FICCI

# Financial Foresights

*Views, Reflection and Erudition*

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## Leveraging
## Pradhan Mantri Jan Dhan Yojna (PMJDY)

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# Preface

Financial Inclusion has been identified as one of the key priority areas by the new government. With the objective of providing each Indian household with a basic bank account and thereby offering affordable financial services to millions of people in India, the government launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) in August last year. The initiative has received commendable success as is indicated by the official statistics which suggests that nearly 14.72 crores of accounts have been opened under PMJDY as on 31st March, 2015.

However, of all these newly opened accounts, nearly 58% (approximately 8.52 crores) have remained zero balance and are dormant in nature. To ensure that all accounts under the PMJDY become active, the government has included these accounts under the 'Direct Benefit Transfer (DBT)' programme, whereby subsidies of various welfare schemes are directly transferred to the bank accounts of the beneficiaries of the PMJDY. Going forward, it will be important to leverage these accounts to ensure comprehensive access to financial services, namely, Banking / Savings & Deposit Accounts, Remittance, Credit, Insurance and Pension in an affordable manner.

The task ahead for the Phase II of PMJDY is daunting and includes ensuring micro credit availability; providing micro insurance and pension schemes to people – particularly in the unorganized sector; ensuring that the devices of Bank Mitra are completely functional; activation of RuPay cards issued; Aadhaar linking of accounts opened under PMJDY; sensitizing the staff members on PMJDY; structuring Financial Literacy programmes; extending overdraft facility in the existing accounts.

In the present issue of Financial Foresights, we have invited articles from industry experts to share their experience and insights which would help us understand the various implementation issues that the scheme has been facing on ground and deliberate on some of the innovative solutions for resolving these bottlenecks. This is an attempt to take a closer look at the ways and means to leverage the opportunities presented via PMJDY and further deepen financial inclusion.

We hope you will find the content informative and look forward to your feedback and suggestions which will help us further improve our publication.

Best Regards

Dr. A. Didar Singh
Secretary General
FICCI

**In association with**

FICCI

Indian Banks' Association

# FIBAC 2015

## 'Inclusive Growth with Disruptive Innovations'

**Date: 24th-25th August, 2015**

**Venue: Hotel Trident, Nariman Point, Mumbai, India**

## Inaugural Address by

Dr. Raghuram Rajan

Governor, Reserve Bank of India

## About the Conference

Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Banks' Association (IBA) are back with the fourteenth edition of FIBAC, viz. FIBAC 2015 on 24th-25th August, 2015 at Hotel Trident, Nariman Point, Mumbai. The theme for this year's conference is 'Inclusive Growth with Disruptive Innovations'.

Banking industry in India is poised for several changes which include the entry of new banks in the form of payment banks and small banks; rapid developments in mobile banking and digital technology for furthering financial inclusion, among others. These positive developments across various dimensions will make the banking sector growth much stronger, deeper and more inclusive, which is also the primary theme of the conference.

This year's forum will deliberate on most exciting innovations and developments in banking technology and digital world and how these can be leveraged to promote India's ambitious inclusive growth agenda.

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# Last-mile connectivity important for PMJDY to be a success

***Rashesh Shah***
*Chairman, FICCI - Maharashtra State Council &*
*Chairman and CEO, Edelweiss Group*

Since Independence, India has seen a succession of well-conceived but largely ineffectual subsidy schemes, launched amidst much optimism, study, and fanfare, aimed at hauling its multitudes out of poverty. To ensure the benefits of these schemes reach the intended populace and leakages are minimized, they have always been juxtaposed with efforts to bank the unbanked. But 45 years since banks were nationalized, with financial inclusion, financial literacy, priority sector lending and social development as the primary goals, India's rural sector is still some distance away from any real economic inclusion.

Cooperatives, commercial banks, microfinance, and other formal financial sector programmes in rural areas have simply not been able to displace deeply entrenched informal sources of credit. Despite the setting up of regional rural banks, ultra-small branches, and a number of schemes like the Kisan Credit Card and the SHG-Bank Linkage

*"A service-oriented approach and an evolution in risk analytics, accompanied by continuous financial literacy programmes, is key to making this scheme work"*

Programme, over 40 percent of Indian rural households are still borrowing from informal channels (i.e. moneylenders) - a tendency that makes RBI's monetary tools, and what it does to interest rates, irrelevant for almost half the population.

Of course, banks today have an intricate network base and have reached the interior-most corners of the country, but one of the main reasons they, despite the profusion of government schemes, have not been able to penetrate the rural sector is because the focus has been to measure successes quantitatively rather than qualitatively, i.e. by the number of bank accounts opened, number of branches, extent of reach, etc. But if only a tenth of the rural population who have bank accounts make actual savings in any given year, and some 42 percent of rural households keep their cash savings at home, what is the real value of the schemes? As far as availing credit goes, punctual payments that banks require and the difficulty in getting speedy loans for marriage or litigation, for instance, have ensured that, barring housing and auto, the rural sector does not rely on formal credit for durable purchases.

We've been hearing much about the success of the Pradhan Mantri Jan DhanYojana over the last six months and the extent to which it will finally provide viable solutions to raise the standard of living of beneficiaries for whom subsidies are intended. It has long crossed the Prime Minister's target of 7.5 crore accounts by January 2015, reaching the impressive figure of 13 crore accounts opened till last month. Simpler KYC norms requiring minimal documentation, accident insurance benefit of up to Rs 1 lakh and debit cards with each account, and overdraft facilities, have facilitated the opening of these bank accounts, and most importantly, should introduce a transparent and efficient system of subsidy disbursal as direct cash transfers into the accounts of the end beneficiaries (allowing the goods to move through the market at market prices), thereby plugging leakages, and helping the government to better assess and implement social welfare schemes. The benefit to the subsidy bill is obvious - through direct benefit transfer (DBT), some Rs 1800 crore in LPG subsidy has already been transferred to beneficiary accounts until January 2015. The DBT system (aided by the slump in crude oil prices and decontrol of diesel prices) has already been shown to be responsible for the reduction in fuel subsidy, with the outlay for FY16 expected to be just Rs. 22,000 crore, down 65% from Rs. 63,400 crore for the current year.

All these are positive signs for the immense potentialities of PMJDY. But before the scheme's architects can hand out the mithai, we must look carefully to the past for the lessons learned from similar schemes, and realize there are several more hurdles to cross.

How do we ensure the scheme does not become simply an account-opening exercise, before languishing away without offering clients the whole spectrum of banking services they so badly need and deserve? How we leverage technology services to unsophisticated clients who have a debit card but for whom an ATM is physically and psychologically distant concept?

## Service-centric approach over account-centric approach

To take financial inclusion into the realm of real economic inclusion, the Jan Dhan scheme must address the problem of last-mile connectivity that has tripped us up in the past. The Swabhimaan scheme of 2011 had the same objectives as PMJDY with the chief differences that the latter has targeted the urban sector as well, has kept the focus on households, rather than villages, to ensure deep penetration into sparsely inhabited pockets of the country, and has enabled digital financial inclusion through mobile banking.

But Swabhimaan taught us that it's not the number of bank accounts you create, it's how many you are able to keep operational - it was a promising scheme that suffered because of its account-centric approach as opposed to a service-centric approach.

## Expansive network service

An expansive and innovative network service, coupled with effective and continuous financial literacy programmes, is key to making this scheme work. Crucial to this are the fixed point business correspondents (BC) or Bank Mitras (another carry-forward from the Swabhimaan Scheme) that were the

single biggest point of failure the last time around because of the high rate of attrition of these correspondents, corruption, uncertain or low remuneration, and the reluctance of villagers to trust a stranger with their savings. For this scheme to deliver value to beneficiaries, the government must recognize these issues and reengineer the BC model and its financing, rather than simply replicate it with cosmetic changes. Further, as network touch-points, BCs must trained and incentivized to provide quality service and use the right technological platforms to allow interoperability.

Including postal staff and PDS employees as BCs is one way to strengthen client trust in the system, but continuous assessment and monitoring of quality of service at the district level is equally important to ensure responsibility with accountability.

## Support infrastructure for the strained banking sector

Public sector banks are the main implementing entities for the Jan Dhan scheme and support infrastructure for implementation of the scheme is already proving to be a challenge, given the severe strain the sector facing.

The SHG-Bank Linkage model by NABARD is one example of a great scheme that has failed because of the inability to offer adequate supply-side support to the groups that could avail of this scheme. It is a two-decade old model but many bankers catering to the rural sector are still not sensitive to it, it is a low priority. It involves self-help groups meeting regularly with the banks, lending money internally and borrowing from banks. Understaffed banks have other business targets, and lack of regulation in interest rates (that are determined by the group itself) is a grey area, with cases of malpractice undermining the efficacy of the model.

It is important to incentivize banks, that are concerned that managing these accounts will increase administrative costs, with commissions, and a robust external support infrastructure (like the post office network) to ease the pressure on the banking sector. Secondly, low-cost direct subsidy deposits of kerosene, liquefied petroleum gas, fertiliser, food, state-run schemes, wages, pension and many other subsidies will help improve CASA of banks. But it is important to remember that without meaningful financial literacy campaigns (which have not happened with any seriousness) from multi-stakeholder bodies at the local level, efforts to incentivize banks would end up as only a bureaucratic tick-a-box exercise.

## Evolution of risk analytics required for rural credit

Apart from facilitating financial savings, and subsidy transfer, real financial inclusion will happen when the economically weaker households are provided timely and cheap source of credit. Right now, the exorbitant interest rate a farmer who wants a loan is charged by the local money-lender, is acceptable because of the speed and ease with which he gets it, even though it throws him into a vicious cycle of debt. Small farmers tend not to qualify for bank credit, and even the cooperative and rural banks catering to this segment have not been able to adequately address this problem.

Ensuring the bank offers a full range of credit and insurance services to the zero-balance account holder in the rural sector will also require an evolution of risk analytics at the bank levels. Formal risk-sharing institutions or private insurance, for example, are available for rural farmers in industrialised countries to overcome problems associated with uncertainty and risk or to ease the transition from good years to bad. The government should explore similar innovations in social protection mechanisms to mitigate the risks faced by small farmers.

### Leveraging technology

Technology has the potential to be the key differentiator between the PMJDY and other schemes in the past, if only it is used effectively. Over 70 percent of the accounts that have been opened are still dormant, and connectivity is an important factor in luring in small account holders to continue operating them. According to reports, VSAT technology is being considered to alleviate the constraints of connectivity, but though these options should have been considered before launching the scheme, they must now be implemented speedily to leverage the momentum the scheme has generated.

Mobile banking has been the cornerstone of the government's emphasis on a technology-backed model in the rural sector given the proliferation of mobile phones here. This means that all banks must collaborate with telecom operators to extend reach in remote areas and

provide quick mobile banking facilities to beneficiary households. For example, not only smartphones, but even ordinary phones of beneficiaries should be able to perform tasks like balance inquiry and money transfer.

The government has announced that business correspondents are being provided with a device capable of online interoperable transactions using Rupay cards and Aadhaar enabled payment system. This must be tightly monitored at the implementation and follow-up phases, and that can be effectively done only if all three stakeholders (customers, business correspondents, and the bank) are properly incentivized to work towards this goal.

Offering the same services to the urban and rural poor is another way in which banks and customers can be further incentivized to use technology for their banking needs. India must move towards the universalization of financial services with commitment if we want to provide the same quality of credit and service enablement to different demographics.

## Financial viability

There are some areas of concern where clarity is lacking that need to be addressed. For example, the overdraft facility of Rs. 5000 per account that the Jan Dhan scheme has committed is a big attraction for the poor to open an account, but clarity has still not emerged on where the funds will be diverted from to finance it. Simple calculations show the Rs 1000 cr fund from NABARD would be insufficient for this purpose.

Questions have been raised over how the accident-linked insurance scheme will be financed, as also on the funding of the business correspondents. These issues can make or break the scheme, and clarity must be provided on priority to ensure last-mile connectivity does not peter out for want of funds.

Financial inclusion is not a sprint race to the finish line - it is an endurance game that requires continuous capacity-building, innovation, and monitoring. To bring India's unbanked population into the mainstream is no mean task, as previous decades of unsuccessful schemes have shown. But I believe the Jan Dhan scheme has an universal appeal in what it offers to different sectors, and provides the government and the banking sector with a unique opportunity to showcase its inherent capabilities in 'jugaadu' innovation, in order to wrench our marginalised millions out of the grips of debt and stagnation.

*"Financial inclusion is not a sprint race to the finish line - it is an endurance game that requires continuous capacity-building, innovation, and monitoring"*

*(Disclosure: Rashesh Shah is Chairman and CEO, Edelweiss Group The views expressed in the article are personal)*

**Rashesh Shah**
Chairman, FICCI - Maharashtra State Council & Chairman and CEO, Edelweiss Group

Rashesh Shah is Chairman and CEO, Edelweiss Group, one of India's leading diversified financial services with businesses ranging across Financial Markets (Institutional Markets, Capital Markets & Investment Banking), Credit, Commodities, Asset Management and Life Insurance. Rashesh founded Edelweiss in 1995 and the group advises over 545,000 clients through 237 offices in 123 cities, including seven international offices in Dubai, Hong Kong, New York, Nigeria, Chad, Mauritius & Singapore. Financeasia magazine ranked Edelweiss as India's best managed company (mid cap category) in 2013 and Best Managed Company (Sub- US$500mn market cap category) in 2014.

A firm believer that the cost of financial intermediation can be reduced significantly using technology, training and innovation, Rashesh is passionate about financial services and the role it can play in translating India's vast savings into investments; thereby powering economic growth and development. Under his leadership, Edelweiss has combined growth oriented entrepreneurship with a strong focus on risk and today has one of the most broad-based employee-ownership models among financial services companies in India.

A regular commentator on financial markets, policy, and development matters in the mainline and financial media, Rashesh serves on the Boards of various companies and public institutions. He has previously been on the Executive Committee of the National Stock Exchange and also on the SEBI (Stock Exchange Board of India) committee to review Insider Trading Regulations.

An MBA from Indian Institute of Management, Ahmedabad, Rashesh is a voracious reader as we well a keen tennis player and runs marathons.

# Next phase of PMJDY- Moving from financial inclusion to real economic inclusion

***Usha Ananthasubramanian***
*Chairperson FICCI's Financial Inclusion Committee & Chairman & Managing Director, Bharatiya Mahila Bank Ltd.*

The change had commenced. The country entered into the Guinness Book of World records. The other developing countries and the underdeveloped countries started watching closely the details of the implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY).

Atleast one Basic Banking Account to be opened per Indian household in both rural and urban areas; issuance of RuPay Debit card with an inbuilt accident insurance cover of Rs.1 lakh; overdraft facility of upto Rs.5000 to Aadhaar enabled accounts after satisfactory operation in the account for 6 months; Financial literacy programme to take financial literacy upto village level, expansion of Direct Benefit Transfer under various Government Schemes through bank accounts of the beneficiaries; issuance of Kisan Credit Card (KCC) as RuPay Kisan Card are the highlights of the PMJDY.

The entire banking community in India took an active part in PMJDY, the Mission Mode programme, resulting in exceeding even the

> *"Economic resources of the country should be utilised for the well-being of the poor. The change will commence from this point" Hon'ble Prime Minister*
> *Shri Narendra Modi*

enhanced target of 10 crore. As per the announcement made by the Hon'ble Prime Minister in his Independence Day speech, the target was 7.5 crore by 26 January 2015. Public Sector Banks made PMJDY a great success through their enormous contribution. Regional Rural Banks and Private Sector Banks also were part of the PMJDY mission. Bharatiya Mahila Bank opened around 65000 accounts as against the target of 10000 accounts, despite the fact that the Bank was just nine months old at the time of implementation. The Bank conducted over 45 camps across the country. In the camps conducted by Bharatiya Mahila Bank, the officials educated the masses that if they had their accounts with another Bank, they could get the benefits of the scheme, if they linked their Aadhaar number to their already existing accounts.

India is set to achieve more… making the prior achievements more meaningful. There is no time to stop and rejoice over the achievements. It is time to face the challenges, cross the hurdles and make the people of India, the banking system as a whole, the banking technology services and the country as a whole, to be the ultimate winner. The Phase II of PMJDY is going to be a real challenge. In Phase-II, the highlights include ensuring micro credit availability; providing micro insurance and pension schemes to people - particularly in the unorganised sector; creation of Credit Guarantee Fund for default in micro loans etc.

Ensuring that the devices of Bank Mitra are completely functional; activation of every RuPay card issued; Aadhaar seeding of all the accounts opened under PMJDY; sensitising the staff members on PMJDY; extending Overdraft facility in the existing account that are in satisfactory operation are just some of the key functions involved in PMJDY Phase II.

The challenges are very many. The need for micro insurance needs to be done at the offer level and acceptance level. Those who provide insurance facilities need to understand the need for offering micro insurance facilities to the masses. Micro insurance products involve collection of very low value premia and the companies need to design special micro insurance products. The public need to be cleared of certain taboos that they have regarding insurance like insurance is a death related phenomenon. They need to be taught about the health insurance, accident insurance, term insurance, crop insurance and life insurance etc.

One of the key challenges is to keep all the PMJDY bank accounts funded and in an active state. Use of Rupay cards at the Bank Mitra operating points and other access points should be emphasised and encouraged. The accountholders should be trained to operate the cards. The Business Correspondents, Business Facilitators, Bank Mitras need to be trained and tuned to understand the needs of the customers and be a real Mitra to the needy as well as the Bank. It is very vital to ensure that the Bank Mitras are provided with required devices for financial transactions and also they have the knowledge and have the capacity to do online interoperable transactions using Rupay cards and Aadhaar enabled payment system.

Only when the holder of the RuPay Debit card knows its usage, it would be of real benefit. Initially, the accountholder needs to be made aware of the step by step processes including even the very basic information - entry in passbook, Pin number details of ATM Debit cards or Credit cards etc. Then they need to be taught of all the available tech banking products like Mobile banking, SMS banking, Hashtag banking etc through which they could get their balance enquiry, cheque request facility, block card facility etc. They also need to be educated about the importance of savings and also the benefits of availing credit facilities from the Bank. The Banks need to take to the masses, the complete details of the various loan products offered by the Banks. Financial Literacy is the means to take up these activities.

Financial Literacy needs to be structured in a very methodical way. Primary level, Middle level, Higher Level and Advanced Level study methods need to be designed. This will enable the masses, irrespective of their actual literacy level, to understand and benefit from banking and financial services sector. As the links of the Financial Literacy chain get extended from a small group in a particular place to a village or city; a district; a metro; a State and gets strong enough to cover the entire Nation, then the benefits would reach every single individual in a faster mode than expected. Financial Literacy needs to be part of the school and college curricula and also introduced as a special subject in the various adult education programmes. Educational institutions, Self Help Groups, NGOs and other service organisations shall render massive support for Financial Literacy programmes. Media houses should also take a giant leap towards imparting Financial Literacy to the entire country. If such support becomes a continuous exercise, the efforts taken by the Banking community towards Financial Literacy will become highly successful.

The Financial Literacy programmes need to be two fold - both formal and informal. They need to be interactive and specific to the Regions, States, Cities, Districts considering the various socio, economic, linguistic, climatic, geographic aspects. Bharatiya Mahila Bank conducts Financial Literacy programmes through all its branches every Saturday. The programmes are organised by the branches according to the needs of the local population.

Financial Literacy campaigns with special focus on micro insurance and micro credit products should be conducted nationwide, on a continuous basis. Campaigns on Insurance should aim at the specific target segments, particularly those in the lower economic strata, especially those in the unorganised sector. More women need to be targeted.

As part of Financial Literacy, the branches of our Bank, educate the target group about the method of operating a RuPay card and that the card needs to be operated once at least in 45 days, to retain the validity of the insurance. The Bank has also brought out comic books on PMJDY and Swacch Bharat in Hindi.

Real economic inclusion can be achieved only when women are brought into the umbrella of banking. Women in India are not new to savings or to borrowing. They have been into the habit of saving in the kitchen in some box or even in the bamboo sticks on the thatches of the roof of their own hut. Now the challenge is to bring every Indian woman into the formal channel of banking and financial services and free her from the clutches of the moneylender. Studies worldwide have revealed that when a woman earns, her top priority spending is for the family and the overall status and well being of the family improves significantly, reducing poverty and hunger and results in higher literacy level of the children of the family.

More so, in our country, when a woman earns, her first priority is to fulfil the basic needs of her family. She always thinks of enhancing the lives of her family members and spends almost the entire earning for the family, spending only very little or so to say, much less than what is required, for her own - even basic needs. The earning potential needs to be channelized and once she learns to save methodically, her spending power increases. Similarly, as women in India, in general, are not the asset owners or land owners, it is imperative to reach out to them through credit facilities, without insisting on security. This will enable the country to tap the economic potential of women. Many women customers have said that the relationship with the Bank has helped them get an identity for themselves; have made them learn new things in life; and of course have transformed and enhanced their personality and standard of living. It is important that the woman is made the economic head of every household. Domestic violence, verbal, physical and sexual abuse, alcohol fuelled violence etc will reduce considerably when women are economically empowered. Gender inclusion and social inclusion is necessary for real economic inclusion.

According to World Bank, India is the world's 10th largest economy by size. Country's financing needs are enormous. Inadequate capital is not only the problem for mega corporates but also for micro and tiny enterprises/units. Meeting the credit needs of every single entity - individual or company is important. The key challenge on extending credit facilities under PMJDY Phase II is regarding the right time and right purpose. It is not enough to merely offer credit facilities but to ensure that the credit is utilised for an economic activity. It is also important that the beneficiaries gain quick and easy access to credit for economic activity. It is very vital that timely and adequate financial services are made available to the small and marginal farmers and to all those who require credit facilities. Hassle free credit, without security, End use of credit are to be the main considerations while granting loans. Indian Micro Credit industry is around 4 billion a year. Political interference in any manner whatsoever should be curbed. History has seen that waivers lead to non repayment of loans. History has also seen that the loan customers become over indebted to the point of committing suicide. So adequate caution needs to be exercised in granting of loans, handholding to be done, proper repayment advice need to be given and ensure that the account becomes an asset rather than NPA.

The interaction between the masses, the skill development agencies and the banking/financial institutions will be of great help in this regard. Specifically designed Skill development should be provided to the people to take up economic activity so that they get into the activity with complete confidence. Banks can have tie ups with institutions and industries towards this. Bharatiya Mahila Bank has entered into tie up with organisations like Bharatiya Yuva Shakti Trust (BYST) to encourage women and youth to start enterprises.

Direct Benefit Transfer is another highlight of PMJDY Phase II. DBT is a key factor that will help people and the economy of the country benefit on a large scale. When the benefits of various subsidy schemes of the States/Union Government reach the beneficiaries directly, the objectives of the scheme can be fulfilled without any hurdles, plugging all leakages in the system, making the entire system cycle and processes more transparent and more efficient. There are several schemes coming under Direct Benefit Transfer. Massive disbursements, financial transactions are made possible with a blend of banking and technology. The annual spend on subsidies per person is likely to be around Rs.10,000 per year. The cash flowing in these accounts as well as the commission paid by the Government to Banks for these transactions are sure to streamline the banking and financial mechanism reaching out to the poor on time.

Banks can also go in for opening of zero balance accounts initially and then getting them funded. Bharatiya Mahila Bank used this strategy and opened over 7000 accounts in Dholpur and now all the accounts are getting funded. The Bank will soon be opening the second branch in Dholpur.

The optimum use of technology is another key factor to ensure the success of the next phase of PMJDY. The contributions of National Payment Corporation of India (NPCI) for the success of PMJDY is laudable. NPCI has provided the banks - telecom networks link - connectivity, to enable accountholder to access his/ her account with any type of mobile handset is indeed highly laudable. Balance enquiry or money transfer or other services are not only for those with smartphones but also for anyone with any ordinary

handset. The Banks need to leverage technology to reach the last mile customer. Use of Aadhaar enabled Payment System for interoperability, online monitoring, call centre, Toll free number facility, use of KYC to ease account opening process, were all done simultaneously ensuring the success of PMJDY. Internet banking, Mobile Banking, Twitter Banking have all transformed the way banking is being done these days. Initially, Banking changed by the decades, then by the years and now banking is changing by the day or it can be said that banking is changing every time there is a launch of a new banking app.

Each of the Public Sector Banks, Regional Rural Banks, Cooperative Banks, Micro Finance Institutions, Insurance companies and other institutions/organisations involved in the implementation of PMJDY Phase II need to have an internal roadmap in line with the overall roadmap of PMJDY Phase II. The mission office set up for coordination, collation and follow up with various State Governments, Banks and other stakeholders can also include representatives from International organisations to share experiences.

It is important that the Public Sector Bank officials are trained well to handle the customers under PMJDY. The officials will have to interact with various people of varying ages and varying levels of education. The load in Public Sector Banks have increased and most of the branches are dealing with the less affluent and less educated or even illiterate sections of the society. It is important for them to have thorough knowledge about tech banking services and also about PMJDY schemes and products available under PMJDY. The Banks need to impart in house training to the officials on PMJDY Phase II in particular.

Banks and all the organisations and institutions, need to participate in the PMJDY Phase II, which would soon commence, keeping in mind the Needs, Lifecycle, Economic opportunities and emergencies of the poor. Micro credit for every economic activity taken up at micro level; micro insurance to each family and micro pension product to every household should become the key words of every banker.

With the launch of PMJDY, the very term and meaning of Financial Inclusion has undergone a drastic change. It has acquired a wider perspective. It is no longer confined to having a bank account but to having access to a wide range of banking and financial services. PMJDY is no doubt a clear winner. The scheme has made India a trendsetter. PMJDY Phase II will lead to the most transparent, cash free banking and financial transactions resulting in Digital Financial Inclusion and Economic Empowerment of every Indian household. Being the biggest Financial Inclusion initiative in the world, PMJDY in toto, will become a model for many other developing and developed countries.

***"It is important that the Public Sector Bank officials are trained well to handle the customers under PMJDY"***

**Usha Ananthasubramanian**
Chairperson FICCI's Financial Inclusion Committee & Chairman & Managing Director,
Bharatiya Mahila Bank Ltd.

Smt. Usha Ananthasubramanian is the Chairman and Managing Director of Bharatiya Mahila Bank Ltd, the first of its kind in the Indian Banking industry.

She holds a Masters degree in Statistics from the University of Madras and a Masters degree in Ancient Indian Culture from the University of Mumbai.

In a career spanning over three decades, she has worked in various positions in the banking and allied areas. She started her career with LIC. She joined the banking industry in February 1982 as a Specialist Officer in the Planning Stream of Bank of Baroda and rose to the rank of General Manager and has held many key positions in the Bank. She was closely associated with the transformation project of Bank of Baroda including rebranding and innovative HR initiatives.

Prior to taking over as Chairman and Managing Director of the Bank, she was the Executive Director of Punjab National Bank (PNB) for over two years. When at PNB, she was part of the Committee formed for examination of the blue print and other related tasks for setting up of the first women focussed Bank of India. She was the Head of the Core Management Team constituted by the Ministry of Finance, Government of India, for coordinating the process of establishment of the Bank.

Under her leadership, the Bank has launched several innovative, women friendly products – both assets and liability products and also technology enabled products and services.

Her hobbies include literature of English, Tamil and Sanskrit, music and reading and has a flair for learning languages. She is a trained Carnatic musician and plays the Veena.

She is a regular speaker at National and International Conferences and Seminars on various themes including Banking, women empowerment, governance, education and gender issues. She regularly contributes for journals and magazines.

She is a member of the National Think Tank for the Poorest States Inclusive Growth Programme of the Department for International Development and also chairs the FICCI Committee on Financial Inclusion.

# PMJDY- A potential economic revolution

***Shachindra Nath***
*Group Chief Executive Officer*
*Religare Enterprises Limited*

The Pradhan Mantri Jan Dhan Yojna or PMJDY has evolved as one of the key policy initiatives of Prime Minister Narendra Modi led National Democratic Alliance government at the centre. The scheme, which aims to provide one bank account to every household in the country, is a giant step towards financial inclusion. Before the launch of PMJDY, nearly 42% of the country's population lacked access to a formal and systematic financial institution like a bank. As the scheme spreads to various parts of the country, this number is expected to see a sharp reduction. A bank account enables the holder to join the economic mainstream and gives him or her access to myriad benefits that come with the banking facility.

The Jan Dhan Yohjana comes with a number of features, which will lend a helping hand to the country's marginalized and poor sections during times of crisis. For instance, PMJDY provides accidental insurance cover of one lakh rupees, life insurance cover of 30,000 rupees, and

*"Given that even the poor and marginalized sections of our society possess gold, the new schemes aimed at monetizing of gold should be structured to also cater to this segment under PMJDY"*

an overdraft facility of 5,000 rupees after satisfactory operation of the account for 6 months.

Since the launch of PMJDY in August 2014, more than 13.5 crore bank accounts have been opened across the country as on February 28, 2015. The bulk of the contribution, and understandably so, has come from the public sector banks that have chipped in with 10.7 crore bank accounts while regional rural banks have opened another 2.4 crore bank accounts. Interestingly, nearly 60% of the accounts under PMJDY have been in the rural areas and this shows that the first phase of financial inclusion is showing results. Further, the cumulative money deposited is a whopping 12,700 crore rupees as on February-end even though there is no minimum balance requirement.

The purpose of PMJDY is multi-fold. While it takes banking to the unbanked and makes them part of India's robust banking system, it will also allow loan seekers to move away from the traditional money lenders and their exorbitant interest rates to loans from banks at much lower interest rates. Account holders under PMJDY are eligible for loans after a period of six months.

Two, and importantly, PMJDY is also the only viable means to achieve a near-cashless society (or what the Reserve Bank of India refers to as a 'less cash' society). Once near-universal coverage of accounts with attached RuPay cards is achieved, the government should mandate all citizen-to-government payments only through RuPay cards.Such a move is expected to catalyze the cultural change that we need to move away from dealing with cash.

Further, a direct access to the banking system is expected to weed out money lenders, middlemen, commission agents and thereby curb corruption. On the other hand, with direct transfer of money to bank accounts under various government schemes, duplications and fictitious beneficiaries will also go down significantly.

Currently, there are huge leakages in the money spent by the government - whether it is in the form of subsidies, employment guarantee scheme like MGNREGA or social sector projects. We are all aware of numerous instances where the money meant under Mahatma Gandhi National Rural Employment Guarantee scheme has not reached the rightful owner or he receives only a part of his dues while the rest is pocketed by the middleman. Similarly, there has traditionally been huge pilferage of subsidized LPG and kerosene and the cooking fuels are then routed to the open market for sale at much higher rates.

With the push to financial inclusion under PMJDY, the positive impact is already been seen in the area of LPG cylinders. Since January 1 this year, the government started to directly transfer LPG subsidy to consumers throughout the country. According to official figures, an amount of Rs. 6745.41 crore has already been transferred to the accounts of beneficiaries through 18.9 crore transactions. Since the subsidy is now being directly credited to the accounts of consumers, the cylinders are being sold at non-subsidised rate and this is expected to give a big blow to an otherwise thriving business of diverting subsidized cooking cylinders to open market. Since the subsidy on LPG will reach the targeted beneficiary, the government is expected to save 12,000-14,000 crore rupees on its LPG subsidy bill every year.

This model is now expected to be replicated across other government schemes where subsidies are involved as more bank accounts are opened under PMJDY. For instance, direct cash transfer is likely for kero-sene, fertilizers, money disbursed under employment guarantee scheme, and public distribution system for food grains. Once more areas are brought under the ambit of direct transfer of cash to bank accounts, market price for essential fuel and fertilizers will replace the existing distortionary dualpricing. Further, market malpractices like hoarding, black marketing and adulteration thrive when prices arecontrolled arbitrarily. With direct cash transfer mechanism, such malpractices can be effectively

weeded out with one market price and benefits are transferred in a leakage-proof, well-targetted and cashless manner.

Once a robust direct cash transfer mechanism is in place for various government incentives and social sector spend, the opening of crores of new bank accounts can play a crucial role in channelizing household savings. This money can go into savings instruments and the investments can find their way back into the economy where these funds are used for numerous infrastructure and related projects.

Well begun is half done but a lot needs to be achieved to usher in wide spread financial inclusion that reaches to people in the hinterland and remote corners of the country. Thus, PMJDY needs to move beyond mere opening of bank accounts and the government must guard against this noble initiative becoming just another piece of statistic. PMJDY has the potential to evolve as the vehicle that provides access to multiple financial products and the sophistication of these products can be tagged to the other key task of financial literacy. The banks have a big role to play here since they should see financial inclusion as an opportunity and not an obligation to expand their business and reach among masses.

Thus, a key step could be to expand the financial inclusion programme to ensure remittances and credit facilities for the poor.Similarly, PMJDY can be replicated in the areas of insurance and pension sectors. There is a critical need to take insurance products to the common man as the penetration of insurance in India (premiums measured as

percentage of GDP) is just about 4 percent. Given the initial success of PMJDY, banks can devise plans to offer customer centric insurance products and provide a comprehensive social security cover to people.

In fact, the Union Budget for 2015-16 announced the launch of insurance schemes for the poor. These schemes can be linked to bank accounts under PMJDY and money deposited as part of various welfare schemes as well as individual earnings can be used to buy policies, pay premium and get direct credit of claims. The Pradhan Mantri Suraksha Bima Yojna will cover accidental death risk of 2 lakh rupees for a premium of just 12 rupees per year while Pradhan Mantri Jeevan Jyoti Bima Yojana will cover both natural and accidental death risk of 2 lakh rupees for as low as 330 rupees per year. This model can also be used for various investment tools like mutual funds and gold. Given that even the poor and marginalized sections of our society possess gold, the new schemes aimed at monetizing of gold should be structured to also cater to this segment under PMJDY.

Further, even as PMJDY becomes the pivot for financial inclusion by providing bank accounts to the marginalized sections of the society, the government should encourage parallel institutions to be a part of this massive thrust to reach out to those with limited or no access to financial products and services. These institutions including NBFCs have been effectively seeding financial inclusion in a meaningful fashion in several parts of the country. These institutions, despite their high interest rates due to cost of capital, have given easy access to loans, simplified documentation and allowed Indians to chase their ambition. Importantly, they are acutely aware of the financial needs in a particular geography since they have closely worked with people in that area for several years.

If a sound policy framework is developed to facilitate a larger circle of delivery, it is bound to foster innovation in products and services and ensure that a larger number of beneficiaries stick to their banking habit and allied services. In the past, there have been numerous instances where bank accounts go idle once the grants or subsidies stop. Further, institutions need to continue to harness technology so that the costs of transactions and servicing so many customers remain in control.

While PMJDY is a laudable initiative and has already made rapid progress in a short period, the government must look to cover every nook and corner of the country, offer more products over a period of time, and encourage multiple financial institutions for the entire gamut of financial products - with bank accounts under PMJDY as a reference point - for better targeting and smoother delivery. Since people will have choice of medium for accessing financial services depending on their needs, they will benefit in the long run. This will also go a long way in creating a robust integrated financial system that cuts across various delivery avenues, prevents pilferage and maps transactions across mediums, thereby limiting use of cash.

If implemented well, PMJDY can translate into an economic revolution that will deliver greater opportunities to the entire society and especially the marginalized sections that need it the most, bring about high degree of efficiencies and channelize vast resources for the development of the nation.

*"PMJDY is the only viable means to achieve a near-cashless society"*

**ShachindraNath**
Group Chief Executive Officer
Religare Enterprises Limited

As the Group Chief Executive Officer of Religare Enterprises Limited, Shachindra leads the entire integrated financial services business of the Religare Group. Religare's financial services bouquet spans across Non-Banking Finance, Retail Broking, Life Insurance, Health Insurance, Mutual Fund, Global Capital Markets, Investment Banking and Global Asset Management.

As one of the key founding team members at Religare, Shachindra has been a core pillar of Religare's successful growth journey in the last 14 years. He joined Religare in the year 2000.

Under his leadership, Religare has grown from a mono line broking led business to a diversified financial services major. Some of his marquee achievements include successfully leading the IPO process forReligare in 2007, considered to be one of the most successful IPO's in India, establishing new businesses and stitching together successful joint ventures and partnerships for the Group and raising funds through multiple private equity transactions.

Under Shachindra's guidance, Religare has transitioned into a performance orientated, bottom line focused organization and has successfully evolved from an investment phase company to a growth oriented company, ready to capture growth opportunities on a self-sustaining basis.

Shachindra is a qualified lawyer and is a University Rank holder from the Benares Hindu University. A great motivator and leader, when not at work he loves to read, contribute to columns, travel and spend time with his family.

# Leveraging Pradhan Mantri Jan Dhan Yojna (PMJDY)

***Chandra Shekhar Ghosh***
*Co-Chairman FICCI's Financial Inclusion Committee &*
*Chairman & Managing Director, Bandhan*

After we received the in-principal banking licence from the Reserve Bank of India in April 2014, during my field visits, I face the same question wherever I go: "Sir, once you become bank, will your staff stop coming to our doorstep? Will your branch remain in our village? Will you remember us?"

Around 6.5 million customers of Bandhan Financial Services Limited are elated at the news of its transformation into a bank but they fear losing the ease of transaction which we have been offering to them. Of course this fear has no basis as we will continue to offer them the same but the fact remains that the banks find it very expensive to offer doorstep services in financially excluded areas as the transaction size is usually very small. On the other hand, for an individual, visiting a far off bank branch leads to losing a day of wage. Therefore due to conven-ience the unbanked people choose local money lenders and chit funds over banks to avail doorstep services. This has been the story of banking in India's rural pockets.

*"To speed up the process of financial inclusion, it is necessary that all the government-initiated programmes work in tandem"*

In 1969, the first phase of nationalization of banks happened to make formal financial services accessible to all, benefiting those who needed it the most - the farmers, landless labourers and self-employed people having small businesses. After two phases of bank nationali-zation, arrival of the so-called new private banks and an aggressive push for financial inclusion, a large segment of India's adult population still does not have access to formal banking even as the Reserve Bank of India is readying to usher in a new set of small finance banks and payments banks. The government is now approaching the issue almost on a war footing. In August last year, Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched to bring in millions of people under the cover of banking and following it Micro Units Development and Refinance Agency (MUDRA) Bank is being set up to fund the unfunded.

Pradhan Mantri Jan Dhan Yojana provided the necessary impetus to the mission of financial inclusion. Due to its mammoth scale, it has found a place in Guinness Book of World Record. As per data shared by the Government of India as on 31st March, 2015, 14.72 crore accounts were opened under PMJDY and 78.45% of these accounts have been opened by public sector banks. By any yard stick this is a great success but 8.52 crore or 57.90% of such accounts are zero-balance accounts. The average balance in such accounts has been low at Rs.1064.83, wherein the private sector banks - that account for merely 4.15% of these accounts have fared a tad better with an average balance at Rs.1487.13. A recently published World Bank report states that dormancy rate of bank accounts in India is quite high at 43% and merely 15% of adults having an account use the same to make or receive payments. It has also been reported that 61% of all account holders in India do not have a debit or ATM card. Under the PMJDY, 13.148 crore Rupay cards have been issued till 31st March, 2015 but I wonder whether we are ready with adequate number of ATM and technology infrastructure to support the usage of these cards in remote rural locations?

In the PMJDY scheme, an individual can have a basic savings and deposit account if he possesses an AADHAR card. So far, around 81.45 Crore AADHAR cards have been issued. This is around 63% of India's current population of 129 crore. That's good but the coverage has been uneven. For instance, in the north eastern region, the penetration is only 13.57%. In fact, the north east is the most financially excluded region of the country.

## A Priority, Not an Obligation

To speed up the process of financial inclusion, it is necessary that all the government-initiated programmes work in tandem. Achieving financial inclusion has to be treated as a priority and not an obligation and we need to look beyond numbers. The banks have been working hard since long to reach the last mile, but the gap continued to exist, which helped microfinance sector to flourish.

The aggregate gross loan portfolio of NBFC-MFIs was Rs.31,450 crore as on 31st December 2014. These institutions borrow from banks and lend tiny loans to unbanked people. The financial sector is gradually warming up to the significance of MFIs in reaching out to the last mile. It is heartening to find a number of MFIs in the applicants list for small finance banks and payments banks. However, presence of differentiated banks does not necessarily lessen the role that the existing financial institutions are expected to play. There is a necessity of making the whole banking experience approachable, affordable and within the reach of the excluded populace.

The business correspondence (BC) model could be one way of addressing the issue, provided it is profitable and self-sustained. So far, there is hardly any scalable and sustainable BC model in our country. Under PMJDY, a minimum remuneration of Rs.5,000 (fixed + variable) is proposed for the BCs. This initiative will financially benefit the BC agents but their effectiveness as the last-mile service provider still remains a question. As on 31st March 2014, as per the Reserve Bank of India, around 117 million basic savings bank deposit accounts are opened through BCs, but the average amount in these

accounts is very low at around Rs.350.

Another factor which affects the BCs is lack of trust of the customers. Frequent change in BCs and absence of a fixed office make people doubt regular availability of their services. It is also seen that credit products help the financial institutions in building a long-term relationship with the customers but the BCs are not allowed to sanction loans. Currently, they are permitted to process the loans and these loans are disbursed by the bank branches. The policy makers need to think about ways of making the model sustainable. Adoption of cheaper technology, mass awareness about BCs, more proactive role of banks in supporting them, extension of the horizon of the services being provided and an enabling policy framework are some of the ways to establish the BCs as a critical player in achieving true financial inclusion.

## Financial Literacy

Financial literacy is perhaps the most important element in defining the future course of success of financial inclusion initiatives. We have been defining financial literacy in a narrow way; ability to borrow, deposit, and use ATM card could not be defined as financial literacy. Financial literacy is the ability to understand how money works, how someone makes, manages and invests it, and also expends it judiciously when there is need. This awareness is a life shaper; therefore it has to start early. Children in schools could be given lessons on money and its management so as the young working adults. It is this lack of awareness that penetration of products such as insurance, pension, remittance is so low. In absence of state-sponsored safety net it becomes utmost important that poor households have access to these products.

Recently a sudden rainfall washed off large area of almost ripe wheat crop in northern part of the country. In eastern part, farmers failed to sell the bumper harvest of potato. Provided they are given timely access to suitable financial products, they could definitely cope better and not fall deeper into poverty trap. The lack of financial literacy is the reason behind gullible people losing money to unscrupulous ponzi schemes and chit funds. Going forward, the PMJDY could take up financial literacy as a mission to safeguard the customers against such happenings, help them make wise decision about their money and create demand pull for financial products.

## Different Requirements

The financial requirements of people living in rural and urban area are different. The requirement of a construction site labourer living in a metro slum is not the same that of a small farmer living in a remote rural pocket. A safe and fast way of remitting money could be the priority of the construction site labourer whereas the small farmer may need credit to buy farm implements. Conducting large-scale research to identify need, designing suitable products for the target groups, finding appropriate delivery channels and providing quality customer service- all these are essential to draw the excluded mass into the folds of formal financial sector.

Significant work has already been initiated for developing infrastructure by the government as lack of proper infrastructure is often identified as the main reason behind low penetration of banking services in far flung areas. In Union Budget 2015, the government announced a hefty Rs.70,000 crore increase in investment in infrastructure, which is a big push for the sector. Besides, Rs.5,300 crore is earmarked for micro irrigation and watershed development and Rs.200 crore is to be spent for creating infrastructure for soil testing. Connectivity could improve manifold in 2015-16 provided the targeted 1 lakh Kilometers of roadways creation is achieved successfully.

The government is also going to work with the states and the NITI Ayog, the recent avatar of the erstwhile Planning Commission, to establish a united national agricul-

ture market. All such initiatives are significant moves towards providing a strong base for economic growth in coming years. Along with them, investment is also required in creation of IT infrastructure to create a technology-enabled low-cost platform for fast and safe financial transactions. All such initiatives together could make a big positive impact on the economic development of the underdeveloped and undeveloped region of the country.

Improvement in basic infrastructure could boost job creation. Presently around 5.75 crore self-employed people who use fund of Rs.11 lakh crore with an average per unit debt of nearly Rs.17,000 employs 12 crore people. However,only 4% of the credit needs of 58 million small and microbusiness is provided by the banking system. These small units find it difficult to arrange working capital due to which scaling up becomes a daunting task for these entrepreneurs. The MSMEs in India mostly operate in low scale, having poor productivity and inadequate adoption of technology because of unavailability of money from the banking system. Over time banks have started considering MSME sector as an area of interest and a gradual shift in their mindset is evident. Hopefully with MUDRA Bank being set up the MSME units will find the processes much more approachable. MUDRA Bank could consider playing a role in skill upgradation of workers employed in this sector which will in turn improve the productivity of the units and add value to India's gross domestic product (GDP).

The next decade will be eventful as the newly licensed universal banks, payments banks and small finance banks will all set their eyes on rural unbanked areas. Technology innovations and changes in regulatory framework are also expected to accommodate different players in the sector. Opening of around 15 crore accounts and collecting around Rs.16,000 crore in form of deposits is no mean task by any standard, but the expectations from PMJDY are sky high. A beginning is being made. We need to build on it and take it to the logical conclusion by creating an eco system where every adult citizen of Asia's third largest economy finds a bank by her side.

***"MUDRA Bank could consider playing a role in skill upgradation of workers employed in MSME sector"***

**Chandra Shekhar Ghosh**
*Co-Chairman FICCI's Financial Inclusion Committee & Chairman & Managing Director, Bandhan*

Mr. Ghosh with over 30 years of experience has been a force to reckon with in the microfinance and development terrain. His grasp over the subject is exemplary which has won him recognition in the fraternity. A 'Senior Ashoka Fellow', Mr. Ghosh has deliberated on the discipline of Microfinance at various institutes of international repute.

By virtue of his peerless leadership, he adorns a number of important chairs in the esteemed sectorial associations. He is one of the founding fathers of Association of Microfinance Institutions (AMFI) West Bengal, a self-regulatory organization encompassing MFIs having their operation in West Bengal. He is a member of Micro, Small and Medium Enterprises (MSME) Sector Committee, Government of West Bengal.

Mr. Ghosh is a member of 'State Level Review & Coordination Committee on Credit Delivery Innovation' constituted by NABARD. Federation of Indian Chambers of Commerce and Industry (FICCI) has reconstituted Financial Inclusion Committee. Mr. Ghosh has been invited to voice his opinion as Co-Chair of this crucial committee. He is also the member of Inclusive Governance Council (IGC) of FICCI.

Mr.Ghosh was awarded with 'Women Change Maker Fellowship' by Womanity Foundation in 2013 as recognition for contribution to the development sector. In year 2014 he was awarded 'Serar Sera Bangali' by ABP Ananda, 'Ananya Samman' by Bengali news channel 24 Ghanta of Zee group, 'Entrepreneur of the year' by All India Management Association (AIMA), 'Entrepreneur with Social Impact in 2014' by Forbes India Leadership Awards, 'Finance man of the year' by Bombay Management Association and 'Entreprenuer of the year' by the Economic Time.

He holds a M.Sc. in Statistics and has attended the HBS-ACCION Program on Strategic Leadership for Microfinance at Harvard Business School.

# Going beyond PMJDY to achieve financial inclusion in India

***Shamika Ravi***
*Fellow, Brookings Institution India Center*

Prime Minister Modi has made financial inclusion a key objective for his government, with the underlying hypothesis that expanding access to financial services can serve as the means for inclusive economic development and reduction in poverty. Right after his Independence Day speech, PM Modi's launched the PMJDY, and within 3 months, the government of India entered the Guinness Book of World Records by opening the largest number of bank accounts within the shortest time. According to the Union Finance Ministry, India attained 99% financial inclusion last month, if measured as households' access to bank accounts. This is a remarkable achievement. In the past, state policies of financial inclusion have overwhelmingly relied on extending credit to poor households through subsidized credit schemes like IRDP or SHGs and providing no-frills bank accounts. Private sector initiatives like the explosion of microfinance activities in India have also shown the limited scope within which lenders functioned. Research has shown that unless financial instruments are designed for specific needs of the poor,

*"Greater emphasis on designing an array of financial products such as insurance and pension are needed"*

they remain underutilized and costly for the providers, and therefore, non-sustainable.

The PMJDY provides basic zero-balance bank accounts with accidental insurance cover of 1 lakh, along with a 5000 rupees overdraft facility available for account holders. The scheme would also make the use of mobile baking for the poor through the National Unified USSD Platform (NUUP). The NUUP would allow customers to access banking services using a single number across all banks, irrespective of the telecom provider or mobile handset being used. The launch of such a scheme by the government was significantly supported by public sector and private sector commercial banks which resulted in the significant uptake. With the provision of insurance and transfer facilities along with the overdraft facilities under PMJDY, there a clear focus on expanding the portfolio of financial instruments to all households in India.

Greater emphasis on designing an array of financial products such as insurance and pension are needed. Technology must be leveraged to bring down the operating costs of these financial instruments which are more expensive in comparison to larger ticket instruments of the mainstream financial sector. Innovation in the financial sector must be encouraged which can find sustain-able solutions to the financial needs of all segments of the Indian economy.

## Financial inclusion through other means

With most financial inclusion policies in India solely focused on the provision of bank accounts and credit to the poor, there is a need to shift the focus to include more financial services in the portfolio of financial inclusion strategies to account for the needs of this segment. We highlight a few of these below.

Indigenous institutions of financial inclusion (Chit Funds): Research has shown that Chit Funds are aimed at providing low-income households the means through which they can meet their financial needs. However, these institutions have so far been excluded from the formal financial sector, largely due to ignorance of the regulators. In most parts of India, very large groups of people participate in different forms of informal regular savings-credit arrangements with each other. Under a chit fund scheme, a group of individuals comes together and pool in money, at the end of the month or a specified period of time, the pool of money is loaned out to the individuals. In this aspect, it acts as an efficient circulation of money bet-ween those who want to save and others who want to borrow. It also serves as an accessible option of insurance during times of financial duress.

Chit funds in India have been in operation for 1000s of years - they were first established as informal associations of traders and house-holds within communities. Chit Funds work in a similar way to the Rotating Savings and Credit Associations (ROSCA) which are prevalent in some form or the other all across the world, allowing poor people to save and borrow simultaneously. India has formally institutionalized chit funds through the Chit Fund Act, 1982, enabling legally recognized institutions the means to provide a variety of chit schemes. The industry under the Act is highly regulated with stringent rules in place.

According to a report by the Institute for Financial Management and Research, more than 90% of the population surveyed held bank accounts. Participation in chit funds requires a member to hold a savings account wherein cheques can be deposited, as a result almost everyone in the states surveyed have savings accounts. However, accord-ing to an RBI study, 87% of these accounts in a particular district were inactive. Banks have little incentives to promote the use of such savings accounts, the RBI had promoted the use of no frills bank account which require a low minimum balance, and banks perceive such accounts to be less than desirable. It was also found that chit funds are the preferred mode of savings for over 40% of members, with 11% of the overall population preferring chit funds for loans due to the lower interest rates compared to banks.

The most common reason for participating in chit fund schemes was savings, with consumption and/or business requirements a close second. The requirements change with the income levels of the individual. As the income level of members increase the proportion of people bidding in chit schemes for business investment increases, though this the opposite when it comes to consumption needs. The results from the IFMR study show strong positive implications of chit funds as a source of savings and borrowing for poor households in India.

Insurance instruments: Insurance is a critical component for financial inclusion of poor vulnerable parts of the population. It has not enjoyed the same prominence in policy measures as credit and bank accounts in India. As mentioned previously, the main needs for the poor are to have safety nets in order to provide for any unex-

pected circumstances, to hold lump sum money, and to provide day to day expenses. Besides tapping into savings, these needs can only be met through well designed and easy to understand insurance products including health, life, property, crop and myriads of other insurance instruments meant to mitigate different forms of shocks.

Our previous research indicates that though access to credit and savings instruments can serve as insurance mechanisms along with societal arrangements of reciprocity, these are expensive in comparison to access to insurance instruments. The new PMJDY provides some forms of insurance but is limited to accident and life. It remains to be seen whether the Rashtriya Swasthya Bima Yojana (RSBY) which provides health insurance coverage to all Below Poverty Line (BPL) families in India can attain the same degree of early success as the PMJDY. In other areas, we need investments into crop insurance, property insurance and livestock insurance. There are also some sophisticated insurance products like the Weather insurance (Rainfall insurance) which despite being well designed fall far short of intended take-up due to lack of financial literacy and awareness in the country. The government effort should be extended into pilot testing these products and scaling up is proven successful.

Better savings instruments: Product design is critically important when it comes to developing savings instruments for low income households. The diversity of financial instruments provided and facilitated by the public sector, from government and the banks to local state authorities must be designed according to the needs of the specific market segment. Extending products from the mainstream financial sector into the financially excluded segment can be risky. Financial institutions must be required to develop innovative products and services, and move away from the one size fits all recipe. Internationally, the success of Bank Rakyat Indonesia (BRI) in providing commercially viable financial services - loans and savings, along with other financial products to low income households - has several lessons for India. Since its inception, BRI has proved to be extremely profitable and successful in incentivizing the poor to utilize savings bank accounts. The products and services offered at BRI are appropriate to the needs of the clients, thereby incentivizing to better utilize their savings accounts. BRI accounts are structured in a way which encourages more savings than loans. This was also the reason why BRI remains one of the few large banks which withstood the East Asian financial crisis successfully.

Another such savings product developed to incentivize the poor to save is called SEED (Save, Earn, and Enjoy Deposits) account, implemented in the Philippines by The Green Bank of Caraga. The SEED account provides individuals with a commitment which restricts their savings. The individual sets a goal, either a date or amount they want to save, and is subsequently unable to withdraw money from the account until that goal is reached. Such measures, 'force' people to save as well as stressing the importance of savings.

**Technology:** Technology has been key in reducing the problem of access to banking services, and with programs such as the PMJDY, access seems to be of small concern. The technological options today are far and wide, and with India's booming telecom sector the option of using mobile payments as a means for financial inclusion has been proven to be feasible. According to the latest data released by the Telecom and Regulatory Authority of India, the total number of mobile subscribers in India has reached around 900 million. Therefore, telecom companies have emerged as a viable tool to achieve financial inclusion in the country. In Kenya, M-Pesa is one example of how mobile technology is in use to complete banking transactions. The core idea of businesses such as M-Pesa rests solely on the facilitation of financial transactions via mobile phones. Under this system, customers can transfer money directly between accounts as well as between other customers as well, as long as both parties have M-Pesa.

Financial portfolios of poor households are as diverse as those of their richest peers, with an average of 10 financial instruments per household. However, the diversity of financial instruments offered in India today by commercial finance companies as well as the government is limited in scope and scale, particularly to the poorer sections of society. Hence, the poor have to rely on informal means of finance to meet their financial needs, at an invariably higher cost. Emphasis on designing an array of financial products such as insurance and pension are needed. This can be achieved through encouraging innovation and ensuring competition amongst the financial service providers in India.

## Conclusion

Expanding access to financial services seems to hold promise as a means for including the poor, reducing poverty, and spurring economic development. With the announcement of the SVS financial inclusion blueprint by the government under which the PMJDY was launched, and the new payment bank guidelines suggested by the RBI, there is hope that financial inclusion is a clearer and important mandate in the country. Both these measures emphasize the provision of bank accounts, which is an essential factor, but only a limited one towards achieving financial inclusion in India. In the past decades, state policies of financial inclusion have over- whelmingly relied on extending credit to low-income households through subsidized credit schemes like IRDP or expanding SHGs and providing no-frills bank accounts. Broader financial needs of the poor have so far been met through informal means which are costly and risky and result in sub optimal outcomes for the most vulnerable sections of our society.

Encouraging innovation in savings instruments for the poor by the formal financial sector is critical to achieving India's goals of financial inclusion. To complement such innovation, indigenous financial institutions must find a place within the financial inclusion policies of the government. These are old institutions based on established social networks. Our policies must incorporate these and facilitate further healthy growth of such indigenous institutions. We must also actively seek to understand these institutions to shape a regulatory policy rather than shun all out of ignorance. They have a far greater reach and acceptance amongst the people than most top-down policies of financial inclusion in the recent history of liberalized India. Government policies must recognize this and build on the strengths of indigenous financial institutions. For similar reasons, post offices must also be brought within the fold of national financial inclusion strategy due to their extensive network and greater accessibility.

Raising awareness and imparting financial literacy are also critical to the utilization of financial instruments and for better financial decision-making. Educating people about financial risks can prevent them from investing in dubious schemes. Such schemes are particularly rampant

*"Innovation in the financial sector- through greater autonomy and competition must be encouraged"*

amongst the poor and vulnerable sections of the Indian society, as recent scams have highlighted. Regulation should also ensure customer protection and transparency through requirements of clear and standardized reporting by the sellers of financial instruments. Technology must be leveraged to bring down the operating costs of these financial instruments which are more expensive in comparison to larger ticket instruments of the mainstream financial sector. Innovation in the financial sector- through greater autonomy and competition must be encouraged. Institutions should have the autonomy to experiment with management practices as well as financial products which can help offer sustainable solutions to the financial needs of all segments of the Indian economy.

**Shamika Ravi**
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Dr. Shamika Ravi is a Fellow in Global Economy and Development at the Brookings Institution India Center and the Brookings Institution, Washington DC. She is also a professor of Economics and Public Policy at the Indian School of Business where she teaches courses in Game Theory and Microfinance. Dr. Ravi's research is in the area of Development Economics with a focus on financial inclusion, gender inequality and democracy, and health. She is also an Affiliate at the Financial Access Initiative of New York University, NY. Dr. Ravi has served as an independent director on boards of several prominent microfinance institutions in India and is now part of the Enforcement Directorate of Microfinance Institutions Network in India. Professor Ravi publishes extensively in international academic journals and writes regularly in leading newspapers. Her research work has been featured and cited by BBC, The Guardian, The Financial Times and several leading Indian newspapers and magazines. Most of her academic research papers may be viewed on SSRN at http://papers.ssrn.com/author=812932 ; and some of her most recent journal publications are in the Journal of Development Economics, 2015, World Development, 2015 and The Economic and Political Weekly. Professor Ravi has a PhD in Economics from New York University and a MA in Economics from Delhi School of Economics.

# Leveraging Pradhan Mantri Jan Dhan Yojna (PMJDY)

***Arun Singh***
*Senior Economist*
*Dun & Bradstreet India*

Financial Inclusion is defined as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. Financial inclusion enables delivery of affordable financial services such as saving, credit, insurance services, and access to payments and remittance facilities by the formal financial systems to those who are excluded. In the current scenario, one of the most important precursors for inclusive growth and development of the Indian economy lies in Financial Inclusion as it helps increase domestic savings, investment and thereby stimulates business and entrepreneurial activity. Recognising the compelling link between growth and financial inclusion, the

*"The phenomenal response received to this scheme is evident from the sheer number of accounts that has opened under this scheme with a short span of time"*

Government and the RBI have taken a number of measures to provide financial access to the unbanked and under banked masses. The RBI has adopted a bank-led model for achieving financial inclusion and has played a supportive role in financial inclusion by creating a conducive regulatory environment and providing institutional support to banks in achieving greater financial inclusion.

Yet, formidable tasks lie ahead in terms of making the Indian financial system inclusive. The World Bank Findex Survey 2014 points out that India is home to 21% of the world's unbanked adults and about two-thirds of South Asia's. Even as 53% of Indian adults had access to a formal bank account in 2014 as against 35% in 2011, what makes for a gloomy reading is India, with a dormancy rate of 43%, accounts for about 195 million of the 460 million adults with a dormant account around the world. High dormancy rates reflect a large number of newly opened accounts that have not yet been used. More worryingly, over 13% of adults reported borrowing from a private informal lender.

The urgent need to further push the financial inclusion agenda prompted the announcement of the Pradhan Mantri Jan-DhanYojana (PMJDY) as a National Mission on Financial Inclusion to provide all households in the country with financial services, with particular focus to empower the weaker sections of society, including women, small and marginal farmers and labourers, both rural and urban. The objectives of PMJDY are expected to be achieved in two phases over a period of four years up to August 2018.

The phenomenal response received to this scheme is evident from the sheer number of accounts that has opened under this scheme with a short span of time. After 1.5 crore bank accounts being opened on the inauguration day itself, the figure has swelled to 14.71 crore (world record breaking achievement) as at end Mar 15. Going forward, it will be important to build on the success of PMJDY and leverage these accounts to provide the citizens a wide range of credit, insurance and pension services.

## Designing Innovative Products:

Getting an account is a vital first step toward financial inclusion, but it is far from the entire path. A study by Institute for Financial Management and Research (IFMR) (Thyagarajan and Venkatesan, 2009) to analyze the results of the no frills financial inclusion drive in Cuddalore district of Tamil Nadu found that72% of the accounts had zero or minimum balance even after one year of opening of the accounts. Only 15% of the accounts had balance of more than Rs 100, leaving 85% the new no frills account inoperative. In order to leverage the opportunities presented via PMJDY and further deepen financial inclusion, banks will have to bring about innovations in savings products that make accumulating savings in a bank account a more attractive proposition for these newly banked. This would serve as a gateway for banks to offer a suite of services including payments, insurance, and credit at affordable costs, thereby making this engagement with newly banked a commercially viable proposition.

## Harnessing Technology:

The technology applications that have the potential to advance financial inclusion in India include universal electronic bank accounts, technology-enabled business correspondents, mobile money and digital government transfers and payments. A true testament of mobile-led financial inclusion can be seen through M-Pesa, a mobile banking and payment system launched in Kenya. It has become the most successful mobile phone based financial service in the developing world since its launch in Mar 07.In this model, customers can use a wallet on their mobile phone to transfer funds to other users, to pay

bills and to purchase mobile talk-time credit, DTH recharge, prepaid recharge, pay bills, deposit money, withdraw cash and transfer funds.

The present banking network in India (as on end Mar-14) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 38.2% of branches and 14.58% of ATMsare in rural areas. The rural Wireless Tele-density is however higher at 46.56% (Feb 15).Replicating the success story of M-PESA for deeper inclusiveness, companies such as Airtel and banks such as HDFC, ICICI and State Bank of India came forward to launch mobile banking services for its customers. This mobile-led financial inclusion could prove to be a game changer to meet the requirements of the unbanked and under-banked segments in remote or sparsely populated rural areas. The significant cost advantage in distribution of banking services also makes mobile money an absolute catalyst for achieving financial inclusion. The upcoming licensing of a new class of Differentiated banks (small banks and payment banks) would further the objective of financial inclusion and add value by adapting technological solutions to lower costs.

*"This mobile-led financial inclusion could prove to be a game changer to meet the requirements of the unbanked and under-banked segments in remote or sparsely populated rural areas"*

Arun Singh
*Senior Economist,*
*Dun & Bradstreet India*

A professional economist, Dr. Singh has more than ten years of experience in the area of macroeconomic research and forecasting. His area of work has spanned across quantitative & qualitative economic research, econometric modeling & industry research across a wide spectrum of sectors. Areas covered under economic research include real sector, public finance, monetary and fiscal policy, external sector, and infrastructure & social sector. Currently he is leading a team working on macro-economic research, modeling and forecasting. The team involved in economic research is best known for carrying out pragmatic and solution-oriented analyses of strategic economic and business developments, thereby aiding informed decision making, both corporate and Government, to stay ahead of economic and business developments.

Prior to his tenure in D&B India, Dr. Singh was employed with Tata Services Ltd., where he handled projects pertaining to in-depth analysis and research on various economic issues and was an expert in the areas of macro-economic modeling, forecasting and demand assessment. He was involved in treasury strategies for some of the group companies. He was also involved in the long term strategic assessment of various businesses.

Dr. Singh has received his doctorate in economics from Mumbai University.

FICCI's Data Centre

# Indian Economy - An Update

## Highlights

The final numbers for GDP for 2014-15 are expected to be out in May and the growth is likely to be over 7.0%. The prospects for the current fiscal year seem buoyant too with GDP growth expected at 7.8% as indicated in the latest monetary policy announcement by RBI. However, the latest prediction by meteorological department of El Nino conditions persisting has raised concern once again. The agriculture sector performance may be hampered this year too. The industry performance, on the other hand, will depend on how investment and consumer demand pick up, both of which remain a matter of worry.

Even though the latest monthly IIP numbers reported an uptick in growth in February 2015 with all three broad sub segments (mining, manufacturing, electricity) posting an improvement; the performance of capital goods sector noted some moderation. Also the performance of the consumer durables segment remained subdued and was in the negative terrain for the ninth consecutive month.

On the inflation front, risk stands fairly mitigated with both WPI and CPI being on a downtrend. In fact, WPI based index has been in the negative terrain for four consecutive months. However, with met forecasting below normal rainfall this fiscal year, some pressure might arise on food prices. The Reserve Bank of India in its latest monetary policy statement has put the CPI inflation forecast at 5.8% by end of this fiscal year.

On the external front, India's trade deficit widened to USD 11.8 billion in March 2015 after observing a seventeen month low of USD 6.8 billion in the previous month. India's trade deficit has increased primarily due to a steep rise in gold imports and lower exports during the month. Total exports in 2014-15 were valued at USD 310.2 billion, declining by 1.5 percent when compared to 2013-14; while total imports stood at USD 447.1 billion. A slew of incentives such as quick refunds and additional incentives for export led manufacturing announced in the Foreign Trade Policy 2015-2020 is expected to boost outbound shipments.

## Gross Domestic Product (GDP)

**Relationship between GVA and GVO (at constant prices)**

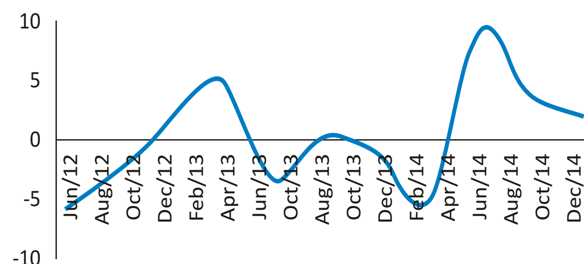
| Items | Ratio of sectoral GVA to sectoral GVO | | | Growth in GVO (%) | |
|---|---|---|---|---|---|
| | 2011-12 | 2012-13 | 2013-14 | 2012-13 | 2013-14 |
| Agriculture and allied | 77.1 | 77.2 | 77.3 | 1.0 | 3.6 |
| Industry | 25.4 | 26.4 | 26.5 | 1.6 | 3.9 |
| Manufacturing | 20.5 | 22.2 | 22.4 | -1.8 | 4.3 |
| Services | 65.7 | 66.6 | 67.6 | 6.5 | 7.4 |
| Total | 43.8 | 45.4 | 46.0 | 1.3 | 5.1 |

| Category | Rainfall Range (% of LPA) | Forecast Probability |
|---|---|---|
| Deficient | <90 | 33 |
| Below Normal | 90-96 | 35 |
| Normal | 96-104 | 28 |
| Above Normal | 104-110 | 3 |

**Gross Capital Formation (% Y-o-Y)**

| | Total GCF | Agriculture, forestry and fishing | Industry | Services |
|---|---|---|---|---|
| 2012-13 | -0.7 | -12.9 | 4.0 | -1.9 |
| 2013-14 | 1.4 | 0.3 | -0.6 | 3.1 |

Gross Capital Formation (growth in %)




Source: CMIE/IMD/Economic Survey FY15

## Gross Domestic Product (GDP)

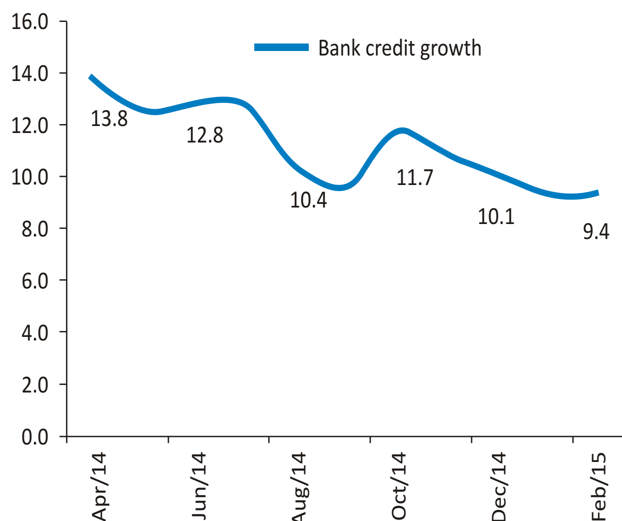
- Revised estimate for GDP for the year 2014-15 is expected in May 2015. The growth is expected to be over 7.0 percent in 2014-15 and the outlook for this fiscal year so far seemed optimistic. The Economic Survey had put a growth estimate between 8.1 percent and 8.5 percent for the year 2015-16. However, the recently announced monetary policy statement by RBI projects output growth at 7.8 percent for 2015-16.
- Assuming risks on the global front to be exogenous, some of the down sides seem imminent on the domestic side. One, the agriculture sector was seen underperforming last fiscal year due to discernible variations in monsoons. As per the second advance estimate by Ministry of Agriculture released in February 2015, total production of food grains during 2014-15 is estimated at 257.1 million tonnes, as against the final estimate of 265.6 million tonnes for 2013-14. Further, with the latest prediction of the meteorological department, the agriculture sector performance may be hampered this year as well. According to the latest monsoon forecast, El Nino conditions are persisting and there is only 28 percent probability that monsoons will be normal.
- Second, investments are yet to kick off. The y-o-y growth in gross capital formation (GCF) was reported at 2.1 percent in Q3 2014-15, vis-à-vis growth of 3.8 percent in Q2 and 9.2 percent in Q1. Also, the annual data available for sector wise capital formation indicated a (-) 0.3 percent growth in agriculture in 2013-14 and (-) 5.4 percent growth in manufacturing in the same year. Though the sector wise GCF break up for 2014-15 is expected to show some improvement, a trend indicating sustained recovery still remains elusive.
- Lastly, the sector wise value addition (indicated by the ratio of GVA to GVO) is the highest in case of agriculture sector and the lowest in case of manufacturing sector. It is extremely important that we innovate to bring a turnaround in the manufacturing sector. This is imperative for not only moving towards a long term high growth but also for creating more job opportunities.

## Index of Industrial Production (IIP)

### Industrial performance- Monthly (% Y-o-Y)

| % growth rate | Feb-14 | Nov-14 | Dec-14 | Jan-15 | Feb-15 |
|---|---|---|---|---|---|
| Index of Industrial Production | -2.0 | 5.2 | 3.2 | 2.8 | 5.0 |
| **Sectoral** | | | | | |
| Mining | 2.3 | 4.0 | -2.1 | -2.0 | 2.5 |
| Manufacturing | -3.9 | 4.7 | 3.8 | 3.4 | 5.2 |
| Electricity | 11.5 | 10.0 | 4.8 | 3.3 | 5.9 |
| **Use-base industry classification** | | | | | |
| Basic goods | 4.5 | 9.5 | 5.7 | 4.7 | 5.0 |
| Intermediate goods | 4.0 | 4.7 | 1.0 | -0.1 | 1.1 |
| Capital goods | -17.6 | 7.0 | 5.4 | 12.6 | 8.8 |
| Consumer durable goods | -9.8 | -14.5 | -9.0 | -5.5 | -3.4 |
| Consumer non-durable goods | -2.0 | 7.0 | 5.1 | 0.3 | 10.7 |

### Bank Credit Growth –Trend (% Y-o-Y)




Source: CMIE

## Index of Industrial Production (IIP)

- The latest IIP data for the month of February reported a surprising recovery. The IIP growth was reported at 5.0 percent in February 2015, as against 2.8 percent in January 2015 and (-) 2.0 percent growth in February 2014.
- The manufacturing sector reported a growth of 5.2 percent in February 2015, which is the highest in nine months. Out of the 22 manufacturing sub segments, 15 posted positive growth in February 2015. Some of the segments like wearing apparel, leather products, wood products, rubber and plastic products, electrical machinery and apparatus recorded double digit growth. Further, both electricity and mining sectors also reported an improved performance indicating a broad based recovery shaping up. The electricity segment recorded a growth of 5.9 percent in February 2015, which comes over a high base of double digit growth reported in the same month last year. Both thermal and nuclear power generation noted an increase on account of new capacity additions and increase in coal production.
- As per the use based classification of IIP, basic goods, intermediate goods and consumer goods segments noticed an improvement in growth numbers in February 2015. Further, even though the capital goods sector reported 8.8 percent growth in February 2015, this was 5 percentage points lower than growth reported in January 2015. Also, the turnaround in consumer goods segment comes at the back of consumer non-durables, while the consumer durables growth continued to be in the negative terrain for the ninth consecutive month. Clearly, both investment and demand situation need to be stimulated going ahead.
- A cue about the industry performance can also be taken from the indicators such as automobile sales, freight earning and cargo shipments. These indicators are yet to see an upturn. The domestic passenger car sales increased by 2.6 percent in March 2015, which was the lowest in five months. The revenue freight earning in major commodities reported a growth of just 1.1 percent in March 2015.
- In addition, credit growth has not really picked pace. The nonfood credit growth was reported at 9.4 percent in February 2015. For the industrial sector, the outstanding credit witnessed a growth of 6.0 percent in February 2015, vis-à-vis 13.2 percent growth in the same month a year ago. Majority of the sub segments of the industrial sector noted a sharp plunge in credit growth numbers vis-à-vis the corresponding data last year except for beverages and construction sectors.
- The outlook for the sector is still mixed and clear signs of improvement are yet to emerge. Going ahead, it will be critical that both the Government and the Central Bank keep a close watch on the sector.

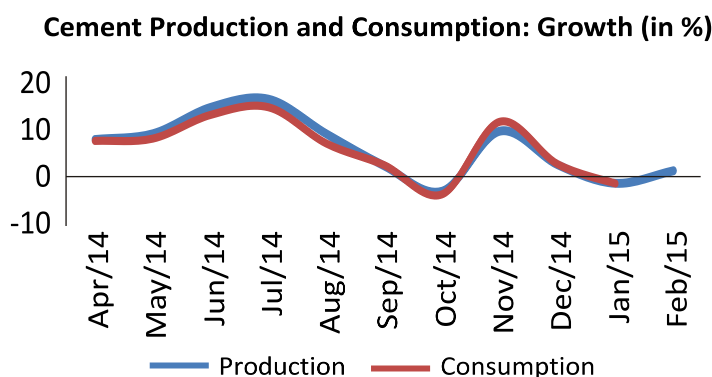
## Core Sector

**Core Sector-Growth (%)**

| | Feb 2014 | Nov 2014 | Dec 2014 | Jan 2014 | Feb 2015 |
|---|---|---|---|---|---|
| **Overall** | **6.1** | 6.7 | 2.4 | 1.9 | **1.4** |
| **Coal** | **0.9** | 14.5 | 7.6 | 1.7 | **11.7** |
| **Crude Oil** | **2.0** | -0.1 | -1.4 | -2.3 | **-1.9** |
| **Natural Gas** | **-4.3** | -2.9 | -3.5 | -6.6 | **-8.1** |
| **Refinery Products** | **2.1** | 8.1 | 6.0 | 4.7 | **-1.0** |
| **Fertilizers** | **-0.7** | -2.8 | -1.5 | 7.1 | **-0.4** |
| **Steel** | **11.4** | 1.3 | -2.4 | 1.6 | **-4.4** |
| **Cement** | **2.4** | 11.3 | 3.8 | 0.5 | **2.6** |
| **Electricity** | **11.5** | 10.2 | 3.7 | 2.8 | **5.2** |

*Source: CMIE*

**Production and consumption of cement**




## Core Sector

- Growth of Eight Core Industries, that comprise nearly 38 percent of the weight of items included in the Index of Industrial Production (IIP), further weakened to 1.4 percent in February 2015 as compared to 1.8 percent growth in January 2015. This is the lowest in about 16 months. The corresponding growth in February last year was 6.1 percent.

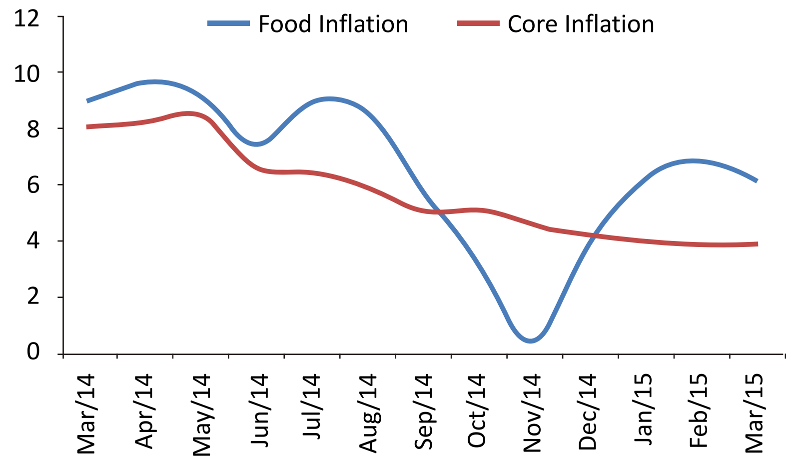
- Over the cumulative period April-February 2014-15, output of eight core industries grew by 3.8 percent as compared to 4.2 percent growth during the corresponding period previous year.
- Out of the eight core segments, five witnessed negative growth rate in February this year. Output of natural gas and steel plummeted, recording growth of (-) 8.1 percent and (-) 4.4 percent respectively. Output of crude oil, refinery products and fertilizers also reported negative growth of (-) 1.9, (-) 1.0 and (-) 0.4 respectively.
- Output of coal soared to a three month high of 11.7 percent during February 2015. Cement and electricity production, which grew by 2.6 percent and 5.2 percent respectively during February 2015, also noted a commendable improvement in their growth rates over that recorded in January 2015.

## Inflation

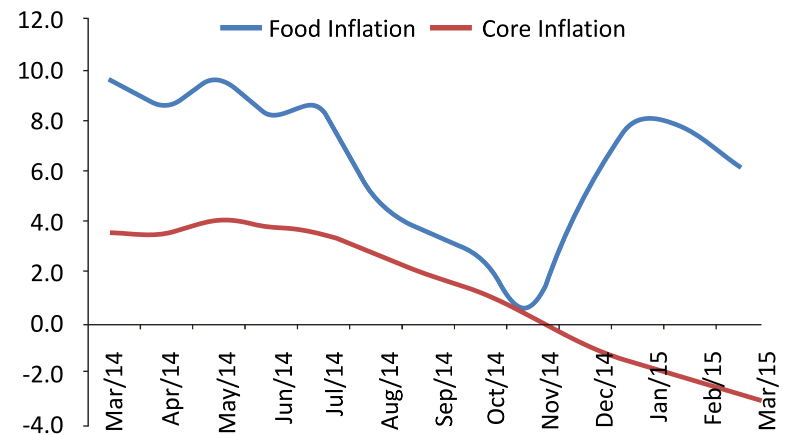
- Both WPI and CPI inflation rate continued to be on a downward trajectory, with latest data for the month of March 2015 reporting moderation in prices levels. While WPI remained in the negative territory at (-) 2.3 percent in March 2015 for the fourth consecutive month (vis-à-vis (-) 2.1 percent in February 2015); the CPI inflation rate was reported at 5.2 percent in March (vis-à-vis 5.4 percent in February 2015).
- Inflation has been subdued primarily on account of significant easing of prices witnessed in fuel and manufacturing segments. Global commodity prices have been muted given the frail demand and there seems no imminent upside risk on that front. Further, the latest numbers indicate softening food prices as well. While WPI food inflation was reported at 6.3 percent in March 2015 (vis-à-vis 7.7 percent in February 2015); the CPI food and beverages inflation was reported at 6.2 percent in March 2015 (vis-à-vis 6.8 percent in February 2015).

## Inflation

### CPI based food and core inflation: Growth in %




### CPI based food and core inflation: Growth in %



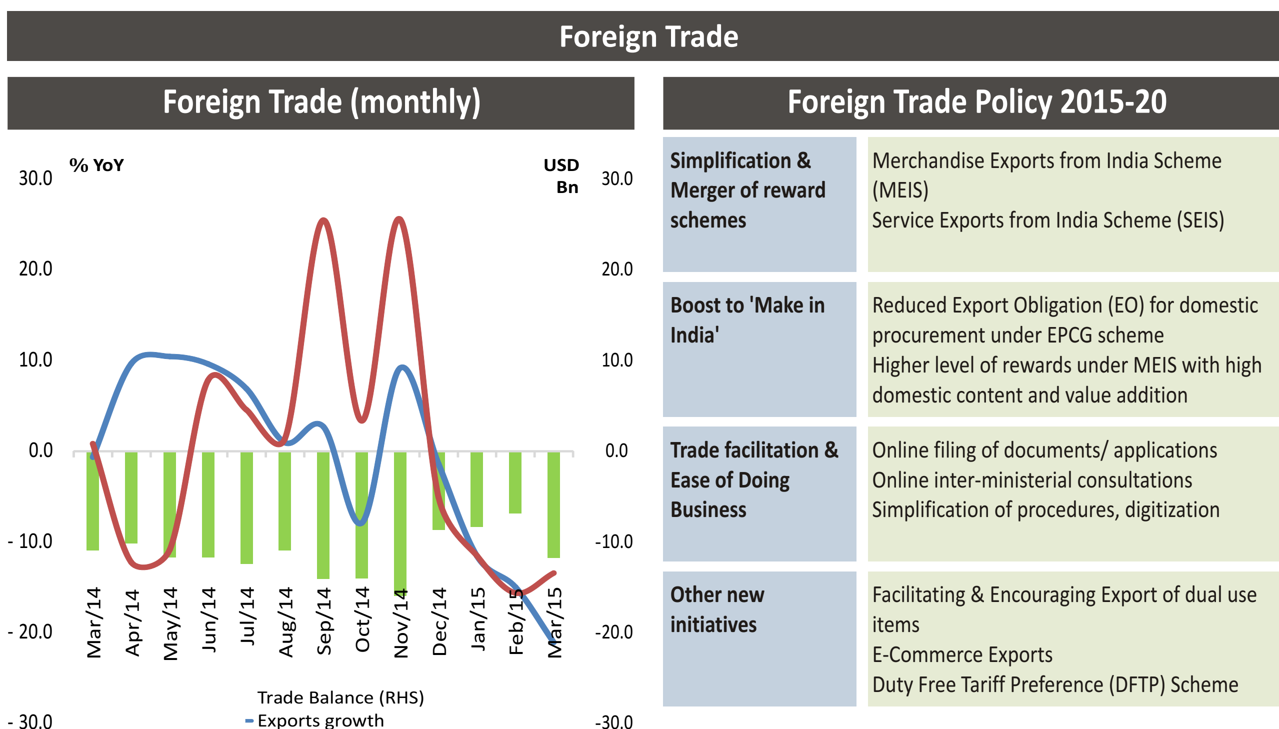

### Wholesale Price Index (WPI) – growth rate (%)

| | WPI | Primary articles | Fuel & power | Manufactured products |
|---|---|---|---|---|
| Mar-14 | 6.0 | 7.3 | 11.8 | 3.7 |
| Nov-14 | -0.2 | -1.6 | -4.5 | 1.9 |
| Dec-14 | -0.5 | 0.3 | -7.8 | 1.4 |
| Jan-15 | -1.0 | 1.4 | -11.0 | 1.1 |
| Feb-15 | -2.1 | 1.4 | -14.7 | 0.3 |
| Mar-15 | -2.3 | 0.1 | -12.6 | -0.2 |

- However, it might be noted that while wholesale based prices of vegetables witnessed a fall, the prices of fruits still reported double digit growth. Also the prices of protein rich food items including milk and egg meat fish reported a marginal increase. The prices of pulses were also noted to be elevated.

- The unseasonal rains in March 2015 have caused quite a distress for farmers across states like Punjab, UP, Rajasthan, Haryana. Further, latest reports from the meteorological department indicate chances of a deficient rainfall this year too. Thus, there might arise some pressure on agricultural sector performance going ahead.

- Nevertheless, by and large inflation is expected to be range bound. The possibility of food prices edging up will most likely be counter balanced by subdued demand conditions and commodity prices. The Reserve Bank of India in its latest monetary policy statement puts the CPI inflation forecast at 5.8% by end of this fiscal year.




Foreign Trade Policy 2015-20

| | |
|---|---|
| Simplification & Merger of reward schemes | Merchandise Exports from India Scheme (MEIS)<br>Service Exports from India Scheme (SEIS) |
| Boost to 'Make in India' | Reduced Export Obligation (EO) for domestic procurement under EPCG scheme<br>Higher level of rewards under MEIS with high domestic content and value addition |
| Trade facilitation & Ease of Doing Business | Online filing of documents/ applications<br>Online inter-ministerial consultations<br>Simplification of procedures, digitization |
| Other new initiatives | Facilitating & Encouraging Export of dual use items<br>E-Commerce Exports<br>Duty Free Tariff Preference (DFTP) Scheme |

## Foreign Trade

- Export and import numbers for the last month of the fiscal year 2014-15 reported continued deceleration for the fourth consecutive month. Exports declined by (-) 21.1 percent in March 2015 and imports by (-) 13.4 percent. As a result, the trade deficit in March 2015 rose to 11.8 billion after touching a seventeen month low of USD 6.8 billion in February 2015.

- Export performance has been weak and remains a concern. This has been primarily due to the prolonged weak demand conditions globally. As per the latest country wise data available for the month of January 2015,export growth was reported to be negative/flat in seven out of India's top 10 export destinations (which account for about 50% of India's exports). These included US, China, Germany, Saudi Arabia, Sri Lanka and Singapore.

- However, the month on month growth in exports did show a pickup in March 2015. On a sequential basis, exports registered a growth of 11.2 percent in March 2015. Going ahead, this trend will hopefully be sustained with government announcing incentives such as quick refunds for exporters, Merchandise Exports from India Scheme and Services Exports from India Scheme etc. in the recently unveiled Foreign Trade Policy 2015-2020. The policy statement lays down a framework to increase export of goods and services as well as for creation of employment opportunities and increasing value addition in the export basket.

- Further, the overall imports declined in March 2015 with petroleum imports declining (by 53%) for the eighth consecutive month; the non-petroleum imports however registered double digit growth. Gold and silver imports witnessed a growth of 100.8 percent in March 2015, vis-à-vis 28.3 percent growth in February 2015.

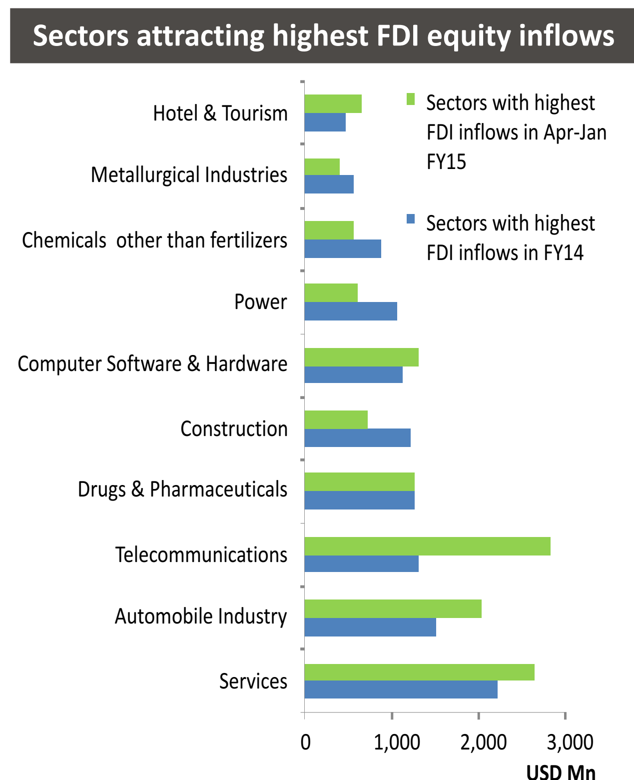
- For the fiscal year as a whole, exports amounted to USD 310.2 billion indicating a decline by 1.5 percent in 2014-15, vis-à-vis 4.9 percent growth in 2013-14. India's exports missed the target of USD 340 billion in 2014-15 forecasted by the government. Imports, on the other hand, stood at USD 447.1 billion in 2014-15 reporting a decline by 0.4 percent as against a negative growth of 8.4 percent noted in 2013-14. Further, the foreign trade policy has set an export target (merchandise and services) of USD 900 billion to be achieved by 2020. However, in order to achieve this target it is imperative to explore new markets and diversify the commodity basket.

## Foreign Investments

- Foreign investment inflows have been buoyant since the beginning of the current fiscal year led primarily by a surge in portfolio investments. At the same time foreign direct investments too have remained robust.
- The cumulative data shows a significant turnaround vis-à-vis last year. Over the cumulative period April-February 2014-15, the total foreign investment inflows amounted to USD 70.5 billion which was almost 3.7 times the total inflows over the same period last year. The net foreign direct investments amounted to USD 31.5 billion and portfolio investments USD 39 billion in the first eleven months of the fiscal year 2014-15. The direction laid out by the government has definitely had a positive impact on the sentiment of foreign investors.
- The data for the month of February, however, reported some moderation in both direct and portfolio investments vis-à-vis January 2015. While net portfolio investments amounted to USD 3.8 billion in February 2015 (after touching a seven month high of USD 6.6 billion in January 2015), the foreign direct investment was reported at USD 3.1 billion in the same month (vis-à-vis USD 4.7 billion in January 2015).
- The recent notices issued by the government to foreign institutional investors indicting claims worth USD 6.4 billion for capital gains did cause some furor among the portfolio investors. But the concerns have been allayed with the government clarifying that resident investors in US, Singapore and Mauritius can invoke the double tax avoidance treaty to avoid the tax demand. In addition, a further clarification is expected in the Finance Bill to be passed next month.

| | (Net)Foreign Direct Investment (USD Million) | (Net) Portfolio Investment (USD Million) | Total Foreign Investment Inflows (USD Million) |
|---|---|---|---|
| Feb-14 | -666 | 1,421 | 755 |
| Mar-14 | 2,133 | 5,309 | 7,442 |
| Apr-14 | 2,072 | -77 | 1,995 |
| May-14 | 3,898 | 7,701 | 11,599 |
| Jun-14 | 2,197 | 4,816 | 7,013 |
| Jul-14 | 3,696 | 5,380 | 9,076 |
| Aug-14 | 1,660 | 2,055 | 3,715 |
| Sept-14 | 2,881 | 2,327 | 5,209 |
| Oct-14 | 2,911 | 1,765 | 4,676 |
| Nov-14 | 2,013 | 4,876 | 6,889 |
| Dec-14 | 2,433 | -361 | 2,072 |
| Jan-15 | 4,687 | 6,650 | 11,337 |
| Feb-15 | 3,089 | 3,784 | 6,873 |
| Apr-Feb 2013-14 | 19,431 | -487 | 18,944 |
| Apr-Feb 2014-15 | 31,537 | 38,916 | 70,454 |

Source: RBI

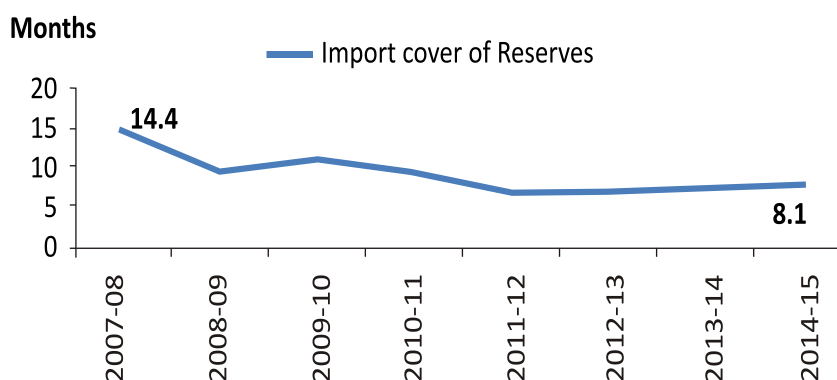



Source: DIPP

## Foreign Exchange Reserves

| | Total foreign exchange reserves (USD Bn) | Foreign Currency Assets (USD Bn) | Gold (USD Bn) | SDRs (USD Bn) | Reserve Tranche Position (USD Bn) |
|---|---|---|---|---|---|
| Mar-14 | 304.2 | 276.4 | 21.6 | 4.5 | 1.8 |
| Apr-14 | 310.9 | 283.7 | 21.0 | 4.5 | 1.8 |
| May-14 | 312.2 | 285.3 | 20.8 | 4.5 | 1.7 |
| Jun-14 | 316.1 | 289.3 | 20.6 | 4.5 | 1.7 |
| Jul-14 | 319.8 | 292.5 | 21.2 | 4.4 | 1.7 |
| Aug-14 | 318.4 | 291.4 | 20.9 | 4.4 | 1.7 |
| Sep-14 | 313.8 | 288.0 | 20.0 | 4.3 | 1.5 |
| Oct-14 | 315.9 | 290.4 | 19.7 | 4.3 | 1.5 |
| Nov-14 | 315.6 | 290.8 | 19.0 | 4.2 | 1.5 |
| Dec-14 | 320.6 | 295.9 | 19.4 | 4.2 | 1.1 |
| Jan-15 | 328.7 | 303.3 | 20.2 | 4.1 | 1.1 |
| Feb-15 | 337.7 | 312.2 | 19.8 | 4.1 | 1.6 |
| Mar-15 | 341.6 | 317.3 | 19.0 | 4.0 | 1.3 |
| Change in USD billion | | | | | |
| Mar-15 vis-à-vis Feb-15 | 3.9 | 5.1 | -0.8 | -0.08 | -0.34 |
| Mar-15 vis-à-vis Mar-14 | 37.4 | 40.9 | -2.6 | -0.5 | -0.5 |

## Sectors attracting highest FDI equity inflows



## Foreign Exchange Reserves

- Total foreign exchange reserves at the end of the financial year 2014-15 stood at USD 341.6 billion. During March 2015, USD 3.9 billion worth of forex reserves were added over the amount recorded in the previous month. For the fiscal 2014-15, foreign exchange reserves equivalent to USD 37.4 billion were added.
- Foreign currency assets, the main constituent of foreign exchange reserves increased by USD 5.1 billion in March 2015 reaching USD 317.3 billion at the end of financial year 2014-15. In total, USD 40.9 billion was added to the foreign currency assets in 2014-15.
- However, gold reserves at the end of March 2015 were down by USD 0.8 billion over the previous month and stood at USD 19.0 billion at the end of 2014-15. Gold reserves have depleted by USD 2.6 billion over the last twelve months. SDRs and Reserve Tranche position at the end of the financial year 2014-15 were at USD 4.0 billion and USD 1.3 billion respectively.
- Further, India's reserves as on March 31 2015 were sufficient to finance about nine months of imports.

## Exchange Rate

### Level of appreciation/depreciation of exchange rate

| | Rupees per US dollar | Rupees per Pound Sterling | Rupees per Euro | Rupees per Japanese Yen |
|---|---|---|---|---|
| Mar-15 vis-à -vis Mar-14 | -2.3 | 8.4 | 24.7 | 14.9 |
| Mar-15 vis-à-vis Feb-15 | -0.7 | 1.6 | 4.2 | 0.9 |
| Mar-15 vis-à-vis Apr-14 | -3.5 | 7.5 | 18.9 | 11.8 |

## Exchange Rate

| Indicators | Revised Estimate 2014-15 | Actuals up to February 2015 | % of Actuals to Budget Estimates Current | % of Actuals to Budget Estimates COPPY |
|---|---|---|---|---|
| | Rs. Crore | Rs. Crore | In % | In % |
| **Revenue Receipts** | 1126294 | 816238 | 72.5% | 76.1% |
| **Tax Revenue (Net)** | 908463 | 651419 | 71.7% | 75.0% |
| **Non-Tax Revenue** | 217831 | 164819 | 75.7% | 81.0% |
| **Total Receipts** | 1168530 | 857002 | 73.3% | 75.1% |
| **Non-Plan Expenditure** | 1213224 | 1058220 | 87.2% | 88.9% |
| **Plan Expenditure** | 467934 | 401316 | 85.8% | 86.0% |
| **Total Expenditure** | 1681158 | 1459536 | 86.8% | 88.0% |
| **Fiscal Deficit** | 512628 | 602534 | 117.5% | 114.3% |
| **Revenue Deficit** | 362485 | 483254 | 133.3% | 117.3% |
| **Primary Deficit** | 101274 | 256278 | 253.1% | 192.0% |

*Source: CGA*
*COPPY-corresponding period previous year*

## Exchange Rate

- On average, Rupee was seen stronger in March 2015 with respect to pound, euro and yen. The Rupee Pound exchange rate stood at 93.5 in March 2015 as against 95.0 in February 2015.The Rupee Euro exchange rate also appreciated to 67.6 in March 2015 from 70.5 noted in the previous month.
- However, the Rupee Dollar exchange rate depreciated by 0.7 percent during March 2015 m-o-m after appreciating by 0.3 percent in the February 2015.
- The Rupee USD exchange rate as on April 27, 2015 was 63.6

## Fiscal Position

- During the cumulative period April-February 2014-15, fiscal deficit stood at Rs. 6.02 lakh crore which is approximately 117% of the revised estimate figure of Rs. 5.1 lakh crore for the entire fiscal.
- Over the cumulative period April-February 2014-15, the growth in the revenue receipts noted a considerable moderation increasing by 4.2 percent, vis-à-vis the corresponding growth of 15.4 percent over the same period last year. Likewise, the capital receipts growth also noted a slowdown, resulting in a muted overall receipts collection.
- A restraint was noted on the expenditure side as well. The total expenditure increased by 4.3 percent over the cumulative period April-February 2014-15, vis-à-vis 14.8 percent growth during April-February 2013-14. The planned capital expenditure declined by 13.0 percent over the period April-February 2014-15.

  With the revenue growth significantly down, expenditure compression is clearly how the government will meet the deficit target for 2014-15. Also, with the GDP numbers (based on new series) for the year 2014-15 to be announced in May 2015, the overall deficit ratio is expected to meet the targeted level.

## Key Policy Announcements

- **Entrepreneurs can apply for 26 services online from June**

June 2015 onwards, entrepreneurs would be able to apply online for 26 services, including PAN and DIN numbers, through an e-Biz portal, a move set to improve ease of doing business. With the integration of these services on eBiz portal, an entrepreneur can avail of all these services 24x7 online -- submission of forms, attachments, payments, tracking of status and obtaining the license/permit from the portal.

- **Government raises import tariff value on gold at $388 per 10 grams**

The government raised import tariff value of gold to $388 per 10 grams, taking cues from global price trends. However, the import tariff on silver has been cut to $524 per kg.

- **Interest subventionscheme for farmers to continue till June 30**

A new scheme for interest subvention for farmers is being worked out, the RBI said in a notification. Meanwhile, the earlier interest subvention scheme will continue till June 30 "as an interim measure" on the terms and conditions approved for the scheme for 2014-15.

- **RBI notifies hike in FDI cap in insurance sector to 49%**

The Reserve Bank has notified government's decision to raise foreign direct investment (FDI) limit in the insurance sector to 49 per cent.The extant FDI policy for insurance sector has since been reviewed and further liberalised. Accordingly, with immediate effect, FDI in insurance sector shall be permitted up to 49 per cent subject to the revised conditions, RBI said in a notification.

- **DIPP notifies 49% FDI limit in pension sector**

DIPP has notified the raised FDI limit of 49% for the pension sector in a recently released press note. FDI is permissible through the automatic route up till 26% and FIPB approval would be required beyond 26% and up to the cap of 49%.

- **FAME-India scheme launched to offer sops on hybrid, e-vehicles**

To promote eco-friendly vehicles, the government has formally launched the FAME India scheme offering incentives on electric and hybrid vehicles of up to Rs 29,000 for bikes and Rs 1.38 lakh for cars. FAME India - Faster Adoption and Manufacturing of Hybrid and Electric vehicles in India - is a part of the National Electric Mobility Mission Plan. The scheme envisages Rs 795 crore support in the first two fiscals starting with the current year.

- **Government rolls out "open code" policy for application development**

The government has rolled out a policy defining the contours of an open system that will speed up the creation and deployment of technology developed by any government agency or department. Often, different government entities have similar requirements, and waste precious time developing applications from scratch. Through this policy, the government will enable the sharing of code on a common platform so that different departments can come together and reuse already existing code, cutting down the time required to build a new system. The platform will also improve the efficiency of existing code through collaboration between different departments.

- **Portal launched to facilitate vocational training**

The Centre has launched a digital platform to help improve the market function of vocational training delivery in India. The platform is in line with the Prime Minister's Skill India and Digital India mission and aims to increase transparency and reduce leakages and corruption with the use of technology.

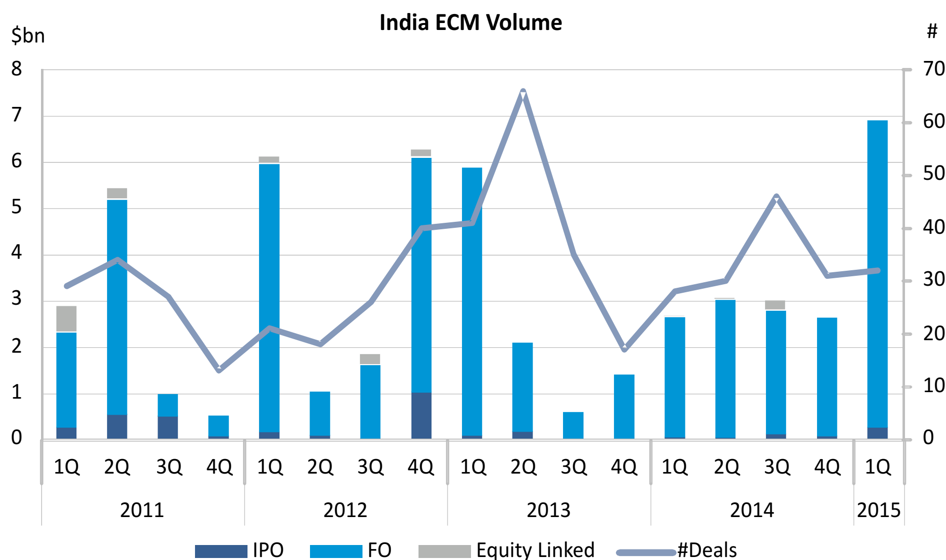
*Source: Various press articles*

# Investment Banking Updates

## Equity Capital Markets

In association with

- **Indian ECM** volume stood at $6.9bn via 32 deals for 1Q 2015, more than double on the $2.7bn (via 28 deals) raised in 1Q 2014
- **IPO** volume totaled $263m (via 12 deals) for 1Q 2015, compared to $48m (via 14 deals) for 1Q 2014. There were no convertibles issued for the first quarter of 2015
- **Follow-on** volume for 1Q 2015 more than doubled to $6.6bn (via 20 deals) from the $2.6bn (via 13 deals) for the comparable period in 2014. This is also the highest quarterly volume on record
- **Coal India Ltd's $3.7bn follow-on via book runners BAML, Credit Suisse, Deutsche Bank, Goldman, JM Financial, Kotak and SBI** is the largest ECM transaction for 1Q 2015




| Top 10 ECM Deals - 1Q 2015 | | | | | |
|---|---|---|---|---|---|
| Date | Issuer | Sector | Deal Type | Deal Value ($m) | Bookrunners |
| 30-Jan | Coal India Ltd | Mining | FO | 3,684 | BAML, CS, DB, GS, JM Financial, Kotak, SBI |
| 5-Feb | HDFC Bank | Finance | FO | 1,271 | BAML, CS, JPM, MS, BAR, NOM, GS, UBS |
| 5-Feb | HDFC Bank | Finance | FO | 324 | BAML, CS, JPM, JM Financial, MS, BAR, GS, NOM, UBS |
| 26-Feb | Bharti Infratel Ltd | Telecommunications | FO | 311 | BAML, UBS |
| 3-Mar | Eicher Motors Ltd | Auto/Truck | FO | 310 | CITI |
| 18-Feb | Hero Motocorp Ltd | Auto/Truck | FO | 300 | BAR, KOTAK |
| 27-Feb | Inox Wind Ltd | Machinery | IPO | 167 | Axis, BAML, Edelweiss, Yes Bank |
| 23-Mar | Dewan Housing | Finance | FO | 131 | KOTAK, Motilal Oswal, BAR |
| 12-Mar | IRB Infrastructure | Construction/Building | FO | 71 | IDFC SEC, ICICI, EMKAY |
| 4-Mar | Adlabs Entertainment | Leisure & Recreation | IPO | 59 | DB, Centrum Capital, Kotak |

| India Follow-on Volume by Bookrunner | | | | | | |
|---|---|---|---|---|---|---|
| Bookrunner | 1Q 2015 Rank | 1Q 2014 Rank | Deal Value $m | Market share (%) | Market share Change | |
| Bank of America Merrill Lynch | 1 | 5 | 876 | 13.2 | 6.1 | ▲ |
| Kotak Mahindra Bank Ltd | 2 | 12 | 740 | 11.1 | 10.1 | ▲ |
| Goldman Sachs | 3 | 11 | 721 | 10.9 | 9.4 | ▲ |
| Credit Suisse | 3 | 9 | 721 | 10.9 | 7.1 | ▲ |
| JM Financial Ltd | 5 | 3 | 586 | 8.8 | -2.8 | ▼ |
| State Bank of India | 6 | 5 | 534 | 8.1 | 1.0 | ▲ |
| Deutsche Bank | 7 | 4 | 526 | 7.9 | -1.0 | ▼ |
| Barclays | 8 | - | 388 | 5.9 | 5.9 | ▲ |
| UBS | 9 | 5 | 350 | 5.3 | -1.8 | ▼ |
| Citi | 10 | 2 | 336 | 5.1 | -15.5 | ▼ |

# Equity Capital Market Tables

| Asia Pacific ECM Volume by Nation 1Q 2015 | | | | |
|---|---|---|---|---|
| Pos. | Nationality | Deal Value ($m) | No. | % Share |
| 1 | China | 34,509 | 171 | 47.7 |
| 2 | Australia | 8,566 | 114 | 11.9 |
| 3 | Japan | 8,062 | 74 | 11.2 |
| 4 | India | 6,902 | 32 | 9.6 |
| 5 | Hong Kong | 3,431 | 66 | 4.8 |
| 6 | South Korea | 3,020 | 15 | 4.2 |
| 7 | Thailand | 2,196 | 8 | 3.0 |
| 8 | Taiwan | 1,882 | 56 | 2.6 |
| 9 | Philippines | 1,035 | 5 | 1.4 |
| 10 | Malaysia | 999 | 22 | 1.4 |

| India ECM Volume 1Q 2015 | | | | |
|---|---|---|---|---|
| Pos. | Bookrunner Parent | Deal Value ($m) | No. | % Share |
| 1 | Bank of America Merrill Lynch | 918 | 5 | 13.3 |
| 2 | Kotak Mahindra Bank Ltd | 787 | 6 | 11.4 |
| 3 | Goldman Sachs | 721 | 3 | 10.5 |
| 3 | Credit Suisse | 721 | 3 | 10.5 |
| 5 | JM Financial Ltd | 586 | 3 | 8.5 |
| 6 | Deutsche Bank | 546 | 2 | 7.9 |
| 7 | State Bank of India | 534 | 2 | 7.7 |
| 8 | Barclays | 388 | 4 | 5.6 |
| 9 | UBS | 350 | 3 | 5.1 |
| 10 | Citi | 336 | 2 | 4.9 |

| India ECM Volume by Industry 1Q 2015 | | | | |
|---|---|---|---|---|
| Pos. | Industry | Deal Value ($m) | No. | % Share |
| 1 | Mining | 3,684 | 1 | 53.4 |
| 2 | Finance | 1,804 | 8 | 26.1 |
| 3 | Auto/Truck | 610 | 2 | 8.8 |
| 4 | Telecommunications | 374 | 3 | 5.4 |
| 5 | Machinery | 167 | 2 | 2.4 |
| 6 | Construction/Building | 87 | 2 | 1.3 |
| 7 | Leisure & Recreation | 59 | 1 | 0.9 |
| 8 | Consumer Products | 40 | 1 | 0.6 |
| 9 | Real Estate/Property | 35 | 3 | 0.5 |
| 10 | Healthcare | 21 | 1 | 0.3 |

| India Block Trade Volume 1Q 2015 | | | | |
|---|---|---|---|---|
| Pos. | Bookrunner Parent | Deal Value ($m) | No. | % Share |
| 1 | Bank of America Merrill Lynch | 876 | 4 | 13.3 |
| 2 | Goldman Sachs | 721 | 3 | 10.9 |
| 2 | Credit Suisse | 721 | 3 | 10.9 |
| 4 | Kotak Mahindra Bank Ltd | 720 | 3 | 10.9 |
| 5 | JM Financial Ltd | 586 | 3 | 8.9 |
| 6 | State Bank of India | 534 | 2 | 8.1 |
| 7 | Deutsche Bank | 526 | 1 | 8.0 |
| 8 | Barclays | 388 | 4 | 5.9 |
| 9 | UBS | 350 | 3 | 5.3 |
| 10 | Citi | 336 | 2 | 5.1 |

| India Withdrawn/ Postponed Deals 1Q 2015 | | | | | | |
|---|---|---|---|---|---|---|
| Withdrawn/ Postponed Date | Issuer | Total Value $m | Deal Tpe | Industry | Bookrunner | Withdrawn/ Postponed Comment |
| 8-Jan-15 | NCML Industries Ltd | 8 | IPO | Consumer Products | Corporate Strategic Allianz Ltd | Unsatisfactory market response |

# Mergers & Acquisitions

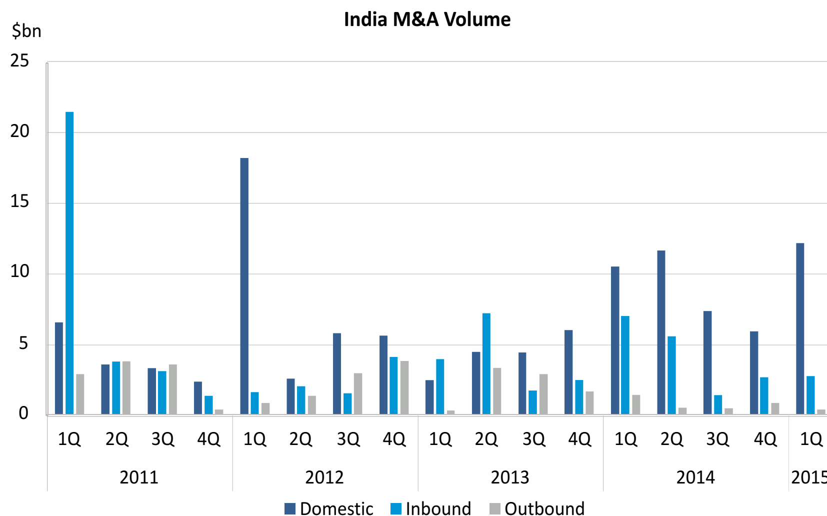
- **India** remained the fourth targeted nation in **Asia Pacific region** for 1Q 2015 with $14.9bn, down 15% on the $17.5bn announced for the first quarter of 2014

  India **Outbound M&A** volume dropped drastically to $319m for 1Q 2015 compared to $1.4bn for the similar period in 2014

- India **Inbound M&A** volume dropped 61% to $2.7bn for 1Q 2015 from the $7.0bn for 1Q 2014

- **Domestic M&A** volume increased 16% to $12.2bn for 1Q 2015, compared to $10.5bn for 1Q 2014

- **Indian Government's** sale of blocks of telecom spectrum through auction, for a combined total of $6.2bn in March, to **Bharti Airtel** and **Reliance Industries** pushed the M&A volume for India in the first quarter of 2015

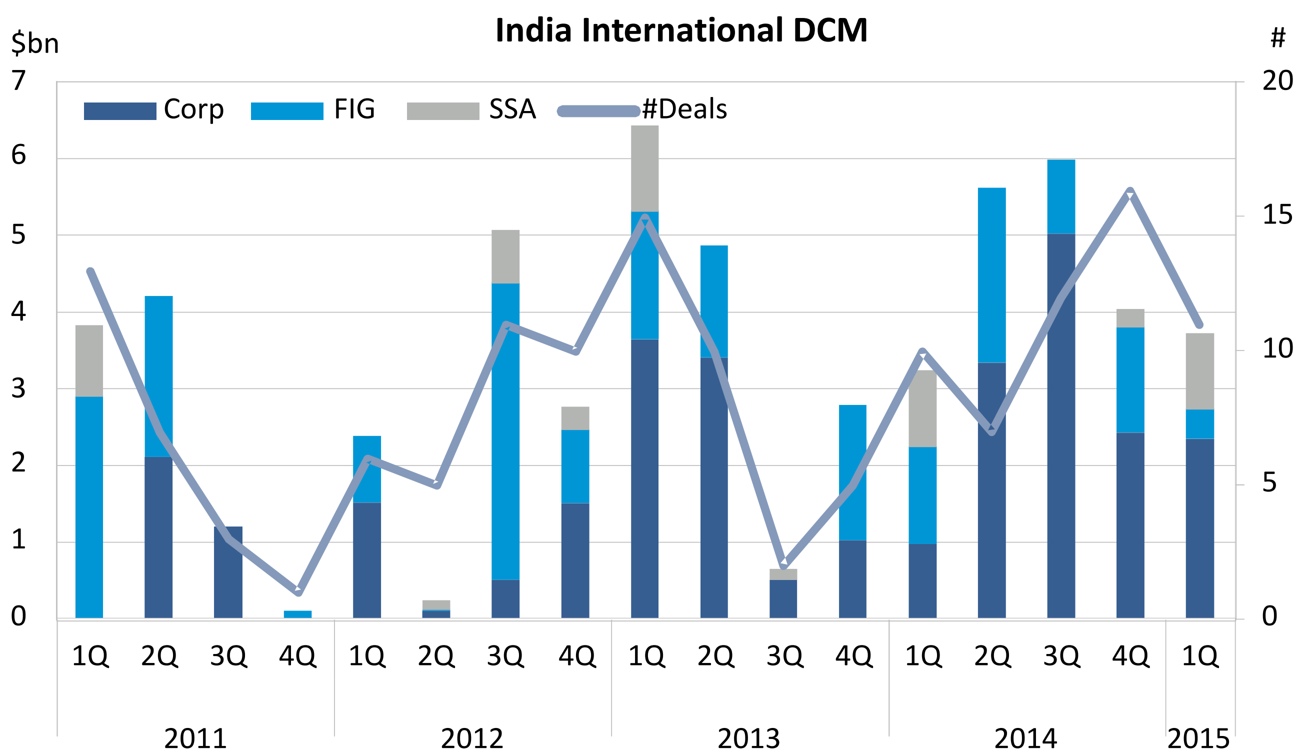


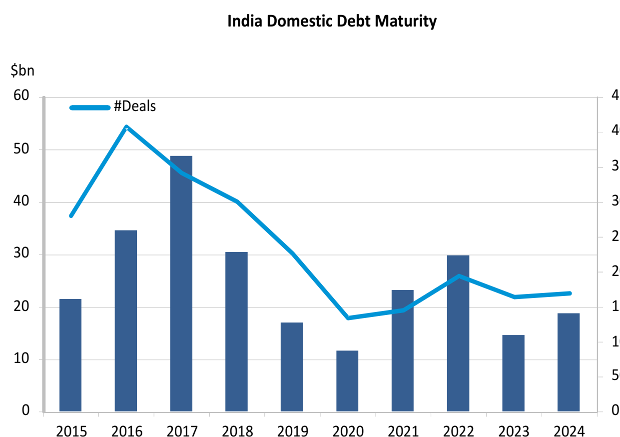

| India Announced M&A Advisory Ranking 1Q 2015 | | | | |
|---|---|---|---|---|
| **Pos.** | **Advisor** | **Value $m** | **# Deals** | **% Share** |
| 1 | Axis Bank | 2,944 | 3 | 19.8 |
| 2 | Macquarie Group | 2,709 | 2 | 18.2 |
| 2 | JM Financial Ltd | 2,709 | 2 | 18.2 |
| 4 | Goldman Sachs | 1,300 | 2 | 8.7 |
| 5 | Credit Suisse | 800 | 1 | 5.4 |
| 5 | Centerview Partners | 800 | 1 | 5.4 |
| 7 | Citi | 500 | 1 | 3.4 |
| 8 | Fortune Financial Services (India) Ltd | 457 | 1 | 3.1 |
| 9 | Avendus Capital Pvt Ltd | 396 | 10 | 2.7 |
| 10 | Deutsche Bank | 273 | 1 | 1.8 |

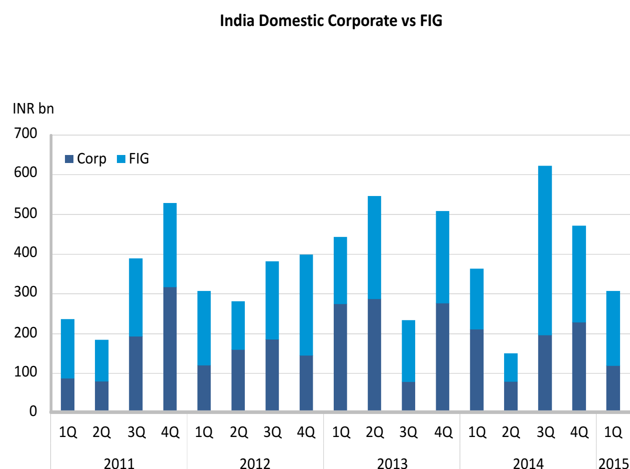
| India Announced M&A Attorney Ranking 1Q 2015 | | | | |
|---|---|---|---|---|
| **Pos.** | **Attorney** | **Value $m** | **# Deals** | **% Share** |
| 1 | Singhi & Co | 2,709 | 2 | 18.2 |
| 2 | AZB & Partners | 1,591 | 21 | 10.7 |
| 3 | Amarchand Mangaldas | 1,063 | 7 | 7.1 |
| 4 | Luthra & Luthra | 800 | 1 | 5.4 |
| 4 | Debevoise & Plimpton | 800 | 1 | 5.4 |
| 4 | Cravath Swaine & Moore | 800 | 1 | 5.4 |
| 4 | Covington & Burling | 800 | 2 | 5.4 |
| 8 | Trilegal | 500 | 1 | 3.4 |
| 8 | Simpson Thacher & Bartlett | 500 | 1 | 3.4 |
| 10 | PH Bathiya & Associates | 457 | 1 | 3.1 |

# Debt Capital Markets

- **India DCM** issuance for 1Q 2015 reached $11.3bn (via 64 deals), slightly lower than the $11.4bn (via 121 deals) raised in 1Q 2014, also marking the lowest quarterly volume since 3Q 2013 ($5.5bn)
- **Corporate IG** and **Agency** bonds accounted for 50% and 33% of the total DCM volume with $5.7bn and $3.7bn, respectively for 1Q 2015
- **Reliance Industries Ltd.** led the offshore issuer table for 1Q 2015 with a 46.6% share, while **Power Finance Corp Ltd.** topped the domestic issuer ranking with a 27.9% share
- India **Domestic DCM** volume recorded a low of INR473.3bn for 1Q 2015, down 6% from the INR502.0bn raised in 1Q 2014. Activity decreased to 53 deals during 1Q 2015 from the 111 recorded for the similar period in 2014
- **International** issuance for 1Q 2015 reached $3.7bn, up 15% on the 1Q 2014 volume of $3.2bn. Activity increased to 11 deals compared to 10 deals for 1Q 2014

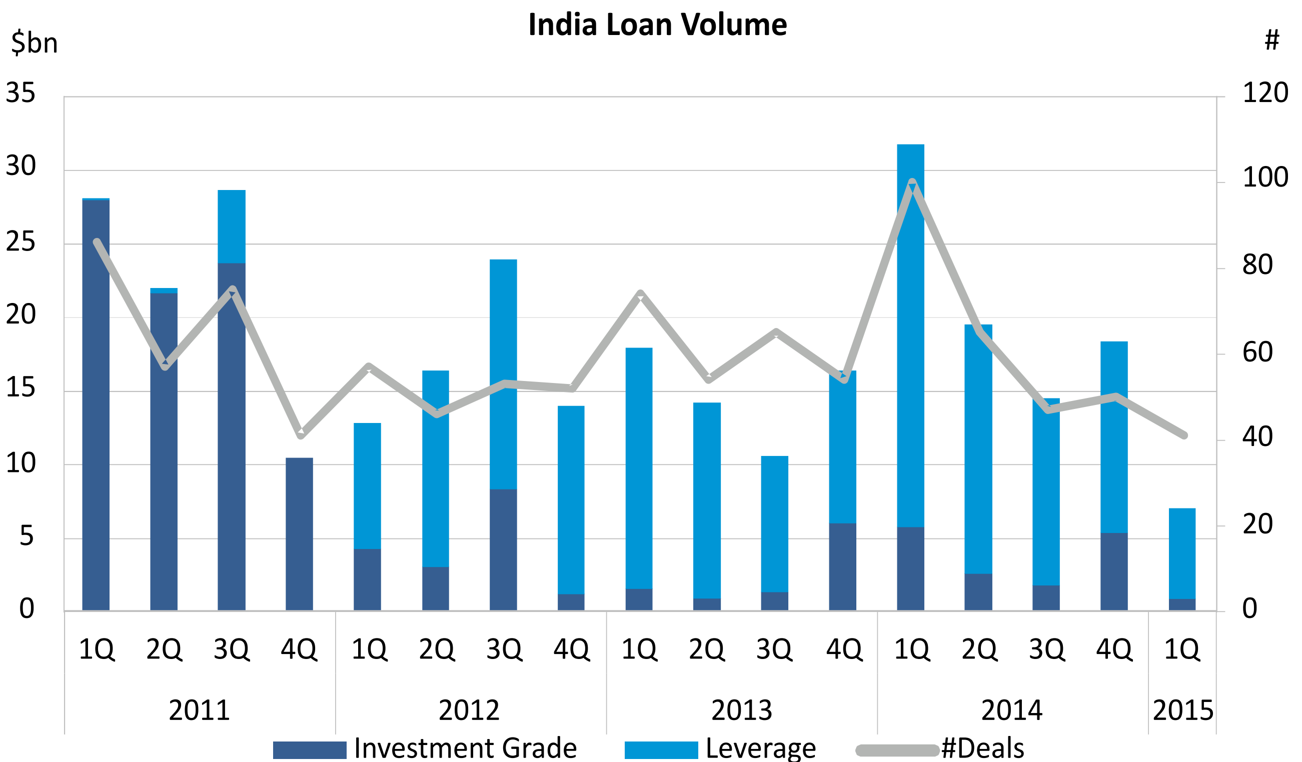


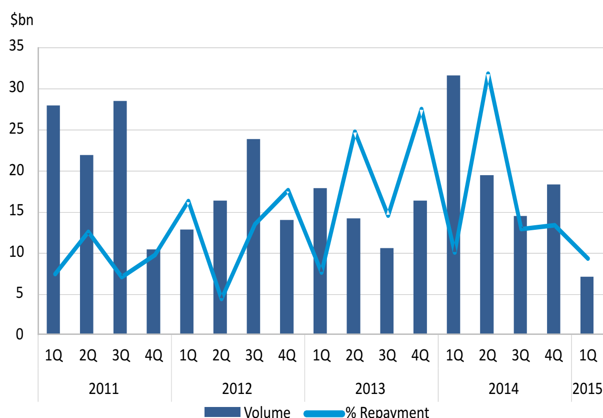



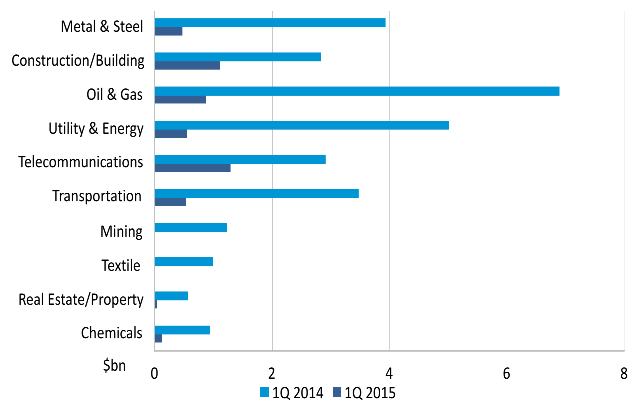



# Loan Markets

- **India loan** volume reached $7.0bn (via 41 deals) for 1Q 2015, down 78% on the $31.6bn (via 100 deals) for 1Q 2014. This is also the lowest quarterly volume since 4Q 2008 ($5.0bn via 21 deals)
  - **Leveraged** loan volume decreased drastically to $6.2bn via 32 deals, compared to $26.0bn (via 90 deals) for 1Q 2014
  - **Investment grade** loan volume decreased to $821m (via 9 deals) versus $5.7bn (via 10 deals) for 1Q 2014
- Among the corporate borrowers, **Telecommunications** sector topped the industry ranking for 1Q 2015 ($1.3bn) with a 22.7% share
- **Reliance Communications Ltd.**'s $1.1bn leveraged deal in February arranged by **SBI**, is the largest loan transaction for the first quarter of 2015



# Project Finance

| India Sponsor Ranking for Project Finance 1Q 2015 | | | | |
|---|---|---|---|---|
| Pos. | Sponsor | Value $m | # Deals | % Share |
| 1 | Hindalco Industries Ltd | 669 | 1 | 19.6 |
| 2 | Reliance Infrastructure Ltd | 477 | 2 | 14.0 |
| 3 | IRB Infrastructure Developers Ltd | 416 | 1 | 12.2 |
| 4 | Jindal Steel & Power Ltd | 267 | 2 | 7.8 |
| 5 | Kalyani Group | 267 | 1 | 7.8 |
| 6 | Wonder Cement Ltd | 193 | 1 | 5.6 |
| 7 | Bajaj Hindusthan Sugar Ltd | 130 | 1 | 3.8 |
| 8 | Orange Renewable Holding Pte Ltd | 124 | 1 | 3.6 |
| 9 | Essar Group | 109 | 1 | 3.2 |
| 10 | Berkeley Energy | 85 | 1 | 2.5 |


| India Sponsor Ranking for Project Finance 1Q 2015 | | | | |
|---|---|---|---|---|
| Pos. | Sponsor | Value $m | # Deals | % Share |
| 1 | Hindalco Industries Ltd | 669 | 1 | 19.6 |
| 2 | Reliance Infrastructure Ltd | 477 | 2 | 14.0 |
| 3 | IRB Infrastructure Developers Ltd | 416 | 1 | 12.2 |
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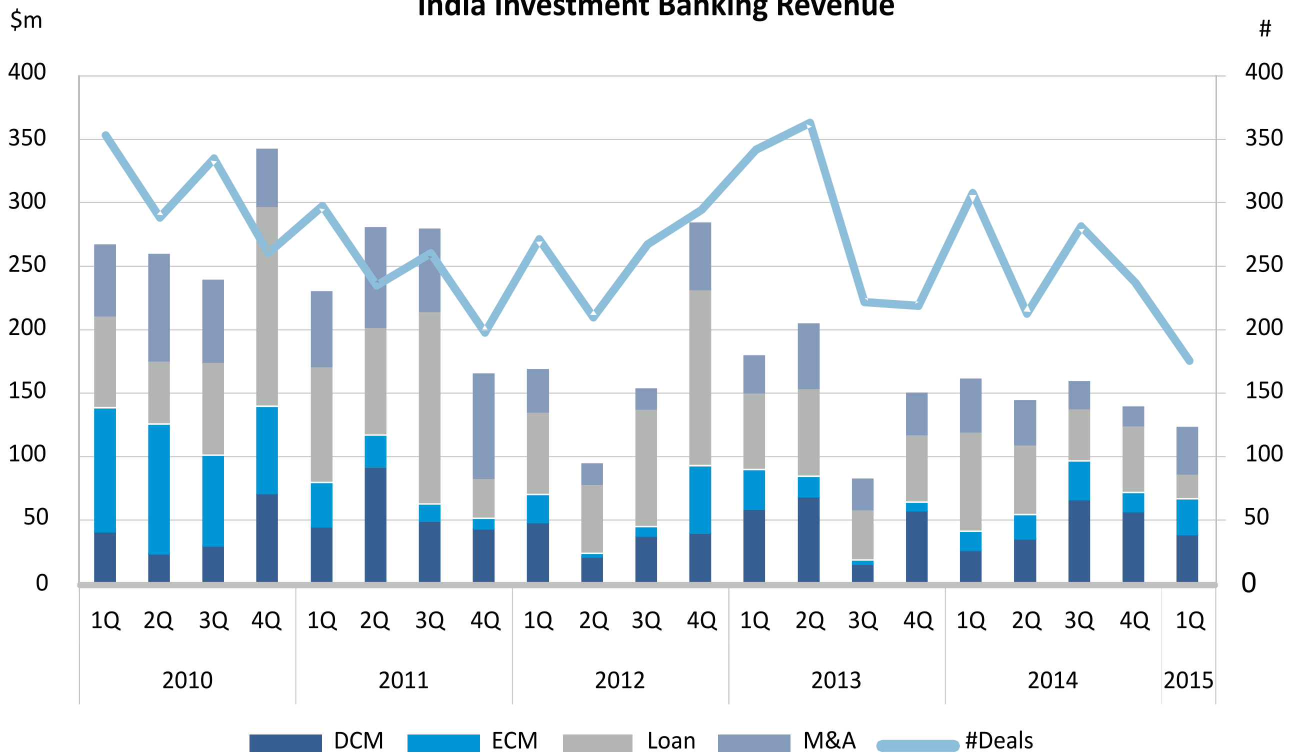
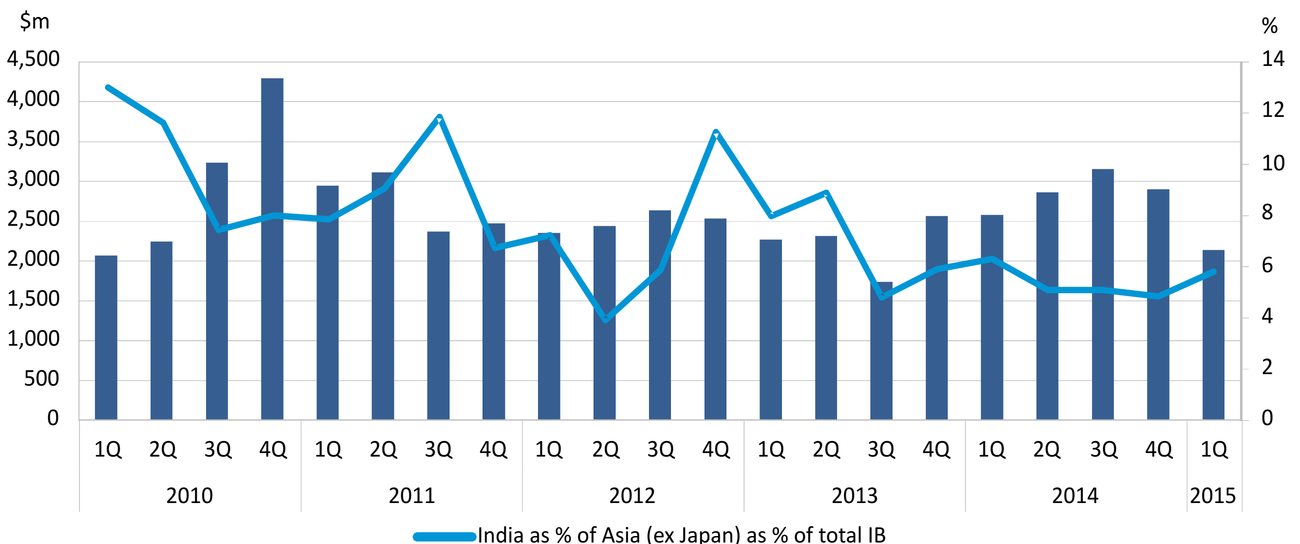
| 5 | Kalyani Group | 267 | 1 | 7.8 |
| 6 | Wonder Cement Ltd | 193 | 1 | 5.6 |
| 7 | Bajaj Hindusthan Sugar Ltd | 130 | 1 | 3.8 |
| 8 | Orange Renewable Holding Pte Ltd | 124 | 1 | 3.6 |
| 9 | Essar Group | 109 | 1 | 3.2 |
| 10 | Berkeley Energy | 85 | 1 | 2.5 |


| Top 10 Indian Project Finance Deals 1Q 2015 | | | | |
|---|---|---|---|---|
| Financial Close Date | Borrower | Project Name | Sector | Value $m |
| 30-Mar | Bharat Oman Refineries Ltd | Bharat Oman Refineries Refinancing 2015 | Oil Refinery/LNG and LPG Plants | 750 |
| 14-Jan | Hindalco Industries Ltd | Mahan Aluminium Smelter Complex Refinancing 2 | Processing plant | 669 |
| 5-Jan | Delhi Agra Toll Road Pvt Ltd | Delhi Agra Highway PPP Project | Road | 465 |
| 16-Mar | Yedeshi Aurangabad Tollway Pvt Ltd | Yedeshi Aurangabad Tollway PPP | Road | 416 |
| 27-Jan | Delhi International Airport Pvt Ltd | Delhi Airport PPP Bond Refinancing | Airport | 289 |
| 6-Feb | Nandi Economic Corridor Enterprises Ltd-NECEL | Bangalore-Mysore Infrastructure Corridor Stage 1 PPP Refinancing | Road | 267 |
| 25-Sep | JSW Steel Ltd | JSW Steel Capacity Enhancement & Capex | Steel mill | 250 |
| 8-Jan | Jindal Power Ltd | Tamnar Village Thermal Power Plant Capex | Power | 197 |
| 19-Jan | Lalitpur Power Generation Co Ltd | Lalitpur Power Project Additional Financing 5 | Power | 195 |
| 21-Feb | Wonder Cement Ltd | Wonder Integrated Cement Plant Project 2 | Processing plant | 193 |

# IB Revenue

- **India IB revenue** reached $123m in 1Q 2015, down 24% on 1Q 2014 ($161m) and almost down by 11% compared to 4Q 2014 ($139m)
- **Syndicated Loan** fees was down drastically by 76% to $19m in 1Q 2015 versus $77m for the first quarter of 2014
- **DCM revenue** accounted for 31% of total India IB revenue for 1Q 2015 with $39m via 66 deals which is up by 47% on the $26m for 1Q 2014
- **M&A** fees accounted for 31% of total India IB revenue for 1Q 2015 with $38m via 39 deals which is down by 11% on $42m for 1Q 2014
- **ECM fees** accounting for 23% of the total India IB revenue, increased considerably to $28m in 1Q 2015 from the $15m in 1Q 2014



## FICCI-USAID-Intellecap Workshop on

# 'Advancing the Digital Economy in India'

9th April, New Delhi

FICCI, USAID & Intellecap hosted a workshop on 'Advancing the Digital Economy in India' on 9th April, 2015 on the sidelines of the Sankalp Forum 2015.

The theme of the discussion was how the Digital Economy ecosystem can promote inclusive and equitable economic development in India. Financial Inclusion, Digital Connectivity and Technology for Development were the key focus areas of the discussion. Leaders from various fields — social enterprises, impact investors, corporates, donors and government –gathered at the workshop and discussed ongoing developments in the Tech4Dev field and deliberated on how we can move forward to advance the Digital Economy in India. Dr. Samir K. Doshi, Science, Technology and Innovation Advisor - Digital Development, USAID Global Development Lab moderated the session. Mr. Virat Bhatia, Chairman, Communications & Digital Economy Committee – FICCI & President - IEA, South Asia, AT&T Communication Services, gave the opening observations on behalf of FICCI.

Dr. Doshi provided information on the access to internet and mobile telephony in both emerging and developed economies across the world. Mr. Bhatia provided a comparison between India and the United States in the trajectory taken to enter the mobile and digital age. He said that India has made a quantum leap from fixed phone lines to mobile phones, leapfrogging about 10 years of digital innovation. Consequently, there is a massive opportunity to connect and empower people through mobile telephony and stakeholders must work together to ensure inclusive and equitable development is woven into the fast-growing mobile infrastructure being built across the country.

The session ended with an interactive group activity, where 60 participants were split into about 4 groups, where they brainstormed together how the digital age has changed in the last 3-5 years and what would the next 3-5 years looks like. Each group made observations and predictions for changes across industries, such as manufacturing, education, food, and online transportation platforms like Ola and Uber.

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