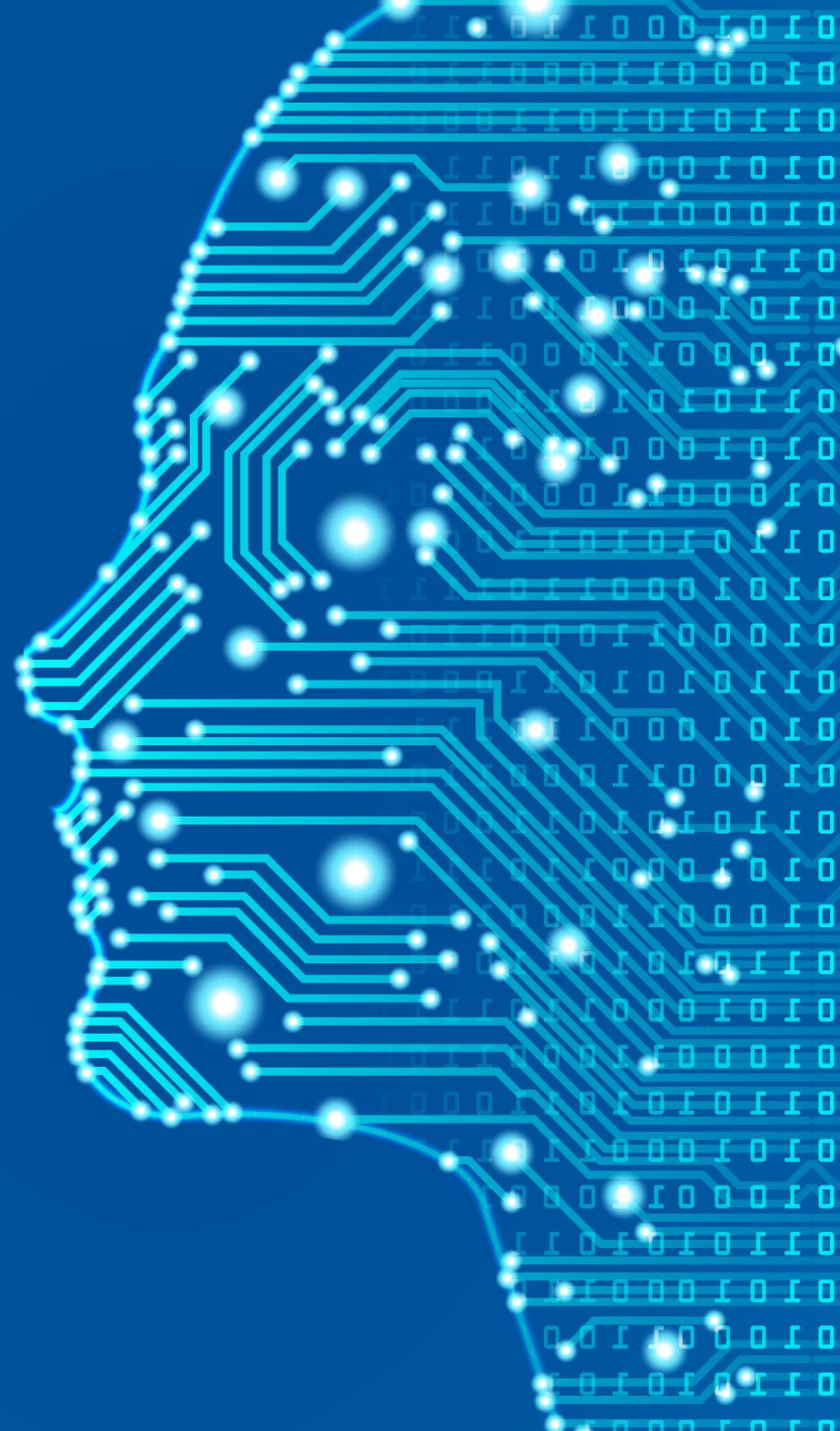




# India insights

The Indian economy newsletter

January 2020



## India at a glance

Quarterly update  
Q2 FY 19-20 (July–  
September 2019)



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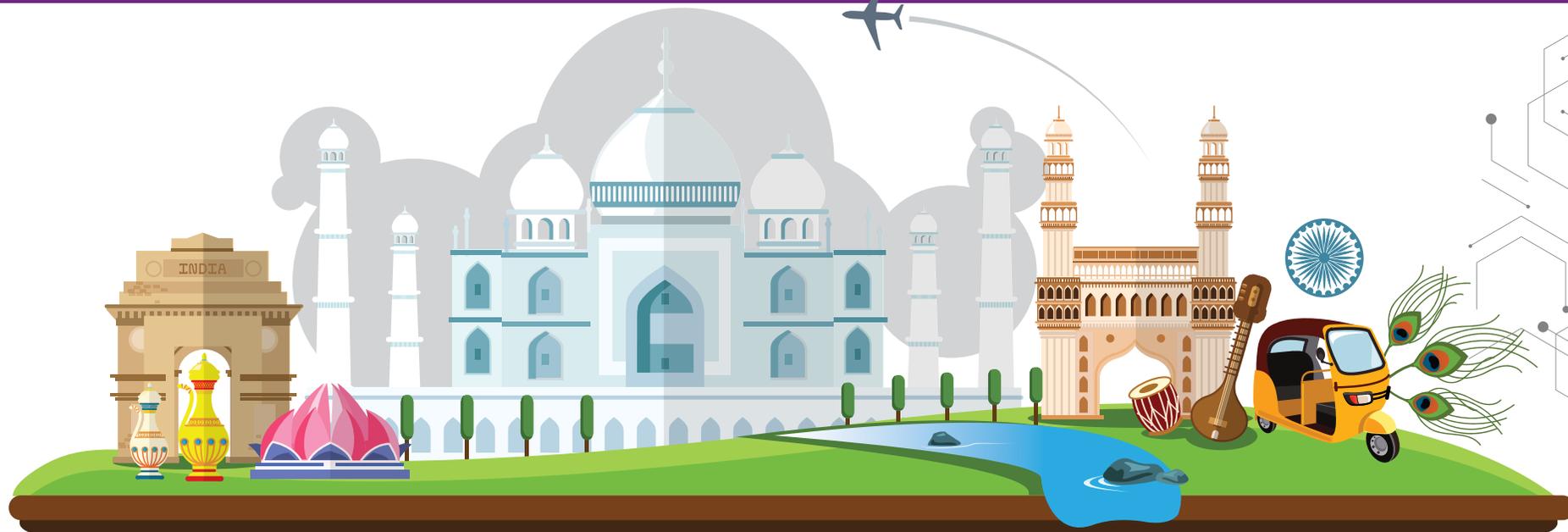
## Tune in

Digital  
transformation  
trends in India's  
travel and tourism  
Industry



## Market trends

Digital disruption  
– is India Inc.  
technology ready?



## Macro economy

Gross Domestic Product (GDP) grew at 4.5 per cent in Q2 FY 19-20 vis-à-vis 7 per cent in Q2 FY 18-19<sup>1</sup>

- GDP growth slowest in the last six years
- Low growth primarily due to lower output in mining and construction
- Manufacturing growth also slumped compared to Q1 FY19-20.

## Government finances

India's fiscal deficit touched 92.6 per cent of the budget estimate at the end of September 2019<sup>2</sup>

- Trade deficit in Q2 FY 19-20 was lower at USD38.1 billion from USD50 billion in the corresponding quarter last fiscal.<sup>3</sup>

## Inflation

India's retail inflation or Consumer Price Index (CPI) stood at 3.99 per cent in September 2019, compared with 3.28 per cent in August 2019<sup>4</sup>

- Wholesale inflation declined to 0.33 per cent in September 2019 (lowest in more than three years) compared to 1.17 per cent in August 2019.<sup>5</sup>

## Forex

India's foreign exchange reserves stood at USD433.59 billion as on 27 September 2019.<sup>6</sup>

## Foreign Direct Investment (FDI)

FDI jumped 15 per cent in April-September 2019 vis-à-vis April-September of 2018. In actual terms FDI increased from USD22.66 billion in April-September 2018 to USD26.09 billion in April-September 2019.<sup>7</sup>

1. Press Note on Estimates of Gross Domestic Product for the Second Quarter (July–September) 2019-20; MOSPI; 29 November 2019

2. India's Fiscal Deficit In September At 92.6% of 2019-20 Target; Bloomberg Quint; 31 October 2019

3. Foreign Trade (Merchandise) (US\$ billion); Key Economic Indicators; MoCI; updated as on 10 October 2019

4. Consumer Price Index Numbers on Base 2012=100 for rural, urban and combined for the month of September 2019; MOSPI; 14 October 2019

5. WPI inflation dips to 39-month low of 0.3 per cent in September 2019; Business Standard; 15 July 2019

6. Foreign Exchange Reserves; Weekly Statistical Supplement; Reserve Bank of India; as on 27 September 2019

7. Factsheet on Foreign Direct Investment (FDI); Quarterly Update; DIPP; updated up to September, 2019



# Tune in

Digital transformation trends in India's travel and tourism industry

**India's travel and tourism industry has witnessed steady growth over the years. The country's vibrancy and entrepreneurial spirit makes it a prime destination for both business and leisure travel. Over the years, this industry has seen many changes and is continuously evolving. All facets of travel and hospitality entail digital - be it planning, booking, transportation and accommodation, sightseeing or travel management and risk mitigation. Some notable trends are:**

## 1. Process innovation:

In today's digital era, we have the power to explore the world from the palm of our hands. This has ignited the desire to travel and discover new destinations. With almost every Indian traveler equipped with a smartphone, mobile integration has become a key step to digital transformation. Through app-based services or mobile-friendly websites, there is increased accessibility and ease of use. Though some have leaped far beyond this to having robot concierges in hotels or AI chatbots for customer queries.

Thus, with various technologies at its disposal, the travel industry is redefining its service delivery mechanisms and using technology increases consumer satisfaction and reduces costs. At the same time, these technologies also lead to streamlining of processes. Some examples include machine learning to predict travel destinations and customer preferences or natural language processing to identify customer grievances through reviews.

Additionally, some advancements are re-inventing travel as we know it by drastically decreasing travel time. However, even changes such as availability of e-visas can have a cascading effect on a country's tourism.

From booking travel to hotel management, 'digital' has the potential to seep into all possible activities, through existing and emerging technologies such as blockchain, IoT, big data analytics etc.

## 2. Emergence of new business models:

The digital boom has given rise to a plethora of new business models and startups. Many organisations have begun leveraging digital platforms to provide niche services, contributing to the growth of the travel industry. A simple example of this is the success of sharing economy services providing companies. Predominantly mobile-based, these provide cost-effective services to the price sensitive Indian consumer.

Online travel agents allow users to be in control of their travel booking process, from the comfort of their homes. Based on their initial success, these platforms have also expanded their customer segmentation for SMEs and entrepreneurs, villas, houseboats etc. With an increasing number of travel startups, the travel accessories market has also begun to integrate technologies into its products such as smart luggage trackers.

## 3. Evolving customer preferences:

The 'customer is king' ideology plays a strong role in the travel and tourism industry. With increasing globalisation and safety tools, such as 24/7 tracking, safety alerts, etc. in place, unusual destinations can seem appealing. Even Indian businesses are exploring new growth avenues through different geographies.

Indian consumers are cost conscious and hence, there is a rising importance for user generated content for researching travel and ensuring 'value

for money' deals. This has given rise to online review sites and reinforced the role of social media platforms in travel.

To stand out amongst their competitors, travel service providers are using technologies to provide value added services to customers such as Wi-Fi on planes and IoT for smart hotel rooms to ensure customer satisfaction.

Thus, it is evident that technological advancements have invaded almost every aspect of the travel industry, from process innovations to evolving customer preferences. As the digital era continues to be all pervasive, the Indian travel industry has made great strides in keeping up with the times and is expected to continue with this metamorphosis.



Jaideep Ghosh

Partner and Head,  
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# Spotlight

India's digital demography: a path to 2030



**There is no doubt that India is enamoured with the internet. There was a group of people in India – around 200' million of them – who consumed content on the internet even prior to the massive fall in data prices in 2016. Since then, broadband internet subscribers have grown nearly 3x to 594 million as of June 2019.<sup>2</sup>**

The theme of KPMG in India's media and entertainment report 2019 titled 'India's digital future: Mass of niches', was an examination of how the digital user base will continue to grow and cover diverse socio-economic and demographic segments, towards a projected billion users in the country by 2030. We present a summary of our insights here.

## Digital consumer archetypes: their profile and transitions

### Why is the profile of the digital billion relevant?

As KPMG in India's media and entertainment report 2018 titled 'Media ecosystems: The walls fall down, had outlined, digital disruption has caused many businesses to pivot into a direct to consumer model. Erstwhile business to business to consumer segments (B2B2C) such as studios and broadcasting are directly engaging with their consumers in their digital avatar. More and more, media and entertainment companies will be relying on tools such as market research and consumer segmentation to better understand their users and improve targeting savvy.

With a billion Indians connected, we believe that the digital consumer will primarily be a (1) non-English speaking (2) mobile phone user (3) from a developed rural area/non-metro urban setting (4) who is increasingly willing to pay for content online. There emerge four broad categories of digital consumers in our research.

## A. The digital sophisticates

### Profile of the digital sophisticates

- Erstwhile 'early adopter' has evolved into 'digital sophisticates' at the top income bracket
- Likely to have multiple paid audio and video digital subscriptions, embrace partial cord shaving and complete most financial transactions online
- Mimics the preferences and behaviour of a global digital user but is and will continue to be in the minority in India
- High barriers to entry here and growth will only come through an evolution and progression of users rather than direct inclusion of the unconnected.



## B. The digital enthusiasts

### Profile of the digital enthusiast

Three main categories of users will emerge within this group

- Category 1
  - Most of the early adopters are now 'digital enthusiasts'
  - Early adopters show higher propensity to spend, which would suggest they are older
  - Older users, however, potentially hesitant to spend on multiple OTT and music streaming subscriptions and retain traditional TV Cable and Satellite connections for genres suited to pay TV (sports, news, etc.)
- Category 2
  - Progression of higher income bands of the 'digital mainstream'
- Category 3
  - India will have 370 million generation-Z consumers by 2030<sup>3</sup> who enter their prime earning years
  - Adoption of the internet could be quicker and more comprehensive than other archetypes with the only limiting factor being ability to spend.



1. Broadband subscribers, TRAI performance indicators for QE September 2016

2. Broadband subscribers, TRAI performance indicators for QE June 2019

3. Future of Consumption in Fast-growth Consumer Markets: India, World Economic Forum and Bain & Company, January 2019

### C. The digital mainstream

#### Profile of the digital mainstream

- Majority of this segment came online post 2016
- Almost entirely mobile-led consumption
- Primary entry point for digital users in India across time periods
- Large non-urban, non-English speaking population driving consumption of local language content (Hindi and regional).



### D. Fringe users

#### Profile of the digital fringe

- Sporadic digital access on account of either poor connectivity in remote areas or irregular income
- Lack of awareness compounded by a lack of motivation as opportunities to leverage the internet are also limited.



We conclude with a summary of the key trends at play through to 2030 and their implications for digital businesses:

#### Shifting consumer trends and behaviour

- The absolute size of the market – even in the smallest niche – is large
- And the largest digital segment – The digital enthusiasts – will move from consuming to transacting
- There will be an increasingly marginal difference in the rural/urban, male/female and even young/old profile
- But first, leisure, which will remain the primary motivator for people to move online.

#### Implications for digital businesses

- Technology will underpin business models
- The race for reach through strong distribution ecosystems
- Monetisation through micro-segmentation
- Competition versus collaboration becomes the strategy of choice.

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KPMG in India



# Market trends

Digital disruption – is India Inc. technology ready?

**The unique convergence of superior business acumen and transformational technology is enabling the telecom and technology landscape to change dramatically every three to five years. India, despite being a late entrant in this space in 1995, has not only been able to catch up but has become the country with the second largest subscriber base and primary market for large technology companies.**

The wireless data subscriber numbers indicate that India is at a vantage point, where it is building its technology superhighway, its ecosystem of telecom and technology that will together underpin the massive digital growth being predicted and planned for and will take India towards becoming a USD5 trillion digital economy by 2024.<sup>1</sup> India has the right ecosystem for start-ups and is a nation that has the potential to develop unique business and monetisation models.

Artificial intelligence (AI), big data and analytics, cloud, IoT, blockchain and cybersecurity are bringing about a change in customer expectations and behaviour. With India being on the cusp of the 5G roll-out, it is critical to assess the current state of readiness of businesses in India Inc. to effect this change.

A survey was, therefore, conducted by KPMG in India across 150 companies to understand the technology readiness and priorities for business leaders. While business leaders in India appreciate the need and importance for digital maturity, 31 per cent of companies are yet to develop a roadmap for digital strategy.<sup>2</sup> Business leaders believe that technologies that drive data analytics, AI, IoT and blockchain have the largest potential and have not been optimally utilised.

The most immersive, intelligent and inventive of all technologies, IoT will soon be ubiquitous. From

smart homes and spaces to autonomous vehicles, to predictive and personalised medicine, IoT, underpinned by 5G, will fundamentally change how we live, work and play. From wearables to smart cars, smart homes, smart stores, smart offices or factories, 'digital' is invading the physical world.

Customers need ubiquitous and seamless access to data and computer power, reducing friction and wastage while enhancing quality. Nearly two-thirds of potential consumers drop out of the purchase journey of telco products and services due to friction. While the current investment and focus are on creating an enriched omni-channel experience for customers using AI and machine learning, the survey respondents reckon it is face-to-face video communication and the use of bots and blockchain that is going to be a game changer in enhancing the customer experience over the next five years. The need for use cases that are affordable, agile, scalable and customer-relevant already pervade this space.

With the implementation of the Tele-com Commercial Communication Customer Preference Regulation, 2018, India has seen one of the largest implementations of blockchain beyond cryptocurrency. The next three years will see a shift in receiving, storing and working with customer data. Businesses will need to be more responsible and protect customer data privacy.

Augmented Reality (AR), Virtual Reality (VR) and AI will all come together to form Extended Reality (XR). Although these technologies have been around for a few years, they have been largely confined to the world of entertainment. Going forward, as businesses delve into the world of possibilities offered by immersive technologies and based on how well customers respond to them, XR tools will become increasingly popular for training, sales and customer service as well as simulations of various types.

Sectoral innovation through connected cars, digital logistics, smart spaces and m-Health is already changing the way companies do business and engage with customers. There is a definite need for technology applications that are affordable, agile and scalable.

The pace of technology proliferation in the country is directly linked to policy reforms. Policy changes relating to the ease of doing business, right-of-way clearance, public-private partnership (PPP) models for infrastructure development, creation of a national portal to monitor and track the development and adoption of emerging technologies, expediting the roll-out of projects and incentives for start-ups amongst others, will accelerate the adoption of digital technologies in the country.

1. Achievement of Goal of USD5 Trillion Economy; Press Information Bureau; Government of India; Ministry of Finance; 23 July 2019  
2. Imagine a new connected world – Intelligent. Immersive. Inventive; KPMG in India; October 2019

With smartphones becoming more affordable and data penetration on the rise, the possibilities are endless. It is estimated that India's smartphone user base will exceed 800 million by 2022, driven by demand from the younger population.<sup>3</sup>

With the government and the private sector working together, India is naturally poised to become a technology superpower. With the highest data usage per user in the world, it will be interesting to see what the future has in store once 5G comes in. One thing is for certain, it will be intelligent, immersive and inventive. It will be a new hyper-connected India that will see telecom companies transform and truly become digital service providers through convergence, quad-play and technology platforms.

*This article also appeared in Tele.Net Magazine's October 2019 IMC special issue*

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3. Cisco's Visual Networking Index (VNI), CISCO

# Opinion

Leveraging technology for social inclusion



**Technology and digital developments in the recent years have created new possibilities and opportunities for users. The dependence on social networks for information and communication, for both professional and personal purposes, has changed the way we manage ourselves.**

An inclusive growth not only fosters a high-employment economy, it also delivers social cohesion. Countries are now talking about moving towards 'smart growth', which refers to an approach to develop an economy. India, being an emerging economy, has more to gain from this. As a country, we should look at leveraging technology consistently, to enable faster economic development. Simultaneously, this will also speed up knowledge and innovation in the country, thereby, ensuring sustainable growth and promoting employment and resource efficiency.

Technology can be a catalyst for social inclusion for people across India. Access to digital platforms and technology has made it easier for people to learn, adopt and upskill themselves with ease, thus helping them overcome some of the intellectual discrimination that has persisted in society for a long time. Availability and access to content, new skills, open universities and experience sharing has made education approachable and affordable. People in the rural areas or the financially challenged cadres of the society, who could not afford premium education earlier, are today able to avail of education and are not completely deprived thanks to the digital era. There are institutions, which have emerged in the past decade, who have dedicated their efforts and vision towards increasing the employability of the socially excluded sectors of our society, like the physically or mentally challenged, low economic and financial stature individuals, etc. Leveraging technology to its fullest potential, is a positive step and is the way forward to enable the successful integration of various diversities getting acceptance and social inclusion.

## Bridging the gap

Digital social networks/platforms are also helping people become more socially active and engaged.

In the corporate scenario, inclusion requires skills and the ability to perform a task or a job and digital technology is helping bridge the gap and gain those skills. Organisations are readily adopting innovative and digitally-driven learning and development interventions. Higher engagements are led through digital social networks and media. This, in turn, is leading to increased communication and reduction in formal boundaries to some extent. While there are two school of thoughts on its pros and cons, we must appreciate that employee engagement and work efficiency has increased by leaps and bounds.

The shift in the corporate environment and new ways of working are also making way for the future workforce. The future lies in the gig economy, that is, giving freedom to employees to work from where they want, when they wish to work and how they wish to work, thus breaking the barriers of age, creed, gender and disabilities. What matters is the end deliverable at a more economical rate. In my daily interactions, I hear more about organisations moving to new ways of working and being more aware of the future of the workforce. Organisations are investing more into technology and rediverting their focus on intellectual contribution from their employees. By adding the flexibility of workplace through leveraging technology the likes of virtual team, and work from home through online connectivity, organisations are saving on their real-estate fixed expenses as well. New open workplaces enabled with digital technology today

are providing the freedom that employees are seeking while bringing in a more efficient way of working. This is allowing organisations to retain a much healthier diversity and inclusion ratios, as physical presence and appearance is not hampering business outcomes, where everyone is treated alike and measured on their deliverables and productivity, rather than unconscious human biases.

Lastly, the impact of social media, fake news and the rise of populism can generate existential threats to the very fabric of our social equality and inclusivity. While technology can provide the solutions and answers that we seek, it can also become the key source of new problems. Hence, it is equally important for us to understand how and where technology should be used to its fullest potential, so we can support and ensure higher social inclusion, participation and empowerment to bridge the existing gaps.

*This article appeared in Livemint.com on 22 November 2019*



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# KPMG in the news

**Companies need to rework fundraising plans as new financial benchmarks come into play** | *Opinion Article in The Economic Times | 28 November 2019*

“Corporates must strategise how to adapt to the changing benchmarks. They will have to rethink how funds are raised in foreign currencies and consequently distributed across various assets. Different arms of companies must come together to collectively address change management and plan the way forward.”

**- Rajosik Banerjee, Partner and Head, Financial Risk Management, KPMG in India**

**The building pillars of high-performance organisations** | *Interview with People Matters | 27 November 2019*

“In order to create a thriving organisation, we must create and sustain an environment which encourages people to give their best each day, so as to ensure commitment to the organisation’s goals and values, and motivate them to contribute to the organisational success, with an enhanced sense of their own well-being. The first pillar which is important to build a high performing organisation is to create and bring about a sync between the organisational goal and individual purpose. To this effect, our engagement model, at KPMG in India, focuses on three dimensions: Connect – which is all about our communication efforts; Inspire - our recognition and motivation efforts, and Engage - our non-work related efforts to bring colleagues together”

**- Unmesh Pawar, Partner and Head, People, Performance and Culture, KPMG in India**

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**Mission Jal Shakti: Why ensuring water security should be in prime focus?** | *Opinion Article in The Financial Express | 25 November 2019*

“Water is life, as they say, and sustainable water management would have to be core to any strategy that seeks to protect the future of the nation and the flourishing of all Indians”

**- Elias George, Partner and National Head – Infrastructure, Government and Healthcare, KPMG in India**



# Featured publications



## Ayushman Bharat - A big leap towards Universal Health Coverage in India

The report provides a detailed overview of Ayushman Bharat and its two pillars, namely

Health and Wellness Centres (HWCs) and Pradhan Mantri Jan Arogya Yojana (PMJAY). It elaborates out how Ayushman Bharat is a big step towards universal health coverage and ways to leverage partnerships between the government and private sector as both are important stakeholders contributing towards effective implementation of the initiative. The report also outlines the approach for effective public private partnership and emphasises that a synergetic relationship between the government and private sector will assist in nurturing the vision of 'Health for All'.

[Click here for the report](#)



## Fintech and start-ups fueling India's USD5 trillion economy

The transaction value for the Indian fintech sector is estimated to be approximately USD33 billion in 2016 and is

forecasted to reach USD73 billion in 2020 growing at a five-year CAGR of 22 per cent. The stakeholders involved in the sector are finding rewarding ways to ensure inclusive growth through innovative services and products in the sector. For the Indian economy to reach the USD5 trillion mark, it would need to rise at a rapid pace of 12 per cent CAGR, up from less than 6 per cent currently. The report which consists of two parts also shows how some of startups in India are driving the economy by solving unique problems.

[Click here for the report](#)



## The electric future and its implications for India

Technology evolves in ways that are unpredictable, hence making it impossible to foresee beyond the horizon. Development cycles are shortening

rapidly. However, the near to medium term future does point to accelerated electrification. Indications are that the overall energy sector is headed towards 'The electric future'. This thought paper brings out the various facets of that future and how those facets are intricately linked to each other and to the global priorities around decarbonisation, efficiency in resource use and evolving a virtuous circular economy.

[Click here for the report](#)



## Managing the automotive downturn effectively

The Indian automotive industry is in the midst of a deep slowdown. The passenger vehicles (PV) sector is most affected after witnessing consistent

growth over the last 8–10 years. Through this point of view, the automotive sector practitioners at KPMG in India recommend the strategies to best utilise this time to control, consolidate and collaborate to drive cost effectiveness and operational efficiencies. Our practitioners suggest using this period to reskill and upskill talent in order to be ready to sweep the market when the time turns.

[Click here for the report](#)





# KPMG *josh*

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**IN OUR ABILITY TO TRIUMPH OVER ANYTHING  
IN OUR SPIRIT OF UNDYING ENTHUSIASM  
OUR DRIVE TO ACHIEVE THE EXTRAORDINARY  
UNMOVED BY FEAR OR CONSTRAINT  
WE'RE DRIVEN BY JOSH AND IT SHOWS**

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