India in 2014
Creating Value with Speed and Quality: The New Imperative
An annual review of key macroeconomic and sectoral trends

Produced by the Accenture Institute for High Performance
Introduction

The year 2014 will be a watershed for India in political and economic terms. The nation will conduct its 16th general elections to form the new central government. It will also implement several radical economic policies, such as deregulation of diesel prices and expansion of direct cash transfer of subsidies.

In last year's edition of this report, India in 2013, Accenture highlighted the need for economic growth and inflation management. However, both areas are still pain points for India. In September 2013, consumer inflation reached 9.8 percent, while the economy grew by just 4.8 percent over the previous year. Early in 2014, amid these unfavorable trends, the nation faces a higher fiscal deficit, sluggish industrial growth and a larger current account deficit.

Why is the Indian economy faltering on so many fronts simultaneously? The principle reason is that in the last few years, India has taken growth for granted and thus has invested less effort into raising the quality of growth. The fiscal deficit challenge serves as an excellent case in point.

No doubt fiscal support (in such forms as excise duty cuts and tax concessions) provided much-needed stimulus to the Indian economy after the global economic crisis. Consequently, as economies around the world struggled to recharge growth during 2008-2011, India posted comparatively better growth numbers. Unfortunately, the nation did not simultaneously institutionalize mechanisms to enhance expenditure efficiency and manage subsidies. As a result, the national fiscal deficit ballooned during 2011-2012 and 2012-2013.

The rate by which India has responded to impending crises constitutes another problem. Take inflation management. For more than a year now, inflation continues to remain untamed. Meanwhile, leakages in the food and petroleum sectors—the two key drivers of inflation—persist. And critical road and rail infrastructure projects are progressing only slowly, preventing Indian businesses from exploiting the shortest possible routes to efficiently transport food, raw materials and petroleum products.

In addition, despite being home to one of the world's largest pools of digital talent, India invests only 0.6 percent of its planned budget on using digital technologies to enhance the speed and quality of public transactions and services delivery.

As a result of poor growth, inflation and fiscal management, the nation finds itself burdened with high interest rates, high operating costs and low consumer and business confidence. The only silver lining to this cloud remains the consumption growth registered by India's rural economy. Backed by real income growth from higher inflation-indexed wages under governmental employment schemes, consumption in rural India now accounts for significantly higher proportions of the industrial goods and services sold by the nation's businesses.

Clearly, the Indian economy is edging toward one of its weakest growth moments in a decade. The nation's economic growth engine runs the real risk of losing momentum. Avoiding this scenario will require swift, effective action. But the widely held view amongst experts is that recovery will have to wait for the new government to assume power after the elections in May 2014.

Hence the wheel of revival may not start turning until the second half of 2014. Once it does begin turning, it will have to move quickly and in the right direction to inject the necessary levels of efficiency and quality into India's public and private spending as well as into the country's inflation management efforts.

Digital technologies can help the government as well as industry to achieve these goals. For instance, speedier implementation of government programs aimed at creating scalable digital platforms (such as the national broadband network) will help generate greater returns on investments in social programs through robust participation by citizens. At the same time, it will create a network of cheaper digital highways for industry to reach remote regions and consumers and unearth fresh sources of growth. Like the government, industry will have to "think outside the box" and take fresh approaches to surmounting its most pressing challenges.

The manufacturing and services sectors alike can benefit by using digital technology to more productively engage with partners in their business ecosystems to create wealth in an inflationary environment.

In this report, we discuss the trends shaping India's macroeconomic and business environments. As always, we offer these ideas as starting points for lively dialogue about new business directions. We invite your comments—and we look forward to the ensuing discussions.

Please feel free to contact us at: raghav.narsalay@accenture.com and mamta.kapur@accenture.com
This could be the year that

- India’s new central government is formed after the elections for the 16th Lok Sabha
- Subsidies are rolled out to support manufacturing of electric vehicles in India and to build a domestic industry of low-carbon transport
- Diesel prices are fully deregulated
- India overtakes the United States to become the second-largest Internet base in the world after China
- The Indian space program takes a major leap forward with the Mars orbiter

## Calendar of events

### January 2014
- ISRO launches Geosynchronous Satellite Launch Vehicle (GSLV) D5

### March 2014
- India could finalize US$ 15 billion deal to buy 126 Rafael fighter jets from France’s Dassault Aviation
- University of Chicago to open an academic centre in Delhi

### April 2014
- Government expected to roll out subsidies for electric vehicles

### May 2014
- India to hold general elections
- Diesel prices could be fully deregulated
- Sikkim to hold assembly elections

### June 2014
- India could become second largest Internet base in the world after China
- Singapore Airlines and India’s Tata Group may start their full-service airline in India
- The government will launch its first wind energy mission
- Andhra Pradesh to hold assembly elections

### July 2014
- Compulsory requirement of affixing barcodes on primary level pharmaceutical packaging to take effect
- Odisha to hold assembly elections

### August 2014
- Videocon Telecom expected to launch 4G services
- India could deliver its first export vessel, an offshore patrol vessel (OPV), to the Mauritian Navy

### September 2014
- India’s Mars orbiter slated to enter Martian orbit
- First Indian Football League tournament to begin

### October 2014
- Haryana to hold assembly elections

### November 2014
- All six units of its 1200MW Teesta-III hydropower project to be commissioned
- Arunachal Pradesh to hold assembly elections

### December 2014
- Karnataka to digitalize cable networks with mandatory set-top boxes
- Work on Mumbai coastal road project likely to begin
- Jharkhand to hold assembly elections
- Maharashtra to hold assembly elections

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2014 2015

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Macro trends for 2014

Economic growth

- **Nominal GDP (US$ billion)**
- **Real GDP growth percentage (year-over-year)**

Source: International Monetary Fund, October 2013

Foreign direct investment (FDI) flows

- **FDI outflows**
- **FDI inflows**

Source: Economist Intelligence Unit, December 2013

Industrial production

(% change year-on-year)

Source: Economist Intelligence Unit, December 2013

Current account

- **Current account balance (US$ billion)**
- **Current account balance as percentage of GDP**

Source: Economist Intelligence Unit, December 2013
Key themes for the year ahead

As the Indian growth engine struggles to gain momentum in 2014, the number of heavy “wagons” it must pull has increased. Along with high inflation, the fiscal deficit and the trade deficit constitute two such wagons. The drag will prove enormous, so the engine’s drivers will need to exploit levers such as growing consumption in rural India to keep the “train” on track.

The growth engine needs a firm push

India’s growth engine has slowed considerably. From a solid 6.7 percent increase in gross domestic product (GDP) during 2008-2009, GDP growth is now expected to close at about 5 percent at the end of 2013-2014. (See Figure 1.)

As expected, this pessimistic growth outlook has eroded consumers’ confidence. In fact, the number of consumers who believe that the state of India’s economy is worsening is growing every quarter. (See Figure 2.) If such gloom persists over a long period, it could further hurt sales of consumer goods, vehicles and services such as tourism. Automotive sales have already taken a hit. Between April and November 2013, passenger car sales plummeted by 3.7 percent.

Robust agricultural growth stemming from a good monsoon season could help reverse this trend. According to the India Meteorological Department, monsoon rainfall in 2013 was 5 percent above normal. Therefore, the agriculture sector will likely grow at about 4.8 percent in 2013-2014, as compared to 1.9 percent in 2012-2013. The manufacturing and services sectors—currently experiencing one of the harshest slowdowns in immediate history—will surely welcome this as agricultural growth will increase rural incomes. To put the issue in perspective, the manufacturing sector grew by just 1 percent from September 2012 to September 2013. From September 2009 to September 2010, the sector saw 8.2 percent growth. Services industries that have traditionally buoyed the GDP growth rate have also come under stress. For instance, the average growth in telecommunications, financial and construction services was slower between September 2012 and September 2013 than in the same period during 2009-2010.

As India moves into the first quarter of 2014, the present government will have limited ability to send the right policy signals. This is because it will be in a position to present only the interim budget before the elections, and the election code of conduct will restrict it from announcing new policies beginning in May 2014. The onus of giving the growth engine a firm push will therefore fall on the new government that comes into power. Irrespective of its constitution (a single-or multi-party government), the new government will have to think and act simultaneously to resuscitate the nation’s growth engine. In particular, it will need to put in place a workable plan to tackle the burgeoning fiscal deficit, tame inflation, maintain a trade deficit level that can be financed by capital inflows and—most important—revive industry’s confidence.

In this section, we explore how inflation, the fiscal deficit, the trade deficit and rural consumption will continue to play an important role in shaping macroeconomic growth in India.
The Indian economy remains under extreme fiscal pressure. The economy logged an average fiscal deficit of 5.6 percent of GDP in the last five years (FY2009-FY2013), significantly higher than the 3.6 percent during FY2004-FY2009. And the number promises to hover around 5 percent at the end of FY2013-2014.

Fiscal measures aimed at shoring up a sluggish economy following the global financial crisis have been welcome. However, they have not led to the creation of future assets; nor have they enhanced the nation’s productivity. Instead, they have only encouraged subsidized consumption. Between FY2009 and FY2013, while total government expenditure increased by an average of 15.1 percent each year, the capital expenditures incurred to generate future growth increased by an average of only 9.5 percent. In contrast, spending on subsidies during the same period grew at an average of 31.7 percent each year, crossing Rs 2.5 trillion (US$40 billion) in FY2013.6 (See Figure 3.)

Estimates by the Reserve Bank of India (RBI) suggest that the fiscal deficit for FY2013-2014 will reach a figure of 4.77 percent of GDP.7 But these estimates may be revised upward, owing to unplanned expenditures by the government before the 2014 general election.

For government

Move quickly toward digitized strategic sourcing: A leading-edge approach to strategic sourcing and vendor relations can help India’s central and state governments capture and apply fact-based information about vendor selection and performance. Such an approach will help create a shared environment for agencies and their suppliers to communicate, coordinate and conduct commerce. By transferring the procurement process from traditional channels—such as paper, mail and telephone—to secure, easy-to-access web-based applications, governments can inject efficiency into purchasing operations at scale and save valuable fiscal resources while delivering consistent value.

Adopt a digital shared services model: A shared services operating model can help government bodies establish a defined governance structure and processes to manage various entities. Ultimately, shared services can help increase public-sector value—the return that governments realize on their investments—by lowering administrative costs and shifting the resulting savings to welfare initiatives that need more resources. Government agencies can use shared services solutions for personnel administration, training, labor relations, recruitment and performance management as well as for planning, administration and expense and cash management.

For industry

Focus on cash and credit management: Liquidity conditions could remain tight, owing to higher government borrowing aimed at financing the expanding revenue deficit, and owing to stubborn interest rates resulting from higher inflation. In light of these challenges, businesses will need to focus on managing their existing cash and credit pools. Investing cash in activities with the best chance of creating immediate value will be vital. Enterprises cannot rely on going to markets repeatedly to raise operating capital. Instead, they will need to craft and execute savvy credit management strategies.
Inflation must be confronted

In the last two years, inflation has become a major barrier to the nation’s ability to enjoy the fruits of brisk economic growth. Left unaddressed, inflation could become a permanent feature of India’s growth story.

A main driver of inflation during the last few years has been high food prices. Food inflation reached a dizzying 16.6 percent in September 2013. Moreover, it has exceeded overall inflation since June 2012. (See Figure 4.) Consistently high food inflation is eating into the ability of low-income households to build up enough disposable income to buy high-end consumer products.

Food inflation is being driven by forces that show little sign of easing up. Employment under the auspices of the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) is enabling millions of rural workers to earn wages higher than the prevailing minimum wages in many states. This employment scheme has provided a stable non-agriculture income for a large number of low-income rural households. It has also helped raise the benchmark wage rate in rural areas. As a result, wages have grown steeply in recent years. According to the RBI, the average nominal rural wage increase during 2008-2009 to 2012-2013 was on the order of 17 percent. The government plans to raise MNREGA wages before the general elections and wants to align these wages with the rural consumer price index. Thus many observers expect wage inflation in the farm sector to escalate further in the coming year.

Poor agricultural yields failed to neutralize the impact of inflationary pressure on food markets. During 2008-2009 through 2012-2013, the yield in food grains, pulses and vegetables registered average increases of 4.7 percent, 6.2 percent and 6.5 percent, respectively. The chances that yield growth will match increases in food inflation in the near future seem bleak, owing to a lack of sustained capital investments in agriculture technologies and agriculture extension services. Unsafe storage of food grains and inadequate storage facilities is further driving food inflation.

Fruits, grains and vegetables worth US$7 billion are wasted every year because of inadequate storage infrastructure. According to government estimates made in November 2011, the total gap of storage capacity in the country stood at 14 million tons, and an investment of about US$642 million is needed to bridge the gap.

Finally, fuel-cost inflation is worsening food inflation. Inflation of fuel commodities stood at more than 8 percent year-over-year in the first two quarters of FY2013-2014. Prices of diesel—the dominant fuel used in India—have jumped by more than 12 percent each year during December 2009 to December 2013. The government will likely continue raising retail prices of petrol and diesel to help oil marketing companies to bridge revenue gaps. This mechanism, coupled with rising import prices of petroleum crude as a result of a volatile rupee, will only exacerbate fuel-price inflation, further raising food prices.

For government

Invest in “connected agriculture”: In collaboration with the private sector, India’s central and state governments can use mobile telecommunications to connect farmers to markets; to efficiently deliver financial, technological and extension support to them pre and post-harvest. Transparency and accountability in the nation’s public food management system can be enhanced with digital systems. For example, use of GPS-technologies and sensors on trucks and railway wagons carrying subsidized food can help plug leakages in food distribution systems and ultimately arrest food inflation. “Connected agriculture” will also help governments unlock the productivity residing in the agriculture value chain while managing the impacts of increased production, such as more water use and greenhouse gas emissions.

For industry

Be flexible and manage costs: To continue growing in a volatile inflationary scenario, businesses must become more flexible across their value chain. For example, shop-floor improvements in such forms as smarter product routing, reduced set-up time, and smarter queueing and product completion time through low-cost automation can help reduce fuel and energy consumption and thus combat inflation. Businesses, in collaboration with key vendors and customers, can also develop digital platforms to accelerate flows of information and knowledge to further reduce wastage and allocate resources more efficiently. Businesses will have to focus on cutting the right costs quickly. They will need to examine their processes to identify cost drivers and to optimize value from costs incurred. They will also benefit from assessing the risks associated with proposed cost reductions, to ensure that such cuts confer an operating advantage.

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Figure 4: Food inflation vastly exceeds overall inflation in India

Source: CMIE

Operating Imperatives

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A new trade dynamic is needed

India’s position in the global economy is showing signs of stabilizing and will need to improve considerably in the coming year. The country has had a high current account deficit for the past few years, which is being contained thanks to a revival in export growth and restrictions of gold imports.

The current account deficit, which dropped to 1.2 percent of GDP during the second quarter of FY2013-2014, has exceeded 4 percent since September 2011. This is much higher than the 2.5 percent desired by the national government to achieve growth projections in India’s 12th Five Year Plan (2012-2017).

The widening trade deficit has played a major role in the expanding current account chasm. Imports have risen faster than exports since early 2009, and have stayed high. A disaggregated analysis of the import bill shows that crude oil, which continues to account for 34.5 percent of India’s total import bill, grew just 16 percent during March 2009-2013. But the real culprit behind a bleeding trade deficit is gold imports, which jumped 27 percent during the same period owing to high demand in the absence of alternative long-term investment options for Indian investors. According to the RBI, if gold imports were excluded, the current account deficit during the first quarter of 2013-2014 over the corresponding quarter of the preceding year would have been only 3.2 percent of GDP instead of 4.9 percent. (See Figure 5.)

Meanwhile, a volatile and depreciating rupee continues to exert a mixed impact on India’s trade deficit. While the depreciating rupee has helped the export community, it has put added pressure on the import bill. A volatile rupee has inflated the value of crude-oil imports, which already became expensive as winter approached in the European Union and the United States and as political tensions persisted in West Asia. Government and RBI measures have helped control gold imports and stabilize the trade deficit and rupee. The higher import duty on gold is one example, and banks have been asked to discourage retail customers from buying gold. In September 2013, the RBI created a special facility for oil marketing companies (OMCs) to source their dollar requirements following the sharp depreciation of the rupee. With a stabilizing rupee, this window has now been closed, but it may be opened again for OMCs if the rupee once more starts losing its value rapidly. Terms for Non Resident Indian (NRI) bondholders have been eased, and foreign institutional investors have been allowed to access securities purchases directly without waiting for monthly auctions.

Export growth, although picking up, will require some fiscal support in the form of export credits to neutralize the impact of high domestic taxes and input inflation.

For government

Ink trade agreements cautiously: India’s national government must carefully examine the impact of preferential and free-trade agreements on the long-term health of domestic industry. The most valuable trade agreements will be those that help boost industry’s long-term competitiveness and that give businesses sustained access to markets. The government will need to address any inverted duty structures through intensive industry consultation before negotiating trade agreements.

Continue to provide viable investment alternatives to gold: Investors are chasing gold because other long-term investment options are delivering lukewarm returns. To discourage retail purchasing of gold, the government must incentivize financial institutions to devise long-term, inflation-indexed debt instruments, the way it has done by launching inflation indexed bonds. Such instruments can provide viable returns to retail investors, while also making resources available to capital and infrastructure projects.

For industry

Create value from evolving trade regimes: Zero-duty imports of raw materials and zero-duty exports of finished products resulting from free and preferential trade agreements can help corporations become more price-competitive. At the same time, such trade regimes can trigger a surge in competition from cheaper imports originating from competitors located in preferential trading partners’ jurisdictions. Businesses must therefore carefully analyze the implications of bilateral, regional and multilateral trade agreements as they emerge and use the resulting insights to formulate strategies for effectively managing their supply chains.
Fast-digitizing rural markets are the silver lining

Rural markets are the silver lining in the otherwise cloudy Indian growth story. Latest National Sample Survey Organisation (NSSO) data reveals that in 2011-2012, expenditure by rural households on non-food products and services exceeded 50 percent of total consumption expenditure. NSSO data further shows that rural consumption has outpaced urban consumption since 2009.

Rural consumer spending on non-food products such as durable goods, fuel, clothing, footwear and miscellaneous services increased from 36.8 percent in 1993-1994 to 51.4 percent in 2011-2012. According to market research company Nielsen India, rural consumption in India grew at 18.7 percent for the 12 months leading up to June 2013; in the same period, the figure was 10.8 percent for the metropolitan areas of India.

The good monsoon season in 2013 is expected to further increase purchasing power in rural India. According to the Indian Meteorological Department, rainfall for the season (June-September 2013) was 106 percent of its long period average. Agricultural and related activities are therefore expected to continue registering brisk growth through the first quarter of 2014. This will generate valuable agribusiness income opportunities. When complemented by inflation-indexed income opportunities under the MNREGA initiatives, such opportunities will help boost income for rural populations throughout 2014.

Another notable development in rural India is the expanding ownership of mobile phones and increasing Internet penetration. The number of Internet users is soaring in rural India.

According to the i-Cube report “Internet in Rural India,” the number of claimed rural Internet users is expected to jump from 72 million in December 2013 to 86 million in June 2014—18 percent growth in just six months. These high levels of mobile and Internet penetration are giving rural markets a decidedly digital character. (See Figure 6.)

Figure 6: Internet use in rural India is soaring

Source: Internet in Rural India, IMRB I-Cube (2013)

Consistent positive income growth and digital penetration in rural India pose unprecedented opportunities. For instance, governments can now share downloadable skilling modules, information on agricultural technologies and other value-creating information with rural populations over mobile Internet at affordable prices. And businesses can offer insightful product-related guidance to their rural customers in more interactive formats.

Craft a winning talent management strategy: Companies need to focus on end-to-end talent management to drive high performance in growing rural markets. They can benefit by hiring local talent, investing in skills and career development, and infusing a sense of contribution into their sales force.

(For further reading, please see our rural markets report “Masters of Rural Markets: Profitably Selling to India’s Rural Consumers” at: http://www.accenture.com/in-en/Pages/insight-masters-rural-markets-2013.aspx.)

Operating Imperatives

For government

Continue investing in scalable digital platforms: The Indian government needs to continue investing in creating scalable digital platforms (similar to Aadhar) that government bodies and businesses can tap to offer new forms of value to rural populations at affordable prices.

For industry

Use technology to create advantage: Effective use of technology in planning, monitoring and controlling rural operations differentiates high performers from their more ordinary peers. Technology improves efficiency, optimizes costs and can increase customer loyalty. Management information system dashboards can also boost efficiency of an enterprise’s rural operations by providing sophisticated real-time monitoring and reporting.
Business confidence needs boosting

India Inc. is facing stagnating industrial production, rising labor costs, inflationary pressure and high interest rates paired with a weakening rupee. As a result, its self-confidence is slipping despite new sources of demand arising in rural regions.

The latest Confederation of India Industries (CII) Business Confidence Index fell 5.5 points to 45.7 for the July-September 2013 quarter, down from 51.2 in the previous quarter and sinking to its lowest value ever. (See Figure 7.) The dip below the psychological 50-level mark does not augur well for Indian industry, because it mirrors the underlying weakness in the economy. Eroded business confidence has resulted in shrinking capital investment in key sectors of the economy. (See Figure 8.)

Even foreign investor confidence has remained volatile. While growth in net foreign direct investment (FDI) was stagnant in the quarter ending September 2013, portfolio investments witnessed massive outflows of US$6.6 billion during the same quarter.

Unfortunately, many of the forces behind the slide in business confidence may not ease up during the forthcoming year. For example, continued inflationary pressure will not provide room for the RBI to chip some digits off the interest rate. The rupee and current account deficit may stabilize during 2014. However, policymakers will need to monitor the impacts on India’s currency of short-term investment inflows resulting from monetary policy decisions in the United States.

Operating Imperatives

For government

Execute taxation and sectoral reforms: The Indian government has already proposed replacing indirect taxes levied by the central and state governments with a goods and services tax (GST). The manufacturing industry is eager for a GST that will eliminate the multiple, cascading levels of taxes now in effect. With the removal of excise duty on manufacturing under the proposed GST regime, cash flows and inventory costs will improve, suggesting the importance of implementing a GST in 2014.

Reduce cost of capital: Cost of capital counts among the biggest hurdles to investing in Indian manufacturing and R&D. Yet R&D is especially critical for high performance in business. Moreover, higher interest rates are eroding Indian manufacturers’ pricing power—putting them at a disadvantage compared to their counterparts from countries such as China. The Indian government, in consultation with the RBI, can take immediate steps to reduce the cost of capital. And by working with industry associations, the RBI can define a new set of variables for determining working-capital interest rates. For example, in the United Kingdom, changes in the interest rate are no longer defined only by inflation but by the unemployment target that the national government wants to achieve.

For industry

Leverage data analytics: Businesses must dig deeper into data related to their inventory, raw materials, energy use and customers to unearth trends that can help them identify new sources of revenue and cost savings. Most important, they need to build digital bridges with their key stakeholders, such as ‘supplier’s e-exchange’ to regularly shape and share analysis and insights. Such bridges will help businesses and their key stakeholders better understand each other’s challenges and opportunities as well as create advantage out of adversity in tough times. The result could be a boost to India Inc.’s confidence.
Spotlight

“Made in India” digital technologies:
An opportunity whose time has come

India’s digital economy is expected to grow exponentially in the next few years. The nation could have as many as 243 million Internet users by June 2014. If that happens, these users will outnumber American Internet users to make India the world’s second-largest online community after China. Moreover, The Economist Intelligence Unit expects India’s Internet economy to reach a value of US$100 billion by 2015.

Disruptive innovations in the digital hardware and digital electronics industries are reducing the cost of ownership of smarter platforms, spurring sales of smartphones, tablets and iPods in India. Indeed, India now constitutes the world’s third-largest smartphone market. In April-June 2013 alone, 70 international and domestic vendors shipped 1.15 million tablets in India.

Indian consumers’ unprecedented hunger for “smarter gadgetry” has met with an equally robust response from the nation’s entrepreneurs. In the last decade, more than four domestic brands have established a large footprint for themselves in the domestic smartphone handset and tablet market. At present, domestic brands have claimed 40 percent of the smartphone market and around 11 percent of the tablet market.

Digital democratization is no longer limited to the demand side of the digital market. The supply side is also witnessing such democratization. Startups involved in e-commerce, B2B web-based tools and mobile applications that enhance end customers’ overall digital experience have mushroomed across India. According to the Microsoft India Accelerator Report (2012), among technology product startups, e-commerce startups constituted one-third of all new companies, followed by B2B web-based tool companies.

Angel investors and venture capitalists are showing more interest in financing ventures that have a digital technology background. As a result, the cost of establishing a startup in the digital technologies space has decreased. Digital technology incubators in the country are multiplying. India now boasts four specialized incubators for launching digital startups, and the number is expected to double in the next decade.

The central government’s IT spending in India is expected to reach US$6.4 billion in 2013, according to Gartner. By investing in Aadhar and initiating the National Broadband Plan, the Indian government has paved the way for creating a robust digital foundation for existing businesses and budding entrepreneurs.

On the industry front, intensifying consumer demand for digital platforms and applications, coupled with a steadily maturing digital technology ecosystem, has incentivized large companies to explore greater use of digital technologies in their marketing and sales functions. Enterprises aware of the benefits of digital technologies across the value chain have started deploying them on the shop floor as well as across their design and procurement functions.

Companies such as Hindustan Unilever Limited have invested in the development of digital media labs, and digital sales fronts are becoming commonplace in large consumer products companies. Tata Motors and Maruti have already adopted digital technologies to design complex systems on their shop floor.

India is readying itself to take advantage of a historical opportunity similar to the one it successfully unlocked two decades ago. In the nineties, the nation drew on its young English-speaking talent and entrepreneurial mindsets to introduce “Made in India” scalable business models and cost-competitive processes in software technologies. This helped spark a services revolution that enabled India to record robust GDP growth rates. It also gave birth to a new, young middle class in India and introduced a new breed of Indian managerial and entrepreneurial talent to the world.

Businesses, policymakers, academic institutions and other stakeholders now need to invest energy and resources to launch “Made in India” affordable and scalable digital technologies. They have the talent to embark on this journey, the entrepreneurship to innovate and a digital-savvy market to test and buy new offerings.

The timing is perfect!
Sector outlook

Despite the macroeconomic and business challenges confronting India, Inc., high performers across industries are deciphering future trends and opportunities to grow their businesses profitably. Whether they are expanding their footprint across new geographies, product segments and categories; investing in R&D; or embracing digital technologies, these companies are getting ready for the upturn. Evolving models of collaborative innovation and regulatory reforms can give them the necessary push to advance into the next phase of growth.

Automotive

Sales could grow but margins to remain under pressure

The Society of Indian Automobile Manufacturers (SIAM) expects total sales of all vehicles in the country during FY2014 to grow by 6-8 percent, with contributions from almost all market segments. This growth will be driven primarily by utility-vehicle sales, which will likely increase by 11-13 percent in FY2014. However, a slowdown in sales paired with capacity underutilization by automotive companies will keep pressure on margins in 2014. According to the financial solutions services provider Resurgent India Ltd., capacity utilization in the Indian automobile industry has declined by about 50 percent in the passenger-vehicle segment, putting further pressure on auto companies’ margins.

Electric vehicles to get a push from subsidies

To provide a much-needed push to the slowing automobile industry, the Indian government plans to roll out subsidies for electric vehicles (EVs). For instance, the Ministry of Heavy Industries intends to initiate subsidies for such vehicles under the National Electric Mobility Mission Plan by April 2014. The government expects to save US$6.4 billion worth of fuel if the EV market takes off. The ministry aims to get all cabinet approvals before April 1 so that the incentives can start flowing to EV makers as soon as possible.

Companies taking action to improve quality and efficiency

Automobile companies operating in India are taking advantage of the current downturn to improve the quality of their models. For instance, Volvo Car Corporation has signed an agreement with IT company Tech Mahindra, wherein the latter will provide Volvo with services for maintaining and developing a range of applications that can boost efficiency and reduce manufacturing costs. Meanwhile, Maruti Suzuki India is working on establishing an integrated R&D center in Rohtak. The test tracks at the center will be longer and more technologically sophisticated than the tracks at Suzuki Motor Corporation’s facility in Japan.

Automakers to expand presence in other emerging markets

Numerous Indian automobile companies are looking to expand their presence in other emerging markets to offset declining sales in India. Tata Motors, for instance, plans to expand its range of passenger-car vehicles in South Africa early in 2014. YVS Motor Company intends to set up a two-wheeler assembly line in Uganda and launch two motorcycle models there in the first half of 2014.

India to be a global production and export hub

Multinational automobile companies are actively working to make India their global production and export hub. Take Ford Motor Company, which has decided to make India its compact-car global production base with the founding of its Sanand plant in Gujarat in 2014. At the same time, German automobile giant Daimler is developing its Indian commercial-vehicle operation, Daimler India Commercial Vehicles, as an exports hub. This operation will export locally assembled trucks from the conglomerate’s Mitsubishi Fuso range to 15 markets in Asia and Africa, including Indonesia, Thailand, Malaysia, Tanzania, Malawi, Uganda, Zimbabwe, Mozambique, Mauritius and the Seychelles.

Banking

Indian financial services firms to adopt more digital technologies

The RBI recently fined 22 banks for flouting a number of rules including anti-money laundering norms and know-your-customer (KYC) mandates. It also tightened anti-money laundering and KYC rules. Owing to the increased number of scandals in the industry and stricter policies from the RBI, Indian financial services firms will look to upgrade their technology systems in 2014. Banks want to upgrade to modern tools that can help them analyze real-time data to predict fraud or illegal activities. In addition, the RBI has decided to implement a national GIRO-based Indian Bill Payment System such that households will be able to use their bank accounts to pay school fees, utilities and medical bills as well as make remittances electronically. The RBI has also assembled a GIRO advisory group to implement this national bill payment system.

Private-sector banks to focus on emerging sectors and rural markets

The tough macroeconomic situation in India is driving private-sector banks to sharpen their focus on emerging sectors and rural markets to boost growth. YES BANK, for example, has defined a growth strategy focused on emerging sectors such as life sciences, IT, education and healthcare. Some private banks are also setting out to strengthen their rural presence.

Easing restrictions to encourage foreign and private banks

Banks have been given conditional freedom to open branches in tier-I Indian cities without seeking the RBI’s prior approval in each case. This will likely push banks to expand their operations in the country. Additionally, India is hoping to improve banking operations in rural areas by easing restrictions on foreign banks willing to open local branches. India is expected to issue new rules in 2014 regarding the operation of foreign banks. These regulations will make it easier for foreign lenders to set up local units and lend more in rural areas.

Banks set to expand operations

Driven by easing regulations as well as a search for growth avenues, banks will probably expand their operations in the coming year. For instance, HDFC Bank plans to open 500 mini-branches across India by March 2014, each of which will be staffed by one to three people. Bank International Indonesia will revive its operations in India after a gap of nearly five years, under its new promoter, the Malaysia-based Maybank group. The bank is also expected to begin discussions with the RBI on offering Islamic banking products.

Chesmicals

Fertilizer plants to be revived

With the development of the Assam Gas Cracker Project and Brahmaputra Cracker & Polymer Ltd. in Eastern India, the region is strategically placed to become the hub for the nation’s plastics sector. The All India Plastics Manufacturers Association also acknowledges that recent developments could shift the industry’s center of gravity to India’s eastern region. Moreover, the national government may soon approve a plastics park in Tinsukia in Assam. This park would be located near the Assam Gas Cracker plant near Dibrugarh, and thus will ensure availability of the feedstock naphtha.
Optimistic chemical companies to invest in growth initiatives

Chemical companies are expected to continue investing in new capacities and production. Assam Petrochemicals Limited, a public-sector unit, plans to invest US$165.6 million for its new 500 tons per day (TPD) methanol plant and 200 TPD acetic acid plant. In addition, Gujarat State Fertiliser and Chemicals plans to invest US$96.7 million in capacity expansion of its diammonium phosphate plant in the state. Meanwhile, Himadri US$96.7 million in capacity expansion and Chemicals plans to invest US$56.4 million in new capacity addition to cater to higher demand arising in the aluminum and graphite industries.

Government pushing for new academic institutions

The Indian government acknowledges the need for more institutions to educate its large young population so as to take advantage of the demographic dividend. To encourage private companies to meet the increasing demand of technical institutes, the government in 2012 allowed private and public companies with revenues of at least US$16 million per year (over a three-year period) to set up technical institutes. Following this regulation, the All India Council for Technical Education has recently permitted a private company to establish a technical institution in the country. Many other private companies are also expected to take similar advantage of this new regulation in 2014.

Education

Foreign universities to step up presence in India

A number of foreign universities are looking to establish a presence in India. For instance, the University of Chicago in the United States intends to open a new academic center in Delhi by mid-2014. In addition, Purdue University’s online learning program in India, Purdue NexT, plans to more than double the number of courses to 46 by mid-2014. Purdue University has established this program in collaboration with Wiley India.

Fast-moving consumer goods (FMCG)

FMCGs still struggling

Economic slowdown in India, together with high inflation, is expected to further drag down consumer demand. Moreover, the depreciating rupee has escalated raw materials prices. If these cost increases are transferred to shoppers, consumer confidence will erode further. Meanwhile, entry of new players into the sector is forcing FMCG companies to spend more on advertising, putting further pressure on their bottom line. FMCG majors are likely to experience a margin squeeze and weak growth in sales volumes.

FMCGs exploring new product segments

The economic slowdown and eroding consumer confidence are leading FMCG companies to explore new product areas with an eye toward reaching more customers. Ruchi Soya, for example, plans to make a foray into the ready-to-cook segment and sharpen its focus on branded products that deliver better margins. Parle Agro intends to re-enter the cola market in early 2014 with a coffee-flavored carbonated drink called Café Cuba. The company hopes to gain a market share of about 7 percent in the first year of sales of the drink.

Companies to focus on high-growth markets

In the search for new growth avenues, FMCG companies are looking to expand their operations in rural Indian markets as well as other developing countries. Cadbury India, for example, is moving into villages with populations in the range of 5,000-10,000 in nine states within India. Godrej Consumer Products aims to expand its manufacturing operations to two African countries—Tanzania and Uganda. The company also wants to make acquisitions to enlarge its footprint on the African continent.

Healthcare

India taking steps to become a global healthcare hub

India hosts about 150,000 medical tourists annually, and this number is expected to grow by 15 percent every year. To better serve them and attract more people to India for low-cost medical treatments, India is establishing new facilities with foreign tourists in mind. For instance, a medical township of nine super-specialty hospitals in Kochi will be operational by March 2014. Called Aster Medcity, the township will offer state-of-the-art technology to treat a number of diseases including cancer. Apart from the newest medical technologies, Aster Medcity will also offer residential apartments, hotels, a convention center, cafeterias, guest rooms and a home for the elderly.

Innovative healthcare technologies to be developed in India

India has been the hub for low-cost innovation, and this quality is attracting foreign technology companies who want to set up plants in the country. GE, for instance, is establishing a plant in Pune that will be operational by mid-2014. GE plans to manufacture products for various industry sectors including healthcare. The products manufactured at this plant will be sold in India as well as abroad.

New entrants and expansions to help in industry growth

India’s healthcare industry is growing at a brisk pace, inspiring major players to expand their operations and some new players to enter the market. Apollo Hospitals, for instance, plans to add a hospital in each of the four cities in India’s East: Kolkata, Patna, Raipur and Guwahati. It also intends to expand the number of tele-medicine centers it operates.

Havells India, an electrical equipment company, is diversifying into healthcare by setting up a chain of hospitals under the “ORG” brand.
India to become a low-cost testing hub

India has long been recognized as an important player in the global IT sector. However, the nation is stepping up to play an even stronger role, and is eying developed markets to expand its share in the global IT space. The Common Criteria Recognition Arrangement (CCRA), which includes the US, Canada, UK, Germany, France and Japan among its 26 members, has given India “authorizing member nation” status. Thus India may now issue clearances to companies to expand its share in the global IT space.

The IT sector in India

India’s Ministry of Civil Aviation hopes to finalize privatizing six major airports—Chennai, Kolkata, Ahmedabad, Jaipur, Lucknow and Guwahati—by mid-2014, before the general elections. This will allow private companies to enter into partnership with the Airport Authority of India for a 30-year lease to operate, manage and develop facilities at these airports.

The scope of the project includes the entire airport, including air-and city-side facilities. However, this move will also significantly increase airport costs and charges.

Metro operations to expand

The first phase of the Chennai metro service from Koyambudu to Alandur is expected to start in early 2014. The four-coach rake has been assembled in Brazil by Alstom. The distinguishing factor for the Chennai metro will be the luggage racks for office goers, a feature not found on other metro trains that currently operate in India. The work for the Pune metro rail is expected to begin in 2014. Pune Municipal Corporation (PMC) has begun setting up the Special Purpose Vehicle (SPV), a group of 11 directors. Through the SPV, PMC will push for the project to get the nod from the Union government.

Media and Entertainment

Crowd funding to become a popular funding model for Indian movies

India to build strategic oil and gas reserves

The Indian government is working to build crude-oil reserves, as has been done in countries such as the US, Japan and China. India will commission its first reserve oil storage in Visakhapatnam in January 2014. Apart from Visakhapatnam, India is building underground storage facilities at Mangalore and Padur in Karnataka to accommodate 5.3 million tons of crude oil, enough to meet the nation’s needs for 13 days.

Diesel prices to be deregulated

India’s petroleum ministry plans to deregulate diesel prices by mid-2014 with a gradual increase in prices. Diesel prices could rise by at least 10 paise by mid-2014. The government started the deregulation process in January 2013, but depreciation of the rupee derailed its plans. In January 2013, retailers were allowed to increase diesel prices by 50 paise per month.

Pharmaceuticals

FDI conditions to tighten

The Department of Industrial Policy and Promotion proposes tightening FDI policy for the pharmaceutical sector by incorporating conditions like mandatory investment in R&D and non-compete clauses in shareholders pacts. According to the proposed draft, foreign companies would not be allowed to close down existing R&D centers and would have to invest up to 25 percent of the FDI in the new unit or R&D facility spelled out in the deal. The Ministry of Commerce and Industry has proposed the strictest conditions to manage the rush of multinational companies seeking to acquire Indian pharmaceutical firms.

No clinical trials for serious diseases in India

With the government proposing tougher compensation rules for injuries suffered by participants during clinical trials, drug manufacturers may shy away from conducting clinical trials in India for serious diseases. Under the new regulations proposed by the Ministry of Health, drug-makers will have to provide compensation for all injuries sustained by participants in clinical trials, barring “totally proven unrelated” cases.

Private companies participating in government schemes for rural penetration

Indian pharmaceutical companies such as Crpla, Ranbaxy, Dr Reddy’s and Lupin might soon be part of the government’s ambitious Jan Aushadhi project, which aims to set up stores selling affordable generic drugs to low-income consumers. In an attempt to commercialize the project and meet growing demand, the government will seek to bulk-procure generic drugs from private sector players. As of 2012, there were 117 Jan Aushadhi stores across the country; the plan calls for expanding that number to at least 600 by 2014 and to 3,000 by the end of the 12th Five Year Plan period.

Social media to influence general elections

Social media has become indispensable for reaching young people in India, who make up a large portion of the nation’s population. Even India’s political parties acknowledge the impact of social media on the large, young Internet-using population, especially in the long term. According to the survey Social Media in India in 2013, social media will strongly influence India’s 2014 general elections and may swing 3-4 percent of the votes.

Until recently, political parties’ campaign strategies centered on public rallies along with print, television and radio advertising. But the proliferation of Internet use, computers and smartphones in the past few years has prompted politicians to consider the potential of the online medium.

Oil and gas

Indian and Middle Eastern oil companies exploring investment opportunities

In an effort to meet India’s energy needs, Indian oil companies are exploring the geographically closest and richest oil and gas hubs in the Middle East. Reliance Industries, for instance, is evaluating investment opportunities in Iraq oil and gas fields, and Hindustan Petroleum Corp Ltd. may import about 6 million barrels of Iranian oil by March 2014, if certain government regulations come through.

Meanwhile, Saudi Aramco plans to acquire up to 30 percent stake in a giant petrochemicals project in Gujarat, a stake that would include a key management role. The Saudi company is negotiating with ONIC Petro additives Ltd., with the goal of completing the deal as soon as possible.
Power
Big push to set up power infrastructure
India has been grappling with an acute power shortage, and inadequate infrastructure is a major culprit. To tackle this challenge, the government wants to establish infrastructure for the power sector, particularly in renewable-energy sources. The Ministry of Power has relaxed the new bidding norms for two upcoming ultra-mega power projects, which will be awarded in February 2014. Moreover, private companies plan to enter the renewable power generation sector. Shriram Group, for example, intends to invest more than US$100 million to set up new wind-energy projects under its renewable-energy arm Orient Green Power Ltd. And Hero Group has launched a new company, Hero Future Energies, which will initially focus on wind and solar projects.

India to partner with other nations on energy
The Indian government wants to collaborate with other nations to share knowledge and to invest in the energy sector. State governments are following suit. For example, the government of Andhra Pradesh is collaborating with the UK to learn best practices in managing energy-efficiency and conservation initiatives. A delegation of experts on energy and representatives of energy-efficiency companies based in the UK will visit Andhra Pradesh to share best practices. India has also offered to help Cuba develop its renewable resources and explore opportunities to collaborate. In addition, Canadian companies are looking for joint-venture opportunities in hydroelectric and biomass-based power generation projects in India’s eastern and northeastern states, and may invest in them in 2014.

India may reduce dependence on Chinese power-equipment imports
The importing of Chinese power equipment into India has expanded significantly in recent years. According to the Indian Electrical and Electronics Manufacturers’ Association (IEEMA), such importing reached 45 percent in 2012-2013, a major increase from 15 percent in 2005-2006. Indian power-equipment makers say that the rapidly rising Chinese imports could be a big security risk. The reason: Beijing can disrupt the Indian economy by withdrawing technical support for plants built with cheap imports. IEEMA plans to discuss the issue with the central government in 2014.

Real estate market in Daman to pick up, thanks to a casino resort
India’s largest integrated casino resort in Daman, by Delta Group, boasts a 10-acre spread with 60,000 square feet of gaming space. The resort will likely become operational starting in early 2014. The proximity of Daman to Mumbai and key cities in Gujarat, together with development of the largest casino resort in the country, is expected to help drive growth in the real estate market in Daman.

Retail
E-commerce to continue seeing high growth
India’s e-commerce sector is booming, dominated by startups backed by venture capital funds and driven by the nation’s youth. The industry’s growth, along with the soaring number of Internet users in India, is inspiring established retail players to enter the e-commerce business. Reliance Retail, which operates more than 1,500 stores across the country, plans to enter the industry by mid-2014 to compete with established players such as Amazon and eBay for a share of India’s fast-growing online retail market. While organized retail is restricted to metros and big cities, e-commerce offers the opportunity to sell products anywhere in the country.

Conglomerates expanding the growing convenience stores business
A number of conglomerates including Reliance and Bharti Airtel have recently established a chain of convenience stores in India. The success of this format is encouraging these companies to further expand their operations. Sahara, for example, plans to open 400 Sahara Q Shop stores in the National Capital Region of Delhi by March 2014. The company also intends to increase the number of stores from the 901 that existed in 12 states in August 2013 to 10,000 nationwide by March 2014.

Luxury brands to expand their presence in India
Despite a slowdown of economic growth in India and a consequent drop in consumer spending, the luxury retail market in India is expected to achieve healthy growth in 2014. That market will likely grow by 17 percent in 2014 to cross the US$10 billion mark, up from US$8.6 billion in 2013, according to a joint study by market research firm IMRB and the Confederation of Indian Industry (CII). Luxury brands are even expanding their customer base to smaller cities from the big metros, targeting wealthy farmers and professional service providers such as doctors. Two global luxury brands, Godiva (chocolates) and Faberge (jewelry), have solidified plans to expand their presence in India. Godiva will open a store in India, while Faberge aims to build on its gem-cutting base in Jaipur.

Foreign telecoms may buy out their Indian partners
With the Indian government allowing 100 percent FDI in the telecommunications sector, foreign telecom companies such as Britain’s Vodafone Group, Norway-based Telenor and Russia’s Sistema have the option to buy out their Indian partners. Vodafone Plc is already seeking the Foreign Investment Promotion Board’s approval to bring in US$1.6 billion to raise its 64 percent equity stake in Vodafone India to 100 percent. Telenor has raised its stake in its Indian operations to 74 percent in 2013 and may now look to increase this stake to 100 percent. Sistema, which has a 57 percent stake in its Indian operations, and Malaysia’s Maxis, which owns 74 percent of Aircel, have also acknowledged this positive development for the industry.

Telecommunications
Internet use to grow, particularly in rural India
With 243 million Internet users, India might outpace the US to become the world’s second-largest online community after China by June 2014, according to a report released by the Internet and Mobile Association of India (IAMAI) and market research firm IMRB International. Moreover, the number of Internet users in rural India is expected to rise to 85 million by June 2014. The availability of more content in local languages is helping to drive these trends.

Optic fiber cable network to expand
India has an ambitious plan to expand its optic fiber cable network for defense forces as well as gram panchayats by 2014. State-run Bharat Sanchar Nigam Ltd (BSNL) plans to roll out an optic fiber cable network for the army and navy worth roughly US$765 million by February 2014. BSNL also intends to roll out a US$418.5 million Internet protocol network for the defense ministry by June 2014. Moreover, the Ministry of Communications wants to connect 2.5 lakh gram panchayats across India via an optical fiber network by 2014. This will enable panchayats to enjoy 3G connectivity in their respective villages.

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