television industry has shifted to a new television rating system from Broadcast Audience Research Council (BARC). Once these ratings from stabilize, advertisers may look at restructuring their ad spend mix and broadcasters their content strategy. The inclusion of rural markets and increase in the sample size may lead to a reshuffle in the rankings of channels.
- The Goods and Service Tax (GST), if implemented, is expected to benefit the industry by doing away with dual taxation (levy of service tax and VAT on certain transactions) and entertainment tax which varies from 20%-67% on film tickets and DTH.
- Department of Telecommunication (DoT) is facilitating the implementation of Internet Protocol Version 6 which will address - scalability, interoperability, mobility and security. This will provide the infrastructure for the next round of innovation, which is not supported by current protocol IPv4. This will result in increase in the size and range of devices connected to the Internet resulting in greater content consumption.
- Currently there are approximately 6,000 single screen theatres. Assuming that 75 per cent of the screens are retrofittable, conversion to twin-screen multiplexes could unlock revenues worth USD 0.7 billion for the film industry. Retrofitting would lead to an increase in the footfalls due content flexibility and ability to attract family audience.
- Phase III auction of radio channels will increase the outreach of FM radio services from 86 to 294 cities and rural areas. This will open untapped markets in various tier-II and tier-III cities offering growth opportunities.

1 Ministry of Information and Broadcasting Website
## Impact assessment on human resource requirement

### Key Projections from the Skill Gap Study conducted in 2013

- Eased FDI Norms in various sub-sectors
- Increased content consumption driven by increased internet penetration
- Digital infrastructure development through Government’s Flagship Initiatives
- Shift from traditional outsourcing model to co-production
- Liberal State Policies and Benefits
- Preference for regional content
- Investment in human capacity building

Driven by the above growth drivers and policy initiatives, The sector is expected to see a total manpower requirement of 0.66 Million by 2017 and 1.32 Million by 2022.

### Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
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<tr>
<td></td>
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<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>Television</td>
<td>0.14</td>
<td>0.28</td>
<td>0.64</td>
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<tr>
<td>Print</td>
<td>0.06</td>
<td>0.07</td>
<td>0.13</td>
</tr>
<tr>
<td>Radio</td>
<td>0.02</td>
<td>0.03</td>
<td>0.04</td>
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<tr>
<td>Animation, VFX and Gaming</td>
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*KPMG in India analysis*
India is amongst the world’s youngest nation with nearly half a billion people under the age of 25. The sector has a huge potential to grow on the back of favourable demographic conditions and availability of affordable web services. However, to sustain this growth, the sector requires a formal and credible training ecosystem. Currently the sector does not have adequate supply of trained manpower.

The industry would greatly benefit from government support for measures such as reservation of a certain hours of domestically produced content on channels, ‘must-carry’ clause and tax benefits and treaties. Internationally, countries such as China, Japan, Canada, Malaysia, U.K., U.S. encourage growth of animation through favourable policies or tax rebates and grants. Strengthening of the IP policy and stringent steps to protect clients’ IP rights will help to allay fears of outsourcing companies.

Despite the challenges, industry is expected to witness a double digit growth in years to come which will require trained professionals.
Domestic Help Sector

Environmental Scan 2016
Environmental Scan for the Sector

Domestic Sector is estimated to be one of the largest unorganized sector in the country. It is significant to the overall economic contribution of the country as it absorbs low-skilled or undereducated and acts as an enabler for educated women to enter the workforce. Often unaware of their rights, domestic workers face exploitation and are vulnerable to trafficking. The sector still struggles to recognize the rights of domestic workers, implementation of labour laws such as minimum wages and regularization of work hours.

The sector is expected to get a boost from the notification of the National Policy on Domestic Workers at par with ILO standards an seeks to safeguard the interests of the domestic workers. The government is taking proactive measures to expand the social security benefits to the informal workers. These measures seek to organize the sector, prevent exploitation of workers and provide conducive environment to engage in gainful employment.

The need for domestic workers is poised for growth in years to come. A variety of factors will contribute to the manpower requirement in this sector. Increasing geriatric care needs, shrinking family sizes, female participation in workforce and rise in disposable income will be the key drivers. The sector has also seen mushrooming of hyper-local on-demand domestic services providers which will play a role in organizing the sector.

Recognizing the potential of this sector, Domestic Workers Sector Skill Council (DWSSC) was established to meet the supply side challenges of the trained manpower in the sector. This opens up avenues for the skilling and empowerment of ‘Domestic Workers’ which is, perhaps, the largest sector in its unorganized economy but remains largely under represented.

Source: report jointly brought out by United Nations Population Fund (UNFPA) and Help Age International
Environmental Scan for the Sector

Domestic workers are one of the significant contributors to the India’s unorganized sector workforce. However, the sector is expected to grow in the next few years owing to a variety of factors.

**New Policy at par with ILO standard**

Government has drafted National Policy on Domestic Workers to improve the working condition of domestic workers. The policy has been drafted at par with the standards of the International Labour Organisation. Key highlights of the policy include:

- The policy obligates Central and State Governments to take appropriate measures for the protection of the labour rights of domestic workers as guaranteed by the Constitution
- The Policy recognizes the Domestic Workers’ right to organize and to form associations or trade unions
- Ministry of Labour and Employment is required to set up a grievance redressal mechanism to provide a single window access to domestic workers for all their needs
- It is proposed that all domestic workers to be hired via placement agency
- The Policy recognizes the need to protect the rights and interests of the domestic workers who travel outside the country to seek work and directs the Ministry of Labour and Employment to establish appropriate mechanism in collaboration with the Ministry of Overseas Indian Affairs

These safeguards will organize the sector, prevent exploitation of workers and provide conducive environment to engage in gainful employment. This may encourage more people to participate in the domestic workforce. These measures will also provide opportunities for domestic workers to seek employment internationally.

**Focus on Skilling**

The Ministry of Skill Development and Entrepreneurship is focusing to organize the sector. It has targeted to offer training to 2.5 million people by 2025-26. 1 Currently, training institutions have limited focus on skilling domestic workers where more than 80% of the workforce is unskilled. The Ministry has also taken various initiatives such as International Migration Center and Indo-British Collaboration to ensure the training and placements of Indian trained housekeepers abroad.

**Improved living standards spurring demand**

Improving living standards (as per the IMF estimates, GDP (PPP) per capita for India will increase from $6,162 in 2015 to $8,351 in 2019) and smaller family size (mean household size has gone down to 4.9 in 2011 from 5.3 in 2001) etc. are creating demand for domestic workers especially in roles such as child care and elderly care

**Increasing Geriatric Care Needs**

India had around 100 million elderly in 2012 and the number is expected to increase to 323 million by 2050. 2 This will generate massive demand for trained care takers and domestic workers

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1 Domestic Worker Sector Skill Council Website
2 ‘Ageing in the Twenty-First Century’ by UNFPA
Environmental Scan for the Sector

Expanding Social Security Net

The Government plans to issue smartcards (U-WIN - Unorganised Worker Identification Number) to unorganized workers including domestic workers. The card will facilitate workers to receive benefit of government welfare schemes including Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Jan Suraksha Yojana, Jeevan Jyoti Bima Yojana, Atal Pension Yojana among others. These benefits may encourage people to participate in the domestic workforce.

Smart Cities Mission and increasing urbanization

This Smart Cities mission is expected to drive the economic growth and improving the quality of life in cities. Urban clusters contribute about 70% of India’s GDP and the number is expected to rise.1 With improving quality of life the need for domestic help services is expected to increase which in-turn is likely to increase the demand for domestic workers.

Greater female participation in workforce

The availability of domestic workers enables members of households and their members especially women to enter the labour market and grow professionally. The number of women working or seeking work grew by 14.4% annually between 1991-2011, even though the population of urban women grew at 4.5% during the same period. 2 The trend is likely to continue which will increase the demand for domestic workers.

Technology Driven Applications

The urban clusters are poised to become more organized with on demand hyper local start-ups catering to the need for maids, baby sitters, cooks, and caretakers such as BookMyBai, Homemaid.in, Nanojobs, Honestcollars, maidservices, KamlaBai.com. This may increasingly facilitate recognition of premium attaching to the skills of domestic workers.

1 Census Data
2 https://www.weforum.org/agenda/2016/04/why-urban-efficiency-is-key-for-india-s-smart-cities/
Impact assessment on human resource requirement

Key Sector Highlights:

- Smart Cities Mission and increasing urbanization
- New Policy at par with ILO standard
- Expanding social security net for unorganized workers
- Greater female participation in workforce
- Technology driven hyper-local on-demand platforms
- Improved living standards spurring demand
- Specialized needs (Geriatric, Child-care)

Driven by the above factors, the demand for domestic help is expected to rise. The sector is expected to have a manpower requirement of 7.8 Million by 2017 and 11.15 by 2022.

Estimated human resource requirement (nos. in million)

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*Source: KPMG in India Analysis*
The government is taking steps to recognize the rights of Domestic Workers through National Policy on Domestic Workers which is proposed to be at par with the standards of the International Labour Organisation.

However, the existing labour legislations in India (such as Minimum Wages Act, 1948; Maternity Benefit Act, 1961; Inter-State Migrant Workers Act, 1979; Employee Remuneration Act, 1976; Employees Provident Fund Act, 1952 etc.) do not include domestic workers due to constraints in definition of “employer”, “workman”, “establishment” etc. Employers and placement agencies escape from the ambit of these laws which results in abysmal working conditions for domestic workers. Also, it is difficult to identify a specific employer for the domestic workers especially under part-time employment thereby the prerogative of providing conducive working conditions become indecisive. Government may provide support in this regard by expanding the definition of “employer”, “workman”, “establishment” to include domestic workers in the proposed labor reforms. Policymakers need to recognize existence of the employment relationship in domestic work.

Another development in this regard would be a mechanism to combat human trafficking in the most frequented migrant routes such as state of Kerala in Southern India to the Arab states and from the state of Jharkhand to New Delhi. It calls for active participation from Policy makers and Civil Society for protection of domestic workers. Loopholes in existing procedures have allowed unregistered agents to exploit migrants for financial gain. There is also a need to simplify the overseas recruitment practices as changes in government policy concerning emigration and the restrictions placed on migration of unskilled encourages unskilled women workers to opt for irregular channels of migration and hence more vulnerable.

Since the sector is highly unorganized and unstructured, hence there is no reliable database to gauge various aspects including attrition rate, child labour, labour supply etc. This poses formidable challenge in decision making and devising policies or initiatives for the sector. The situation may be improved by strictly enforcing the employment registration norms for domestic working and working towards developing a digital repository.

Education and Skill Development Sector

Education and Skill Development Sector

June 2016

KPMG.com/in
Education sector is expected to get a huge fillip from the policy decisions and the flagship schemes introduced recently. ‘Skill India’ program which aims at skilling over 400 million people by 2020 will see investments in the entire skilling value chain. Government is taking steps to open up new skill development centres and strengthen the entire training ecosystem. It is also promoting private sector participation to align skilling interventions to the industry needs. To further enable the same, amendments have been proposed to boost the apprenticeship culture in the country. This will require a strong professional cadre of trainers and master trainers. ‘Digital India’ will provide a ready infrastructure base for education technology start-ups to leverage. These initiatives will see increasing job creation for trainers and educators. The technology backed learning solutions will require a strong supply of for instructional designers, e-content developer, scriptwriters, Graphics Designer, Learning Management System Experts, Content Reviewers, Editors, Narrators, and testers among others.

Once notified the new Education Policy will provide clarity on a host of policy issues and provide a conducive growth environment. Key highlights of the proposed measures include setting up an Education Commission every five years, creation of an Indian Education Service, Central Educational Statistics Agency and reorienting the National Council of Educational Research and Training, apart from possible for a foreign university to offer its own degree to the Indian students studying in India. Other developments such as indigenous ranking framework for higher education institutions will propel competition among institutions thereby improving service delivery. To meet the enrolment rates, the country will witness significant investments in setting up new infrastructure which will require additional manpower to run the institutions. The government has recognized the need to invest and revamp teaching training and education. Pandit Madan Mohan Malaviya National Mission on Teachers and Teaching and Justice JS Verma Commission report are notable developments in this regard. These will also go a long way in helping to achieve the recommended pupil teacher ratios.

The government is taking progressive steps by experimenting with various models of service delivery such as Scheme of School Choice and Open Text Based Assessment. The education sector will also benefit from growth in niche areas such as e-learning, test prep and corporate learning and development services. Of late these segments are also seeing a lot of deal activity and fund infusion. Coupled with improved propensity of people to pay for quality education, the spending on education services is expected to shoot up. Medical education sector may see an unprecedented growth given Health Ministry’s recommendation allowing private players to set up medical colleges. Private sector is also players a big role in strengthening training and skilling infrastructure development.

These factors will contribute to overall increased demand for trained professionals in teaching and other job roles supporting the education and skill development sector.
India has around 294 million people in the age bracket of 6-17 years and 141 million people in the age bracket of 18-23 years. With nearly 28% of India’s population lying in the age bracket of 10-24 years, India has the largest youth population in the world. To realize the demographic dividend and to foster economic growth, the country needs to invest heavily in young people’s education. Recognizing the same the government is investing heavily in education and skill development sector gradually moving towards its overarching goal of ‘Education for All’. These investments will require a massive need for human resource development in education and skill development industry and will lead to job creation in teaching and learning space.

Central and State and UT Governments have been undertaking a series of programmes to foster quality education and improve student learning outcomes. The Sarva Shiksha Abhiyan has been investing a substantial proportion of funds in recruiting of additional teachers for Government schools. This has brought about a substantial improvement in teacher availability. As per the MHRD data, the number of teachers engaged in teaching in schools imparting elementary education has increased from 5.2 million in 2006-07 to 7.7 million in 2013-14. The Pupil Teacher Ratio (PTR) at the primary level has improved from 36:1 in 2006-07 to 25:1 in 2013-14 at par with the norms set under the RTE Act 2009. However some States still have higher PTR including Bihar (53), Uttar Pradesh (39), Jharkhand (39) and Madhya Pradesh (32)

Government’s Flagship Initiatives

Various government initiatives will generate employment opportunities across the education and skilling sector.

Digital India initiative will drive investments in the areas of education technology. Facilities such as National Optical Fibre Network and adoption of Internet enabled devices such as smartphones and tablets will make technology infrastructure accessible for all. This will see a spurt in demand of technology enabled education services. This will in turn see a massive increase in jobs for instructional designers, e-content developer, scriptwriters, Graphics Designer, Learning Management System Experts, Content Reviewers, Editors, Narrators, and testers among others.

Major highlights for the sector which will provide the last mile infrastructure for technology enabled services in schools and colleges across the country:

• One of the pillars of ‘Digital India’ initiative is eKranti - Electronic Delivery of Services which aims at connecting all schools with broadband and provide free Wi-Fi in 250000 schools. Pilot Massive Online Open Courses (MOOCs) will be developed under this initiative which will require content development and training services

• As a part of early Harvest Program over 400 additional universities have been connected under National Knowledge Network (NKN) and conversion of school books into e-books in underway

1 MHRD Data
2 UNFPA Report * The power of 1.8 billion
Environmental Scan for the Sector

- E-Books, online information repository and digitally approved finances would help the education sector grow, as digital connectivity would leverage the educational devices being distributed by the government

- Over 10 lakh youth to be assessed and certified for the skills that they already possess through the initiative known as ‘Recognition of Prior Learning’ spurring the need for testing and certification agencies which in turn will create jobs for qualified assessors¹

The above initiatives will lead to increase in jobs for professionals across the entire education technology value chain such as content developers, software developers, designers and web services. This will also generate demand for master trainers for up-skilling and training teachers on using technology enabled learning delivery which will require

Skill India Aims at skilling over 400 million people in India in different skills by 2022² (including 1063 million fresh skilling) to engage them in gainful employment. This will require investments in training infrastructure and delivery services which will in turn generate employment opportunities for trainers and assessors. Few of the scheme highlights include:

- 7000 new ITIs to be set up. Further, higher order skilling to be promoted through Advanced Training Institutes (ATIs) and 1500 Multi Skill Institutes (MSIs) to set up in PPP mode by 2019 with strong industry linkages which will bring in private investment in the skilling industry

- Entrepreneurship Education and training will be provided in 2200 colleges, 300 schools, 500 government ITIs and 50 Vocational Training Centres through MOOCs

- The Central Board for Skills Certification to be set up to infuse quality into India’s skill development ecosystem

- National skills universities and institutes will be promoted in partnership with states as centres of excellence for skill development and training of trainers

- National Skills Qualification Framework (NSQF) compliant assessment and certification bodies to be set up to assess skilling component of vocational education and training

- Government to support the creation and use of infrastructure in both public and private domain through appropriate equity, grant and loan support

- Entrepreneurship education to be integrated into the mainstream curriculum in 3,000 colleges around India

- Technology to be leveraging to scale up training capacity and outreach through Direct to Home (DTH) – Skills channel, Community Radio – basic courses on localized skills through radio, Skillsonline.com – online skills courses, Virtual classroom through Augmented Reality, Virtual Reality and Gamification.

The scheme will facilitate job creation by generating a need for qualified manpower in the areas of content development, training delivery, assessment and certification. Technology driven model will drive need for professional trained in multimedia and web-enabled services.

¹ KPMG Soaring India Report
² www.skilldevelopment.gov.in
Environmental Scan for the Sector

A multitude of jobs will be generated under the banner of Make in India initiative. New job roles will be created in areas such as solar energy generation, green buildings, smart homes etc. To meet the manpower requirement, investments will be required to train and tap right talent pool not just in niche technology areas but also fundamental engineering and vocational trades. This will in turn require training infrastructure and educational facilities supported by trained pool of trainers and master trainers.

‘Beti Bachao, Beti Padhao’ programme is another initiative which highlights the importance of education for women empowerment and expected to provide a boost to the sector. It is expected to tackle and the female drop-out rate and increase the female enrolment rates.

Greater Clarity on Policy Issues and Progressive Amendments

MHRD is in the process of developing a new National Education Policy to meet the changing needs with regards to quality education, innovation and research through a time-bound consultative process. It is believed that the policy will provide clarity on quality in both school and higher education, regulation of private education, employability challenges, internationalisation of higher education and possible re-structuring of education regulators like University Grants Commission (UGC) and All India Council of Technical Education (AICTE). The notification of the policy is expected to bring greater clarity on policy issues.

The proposed measures include setting up an Education Commission every five years, creation of an Indian Education Service, Central Educational Statistics Agency and reorienting the National Council of Educational Research and Training, apart from possible for a foreign university to offer its own degree to the Indian students studying in India. This will open doors for investments in the sector driving the need for teachers and other support staff.

The Government has brought about amendments in the Apprentices Act and the Apprenticeship Rules to promote skill development in the country with a view to improve employability of new entrants into work force. Government of India has launched the National Web Portal for promoting of National Apprenticeship Scheme for Graduates, Diploma holders and 10+2 pass-outs vocational certificate holders. These amendments are expected to enable 4-fold increase in apprentices. A target of 10 lakh apprentice seats by FY 2018-19 has been set with minimum 90% seat utilization. Under the Skill India Initiative, tax incentives have been proposed to companies in the form of 200% deductions of total amount spent on stipends towards apprenticeship. It has also be proposed that Profit making Public Sector Units be mandated to scale up apprenticeships, upto 10% of total manpower. With apprenticeship becoming an important component of the curriculum need for trainers and master trainers will go up.

Shortage of Teaching Staff and Infrastructure

Gross enrolment Ratio (GER) for Higher Education in India stood at 21.1 as per the MRHD statistics released in 2014. With the government targeting to achieve a GER of 30 by 2020, huge investments will be seen in development of education infrastructure in the country which will in turn generate employment for teachers and support staff. To achieve the target of GER of 30 by 2020, India will need an additional 22-26 million seats. Assuming a faculty teacher ratio of 20:1, this will generate a need for more than a million teachers and supporting staff.

1 NSDC and KPMG Analysis
Environmental Scan for the Sector

Data shows that more than 35% faculty positions in some of the prestigious Indian institutes such as IITs, IIMs, IITs, and NITs etc. are lying vacant.\(^1\) Student faculty ratio in university and colleges far exceeds the University Grants Commission (UGC) recommended ratios. The current student faculty ratio in universities and colleges is 26.4:1 which lies at the higher end of the spectrum of the UGC recommendation.\(^2\)

A state-wise analysis shows that among the top 6 states in terms on enrollments, Uttar Pradesh has highest ratio of 30:1 followed by Maharashtra (22:1). Bihar and Jharkhand have the student faculty ratio of more than 40. Even the premier Indian institutes fall short of the All India Council for Technical Education (AICTE) norms of student teacher ratios. The student teacher ratio at IITs, IIITs and NITs with student faculty ratio of 16:1, 29:1 and 17:1 respectively far exceed the norms of 12 students per faculty. For the Schools of Planning and Architecture (SPAs) student teacher ratio dwells on the borderline.

Higher student faculty ratio have direct implication on learning outcomes. It often poses an obstacle to interaction between the students and faculty. With too many students to attend to, instructors may be left to drown in paperwork, curriculum development, grading and other administrative jobs. This is one of the leading reasons of high attrition rate for teachers.

Addressing these concerns government is taking proactive steps to build a strong cadre of teaching workforce by investing in teacher training. This will also help in improving aspirational quotient associated with teaching profession and attract more teachers to take up teaching as a profession.

Focus on Teacher Training and Development

To bridge the shortage of teachers and address the lower teaching quality in the country, PM launched USD 38 Million scheme “Pandit Madan Mohan Malaviya National Mission on Teachers and Teaching“ in 2014. The Mission envisages to address all issues related to teachers, teaching, teacher preparation, professional development, Curriculum Design, Designing and Developing Assessment & Evaluation methodology, Research in Pedagogy and developing effective Pedagogy.

Recommendations of Justice JS Verma Commission report places huge focus on regulatory framework of teacher education. The implementation of these recommendations will see increased investment for establishing Teacher Education institutions, development of a professional degree/diploma in Teacher Education, strengthening regulatory powers and functions of National Council for Teacher Education (NCTE) and restructuring of existing teacher education programs. This will provide a boost to teacher training infrastructure in the country.

Simultaneously, several steps for improvement of the quality of education are in consultation stage at ministerial level. These include internship for Teacher Education Programmes in Government Schools, conduct of regional workshop for Education Administrators by UGC with modules developed by IIMs and to constitute a committee to develop an accreditation framework for Teacher Education Institutions. These steps when implemented will fulfil the aspirational needs of the teachers and make the profession more attractive.

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1 Data as available with Ministry of HRD as on 25 November 2014
2 All India Survey of Higher Education (AISHE) report
Investments from International Organizations

Union government and the World Bank signed a $50-million credit agreement for Nai Manzil project. The scheme would provide ‘bridge courses’ to youth from minority communities and get them Certificates for Class XII and X through ‘distance medium educational system’ and at the same time also provides them trade based skill training. World Bank has also agreed to provide by USD1 billion for activities ranging from strengthening skill training infrastructure in underserved areas to informing Indian workers about employment opportunities abroad and facilitating their movement to foreign shores. These investments will help in strengthening the skilling eco-system in the country. This will spur the need for training services and generate demand for trainers and assessors.

Education for ALL

University Grants Commission (UGC) launched a scheme on skills development based higher education as part of college/university education, leading to Bachelor of Vocation (B.Voc.) Degree with multiple exits such as Diploma/Advanced Diploma under the NSQF. The program is a step in direction to open up higher education avenues for students from vocational backgrounds. Over the years, a large set of these students may adopt formal education route. This will open up the formal education sector to a whole new set of students. This will lead to a need for trained teachers and trainers to meet the educational needs of these students.

Setting up of Higher Education Financing Agency (HEFA) is one of the noteworthy announcement of the Union Budget 2016-17. With an initial capital base of USD 150 Million, HEFA will leverage funds from the market and work to create infrastructure in India’s top institutions. This is also expected to facilitate easier loans for students, thereby enabling them to pursue higher education.

To make learning more inclusive, the Central Board of Secondary Education has mandated appointment of a special educator for children with learning disabilities so that they could be assimilated with other students. This directive came as a part of “inclusive practices” philosophy of CBSE and strict guidelines for implementation of ‘Right to Education.” This will increase demand for trained special educators.

Growth from Niche Segments

Growth from Niche Segments

The Indian test preparation market is currently estimated at USD 3 billion and expected to grow to USD 4.2 Billion by 2018. Coaching institutes are experimenting with newer business models to establish wider presence such as School partnerships and Junior College models. Recent deal activity in this segment shows test prep players attracting considerable funding. This will spur the need for trained tutors and teachers.

Segmentation of Test Preparation Market

1 Union Budget 2016-17
2 KPMG Analysis
Corporate trainings though a niche market will witness growth in future as companies place more value to continuous learning and development of employees. Corporate trainer is an important profession these days with a fair proportion of training outsourced to established training providers. Training and Development Specialists with highly specialized skill-sets will be required to cater to the needs of the industry.

India has become the largest market for e-learning after the US (as per the UK-India Business Council’s Report titled meeting India’s Educational Challenges Through E-Learning published in 2015) and is growing twice as fast as the global average. Given by the impetus provided by Start Up India initiative the sector is witnessing a new generation of education technology start-ups which are raising seed funding. This will require lead to job creation for instructional designers, e-content developer, scriptwriters, Graphics Designer, Learning Management System (LMS) Experts, Content, Reviewers, Editors, Narrators and testers among others.

Increasing awareness among parents about the benefits of quality preschool education coupled with rising disposable income have boosted and will continue to boost the penetration levels in the segment. However, it still largely remains an urban phenomenon. Early Childhood Care & Education (ECCE) Industry is expected to reach USD 2.5 billion by 2017-18.

**ECCE Market Size and Growth**

![ECCE Market Size and Growth](source: Crisil Research)

**Increased participation of Private Players**

Union Health ministry has proposed to the Medical Council of India to amend the clause that limited entry of profit making entities including private limited companies from setting up medical colleges. This will allow corporate houses as well as leading private hospitals and pharmaceutical companies to open medical colleges. This will increase demand for teachers and trainers in medical and allied areas.

Given the focus on skilling, private sector has been taking various initiatives on its own/ in collaboration with government and international entities to upgrade training facilities. There has been rapid growth of National Skill Development Corporation (NSDC) funded vocational training private providers.
In 2014-15, education and skill development were the key areas that attracted large CSR spending. A total of nearly USD 1000 Million was spent on CSR by 460 companies in FY15, and education and skill development attracted 23% of the CSR spending, according data from the ministry of corporate affairs (MCA).

### Increasing Disposable Income

K 12 segment will benefit from increasing disposable income of households. According to KPMG Analysis, Seekers, Strivers and Globals forming 50% of the population and 81% of disposable income would be the major consumers of the K12 industry in 2025. Seekers and Strivers will be the major target segment both in terms of volume and value contribution to school industry.

![NSDC Training Partners](source: NSDC Annual Update 2015)

### Total Number of Household (Million)

![Total Number of Household](source: Indiastat data, MGI global report, KPMG analysis)
Environmental Scan for the Sector

New Developments

- MHRD launched National Institutional Ranking Framework (NIRF) for educational institutions. It ranks institutes on five parameters which include the quality of Teaching and Learning Resources; Research, Professional Practice & Collaborative Performance; Graduation outcomes and Outreach and Inclusivity. These lay emphasis on measuring numbers and quality of faculty, library and lab resources and general facilities for development of young persons, education output with special emphasis on employability and bringing number of women and deprived classes in mainstream. This may nudge universities to improve the faculty student ratio and staff student ratio to improve rankings.

- NITI Aayog recently submitted a report to the PMO and MHRD in favour of foreign universities setting up campuses in India. If approved, this would provide a boost to the higher education sector by offsetting some of the capital costs associated with lands and buildings. It will also bring in much needed resources such as capital, teaching-learning resources, research and innovation.

- On the recommendation of eight member committee to work on “common design of questions papers”, constituted by MHRD, Centre has urged state level and central board schools to consider Open Text Based Assessment (OTBA) at board level. Capacity building and up-skilling of teachers is required in framing relevant questions to judge the understanding of students, a shift from current mechanical teaching and evaluation process.

- Salaries for teaching staff increased considerably in during 1996-2006, with the coming in of 6th pay commission in 2006. With the rollout of the 7th Pay Commission report, faculty salaries are expected to grow three-times the salaries paid a decade back. This is expected to address the challenge of compensation and act as a catalyst to attract quality aspirants to the teaching profession.

- Notable provisions from Union Budget 2016-17 which will help in the sector growth include opening of 62 more Navodaya Vidyalayalayas, a digital literacy scheme for rural India and 10 public and 10 private educational institutions to be made world-class Teaching and Research Institutions.

Other Developments

- USD 5.5 Billion were collected from education cess in FY 2014-15, with an average annual increase of 14.98% since 2007-08. The sum is increasingly being utilized in Sarva Shiksha Abhiyaan and Mid Day Meal Scheme, leading to spread of educational services in rural and semi-urban areas. This will lead to an uptake of education support services and generate employment opportunities in the sub-sector.

- Scheme of School Choice is being proposed, where in the government establish minimum levels of schooling and finance it by “giving parents vouchers redeemable for a specified sum per child per year if spent on ‘approved’ educational services.” This is likely to increase demand for private educational services. By 2019, when the RTE Act would complete 10 years, private sector is expected to be the majority service provider.

1 MHRD Website
Impact assessment on human resource requirement

Thrust on Skilling Development
Increased demand of training infrastructure, delivery, assessment and certification services

Digitization of Educational Services
Digitization of learning content and support services for schools

Policy level interventions for teacher training and development
Improved aspirational quotient of teaching profession

Increased private sector participation
Increased investments in infrastructure

Estimated human resource requirement (nos. in ‘000)

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Source: KPMG in India Analysis
The way forward and support required

The government is taking various policy decisions to foster growth across the various subsectors in education and skill development. However human resource is the key enabling factor to meet the growth objectives.

Though significant investments have been proposed in teacher training and education, the attractiveness of teaching profession remains low. Low supply of PhDs, delay in recruitment and the lack of incentives to attract has led to a situation in which nearly 30-40% of existing faculty positions remain vacant in universities and colleges. Even in the school education sub-sector teachers are leaving the teaching profession and accepting alternative job opportunities. Reasons are lower wages, poor student teacher ratio, which prevents individual mentoring and increases administrative work, burdening teacher with non-teaching work during elections or census surveys among others.

The perception of vocational training being an ‘alternate to mainstream education’ percolates to trainers also. The aspirational value of being a trainer is low hence top performing professionals opt for alternate career paths. It is imperative to take steps to raise the professional status of teaching. In top performing countries on education front, teachers are drawn from top 10-30% of school leavers.

The current training infrastructure for teachers is inadequate in both qualitative and quantitative terms. The training programs need to be revamped periodically and the teachers re-skilled in light of latest developments.
Healthcare Sector

Environmental Scan 2016
Environmental Scan for the Sector

Key Growth Drivers:

While the public healthcare network is widespread, majority of the service share lies with the private sector, which today caters to 70 per cent of out-patient and 60 per cent of in-patient services. The private sector is likely to contribute in a major way to this growth.¹

FDI

The hospital and diagnostic centers attracted Foreign Direct Investment (FDI) worth US$ 3.41 billion between April 2000 and December 2015, according to data released by the Department of Industrial Policy and Promotion (DIPP).

The government has allowed 100% FDI in the medical device industry under the “Make in India” initiative for greenfield as well as brownfield operations. These investments are expected to bring global technology and innovation which will bring down the cost of medical equipment devices and improve the uptime of equipment in tier 2/3/4 cities due to easier availability of spare parts. While the FDI will have a direct impact on availability of healthcare infrastructure, the upcoming projects will also increase the demand for Qualified and trained healthcare workforce and specialists. Some of the key FDI projects have been listed below:

- Qatar-based Non-resident Indian’s (NRI) including medical professionals and businessmen, are planning to set up a huge world-class healthcare project in Kochi worth Rs US$ 190.74 million
- Apollo Hospitals Enterprise (AHEL) plans to add another 2,000 beds over the next two financial years, at a cost of around US$ 220.08 million
- Malaysia-based IHH Healthcare Berhad has agreed to buy 73.4 per cent stake in Global Hospitals Group, India’s fourth-largest healthcare network, for US$ 192.84 million.
- CDC, a UK based development finance institution, invested US$ 48 million in Narayana Hrudayalaya, With this investment, Narayana Health will expand affordable treatment in eastern, central and western India.

The fast paced growth of Health sector will also have a positive impact on allied sectors like Medical devices and Pharma.

FDI received by the healthcare sector (hospitals and diagnostic chains)

1KPMG Analysis
2http://www.ibef.org/industry/healthcare-india.aspx
3http://dipp.nic.in/English/default.aspx
Environmental Scan for the Sector

Increasing Government focus on improving availability of Healthcare services

India has been spending approximately 4-5% of the GDP on Healthcare sector. The share of public sector spend in the same is approximately 1%. However, this may undergo a change with healthcare being one of the focus areas of the government.

Provisions made in the Union budget 2016-17:

- Allocation of $ 6 Billion to the Ministry of Health and Family Welfare, an increase of approximately 13 per cent over last budget’s revised estimate of $ 5.38 Billion. This resonates with the government’s underlying theme of this year’s Budget built around nine major pillars, with healthcare as one of the social pillars
- A 9 per cent increase in budget allocation to the National Health Mission has been announced. A total of $ 3.08 Billion has been allotted this year as against $ 2.82 Billion in approved outlay for the last financial year
- The allotment of $ 2.48 Billion toward the ‘Integrated Child Development Services’ scheme, almost doubling the allotment made from the last budget of $ 1.23 Billion, which is an improvement in primary healthcare services for children under six years of age and their mothers
- National Dialysis Services Programme to be initiated to provide dialysis services in all district hospitals to accommodate the increasing demand for dialysis session
- A new health protection scheme for health cover upto US$ 1,470 per family.
- Setting up 3,000 medical stores across the country to provide quality medicines at affordable prices.
- Senior citizens will get additional healthcare cover of US$ 441 under the new scheme
- Pradhan Mantri Jan Aushadhi Yojana to be strengthened, 3000 generic drug store to be opened
- An allotment of $ 1.73 Billion to ‘Swachh Bharat Abhiyan’ in this Budget is expected to further promote preventive healthcare practices in the country. This initiative also aims to promote rural population’s healthcare standards. Additionally the ongoing schemes such as Rashtriya Swasthya Suraksha Yojana would also allow the masses to access healthcare services and social security
- India’s universal health plan that aims to offer guaranteed benefits to a sixth of the world’s population will cost an estimated Rs $ 23.48 billion over the next four years.1

Digital India

The E-health initiative, which is a part of Digital India drive launched by Prime Minister Mr Narendra Modi, aims at providing effective and economical healthcare services to all citizens. The programme aims to make use of technology and portals to facilitate people maintain health records and book online appointments with various departments of different hospitals using eKYC data of Aadhaar number.2

Increased government spending, focus on providing affordable healthcare till the last mile, creating awareness through initiatives like “Swachh Bharat Abhiyan” will have far reaching impact on improving the healthcare standards in the country. This will also result in increased employment opportunities in the sector, in both clinical and allied healthcare services

1 KPMG India Union Budget Analysis 2016: Healthcare
2 https://www.google.co.in/#q=Digital+India
Environmental Scan for the Sector

Increased focus on medical education

Government of India has said that the government would create 10,000 additional MBBS seats. The government has cleared a proposal to establish three new AIIMS in Maharashtra, Andhra Pradesh and West Bengal under the Pradhan Mantri Swasthya Suraksha Yojna (PMSSY) at a total cost of $ 0.76 Billion . Each of the proposed institution will have a hospital with a capacity of 960 beds. This will direct and significant impact on availability doctors and specialists in the sector.

Entry of private companies in medical education

The Union Health Ministry has directed the Medical Council of India to clear the decks for allowing private profit-making companies, which are registered under the Companies Act, to set up medical colleges in the country.

Rise in Lifestyle Related Diseases

Rapidly increasing population coupled with growth in lifestyle related diseases is one of the key drivers for growth of healthcare sector. Lack of physical activities, alcohol consumption, smoking etc. are causing burgeoning cases of obesity, cancer, blood pressure, diabetes and heart ailments. As the working population is expected to reach close to 64% by 2026, India's patient pool is expected to increase over 20% in next 10 years.

Medical Tourism

Indian India has emerged as one of the top three medical tourism destinations in Asia. The cost of surgery in India is about one-tenth of that in US or Western Europe, offering competitive advantage for people looking for best medical professionals at a much lower cost. The medical tourism market in India is expected to grow at a CAGR of approximately 30 per cent from USD2.8 billion in 2014 to 10.6 billion in 2019.

Tele-medicine:

Indian tele-medicine: though in its nascent stage, is showing robust growth at approximately 20 per cent and is projected to grow from $ 8 million in 2012 to approximately USD19 million by 2017. Further, tele-medicine technology is likely to also help in upgrading skills via tele-education, tele-training, tele-monitoring and tele-support.

Incentives and subsidies on capital investments

• All new hospitals in tier 2 and 3 towns of India are granted a five-year tax break
• Reduction in import duty on equipment from 25 percent to 5 percent
• Customs duty on 24 medical equipment, such as like X-ray, tele-therapy stimulator equipment and goniometer, has been reduced to 5 percent.
**Key changes in Healthcare ecosystem driving faster growth:**

- Government initiatives and increased focus
- Increased FDI and private sector participation
- Increase in patients population
- Increasing lifestyle related health issues
- Awareness on preventive healthcare disorders
- Affordable treatment costs
- Thrust on medical tourism
- Improving health insurance penetration
- Increasing disposable income

**Impact on Workforce estimations**

- Increase demand quality healthcare professionals
- Increased demand for Para-medical (nursing and Technical staff)
- Increase in Govt and Private sector beds, resulting in direct increase in number of doctors, nurses and Allied healthcare professionals
- Increase in MBBS seats
- Increase on Paramedical seats
- 13 states have allowed AYUSH doctors to practice allopathic medicine (There are over 7,50,000 registered (AYUSH) practitioners in the country)

**Estimated human resource requirement (nos. in thousand)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Baseline -2013</th>
<th>2017</th>
<th>2022</th>
<th>2017</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctors (Allopathic)</td>
<td>434</td>
<td>494</td>
<td>621</td>
<td>503</td>
<td>645</td>
</tr>
<tr>
<td>Specialists*</td>
<td>218</td>
<td>248</td>
<td>312</td>
<td>253</td>
<td>324</td>
</tr>
<tr>
<td>Dentists</td>
<td>78</td>
<td>89</td>
<td>112</td>
<td>90</td>
<td>116</td>
</tr>
<tr>
<td>Nurses and Midwives</td>
<td>973</td>
<td>1,756</td>
<td>3,662</td>
<td>1,783</td>
<td>4,005</td>
</tr>
<tr>
<td>Pharmacists</td>
<td>264</td>
<td>301</td>
<td>357</td>
<td>303</td>
<td>368</td>
</tr>
<tr>
<td>Allied &amp; Other Healthcare Professionals</td>
<td>1,425</td>
<td>1,779</td>
<td>2,039</td>
<td>1,619</td>
<td>1,903</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,392</strong></td>
<td><strong>4,507</strong></td>
<td><strong>7,106</strong></td>
<td><strong>4,552</strong></td>
<td><strong>7,362</strong></td>
</tr>
</tbody>
</table>

*Source: KPMG in India analysis*
In-adequate funding from public sector, very low doctor to population ratio, poor healthcare infrastructure and lack of skilled Manpower have been some of the key issues plaguing the healthcare sector. While the government has taken significant measures to improve access to quality care, this sector has also seen emergence of private players due to the growing healthcare needs of the population, with an inflow of both domestic and foreign investments. The healthcare sector is currently multi-layered and complex, which makes it difficult to unlock its true potential and provide quality services. The onus of bringing the sector into the limelight as a Gross Domestic Product (GDP) driver now lies with the policy makers. This shall further garner the interest of private players, thereby attracting more investments and creating a conducive environment for the sector to grow.

There are vast opportunities for investment in healthcare infrastructure in both urban and rural India which will help the healthcare industry to grow in medium to long term. With the advent of alternate and innovative healthcare models, such as wellness centres, diabetes clinic, day care centres, diagnostic chains, among others, the entrepreneurial spirit in the sector has heightened. This in turn is expected to create employment opportunities, enhance productivity and increase export potential of healthcare services.

India’s booming medical industry boasts of having one of the highest direct employment rates in the country. The need for skilled manpower cannot be stressed enough and hence investment into training institutions and policy reforms to further engage the private sector in skilling of healthcare professionals will be vital to meeting the severe supply side crunch faced by the healthcare sector.
Agriculture Sector

Environmental Scan 2016

June 2016

KPMG.com/in
Environmental Scan of the sector

Agriculture plays an important part in India’s economy. As per the agriculture sector skill gap study, approximately 52% of the population is engaged in agriculture and allied activities and it contributes to 15% of the GDP.

India is the second most populous country in the world, which is the main driver of the growth in agriculture sector. Domestic demand for agricultural and allied products has been robust and rising. Nearly half of average expenditure by households is allocated to agricultural end-products. Furthermore, rising rural and urban incomes have also facilitated demand growth. External demand has been on the rise especially from key markets such as the Middle East. This is due to India’s competitive geographical advantage Indian agriculture has also benefitted from rising external demand and India accounts for approximately 2.07%\(^1\) of global trade.

Farm mechanization has been the major contributor of raising productivity and limiting post productivity losses. India is the largest manufacturer of farm tractors in the world with approximately one third of global tractor production. The availability of Farm power availability has increased from 0.36 Kilowatt per hectare in 1971 to 2.02\(^2\) Kilowatt per hectare in 2014-15. Farm mechanization in India stands at 40-45\(^3\) percent which is still lower than other developed countries like US(95%), Brazil (75%) etc.

A large number of women are involved primarily in the production and processing of food within the agriculture sector. Male-dominated migration from rural areas is on the rise, resulting in women being left to take care of agricultural holdings.

One of the major challenges still faced by the India Agriculture is the reliance on monsoons. During the year 2014 and 2015 severe drought affected several states of the country resulting in loss of farming income to many families. Government has launched many projects like Parmaparagat Krishi Vikas Yojana as well as Krishi Sinchai Yojana which will decrease the dependence on monsoon.

There is a need for increased mechanization to limit the impact of drought conditions on production and productivity.

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1 NSDC sector skill gap report on Agriculture
2,3 FICCI report on Farm Mechanization in December 2015
Environmental Scan of the sector

Key Projects expected to spur Agriculture activity

Pradhanmantri Krishi Sinchai Yojana: The scheme has been approved with an outlay of USD 7.57 billion for a period of 5 years (2015-16 to 2019-20). With a focus on “More crop per drop”, the main objective of the scheme is to increase investments in irrigation expand cultivable area under irrigation, enhance adoption of precision irrigation schemes and other water saving technologies, introduce sustainable water saving practices etc. A sum of USD 800 million, comprising of USD 270 million for Department of Agriculture & Cooperation, USD 227 million for Department of Land Resources and USD 303 million crore for Ministry of Water Resources, River Development & Ganga Rejuvenation has been provisioned in BE 2015-16.

Paramparagat Krishi Vikas Yojana: This scheme is envisaged to promote organic farming in the country. Under this scheme, clusters for organic farming will be made (government is targeting 10,000 clusters in the next three years) and each farmer will receive USD 300 per acre in three years for seed to harvesting of crops and to transport produce to the market. The scheme is expected to be a big boost to export of organic farm products.

Agriculture Credit: Government announces annual target for agriculture credit in the budget every year. Agricultural credit flow has shown consistent progress every year. Agriculture Credit of USD 107 billion was provided to the farmers against target of USD 106 billion in 2013-14. In the year 2014-15, agriculture credit flow was USD 128 billion against the target of USD 121 billion. Target for the year 2015-16 has been fixed at USD 129 billion and achievement is USD 95.5 billion upto 31st December, 2015 crore.¹

Pradhan Mantri Jan Dhan Yojana: This scheme was launched in 2014 to facilitate financial inclusion of the weaker section of the society, particularly farmers. In this scheme persons can open a zero balance account. Under this scheme:
  • Interest on deposit.
  • Accidental insurance cover of USD 1500
  • No minimum balance required.
  • Life insurance cover of USD 455
  • Easy Transfer of money across India
  • Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.
  • After satisfactory operation of the account for 6 months, an overdraft facility will be permitted
  • Access to Pension, insurance products.
  • Accidental Insurance Cover, RuPay Debit Card must be used at least once in 45 days.
  • Overdraft facility upto USD 76 is available per household

¹ Department of Agriculture, cooperation and farmers welfare Annual Report 2015-16
Environmental Scan of the Sector

Pradhan Mantri Mudra Yojana

Pradhan Mantri Mudra Yojana was launched in the Union Budget 2016-17. The purpose of Mudra is to provide funding to the non corporate small business sector. Loans worth about USD 1.5 billion has been sanctioned under this scheme. There are three categories under this scheme:

- **Shishu**: Loan up to USD 740
- **Kishore**: Loan ranging from USD 740 to USD 7,400
- **Tarun**: Loan from USD 7,400 to USD 15,000

This scheme is beneficial to people who want to start businesses in horticulture, Animal husbandry, poultry and support activities.

Foreign Direct Investment

- 100% FDI is allowed under automatic route in storage and warehousing since 2013
- 100% FDI is allowed through automatic route for development of seeds in the country since 2011
- FDI in agriculture services increased to USD 86.73 million in 2015-16 compared to USD 57.87 million in 2014-15
- FDI in Agriculture Machinery decreased to USD 16.16 million in 2015-16 from USD 72.62 million in 2014-15

Under the new FDI policies, the investment is going to increase in post harvest services like Warehousing, Cold Storage as well as logistics. An increase in growth of these activities will result in reducing post harvest losses which stands at more than 30% of the produce.

Investments in Agri Logistics

India has an extremely high rate of food wastage post harvest, and due to this agri logistics sector is seeing interest from private equity sector. According to a report, more than USD 150 million have been invested in industries of this sector. Agri logistics and warehousing companies are looking at a growth rate of 20-40% per annum. With the increase in interest from Private Equity firms, this sector will reduce post harvest losses in coming years. Investment in this area will increase the job requirements as well. Some of the indicative job roles in this area are procurement specialist, packaged freight lead, analytics and performance manager, intercompany supply representative, warehouse operations manager etc.

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1 Statistics from Swachh Bharat Mission Gramin
2,3 DIPP data
Environmental Scan of the Sector

E NAM

The government launched National Agriculture Market, an e platform for trading of Agricultural Produce. This platform is envisaged to increase transparency which will greatly benefit farmers. 21 mandis from eight states joined the platform at the launch. This platform will result in increased number of traders quoting prices from multiple locations across the country and better prices for farmers.

Pradhan Mantri Fasal Bima Yojna

This new scheme removes the previous capping on the premium so that farmers can get full sum ensured. This scheme also uses mobile technology for quick estimation and early settlement of claims. Also post-harvest losses arising from cyclones and unseasonal rains are also covered. This scheme will definitely decrease the risk of farming and improve the attractiveness of agriculture for the people who are migrating to urban areas for better livelihood options.

Deen Dayal Upadhyay Gram Jyoti Yojna

It is one of the key initiatives of Indian government aimed to provide continuous power supply to rural India. The government plans to invest USD 11.7 billion for rural electrification under this scheme. This scheme will help in improving the power availability per hectare in the country.

Minimum Support Price

Minimum Support Price is a form of insurance by the government of India to save farmers from sudden drop in prices. As per the recommendations by Commissions for agricultural costs and prices, the government has revised MSPs for all the 25 products.
Environmental Scan for the Sector

Mission for Integrated Development of Horticulture (MIDH)

Mission for Integrated Development of Horticulture (MIDH) is a Centrally Sponsored Scheme for the holistic growth of the horticulture sector covering fruits, vegetables, root & tuber crops, mushrooms, spices, flowers, aromatic plants, coconut, cashew, cocoa and bamboo. Currently there are five sub schemes under MIDH which aim to improve the growth of the horticulture sector.

Attracting and Retaining Youth in Agriculture

Attracting and Retaining Youth in Agriculture (ARYA): Realizing the importance of rural youth in agricultural development especially from the point of view of food security of the country, ICAR has initiated a programme on “Attracting and Retaining Youth in Agriculture”

The objectives of ARYA project are

(i) To attract and empower the Youth in Rural Areas to take up various Agriculture, allied and service sector enterprises for sustainable income and gainful employment in selected districts

(ii) to enable the Farm Youth to establish network groups to take up resource and capital intensive activities like processing, value addition and marketing, and

(iii) To demonstrate functional linkage with different institutions and stakeholders for convergence of opportunities available under various schemes/program for sustainable development of youth.

ARYA project will be focusing on skill development in entrepreneurial activities and establishment of related micro-enterprise units in the area of Apiary, Mushroom, Seed Processing, Soil testing, Poultry, Dairy, Goat Farming, Carp-hatchery, Vermi-compost etc., by establishing economic models. At KVKs so that they serve as entrepreneurial training units for farmers. The purpose is to establish economic models for youth in the villages so that youths get attracted in agriculture and overall rural situation is improved.

This scheme will help farmers to augment their agriculture income by getting them trained in secondary agriculture and services related activities and start their own businesses. The concurrent monitoring, evaluation and mid-term correction will be an integral part of project implementation.
Environmental Scan of the Sector

Budget 2016-17, Key announcements in Agriculture

Major Highlights of the budget 2016-17 for the Agriculture sector are:

• Allocation for Agriculture and Farmers welfare is USD 5.5 billion.
• A dedicated irrigation fund under NABARD with an amount of USD 3.03 billion.
• In next three years, 2,000 model retail outlets of Fertilizer companies will be provided with soil and seed testing facilities.
• Provide a common e platform for wholesale markets.
• Allocation under Pradhan Mantri Gram Sadak Yojana increased to USD 3 billion.
• Allocation under Prime Minister Fasal Bima Yojana USD 833 million.
• A corpus of USD 2.3 billion set up for interest subvention for farmers.
• USD 129 million for four dairying projects - Pashudhan Sanjivani, Nakul Swasthya Patra, E-Pashudhan Haat and National Genomic Centre for indigenous breeds.
• Government introduced a Krishi Vikas Cess of 0.5% on all services to fund its ambitious program of rural welfare.
• In the Union Budget 2016-17, Government announced a subsidy rate of INR 5 per Kg for Nitrogen fertilizers and INR 5.45 per Kg for Phosphate fertilizers, total subsidy is estimated at over USD 10 billion.
• Government has planned to rollout the pilot of direct subsidy transfer scheme in October 2016, where subsidy amount will be directly credited to the account of farmers which will help in curbing leakages.

The government’s schemes to increase financial inclusiveness of the people from agriculture sector as well as increasing the transparency in trade deals of agri products, this sector is expected to get more attractive for people. The migration towards urban settlements is expected to decrease and farmers will get better payment for their produce.
Impact assessment human resource requirement

These schemes coupled with major government intervention will increased investments in modern farming practices, improved price discover of the farm produce and decreased risk associated with farming. The end result will be increased attractiveness of Agriculture sector and better prices for farmers.

### Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline - 2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>Growing of non perennial crops</td>
<td>210.28</td>
<td>199.10</td>
<td>186.0</td>
</tr>
<tr>
<td>Animal production</td>
<td>13.95</td>
<td>13.90</td>
<td>13.90</td>
</tr>
<tr>
<td>Support activities to agriculture and post harvest crop activities</td>
<td>6.44</td>
<td>6.60</td>
<td>6.66</td>
</tr>
<tr>
<td><strong>Total Agriculture</strong></td>
<td><strong>240.43</strong></td>
<td><strong>229.0</strong></td>
<td><strong>215.6</strong></td>
</tr>
</tbody>
</table>

*Source: KPMG in India analysis*
The way forward and support required

Pradhanmantri Krishi Sinchai Yojana, Paramparagat Krishi Vikas Yojana, Jan Dhan Yojana, and Pradhanmantri Mudra Yojana has been key highlights in the recent years. Some of the other support required by the people employed in this sector:

- Better prices for farmers for their yield, E-NAM has been a good initiative in this regard and more schemes similar to this are needed
- Lesser clearance time for insurance claim for farmers whose crops have been destroyed
- More support to be provided for people in drought affected regions
- Modernization to be encouraged through increased subsidies for farm equipment manufacturers and investments in research and development to decrease dependence of agriculture on monsoons
Environmental scan for the sector

While India is one of world’s largest consumer of finished jewellery products, it also conducts key manufacturing related functions in the value chain. ~95% of the world’s diamonds are exported from India. India’s total annual gems and jewellery export value was USD 38.6 billion (2015-16). Various regional clusters house traditional artisans who have developed skills through apprenticeships or possess skills passed down within a family.

Gems and jewellery is a highly labour intensive sector and currently employs 4.6 million people across manufacturing and retailing roles. Jewellery retail is highly unorganized and dominated by a large number of single store businesses across the country. However, organized play is growing at a high rate and expected to have 42% share by 2022.

The sector is characterised by evolving consumer preferences and slowing international spending on luxury products such as jewellery. The shift towards imitation jewellery and a growing demand of silver jewellery and gemstones will drive future growth.

The recent announcement of a 1% excise duty levy led to concern among retailers. However, the government has applied measures to ensure smooth implementation with minimal interference. Additionally, recognizing the gold karigars as handicraft artisans has provided access to socio-economic benefits.

In general, however, the sector requires further support to compete in international markets. Favorable policies to sustain advantage as a manufacturing hub and create jobs.
Environmental Scan for the sector

The gems and jewellery sector contributes to 6-7% of India’s GDP. Being heavily export-oriented, the sector was expected to generate ~USD 31.9 billion in 2015-16. While diamonds continued to have the largest share of exports (refer to Figure 1), silver jewellery posted the highest annual growth. In jewellery retail, imitation jewellery has witnessed significant growth over recent years driven by changing consumer behavior. India is now the second largest manufacturer of imitation jewellery. However, diamond polishing, which caters to a huge export market, has witnessed decline. Declining demand for luxury goods from markets such as USA, is a key driver.

Exports of gems and jewellery, 2015-16

Source: KPMG in India analysis, Business Standard

The gems and jewellery sector is unorganized and highly fragmented. It is characterized by majorly by family-run units/ businesses. The sector is highly labour-intensive and skills are passed on through generations within a family or traditional apprenticeship models. For gemstones, while cutting and polishing activities can be mechanized to some extent, the sector is heavily reliant in skilled labour for precision1. The retailing sub-sector is likely to witness relatively higher growth in organized play in the future.

Source: KPMG in India analysis, Business Standard

India is characterized with specialized (regional) clusters for manufacturing and processing of gemstones and precious metals. Nellore (Tamil Nadu) and Kolkata (West Bengal) are centers for handmade gold jewellery. The western Indian belt houses diamond polishing, polka, machine made and polki jewellery clusters. Changes in manufacturing techniques – use of CAD & CAM in jewellery development has reduced production time and improved product quality.

Source: KPMG in India analysis, The gem & jewellery export promotion council, Business Standard

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1 Most relevant in diamond polishing business
2 Manufacturing represents Cast and diamond set jewellery manufacturing and Handmade gold and gemset processing
Environmental scan for the sector

Skill recognition

In 2015 Indian gold ‘karigars’ have been given handicraft artisan status. Such measures allow karigars to access insurance, support for children's education, credit access etc.

Policy measures:

In an attempt to boost the sector, in 2015 the government has notified special notified zone (SNZ) to facilitate imports and trading of rough diamonds. Such initiatives will help develop the country to be trading hub. Also, implementation of the EDI system for import-export would help in computerization of customs and speeding up the process.

A 1% excise duty levy on non-silver jewellery for all jewelers with a turnover of USD 1.79 million (INR 12 crore) was announced in 2016. The sector has expressed concerns regarding costs arising from new compliance procedures and a potential hit to the sector. In response, the government assured of simplified administrative procedures through centralized registration and no interference from tax officials.

Flagship initiatives:

Recognised as a key sector for Make in India, gems and jewellery will receive the focus to develop India's manufacturing capacity.

Under the Mudra Scheme and Jan Dhan Yojana, the government has created a mechanism for micro and small enterprises to get access to credit. This could meet crucial working capital needs of manufacturers.

Consolidation and expansion of organized players

E-commerce is fast growing channel for jewellery retail. Currently 0.2% of gems and jewellery sales are online. However the sector has witnessed several new online retailers and marketplace models specializing in this sector. Players such as Caratlane, and Bluestone have successfully raised USD 50 million and USD 15 million, respectively. BlueNile, Velvetcase Traditional/ established jewellery brands are developing online presence. In 2016, Titan (which owns the Tanishq brand) bought majority stake in Caratlane. Kalyan Jewellers has tied up with Flipkart to sell its jewellery online. Use of 3-D printing is a key technological advancement likely to affect the sector.

Emerging sub-sectors:

Imitation jewellery or fashion jewellery is expected to be a high growth sub sector in the coming years. Changing consumer tastes, fast fashion leading to shorter lifespans of demand, rising prices of precious metals has led to a shift towards imitation jewellery and strong growth will lead to corresponding job creation.

Other sub sectors expected to show high growth are silver jewellery and gemology.

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1 converted at INR67/ USD. Exemptions are applicable for jewelers with turnover value lower than the threshold. The levy is applied without input tax credit, and 12.5 per cent excise duty with input tax credit on all articles of jewellery.

Source: KPMG in India analysis, Indian Express, Economic Times
The gems and jewellery sector is faced with evolving consumer preferences and a competitive global market. Given the recent slowdown, global spending on luxury items such as jewellery has been growing at a slower pace.

To give the sector a boost the government must consider policy measures to improve India’s attractiveness as a manufacturing and trading hub.

The diamond industry proposals to improve competitive positioning of India by introducing a Special Turnover Tax (0.75% of sales) for diamonds. This could attract manufacturing businesses to India and create up to 1.5 million jobs.

Providing skill recognition and continuing recognition of prior learning (RPL) initiatives will give dignity to the millions of artisans employed. These measures also provide access to better health, education and access to financial products to improve quality of life.

In general, the sector will require additional government support to maintain global competitive position and boost employment.

Source: KPMG in India analysis, Gems and Jewellery Export Promotion Council
Impact assessment on human resource requirement

Estimated human resource requirement (nos. in million)

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Baseline - 2013</th>
<th>2013 Study 2017</th>
<th>2022</th>
<th>2016 Study 2017</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td>Diamond processing</td>
<td>1.04</td>
<td>1.22</td>
<td>1.83</td>
<td>1.27</td>
<td>1.92</td>
</tr>
<tr>
<td>Gemstone processing</td>
<td>0.61</td>
<td>0.71</td>
<td>1.05</td>
<td>0.79</td>
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<tr>
<td>Handmade gold and gem-set jewellery manufacturing</td>
<td>0.88</td>
<td>0.98</td>
<td>1.35</td>
<td>1.14</td>
<td>1.92</td>
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<tr>
<td>Casting and diamond-set jewellery manufacturing</td>
<td>0.61</td>
<td>0.76</td>
<td>1.28</td>
<td>0.82</td>
<td>1.33</td>
</tr>
<tr>
<td>Jewellery retailing</td>
<td>1.50</td>
<td>3.11</td>
<td>5.03</td>
<td>2.04</td>
<td>3.02</td>
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<tr>
<td>Total</td>
<td>4.64</td>
<td>5.91</td>
<td>8.23</td>
<td>6.07</td>
<td>9.36</td>
</tr>
</tbody>
</table>

KPMG in India analysis

- Support capacity increase in manufacturing related process
- Improving access to socio-economic benefits for traditional (gold) artisans
- Development of new channel of distribution – ecommerce
- Boosting sector exports and in turn, growing the sector size
Leather and leather goods

Environmental scan 2016
Environmental Scan for the sector

India’s leather and leather goods industry is characterized by a large number of micro and SME manufacturing units. With nearly USD 7 billion export income, out of a total of USD 12 billion, growth prospects are closely linked to international demand.

India’s relative strength lies in its abundance of raw material and traditional artisans. However, smaller scale of manufacturing units, production wastage and skilled labour unavailability increase unit costs. In competitive international market, gaining cost advantage is crucial for attracting investment and/or buyers.

Given that the sector is labour intensive, driving sectoral growth will directly boost employment generation potential.

The sector employed 3.09 million people in 2013 and employment is expected to grow by 24% (CAGR) till 2020.

A key driver will be the government’s Make in India vision to double sector turnover to USD 27 billion. In order to boost sector growth, and court international investment and buyers, the Council of Leather Exports engages with international investors and conveys sector needs to the government.

Government initiatives to augment the sector with a skilled workforce reflect in skilling targets defined under the Indian Leather Development Programme (ILDP) The Footwear Design and Development Institute (FDDI) has announced setting up of 4 new regional centers to skill manpower. Overall, ILDP has an annual target of training 144 thousand youth for the leather sector.

In general, critical growth factors include investments in skilled manpower, investments for modernization of manufacturing processes and technology, development of design capabilities and increase manufacturing capacity.

Source: KPMG in India analysis Economic times
Environmental Scan for the sector

India possesses an abundance of raw material for leather and leather goods sector. India has 21% of the world’s global cattle, buffalo, sheep and goat. India is the 5th largest exporter of leather goods in the world. Nearly 50% of the overall leather business comes from exports (Refer to figure 1). Leather footwear comprises a majority of exports, followed by leather goods and finished leather.

The Indian leather industry is characterized by a large number of micro enterprises and MSMEs. The sector is labour intensive and employs 3.09 million people. Nearly 30% of labour employed are women. The sector is also highly fragmented and unorganized; 30% of employment is in unorganized sector with an additional 30% in micro enterprises. Under the Make in India initiative, leather and leather goods has been recognized as a focus sector. The Prime Minister has announced a goal of doubling the sector’s turnover to USD 27 billion by 2020. This has an employment generation potential of 6 million by 2020.

The sector has positive growth prospects despite recent slowdown in exports in 2015. Between April 2015 to September 2015, the exports stood at USD 3479 million. Weak Euro currency and high tariffs were contributing factors that led to 9.23% lower exports as compared to 2014. Lower tariffs have made Indonesia, Vietnam and Thailand more competitive. Despite the above, the Council of Leather Exports suggests that reducing wastage during manufacturing, aggressive marketing and pricing can help India increase its global market share. In sub sectors such as tanning, poor technological application leads to poor tannery capacity utilization and in turn, higher unit cost of production.

Overall, future growth of the sector requires intervention in areas such as modernization of manufacturing, skilling of labour and boosting manufacturing capacity.

1 Refers to Micro enterprises in leather-based goods manufacturing (including artisans)
2 Unorganised sector employment in leather-based goods repairing (cobblers etc.)
3 Based on comments by M. Rafeeqe Ahmed, Chairman, Council of Leather Exports to The Hindu in November 2015

Source: The Hindu, Economic Times, Council of Leather Exports
Environmental Scan for the sector

In order to meet the vision to double the size of the sector, the government has undertaken measures. Some notable sectoral developments are described below:

Flagship initiatives:
Identification of leather and leather goods as a focus sector under the Make in India initiative has highlighted sectoral needs and renewed policy focus.

With 100% FDI allowed via the automatic route the Council of Leather Exports has been undertaking international roadshows to attract international investors and buyers. These outreach efforts focus on improving India’s market share among growing competition from other Asian exports.

Key investments:
In 2015, Government of Andhra Pradesh announced setting up a 385 acre leather park at USD 200 million, in Nellore district. Proximity to the Krishnapatnam port will also help cater to export markets. With nearly 40 national and international firms showing interest to invest in this park alone, it will boost local employment.

Development of a min leather park in Armoor, Telangana is expected to create demand for 500 leather artisans. Local entrepreneurs will also have the opportunity to operate units within the park.

Skilling initiatives:
Given that India is a sourcing destinations for several international footwear brands, building a highly skilled labour makes India an attractive destination. Taking cognizance of this, 4 new branches of the Footwear Design and Development Institute (FDDI) have been set up at Hyderabad, Patna, Banur and Ankleshwar to address skill shortages.

In 2016, the Indian Leather Development Programme trained 51216 youth by the first quarter this year as part of an annual target of skilling 144 thousand youth.

It is expected that employing highly skilled in-house designers could further boost expert potential of domestic manufacturers. Currently, design and manufacturing process are as per sourcing company’s recommendations.

International competition:
Indian leather goods are facing stiff competition from various markets such as Vietnam, Bangladesh and Turkey.

India is the world’s 3rd largest producer of footwear and primarily trades with European countries. Markets such as USA continued to be served by China where rising labour costs has created price pressures. Given abundance of raw material and labour, India has tremendous potential to tap new markets as well.

Source: KPMG in India analysis, Livemint, Wall Street Journal, India Today
Environmental Scan for the sector

Other developments:

In May 2016, the Commerce Ministry indicated provision of financial support to set up small and medium leather parks to boost manufacturing capacity. Additionally, impact of high excise duty on exports was also acknowledged. Any action on the above would likely boost sector growth and competitiveness in the international market.

Other potential developments that could affect leather and leather goods include Mudra bank loan scheme, Jan Dhan Yojana. Such schemes will improve access to credit lines for the large number of unorganised and micro enterprises.

Potential constraints for growth:

Recent ban on cow slaughter announced by some state governments could affect supply of bovine hides. Continued ban in states such as Maharashtra and Tamil Nadu, which have a large number of cattle and supply raw material to the leather industry, may lead to employment losses. Increasing imports of hides could lead to higher production costs over time and affect sector competitiveness.
Environmental Scan for the sector

Leather and leather goods is a critical export sector for India. Given its capital intensive nature, any sectoral intervention to boost growth will have a considerable impact on employment generation potential.

Given the Government of India’s renewed focus to grow the sector and double its size by 2020, increasing market share in export destinations and tapping newer markets becomes essential.

It is expected that the current government will evaluate and prepare additional incentives to boost manufacturing capacity and exports. Some measures could include:

• Revision of excise duty or tariffs that could make product pricing more competitive
• Financial support to leather parks
• Improving access to modern manufacturing machinery through tax incentives and/or financial support
• Support to Central Leather Research Institute that is conducting research in leather processing and means to reduce effluent discharge from tanneries. Such research and a mechanism for industry application will further improve operating costs of manufacturing
**Estimated human resource requirement (nos. in million)**

<table>
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<tr>
<th>Sub Sectors</th>
<th>Baseline - 2013</th>
<th>2013 Study</th>
<th>2016 Study</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>Finishing of leather</td>
<td>0.23</td>
<td>0.33</td>
<td>0.51</td>
</tr>
<tr>
<td>Leather goods</td>
<td>0.30</td>
<td>0.43</td>
<td>0.66</td>
</tr>
<tr>
<td>Footwear</td>
<td>0.78</td>
<td>1.11</td>
<td>1.72</td>
</tr>
<tr>
<td>Leather apparel</td>
<td>0.01</td>
<td>0.01</td>
<td>0.02</td>
</tr>
<tr>
<td>Micro enterprises in leather-based goods manufacturing (including artisans)</td>
<td>0.92</td>
<td>1.32</td>
<td>2.02</td>
</tr>
<tr>
<td>Unorganised sector employment in leather-based goods repairing (coblbers etc.)</td>
<td>0.85</td>
<td>1.22</td>
<td>1.87</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.09</strong></td>
<td><strong>4.42</strong></td>
<td><strong>6.81</strong></td>
</tr>
</tbody>
</table>

*KPMG in India analysis*

- Manufacturing capacity enhancement
- Improving access to credit lines for working capital
- Availability of skilled labour
- Growth in sectoral turnover
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Thank You