

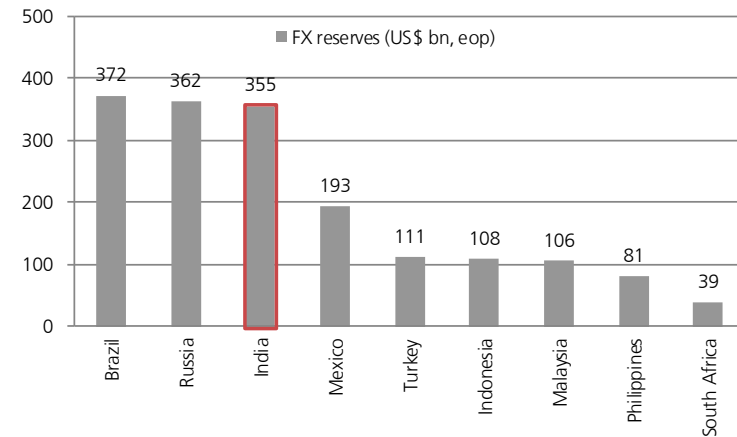
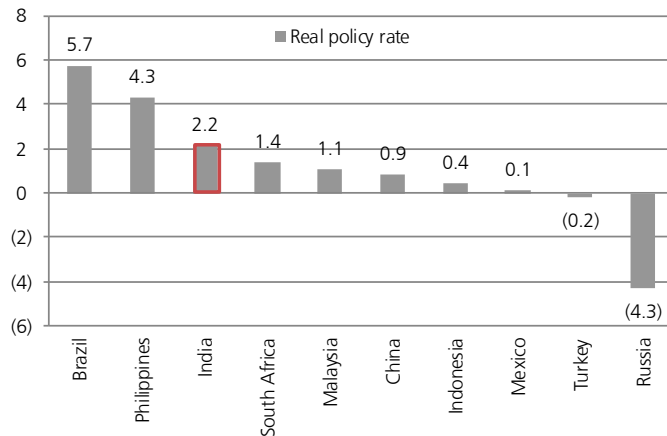
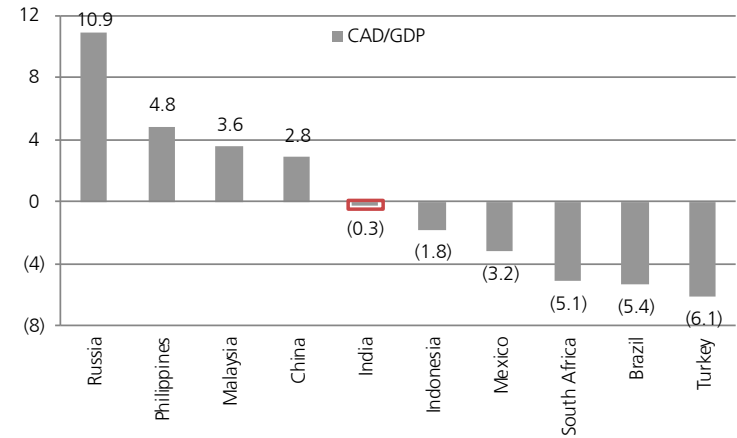
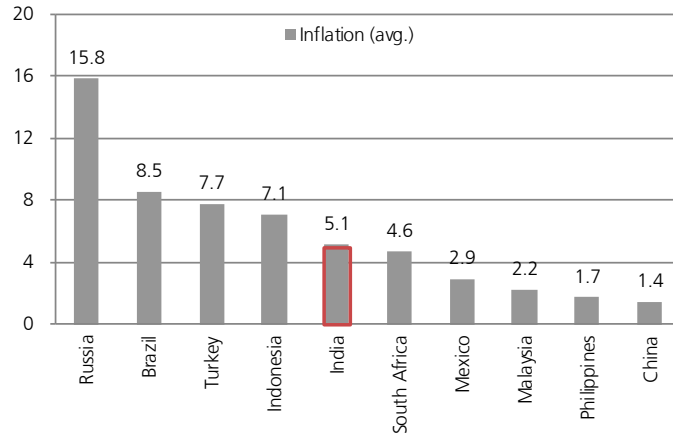
The Making of India

August 2015

- An improving macro and a government working on reforms
 - India's macro-economic story is currently the best amongst all emerging markets – and looks set for further improvement
 - GDP growth is improving after a sharp slowdown in FY2013 and FY2014
 - India's current account could turn positive – possibly the only large country that benefits from the recent sharp correction in commodity prices
 - This is also expected to help moderate inflation; we expect repo rate at 7.25% in FY2016
 - The government's fiscal position has also improved; it remains committed to fiscal consolidation
 - Government is pursuing reforms to address key challenges—(1) fiscal: GST, lowering subsidies, DBT (2) investment reforms: easier place to do business, (3) governance and (4) banking: NPAs
 - A quick word on the political situation in the country

Low inflation, low CAD, high reserves and a low positive interest rate make India amongst the best economy

Comparison of macro-economic indicators of emerging markets, 2QCY16 (%)



Notes:

(a) CAD/GDP is for 1QCY16 except for China which is for 3QCY15.

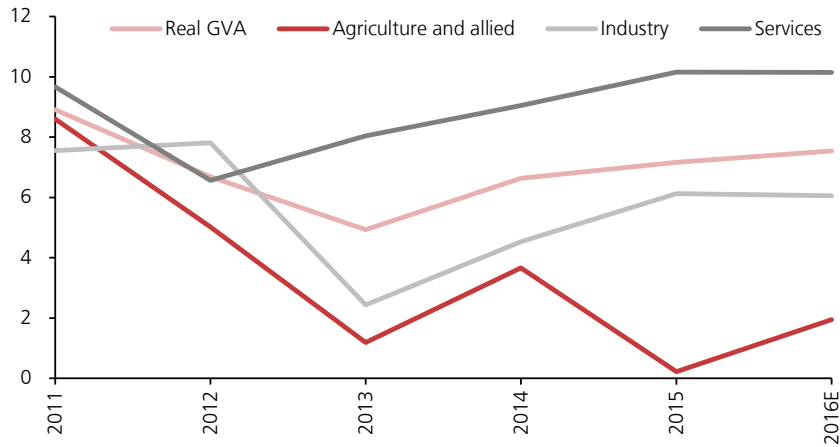
(b) We have excluded China from Forex reserve chart. China has forex reserves of US\$3.7 bn.

Source: Kotak Institutional Equities estimates

- GDP growth set to improve to 7.5% in FY2016 (7.2% in FY2015)
- CAD/GDP expected to be comfortable at 0.4% in FY2016 (1.4% in FY2015)

Sharp uptick in GDP growth in India

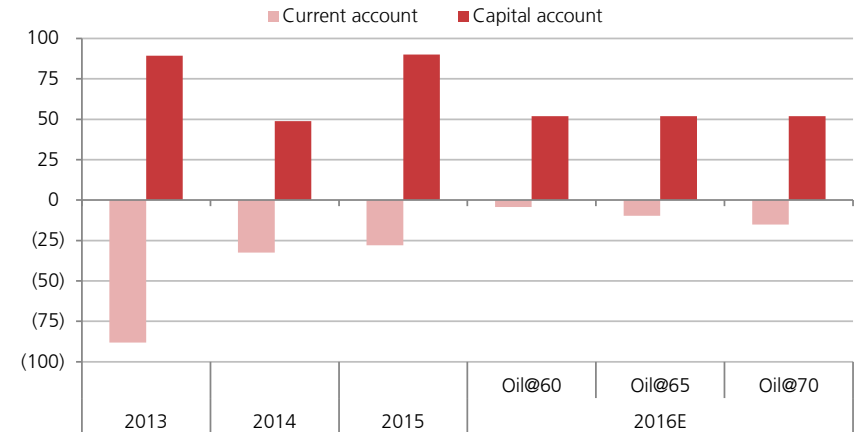
Real GVA at factor cost and components, March fiscal-year ends, 2011-16E (%)



Source: CEIC, Kotak Institutional Equities estimates

CAD and BOP to continue improving in FY2016

India's balance of payments, March fiscal year-ends, 2013-16E (US\$ bn)

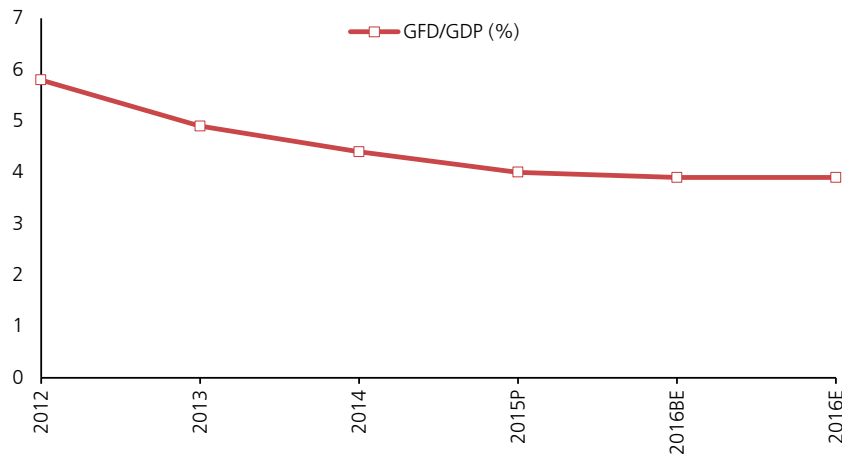


Source: CEIC, RBI, Kotak Institutional Equities estimates

- Inflation expected to moderate, leading to repo rate of 7.25% in FY2016
- GFD/GDP expected at 3.9% in FY2016 (4.1% in FY2015); expect to decline to 3% by FY2018

Long term path of fiscal consolidation

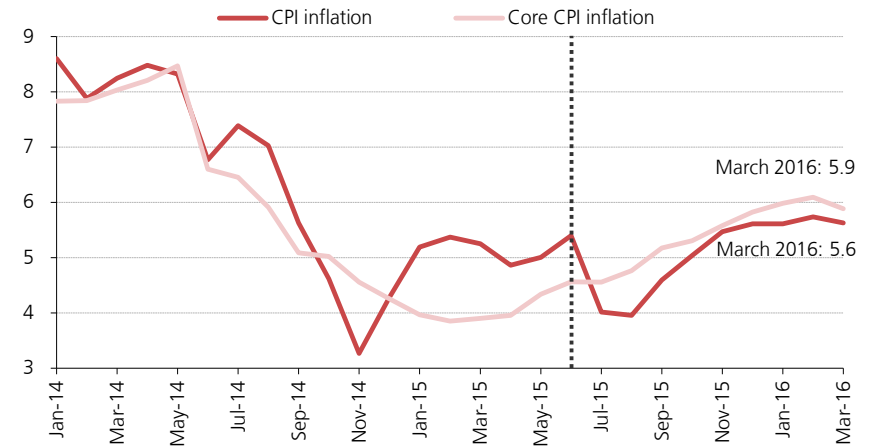
GFD/GDP, March fiscal year-ends, 2012-16E (Rs bn)



Source: Ministry of Finance, Kotak Institutional Equities estimates

Average CPI inflation likely to be around 5-6% in FY2016

Trend in headline and core CPI inflation (%)



Source: CEIC, Kotak Institutional Equities estimates

We expect ongoing reforms over the term of this government

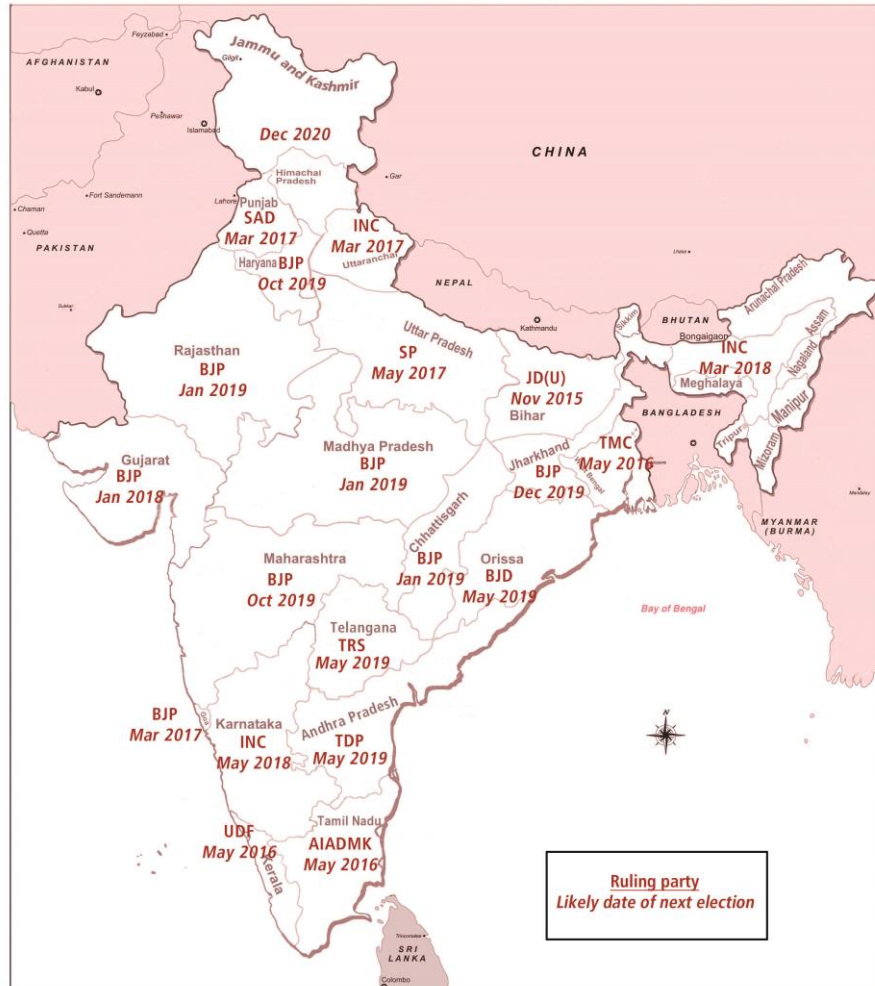
Potential reforms and schedule

Action	Schedule
(A) Fiscal	
1 Final structure and implementation of GST	3QCY16
2 Direct benefit transfer (DBT) schemes	Work-in-progress
3 Divestment program and improved management of PSUs	Work-in-progress
4 LPG subsidy curtailment	No indication
5 Power tariff increases	Work-in-progress
(B) Investment	
1 Market pricing of energy (oil & gas)	3QCY15
2 Auction of coal blocks and private sector commercial mining	On going
3 Power tariff rationalization	On going
4 Land acquisition reforms	3QCY15
5 Deemed approval system	Many aspects announced
6 Labor reforms	Work-in-progress
(C) Banking sector	
1 Financial inclusion - Jan Dhan Yojana	Work-in-progress
2 Reduction in SLR over a period of time	Work-in-progress
3 NPL situation: stress in power, steel sector	Work-in-progress
4 Restructuring of PSU banks	2Q/3QCY15
5 Recapitalizing of PSU banks	2Q/3QCY15

Source: Kotak Institutional Equities estimates

The cycle of local elections starts later this year

Map indicating when the term of the current legislature expires

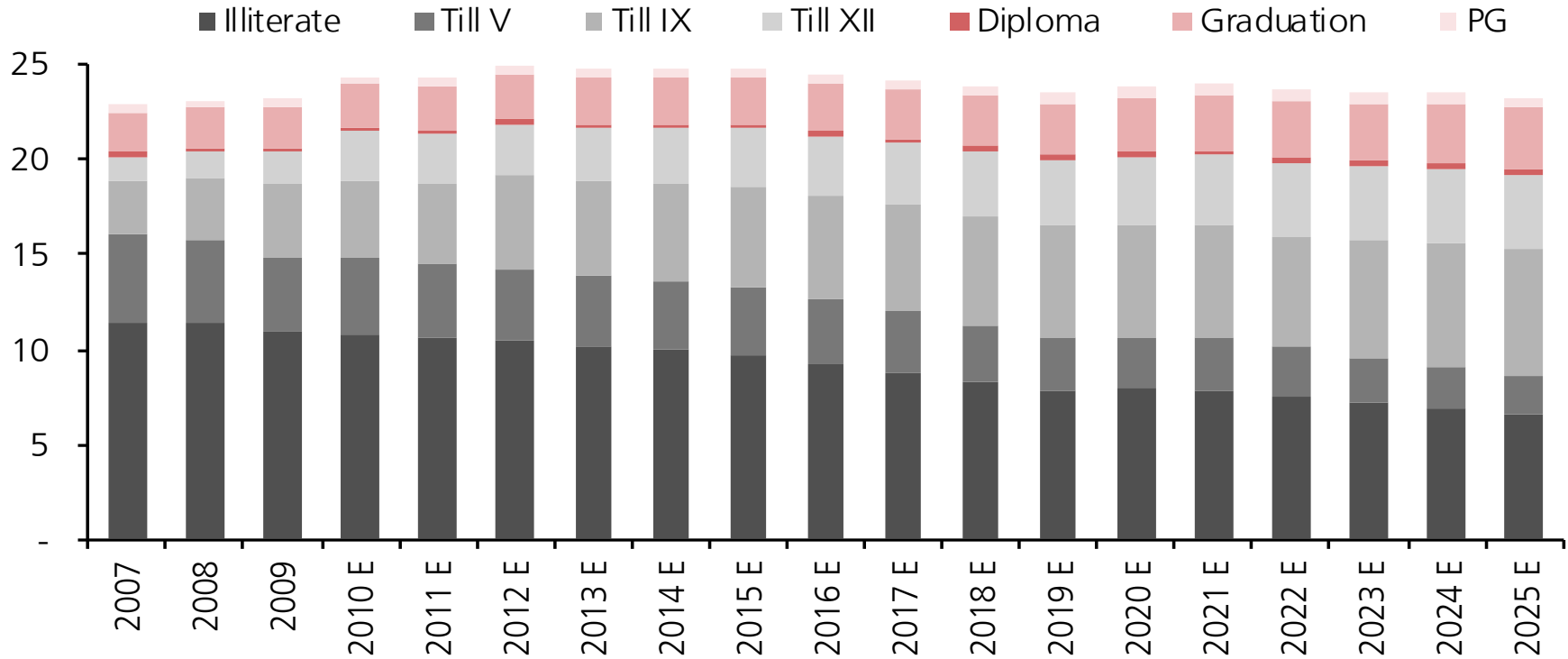


Source: Election Commission of India, Kotak Institutional Equities

- Connecting India's demographic dividend to jobs
 - 250 million people looking for jobs in ten years
 - Where will the jobs be created? Employability is the new education
- Metamorphosis of the Indian consumption market
 - Changing consumption paradigms—what, where and how will Indians spend their monies on?
 - Buying power of a billion plus—evolution of the survivors
- The rise of the cities and the build out of infrastructure
 - India's urbanization has no parallels anywhere in the world—de-densification of cities
 - Size of the opportunity is large—affordable housing upgrade will drive infrastructure spend
 - Transport: a key link that is broken—building, funding infrastructure for and between the cities
 - Power – both renewable and traditional – will call for investments
- Financial savings to get a significant boost leading to a more mature capital market in India

23 mn become eligible to join the workforce each year

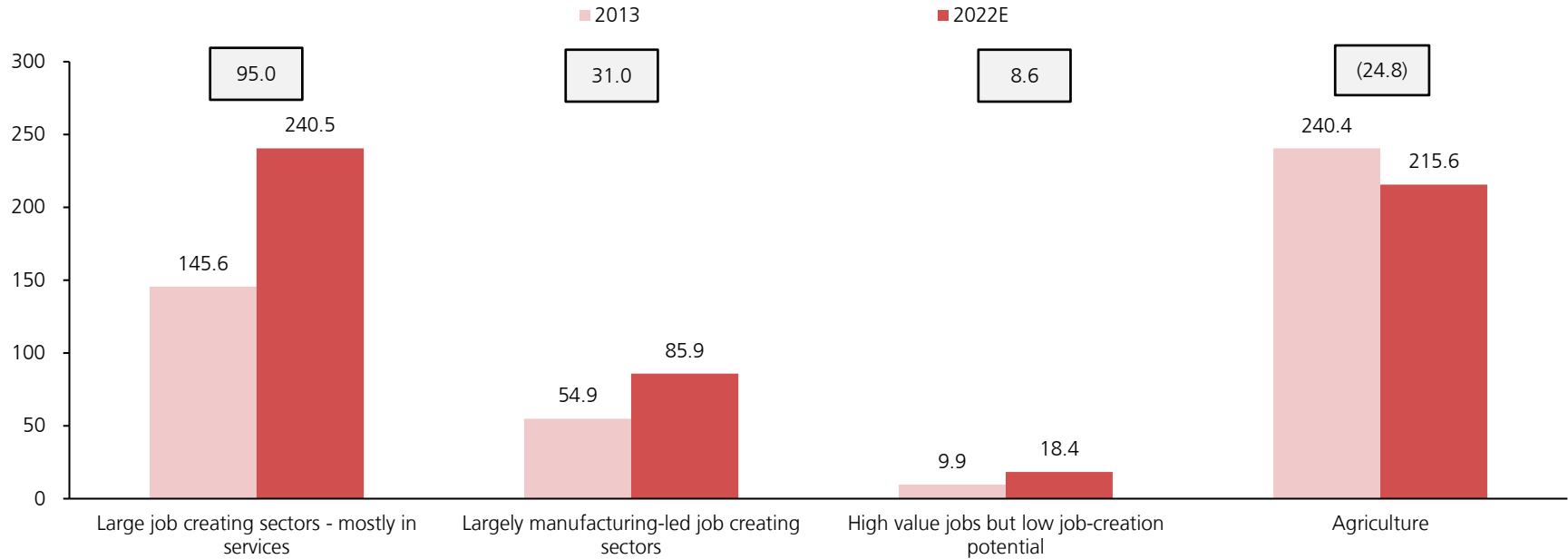
The number of people by educational qualification becoming eligible for jobs, 2007-25E (mn)



Source: Census of India, Kotak Institutional Equities estimates

Building, construction, real-estate and transport to create a third of the new jobs in India

Estimates of employment, March year-ends, 2013-22 (mn)



Source: National Skills Development Council, Kotak Institutional Equities

~100 mn new households in the middle-income and upper class brackets



India will see a massive uptick in middle-income households

Distribution of Indian households by consumption expenditure, RUPEES model, March fiscal year-ends, 2011-25E

	Annual per-capita expenditure (US\$, PPP)			Households (mn)			Consumption (US\$ bn)		
	From	To	Average	2015	2025	Delta	2015	2025	Delta
Real-rich	18,000	—	25,000	—	1	1	-	29	29
Upper-class	12,000	18,000	15,000	1	7	6	26	133	107
Prospering	6,000	12,000	9,000	13	41	28	164	465	301
Evolving	3,000	6,000	4,500	54	117	63	342	676	334
Emerging	1,500	3,000	2,250	131	152	21	422	445	23
Surviving	—	1,500	750	71	12	(59)	78	12	(66)
Total				270	329	59	1,031	1,759	727

Source: Kotak Institutional Equities estimates

The big winners in Indian consumption story

CAGR and market size of various commodities, March fiscal year-ends, 2015, 2025E

Categories	Market size (US\$ bn)		CAGR
	FY 2015	FY 2025	(%, p.a.)
Food, beverages, alcohol, tobacco	445	690	4.5
Housing and household goods	165	303	6.3
Transport and communications	116	210	6.1
Leisure and hotels	69	135	6.8
Education and healthcare	74	139	6.4
Clothing and footwear	52	85	5.0
Miscellaneous	110	198	6.1
Total	1,031	1,759	5.5

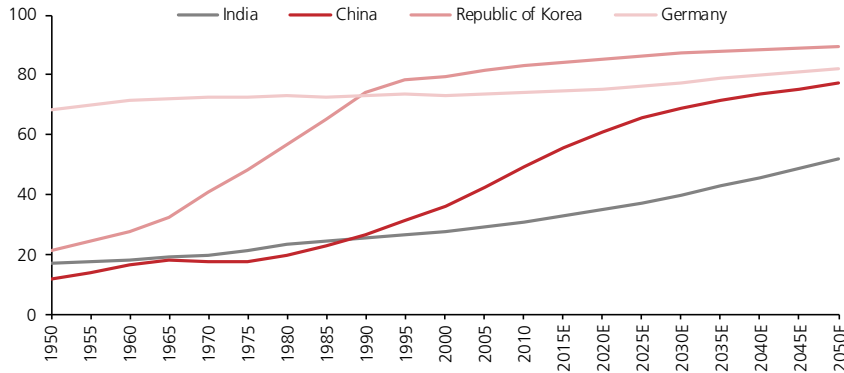
Source: Kotak Institutional Equities estimates

A key part of the growth will be the urbanization of India—and the growth in the sheer size of Indian cities



Four models of urbanization: India, China, South Korea and Germany

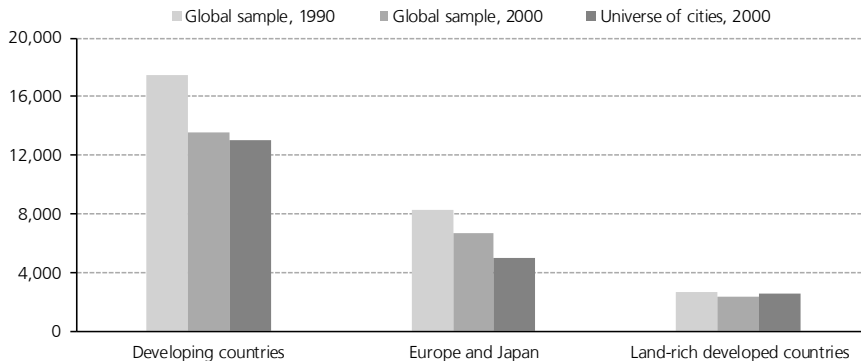
Historical and projected urban populations, calendar year-ends, 1950-2050E (%)



Source: United Nations, Kotak Institutional Equities estimates

Developing countries' population density is 5-7X that of developed countries

Average built-up area densities in three world regions, calendar year-ends, 1990-2000 (person per sq. km.)



Source: 'Making Room for a Planet of Cities', Lincoln Land Policy Institute, Kotak Institutional Equities

Indian cities are puny in size and hence are very densely populated

Estimates of population and land area of various cities, May 2014

Country	City	Population (mn)	Land area (sq. kms)	Density (people/sq. km.)
Japan	Tokyo-Yokohama	37.6	8,547	4,400
Indonesia	Jakarta	30.0	3,108	9,600
India	Delhi (NCR)	24.1	2,072	11,600
South Korea	Seoul-Incheon	23.0	2,266	10,100
Philippines	Manila	22.7	1,580	14,400
China	Shanghai	22.7	3,626	6,200
Pakistan	Karachi	21.6	945	22,800
US	New York (NY-NJ-CT)	20.7	11,642	1,800
Mexico	Mexico City	20.3	2,072	9,800
Brazil	Sao Paulo	20.3	2,849	7,100
China	Beijing	19.3	3,756	5,100
China	Guangzhou-Foshan	18.3	3,432	5,300
India	Mumbai	17.7	546	32,300
Japan	Osaka-Kobe-Kyoto	17.2	3,212	5,400
Russia	Moscow	15.9	4,662	3,400
US	Los Angeles	15.3	6,299	2,400
Egypt	Cairo	15.2	1,761	8,600
Thailand	Bangkok	14.9	2,461	6,100
India	Kolkata	14.9	1,204	12,400
Bangladesh	Dhaka	14.8	337	44,000

Source: Demographia World Urban Areas May 2014, Kotak Institutional Equities

This will require a massive build-up in residential housing – though demand and price mismatches exist



India's residential housing demand will evolve meaningfully

Number of households and built-up sq ft of residential demand, March fiscal year-ends, 2014-2025E (bn sq. ft of construction)



Source: Kotak Institutional Equities' RUPEES model

Urban roads require Rs40 tn investment till FY2025E

Calculating the net new urban area required every year, March fiscal year-ends, 2011-25E

	2012E	2025E
Urban area (sq km)	105,331	148,635
Stock of urban roads required (mn kms)	1.3	1.8
Current road length (kms)		0.5
Incremental roads required (mn kms)		1.4
Cost of urban road (Rs mn per km)		30.0
Total spend on roads (Rs tn)		40.7

Notes:

(a) The benchmark of 12.25 kms of urban road per sq. km. of urban area is derived from the Ministry of Urban Development, Government of India.

Source: Ministry of Housing and Urban Poverty Alleviation, Kotak Institutional Equities estimates

Large investments expected in intra-city mobility

Various city level mobility projects as of June 2015

	Project Cost (Rs. bn)	Length (Km)
Navi Mumbai metro phase 1-3	41	23
Mumbai Trans Harbour Link	100	23
Charkop-Bandra-Mankhurd	256	40
Colaba Bandra SEEPZ	231	34
Wadala- Kasarw adavli	220	32
Dahisar Bandra Mankhurd	256	40
CST Panvel fast rail corridor	140	60
Mumbai Coastal Freeway	90	36
Investment in Mumbai	1,334	288
Chennai Metro and monorail	630	164
Bangalore metro phases 1-2	235	74
Kochi metro phase 1-2	152	63
Nagpur Metro rail project	104	38
Lucknow metro (North South & East West)	180	38
Ahmedabad metro	107	38
Jaipur metro phase 1-2	131	35
Pune Metro	118	31
Vizag metro	66	30
Vijayawada metro	75	26
Kolkata metro	68	15
Total	3,200	840

Source: Industry reports, Kotak Institutional Equities

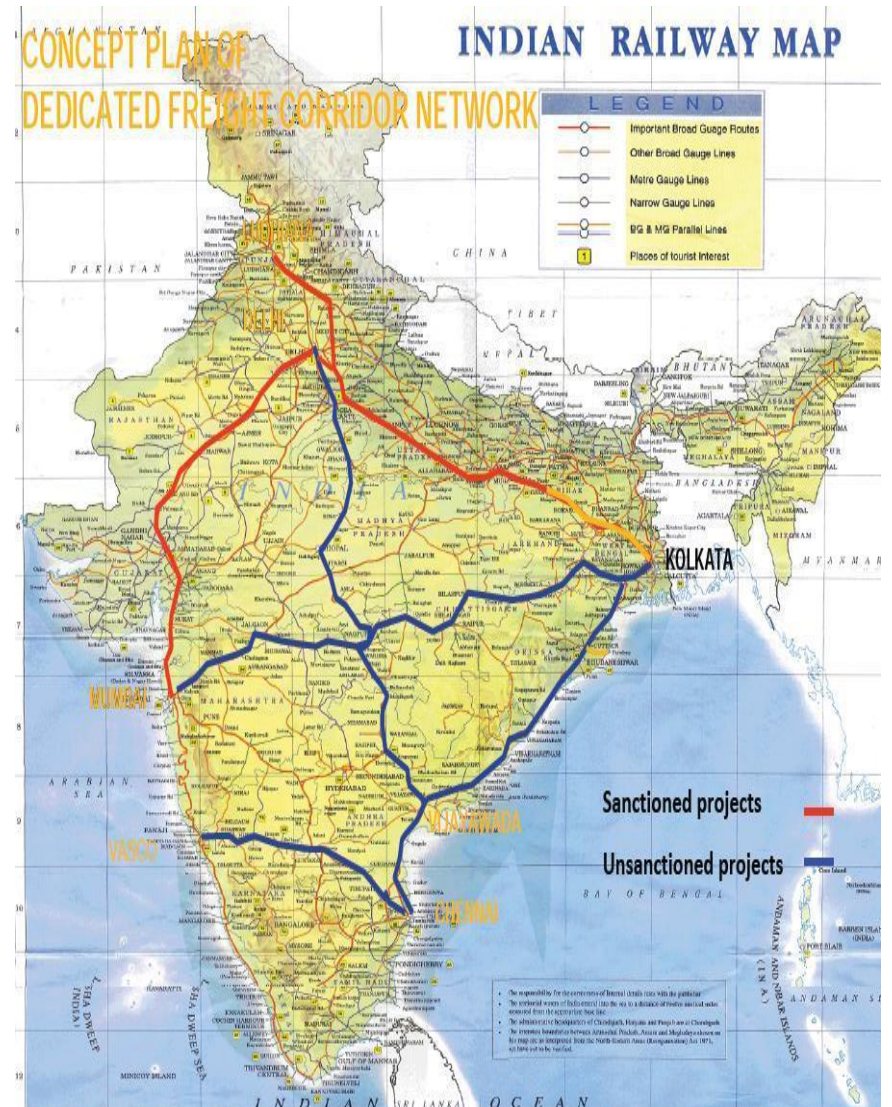
Inter city connectivity via rail is a large project initiated by the government

Future projects currently under evaluation

Corridor	Section	Length (kms)
East-West Corridor	Kolkata-Mumbai	2,000
North-South Corridor	Delhi-Chennai	2,173
East Coast Corridor	Kharagpur-Vijayawada	1,100
Southern Corridor	Chennai-Goa	890
Total		6,163

External funding: MoR is 2:1 for the current projects
 Funding plan, Rs. mn

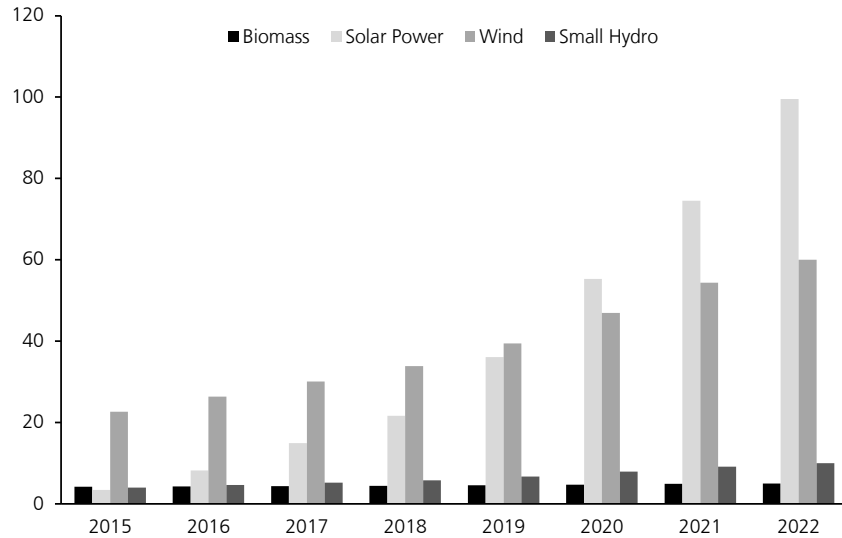
Particulars	Eastern Corridor	Western Corridor	Total
Equity from MoR	130,490	79,960	210,450
Loan from JICA	-	387,220	387,220
Loan from World Bank	136,250	-	136,250
Total funding (without land)	266,740	467,180	733,920
MoR (land)	36,840	43,830	80,670
Total funding with land	303,580	511,010	814,590



Source: DFCC, Kotak Institutional Equities estimates

India has set an ambitious target for renewable energy

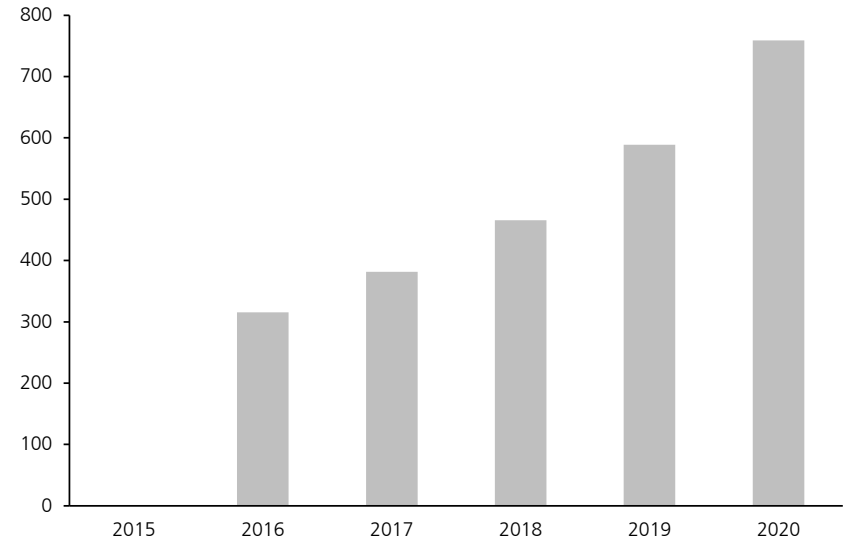
India's plans for renewable energy, March fiscal year-ends, 2015-22E



Source: MNRE, Kotak Institutional Equities

Coal India production expected to reach up to 750 mn tons by 2020

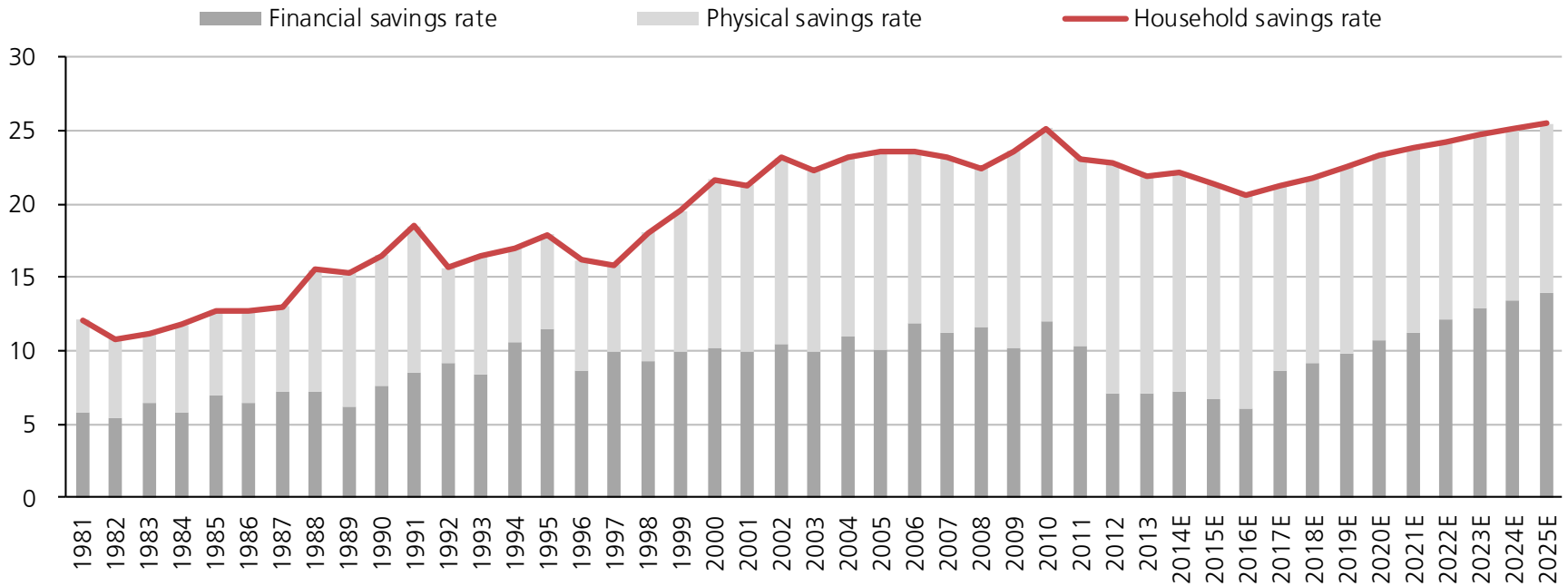
Estimates of coal production by Coal India, March fiscal year-ends, 2015-20 (mn tons)



Source: Company, Kotak Institutional Equities

Financial savings rate to rise over the next few years

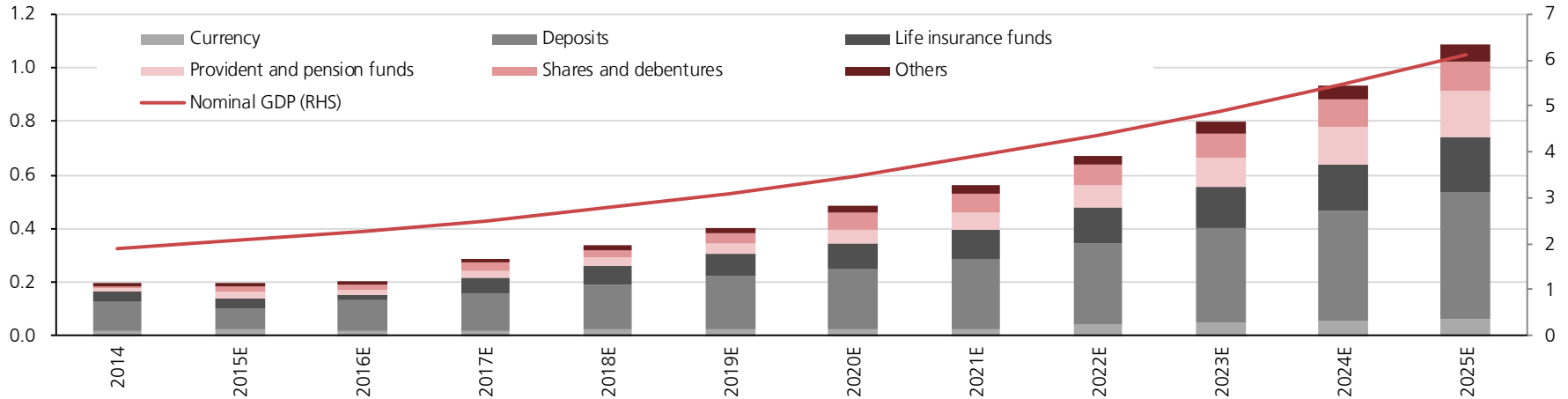
Trend in household, financial and physical savings as proportion of GDP, March fiscal year-ends, 1981-2025E (%)



Source: RBI, Kotak Economic Research estimates

Gross household financial savings will increase 6X over the next 10 years

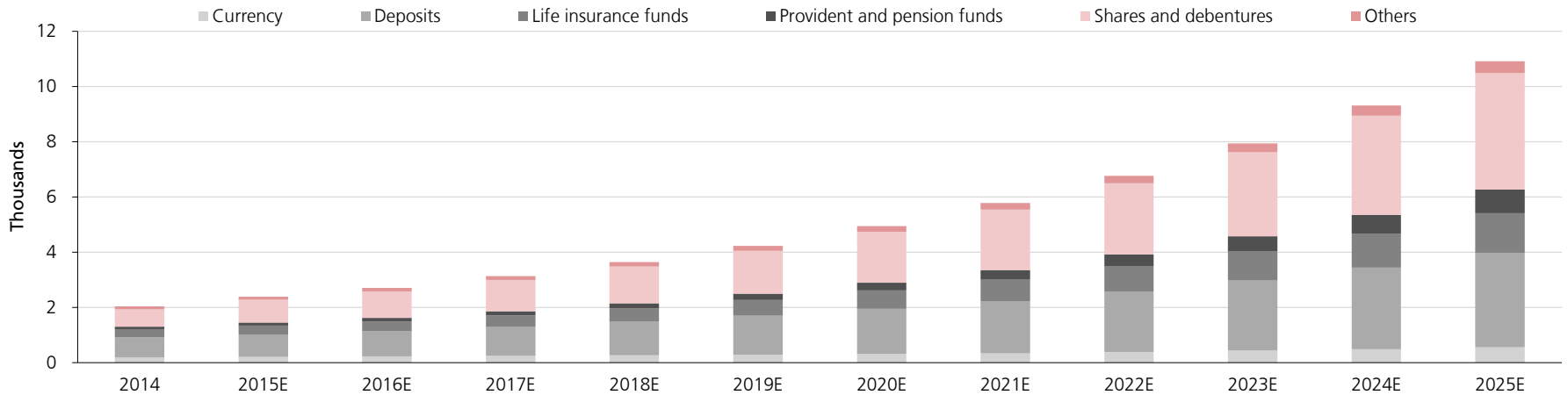
Projected nominal GDP and saving inflows across products, March fiscal year-ends, 2010-25E (US\$ tn)



Kotak Institutional Equities estimates

Shares and debentures will constitute a larger proportion of household financial wealth by FY2025

Breakdown of household financial assets into various categories of savings, March fiscal year-ends, 2014-25E (US\$ tn)



Kotak Institutional Equities estimates

Thank you