

THE FINANCIAL SECTOR IN INDIA AND OPPORTUNITIES FOR GLOBAL PLAYERS

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Plan for the hour

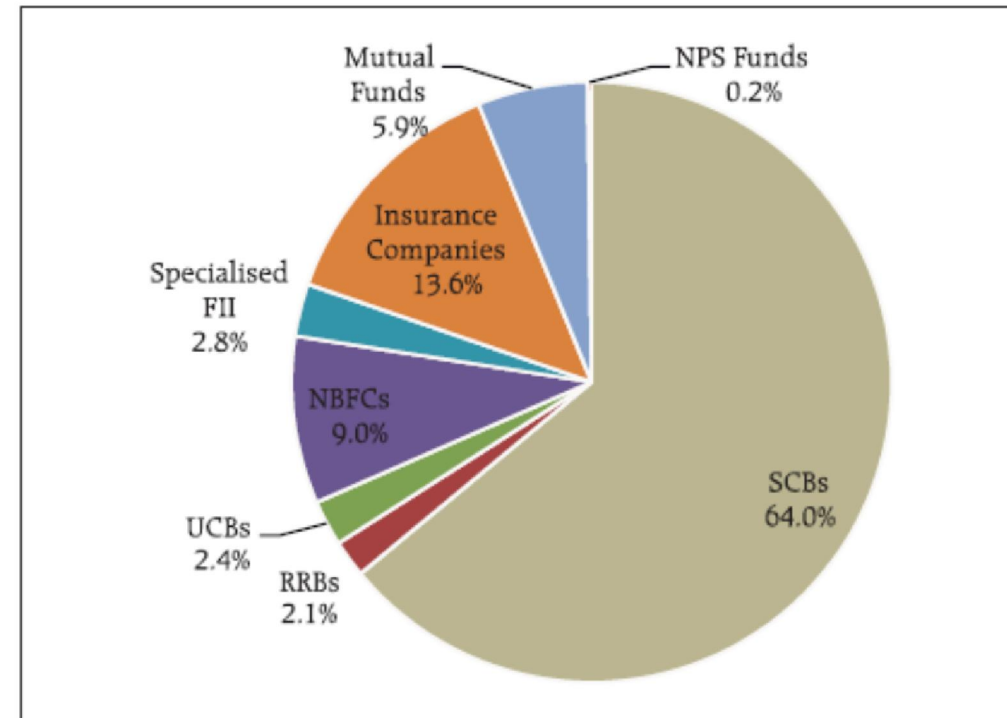
- Key features of Indian Financial Sector
- Challenges of new businesses/Ease of Doing Business/VC-PI industry
- Foreign investment openings and processes
- A few latest analyst projections with sectoral slants
- Q&A

Indian Financial Sector

In a nutshell...

- Low Financial Penetration
- Rapid transformation since liberalization; parallels telecom and aviation
- Stable, fragmented, public-sector dominated banking system
- Poor Credit Infrastructure
- Vibrant financial markets
- Anemic corporate bond market
- Great performance and growth of intermediaries
- Rapid globalization – FII flows, cross-border M&A
- Business Group-dominated corporate sector
- Rule-based, multiple-agency regulatory system
- In the midst of second-generation reforms -- bevy of regulatory changes likely soon

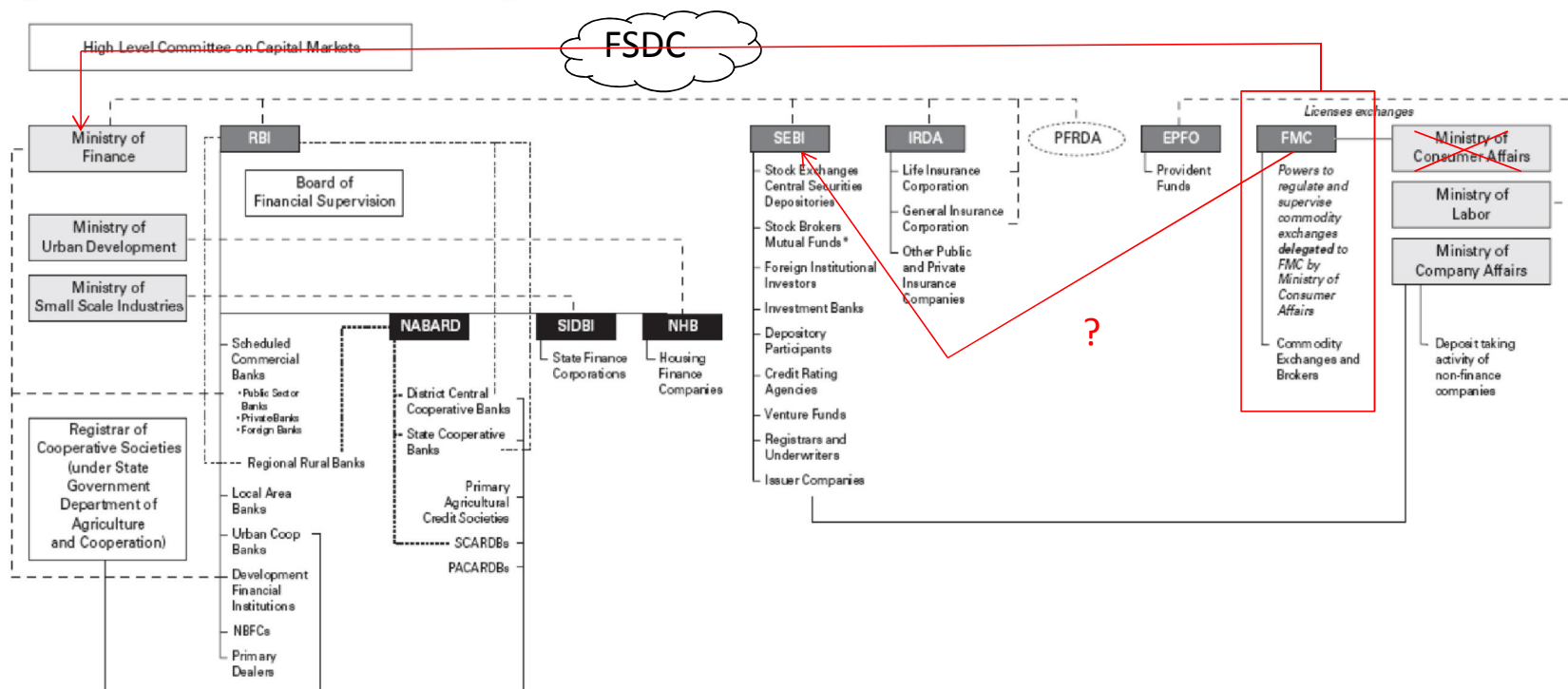
Chart 3.6: Share of different sectors in total assets of the Indian financial system



Source: RBI, SEBI, IRDA and PFRDA.

Fragmented Regulatory Structure

Figure 2. Institutional Structure of Financial Regulation in India



- Tier 1 regulatory agencies, each established through Acts of Parliament.
- PFRDA has not yet been set up and will be set once the Parliament approves the Pensions Legislation.
- Second Tier Regulatory/Supervisory agency, each established through Acts of Parliament. These institutions perform refinancing functions.
- Central Government Ministry

- Explicit regulation and supervision
- Regulation but no supervisory role
- Supervision but no regulatory role
- Implicit role as MoF representatives are on the Boards of SEBI, IRDA, RBI. Representatives of the MoF and MoSSI are also on the Board of SIDBI and representatives of the MoUD are on the Board of NHB. The MoF is also represented on the Boards of public sector banks, public sector Development Financial Institutions, Life Insurance Corporation, and General Insurance Corporation.

* including UTI II

SCARDBs—State Cooperative Agriculture and Rural Development Banks

PACARDBs—Primary Cooperative Agriculture and Rural Development Banks

Bank branches and ATMs

Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks (Continued)
(As at end-March 2013)

Sr. No.	Name of the Bank	Branches					ATMs		
		Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total
1	2	3	4	5	6	7	8	9	10
	Scheduled Commercial Banks	26,493	25,009	19,027	18,033	88,562	55,760	58,254	114,014
	Public Sector Banks	24,124	19,554	15,080	13,903	72,661	40,241	29,411	69,652
	Nationalised Banks	17,036	13,539	11,320	10,585	52,480	21,533	15,528	37,061

Branch expansion of RRBs in order to promote financial inclusion in rural areas

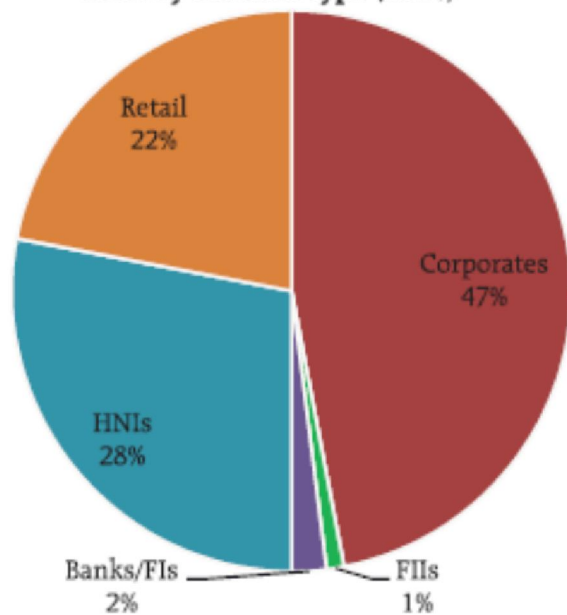
3.60 During 2012-13, 947 branches were opened by RRBs taking the cumulative number of branches to 17,856 spread across 635 districts in 26 states and one UT.

Inclusion challenges

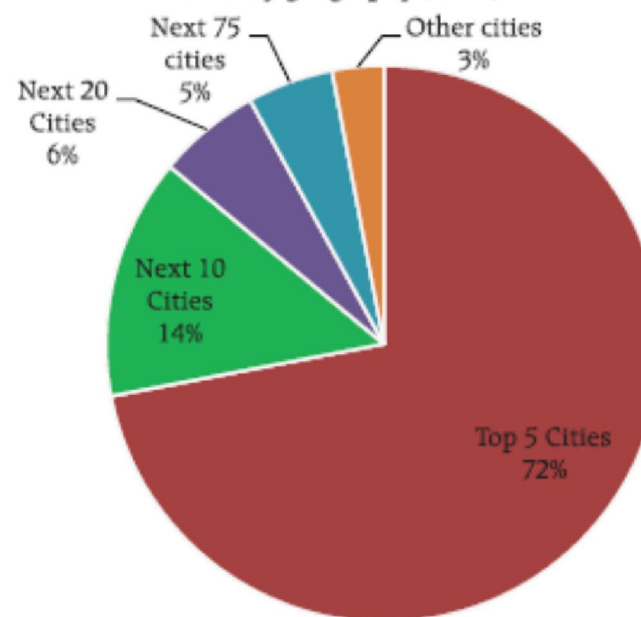
- Most banks fail to meet the “agriculture/weaker section” sub-parts of priority lending
- Dependence on money-lenders have been growing in recent decades
- The situation is particularly bad for emergency loans – the most common loan need for the poorest
- Bank penetration in the lowest quartile of cash earners remains low (<20%)

Mutual Funds – a highly skewed distribution

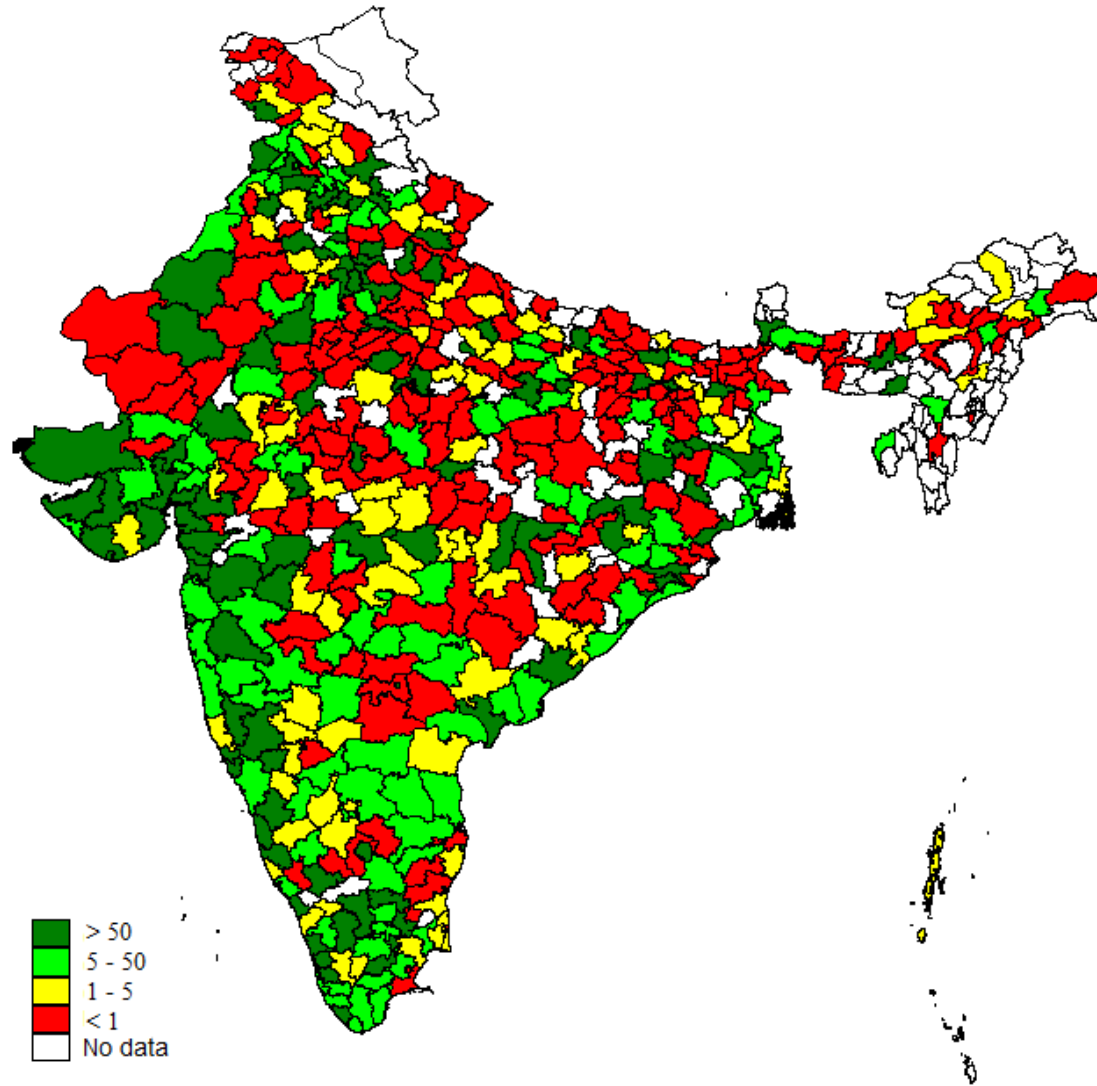
AuM by investor type (2014)



AuM by geography (2014)

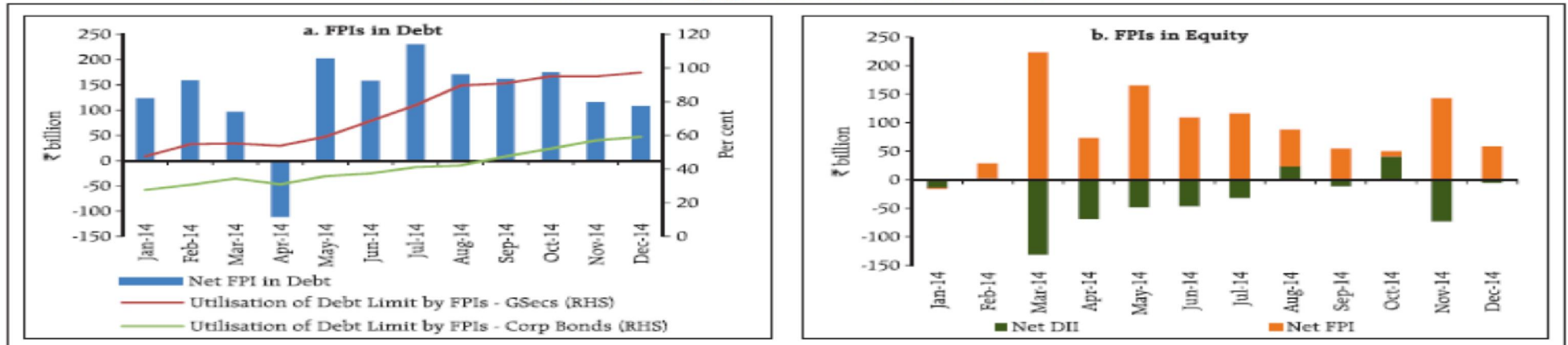


Retail Folios per 1000 households



Foreign Portfolio Investments

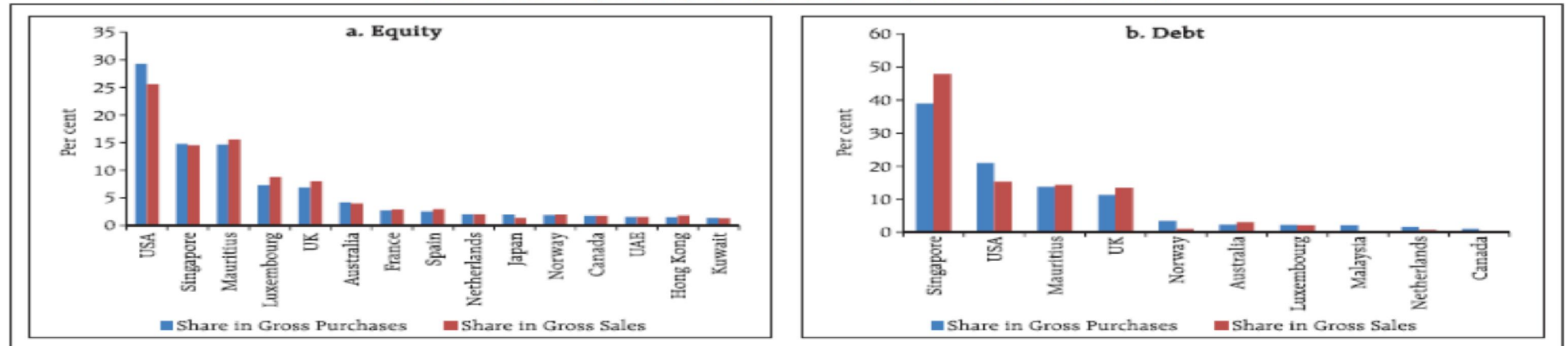
Chart 1.10: Foreign portfolio investments in India



Note: Data in Chart 1.10b are provisional. DII refers to Domestic Institutional Investments. Data up to December 11, 2014.

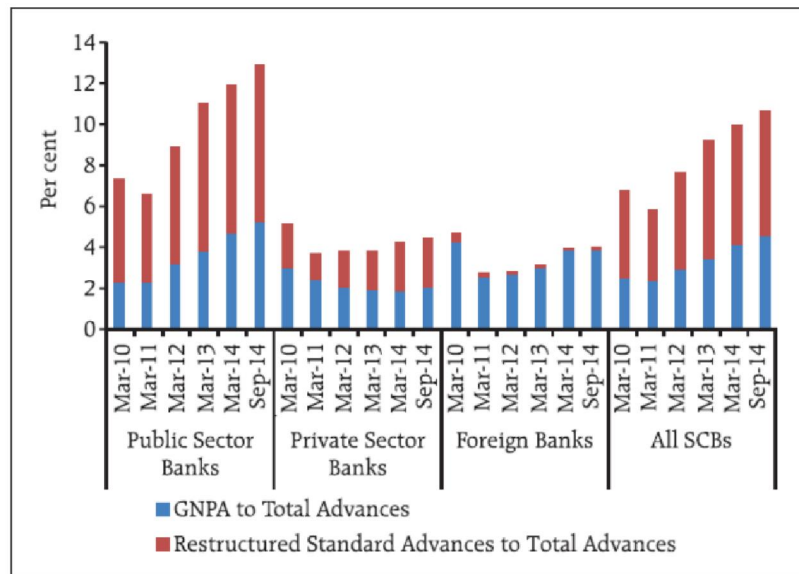
Source: Bloomberg, NSDL, BSE.

Chart 1.11: FPIs by country of origin (Between June 2013-October 2014)



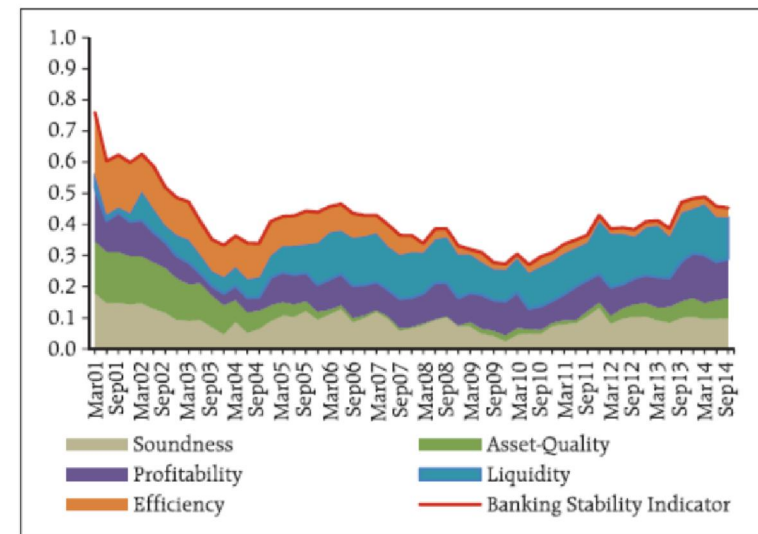
Health of Banking Sector

Chart 2.6: Asset Quality of SCBs



Source: RBI supervisory returns.

Chart 2.8: Banking stability indicator



Note: Increase in indicator value shows lower stability. The width for each dimension signifies its contribution towards risk.
 Source: RBI supervisory returns⁶ and staff calculations.

Doing Business in India

This ain't Kansas anymore...

ECONOMY OVERVIEW		PRINT EXCEL		
REGION	South Asia	DOING BUSINESS 2016 RANK	DOING BUSINESS 2015 RANK ^①	CHANGE IN RANK
INCOME CATEGORY	Lower middle income	130	134	↑ 4
POPULATION	1,267,401,849	DOING BUSINESS 2016 DTF (% POINTS) ^①	DOING BUSINESS 2015 DTF (% POINTS) ^①	CHANGE IN DTF (% POINTS) ^①
GNI PER CAPITA (US\$)	1,610	54.68	52.67	↑ 2.01
CITY COVERED	Mumbai, Delhi	Rankings Distance to Frontier Distance to Frontier - Mumbai Distance to Frontier - Delhi		
Topics	DB 2016 Rank	DB 2015 Rank	Change in Rank	
Starting a Business ✓	155	164	↑ 9	
Dealing with Construction Permits	183	184	↑ 1	
Getting Electricity ✓	70	99	↑ 29	
Registering Property	138	138	No change	
Getting Credit	42	36	↑ -6	
Protecting Minority Investors	8	8	No change	
Paying Taxes	157	156	↑ -1	
Trading Across Borders	133	133	No change	
Enforcing Contracts	178	178	No change	
Resolving Insolvency	136	136	No change	

✓=Doing Business reform making it easier to do business. X=Change making it more difficult to do business.

Foreign Investment – Opportunities and Processes

India most attractive FDI destination

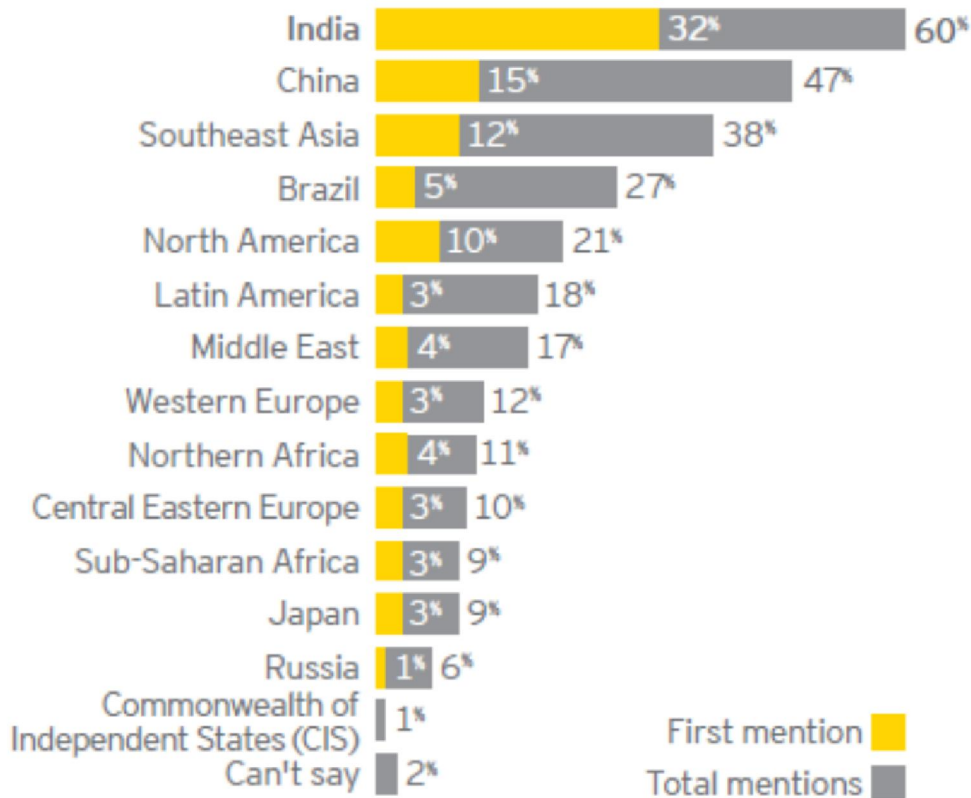
Number 1 FDI destination

India has emerged as the number one FDI destination in the world during the first half of 2015. With FDI capital inflows of US\$30.8b, India has outpaced all other economies, moving up to the premier position from being in the fifth spot during the corresponding period of the previous year.

2014		Highlights 1H15
680 FDI projects	37% rise in projects	+135% FDI capital
US\$25b FDI investment	32% rise in investment	US\$91m highest ever FDI capital per project
145,000 total jobs created by FDI	39% additional jobs	+221% FDI capital increase in manufacturing

Source: fDi Markets, May 2015 and September 2015.

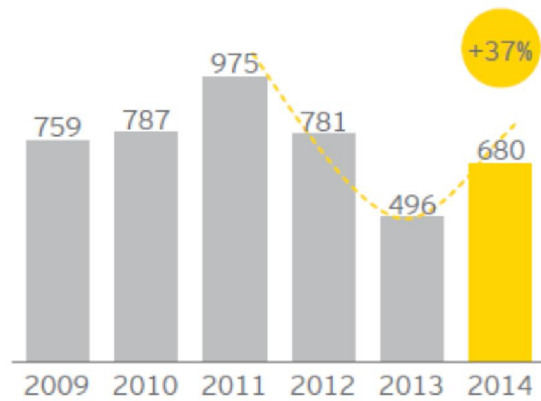
Rank the three most attractive markets for investment in the next three years (three possible answers)



Source: EY's 2015 India attractiveness survey (total respondents: 505).

Recovery in FDI

Number of FDI projects

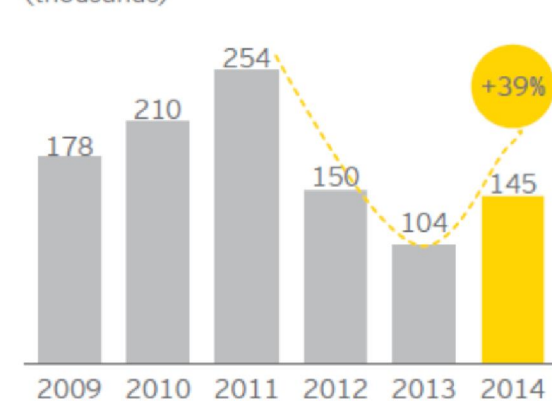


Source: fDi Markets, May 2015.

FDI capital (US\$b)



Jobs created by FDI (thousands)

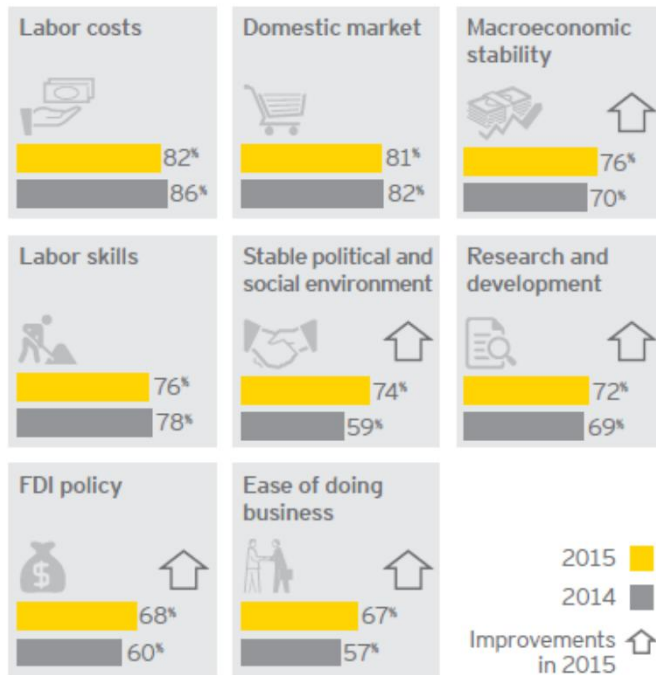


Why?

Investors highlight improvements

Business leaders find India's macroeconomic and political stability, FDI policy and ease of doing business more attractive in 2015, compared with EY's 2014 India attractiveness survey.

Please rate the following parameters for investment in India as very, fairly, little or not at all attractive. (Percentage of respondents who rated the parameter as "very attractive" or "fairly attractive")



Sources: EY's 2015 India attractiveness survey (total respondents: 505); EY's 2014 India attractiveness survey (total respondents: 502).

Attractiveness pillars for India

Please rate the following parameters for investment in India as very, fairly, little or not at all attractive. (Percentage of respondents who rated the parameters as "very attractive" or "fairly attractive")



Source: EY's 2015 India attractiveness survey (total respondents: 505). * Added in 2015.



RECENT POLICY MEASURES

The government has put in place an investor-friendly policy on foreign direct investment (FDI), under which FDI up to 100% is permitted under the automatic route in most sectors/activities.

Under this route, no permission from the Central Government is required for FDI inflow, but the same is subject to applicable laws/regulations, security and other conditions.

DEFENCE

→ The government, vide Press Note 7 (2014) dated the 26th of August, 2014, has allowed FDI up to 49% on approval route in Defence sector with certain conditions, for e.g., the applicant company seeking FIPB approval be an Indian company owned and controlled by resident Indian citizens. Above 49% the proposal will be routed to the Cabinet Committee on Security on a case-to-case basis, wherever it is likely to result in access to modern and state-of-the-art technology in the country. Portfolio investments have been permitted in the Defence sector for up to 24% on automatic route. A number of conditions have been relaxed or removed, making the sector more investor-friendly.

→ The provision is expected to result in technology transfer which would help in increasing the production base and providing impetus to the manufacturing sector and job creation in India. The measure is expected to not only reduce the heavy burden of imports and conserve foreign exchange reserves but also make domestic manufacturing an integral part of India's GDP growth.

RAILWAYS

→ The government, vide Press Note 8(2014) dated 27 August, 2014, has allowed 100% private and foreign direct investment under the automatic route in construction, operation and maintenance of the following rail infrastructure projects:

1. Suburban corridor projects through PPP
 2. High speed train projects
 3. Dedicated freight lines
 4. Rolling stock including train sets and locomotive/ coach manufacture and maintenance facilities
 5. Railway Electrification
 6. Signaling systems
 7. Freight terminals
 8. Passenger terminals
 9. Infrastructure in industrial parks pertaining to railway line/sidings including electrified railway lines and connectivity to main railway lines
 10. Mass Rapid Transport Systems
- subject to meeting sectoral laws and with the condition that FDI beyond 49% in sensitive areas from a security point of view will be approved by the Cabinet Committee on Security on a case-to-case basis.

→ The provision will facilitate private investment including FDI inflows into infrastructure projects including elevated rail corridor project in Mumbai, High Speed Train project, port connectivity projects, dedicated freight corridors, logistic parks, station development, locomotive manufacturing units and power plants, through public-private partnerships which would not only bring in the much needed capital but also technology and best global practices.

CONSTRUCTION DEVELOPMENT

→ The Government has issued Press Note No. 10 (2014 Series) on 3rd December, 2014 amending the FDI policy regarding Construction Development Sector. Amended policy includes easing of area restriction norms, reduction of minimum capitalization and easy exit from project. Further, in order to boost low-cost affordable housing, provisions for conditions of area restriction and minimum capitalization will not apply to cases committing 30% of the project cost towards affordable housing.

PHARMACEUTICAL SECTOR- CARVE OUT FOR MEDICAL DEVICES

→ The Government, vide Press Note No. 2 (2015), dated 6th January, 2015, has reviewed the FDI policy in Pharma Sector and has allowed FDI up to 100%, under the automatic route for manufacturing of medical devices.

INSURANCE SECTOR

→ FDI limit in Insurance sector has been raised from 26% to 49%.

OTHER POLICY INITIATIVES

→ 100% FDI is allowed in the telecom sector.
→ 100% FDI in single-brand retail.
→ FDI in commodity exchanges, stock exchanges & depositories, power exchanges, petroleum refining by PSUs, courier services under the government route has

now been brought under the automatic route.
→ Removal of restriction in tea plantation sector.
→ FDI limit raised to 74% in credit information & 100% in asset reconstruction companies.

Note: Citizens or entity from Bangladesh & Pakistan can invest only under the government route also investor from Pakistan cannot invest in defence, space, atomic energy and sectors prohibited for foreign investment.

SECTORS WITH RESTRICTIONS

SECTORS WHERE FOREIGN DIRECT INVESTMENT IS PROHIBITED

→ Lottery Business including Government/ private lottery, online lotteries, etc.
→ Gambling and betting including casinos etc.
→ Chit funds.
→ Nidhi company (borrowing from members and lending to members only).

→ Trading in Transferable Development Rights (TDRs).
→ Real Estate Business (other than construction development) or Construction of Farm Houses.
→ Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.
→ Activities/ sectors not open to private sector investment e.g. Atomic Energy and Railway Transport (other than construction, operation and maintenance of

1. Suburban corridor projects through PPP
2. High speed train projects
3. Dedicated freight lines
4. Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities
5. Railway electrification
6. Signaling systems

7. Freight terminals
 8. Passenger terminals
 9. Infrastructure in industrial parks pertaining to railway line/sidings including electrified railway lines and connectivity to main railway lines
 10. Mass Rapid Transport Systems
- Legal services, bookkeeping, accounting & auditing

SECTORS WITH CAPS

74%

- Teleports (setting up of up-linking HUBs/Teleports), Direct to Home (DTH), Cable Networks (Multi-system operators (MSOs) operating at national, state or district level and undertaking upgradation of networks toward digitalization and addressability), Mobile TV and Headend-in-the-Sky Broadcasting Service (HITS).
- Air transport services - non-scheduled air transport.
- Ground handling services - Civil Aviation.
- Satellites- establishment and operation.
- Private Sector Banking - except branches or wholly owned subsidiaries.
- Credit information companies.

- Infrastructure companies in securities market
- Insurance and sub-activities.
- Power exchanges.
- Defence (above 49% to CCS).

26%

- Broadcasting content services- FM Radio, uplinking of news and current affairs TV channels.
- Print Media dealing with news and current affairs.

20%

- Public 20% Sector Banking.

49%

- Petroleum Refining by PSU.
- Cable Networks.
- Air transport services - scheduled air transport
- Private security agencies.
- Commodity exchanges.

SECTORS REQUIRING CENTRAL GOVERNMENT APPROVAL

100%

- Tea sector, including plantations.
- Mining and mineral separation of titanium-bearing minerals and ores, its value addition and integrated activities.
- FDI in enterprise manufacturing items reserved for small scale sector.
- Broadcasting Content Services: uplinking of non-news and current affairs TV channels.
- Publishing/printing of scientific and technical magazines/specialty journals/periodicals.
- Publication of facsimile editions of foreign newspapers.
- Pharmaceuticals - brownfield.

BEYOND 49%

- Defence - up to 49% under the government route through FIPB and beyond 49% under OCS approval (on a case-to-case basis, wherever it is likely to result in access to modern and state-of-the-art technology in the country).
- Teleports (setting up of up-linking HUBs/Teleports), Direct to Home (DTH), Cable Networks (Multi-system operators operating at National or State or District level and undertaking upgradation of networks towards digitalization and addressability), Mobile TV and Headend-in-the Sky Broadcasting Service (HITS) - beyond 49% and up to 74%.
- Non-scheduled air transport service - beyond 49% and up to 74%.
- Ground handling services - beyond 49% and up to 74%.
- Telecom.

- Single brand retail.
- Asset reconstruction company.
- Banking private sector (other than WOS/Branches) - beyond 49% and up to 74%.

26%

- Broadcasting Content Services: uplinking of news and current affairs channels.
- Print media: Publishing of newspaper and periodicals dealing with news and current affairs, and Publication of Indian editions of foreign magazines dealing with news and current affairs.
- Terrestrial Broadcasting FM (FM Radio).

OTHER

- Defence - up to 49% under FIPB/CCEA approval.
- Airports - brownfield - beyond 74%
- Satellites - 74%
- Private securities agencies - 49%
- Banking public sector - 20%



SPECIAL DISPENSATION

Special dispensations have been envisaged for NRI investments in the following:

- Construction development
- Ground Handling & Air transport services

- NRI investing on non repatriable basis
- FDI from NEPAL & BHUTAN is allowed in Indian rupees

TYPES OF INVESTORS

INDIVIDUAL:

- FVCI
- Pension/Provident Fund
- Financial Institutions

COMPANY:

- Foreign Trust
- Sovereign Wealth Funds
- NRIs / PICs

FOREIGN INSTITUTIONAL INVESTORS:

- Private Equity Funds
- Partnership / Proprietorship Firm
- Others

Rules keep changing.

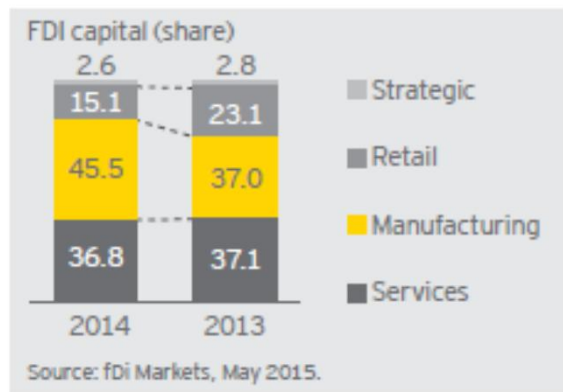
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Recent Trends

Manufacturing leads investment plans

Manufacturing has regained its share in FDI capital flows in 2014, amounting to approximately 46%. Investors are most optimistic about the sector, with 62% of those interested to expand or enter India over the next year, saying that they plan manufacturing activities.

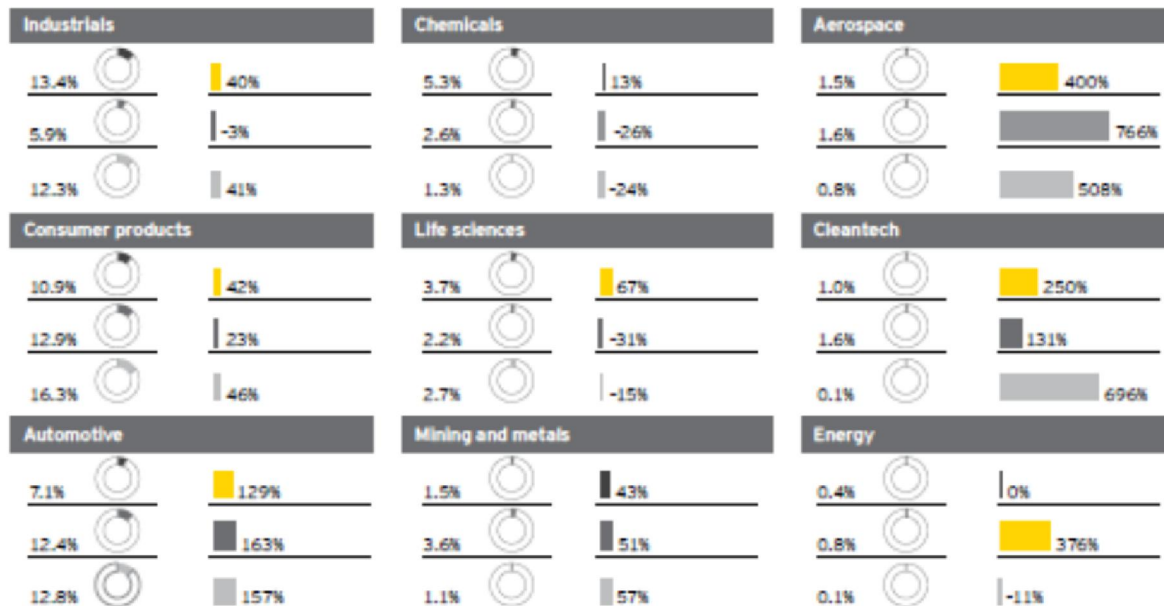


What is the nature of the business activity you are planning in India?
(Open-ended question – multiple responses)

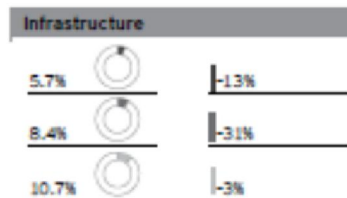


Source: EY's 2015 India attractiveness survey (total respondents: 265 with overseas expansion plans, who are considering entering or increasing existing operations in India over the next year).

Manufacturing



Infrastructure



- FDI projects (share)
- FDI capital (share)
- Jobs created by FDI (share)
- FDI projects (change 2014 vs. 2013)
- FDI capital (change 2014 vs. 2013)
- Jobs created by FDI (change 2014 vs. 2013)

Source: fdi Markets, May 2015.

Services

