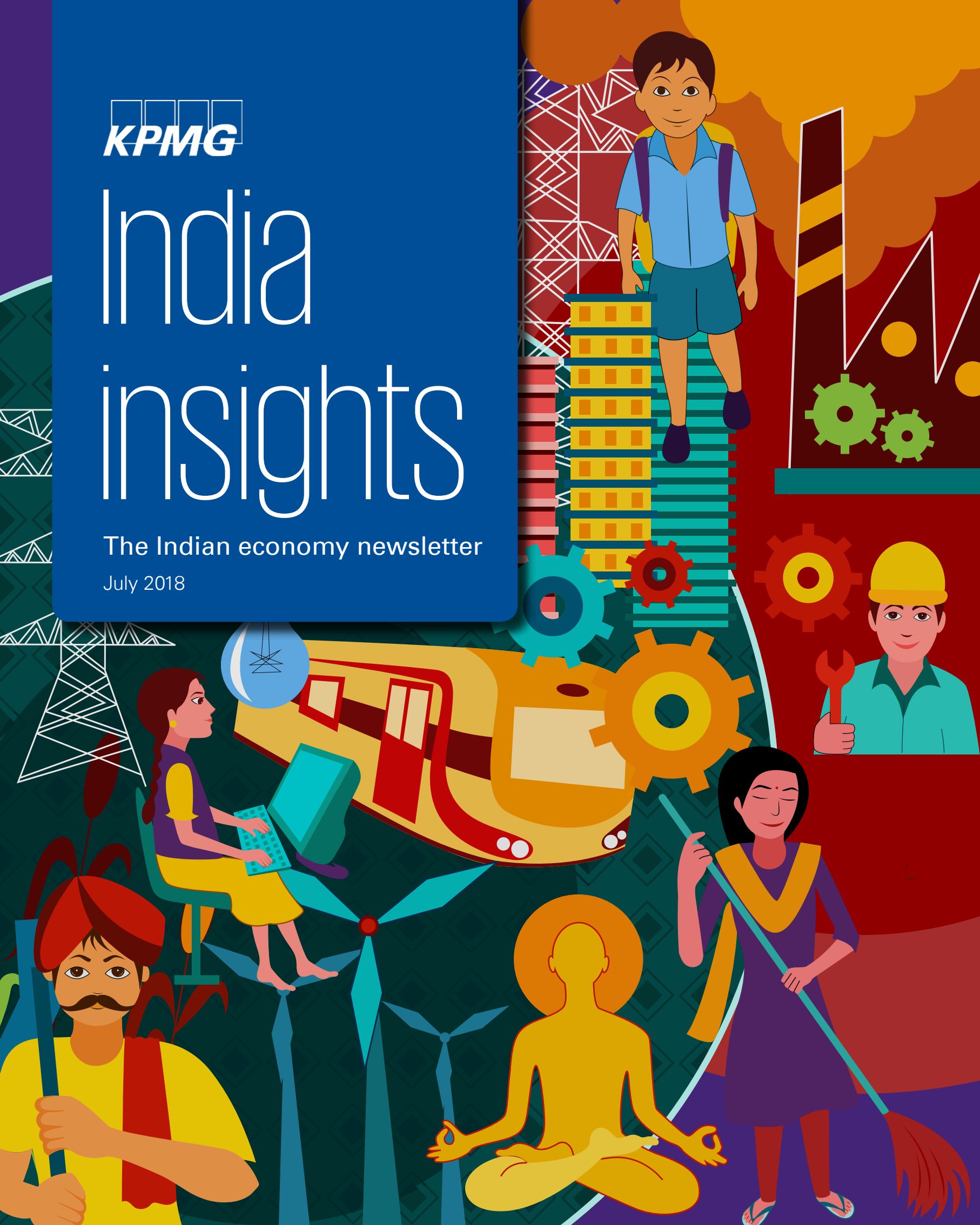




India insights

The Indian economy newsletter

July 2018



In this issue

India at a glance: Quarterly update

Q4FY17-18 (January-March 2018)

Macro economy

- **Gross Domestic Product (GDP)** expanded at 7.7 per cent in Q4FY17-18 vis-à-vis 6.1 per cent in Q4FY16-17¹
 - Gross fixed capital formation, a proxy for investment demand in the economy, expanded at a double-digit pace (14.4 per cent) after a gap of seven quarters, signaling a revival in investment activities
 - Growth was largely driven by the manufacturing and construction sectors, which led to an upward revision in the GDP growth projection for the full year to 6.7 per cent
 - With the contribution of net export growth being negative in all four quarters of FY17-18, growth has clearly been driven by domestic factors.



Government finance²

- India's **fiscal deficit** stood at 3.53 per cent of gross domestic product for the year ended March 2018, in line with the revised estimates
- India's **trade balance** worsened at - USD13.69 billion in March 2018 vis-à-vis - USD10.65 billion in March 2017.



Inflation³

- India's retail inflation or **Consumer Price Index (CPI)** stood at 4.28 per cent in the month of March 2018, lower from 4.44 per cent in February 2018 and higher from 3.89 per cent in March 2017³
- **The annual rate of inflation measured by the Wholesale Price Index (WPI)** remained unchanged at 2.47 per cent for March 2018 vis-à-vis 2.48 per cent (provisional) recorded in February 2018. This inflation is however much lower than 5.11 per cent recorded in March 2017.⁴

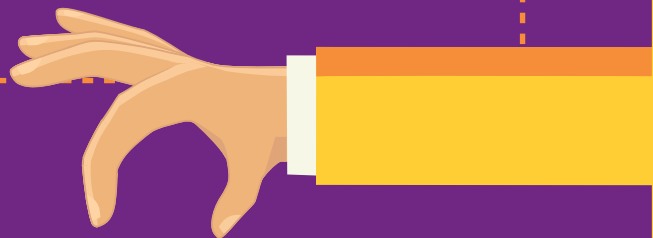
Foreign Direct Investment (FDI)⁵

- FDI equity in India increased by 3 per cent to USD44.85 billion during April-March 2018 over Apr-March 2017 (USD43.47 billion)



Forex⁶

- **Foreign exchange reserves** stood at USD424.36 billion as on 30 March 2018, aided by rise in foreign currency assets.



1. Press Note on Provisional Estimates of Annual National Income, 2017-18 and Quarterly Estimates of Gross Domestic Product for the Fourth Quarter Q4 of 2017-18; MOSPI

2. Key Economic Indicators; Office of Chief Economic Advisor, DIPP; updated as on 4 June 2018

3. Key Economic Indicators; Office of Chief Economic Advisor, DIPP; updated as on 4 June 2018

4. WPI inflation eases to 2.47 pc in March as food articles turn cheaper; The Economic Times; 16 April 2018

5. Factsheet on Foreign Direct Investment (FDI); Quarterly Factsheet ; DIPP; July 2018

6. Weekly statistical Supplement, Reserve Bank of India, 30 March 2018

Tune in

Maximising value with data-driven decisions and insights

The role played by infrastructure capital projects is truly impactful, spurring jobs that help in the overall economic growth, while also injecting life into the ecosystem created around them. Needless to say, a lot depends on their successful implementation, for both direct and indirect stakeholders. That being said, infrastructure projects continue to be infamous for their time and cost overruns, throwing corporate growth and governments' developmental strategies in disarray. However, at times, infrastructure projects do achieve implementation success, measured by their performance vis-à-vis time and cost estimates, targets, including productivity, safety records, amongst others.

Most infrastructure owners and contractors today, understand the significance of preparedness and ability to effectively respond to externalities or uncontrollable factors. More importantly, they acknowledge the importance of effective management of controllable

factors, enabled by timely and accurate decision-making. However, this is no easy task. Multiple stakeholders driven by changing agendas; situated at multiple locations and with differing maturity levels make decisions in an uncertain and continuously changing environment. This makes effective management of controllable factors very challenging.

A large majority of our infrastructure project implementation clients (owners, contractors, lenders and government agencies) associate successful project implementation with having right and timely information for decision-making. This could allow the full project delivery system, comprising the network of project owner's functional teams, contractors, vendors and consultants, to move forward in the same direction and at the same pace, allowing for efficiency and optimised performance.

A simple analogy for this 'right and timely information for decision-making'



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would be the 'drum beat' for a marching platoon, with each trooper adjusting to the pace and rhythm of the drum beat, making the entire journey efficient, predictable, and consequently successful. The 'drum beat' for infrastructure projects would be the initial project delivery strategy, the subsequent updates to the delivery strategy, adjustment of priorities and changing targets, as stakeholders respond to externalities. Timely and accurate dissemination of this information is critical because if it's in short supply, various stakeholders across the network may depend on their individual experiences, their agencies' functional or organisational experience, and/or internal feedback mechanisms to make judgmental and experience-based decisions. Many a time, such decisions can lead to sub-optimal outcomes. Each project is unique in terms of the opportunities and challenges that it presents, and prior experiences while being critical for handling uncertainty cannot adequately address all uncertainties at all times.

A metric that can serve as a lead indicator for project performance could thus be the proportion of decisions made with adequate information and a high degree of certainty. The advent of advanced project management methodologies, coupled with technology and collaboration tools, provide tangible opportunities that could enable project delivery teams with adequate information for decision-making.

Some themes around which we have created value by enabling data-driven decisions:

- **Single version of truth:** With increasing number of stakeholders, progress data and information for decision-making tends to differ across teams. Providing our clients with a clear analysis on the

project performance and current status are the most fundamental service elements of our work on infrastructure project implementation. This allows for a uniform and repeatable process for progress assessment and reporting across the entire value chain, allowing one coherent basis for decision-making.

- **Early warning indicators:** Providing clients with information around potential issues is our primary role. Some examples include data-driven alerts and insights on possible delays due to lower productivity, protracted procurement lead times, potential material stock outs, or even under-preparedness of teams to commence work on new fronts. Data analytics coupled with deep domain knowledge has allowed us to model project performance and create tangible scenarios. Such models can be used to even predict safety incidents and actually avoid them. Project implementation teams armed with such early warning information tend to resolve potential issues upfront and reduce risk levels considerably.
- **Performance improvements:** Going a step beyond responding to potential threats, leveraging project data extensively can also allow actual improvement jumps in performance levels, creating valuable savings in time and cost. We have used project data models coupled with lean and other project management methods to support our clients in better adjusting resource levels and prioritising work fronts depending on criticality and maximum impact.
- **Advanced visualisation and collaboration:** Leveraging project data models, forecasts and our insights for

enhancing project performance have allowed us to create visual aids that go beyond static reports and presentation decks. Visualising how the project will perform can enable multiple decision makers, operating even remotely, to better appreciate project performance and potential issues that can impede optimised performance. Periodic drone-based video feeds of project sites are now common place. We overlay rich project performance information and insights for performance optimisation on such drone feeds, which gives stakeholders a unique perspective, making reviews more productive and decision-oriented. Using platforms such as the KPMG Project Improvement and Visualisation Online Tool, has allowed us to integrate various data feeds from multiple project stakeholders and provide our methods and insights more coherently. Platforms such as this can even absorb input feeds from smart site and IoT devices, 3D BIM data, etc. Such integrated reporting allows project stakeholders to enjoy the benefits of almost real-time data feeds in one integrated dashboard, enabling more timely and accurate decisions, while also allows sharing of information in a collaborative manner.

As infrastructure projects become more complex, the need for accountability is likely to increase, making data-driven decisions more of an imperative. Advanced project management methodologies, technology tools and data analytics hold the key to resolving the age old problem of inadequate data for decision-making, and can drive successful implementation of infrastructure projects.



Opinion

Reimagining infrastructure: New trends, new approaches

India is emerging as one of the global hotspots for infrastructure creation, with the government launching a wave of projects across sectors. This year's economic survey has pegged India's funding requirement for infrastructure creation until the year 2040 at USD4.5 trillion.¹

Ever since the late-1800s, which heralded the start of an era of grand infrastructure projects, successive

governments have tended to focus on mega schemes, like large power projects and steel plants. However the opportunities offered by changing technology and the evolving nature of people's transactions and aspirations are leading to fundamental changes in the nature of infrastructure, as well as in the manner in which it is created. Therefore, there is a need to radically reimagine the infrastructure requirements of tomorrow.



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1. India needs \$ 4.5 trillion by 2040 to develop Infra: Eco Survey; The Economic Times; 29 January 2018

There are three cardinal trends that are transforming the way in which we imagine public infrastructure.

First, infrastructure is becoming intelligent, embedded with big data points that can make its utilisation more effective, easier, and richer.

The **second** major trend is the disaggregation of infrastructure. On account of land pressures and adverse impacts on the physical and social ecosystems, it is becoming increasingly difficult to set up mega-infrastructure projects. In sectors, where it is technically feasible, the next-generation cohort of projects may become more disaggregated like rooftop solar generation, micro-irrigation projects, or local drinking water schemes. Much thought has to go into how project risks can be dispersed spatially for obtaining the acceptance of affected communities.

The **third** key trend is the increasing permeation of 'invisible infrastructure'. It is expected that by 2022, there will be ubiquitous internet connectivity across rural India. Further, with the advent of 5G technologies in telecom, radical transformations are expected in the way in which business and social interactions are conducted, paving the way for a multitude of frugal innovations and setting up of entrepreneurial energies across the country.

Apart from these transformations in the infra-landscape, there is also a need to undertake reforms in the manner in which infrastructure is created. The guiding principle here has to be sustainability in terms of harmony with the physical environment, as well as acceptability among the local community.

The days are long gone when projects could be parachuted into greenfield locations, without attempting to ensure beforehand whether they are a good fit with the landscape and the aspirations of local communities. Some of the recent incidents in India have thrown these concerns into sharp focus.

It is clear that as we become well informed and a better networked society, it could become nearly impossible to set up infra projects whose outcomes are not aligned to the aspirations of local communities.

In this era of Volatility, Uncertainty, Complexity, and Ambiguity (VUCA), India's next generation of infrastructure projects need to be reimagined, both in terms of their nature and composition, and in the manner of their planning and execution.

(Detailed coverage: Reimagining infrastructure: New trends needs new approaches | Financial Express | 6 June 2018)



Market trends

Painting the picture of future Global Capability Centres

The best way to predict the future is to reinvent it!

The Global Capability Centre (GCC) community, earlier known as Global In-house Centres (GIC), has made an excellent contribution in shaping the services economy, and providing a competitive edge to the overall global enterprise. GCCs have evolved as powerful value creators, pushing boundaries, and are finding ways to drive innovation and creating value beyond arbitrage for their global enterprises. In particular, GCCs are implementing strategic leadership in supporting their global enterprise's digital transformation journeys, and are helping to drive adoption of enabling technologies.

According to **KPMG in India's report, 'The future of me: Reimagining Global Capability Centres'**, published in April 2018, there is a need for GCCs to

respond to the changing trends in the services economy, primarily through a transformation of the skillsets of their workforce.

When we view organisations that were early adopters of the outsourcing and global centres in India, they reaped significant cost and talent advantage. To remain relevant in mass technology, business model disruption has to be viewed with a new lens.

GCCs are currently facing challenges like changing customer preferences, disruption and changes in business models, learnability and technology proliferation. In the face of these challenges, there are certain attributes with reference to skills that individuals, enterprises and GCCs should consider building. Every GCC is trying to find 'the ideal employee'. The following skills need consideration in the existing leadership,



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recruitment professionals and the employee pool:

- **Design thinking** – This would promote empathy and appreciation for nuanced customer interactions whether internal or external
- **Learnability** – Becomes a critical success factor for the pace of change the environment dictates on the GCC
- **Mindfulness and appreciation** – For diversity and training in inclusive behaviours.

It would be sensible to attract a knowledge hungry population open to external influences and is able to 'lead the enterprise to extraordinary sustainable successes'.

Changing market trends call for a change in approach to integrating skills. The earlier mantra was to segregate tasks so that they divert to a single source for efficiency. The emerging picture warrants that everyone understands technology, the end objective and the impact of an action in a global enterprise:

- **Understanding roles, success criteria and impact of changes in an agile working environment** - In a rapidly changing business and technology landscape, the workforce needs to redefine skillsets according to evolving roles and responsibilities
- **Reviewing of data and analytical capabilities**- There is a need to harness the huge capability in the area of D&A by assessing existing capabilities and building new ones
- **Reiterating future finance and costing skills**-This would enable first level of impact assessment of technologies on the existing landscape. Since the old portfolio system needs to be retired, the new has to be taught.

Therefore, it seems obvious that reshaping the skills of the workforce is the most sensible response to change drivers in the GCC landscape.

In conclusion, if we look at how GCCs are transforming into harbingers of change, there are three key takeaways that emerge.

1- Stay relevant - It isn't just about responding to change, but also about remaining relevant. GCCs need to economically add value in the next 10 years, providing value added services that continue to lead India's services economy.

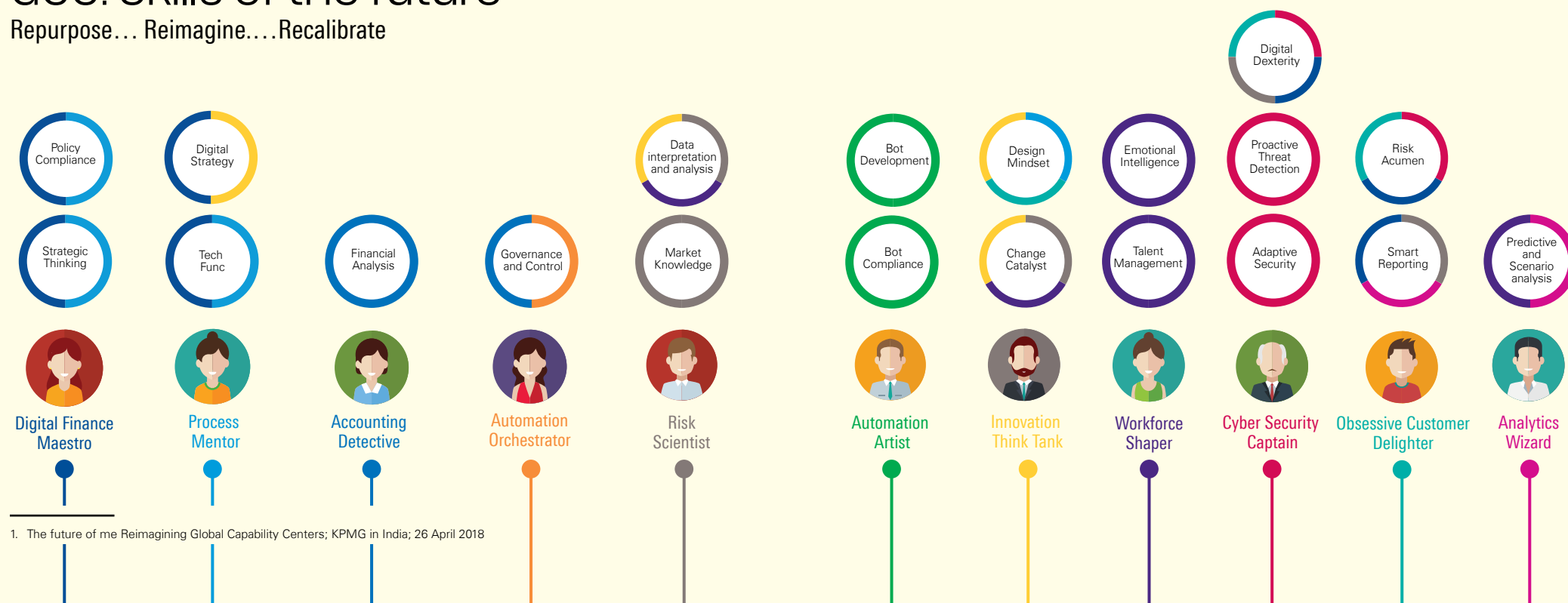
2- Use a flexible approach -India, as a country that was intellectually powerful and led the way in wealth, prosperity, science and management, discovered the model of how to provide services economically. In order 'to execute at lowest cost', GCCs need to develop solutions that work around constraints to achieve desired results, which continue to add value.

3- Go back to basics -The original identity of a GCC was to provide low cost services that delivers value. Even as GCCs undergo continuous transformation in the changing global landscape, they need to consider the basic tenet of being economical service providers.

Here is a peek into the future roles that emerge in the dynamic business landscape:

GCC: Skills of the future¹

Repurpose... Reimagine... Recalibrate



1. The future of me Reimagining Global Capability Centers; KPMG in India; 26 April 2018

Spotlight

Factors driving Electric Vehicle (EV) revolution in India – Opportunities and potential challenges

The global EV growth story

The global demand for electric vehicles continues to show promise. For the first time, global EV (four wheeler) sales crossed the one million mark by registering sales of 1.2 million with over 160 models being offered by Original Equipment Manufacturers (OEMs).¹ China currently has 48 per cent of the global EV population followed by Europe with 26 per cent.² Support from governments in the form of subsidies and tax benefits has been a key factor for the adoption of EVs.

The adoption of EVs within the commercial vehicles space is also expected to follow an upward trajectory. According to Bloomberg New Energy Finance, the global bus fleet is expected to increase three-fold by 2025 with a

47 per cent penetration of e-buses (EV and PHEV).³

With steady improvements being made in battery technology and reduction in battery costs, the upfront cost differential between an EV and traditional Internal Combustion Engine (ICE) is reducing, making the EV value proposition more attractive.

Additionally, countries are setting ambitious EV adoption targets which has encouraged traditional auto OEMs to shift their strategic focus towards EVs. Beyond OEMs, the growth in EV's are expected to create opportunities for wider ecosystem participants such as battery manufacturers, charging solution provider etc.⁴ Technology collaborations between OEMs and technology providers would be key to enable market growth.



Santosh Kamath

Partner and Head
Renewables, KPMG in India

1. Global Electric Vehicle Market Outlook, 2018; Frost and Sullivan; 27 March 2018

2. Global Electric Vehicle Market Outlook, 2018; Frost and Sullivan; 27 March 2018

3. Electric Buses in Cities Driving Towards Cleaner Air and Lower CO2; Bloomberg New Energy Finance; 29 March 2018

4. Global Electric Vehicle Market Outlook, 2018; Frost and Sullivan; 27 March 2018



The case for growing EV adoption in India

Until recently, EVs in India largely consisted of low utility and low performance vehicles. Most of the EVs (Two-wheelers (2W) and Four-wheelers (4W)) offered sub-par performance and were positioned as supplementary vehicles for very short city commutes and milk runs.

However, with the recent government push for achieving 30 per cent EV sales by 2040, there has been an increased public as well as corporate interest in this space. This coupled with global advancements in the EV space has pushed India to begin its journey towards vehicle electrification.⁵

In terms of adoption, the e2Ws and e3Ws are expected to take the lead followed by e-buses and e4W vehicle fleets. Adoption of e4Ws for personal use is expected to pick-up at a later stage once the Total Cost of Ownership (TCO) becomes more favourable. With the improvement in technology, EVs are expected to evolve from low performance supplementary vehicles to high performance primary vehicles.

Two-wheelers (2W)

2W comprises of approximately 80 per cent of total automotive sales in India, selling approximately 18 million units in FY17 of which e2W sales were only approximately 20,000 units.⁶ Interestingly, e2W sales in FY12 were approximately 90,000 units which declined over the years due to withdrawal of subsidies by the Ministry of New and Renewable Energy (MNRE).⁷ With a revival in

government's push to EVs and improvements in technology the 2W space is witnessing renewed interest from both traditional OEMs as well as start-ups. Several Indian automotive players are planning to launch e2Ws in the near future.

While e2Ws have a smaller ticket size as compared to four wheelers and Commercial Vehicles (CVs), they do have a significant acquisition cost as compared to conventional 2W (~1.5-2.5 times). Hence, e2Ws are being positioned as technology products rather than commuting vehicles in order to appeal to early adopters and technology enthusiasts.

Due to the ease of charging options as well as lesser acquisition cost, EV penetration in 2Ws is expected to grow at a faster pace than other automotive segments.

Three-wheelers (3W)

With sales of approx 0.6 million units in FY17, India is one of the largest 3W markets globally.⁸ e-rickshaws with lead acid batteries are already in operation across multiple cities in India. The number of e-rickshaws in Delhi itself is estimated to be over the 0.1 million mark.⁹

The e-rickshaw segment is currently unorganised with a lack of regulatory framework for their registration. They are largely assembled locally.

Given the significant role of e-rickshaws in augmentation of urban mobility, the government needs to launch policies to regulate their production, certification and charging.

5. Government finally wakes up: Sets a realistic goal of 30% electric vehicles by 2030 from existing 100% target; Financial Express; 8 March 2018

6. Domestic Sales Trends; Society of Indian Automobile Industries; Accessed on July 2018

7. India EV Story Emerging Opportunities; Innovation Norway

8. Domestic Sales Trends; Society of Indian Automobile Industries; Accessed on July 2018

9. The E-rickshaw story: Was the advent of electric mobility in India planned; TERI; 1 February 2018

Four-wheelers (4W)

With approximately three million cars sold in FY17, India is the fifth largest 4W market globally.¹⁰ However, the e4W stock in India is extremely low and is estimated at approximately 7,000 vehicles largely.

e4W vehicles are currently quite expensive in comparison to conventional ICE vehicles. Moreover, the charging time for batteries, pose constraints and inadequate charging infrastructure has limited their penetration with retail customers.

There is opportunity, however, to utilise e4W in taxi/cab fleets as well as in government fleets. As the battery and e-vehicle prices decline, the total cost of ownership moves in favour of EVs even in the 4W segment, the demand from retail segment is also expected to pick up.

A push from the government in the form of subsidies and tax benefits in the short run, coupled with a robust charging grid infrastructure is essential for auto manufacturers to fast-track their e4W plans.

Commercial vehicles (buses)

The route-predictability and shorter trip distance of the intra-city transportation has made e-buses an attractive proposition.

Government schemes such as FAME-I and FAME-II which provide subsidies on the vehicle cost in exchange for localisation of parts, have encouraged global firms to partner with Indian companies.

Driven by such incentives, a number of Indian states have recently placed orders for procurement of e-buses. Some states such as Uttar Pradesh, Karnataka, Maharashtra and Telengana have additionally formulated state level policies to promote EVs with specific targets for e-buses.

Key enablers:

The emergence of EVs is the next logical step in the evolution of the automobile industry. However, the transition to EVs requires significant efforts, both from the government and the industry. The following areas would require further exploration and development to further enhance EV acceptance and penetration.

Charging infrastructure - The dearth of charging infrastructure poses a great challenge to EV penetration. A combination of charging stations and battery swapping / leasing stations, depending on the vehicle density and geography could help address range anxiety, thus improving EV adoption.

Regulatory support - Financial incentives offered by the government may help incentivise EV adoption in the short term. Additionally the government could provide non-financial incentives such as free parking, exemption from tolls, favourable power tariffs, etc. to owners of EVs to drive adoption.

Battery technology - Innovations in technology to develop low-cost, fast charging batteries supporting longer ranges would be vital for EVs to go mainstream. Increasing complexity of EV battery systems might result in a shift of power from traditional OEMs to new emerging technology players in the value chain. This would also present opportunities for existing suppliers to develop capabilities in EV battery technology.

Mobility-as-a-Service (MaaS) - Rising pollution levels and deteriorating traffic conditions have led to the rise in shared mobility in the past few years. With the onset of EVs, OEMs can look at MaaS as an emerging business model for growth and cater to the young population moving to cities.



¹⁰. Government finally wakes up: Sets a realistic goal of 30% electric vehicles by 2030 from existing 100% target; Financial Express; 8

KPMG in the news



US tax reforms may impact Indian business groups| Opinion article in The Economic Times | 06 June 2018

"It is important to understand how BEAT applies, as this could possibly be the largest impact item for Indian groups. It is a parallel federal tax computation, with the effect that a taxpayer pays the higher amount of tax as computed under either the regular or the BEAT system."

- Hitesh D. Gajaria – Partner and Head of Tax, KPMG in India

Invest in the e-com ecosystem | Opinion article in The Financial Express | 25 May 2018

"Logistics is key to shaping the e-commerce horizon in India. Logistics has been the central support system for economic growth globally. Commanding a considerable share of India's GDP, expenditure on logistics in India stands at 13%. But, given the scope of growth of e-commerce, significant investments are necessary to build on the logistics sector, so as to create world class infrastructure and supply chains."

- Sreedhar Prasad – Partner and Head, E-Commerce and Internet Business, Advisory, KPMG in India



Big energy companies keen on India play, seek stable rules: KPMG | Interview with The Economic Times | 22 May 2018

"India has the benefit of being one of the few markets in the world which has rapidly growing demand projection. The country will be the beneficiary of additional investments from a number of players provided that regulatory regime supports it," said Mayor, global and US sector leader for energy and natural resources, KPMG."

- Regina Mayor - KPMG's Global Sector Head of Energy and Natural Resources



Featured publications



India soars higher

'India soars higher' analyses the progress made and the road ahead. It highlights the state of the Indian economy, and how it poses an attractive proposition for global investors. The report aims to help investors in their decision-making process while strategising their investments in India.

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Eliminating friction in smartphone path to purchase

The report focuses on understanding the consumers' path to purchase, why consumers abandon purchase journeys, and what brands can do to provide a seamless personalised experience to convert better.

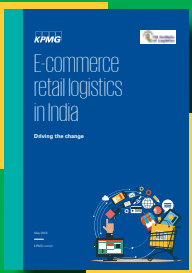
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