



S.P. HINDUJA

— BANQUE PRIVÉE —

India Country Report

2024

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1. SUMMARY

Can India, the land of brilliant contradictions, regain its past economic glory? Can India, the origin of one of the world's most significant and ancient civilizations, truly pull it off? We believe it can and will regain its past economic glory and that is the thrust of this special report.

It has been a little over 30 years since India's version of the Big Bang, when in 1991 the then Government pivoted to liberal economic policies after decades of a rather frustrating command and control system. This mysterious and mystical land has come a long way in the global economic sweepstakes since this epochal event.

India has long provided a desirable habitat with favourable conditions for human settlements. However, the country's past prosperity – characterized by abundant natural resources, skilled workers, profound and liberal philosophy, and vast wealth – was marred by invaders and colonisers and a consequent depletion of its wealth and resources. However, after gaining independence in 1947, India took up the challenge to rebuild and the foundation of this rebuilding endeavour was a democratic political system with an Indian flavour. As the world's largest and noisiest democracy, India has a relatively stable political system, with elections held every five years and a history of power changes followed by smooth transitions.

India's demographic advantage is a key strength, with a population of over 1.4 billion, surpassing even China. Approximately 43% of the population is below the age of all 25 and 64% falls within the working-age group. This dynamic, diverse, adaptable, flexible, and educated workforce is quite unique in the global context. India's implementation of a Unique Identification System (Aadhar) for its vast population, the largest system of its kind globally, streamlines identification processes.

India's prominence is further amplified by its remarkable middle-class population, consisting of more than 400 million individuals who enjoy substantial discretionary and disposable income. This vibrant middle class not only surpasses the combined population of Europe but also serves as a crucial catalyst for consumption expenditure. Their robust purchasing power and economic influence play a pivotal role in shaping India's economic landscape, making it an attractive market for businesses across various sectors. The country's appeal is evident in its ability to attract major multinational corporations from all over the world including the United States, Switzerland, and Europe, who have established a strong presence in India. The country has made significant investments in infrastructure, increasing it fivefold over the past decade, thereby creating infrastructure that matches modern global standards. Regulatory oversight of India's capital markets is robust, with the Securities and Exchange Board of India (SEBI) effectively regulating the market. Additionally, the Reserve Bank of India (RBI) exercises strict control over the money supply, ensuring stability and confidence in the financial system.

On a macroeconomic front, India has performed well on the policy and economic front compared to some of its emerging or developed counterparts. The economy has shown remarkable resilience amid challenging times such as the COVID pandemic and a difficult global economic environment. The country successfully administered COVID vaccines to nearly 1.3 billion people, the highest number globally, with many vaccines developed in India through international collaborations.

India is ready at all fronts for its next phase of growth fuelled by investment and consumption. India boasts robust foreign exchange reserves (USD 595bn – June 2023), thriving manufacturing and services activity, all-time high tax collections, and healthy FDIs and capital market inflows. A key moment ensued in September 2023 with J P Morgan's decision to include India's local Government bonds in its widely followed Government Bond Index-Emerging Markets, benchmarked by over US \$200 billion in global funds. It is understood that 23 Indian Government Bonds (IGBs) with a combined notional value of \$330 billion and under the "fully accessible route" for non-residents are eligible. Inclusion will start on June 28, 2024, and extend over 10 months.

India's scientific and technological credentials also received a boost when it recently became the first country to make a landing near the Moon's South Pole. The Chandrayaan – 3's lander and rover have been gathering data and images. Some significant findings have been made thus far.

As the current leader of the G-20 Summit, India showed its stewardship in bringing together all major countries to agree to climate change initiatives, condemn aggression on countries and created G-21 by adding the Afro nations to the next summit. The G-20 meeting held in September 2023 was rated as one of the most successful meetings of global leaders in the recent past and demonstrated India's new leader in the Southern Block.

India's growth story is captivating, and the country offers numerous investment opportunities across sectors. This special report serves as a valuable guide, equipping you with a better understanding of India's journey, key developments, and rising sectors. At S.P. Hinduja Private Bank Ltd., we are here to support you in capitalizing on the potential that India has to offer.



2. INDIA – STRONG FUNDAMENTALS

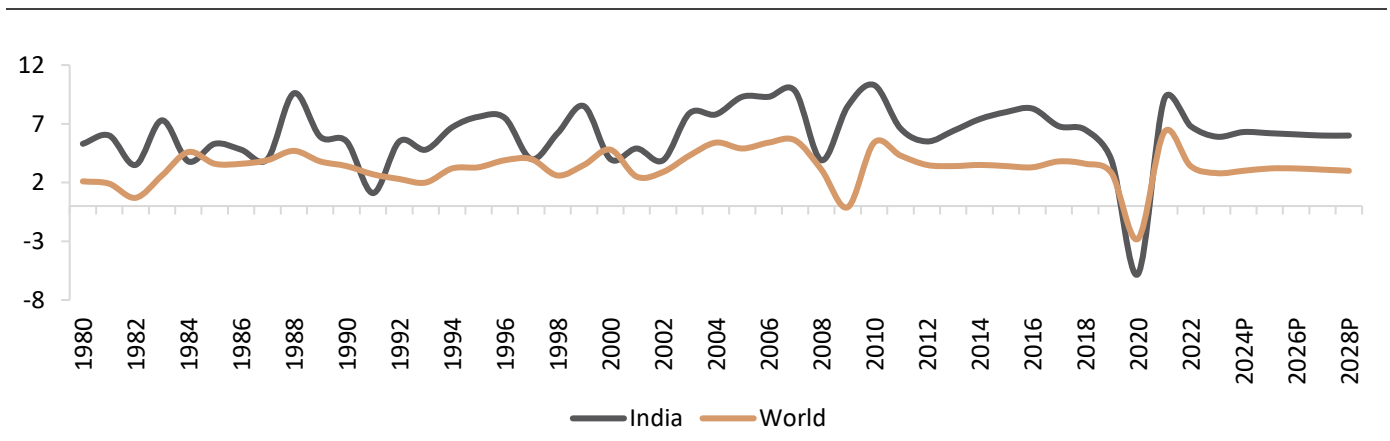
India's growth story over the past decade has been remarkable. Despite confronting multiple challenges such as global recession, financial sector turmoil, inflationary pressures, energy crisis, effects of the Russia-Ukraine war, and long-term impact of the pandemic, India has emerged as the fastest-growing major economy. India's strong fundamentals, including a diverse economy, young workforce, vibrant democracy, strong domestic consumption, rich natural resources, and well-governed financial systems, contribute to its economic resilience and growth potential. These factors make India an appealing destination for domestic and international investments. The government's efforts to develop the infrastructure of the country, digitize multiple public platforms to provide ease of access, and push game-changing economic reforms such as Production-Linked Incentive schemes have significantly contributed to the economic growth of the country.

2.1. Diverse Economy with robust growth forecasts results in lower concentration risks

India's economic history is rich and diverse. The country was the world's largest economy until 1700. However, its share of global output declined over subsequent centuries. Currently, India accounts for approximately 3.6% of global GDP, which as per IMF projections, is expected to rise to 4.2% by 2028, surpassing both Germany and Japan. The country's economy is diverse, with a strong focus on services (52%), Industry (33%), and agriculture (15%). Though, services sector accounts for over half of its GDP, India has boosted its manufacturing capabilities through various reforms. The country has also made significant strides in the financial and trade sectors, demonstrating its increasing influence on the global stage. India boasts the fourth-largest stock market in the world, trailing only behind the United States, China, and Japan.

According to the International Monetary Fund (IMF), the Indian economy is expected to grow 6.1% in 2023 and 6.8% in 2024. These projections reflect the country's ongoing reforms and favourable economic conditions, positioning it as a significant player in the world economy.

Annual Real GDP growth



Source: International Monetary Fund; P – Projection

India's robust growth forecasts stem from a variety of reasons:

- Strong rebound in private consumption, which has become the primary driver of growth and has given a huge boost to manufacturing activity across the country. Private consumption rebounded strongly after covid-19 and grew 11.2% in FY 22 and 7.3% in FY23¹.
- Significant increase in government's capital expenditure, which has increased at a CAGR of 23.2% to reach at INR 7.5 trillion (USD 91.2 Billion) in FY 23 from INR 2.6 trillion (USD 31.6 Billion) in FY 18².
- Strengthening of balance sheets of companies and banks. Consolidated non-performing loan ratio of all the scheduled commercial banks in India has declined to 5.8% in FY21-22 from 11.2% in FY17-18³.



- The government's near-universal vaccination coverage, which disbursed more than 2 billion doses, has enabled consumers to spend money on contact-based services like restaurants, shopping malls, and hotels.
- Public sector banks with adequate capital have boosted loan growth and readily supplied credit to the Micro, Small, and Medium Enterprises (MSME) sector. Banks credit growth of 15.4% YoY in FY23 was highest since FY12⁴.

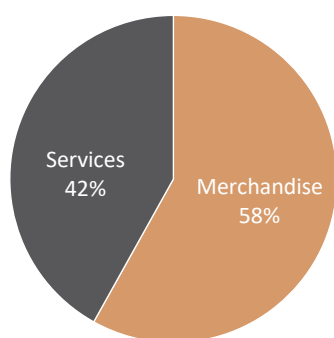
India's GDP grew 7.2% in FY23, and RBI forecasted FY 2024 growth at 6.5%. The GDP growth forecast for FY24 is greater than that of almost all other major economies and is even marginally higher than the average annual growth rate of the Indian economy during the ten years prior to the pandemic. All these factors, along with a stable democracy, rising exports, improving ranking in ease of doing business and global innovation, and rising FDI, make India an attractive investment destination.

2.2. Rising exports signals global competitiveness

India's growth story is often seen as being driven by domestic demand and investments. However, exports have become an important part of India's economy and represent 23.5% of GDP in 2022–23. From USD 1.3 billion in exports in 1950–51, India's exports have multiplied 600 times to reach USD 770.2 billion in 2022–23. India's rising exports have become a major contributor to foreign exchange earnings and the growth of the economy⁵.

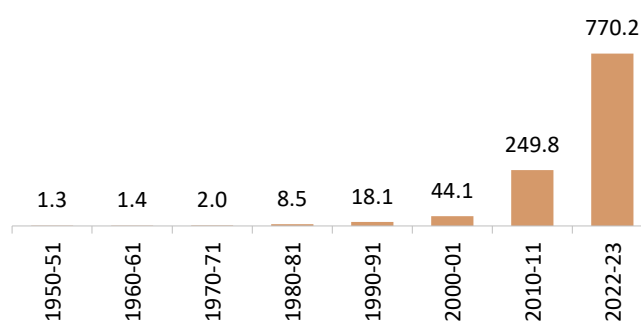
India's merchandise exports have grown from USD 304.6 billion in 2011–12 to USD 419.7 billion in 2022–23 (46.9% growth), while services exports have increased from USD 142.3 billion to USD 322.7 billion (126.8% growth).

Exports Breakup (2022)



Source: Economic Survey.

Total Exports (USD Billion)



Source: Economic Survey.

The services sector has been the primary driver of export growth in the country in recent years, aided by the thriving information technology (IT) and telecom sectors. The services sector employs a highly skilled and able workforce with English proficiency, provides service at a lower cost compared to other countries, and is supported by a liberalized policy ecosystem. Other business services, which includes R&D, professional and management consulting, and services by BPO and IT firms, have exhibited the fastest growth in the services sector over the last 10 years.

The government recognizes the long-term potential of India's exports. It has placed emphasis on infrastructure development, provided support to sunrise sectors, and continued investment into R&D opportunities. Rationalizing custom duties and simplification of tariffs will help in the short term, while grassroots infrastructure development, policy reforms and a mature logistics network will support the export ecosystem in the long term. The government has set up yearly and long-term export targets, and closely monitors them to make sure that they are achieved. By 2030, the government aims to reach USD 2 trillion in goods and services exports.

Key exports numbers:

- India's merchandise and services exports in FY23 stood at USD 770.2 billion, representing growth of 13.8% from the same period last year. Of this, USD 419.7 billion was merchandise exports and USD 322.7 billion was services exports.



- In FY23, the top exported products were engineering goods (USD 107 billion), petroleum products (USD 94.5 billion), gems & jewellery (USD 37.9 billion), organic & inorganic chemicals (USD 30.3 billion), and drugs & pharmaceuticals (USD 25.4 billion).
- India's top five export destinations were the US, the UAE, Netherland, China, and Bangladesh⁷.
- India's exports as a % of GDP grew from 12.6% in fiscal year 2002 to 23.5% in 2023.

Government initiatives to boost exports:

Initiative	Description
National Logistics Policy (NLP)	<p>The National Logistics Policy (NLP) is a significant step in reshaping India's logistics sector and positioning the country globally. The implementation of the policy has already yielded positive outcomes, with India's ranking in the World Bank's Logistics Performance Index (LPI) improving from 44th to 38th position. The NLP seeks to reduce the over-dependence on roads and optimize the use of various transportation options by integrating them into a seamless and efficient logistics network. This coordinated approach will enhance efficiency, improve connectivity, and enable smoother movement of goods across different modes of transportation.</p> <p>The NLP aims to bring down the logistics cost as a percentage of GDP from 14% to 8%, aligning it with global benchmarks. This objective will enhance competitiveness, promote economic growth, and streamline operations in the logistics industry.</p>
Remission of Duties and Taxes on Exported Products (RoDTEP)	<p>The Remission of Duties and Taxes on Export Products (RoDTEP) introduced in 2021, seeks to address the issue of non-recoverable embedded taxes and duties that exporters faced in the past. By providing refunds on these previously non-recoverable taxes and duties, the scheme aims to stimulate and enhance the volume of exports. The foundation of RoDTEP is the widely acknowledged idea that taxes and duties should not be exported, and that they should instead either be waived or reimbursed to exporters. The RoDTEP scheme provides a level-playing ground to Indian companies abroad.</p>
Trade Infrastructure for Export Scheme (TIES)	<p>The implementation of financial grants through the Trade Infrastructure for Export Scheme (TIES) has played a pivotal role in facilitating the growth of exports by enhancing and establishing infrastructure specifically tailored for export purposes. Cold chains, Border Haats, trade promotion centers, land customs stations, quality testing and certification labs, SEZs, and ports/airports cargo terminuses are a few infrastructure projects that have benefitted from this scheme. Under TIES (Trade Infrastructure for Export Scheme), financial assistance has been approved for a total of 40 export infrastructure projects between the fiscal years 2019-23. The funds allocated for these projects amount to INR 2,780 million (USD 33.7 million).</p>
PM GatiShakti (National Master Plan for Multi-modal Connectivity)	<p>PM Gati Shakti was unveiled to solve the issues of multi-modal and last-mile connectivity, which aims to break down departmental silos and bring about more holistic and integrated planning and project execution.</p>
Free Trade Agreements (FTAs)	<p>India has actively pursued the signing of Free Trade Agreements (FTAs) with various trading partners, establishing 13 such agreements to date. Notably, within the past five years, India has successfully concluded three comprehensive agreements: the India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA), the India-UAE Comprehensive Partnership Agreement (CEPA), and the India-Australia Economic Cooperation and Trade Agreement (IndAus ECTA). It is also negotiating FTAs with multiple other countries such as the UK, Canada, Israel, and the EU. These FTAs will boost bilateral trade, provide India access to new markets, enhance the quality of products and increase competitiveness, and reduce trade risk via diversification.</p> <p>India's experience with previous Free Trade Agreements (FTAs) has been varied. While the outcomes with Japan, Korea, and ASEAN were balanced overall, India's exports to ASEAN did not see significant gains despite increased imports. On the other hand, India's exports to South Korea</p>

	doubled after the FTA was signed, but the benefits were not maximized due to factors like limited outreach initiatives for new market opportunities.
Production-Linked Incentive (PLI) Schemes	The government has introduced PLI schemes in various sectors such as bulk drugs, medical devices, white goods, batteries, and semiconductor and display manufacturing. The incentives provided through this scheme aim to make Indian manufacturers globally competitive and make India an integral part of the global supply chain.
Export Promotion Councils (EPCs)	<p>The government has set up EPCs for various commodities and products in India. The EPCs help promote the country's exports by:</p> <ul style="list-style-type: none"> • Setting up and following quality standards. • Building awareness about the respective products through newsletters, expo events, market reports, and organizing buyer-seller meets; and • Helping exporters understand the government's policies and schemes.

2.3. Structural reforms improved ease of doing business rankings

India has made tremendous strides in creating a business-friendly environment in the country. India's position in the World Bank Ease of Doing Business Index improved substantially from 130 in 2016 to 63 in 2019, earning a citation as one of the ten economies that have seen the most improvement across three or more dimensions.

Significant improvements have been registered in Resolving Insolvency (from rank 108 to 52), Dealing with Construction Permits (from 52 to 27), Registering Property (from 166 to 154), and Trading across Borders (from 80 to 68) indicators.

The government has implemented multiple reforms over the past few years to make starting a business in India easier, quicker, and hassle-free:

National Single Window System (NSWS)

The NSWS is a digital platform to help businesses identify and apply for various approvals. The platform helps lessen the burden of compliance, reduce duplication of information submitted to various ministries, promote sector-specific reforms and schemes, and shorten project gestation periods.

Goods and Services Tax (GST)

GST was introduced in 2017 to simplify India's tax regime. More than two dozen legacy indirect taxes were converged into GST. It replaced the complex indirect tax structure with a simple, transparent and technology-driven tax regime. It also introduced the GST Council, which has representatives from the Centre and States, which means that any tax-related decisions are made with the consensus of all involved parties.

Business Reform Action Plan (BRAP)

The Business Reform Action Plan (BRAP) is an initiative launched by the Government of India to improve the ease of doing business in the country. The plan is implemented by the Department of Industrial Policy and Promotion (DIPP) in collaboration with the World Bank. BRAP aims to create a conducive business environment in the country by simplifying and streamlining various business processes, such as obtaining permits and licenses, paying taxes, and enforcing contracts. Since its implementation in 2020, Indian government ministries have reduced more than 39,000 compliances to make conducting business easier. More than 3,500 provisions related to minor technical or procedural defaults have also been erased.

2.4. Global Innovation Index rank is improving

Innovation has played a key role in propelling India into one of the fastest-growing economies globally. India's rank in the Global Innovation Index has risen from 81 in 2015 to 40 in 2022. Through initiatives such as setting up centres of excellence,



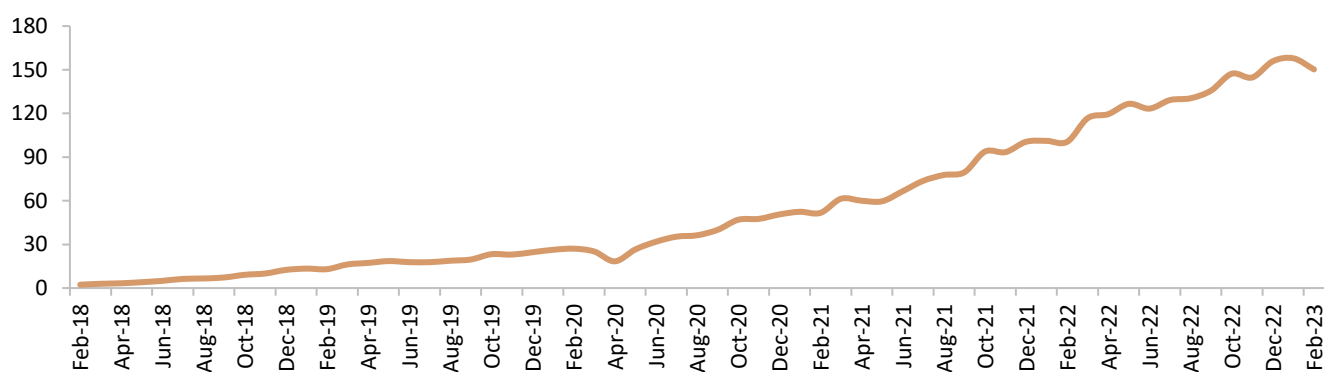
providing R&D support to facilities and institutions, and launching new scholarships, the government aims to instil the importance of innovation from schools to industries. Covid-19 accelerated the adoption of multiple new technologies in the country, while also demonstrating that a pandemic can be dealt with by developing new drugs and vaccines.

A few examples of India's growing innovation ambition are mentioned below:

Unified Payments Interface (UPI)

Launched by the National Payments Corporation of India (NPCI) in 2016, UPI has revolutionized the digital payments ecosystem in India. It is an instant payment system that combines multiple bank accounts, provides many banking features and merchant banking abilities under one mobile application. It allows consumers to pay their utility bills while also allowing payments to small vendors and shops. The UPI app currently accounts for over 40% of all digital transactions in India.

UPI Transaction Value (USD Billion)



Source: National Payments Corporation of India

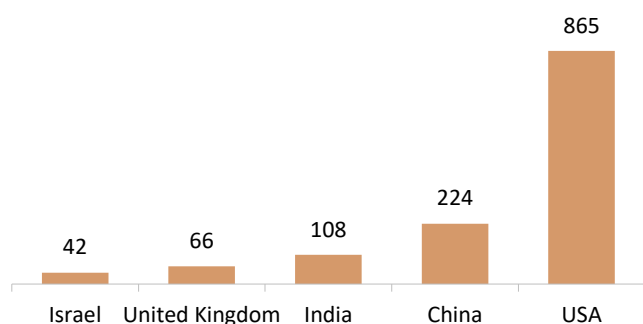
Start-ups

The number of start-ups incorporated in India has been on an exponential rise over the past few years — start-ups recognized by the Department of promotion of Industry and Internal Trade (DPIIT) have grown from around 471 in 2016 to over 88,000 at the start of 2023. The government has been focusing not only on providing financial incentives to start-ups but also on creating a start-up ecosystem and providing a business environment where start-ups can thrive. India is home to 108 unicorns, and start-ups funding in India increased to USD 25 billion in 2022 from USD 11 billion in 2018, depicting a CAGR of 24% over the period.

Patents

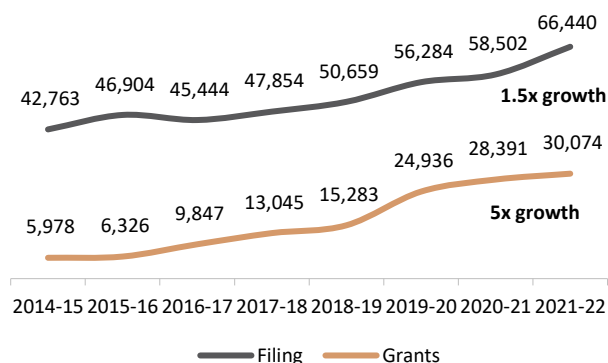
DPIIT has made persistent attempts to improve intellectual property rights (IPR) awareness in India. The compliance burden has been reduced, leading to a sharp rise in patents filed in India, going from 42,763 in FY15 to 66,440 in FY22, a 50% increase over 7 years. During the same period, the number of patents granted has jumped by five times.

Unicorn by Country



Source: Harun, 3one4 Capital

Patents



Source: Press Information Bureau



2.5. Increasing Foreign Direct Investments, a sign of Investor confidence in the country

In spite of the pandemic and the current geopolitical uncertainty, multinational investors continue to view India as a reliable partner and an attractive investment destination. The consistent steps that the Indian government has taken to improve ease of doing business has vastly improved its business climate and investment environment. An October 2022 survey by EY and Confederation of Indian Industry (CII) states that 71% of survey respondents planned to invest in India over the next 3-5 years, and almost 96% of them have belief in India's growth prospects. Investors have reacted positively to India's recent push toward signing FTAs to boost bilateral trade. India's rapidly growing domestic consumption (third in the world behind the US and China) and digital economy also instil confidence in investors.

Between April 2000 and December 2022, India has attracted USD 903.9 billion of cumulative FDI inflow, and USD 625.2 billion of FDI equity inflow.

- During this period, the top countries with equity FDI inflow in India were Mauritius (26% of total), Singapore (23%), the US (9.4%), the Netherlands (6.9%), and Japan (6.1%).
- The sectors that have received the most equity inflow have been Services (16.1%), Computer Software & Hardware (15%), Telecommunications (6.2%), Trading (6.2%), and the Automobile Industry (5.5%)⁶.

Reasons for increasing FDI investment:

Initiative	Description
Market Potential	India has the second-largest population in the world, with 64.2% of the population being working age (15-59 years). According to estimates, 43% of Indians are aged 25 or younger, which provides huge potential for skilled and unskilled labour. Personal consumption is also on the rise, with per capita GDP at constant prices growing from INR 71,609 (USD 1,116.4) in FY12 to INR 1 trillion (USD 2,343.2) in FY22, depicting a CAGR of 4.3% ⁹ .
Political Stability	India is the world's largest democracy with a stable party system. It is a secular country, giving no preference to any social or religious groups. Regular national and state elections have been held in the country for decades, with a peaceful transfer of power. The government has a pro-business mindset, with economic and policy reforms being a part of the government's main agenda, regardless of which political party is in power. The judicial system is an independent entity, which is not partisan, and judges are not appointed on political considerations.
Low Cost of Labour	With a population of over 1.4 billion people, India provides access to a large, diverse workforce for both skilled and unskilled labour. It has a lower wage structure compared to other developing economies, providing a competitive advantage.
FDI Allowance	The Indian government has increased FDI allowance limits in multiple sectors to encourage investment. For example, FDI allowance in the insurance sector, which stood at 26% in 2015, was raised to 49%, and then further to 74% in 2021.
Start-up Ecosystem	With the advent of digitalization, and an increasing number of entrepreneurs in the country, India has grown to become the third-largest start-up ecosystem in the world, according to a report from Invest India. The government has nurtured this sector through initiatives like Startup India and Atal Innovation Mission. Moreover, recently there has been a sharp spike in start-ups related to emerging technologies such as the Internet of Things (IoT), robotics, artificial intelligence, and analytics. In 2022, 1,300 tech-related start-ups were incorporated in the country.



3. LONG-TERM INVESTMENT THEMES

India is well-positioned to benefit from several key investment themes in the long run. These themes include global offshoring, growing domestic consumption, shifting manufacturing base from China, digitalization, and rising services exports. India's favourable business environment, large pool of skilled labour, and abundant raw materials make it an attractive destination for companies looking to shift their operations from China. Furthermore, India's growing digital infrastructure and services exports are expected to drive economic growth and create investment opportunities in the technology and services sectors.

3.1. Global offshoring: Talent factory or office of the world

India has become one of the primary destinations for global offshoring due to the country's young, efficient, highly skilled, and affordable workforce and strong presence in manufacturing. India has a strong competitive advantage in IT and other knowledge-based services and is home to world-class companies in the services sector. The country is poised to witness a surge in global outsourcing owing to the proliferation of distributed delivery models post-covid and rising labour market constraints worldwide.

Diverse Sectors Fuelling India's Economic Growth

Competitive IT industry

The IT industry in India has experienced remarkable growth in the last two decades reshaping global perceptions of India's knowledge and skills while driving economic progress. The rapid advancements within the sector, combined with the implementation of liberalization policies by the Indian government, such as eliminating import duties on technology products and reducing trade barriers, have played a pivotal role in the industry's evolution. Furthermore, the establishment of Software Technology Parks (STPs), Export Oriented Units (EOUs), Special Economic Zones (SEZs), and the inflow of foreign direct investment (FDI) have been instrumental in propelling India's IT industry to a prominent position on the global stage.

According to the National Association of Software and Services Companies (Nasscom), IT sector revenue is estimated to reach USD 245 billion in FY23, up 8.4% from the previous year. Additionally, India's share of the global IT market has reached 35% in Q2 FY23, the highest in the last five years. This growth has been driven by a robust and competitive IT sector, which has made India a primary destination for IT services.

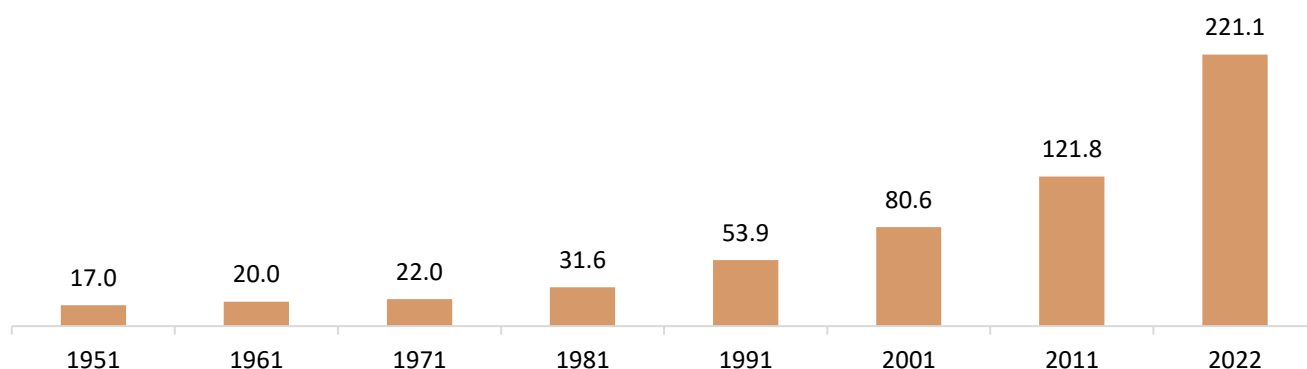
In recent years, Indian IT firms have made substantial investments in technology, delivery capabilities, and go-to-market strategies and are well-equipped to meet the evolving needs of enterprises and play a pivotal role in their digital transformation endeavours.

Dairy Industry: From a milk-deficit nation to a milk-products exporter

India's dairy sector has undergone a significant evolution, transforming from a milk-deficit nation to a leading exporter of milk products. The journey began with the launch of Operation Flood, which introduced the cooperative model and aimed to replicate the successful 'Anand Pattern' of dairy cooperatives across the country. This initiative, implemented in phases, led to the creation of village-level Dairy Cooperative Societies (DCSs), district-level unions, and state-level marketing federations. Operation Flood enabled the distribution of quality milk to consumers across 700 towns and cities through a National Milk Grid, while eliminating the need for middlemen and reducing price variations. The cooperative structure made milk production and distribution economically viable for farmers, leading to increased income and self-sufficiency. The country's dependence on imported milk solids was eliminated, and India even started exporting milk powder to foreign countries. With genetic improvement of milking animals and modernization of the dairy industry, around 10 million farmers now earn their livelihood from dairy farming.



Milk Production in India (in million tonnes)



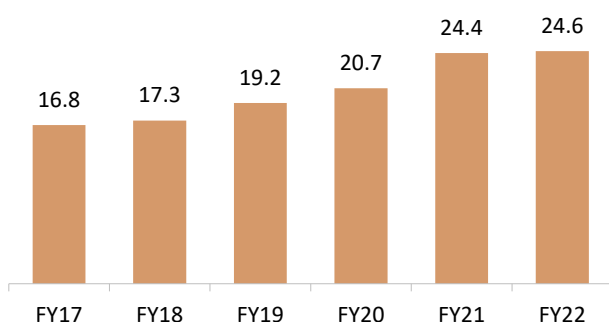
Source: Press Information Bureau

India's milk production has witnessed a remarkable transformation over the years. In 1950-51, it was a mere 17 million tonnes (MT), which increased to 21.2 MT by 1968-69. With the launch of Operation Flood, a dairy development program, milk production experienced substantial growth, reaching 30.4 MT by 1979-80 and 51.4 MT by 1989-90. The upward trajectory continued, and in 2021-22, milk production soared to a staggering 221.1 million tonnes. While the global milk production growth rate stands at 2%, India's growth rate surpasses 6%, demonstrating its robust dairy industry. The dairy sector plays a vital role in India's economy, employing over 80 million rural households, particularly small and marginal farmers. Cooperative societies have not only made farmers self-sufficient but have also empowered women, breaking barriers of gender, caste, religion, and community. Women form the major workforce in the dairy sector, contributing to their empowerment. The government, along with private sector participation, continues to take measures to sustain growth in milk production and processing. With the dairy sector's contribution to the rural economy and ongoing initiatives such as the National Dairy Plan and empowerment schemes, India's dairy industry exemplifies the nation's journey toward self-reliance.

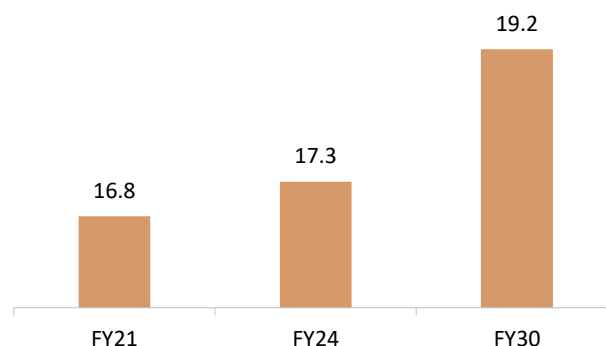
Pharma sector

The Indian pharmaceutical industry holds a prominent position on the global stage, both in terms of production volume and value. It ranks third worldwide in pharmaceutical production volume and fourteenth in terms of value. India's contribution to global supply is noteworthy, with a 20% share in volume, making it the largest provider of generic medicines globally. Furthermore, India's dominance in the global vaccine market is remarkable, with a substantial 60% market share. Despite facing challenges such as global trade disruptions and a decline in demand for Covid-19-related treatments, the pharmaceutical exports from India have exhibited resilient performance, maintaining positive growth.

Pharmaceutical Exports (USD Billion)



Indian Pharmaceuticals Market (USD Billion)



Source: IBEF, Economic survey



India's domestic pharmaceutical market is estimated to be around USD 41 billion in 2021 and is projected to reach USD 65 billion by 2024 and USD 130 billion by 2030. Despite facing global trade disruptions and a decrease in demand for Covid-19 treatments, the pharmaceutical export sector in FY22 demonstrated resilience and maintained a trajectory of growth. Over a span of five years until September 2022, FDI inflows in the industry witnessed a four-fold increase, reaching USD 699 million. These inflows are supported by investor-friendly policies and a positive outlook for the pharmaceutical industry, highlighting the confidence and interest of foreign investors in India's pharmaceutical sector.

Global Capability Centre (GCC)

India has emerged as a prominent GCC (Global Capability Center) hub for global corporations, driven by factors such as a large talent pool capable of innovation and competitive service delivery, as well as a favourable economic environment. According to the latest report by NASSCOM on GCCs, India is home to over 1580 GCCs, with 65% of them being headquartered in the Americas. These GCCs collectively employed 1.66 million people in FY21, and it is projected that this number will surpass 2-3 million by 2025.

Many large corporations consider India as their largest or second-largest workforce, and India accounts for over 45% of the GCCs outside their home countries worldwide. Moreover, approximately 75% of the GCC companies headquartered in India are investing in advanced technologies such as analytics, cloud technologies, and robotic process automation, underscoring their commitment to innovation.

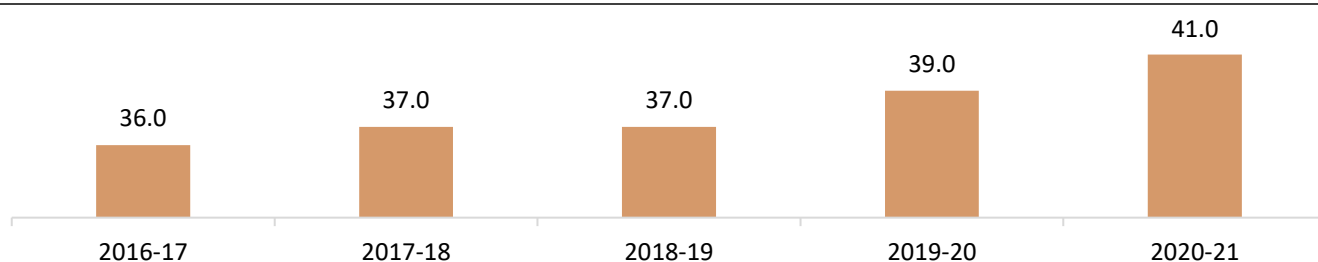
The GCC market grew at a CAGR of 11.4% to reach at USD 46 billion during the period 2015-23. This trend is further reinforced by the fact that Fortune 500 businesses have opened 180+ innovation centres in India. The rise in GCCs have aided India's economic growth as the world becomes increasingly digitalised.

Availability of talent pool

Empowering India's next generation of talent will be the key to leverage India's demographic dividend. According to the PEW research centre, India has surpassed China to become the world's most populous country. India's population has more than doubled since 1950. India also has a sustainable population metric, with a fertility rate of 2.0 compared to countries such as the US and China, which have a fertility rate of 1.6 and 1.2, respectively. By 2047, India is predicted to have 20% of the world's working-age population, with 25 – 30% of India's population being under the age of 60. A total of 968 million people is expected to be between the ages of 15-59 by 2030 and the number is expected to reach 1,017 million by 2050.

India has a vast education system with a network of universities, colleges, and vocational training institutes. According to the National Sample Survey (NSS), the literacy rates in India stood at 77.7% overall, and 96% at the elementary school level, and these rates are expected to grow further. India's higher education enrolment has witnessed a steady growth, rising from 36 million in the academic year 2016-17 to 41 million in the academic year 2020-21. In 2020, India implemented a comprehensive overhaul of its school education policy known as the National Education Policy (NEP). This policy seeks to cater to the changing needs of learners and the dynamic global landscape by advocating for a holistic and multidisciplinary approach to education. Additionally, the government has introduced initiatives like Skill India, with the objective of empowering the workforce with employable skills and knowledge. The above policy initiatives coupled with India's growing English-speaking population, provides a massive talent pool for the world, and will aid India in becoming a global office of the world.

Total Student's Enrolment in Higher Education (in million)



Source: Press Information Bureau



India has implemented a range of initiatives to empower women by addressing social, educational, economic, and political challenges through various schemes. These include Beti Bachao Beti Padhao Scheme (initiative to tackle the issue of unequal sex ratio), Working Women Hostel Scheme, One-Stop Centre Scheme, Mahila Shakti Kendras (initiative for women empowerment), Ujjwala Scheme (to address human trafficking). The positive outcome of the above initiatives has resulted in improvement in various data points from the National Family Health Survey (NHFS):

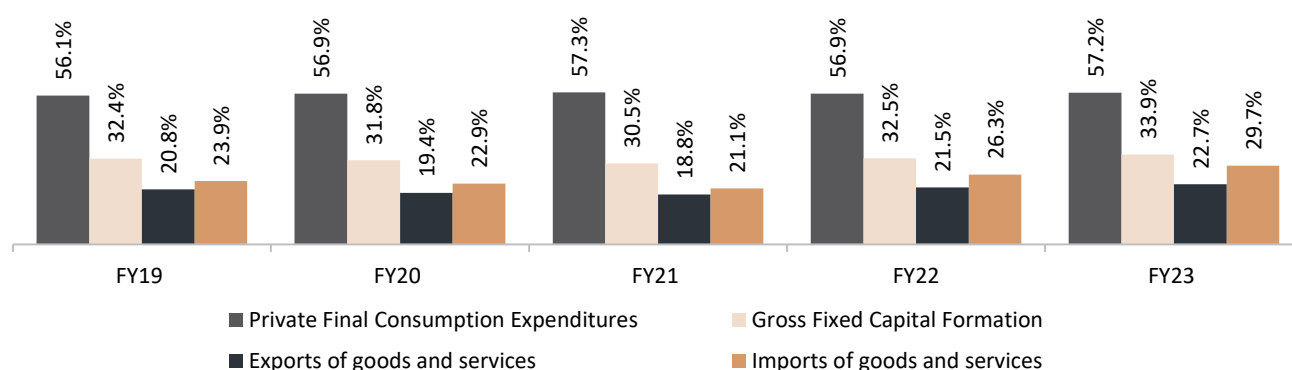
- Over 78.6% of women now possess bank accounts that they independently utilize, indicating increased financial inclusion and independence.
- 43% of women in India own a house or land either individually or jointly, representing a significant rise from the 38% reported five years ago.
- 88.7% of women currently participate in major household decisions, compared to 84% five years ago. This indicates an enhanced role and decision-making power for women within the household, reflecting progress towards gender equality.
- 29% of married women reported experiencing spousal violence, a decrease from 39% a decade ago and 33% five years ago. This indicates a positive trend in addressing domestic violence and promoting a safer environment for women.

Women are expected to play a key role in India's economic development, as an increasing number of women are entering the work force. India has already witnessed the advancement of women-led start-ups and the growth of female CEOs. According to a report published by Nasscom, 18% of Indian start-ups are led by at least one-woman founder or co-founder - there are at least 36 unicorns and potential unicorns with at least one female co-founder in India. This rise in the working-age population, sustained population growth, rise in the literacy rates and rising participation of women will aid India in becoming the global office of the world. According to a survey from Grant Thornton in 2023, India women hold 36% of senior management positions in mid-market companies, compared to 32% globally. The appointment of a female President in India and a female Chairman of SEBI (securities exchange regulator) exemplifies the empowerment of women and their increasing presence in significant leadership positions.

3.2. Higher domestic consumption provides push towards self-sufficiency

India has long been a consumption-driven economy, with consumer spending accounting for nearly 60% of the GDP. India has seen a sharp increase in domestic investments and consumption in recent years. Consumption slumped during the pandemic with private consumption expenditure declining by 26.7% during Apr-June'20 quarter caused due to adverse impact of lockdowns and supply disruptions. Private consumption in India increased at a rate of 7.3% in FY23, outpacing the country's estimated 7% GDP growth. The strong growth in consumption can be attributed to various factors, including favourable demographic profile, growth in per-capita income, and a steady rise in urbanisation. Additionally, the emergence of organized retail formats, and technological advancements such as ONDC have further supported consumption growth.

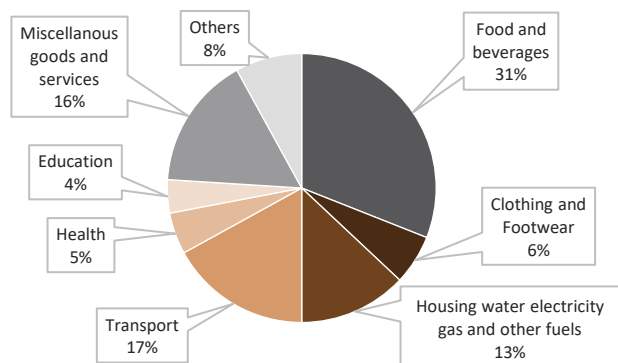
Share of Real GDP Component



Source: Indian Economic Survey

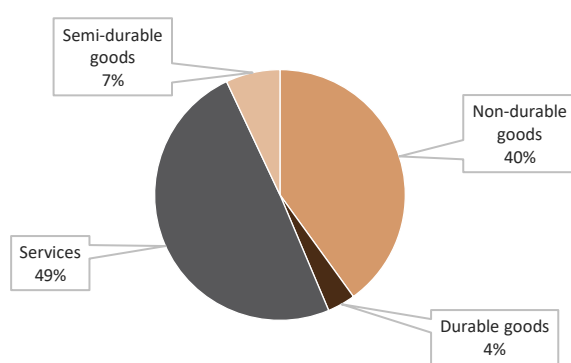
India's current spending is heavily concentrated on necessities rather than luxury items. Food accounts for over 30% of the country's expenditure, followed by transportation (17%), housing and utilities (13%), clothing (6%) and health (5%). Around 49% of spending is on services, while non-durable goods make up 40% of consumption. Durable and semi-durable items make up less than 10% of total spending.

Consumer Expenditure by Purpose (FY22)



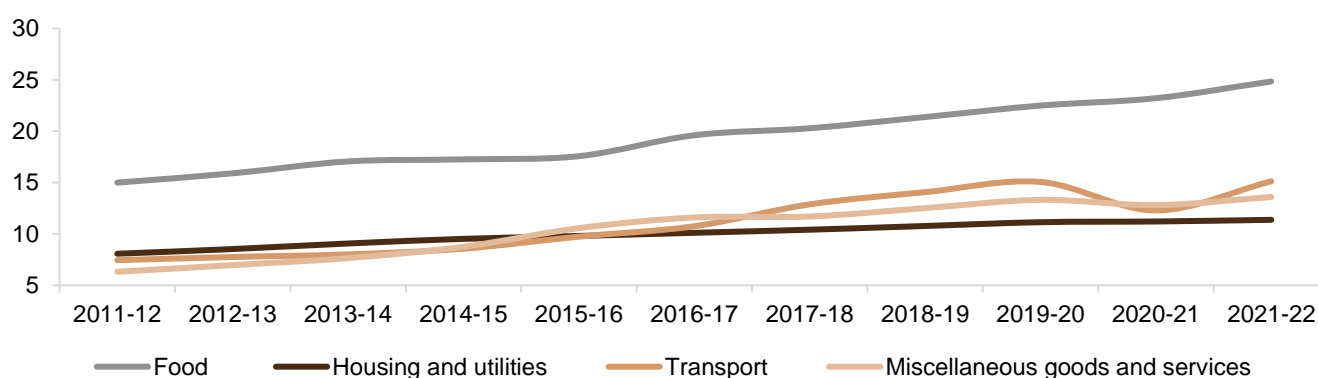
Source: RBI, CSO

Consumer Expenditure by Durability



Source: RBI, CSO

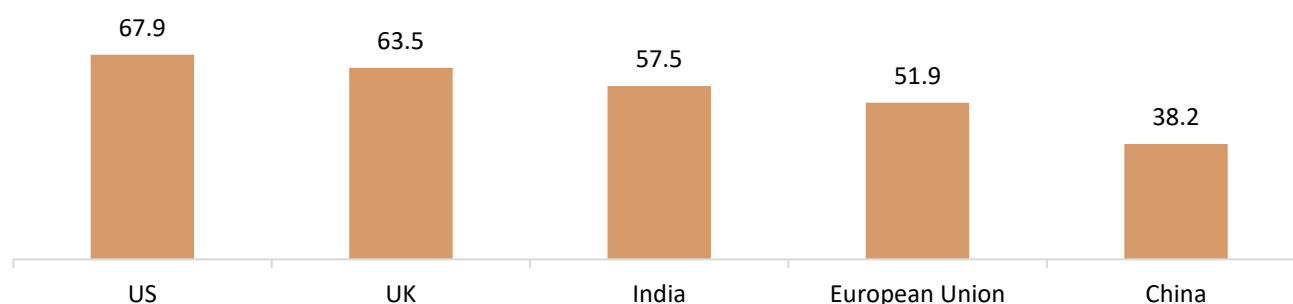
Private Final Consumption Expenditure Classified by Major Items (in INR trillion constant prices)



Source: MOSPI

India's private consumption rate is relatively lower compared to countries like the United States and the United Kingdom. In 2023, India's private consumption rate stands at 57.5% of GDP, while the United States recorded a higher rate of 68% in 2022, and the United Kingdom had a rate of 64% in the same year. However, India performs better in this regard compared to its nearest neighbour, China, where the private consumption rate is at 38% (2021) and European Union, where the private consumption is at 51.9% (2022).

Private Consumption Expenditure (% of GDP)



Source: World bank



India's per capita GDP has already crossed the USD 2,000 mark and per capita net income has more than doubled over the last decade. Growing per capita income, coupled with growing consumer aspirations in affluent and elite households will lead to a shift towards non-food consumption. As a result, companies operating in the Consumer Discretionary sector are poised to benefit from this trend. The key beneficiaries of this shift will be sectors such as clothing and footwear, healthcare, education, leisure & recreation, restaurants & hotels, and household goods and services.

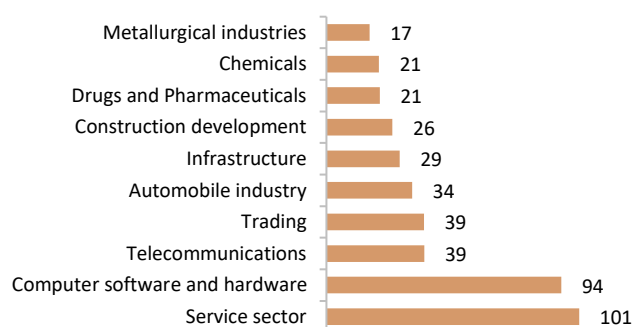
3.3. Shifting manufacturing base from China and rapidly rising services exports

The world order has become increasingly multipolar, and India is expected to be the primary beneficiary this shift. After the disruption caused due to the pandemic, companies have started shifting their supply chains out of China to other countries, and India is one of the primary destinations. Moreover, the trade tension between the US and China has further expedited the process and aided India in becoming increasingly self-sufficient and export oriented. India's industrial sector in particular is well-positioned to capitalise on the rising export opportunities. The country's relatively low labour costs compared to other manufacturing nations and availability of a large talent pool represent a huge competitive advantage. Household spending has risen sharply in recent years, supported by improving income prospects in rural and urban areas. This has led to companies taking advantage of the growing Indian market and shift their manufacturing bases to India. This trend is exemplified by companies such as Apple, Foxconn, and Cisco. Apple and Foxconn have recently set up their manufacturing bases in India, while Cisco has announced plans to build core manufacturing capabilities in the country with the aim of driving significant exports and domestic production. According to a recent research report by Morgan Stanley, the share of manufacturing in India's GDP could increase from approximately 16% to 21% by 2031.

India's share in Global FDI is rising

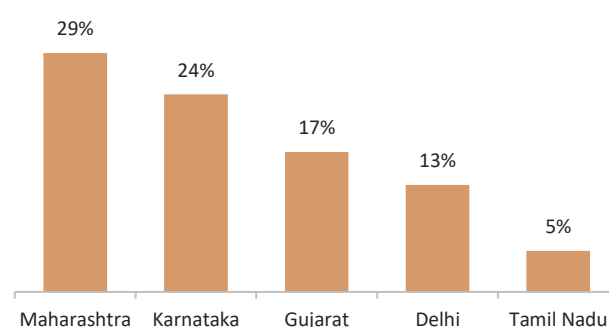
India has experienced a drastic rise in its share in global FDI. In FY22, India's FDI inflow went up to USD 84.8 billion from just USD 36.0 billion in FY14, up 135% in eight years. Based on data released by the Ministry of Commerce & Industry, the top 5 sectors receiving highest cumulative FDI Equity Inflow during the years 2000-2022 are Services Sector (16%), Computer Software & Hardware (15%), Trading (6%), Telecommunications (6%) and Automobile Industry (5%). Among states, the top 5 States receiving highest FDI Equity Inflow during FY 2022-23 are Maharashtra (29%), Karnataka (24%), Gujarat (17%), Delhi (13%), and Tamil Nadu (5%).

Cumulative FDI Inflow (FY 2000-2022 USD Billion)



Source: DPIIT

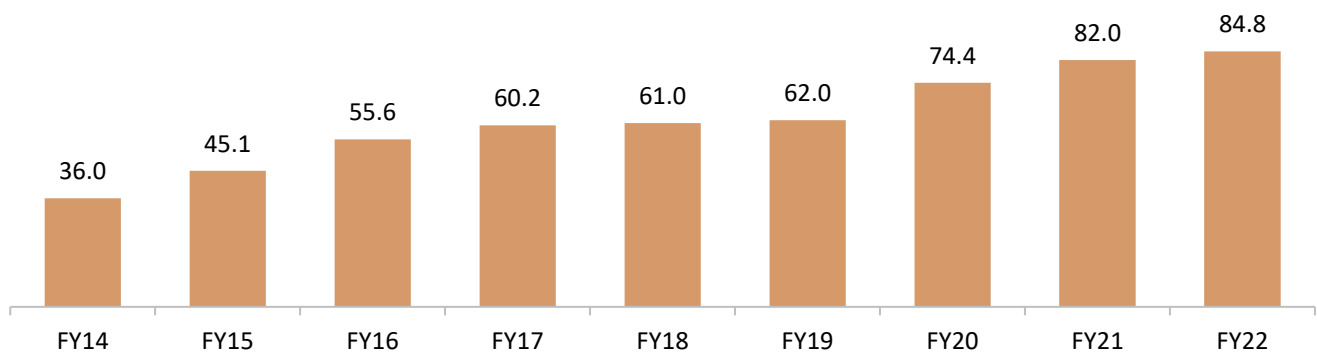
FDI Equity Inflow (FY2022-23)



Source: DPIIT

India ranked seventh among the top global recipients of foreign direct investment (FDI) in 2021 and is expected to climb further in 2023. India is increasingly being viewed as a key player in global value chains due to its strong manufacturing capabilities, its growing consumer base, and its rapid digital transformation.

Annual FDI Inflow (USD Billion)






Source: RBI

Large corporations have boosted their production in India

Several companies including Samsung, Apple, Boeing, and Nokia have shifted their manufacturing bases to India in recent years:

Global Companies making India central to their supply chain and business plans

	<ul style="list-style-type: none"> Apple started manufacturing iPhones in India in 2017, but initially, production was limited to older models. However, it has now started manufacturing newer models, including the iPhone 14, in India as well. During FY23, the company assembled almost 7% of its iPhones in India through its partners - a staggering 6% leap from just 1% FY21. Apple has also announced plans to set up its biggest manufacturing unit in Bengaluru, which is expected to employ over 60,000 people. By 2025-26, India is expected to account for at least 12% of the free on board (FOB) value of Apple's iPhones manufactured by its vendors worldwide.
	<ul style="list-style-type: none"> Samsung Electronics, the world's largest smartphone maker in terms of shipments, has recently announced major plans to invest in setting up smart manufacturing capabilities in Noida, its second biggest manufacturing facility in the world. The company's largest research and development centre is also situated at Bengaluru in India. Samsung has already started manufacturing its latest Galaxy Z flip and S23 flagship smartphones in India for local sales.
	<ul style="list-style-type: none"> Boeing has partnered with over 300 companies in India to strengthen its supply chain and has a joint venture to manufacture fuselages for Apache helicopters and vertical fin structures for the 737 family of airplanes. Annual sourcing from India stands at over USD 1 billion and the company employs over 5,000 people in the country, with more than 13,000 people working for its supply chain partners.
	<ul style="list-style-type: none"> Taiwanese electronic contract manufacturer Foxconn has committed USD 700 million to setup manufacturing plants in India to diversify from China and ramp up the local production. The investment by Foxconn is estimated to create 100,000 jobs in the country.
	<ul style="list-style-type: none"> In May 2023, Cisco announced that it would make a significant investment in India to strengthen its manufacturing and supply chain capabilities. It targets over USD 1 billion of combined production and exports from India over the course of next few years to meet global demand growth.



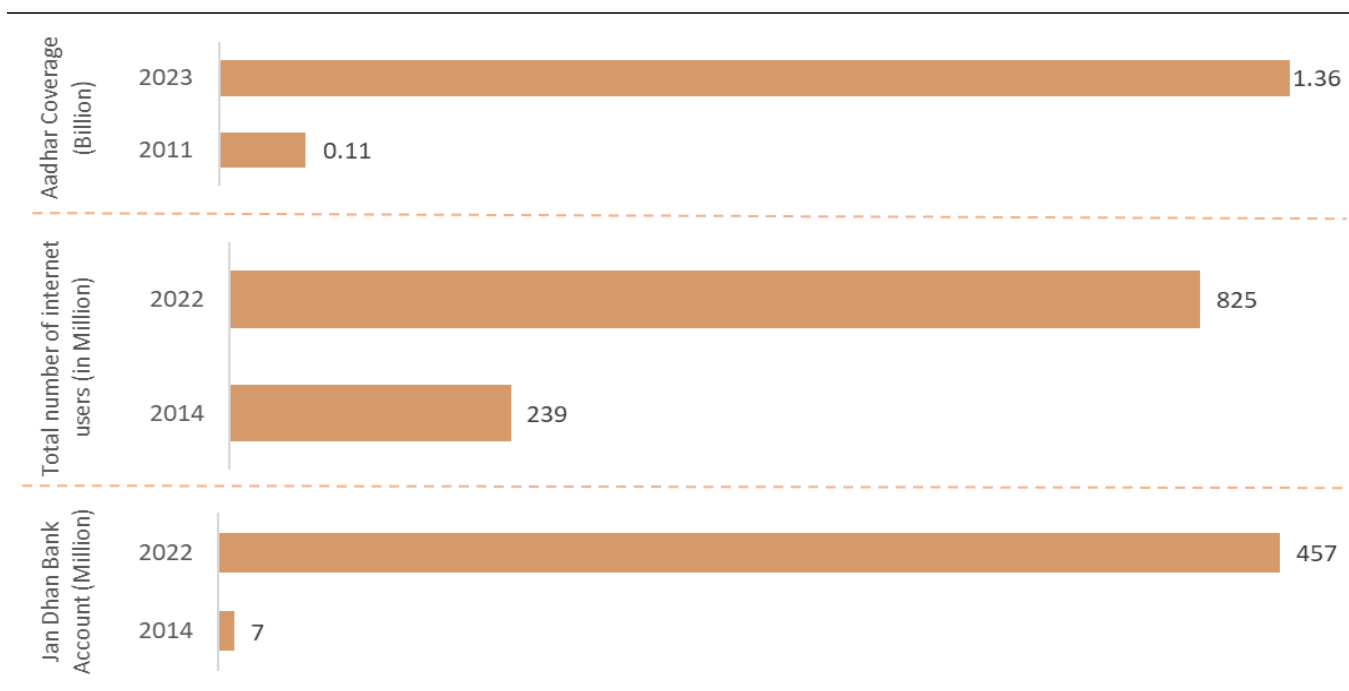
Government initiatives to boost manufacturing and service sectors

Logistics	<ul style="list-style-type: none"> Launched in September 2022, National Logistics Policy aims to reduce logistics cost from 16% of GDP to 8% by 2030. The NLP is a comprehensive initiative that aims to tackle cost inefficiency by establishing an interdisciplinary, cross-sectoral, and multi-jurisdictional framework for the entire logistics ecosystem. Launched in September 2021, National Single Window is a one-stop platform for regulatory approvals related to business/investments. Large number of States/UTs have been integrated with this system.
PM GatiShakti	<ul style="list-style-type: none"> The PM Gati Shakti National Master Plan (NMP) was launched in October 2021, as a digital platform to bring 16 Ministries together for integrated planning and coordinated implementation of infrastructure connectivity projects.
Labour Reforms	<ul style="list-style-type: none"> In 2020, the Indian government consolidated 29 existing labour laws into four codes, namely the Code on Wages, the Industrial Relations Code, the Social Security Code, and the Occupational Safety, Health and Working Conditions Code to simplify compliance requirements for businesses and improve the working conditions of workers.
Land Reforms	<ul style="list-style-type: none"> Creating land banks (developed land available through state industrial development bodies) for easily identifiable land for industrial projects Moving the purchase process online (except for very large land parcels), via a land information system, ensuring higher transparency

3.4. Digitalization Investments has powered transformative benefits for society

India's digital transformation is progressing rapidly, supported by a confluence of factors such as the increasing penetration of smartphones and internet, lowest data cost, and government efforts to enhance digital infrastructure. This has facilitated the emergence of a thriving start-up ecosystem and helped improve financial inclusion and governance. Key innovations such as UPI, NEFT, Aadhar, BharatNet and ONDC have aided the private sector in exploring new and exciting business opportunities.

Digitalisation at a Glance



Source: UIDAI, PMDJY, NPCI



Major effects of digitalisation are as follows:

Financial Inclusion

Rapid digitalisation of financial services has encouraged banking in the rural regions. Financial inclusion results in reduction in cash economy and bringing more money into the formal banking system. It facilitates direct cash transfers to beneficiary bank accounts, ensuring transparency and reducing misappropriation of funds. The availability of transparent credit from formal banking channels promotes entrepreneurship and boosts output in rural areas. Schemes such as Pradhan Mantri Jan Dhan Yojana (PMJDY) aim to provide universal banking for every unbanked household in India. The scheme has helped in the opening of 478 million bank accounts in India since launched in 2014. The scheme has also been able to issue 325 million debit cards in the last seven years. Along with PMJDY, other schemes such as Pradhan Mantri Mudra Yojana (PMMY) have promoted financial inclusion in India and helped boost small business enterprises.

Aadhar enrolment trends and growing utility

Aadhar is issued by the Unique Identification Authority of India (UIDAI) to residents of India. It serves as a proof of identity and address and is one of the largest biometric identification systems in the world. Aadhaar is based on biometric and demographic data of individuals, including fingerprints, iris scans, and demographic details such as name, date of birth, and gender. The system has transformed the way identification is carried out in the country. As of January 2023, India has a total of 1.36 billion Aadhar card holders; this has revolutionised identification and simplified the process of know your customer (KYC) and other necessary identification for businesses. About 99% of the Indian population has been verified through this system. Aadhar has become an essential document for availing various government services and benefits, such as opening bank accounts, obtaining mobile connections, applying for passports, and receiving subsidies and welfare benefits. This has facilitated direct benefits transfer (DBT) through which the government has been able to save USD 27 billion. Aadhaar is linked to an individual's biometric data, making it difficult to duplicate or forge. The use of biometric authentication through Aadhaar enhances security and helps in preventing identity fraud. The business use cases of Aadhaar includes Customer Onboarding and KYC Verification, Subsidy and Benefit Disbursements, Fraud Prevention and Risk Mitigation, and in Financial Services

Rise of Fintech

India's Fintech Industry has grown significantly in recent years. According to Invest India, India currently has the third largest fintech market in the world, valued at USD 50 billion, and is poised to expand at a CAGR of 32% to reach around USD 150 billion by 2025. The industry's growth has primarily been driven by an increase in demand with the rise in digitisation, which has made processes and services more fluid and customer-centric while driving down distribution costs. The establishment of the Unique Identification Authority of India (UIDAI) in 2009 created a new set of infrastructures for the fintech ecosystem. As public infrastructure, this comprised open application programming interface (API) products like as Aadhar, e-KYC, UPI, e SIGN, Bharat Bill Payment System (BBPS), and Digilocker. This benefited both the government and the private sector, boosting business innovation and customer empowerment. Digital adoption has decreased friction and contributed to the creation of a seamless consumer experience. Banks and financial institutions (FI) have expedited the use of e-KYC and video KYC, while services such as Digilocker have shortened the time and cost of the claim procedure for insurance companies. According to the Invest India, India's Total Addressable Fintech Market is expected to reach USD 2.1 trillion by 2030, while AUM and Revenue are expected to be at USD 1 trillion and USD 200 billion, respectively. In 2022, Indian Fintech start-ups raised USD 5.65 billion and remained the second-most funded sector.

Paytm is India's biggest and most influential fintech company, which offers various digital payments and financial services products. It provides digital payment solutions such as digital wallets, POS, and payment gateway offerings. Moreover, it has partnered with other financial institutions to provide services such as microloans, BNPL, ticketing services, and retail brokerage. Paytm's growth story is analogous to the growth of the fintech sector in India. Paytm's IPO remains the second biggest in Indian capital markets history, with a staggering valuation of USD 2.5 billion.

Rise of Real time payments

According to ACI Worldwide, India has the most advanced and robust real-time payments market in the entire world, far superior to its developed and developing counterparts. Real-time payments systems such as Immediate Payment Service (IMPS) were available in India since 2010; however, the United Payments Interface (UPI) launched in 2016 has proved to be a game changer. The National Payments Corporation of India (NPCI) has revolutionised the country's payment ecosystem. Products such as United Payments Interface (UPI) and Bharat QR have transformed real-time payments in India. UPI is an

instant real-time payment system that facilitates peer-to-peer transactions and peer-to-bank transactions in India. With more than 390 banking institutions connected and a user base of over 260 million, UPI is now the largest payment network in India, and ranks among the top five in the world in terms of transaction volume. Moreover, the value of UPI transactions surged to an all-time high of INR 12.4 trillion (USD 150.7 billion) in March 2023. UPI has completely revolutionised the system and helped Indians become increasingly digital in terms of payments. This has created business opportunities for fintech and e-commerce start-ups since the cost of distribution/collection has been significantly lowered. Bharat QR is one QR platform for all the payments systems in India. NPCI jointly worked with International Card Schemes (ICS) for Bharat QR to establish cross-compatibility and ease of transactions for merchants. The system is already in use by e-commerce and m-commerce companies. The ACI Worldwide data depicted, India is the global leader in the real-time payments, with transaction volume hitting 89.5 billion in 2022. India also accounted for 46% of all real-time transactions worldwide in 2022. India is followed by Brazil (29.2 billion), China (17.6 billion), Thailand (16.5 billion), and South Korea (8.0 billion) transaction in 2022. Finally, India's real-time payment transaction are expected to expand at a 5Y CAGR of 21.3% to reach 235 billion at the end of 2027⁸.

Fully online value-added Goods and Service tax (GST) system

On 1 July 2017, the Government of India implemented a simpler tax system. The system was built on the concept of 'One Nation, One Tax, One Market', with the main goal of decreasing the overall complexity of the tax system and increasing revenue by minimising collection inefficiencies and lowering the total tax burden in the system. The system is completely integrated online, which has improved corporate productivity and decreased friction. As of December 2022, total gross revenue of GST stood at INR 1.4 trillion (USD 18.17 billion), up 15% compared to the same period in the previous year.

Development of platforms such as ONDC and OCEN

OCEN (Open Credit Enablement Network) and ONDC (Open Network for Digital Commerce) are unique initiatives introduced by the Government of India to promote digital transformation and inclusive growth in the country. India has made significant strides in developing its digital infrastructure and has emerged as one of the fastest-growing digital economies in the world with a vision of USD 1 trillion digital economy by 2025. ONDC is considered to be the UPI for the e-commerce ecosystem. The primary goal of ONDC is to democratise and promote an open network for all elements of commodities and services trade. ONDC is built on an open-source approach, with platform-independent open standards and open network protocols. ONDC's foundation lies in the utilization of open protocols to establish public digital infrastructure. These protocols enable seamless information exchange between buyers and sellers, empowering businesses to communicate and transact within the ONDC ecosystem. The aim of ONDC is to enable small and medium enterprises (SMEs), kirana stores (neighbourhood shops), and other small businesses to participate in e-commerce activities and leverage the power of digital platforms. ONDC aims to empower small businesses and enable them to compete effectively in the digital marketplace. It provides them with the necessary infrastructure, tools, and resources to expand their reach and connect with a wider customer base. According to Mr. Thampy Koshy, Chief Executive of ONDC, the platform currently has a daily transaction volume of 200–300 per day, which is expected to ramp up to thousands per day.

Open Credit Enablement Network (OCEN) is a decentralised alternative to the traditional credit reporting system. It provides a network that enables the sharing and exchange of credit information. OCEN aims to expand credit access by collaborating with the account aggregator system. By leveraging OCEN, the lending flow can be seamlessly executed in a digital manner. The platform plays a crucial role in creating a common language that fosters collaboration among lenders, loan service providers, and aggregators. This collaboration, supported by APIs and smart integrations, paves the way for the development of new innovations in digital lending and the underlying digital infrastructure. The platform helps to bring various stakeholders in the lending ecosystem under one roof by utilising APIs and smart integrations, allowing lenders to construct unique credit instruments and companies to have streamlined access to a marketplace hosting a diverse range of lending products.

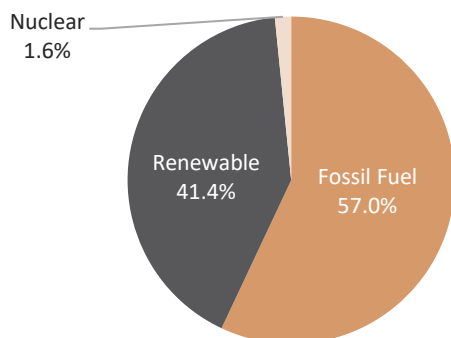
3.5. Energy transition to meet the country's evolving energy needs

India is the world's third largest consumer of electricity, with a total power consumption of 1,355 TWh, trailing behind China and the United States. However, per capita electricity consumption was 1,255 kWh in FY22, which is around one-third of the global average. As per the Union Minister of Coal, Mines and Parliamentary Affairs, Mr. Pralhad Joshi, India's per capita consumption of electricity is expected to double by 2040. As of March 2023, the total installed generation capacity was 416



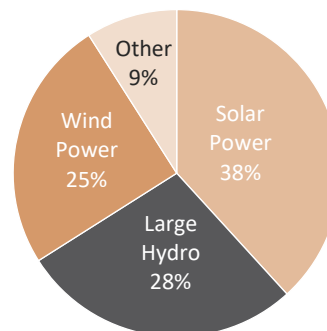
GW, with the private sector producing the majority of the power (50.6% of total capacity), the state producing 25.4%, and the central government producing 24.0%. The energy mix of India's power generation capacity comprises fossil fuel, which had a 57% share in electrical output, renewable energy (41.4%) and nuclear fuel (1.6%). Coal is the most important and fossil fuel accounting for about 49% of the total installed capacity. Although natural gas only made up 6% of the installed capacity, India has set ambitious plans to increase its market share to 15% by 2030. This move is part of the country's strategy to reduce air pollution and transition to cleaner-burning fuels.

Installed Capacity (416 GW)



Source: Central Electricity Authority (CEA)

Renewable Capacity (172 GW)

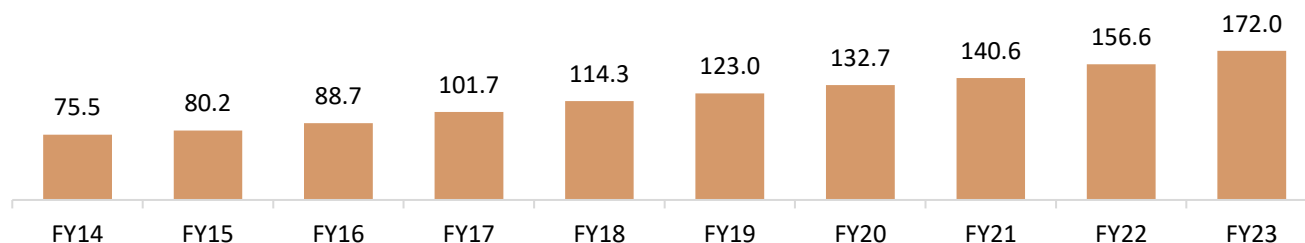


Source: Central Electricity Authority (CEA)

Growth of Renewable Energy:

India's renewable energy capacity (including large hydro power) has more than doubled since FY15. The government targets to meet 50% of its energy requirements through renewable energy by 2030. The energy transition towards renewable energy will substantially lower the risk of volatile pricing and availability of fossil fuels. The government has implemented various policy initiatives to promote renewable energy, green hydrogen and electric mobility.

Renewable Capacity (GW)



Source: Central Electricity Authority (CEA)

In recent years, the government has introduced a number of schemes to meet its solar potential, which include the PLI scheme to boost manufacturing of PV modules. The scheme was introduced under two tranches. Under the first tranche, LoA was awarded to three bids for the establishment of 8.7 GW of fully integrated solar PV module manufacturing plants under the National Programme on High Efficiency Solar PV Modules, with a financial expenditure of USD 616 million. Under the second tranche, a total additional financial outlay of USD 2.6 billion was introduced. In March 2023, the Ministry of New and Renewable Energy entered into a bilateral agreement with Australia, the UAE, Germany and Finland for promotion of bilateral cooperation in renewable energy. These strong government policies have induced strong capex commitments from corporates.

- On 7 July 2022, Tata Power announced it would invest INR 750 billion (USD 9.11 billion) in the renewable energy sector over the next five years.
- Adani Green Energy Limited (AGEL) has committed to invest USD 20 billion in green infrastructure, out of which it has already invested USD 5.3 billion.



- Reliance Energy announced an investment of USD 10.1 billion in clean energy to become a net carbon zero company by 2035.

Green Hydrogen Mission

India is rapidly increasing its adoption of green hydrogen as a source of energy, with businesses investing to build more capacity. The government established the National Green Hydrogen Mission with the intention of making India a leading producer and supplier of green hydrogen globally.

Green hydrogen is a type of renewable energy that will split hydrogen from water and has the potential to play a critical part in a low-carbon, self-sufficient economic route. Phase I would involve boosting local electrolyser production capability to create demand and ensure enough supply. The first phase will run from 2022–23 to 2025–26 and focus on refineries, fertilisers and city gas generation to generate sustainable demand and encourage long-term investments. Phase II will run from 2026–27 to 2029–30, with the goal of lowering the estimated cost of green hydrogen so that it can compete with fossil fuel alternatives in the fertiliser and refinery sectors. The National Green Hydrogen Mission aims to build total manufacturing capacity of 25 GW by 2030, with supportive manufacturing and R&D investment. A total of USD 1 billion has already been invested in R&D to catalyse the development of commercial green hydrogen technologies across the value chain.

Electric Vehicles and Biofuels

Electric vehicles in India have gained popularity in recent times. Registrations reached 1 million electric vehicles in 2022 from 330k in 2021, a rise of 333%. The two-wheeler segment for electric vehicles is a substantial market. In Q1 2022, the overall number of electric two wheelers (e2w) stood at 109,566 units. Various government policies have led to the push in electric vehicles, with the government announcing various PLI schemes to boost battery manufacturing locally.

India imports 85% of its oil requirements, and to reduce this dependency, the government has introduced an ethanol blending initiative. The Government acquired a total of 4.08 billion litres of ethanol for INR 257 billion (USD 3.1 billion) in FY22, which was 10 times higher than the 380 million litres purchased in FY14. The government targets to reach 20% of ethanol blending by 2030, and this would save billions of dollars in fuel imports and lead to more investments in ethanol production and refiners.



4. KEY ENABLERS OF FOREIGN INVESTMENT ARE ALREADY IN PLACE

India's growth story has been aided by the political stability in the country. Successive Indian governments with a 'pro-business' mindset have implemented wide-ranging policies and reforms that have vastly improved the ease of doing business. Compared to other countries, India's demographic advantage provides a vast pool of young and skilled labour force, which is essential to boost economic growth. The government's intent of turning India into a global manufacturing base is well underway, aided by initiatives like the Atmarnirbhar Bharat Abhiyan, Make in India and various PLI schemes. With an independent judicial system, strong institutional framework, and a well-regulated capital market, India offers an attractive investment destination.

4.1. Continuity of policies and reforms amid government changes

- India's constitution, which came into effect in 1950, underlined the democratic form of governance in the country. India is a secular state with no state religion, so every citizen in the country is free to follow the religion they believe in.
- Throughout its 75 years of independence, a peaceful and smooth transfer of power after general elections is an important feature that is a source of pride for India. The most recent example is when the current government was elected to power in 2014, achieving a peaceful transfer of power after the Indian National Congress was in charge for 10 years.
- The liberalisation of India in 1991 was a landmark turning point in the context of the Indian economy. A new economic policy was launched in 1991 based on the model of LPG – Liberalization, Privatization and Globalization. The industrial License Raj was abolished, and markets were deregulated. The License Raj was the outcome of socialist leaning economic policies of the Indian government during the first four decades after independence. It was a system that encouraged public enterprises in a bid to control the market forces of demand as well as supply. It failed to help India achieve strong economic growth because it tacitly supported corruption and market inefficiencies. Market liberalisation helped the country unlock significant economic value as it gradually introduced private entities across various sectors and reduced the government's direct involvement in sectors that are non-strategic from a national importance point of view. Import tariffs were reduced and banking reforms were introduced. This was the start of privatisation in India, as the role of the public sector was reduced, and these reforms and policies attracted FDI into India. Over time, multiple sectors (electricity, telecommunications), which were historically government monopolies, now have private players and government entities co-existing with each other.
- Indian governance benefits from the fact that reforms and policies are implemented across multiple governments. A change in the central government does not constitute a death knell for the policies and reforms implemented by the previous regime. Citizens and companies can invest their money and conduct their business safely in the knowledge that there is stability and continuity in the governance policies, even if the governing party changes. A few examples of this are as follows:
 - **Rupay:** This domestic card payment network was launched under the United Progressive Alliance (UPA) government in 2012. It is a secure network that is accepted at ATMs, POS devices and e-commerce websites throughout the country. After the government change in 2014, the NDA government has done its fair share to popularise and promote the usage of Rupay cards in India. The government launched Rupay cards in Singapore, Bhutan, Maldives, the UAE, Bahrain, Saudi Arabia, Oman, South Korea and many other countries. Rupay Contactless, Rupay Global Cards and Rupay Kisan Cards are some of the additions that have been made to the Rupay ecosystem under the current government.
 - **Insurance Sector:** The insurance sector was opened up for foreign investment of 26% in 2000, after the Insurance Regulatory and Development Authority Act, 1999. This cause was enabled by Atal Bihari Vajpayee, the Prime Minister of India, who created a separate disinvestment department in the finance ministry in the same year. Subsequently, the Narendra Modi government raised the cap to 49% in 2015 and then to 74% in 2021. The increasing FDI cap was a result of the government realising that a higher FDI cap will make it easier for insurance firms to access foreign capital to fund their expansion needs, with insurance being a capital-intensive sector.



- **Goods and Service tax:** Goods and services tax (GST) was first introduced in the Budget Speech presented on 28th February 2006. After undergoing a series of amendments, the Goods and Services Tax Act was officially implemented on July 1, 2017, marking a significant milestone in the reform of the country's indirect taxation system. With this tax reform, GST replaced multiple indirect taxes that were levied on different goods and services. The Central Board of Indirect Taxes and Customs (CBIC) is the regulatory body governing all changes and amendments regarding this tax.
- **Aadhaar:** Aadhaar is a unique identification system that was introduced in India. It was launched in 2009 by the Unique Identification Authority of India (UIDAI), a statutory authority established under the Indian government. The purpose of Aadhaar is to provide a universal identification number to residents of India, based on their biometric and demographic information. Aadhaar is a 12-digit unique identification number that is linked to an individual's biometric and demographic data, including their fingerprints, iris scans, and personal details such as name, date of birth, and address.

4.2. Strong institutional framework ensures stability and boosts investor confidence

India has a strong institutional framework that has developed and matured over the years. India has various independent, robust institutions such as the Election Commission, Reserve Bank of India and NITI Aayog, among others. These institutions are the key pillars of India's democratic system, and are responsible for ensuring the rule of law, protecting the rights of citizens, and promoting economic stability.

Reserve Bank of India (RBI)

The Reserve Bank of India (RBI) is India's central bank and the monetary authority responsible for the monetary policy decisions that shape India's economy. The primary functions of the RBI include regulating the country's currency and credit system, managing foreign exchange, acting as a banker to the government and banks, and supervising the banking system's functioning. It also plays a crucial role in maintaining financial stability and promoting economic development.

Securities and Exchange Board of India (SEBI)

Established in 1992, the Securities and Exchange Board of India (SEBI) is the statutory regulatory body for capital markets under the ownership of the Ministry of Finance. The key functions of SEBI include safeguarding the interests of the participants in the capital markets, regulating the securities markets, and developing and promoting the markets.

Election Commission of India (ECI)

The ECI is an independent Constitutional body that is responsible for conducting the Union and State election procedures in India. The organisation oversees the votes for India's President and Vice President positions, as well as the Lok Sabha (Lower House), Rajya Sabha (Upper House), and State Legislative Assemblies. The ECI guarantees that all political parties competing in elections are on equal footing through strict adherence to a Model Code of Conduct developed with the agreement of political parties.

Comptroller and Auditor General of India

The Comptroller and Auditor General (CAG) of India, appointed by the President, is the supreme authority in charge of the internal and external audits of the spending of the Union and State governments. The CAG promotes accountability, transparency, and good governance. The CAG ensures that public funds are being gathered and used effectively and efficiently by providing independent and prompt audits to the Legislature, the Executive and the people.

NITI Aayog

NITI Aayog (National Institution for Transforming India) serves as the think-tank of the government. It offers pertinent strategic and technical guidance across a variety of important policy components to both the Union and State governments. NITI Aayog offers a shared vision of national development priorities, sectors, and strategies, with the active participation of states.

In addition, India has several independent regulatory bodies, such as the Telecom Regulatory Authority of India (TRAI), the Insurance Regulatory and Development Authority (IRDA), and the Central Electricity Regulatory Commission (CERC), among others. These regulatory bodies provide a stable and predictable regulatory environment for businesses, which is essential for long-term investment planning. Furthermore, India has a robust intellectual property rights (IPR) regime,



which protects the rights of innovators and creators. The country is a member of several international treaties and conventions on IPR, such as the World Intellectual Property Organization (WIPO), which ensures that India's IPR laws are aligned with international standards.

4.3. India's young demography to contribute to long-term growth and productivity gains

India has the second-largest population in the world after China. A significant majority (64.2%) of this population is within the working age group (15-59 years) and is expected to peak at 65.1% in 2031. The working age population is a useful source of both skilled and unskilled labour, which directly affects investment and production capacities. The rising working population in India also means a decline in the dependent population, which leads to higher tax revenue due to growth in economic output, and less pressure on the government to support an ageing dependent population.

Imparting education and skills to the young workforce is crucial for driving growth across different sectors of the economy. With initiatives like Skill India and PMKVY, the government is investing in to upskill India's young population.

Initiative	Description
Skill India Mission	<p>This scheme was launched in 2015 to empower Indian youth and make them suitable for employment. It offers people the required education and training to improve their chances of landing jobs across industries as well as boost social and economic development. Skill India provides courses in 40 different industries according to the criteria recognized by the industries and the government under the National Skill Qualification Framework. The government's objective was to train 400 million people by 2022 under this mission.</p> <p>Under the Pradhan Mantri Kaushal Vikas Yojana (PMKVY), there are 1,484 training centers, including Pradhan Mantri Kaushal Kendra (PMKK). Additionally, there are 309 Jan Shikshan Sansthan (JSS) centers, and a total of 14,716 Industrial Training Institutes (ITIs) in India.</p>
Pradhan Mantri Kaushal Vikas Yojana (PMKVY)	<p>PMKVY is the flagship scheme of the Ministry of Skill Development & Entrepreneurship (MSDE). It is a skill certification programme under the Skill India Mission. The goal is to make it possible for India's youth to enrol in training that is relevant to their business, which will improve their chances of finding employment. Individuals with prior learning experience or abilities will also be evaluated and certified under the Recognition of Prior Learning (RPL) programme. The government covers all training and assessment expenses under this scheme. To date, up to 13.7 million people benefited from this scheme. In 2023, the government announced PMKVY 4.0, which will be implemented over the next three years.</p>
Pradhan Mantri Kaushal Kendra (PMKK)	<p>Under Skill India Mission, the government has commenced the establishment of modern, visible and aspirational model training centers in multiple Indian districts. These centers are equipped to deliver high-quality, industry-driven courses with an emphasis on employability that raises the bar for skill development training. The goal is to change the short-term training ecosystem to a sustainable institutional model to replace the mandate-driven delivery model. According to the latest Skill Development annual report, as of October 2021, a total of 813 PMKKs (Pradhan Mantri Kaushal Kendras) have been allocated, spanning across 707 districts and 537 Parliamentary Constituencies (PCs). This initiative benefitted 1.6 million people over the years.</p>

4.4. Independent judicial system

India has an independent judicial system that functions as a separate entity from the legislative and executive branches of government. The judicial system plays a critical role in upholding the rule of law and protecting the rights of citizens. The Supreme Court of India is the highest judicial authority and is responsible for interpreting the Constitution and settling disputes between the central government and state governments. The High Courts and District Courts handle most of the legal proceedings at the state and district levels, respectively.



The independence of the judiciary is ensured by the Constitution, which grants judges security of tenure and prohibits interference from the legislative and executive branches. The judiciary has the power of judicial review, which allows it to strike down any law or executive action that is found to be unconstitutional. This independence ensures that the judiciary is free to interpret the law without fear or favour, providing a level of protection to citizens from arbitrary state action.

Certain examples of an independent judiciary system in India include:

1. The cases between Ernst & Young and the Tax Tribunal. In the case, the Delhi High Court ruled in favour of EY, stating that services provided by EY India to EY entities abroad are not liable to taxes. Another instance is when the Bar Council of India ruled that foreign law firms can now establish offices in India and provide corporate law and M&A services on a reciprocal basis.
2. Vodafone Case: In the case of Vodafone International Holdings B.V. v. Union of India, the Supreme Court ruled in favour of Vodafone, an overseas corporation. The case involved a dispute over the tax liability arising from Vodafone's acquisition of shares in an Indian company. The court held that the transaction did not attract Indian tax jurisdiction, as it was an offshore transfer of shares between two non-resident entities.
3. Cairn Energy Case: In the case of Cairn Energy PLC v. Union of India, the Supreme Court ruled in favour of Cairn Energy, a UK-based multinational corporation. The dispute arose from the retrospective tax demand imposed by the Indian government on capital gains made by Cairn Energy through the reorganization of its Indian subsidiaries. The court held that the retrospective amendment to the tax law violated the principle of legal certainty and granted relief to Cairn Energy.
4. Samsung Case: In the case of Samsung Electronics Co. Ltd. v. Kapil Wadhwa, the Supreme Court ruled in favour of Samsung, a South Korean multinational corporation. The case involved a patent dispute between Samsung and an Indian individual. The court held that Samsung's patent rights were valid and enforceable, and it granted an injunction against the infringing party.

These examples demonstrate that the Supreme Court of India has made decisions in favour of overseas corporations in specific cases involving tax liabilities, legal disputes, and intellectual property rights. However, it is important to note that the court's decisions are based on the facts and legal principles applicable to each case and do not indicate a general bias towards overseas corporations. The court's objective is to ensure justice and uphold the rule of law in a fair and impartial manner.

4.5. Capital Markets

India's capital market is well-regulated. The Securities and Exchange Board of India (SEBI) regulates the Indian capital market, ensuring transparency, investor protection, and corporate governance. This has led to a strong participation from domestic and foreign investors in various segments of the market such as equities, bonds, derivatives, and mutual funds.

Foreign institutional investors (FIIs) have been a significant contributor to India's capital market, with investments flowing in from around the world. In recent years, the government has taken several initiatives to attract more foreign investments, including simplifying the investment process, relaxing entry norms, and reducing red tape. Domestic institutional investors (DIIs) such as mutual funds, insurance companies, and pension funds have also been active in the Indian capital market, providing a stable and long-term source of investment.



5. CONTINUOUS REFORMS

Over the past decade, India has undergone a significant transformation, primarily due to the government's shift towards supporting the manufacturing sector amid the country's transition to a multipolar world. The government has implemented a series of reforms to improve the business environment and make domestic manufacturing competitive.

5.1. Reduction in the corporate tax enables higher profit pool and reinvestments

During 2019–20, the government reduced the corporate tax rate from 30% to 22% for existing businesses and from 25% to 15% for new manufacturing firms (founded after 1 October 2019 and starting operations before 31 March 2023). The time for commencing manufacturing later has been extended by one more year until March 2024 for newly incorporated manufacturing units. The reduction in the tax rate was an important step to boost the Make in India initiative and attract fresh investment in the manufacturing sector.

5.2. Production-linked incentive schemes to promote job creation and export competitiveness

The first PLI programmes were launched in India in March 2020, focusing on three industries: medical devices manufacturing, pharmaceuticals (important key ingredients/active pharmaceutical ingredients), and mobile and electric component manufacturing. Since then, the schemes have been expanded to include other sectors. The PLI programmes are designed to increase local supply chain capabilities, introduce new downstream businesses and encourage financial investments in high-tech manufacturing.

It is envisaged that by putting them into practice, economies of scale can be developed and local manufacturing in India will become competitive. Benefits of this include development of jobs, increased export potential and less reliance on imports, particularly for high-tech and essential commodities. According to the Ministry of Commerce, the total industrial output will rise by more than USD 520 billion throughout the implementation period for the PLI programmes. In addition, the government is trying to relieve the burden of compliance, enhance ease of doing business, build multi-modal infrastructure to save on logistical costs and establish export hubs at the district level.

Production Linked Incentive Scheme Outlays (INR Billion)

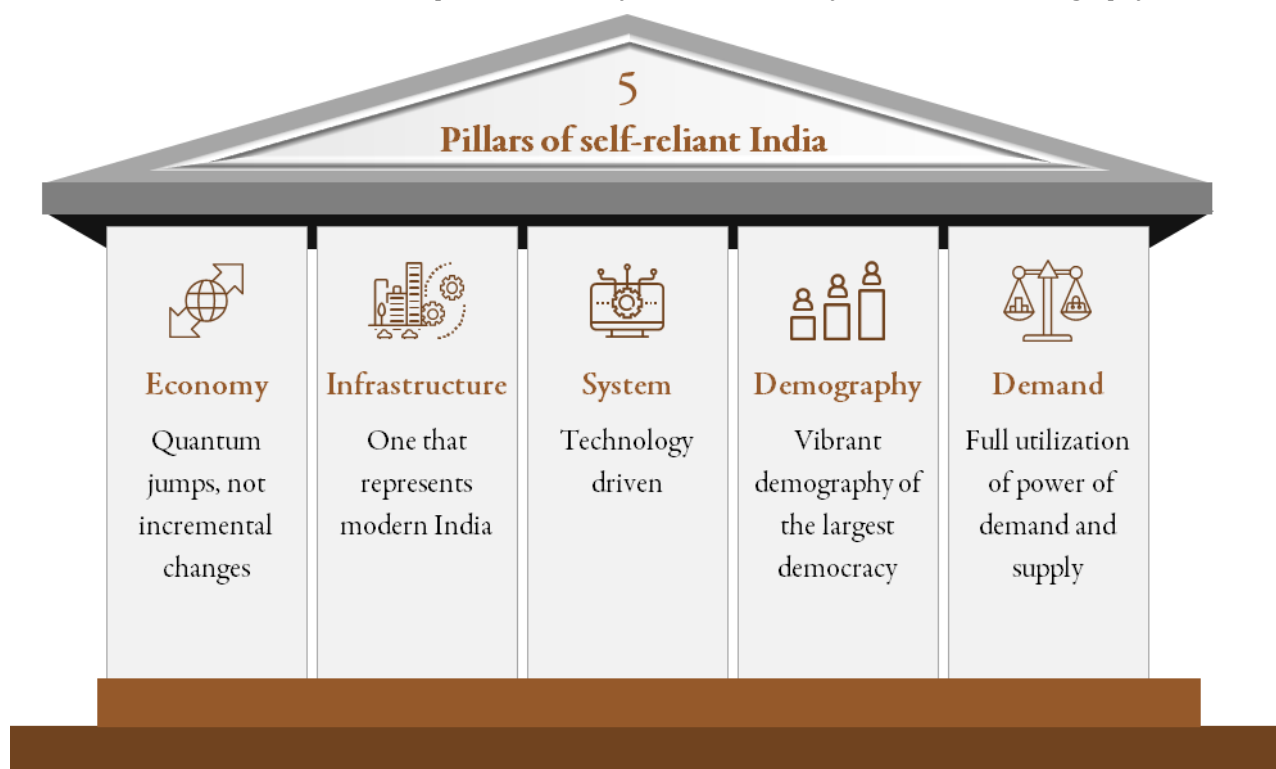
Mobile Manufacturing and specified electronic components, 409.5	Automobile and Auto components, 259.4	Manufacturing of medical devices, 184.2	Pharmaceuti... Manufacturin... 150.0	Food Products, 109.0	Textile Products, 106.8
	Renewable Energy, 240.0	Advances Chemistry cell battery , 181.0	Telecom and networking products, 122.0	Specified Electronic unit, 73.3	Specialty Steel, 63.2
				Pharma Drugs, 69.4	White Goods , 62.4

Source: Invest India



5.3. Atmanirbhar Bharat Abhiyan fosters self-sufficiency in domestic manufacturing

The Atmanirbhar Bharat Abhiyaan (Self-reliant India) campaign is a vision of new India that was popularized by Prime Minister Narendra Modi and the Indian Government during and after the Covid-19 pandemic. The word "Atmanirbhar" is used as an umbrella concept that encompasses pursuing policies that are effective, competitive, and resilient, being self-sustaining and self-generating, and elevating India to be a bigger and more essential part of the global economy. Atmanirbhar Bharat focuses on five main pillars - Economy, Infrastructure, System, Vibrant Demography and Demand.



The initiative aims to lower imports and increase domestic production of goods, promote foreign investment, and support innovation and skill development. In May 2020, under the Atmanirbhar Bharat Abhiyaan, Narendra Modi announced a stimulus package of INR 20 trillion (USD 243.1 billion), which is almost 10% of India's GDP, to support Indian citizens and businesses during the Covid-19 pandemic.

Implementation of a broad set of measures under the 'Atmanirbhar Bharat' package have led to a continuous improvement in economic recovery and boosted the efficacy of the industrial sector. The industrial sector grew 10.3% in FY22 and 4.1% in FY23. Meanwhile, India's Manufacturing PMI has remained in the expansion zone for 18 months since July 2021.

As part of the Atmanirbhar Bharat Abhiyan, the government has launched several programmes to encourage self-reliance in the defence industry including boosting the FDI cap in the defence industry to 74%, implementing the Defence Production and Export Development Strategy 2020, and imposing an "import embargo" on 101 military equipment. The Defence Production and Export Promotion Policy 2020 outlines a framework to reach a turnover of INR 1.17 trillion (USD 25 billion), including exports of INR 350 billion (USD 5 billion), in the aerospace and defence goods and services by 2025. The administration also focused on improving infrastructure for roads, trains, and power distribution by reducing transportation costs and expanding the network between local and international markets for production and consumption, which would increase India's competitiveness.

5.4. Labour reforms simplify labour law regime in the country

India has been making strides in labour reforms in recent years. The Government of India has taken various steps to simplify the labour law regime in the country. The first step taken was the introduction of the Code on Wages Bill, 2019, which provides for a single unified law for the fixation and payment of wages. This code has made it easier for employers to comply with the law and has provided a more equitable system of wages. The government has also implemented the Industrial Relations Code, 2020, which offers a comprehensive framework to safeguard employees' rights and establish rules for dispute resolution. The four labour codes – social security, labour relations, pay, and occupational safety, health, and working conditions (OSH) – have already been approved by the Parliament.

The government seeks to broaden social security benefits to unorganised workers and is urging states to ratify legislation concerning labour laws as it strives to bolster the labour market. With 31 states and union territories issuing draft rules for the Code on Wages 2019, 28 states for the Industrial Relations Code 2020 and the Code on Social Security, and 26 states for the Occupational Safety Health and Working Conditions Code 2020, progress is being made towards their effective implementation at the state level.

5.5. National Asset Monetisation Plan to leverage existing assets through private sector participation

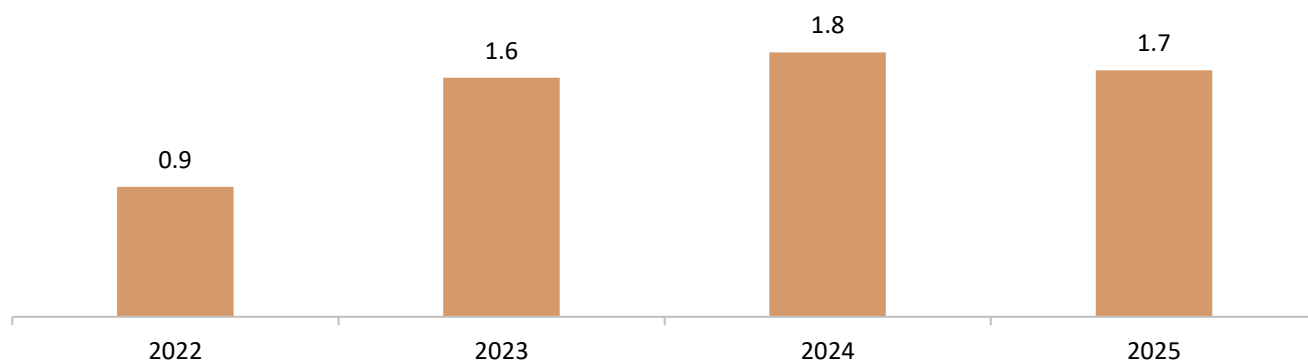
The Indian government unveiled an asset monetisation plan in August 2021, under which current public assets worth INR 6.0 trillion (USD 72.93 billion) would be monetised by leasing it to private operators for predetermined periods of time. Under this plan, the government aims to monetise core assets such as roads, railways, airports, power transmission lines and gas pipelines. The lease proceeds will be utilised to finance the government's ambitious infrastructure development plan.

The framework for monetisation of core asset monetisation has three key imperatives:

- Monetization of 'rights' not 'ownership' of assets, ensuring that the assets are eventually returned to the government at the end of the transaction life. This approach enables the government to retain long-term control and ownership of the assets while generating revenue through their utilization.
- Monetization of brownfield assets, as these assets offer reduced risk and provide stable revenue streams.
- Structured partnerships under well-defined contractual frameworks. The contractual agreements incorporate strict key performance indicators (KPIs) and performance standards, ensuring accountability and efficient management of the assets.

The duration for NMP has been chosen to coincide with the balance period under the National Infrastructure Pipeline (NIP) since infrastructure building and monetisation are intimately intertwined. The indicative value of the whole asset pipeline under NMP for the four-year period, FY22–25, is INR 6.0 trillion (USD 72.93 billion). The anticipated value is equal to ~14% of the Centre's proposed outlay under NIP (INR 43.0 trillion / USD 523 billion).

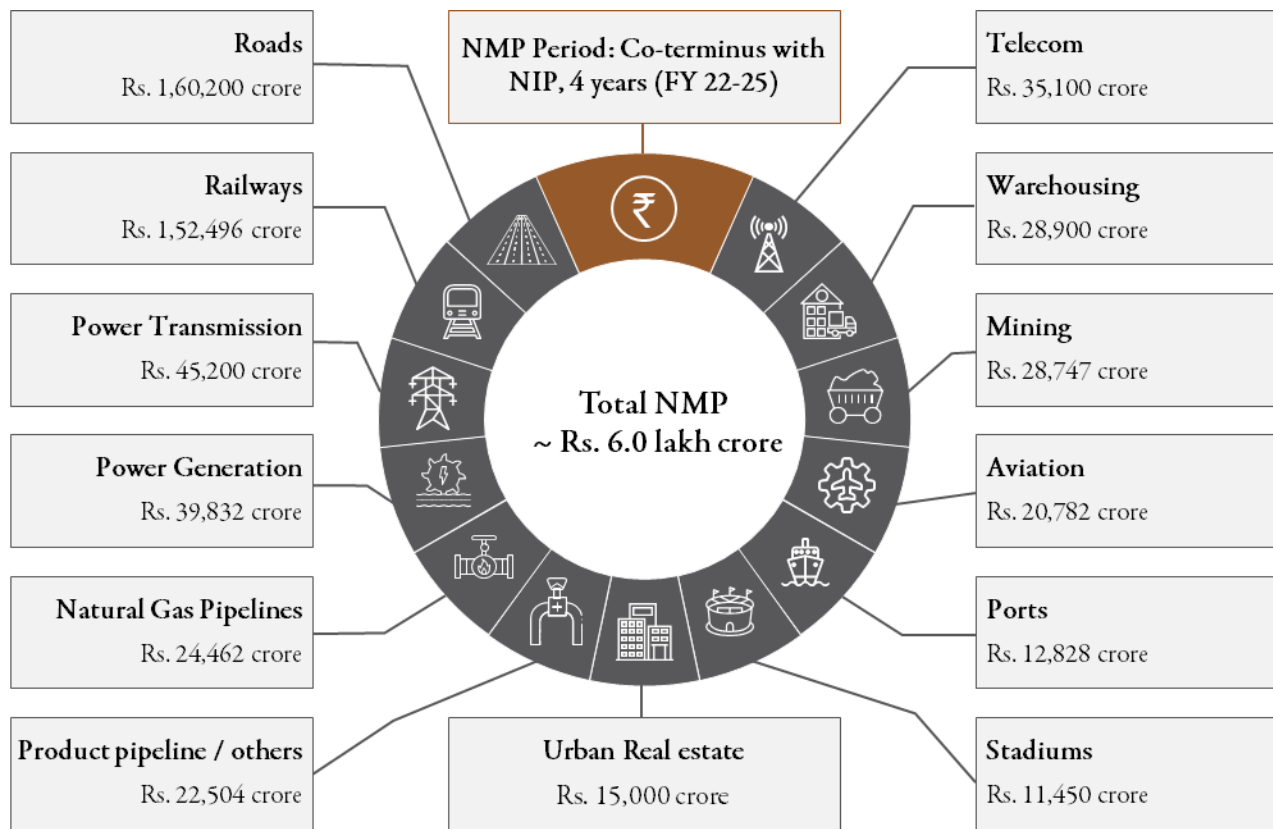
Indicative Value of Monetisation Pipeline between FY22-25(INR trillion)



Source: Niti Aayog



SECTOR-WISE MONETISATION PIPELINE (INR billion)



Source: Niti Aayog



6. INCREASING FOCUS ON INFRASTRUCTURE INVESTMENT

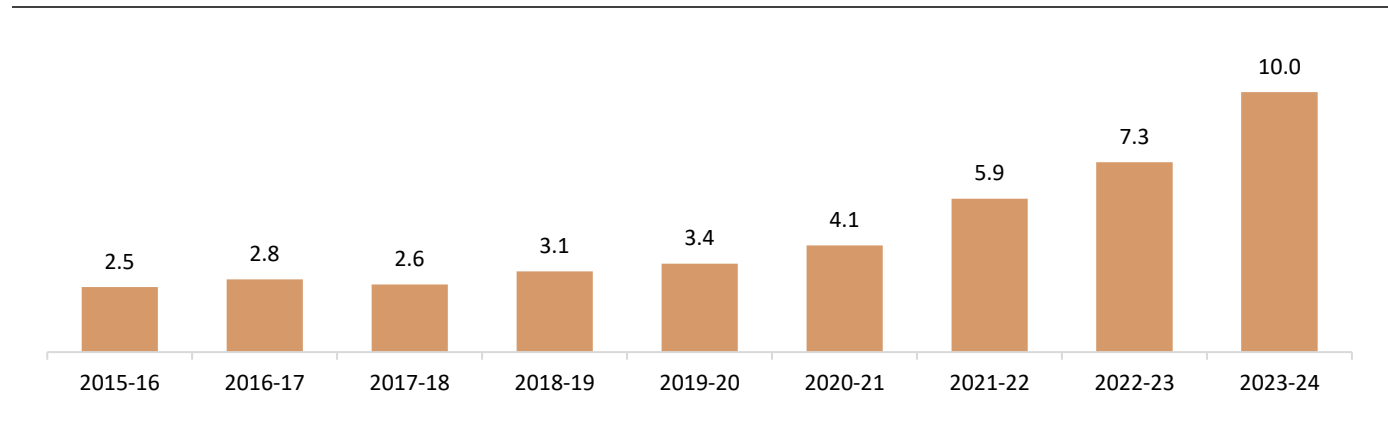
Infrastructure development is an essential driver of economic growth and has a positive impact on a country's competitiveness. The government of India has implemented multiple policies and initiatives to drive infrastructure growth in the country. The focus is not just on infrastructure development, but “integrated infrastructure development”. Upgrading current infrastructure and investing in new infrastructure is critical to achieve the government’s goal of turning India into a USD 5 trillion economy by 2025. The prospect of India evolving into a manufacturing base is dependent on the progress of India’s infrastructure and logistics network.

6.1. Focus on infrastructure investment provides long-term multiplier effect on the economy

Infrastructure development is essential for the prosperity of any country. Investment on infrastructure development has a multiplier effect on the GDP of the country, which helps the growth of the economy. Development of a country’s infrastructure generates large-scale employment, while also providing a boost to multiple industries and improving the quality of life of the citizens.

India’s government has recognized the critical importance of building and improving infrastructure in the country. It has increased budgetary allocations and implemented measures to attract private capital for infrastructure development. The Indian government has increased capital investment outlay by 33% to INR 10 trillion (USD 121.6 billion) in its recent budget for FY23, which would be 3.3% of GDP, and almost three times the outlay in 2019-20. The Budget placed a heavy emphasis on building intercity connectivity while keeping a balance between economic growth and fiscal consolidation.

Capital Expenditure (INR Trillion)



Source: Budget Document

6.2. Multiple infrastructure initiatives undertaken by the government

To focus on India’s infrastructure growth, the government developed various schemes and policies in this regard:

National Infrastructure Pipeline (NIP)

The National Infrastructure Pipeline (NIP), launched in 2019, has outlined cost over INR 111 trillion (USD 1.3 trillion) worth of infrastructure projects, covering critical sectors such as energy, roads, railways, and urban development. NIP was conceptualized using a bottom-up approach based on consolidated information from multiple stakeholders including Departments, Ministries, State Governments, and private sector companies. The central government and states have almost equal contributions, accounting for 39% and 40%, respectively, while the private sector has a 21% share. In order to enhance collaboration between the state and central governments, the central government has extended the duration of interest-free loans to state governments to a period of 50 years. This will enable states to undertake crucial infrastructure investments and encourage them to adopt supplementary policy measures that facilitate infrastructure development.

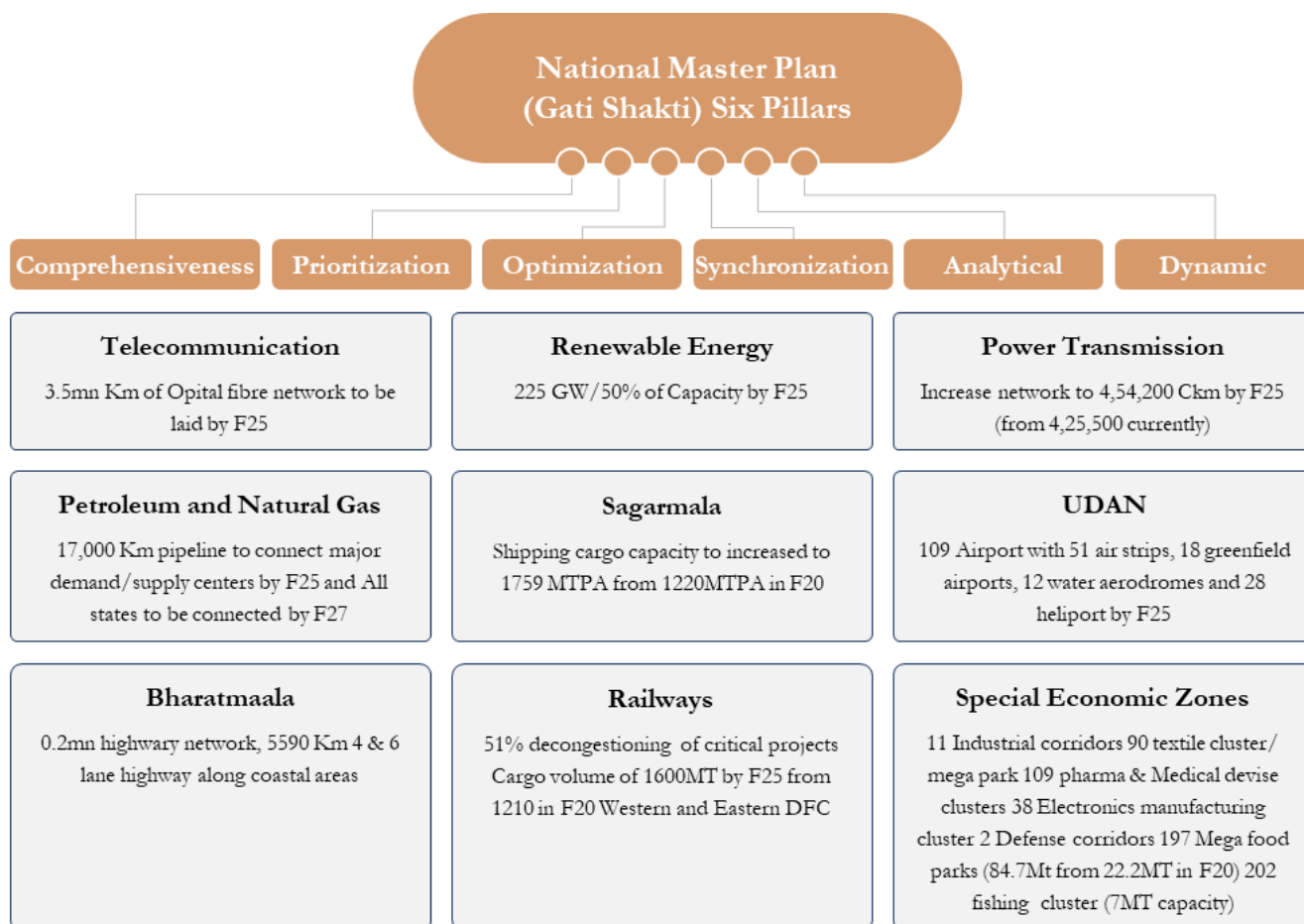
Public-Private Partnership (PPP) approach has been a vital instrument for “delivery of high-priority public utilities and infrastructure.” According to the World Bank, India's PPP initiative is one of the most extensive in the world, with almost 2000 projects in various developmental phases.

The NIP is an ongoing policy, with projects constantly being added to the list as per requirements. Currently, 8,964 projects under NIP are in different stages of implementation, with the total investment coming up to INR 108 trillion (USD 1.3 trillion).

PM Gati Shakti – National Master Plan

Launched by Prime Minister Narendra Modi in 2021, Gati Shakti is an integrated infrastructure plan for multi-modal connectivity. It is a digital platform that brings 16 Ministries together for coordinated implementation and integrated planning of infrastructure connectivity initiatives. Gati Shakti will incorporate multiple schemes, such as Bharatmala, Sagarmala, UDAN, etc. Economic zones such as defence corridors, industrial corridors, agri zones, pharmaceutical clusters, etc. will also be covered to improve connectivity.

Gati Shakti is a comprehensive scheme that will incorporate all the existing and planned initiatives of multiple Ministries and guide the execution of these initiatives in an integrated, holistic way. People, goods, and services will be able to move from one method of transportation to another seamlessly thanks to multi-modal connectivity, cutting down on people's travel time.



National Logistics Policy (NLP)

The National Logistics Policy envisions establishing a logistics ecosystem that is technologically enabled, integrated, economical, durable, and trustworthy for rapid and inclusive development. The NLP complements the Gati Shakti scheme. The NLP aims to increase efficiency in logistics services, human resources, and regulatory structure through process simplification, skill development, mainstreaming logistics in higher education, and adoption of modern technologies.

NLP was developed through a consulting process, in which different Ministries/Departments of the Government of India, industry stakeholders, and academics participated in several rounds of consultations. NLP has set the following targets:

- To bring India's logistics costs in line with international standards by 2030 – currently, India's logistics costs are around 13-14% of GDP, while the global average is around 8%.
- Improve the Logistics Performance Index ranking and become one of the top 25 countries by 2030.
- Develop a data-driven decision support system for a productive logistics environment.

The Indian government has highlighted four important steps it will take to implement NLP:

- Integration of Digital System (IDS): Under IDS, data from the road transport, railways, customs, aviation, and commerce Ministries will be integrated into a single digital platform.
- Unified Logistics Interface Platform (ULIP): All of the digital services pertaining to the transportation industry will be consolidated under ULIP into a singular portal. This guarantees quicker, more seamless cargo movement and makes confidential real-time information sharing possible.
- Ease of Logistics (ELOG): This is a trade facilitation portal created to bring logistics service providers and service seekers to a single platform. The platform also provides business outreach and networking opportunities to users.
- System Improvement Group: This group will monitor all logistics-related projects regularly and will give recommendations to the government on how to improve the country's cargo movement by altering current laws and procedures.

Dedicated Freight Corridors

Dedicated Freight Corridors (DFCs) are high-speed, high-capacity railway corridors designed solely for the movement of freight. Currently, work is being done on two corridors - Western Dedicated Freight Corridor (WDFC), connecting Dadri in Uttar Pradesh to Jawaharlal Nehru Port (JNPT) in Mumbai covering 1,506 km, and Eastern Dedicated Freight Corridor (EDFC), connecting Ludhiana in Punjab to Dankuni in West Bengal covering 1,337 km. The main objectives behind constructing DFCs are:

- Decongest the Indian Railway system
- Increase the current average speed of freight trains from 25 to 70 kmph.
- Allow for the operation of double-stacked, longer (1.5 km) cargo trains.
- Connect existing ports and industrial regions to facilitate faster cargo transportation.
- Encourage industrial growth and creation of new townships and industrial hubs
- Upgrade India's rail transport system to be energy efficient and environmentally friendly as per global standards.
- Reduce the logistics cost of rail transportation

As of January 2023, 861 km on EDFC and 863 km on WDFC have been completed, with a total cost outlay (including land acquisition cost) of INR 979 billion (USD 11.9 billion).

UDAN Scheme

UDAN (Ude Desh Ka Aam Nagrik) is a regional connectivity scheme under the National Civil Aviation Policy which connects small, remote areas with big cities through air travel. Launched in 2016, 'Ude Desh Ka Aam Nagrik' means every common citizen of India should be able to fly. UDAN aims to enhance India's aviation infrastructure and improve connectivity in Tier-2, Tier-3 cities and beyond, while also making air travel more affordable. By 2024, the government has planned to develop 100 airports and initiate 1,000 UDAN routes under the scheme. As of January 2023, 459 UDAN routes through 72 airports (including nine heliports and two water aerodromes) have been operationalised. There have been 216,000 UDAN flights which have transported 11.3 million passengers.

Bharatmala

The Bharatmala Pariyojna (India Garland Project) is a series of road development projects that includes building tunnels, bridges, overpasses, bypasses, and ring roads, among other types of infrastructure. The aim of the Bharatmala scheme is to bridge key infrastructure gaps to increase the effectiveness of freight and passenger movement across the nation. The scheme involves the construction of Economic Corridors, Inter-Corridors and feeder routes, Border and International connectivity roads, coastal and port connectivity roads and expressways. The government is planning to construct 34,800 kms worth of new roads under this project.



Sagarmala

Ports play a vital role in the development of India, as 95% (by volume) of India's merchandise trade is shipped via waterways. Maritime transport is cheaper, safer and cleaner compared to other modes of transportation. However, Indian ports still contend with operational and infrastructural issues. Although the operational efficiency of Indian ports has improved over time, it still falls short of the global norm. Connectivity issues and an unfavourable modal mix increases the cost of logistics, which has an impact on the manufacturing industry and reduces export competitiveness.

To address these issues, the Sagarmala scheme was launched by the government in 2016. The main goal aim is to lower the cost of logistics for domestic and international trade with minimal infrastructure investment. A National Perspective Plan (NPP) has been created as part of the scheme for the complete development of India's 7,500 km of coastline, 14,500 km of potentially navigable waterways, and maritime sector.

Parvatmala

Parvatmala (National Ropeways Development Programme) is an initiative to develop ropeways in the hilly and inaccessible areas of the country. These regions have sparse train and air connectivity, while the expansion of the road network faces technical challenges, so ropeways have emerged as a convenient, safe and ecologically sustainable alternative mode of transportation. The Parvatmala scheme plans to build a cutting-edge network of connectivity and transit on the mountains. The ropeways might even be built in congested urban areas, where a normal transit system for mass transportation might not be feasible. In 2022-23, the government plans to award contracts for eight ropeway projects covering a length of 60 kms worth INR 40 billion (USD 486.2 million).

National Rail Plan

Indian Railways have created a National Rail Plan (NRP) – 2030 to modernize, reform, and make railways more cost-effective, efficient, and sustainable while assuring safe and secure transportation. NRP's goal is to build capacity ahead of demand, which would then be used to meet rising demand well into the year 2050. Some key objectives of NRP are:

- Create strategies to raise the modal share of railroads in freight to 45% based on both operational capabilities and commercial policy efforts.
- Shorten freight transit time by raising the average speed of freight trains to 50 kmph.
- As part of the NRP, Vision 2024 has been launched for accelerated implementation of certain critical projects by 2024. These include 100% electrification of trail network, multi-tracking of congested routes, and upgrading the speeds on multiple routes.
- By 2024, the government is aiming to complete 128 important projects of combined length of 10,663 kms costing INR 1.1 trillion (USD 14 billion).



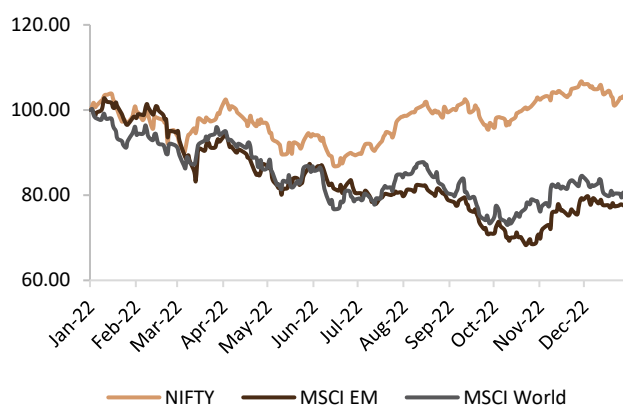
7. SUCCESS OF CAPITAL MARKETS

Indian equities outperformed their counterparts in 2022 owing to the country's relative economic resilience and strong domestic participation. The year was marked by several geopolitical, social, economic and financial factors including the Russia-Ukraine war, COVID, stagflation and monetary tightening by central banks, leading to losses in equity and bond markets.

7.1. Strong equity markets fuelled by the resilience of domestic investors

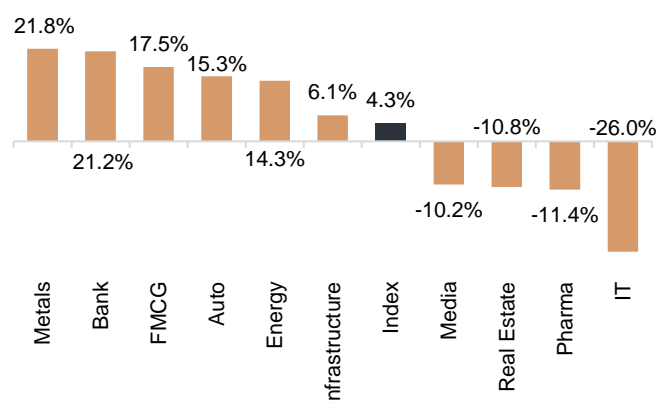
Indian equities have meaningfully outperformed its developed and emerging market counterparts in 2022. The Nifty 50 Index clocked a modest 4.3% gain, whereas developed equities (MSCI World Index) plunged 19.5%, and emerging markets (MSCI EM Index) suffered an even more substantial loss of 22.4% for the year. Nifty Midcap 50 posted a return of 4.1% for 2022, while Nifty Smallcap 50 recorded a drop of 18.6%. Among sector indices, metals turned out to be the top performer with an annual gain of 21.8%, followed by Banks (21.2%), FMCG (17.5%) and Auto (15.3%), whereas IT was the worst performer (-26.0%), followed by Pharma (-11.4%) and Real Estate (-10.8%).

Nifty Returns vs. Peers



Source: Refinitiv Eikon

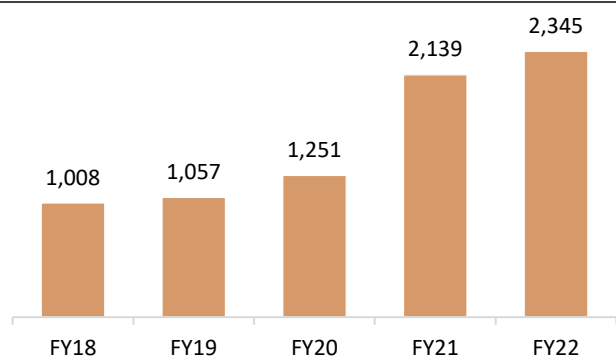
Sectoral Returns FY22



Source: National Stock Exchange

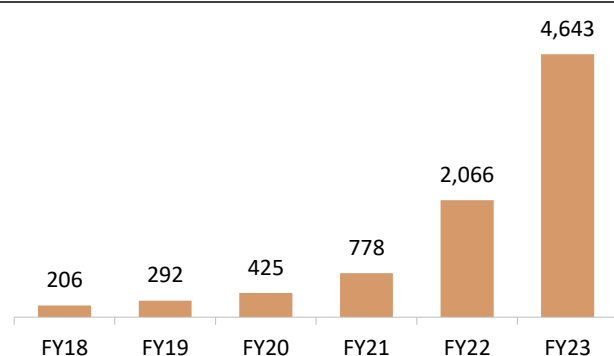
Over the past few years, trading volumes in the cash and futures & options (F&O) markets have experienced a remarkable surge. This unprecedented growth can be attributed to the introduction of new products, weekly option contracts, decrease in lot sizes and margin benefit provided to traders on their hedged positions.

Total Cash Volumes (USD Billion)



Source: Bombay Stock Exchange and National Stock Exchange.

F&O Volumes (USD Billion)

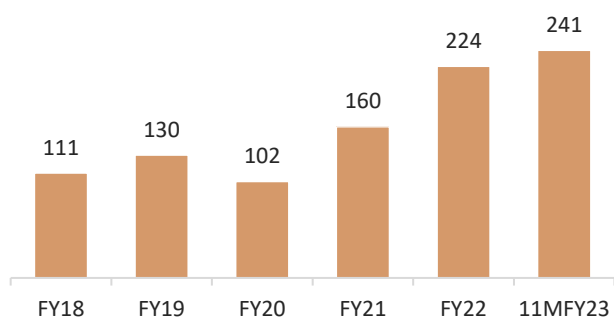


Source: National Stock Exchange.

Strong participation from domestic investors

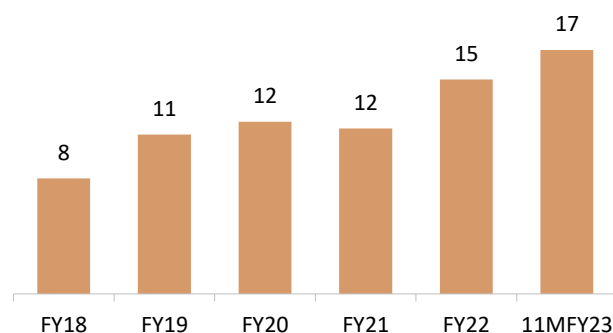
One of the most important factors in India's growth story has been strong participation from domestic investors. Total equity assets under management (AUM) managed by domestic mutual funds have more than doubled from FY18, driven by the growing trend of Systematic Investment Plans (SIPs). Inflows into mutual funds through the SIP route increased from INR 672 billion (USD 8.16 billion) in FY18 to approximately INR 1,417 billion (USD 17.22 billion) in FY23.

Domestic Funds Equity AUM (USD Billion)



Source: AMFI

SIP Inflow (USD Billion)

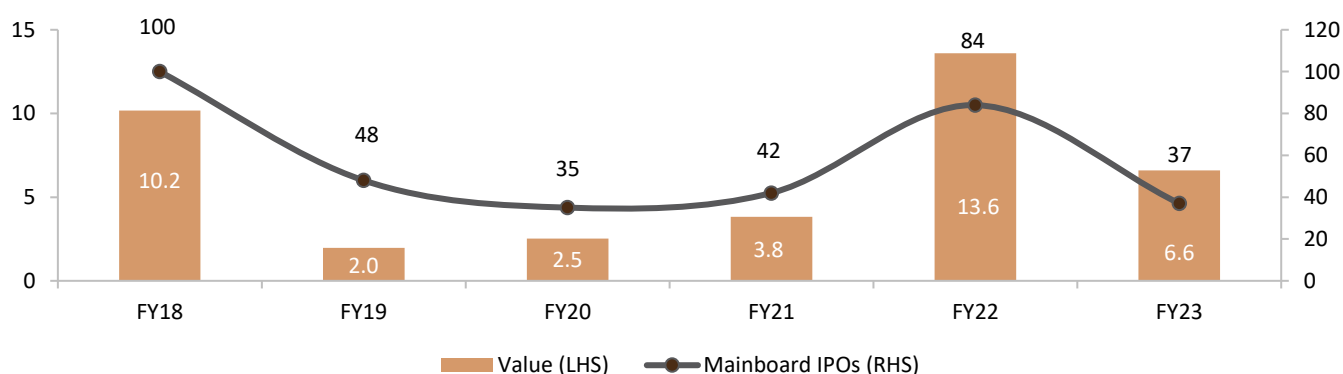


Source: AMFI

7.2. High issuance in primary markets reflects confidence of corporates

The Indian primary markets saw significant activity over the last few years. In FY23, 37 Indian companies raised a total of INR 543 billion (USD 6.6 billion) through main board initial public offerings (IPOs). The largest IPO was the Life Insurance Corporation (LIC) of India, wherein the Central Government diluted its stake and listed it on the stock exchanges. LIC's IPO was also the largest Indian and the sixth biggest IPO globally in 2022. Both retail and institutional investors showcased interest in the public offerings which led to the strong primary market performance.

Mainboard IPOs (USD Billion)



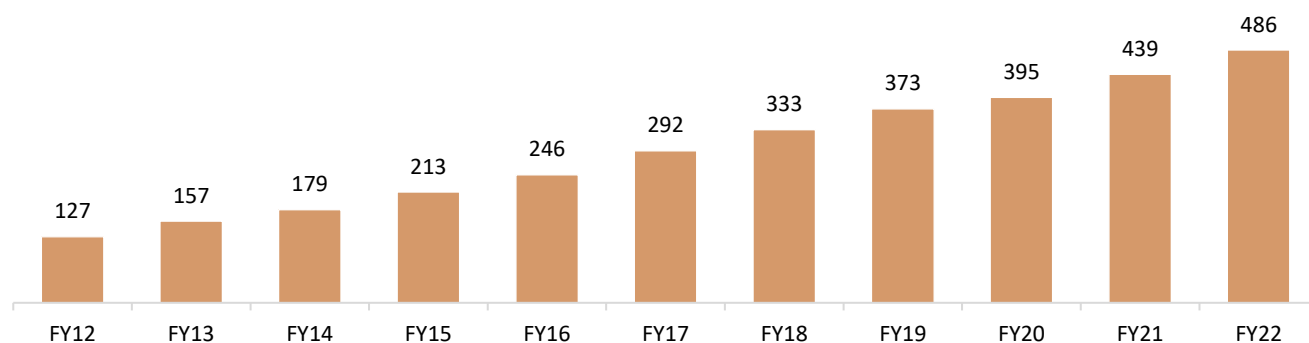
Source: PRIME Database



7.3. Steady growth in debt markets with potential for further growth

Corporate bond issuances have grown steadily in the last 10 years, reflecting the success of the RBI, SEBI and the government's initiatives to develop this market. The amount of outstanding corporate bonds has increased about four-fold from INR 10.5 trillion (USD 127 billion) at the end of FY12 to INR 40.2 trillion (USD 486 billion) at the end of FY22. The medium-to-long term potential of India's debt markets is robust, as the market size is large and issuer base is expanding.

Corporate Bonds Outstanding (USD Billion)



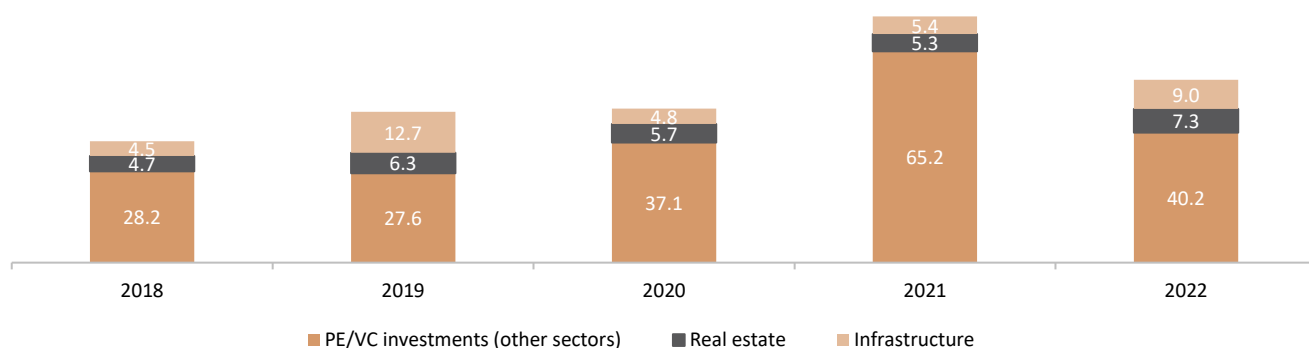
Source: SEBI

7.4. Private equity outlook is positive with stronger deal momentum

The year 2022 witnessed a drop in overall PE/VC investments, down 26% from 2021. This was mainly due to the lack of significant buyout and start-up deals. The decline was more pronounced in the straight play PE/VC asset class segment, which reported a fall of 38% YoY. Pure play PE/VC buyouts saw a 78% value and 33% volume decline.

In 2021, there were six straight play PE/VC buyouts worth more than USD 1 billion, but none in 2022. However, India's deal momentum remained steady, with the number of deals remaining unchanged, despite the apparent drop in PE/VC investments.

PE/VC Investments: Split Across Asset Classes (USD BILLION)

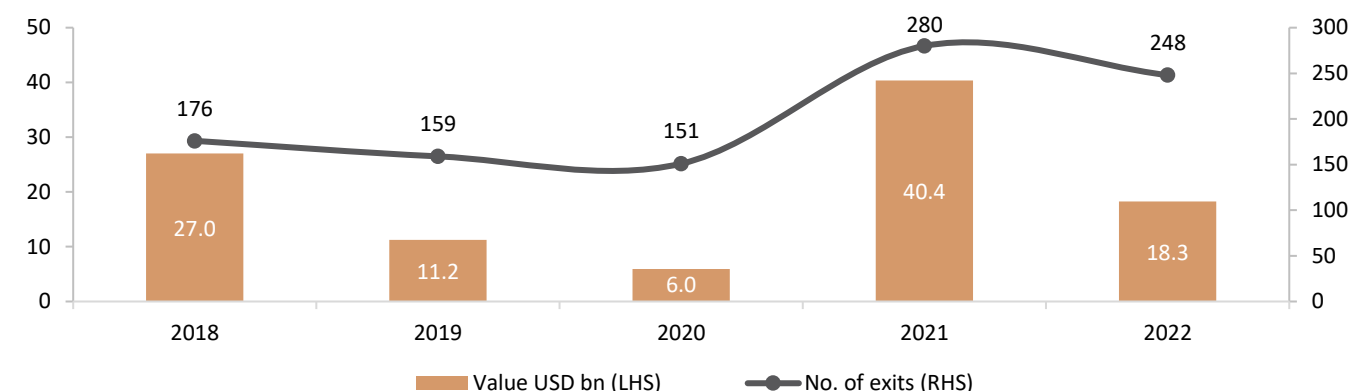


Source: EY India Trend Book 2023

Exit deals also decreased in FY22, mainly due to the scarcity of significant strategic and secondary deals in the market. Additionally, the volume of exits dropped 11% compared to 2021, with only 248 transactions taking place in 2022 as opposed to 280 deals in the previous year.



Exit Deals (USD BILLION)



Source: EY India Trend Book 2023

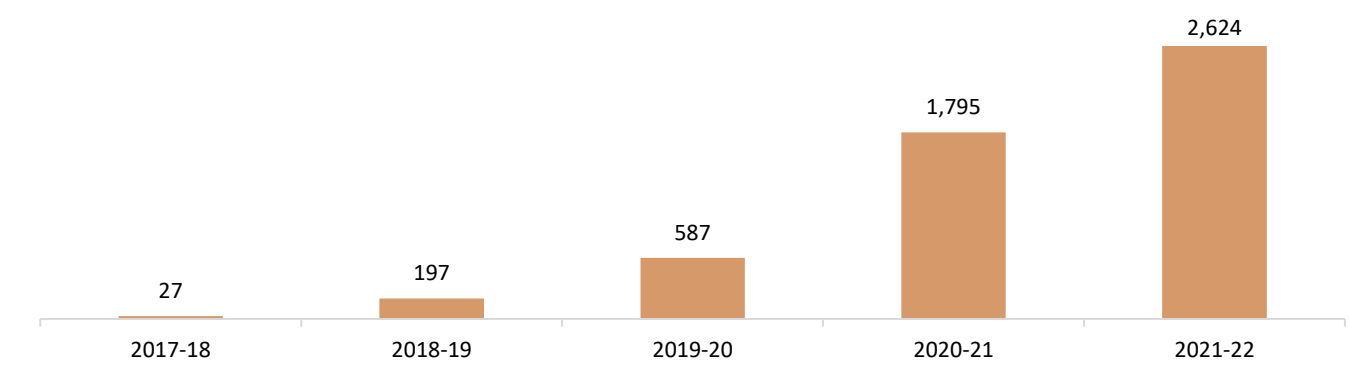
7.5. Indian International Exchange (INX) to facilitate integration with global markets

The first foreign exchange at GIFT IFSC, India foreign Exchange (IFSC) Limited (India INX), was inaugurated on January 9, 2017, and operations began on January 16, 2017, under the honourable leadership of Prime Minister Shri Narendra Modi. The IFSC Authority oversees the Exchange. Investors can trade in a variety of financial market goods for 22 hours, including debt securities, commodity derivatives, index and single stock derivatives, and derivatives on different currencies and commodities.

Clients with INDIA INX Global Access have the following benefits:

- **Global Presence** – Clients can trade in 23 currencies using a single integrated terminal, with direct access to more than 135 exchanges around the world.
- **Cost Efficient** – There is no account opening cost, no annual fee, no fee for the software or mobile application, no fee for fund deposits, and only one withdrawal is charged for each month. Transfer fees to Indian banking affiliates of INX Global Access are low.
- **Liquidity** – Investors have access to the fundamental market's liquidity.
- **Portfolio Diversification** – Investors can diversify investments globally by investing in different instruments - stocks and ETFs, derivatives, bonds, mutual funds (more than 40,000), diversified global portfolios and hedge funds, among others.



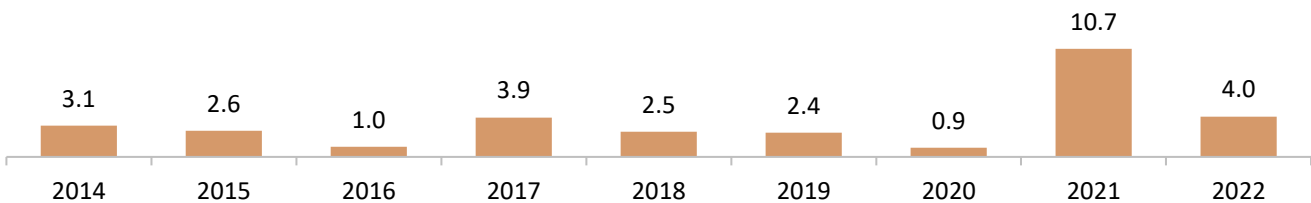

Notional Trading Turnover of Derivatives (USD Billion) on Indian International Exchange




Source: SEBI

8. BENEFICIARY SECTORS


8.1. E-Commerce

 E-commerce Sector	Overview India's E-commerce sector is expected to expand rapidly due to a rapid transition from brick-and-mortar stores towards a digital ecosystem, rising domestic demand and increasing smartphone and internet penetration.																				
 Current State of the Industry	Market Size: <ul style="list-style-type: none">Online marketplaces in India have generated over USD 100 billion in gross merchandise value (GMV), which is expected to grow to USD 350 billion by 2027.India currently has more than 800 million internet users, which is expected to increase to more than 1.3 billion by 2030. By 2026, India is also expected to have over 1 billion smartphone users, while also becoming the second-biggest smartphone manufacturer in the world.India currently has the world's third-largest shopper base with over 180-190 million online shoppers, after China and the US.Between 2014 and 2022, Indian E-commerce start-ups have raised USD 31 billion across 1,400 deals.In the next few years, majority of India's ecommerce consumption will be facilitated by Tier-2 and Tier-3 cities, along with increased penetration in the rural regions.																				
<p style="text-align: center;">E-commerce Funding (USD Billion)</p>  <table border="1"><thead><tr><th>Year</th><th>Funding (USD Billion)</th></tr></thead><tbody><tr><td>2014</td><td>3.1</td></tr><tr><td>2015</td><td>2.6</td></tr><tr><td>2016</td><td>1.0</td></tr><tr><td>2017</td><td>3.9</td></tr><tr><td>2018</td><td>2.5</td></tr><tr><td>2019</td><td>2.4</td></tr><tr><td>2020</td><td>0.9</td></tr><tr><td>2021</td><td>10.7</td></tr><tr><td>2022</td><td>4.0</td></tr></tbody></table> <p>Source: INC42</p>		Year	Funding (USD Billion)	2014	3.1	2015	2.6	2016	1.0	2017	3.9	2018	2.5	2019	2.4	2020	0.9	2021	10.7	2022	4.0
Year	Funding (USD Billion)																				
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2020	0.9																				
2021	10.7																				
2022	4.0																				
 Government Initiatives	<ul style="list-style-type: none">Digital IndiaDigital Payments (UPI, Rupay, BharatQR)Start-up IndiaGovernment e-Marketplace (GeM)																				

8.2. Consumer Durables



Consumer Durable



Current State of the Industry

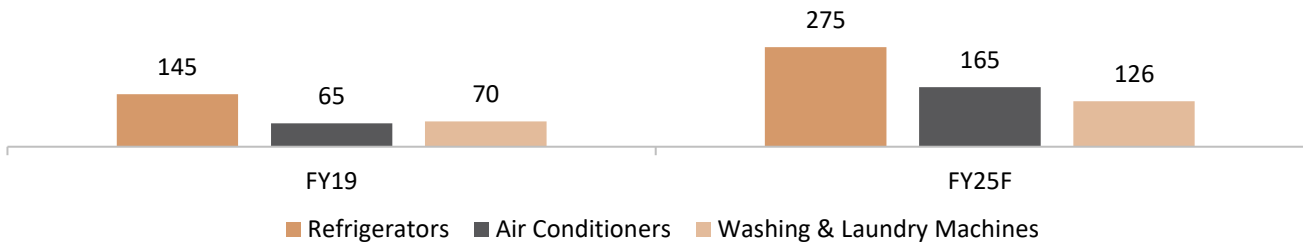
Overview

India’s consumer durables industry consists of durable goods and appliances such as fans, kitchen and cooking appliances, lighting fixtures, and air conditioners. The industry is growing at a steady rate primarily due to the rise in the Indian economy and a shifting demand from India’s urban regions to rural regions.

Market Size:

- The white goods market in India reached USD 13.66 billion in FY21, with air conditioners, refrigerators and LED products making up the greatest market share.
- India’s air conditioner market stood at USD 3.88 billion in FY21 and is projected to advance at a CAGR of 9.5% and reach USD 6.72 billion by FY26.
- India’s LED market is expected to increase at a CAGR of 18.64% from USD 3.56 billion in FY21 to USD 8.12 billion by FY26.
- From FY21-FY26, India’s refrigerator market is expected to grow at a CAGR of 9.5% and will reach USD 6.72 billion.


Production of Major White Goods (lakh units)



Year	Refrigerators	Air Conditioners	Washing & Laundry Machines
FY19	145	65	70
FY25F	275	165	126

■ Refrigerators ■ Air Conditioners ■ Washing & Laundry Machines

Source: IBEF; F - Forecast



Government Initiatives

- Production Linked Incentive Scheme for white goods
- Export Promotion Capital Goods scheme
- Unnat Jyoti by Affordable LEDs and Appliance for All (UJALA) Scheme

8.3. Renewable Energy



Renewable Energy

Overview

The energy consumption mix in India has undergone significant changes over the past few years and is projected to continue to evolve in the future. The government is proactively driving renewable energy goals to establish a sustainable energy ecosystem.

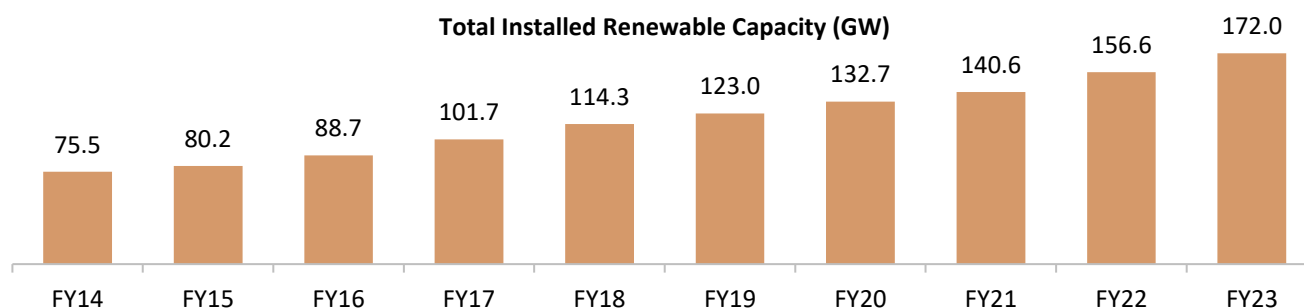


Current State of the Industry

Market Size:

- India is presently the world's third largest generator of renewable energy, with non-fossil sources accounting for about 43% of installed capacity.
- As of March 2023, the current installed renewable energy capacity is 172 GW. This is likely to expand further, as the government aims to achieve 500 GW of renewable production capacity by 2030.
- Solar and wind are predicted to account for more than three-quarters of this expansion, with the remainder coming from nuclear, hydro, and biomass. India has introduced various schemes to promote renewable energy and reduce the dependence on fossil fuels, which would aid the government in achieving net-zero carbon emissions by 2070.
- India's Minister of Power, R K Singh, has stated that investments in India's renewable energy sector could reach USD 25 billion in 2023.

Total Installed Renewable Capacity (GW)



Source: Central Electricity Authority (CEA)



Government Initiatives

- Allowing FDI up to 100% under the automatic route
- Setting up Ultra Mega Renewable Energy Parks
- National Green Hydrogen Mission
- National Wind-Solar Hybrid Policy



8.4. Healthcare



Healthcare

Overview

The healthcare sector has steadily grown to be one of the biggest sectors in India in terms of revenue and employment. This sector is expanding due to several factors, including an ageing population, growing middle class, rise in lifestyle diseases, greater emphasis on public-private partnerships, increasing adoption of digital technologies such as telemedicine, as well as increased investor interest and higher FDI inflows over the past two decades.

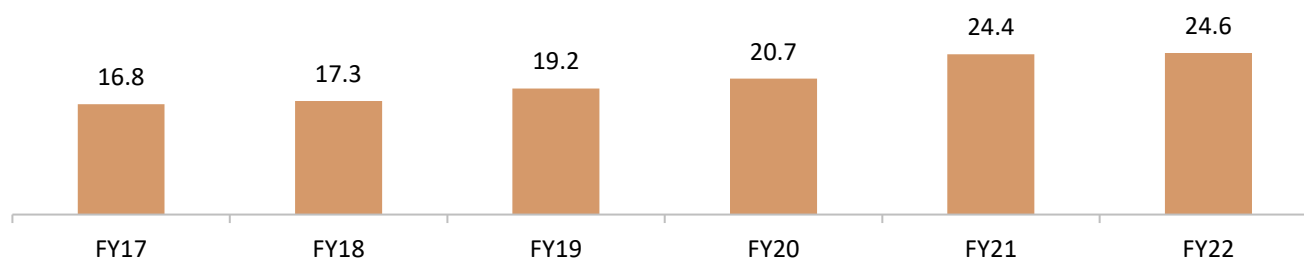


Current State of the Industry

Market Size:

- India's healthcare sector advanced at a CAGR of 22% to USD 372 billion between 2016–22 and is expected to reach USD 638 billion by 2026.
- The Indian health-tech industry is valued at around USD 5 billion in 2023.
- According to the Economic Survey of 2022–23, the government's public expenditure on healthcare stood at 2.1% of GDP in FY23, up from 1.6% in FY21.
- In 2020, the Indian medical tourism market was valued at around USD 2.89 billion, and by 2026, it is projected to be worth USD 13.42 billion. The Medical Tourism Association ranked India 10th out of 46 destinations in the Medical Tourism Index (MTI) for 2020–21.
- The Indian eHealth industry with the highest potential is telemedicine, which is anticipated to expand at a CAGR of 31% to reach USD 5.4 billion by 2025.

Pharmaceutical Exports from India (USD Billion)



Source: DGCIS



Government Initiatives

- Ayushman Bharat PM-JAY
- Pradhan Mantri Swasthya Suraksha Yojana (PMSSY)
- AYUSH



8.5. Financial Services



Financial Services

Overview

The Indian financial services industry rapidly expanded in recent years, driven by various government initiatives promoting financial inclusion, a rising middle class, and technological advancements. The industry comprises various segments such as capital markets, insurance firms, and non-banking financial institutions.

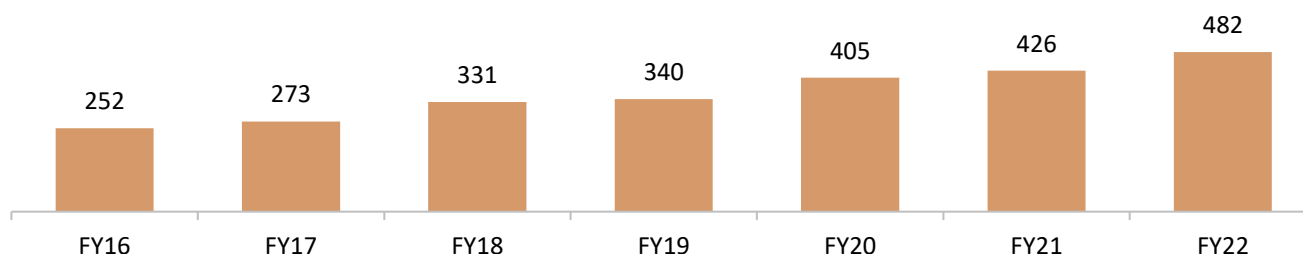


Current State of the Industry

Market Size:

- India's mutual fund industry has posted considerable growth, with the Assets Under Management (AUM) of the industry standing at INR 39.46 trillion (USD 479.67 billion) in February 2023, with 144.2 million accounts. The mutual fund industry grew due to an increase in SIP investments and overall fund flow.
- In FY23, 37 companies raised INR 543 billion (USD 6.6 billion) through main board initial public offerings (IPOs). This includes the IPO of Life Insurance Corporation (LIC), a major public sector unit (PSU) player in India's insurance market.
- India's PE/VC investments stood at USD 56.5 billion in 2022, which was the second-best investment year for India historically.
- India's insurance market expanded at 17% CAGR over the last two decades to reach USD 131 billion in FY22, becoming the 11th largest globally. According to Swiss Re, India is expected to become one of the world's top six insurance markets by 2032, ahead of Germany, Canada, Italy, and South Korea.

Mutual Funds Assets Under Management (AUM) (US\$ Billion)



Source: AMFI



Government Initiatives

- National Asset Reconstruction Company (NARCL)
- United Payment Interface (UPI) International
- Account aggregator
- FDI Reforms in Insurance industry
- Central Bank Digital Currency (CBDC)



8.6. Information Technology



Information Technology

Overview

India's Information Technology (IT) sector is a primary growth catalyst for the Indian economy and a driver for exports and GDP. Business process management (BPM), IT services, hardware and software products, and engineering services, are the four main segments of the Indian IT and IT-enabled services (ITeS) market.

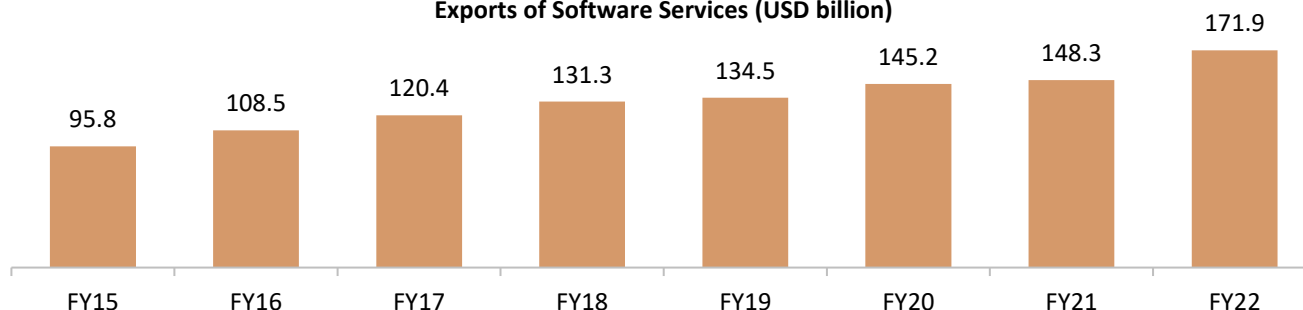


Current State of the Industry

Market Size:

- According to the National Association of Software and Service Companies (NASSCOM), the Indian IT industry's revenue increased 8.4% to USD 245 billion in FY23. NASSCOM expects the industry to reach USD 500 billion by 2030.
- IT services industry accounts for USD 125 billion, followed by BPO services at USD 47 billion, engineering services at USD 40 billion, hardware at USD 18 billion, and software products at USD 14 billion.
- The global captive centres (GCCs) sector is expected to increase to USD 60–85 billion by 2026.
- In FY22, India's software service exports, which encompass services provided by foreign affiliates of Indian corporations, surged a remarkable 15.9%, reaching a total of USD 171.9 billion.

Exports of Software Services (USD billion)



Source: RBI



Government Initiatives

- Software Technology Parks of India (STPI)
- National Policy on Software Products
- Expansion of the Telecom industry
- Information Security Education and Awareness (ISEA) Project



9. KEY RISKS

9.1. Competition from other emerging countries vying to gain market share in global trade

Shifting of manufacturing from China to other emerging Asian countries like Vietnam, Thailand and Bangladesh

China's rise as the world's manufacturing powerhouse over the past four decades has ushered in a period of integrated supply chains and globalization. However, a trade war with the US and China's own zero-COVID policy forced the world to diversify its manufacturing sources. Vietnam, India, Bangladesh, Indonesia and Thailand thus became the most popular sourcing destinations. While India captures a large share of this shift in resource planning, especially in the services and technological hardware industry, other Asian nations have also stepped up their competitiveness.

- Vietnam has emerged as a major player in the manufacturing industry due to its strategic location, advantages in shipping, competitive labour, and low production costs. The country has a strong manufacturing base, especially in industries such as clothing, shoes, electronics, and electrical appliances. It has signed numerous free trade agreements (FTAs), such as the UK-Vietnam Free Trade Agreement (UKVFTA), the EU-Vietnam Free Trade Agreement (EVFTA), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), to boost its competitiveness as a hub for low-cost manufacturing exports. With the help of these trade agreements, Vietnam can benefit from lower tariffs with the EU, the US, and other members of the ASEAN Economic Community (AEC) to entice exporting enterprises to invest in domestic production and trade with partners outside of ASEAN.
- Thailand, with its advancing economy and expanding value chain in manufacturing, has become a centre for the production of automobiles, vehicles, and electronics. This has resulted in global corporations such as Sony and Sharp establishing businesses in the country. Thailand joined the Regional Comprehensive Economic Partnership (RCEP) as a founding member to establish itself as a significant producer of industrial and agricultural goods as well as a fast-growing regional centre for e-commerce and supply-chain logistics. The nation's dedication to electric vehicle (EV) production has gained considerable traction, and it continues to enjoy large competitive advantages over its regional manufacturing rivals.
- Bangladesh has become a major exporter of clothing and accessories, with more than 80% of the country's exports revenue earned from this segment. Bangladesh is attempting to push other industries forward vigorously to diversify its industrial base beyond textiles and the readymade garments industry. Priority sectors include leather and leather goods, automotive, agribusiness and pharmaceuticals.

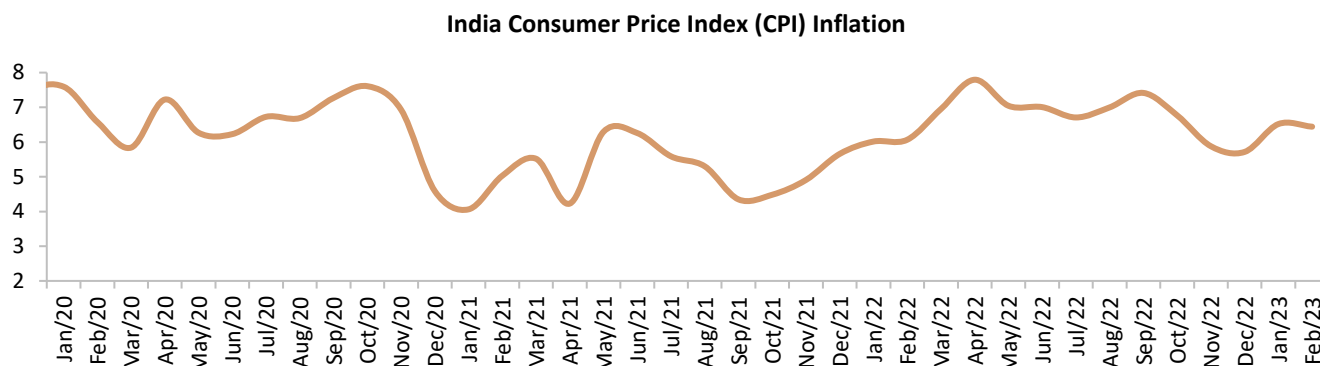
9.2. Adverse geopolitical risk from neighbours a cause of worry

- India's closest neighbours are China, Pakistan, and others in the Indian Ocean. The relationship between India and China has been uneasy for many years, with both countries engaged in territorial disputes along their border. In 2020, a clash between Indian and Chinese troops resulted in casualties on both sides, further straining the relationship between the two countries. This tension could lead to economic and trade issues and in turn affect India's growth prospects.
- The conflict between India and Pakistan is another geopolitical risk. The two countries have a history of tense relations, with both sides engaging in military conflict. Both countries have tested nuclear arms and the threat of nuclear deployment will likely hinder economic development in India. Furthermore, India's economy could also be impacted by adverse geopolitical developments in other parts of the world, such as the conflict between Ukraine and Russia. Any disruption in global trade or economic activity could have a ripple effect on India's economy, given its integration into the global economy.



9.3. Persistent inflation risks from crude imports and supply side shocks

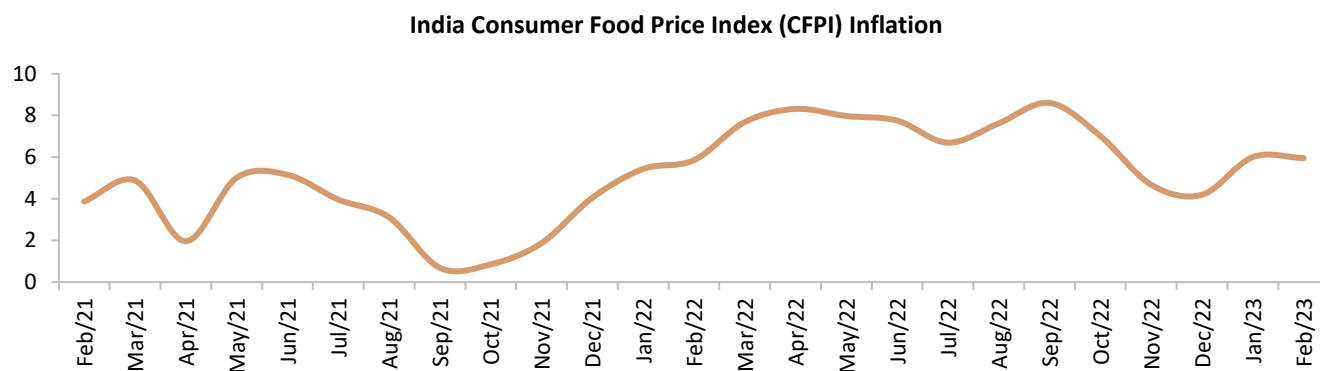
The two consecutive shocks of the pandemic and the Russia–Ukraine war have weighed on the Indian economy in the past couple of years. The biggest impact of these events has been the increase in inflation. Inflation affects developing countries more than developed ones as necessities make up a larger portion of the consumption basket in developing countries.



Source: Ministry of Statistics and Programme Implementation

The RBI set India's inflation target at 4% (with an upper limit of 6% and a lower limit of 2%). India's inflation rate has been above 4% since October 2019. A primary contributor to the rise in inflation has been the growth in crude oil price. With the Russia-Ukraine war causing supply-side disruptions, crude oil prices have been on a steady upward trend. According to World Bank data, the average crude oil price (in real dollars) stood at USD 42.1/barrel in 2020, which rose to USD 63.1 in 2021 and to USD 88 in 2022. In addition to crude oil price, the price of critical primary metals has also risen significantly.

Another contributor to inflation was the rise in food prices, with the Consumer Food Price Index (CFPI) peaking at 8.6% in September 2022. The prices of cereal, wheat, rice, eggs, and milk have all exhibited a rising trend over the past few months. Additionally, a shortfall in crop harvests due to extreme heat in some parts of India also contributed to the food price inflation.



Source: Press Information Bureau

The RBI has implemented multiple measures to combat the rising inflation:

- Raised the policy repo rate under the liquidity adjustment facility (LAF) six times between May 2022 and February 2023, adding 250 bps to go from 4% in May to 6.5% in February.
- Reduced the excise duty on petrol and diesel.
- Implemented a ban on the export of wheat products.
- Implemented export duty on rice.
- Reduced the import duties and cess on pulses.
- Rationalized tariffs and imposed stock limits on edible oils and oil seeds.

Due to these actions, the CPI had eased to 5.7% and CFPI, to 4.8%, in March 2023. The RBI in its March Monetary Policy Statement lowered its inflation forecast for fiscal year 2023-24 to 5.2% y/y, assuming an average crude oil price of USD 85/barrel.

Lower Consumption & High Unemployment

The high inflation rate has impacted the spending patterns of consumers. Stress levels are greater in rural markets as customers at the bottom of the pyramid are more affected by inflation. Consumers in the Indian rural market has noticeably moved to smaller, more reasonably priced goods, while curbing their spending on non-essential goods. The FMCG industry in India grew by 7.6% in Q4 2022, showing a decrease of 1.6% from growth in the previous quarter and 2.0% lower than the rate in 2021. YoY volume growth in the FMCG market was negative in all four quarters of 2022, culminating with -0.3% growth in Q4. Non-food consumption fell across categories and volume sales reduced in the recent quarters compared with pre-Covid levels.

On the unemployment front, according to March 2023 data from the Centre for Monitoring Indian Economy (CMIE), the unemployment rate increased to 7.8%, a 3-month high. The unemployment rate declined in January and February from a 2022 peak of 8.3% in December but rebounded again in March. The deteriorating employment situation could harm growth prospects, hit private investments, and impact consumer demand.

9.4. Lack of co-ordination between State and Central Government could affect the implementation of reforms

The political system in India, where different parties can form the central and state governments, has led to many centre-state conflicts, arising from differences in ideologies, beliefs, and method of governance. A few examples are detailed below.

Taxation

The implementation of the Goods and Services Tax (GST) in 2017 was met with significant antagonism as many opposition parties argued it would increase taxes on everyday products while reducing tax rates on luxury items, thus affecting the common man the most. Several states also expressed concerns that their revenue share would drop under the new tax regime. Prior to the GST implementation, states were free to impose sales taxes as per the directives of their state legislatures, but the advent of GST reduced this autonomy for individual states.

To address the concerns of the states, the central government agreed to fully compensate states for any revenue loss for the first five years. The growth rate of the GST collections from states was pegged at 14% from the amount collected in 2015-16. If the states' GST collections fall below the expected 14% annual growth, the central government must make up the difference from a compensation fund financed by a cess levied on goods falling under the 28% GST bracket. However, the COVID-19 pandemic disrupted the economy, making it difficult for states to achieve the 14% targeted growth rate in GST revenue. This led to the centre borrowing funds to pay the states for the revenue shortfall. Instead of compensating the states fully, the centre partially shifted the onus of borrowing onto the states. This move was criticized by state governments as they blamed the centre for renegeing on its initial promise.

Overall, the GST implementation required significant cooperation and coordination between the central and state governments. While some states opposed the implementation, the central government worked with others to address their concerns and ensure a smooth transition to the new tax regime.

Response to COVID-19

The lack of coordination between the central and state governments in India during the COVID-19 pandemic was a significant challenge for the country. The decision to impose a nationwide lockdown without any prior consultation or notice to individual state governments was criticized as it did not account for the varying levels of COVID-19 infection rates and health system capability between states. This lack of coordination was further exposed by the sudden and massive movement of migrant workers across state lines, which highlighted the absence of an efficient intergovernmental framework. Moreover, multiple states were unable to scale up testing during the first wave due to the centre's inability to supply testing kits, which led to some states having to purchase kits from international markets.



The second wave of the pandemic saw a policy shift from the central government towards localized lockdowns and decentralization of vaccine procurement and distribution. However, the tension between the centre and states worsened, with the centre shifting responsibility for poor COVID management to the states.

Welfare Schemes

In recent years, the central government has launched several welfare schemes to address the needs of different sections of society. However, the lack of coordination between the central and state governments has often resulted in a slow or incomplete implementation of these schemes. For example, the Pradhan Mantri Jan Arogya Yojana (PMJAY), a health insurance scheme launched by the Central government in 2018 has not been implemented in Delhi, Telangana, Odisha and West Bengal. Similarly, the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), a scheme to provide financial assistance to farmers, has also faced implementation challenges due to the lack of coordination. Some states such as West Bengal and Delhi have not implemented the scheme. In the case of West Bengal, the state government cited technical and administrative reasons for not implementing the scheme.



10. CONCLUSION

India has emerged as one of the fastest growing high-potential economies in the world. Even during the global growth slowdown, energy crisis, recent pandemic, and high inflation, India has maintained a relatively high GDP growth rate and is set to continue its momentum. As a result, India's share of global economic output is increasing, making it an attractive destination for investors seeking favourable returns. Due to the promising investment climate, strong manufacturing capabilities, expanding consumer base, and rapid digital transformation, India has experienced a drastic rise in its share in global FDI. Several large corporations have strengthened their presence in India to diversify their supply chains and mitigate risks associated with over-reliance on a single country.

The fundamental drivers of long-term sustainable growth are already in place. India's favourable demographic profile, characterized by a large and diverse population, provides a significant consumer base necessary to foster domestic demand and sustain economic growth. This demographic advantage, combined with India's focus on nurturing entrepreneurship and fostering a culture of innovation, positions the country as a global hub for young talents. India's vibrant start-up ecosystem and digital revolution further enhance its competitive edge. The country's focus on innovation, coupled with initiatives such as Digital India and Startup India, positions India as a global hub for technology-driven entrepreneurship. This distinguishes India from other emerging economies and presents unique investment opportunities. Furthermore, India's commitment to sustainable development and environmental conservation sets it apart. The government's focus on renewable energy, sustainable practices, and inclusive growth demonstrates India's long-term vision for balanced and responsible economic development.

The long-term demand drivers are further supported by a stable political climate and government commitment to necessary reforms. Regardless of political affiliations, successive governments have adhered to a fiscal consolidation path, ensuring a stable and predictable policy environment. The Make in India campaign, ease of doing business improvements, and implementation of Goods and Services Tax (GST) exemplify India's commitment to creating a conducive ecosystem for investment and entrepreneurship.

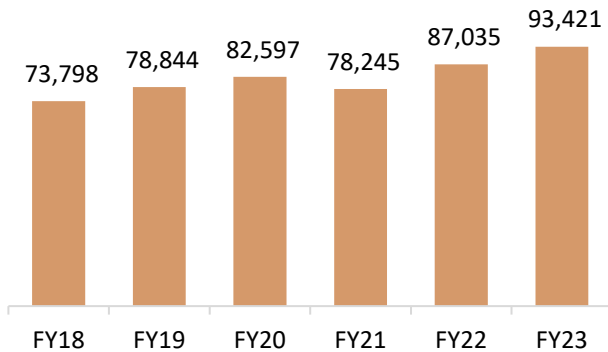
Despite the immense potential and strengths of India's economy, it is essential to acknowledge the challenges that the country faces. India grapples with persistent issues such as income inequality, infrastructure gaps, bureaucratic hurdles, and geopolitical complexities. However, the Indian government has shown a strong commitment to addressing these challenges. Through ongoing reforms, policy initiatives, and investments in infrastructure, the government aims to bridge the gaps and create an enabling environment for sustainable growth. The implementation of initiatives such as Smart Cities Mission, Digital India, and Atmanirbhar Bharat (Self-Reliant India) reflects the government's determination to overcome obstacles and drive inclusive economic development.

In summary, India's economy presents immense potential and strengths, backed by consistent GDP growth, a favourable demographic advantage, government initiatives, a digital revolution, and a focus on sustainable development. Investors seeking long-term growth prospects should consider India as a strategic investment destination.



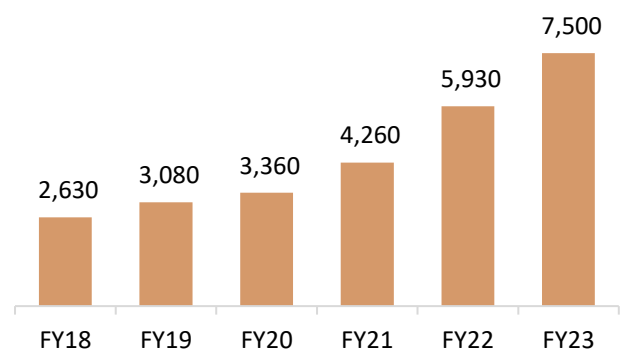
11. ANNEXURE

Private Final Consumption Expenditure (INR billion)



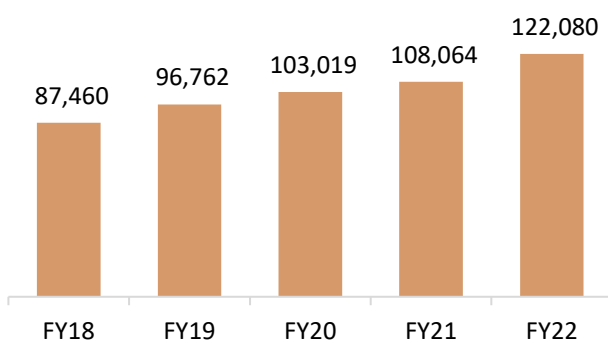
Source: Press Information Bureau

Government Capital Expenditure (INR billion)



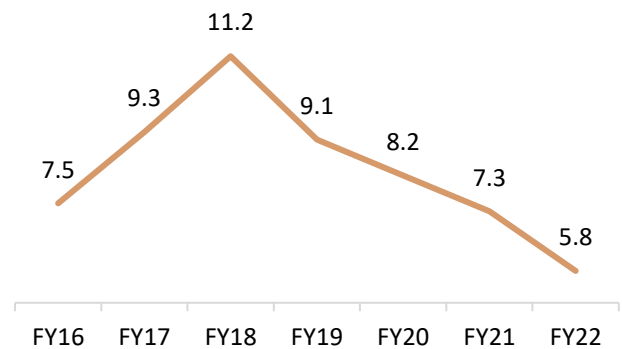
Source: Press Information Bureau

India Total Loans and Advances (INR billion)



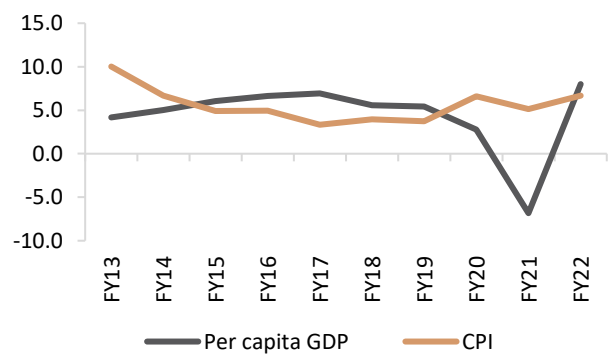
Source: Reserve Bank of India. Data for all scheduled commercial banks in India

Trend in Gross NPL ratio (%)



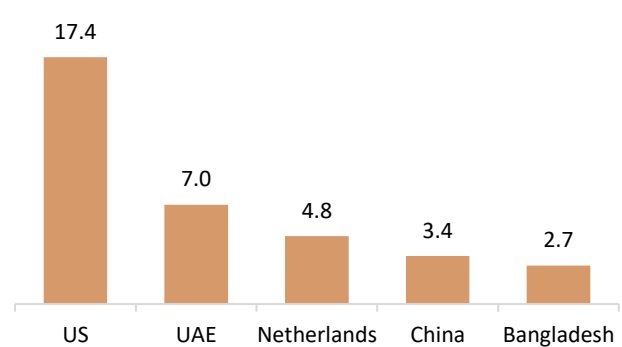
Source: Reserve Bank of India. Data for all scheduled commercial banks in India

Trend Per Capita GDP and CPI (YoY %)



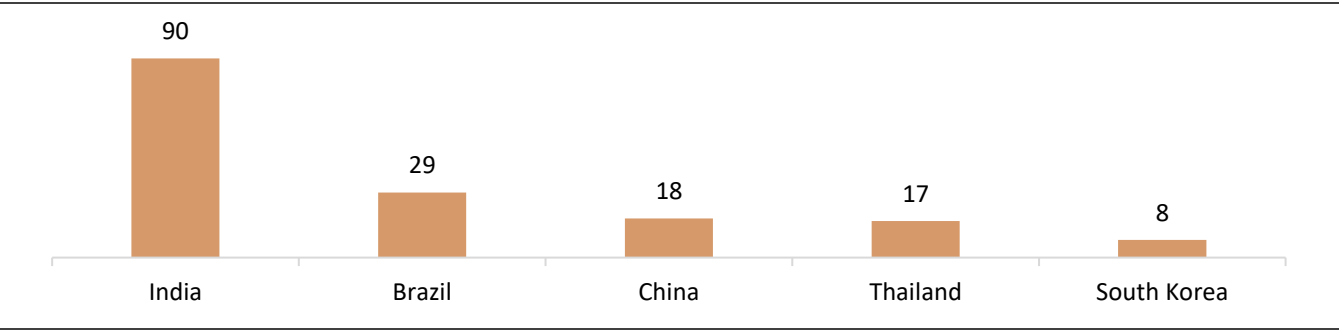
Source: MoSPI, World Bank

India – Top 5 Export Partners (USD billion)



Source: Ministry of Commerce

Total no. of Real Time Transactions



Source: ACI

12. DISCLAIMER

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