

KEYNOTE SPEECH

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India

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Key Note Speech

- Chairman of the Americas for McKinsey and leads practices in both North America and Latin America.
- Led McKinsey's Northeast Office (New York, Boston, Stamford) and prior to that, led McKinsey's Financial Institutions Practice.
- Member of the Firm's Shareholders Council (Board of Directors), Firm's Director Review Committee.
- Focused on Wholesale Banking, Asset Management, Private and Retail Banking
- Consulting experience of financial services for a broad range of assignments on corporate strategy, business unit strategy, growth strategies, performance transformation, organizational design, operational improvement and business process off shoring.
- Graduate of the Wharton School, University of Pennsylvania and Undergraduate Degree in Economics from the London School of Economics.

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Capturing the India Opportunity

18 November 2010

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Agenda

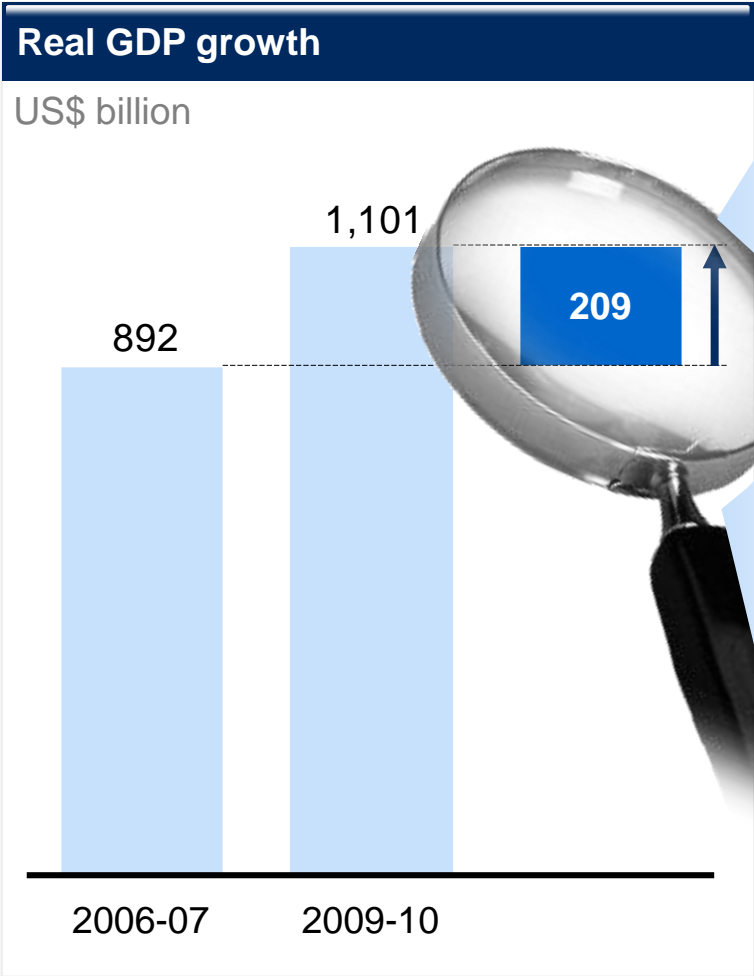
The Indian economy

Themes driving the Indian economy

Imperatives to capture the India opportunity

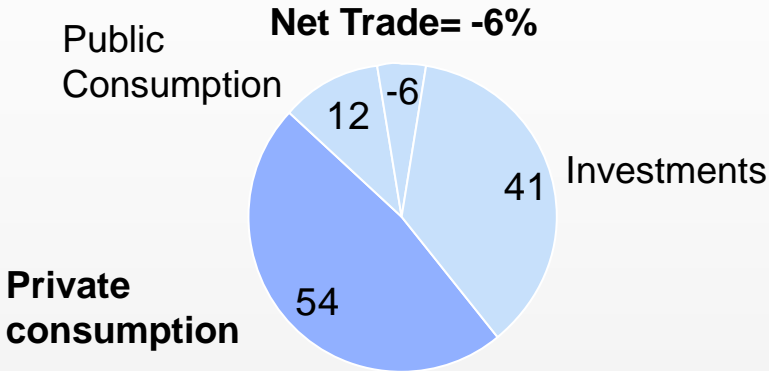


Growth has been led by private consumption and services...



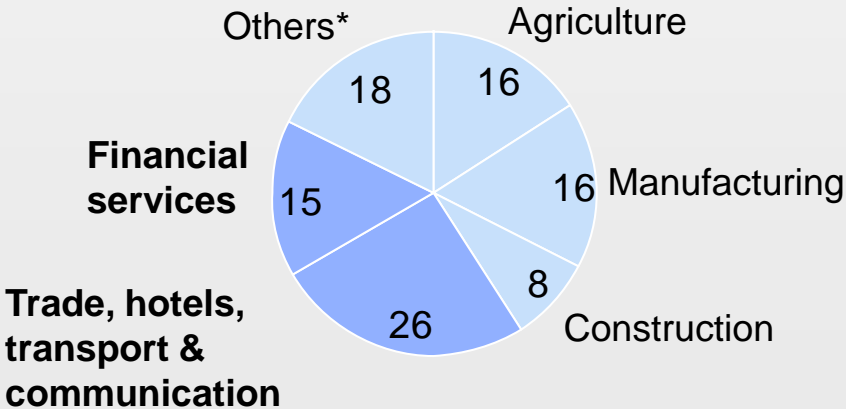
Real GDP growth – expenditure approach

FY 10; percent



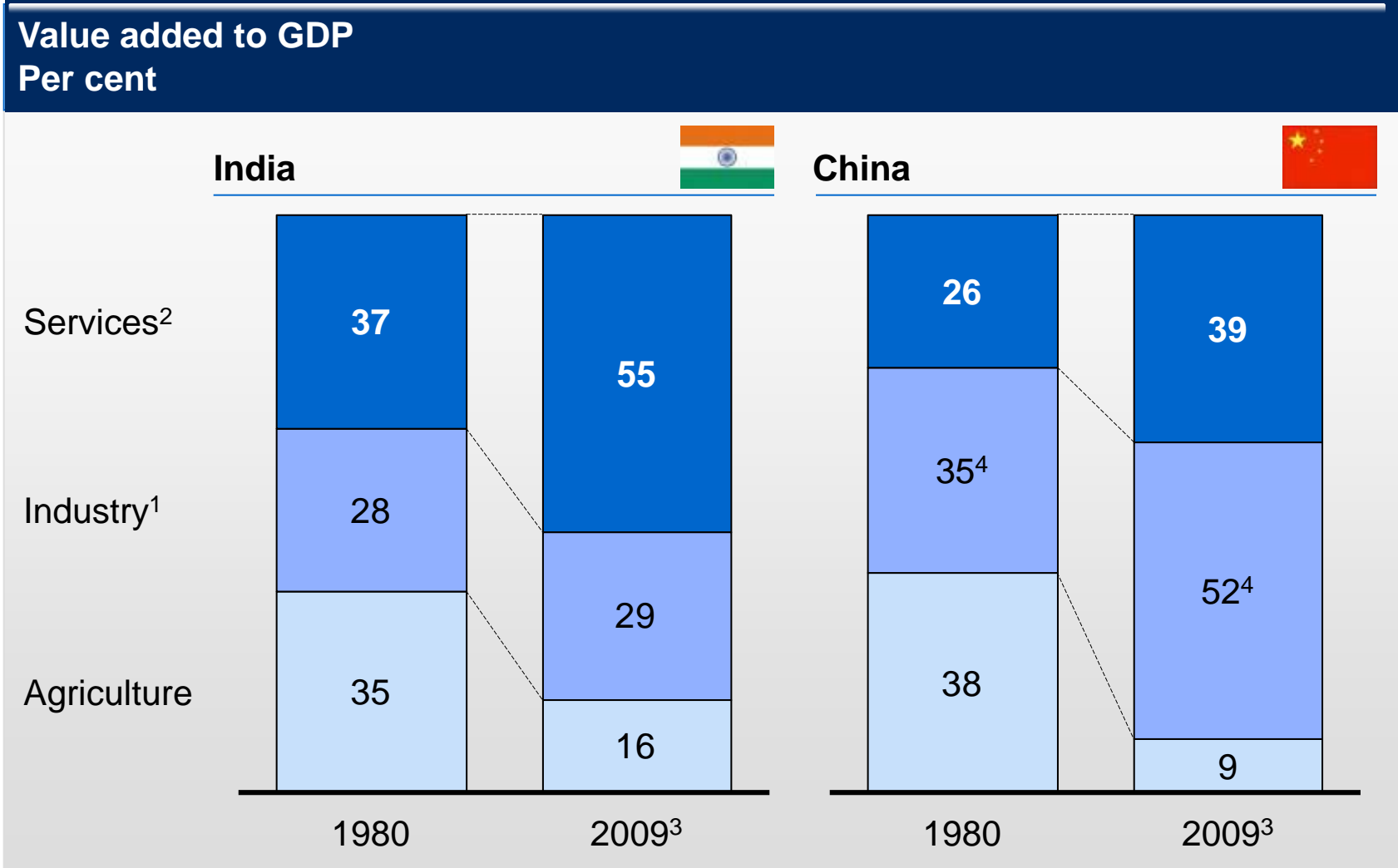
Real GDP growth – output approach

FY 10; percent



* Includes mining quarrying, electricity, gas and water supply & Other Services

... and has transformed India from an agrarian to a services-led economy


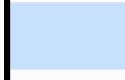

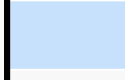




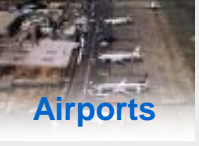


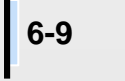


¹ Industry includes Mining, Manufacturing, Electricity, Gas & Water and Construction ² Services includes Whole & retail Trade, Restaurants & Hotels, Transportation & Communications, Finance, Insurance, Real Estate & Business Services and Community, Social & Personal Services; ³ For calendar year 2009

Significant investment of around USD 500 Bn in core infrastructure sectors is expected over the next 5 years



Planned increase in infra spend by 7% of GDP (from 4%)
 Infra spend of \$500 billion in 2008-12

Sector	2008-11; investments (US\$ billion) and highlights	2012-15; evolution
 <p>Power</p>	 <p>80-100</p> <p>↑↑</p> <ul style="list-style-type: none"> Traditional thermal power to dominate 	<p>↑</p> <ul style="list-style-type: none"> Nuclear power sector Smart grids/Automation
 <p>Real estate</p>	 <p>84-99</p> <p>↑</p> <ul style="list-style-type: none"> Increase in disposable income, urban population Need for commercial space 	<p>↑</p> <ul style="list-style-type: none"> Development in Tier 2 and Tier 3 cities
 <p>Metals and mining</p>	 <p>31-38</p> <p>↑↑</p> <ul style="list-style-type: none"> Growth driven by steel sector 60% greenfield projects 40% brownfield projects 	<p>↑</p> <ul style="list-style-type: none"> Investments by Steel majors
 <p>Oil and Gas</p>	 <p>26-35</p> <p>↑</p> <ul style="list-style-type: none"> Bulk of investments in refining Increased supply National gas grid (interstate pipelines) 	<p>↑</p> <ul style="list-style-type: none"> Deep water exploration Full commercialization of KG basin International pipeline gas
 <p>Airports</p>	 <p>8-9</p> <p>↑↑</p> <ul style="list-style-type: none"> PPP models 	<p>↑↑</p> <ul style="list-style-type: none"> Emphasis on technology
 <p>Petrochemicals</p>	 <p>6-9</p> <p>↑↑</p> <ul style="list-style-type: none"> Capacity additions 	<p>↑</p> <ul style="list-style-type: none"> Continuing demand Export focus

With long term fundamentals in place, India is poised for long term growth

Key factors driving the rise of India

- 1 GDP growth**
 - Economic growth at an inflection point
 - 4th largest economy by 2025
 - Young working population growth to continue till 2035
 - 2 Increase in consumption**
 - Increased consumer spending driven by increasing earnings, rising disposable income, reduced incentives to save and availability of consumer finance
 - Large young population – ~70% of people below 35 years
 - Estimated to become the fifth largest consumer market by 2025
 - 3 Favorable government policies**
 - Rationalization of taxes and duties
 - 100% FDI allowed in most key sectors
 - Stability across key macroeconomic parameters
 - 4 Infrastructure growth**
 - ~US \$500 billion to be invested in infrastructure development in the next 5 years across roads, ports, airports, power, communication, urban and rural development
 - 5 Stable banking sector**
 - Despite the economic crisis, the banking sector has been stable
 - 6 Emergence of strong corporate India**
 - Several industries have drastically transformed in short time spans
 - Domestic and foreign businesses are scaling up investments
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Agenda

The Indian economy

Themes driving the Indian economy

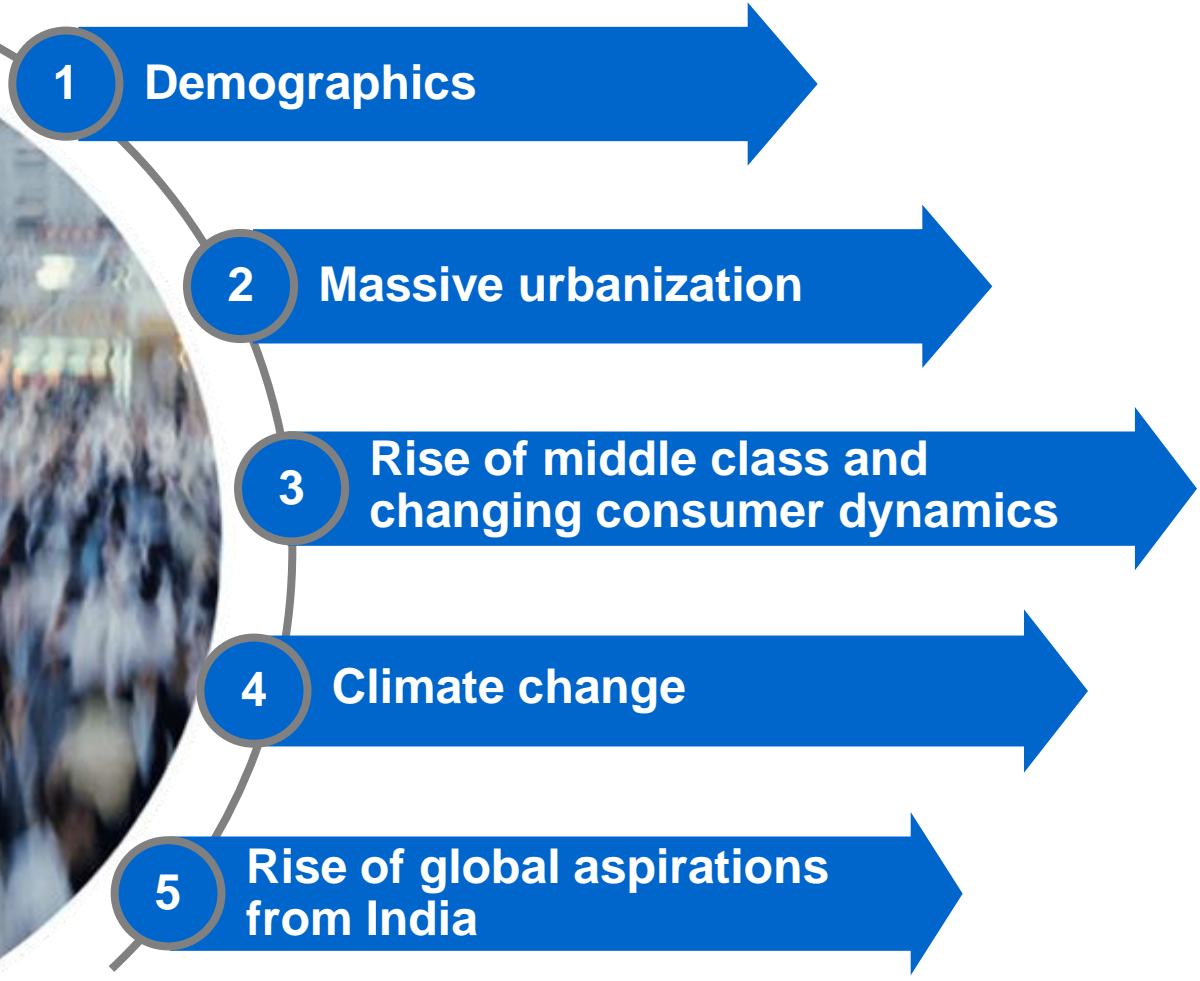
Imperatives to capture the India opportunity



What is new in India that could impact your business?

We all know
India is big ...

... and several factors drive continued momentum,
creating substantial new business opportunities as well
as challenges



Demographics – Did you know?

- 1 in 6 of all people in the world is an Indian

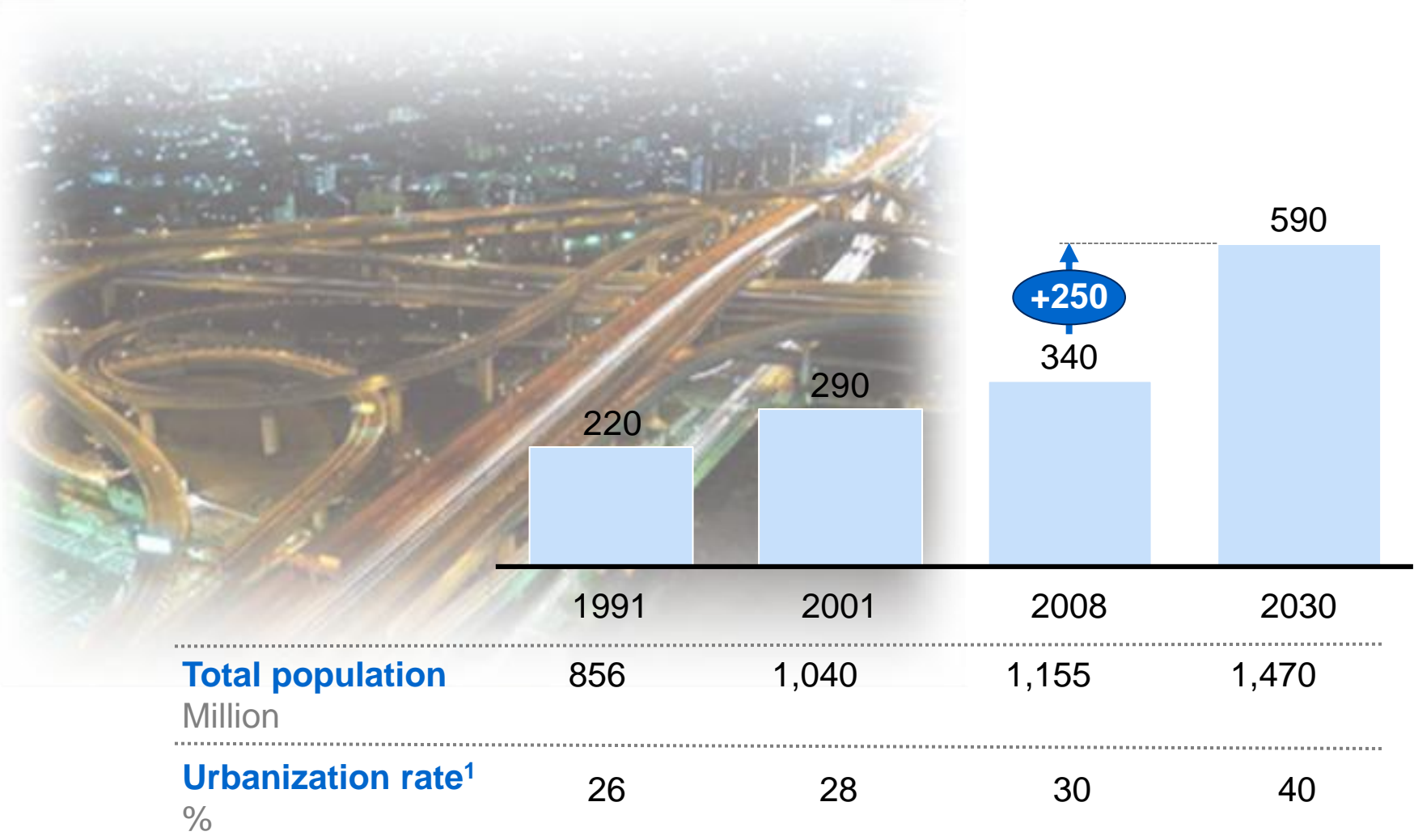
- 1 in 4 of all people under the age of 25 is an Indian

- Average age of population in 2020
 - India – 26 years
 - China – 38 years
 - U.S. – 38 years
 - Europe/Japan – Mid 40s

2.1 Massive urbanization

Cities are likely to house 40 percent of India's population by 2030 and...

Urban population
Million

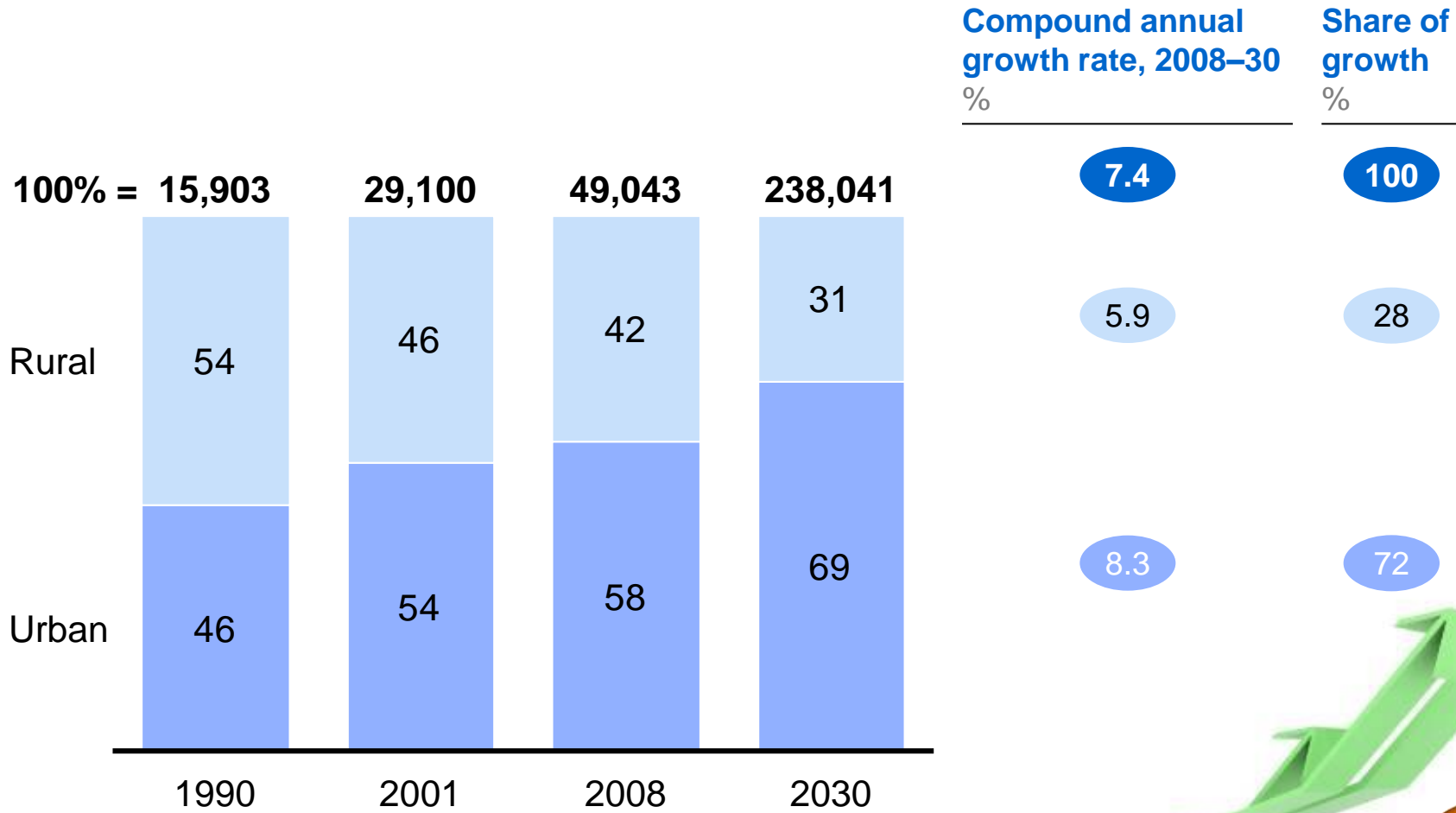


¹ Defined as the ratio of urban to total population based on the census definition of urban areas; population >5,000; density >400 persons per square kilometer; 75 percent of male workers in nonagricultural sectors; and other statutory urban areas.

... account for nearly 70 percent of India's GDP by 2030

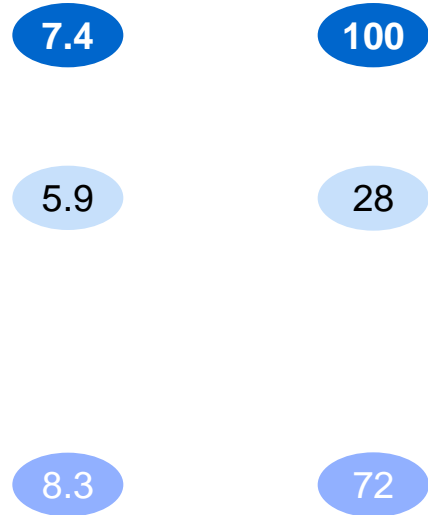
Share of India's GDP

%; rupees billion, real 2008



Compound annual growth rate, 2008–30
%

Share of growth
%

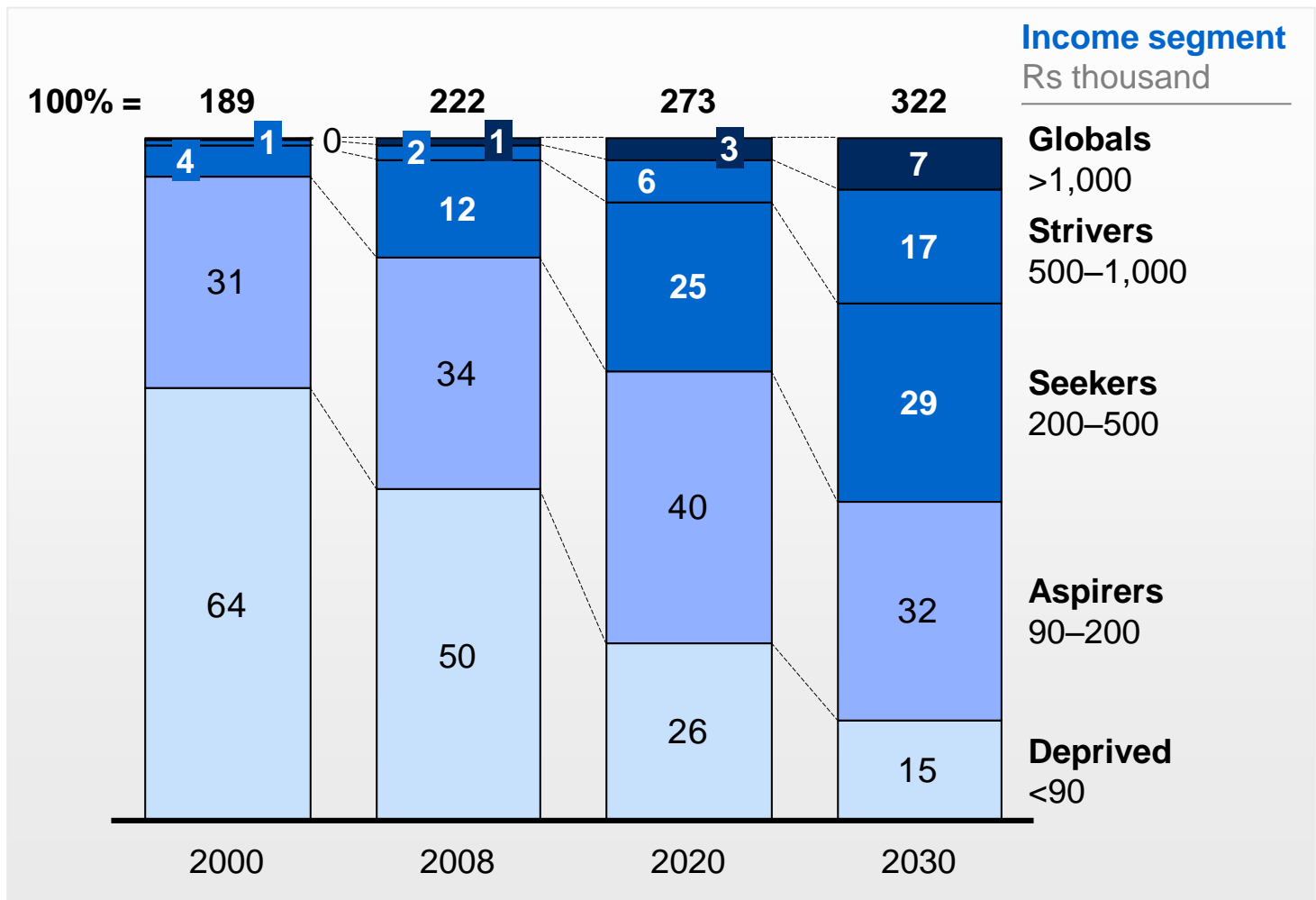


With increasing urbanization and rising GDP the size of the Indian middle class would also grow dramatically

■ Middle class

All India households by income bracket, 2000–30

%, million households, 2000 prices









- Middle-class¹ to swell to about 148 mn households by 2025 (~31 million in 2008)
- Along with ‘globals’ segment, middle-class will quadruple consumption by 2025 (from 2008)



¹ Middle-class : Strivers and Seekers category

New entrants often hold some myths about the Indian consumer

	MYTH	REALITY	
1	“Indian customers are predominantly price bargain hunters”	Indian customers, like their global counterparts, prize aesthetics and in addition expect contemporary but practical features	
2	“Most Indian customers pay for practicality only”	While reliability, value, and comfort are prerequisites, refined segments of customers (substantial in number) valuing performance and image exist	
3	“Affordability the only trigger for purchases”	Availability of wide range, new features and models, followed by need to address upgrade requirements, are also big triggers	
4	“Selling in India is a product game”	An excellent “customer life-cycle” experience, i.e., ease of availability, service, maintenance are also critical to success	
5	“Consumers are not loyal and can be easily attracted to switch, especially by MNCs”	Indian customers are extraordinarily loyal to brands that deliver value, irrespective of origins	
6	“It's all about snazzy advertising”	Positive word-of-mouth and an excellent dealer experience are critical to winning Indian customers, not advertising	

1 Indians seek best brands even if unaffordable

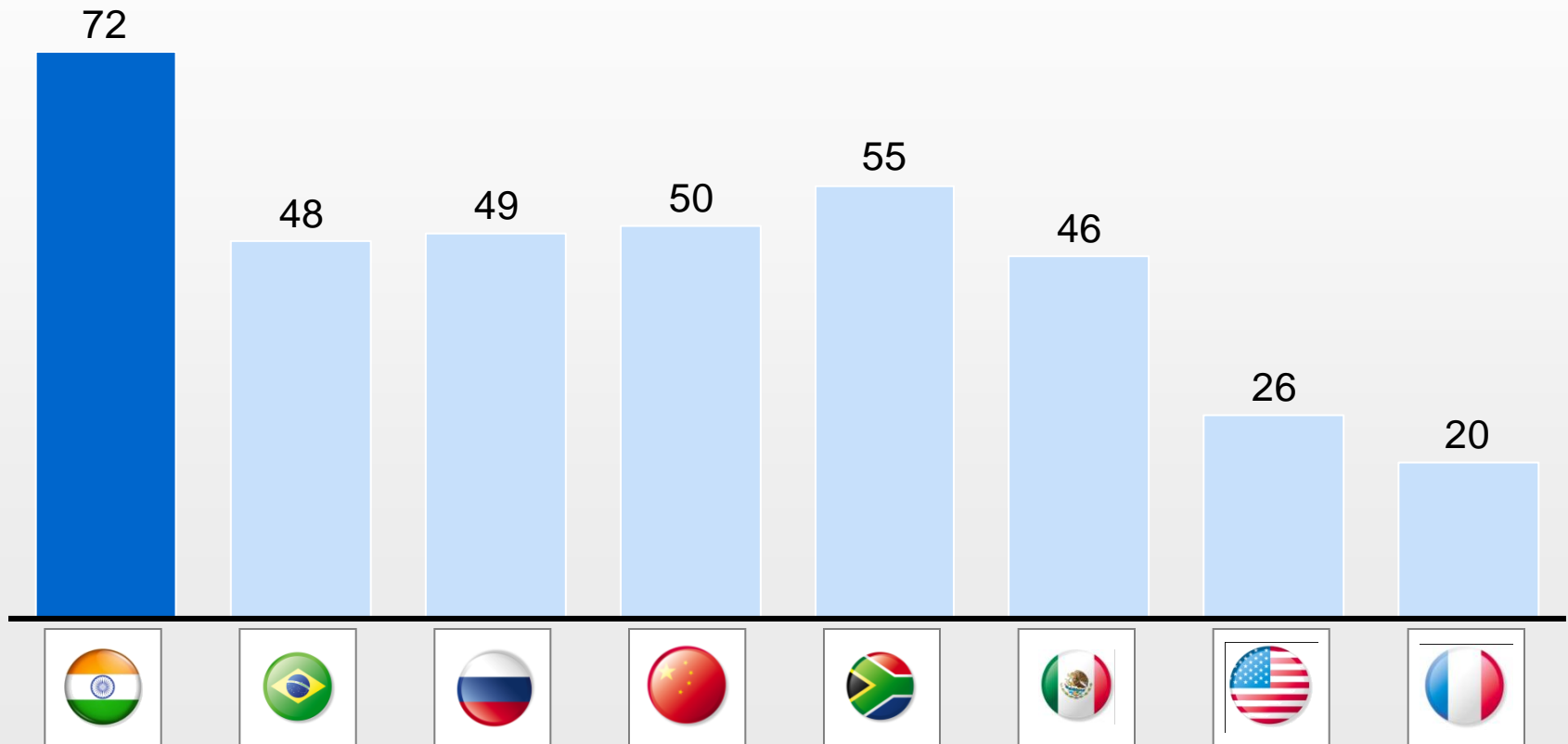
India

Other countries

FOOD EXAMPLE

“When I go shopping I like to see the best brands, even if I am unable to afford them”

Percent agree/strongly agree



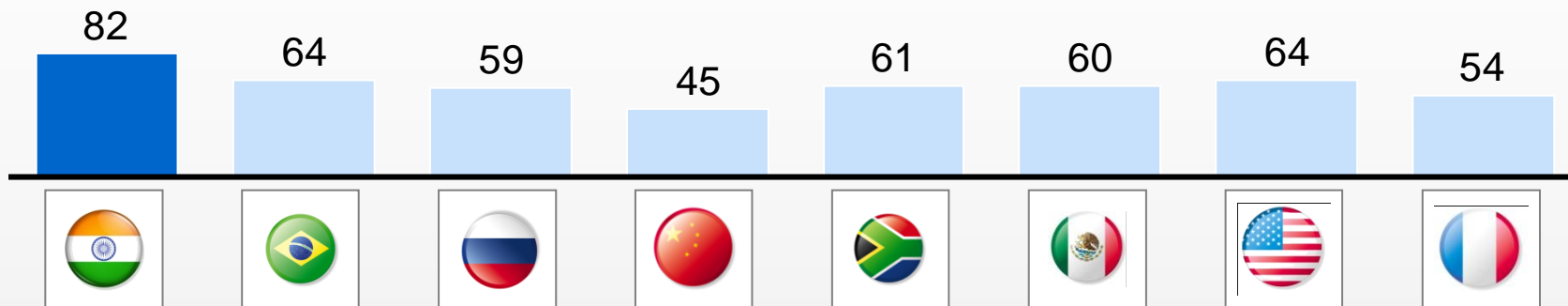
3 Range matters to Indian shoppers

India
Other countries

FOOD EXAMPLE

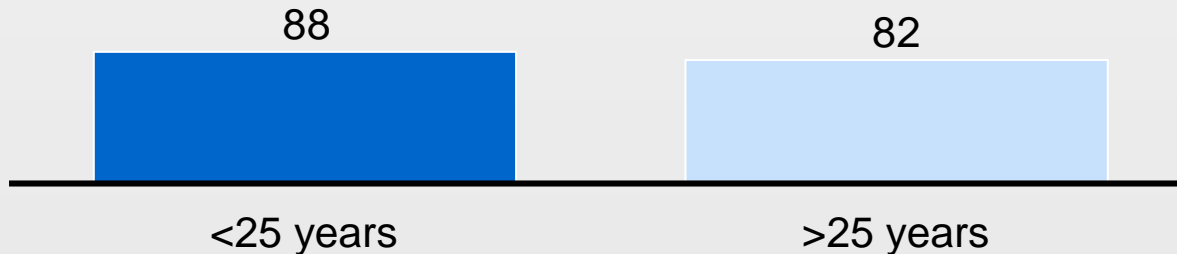
“I prefer shopping in a store which offers a full range of products at all quality and price levels”

Percent agree/strongly agree

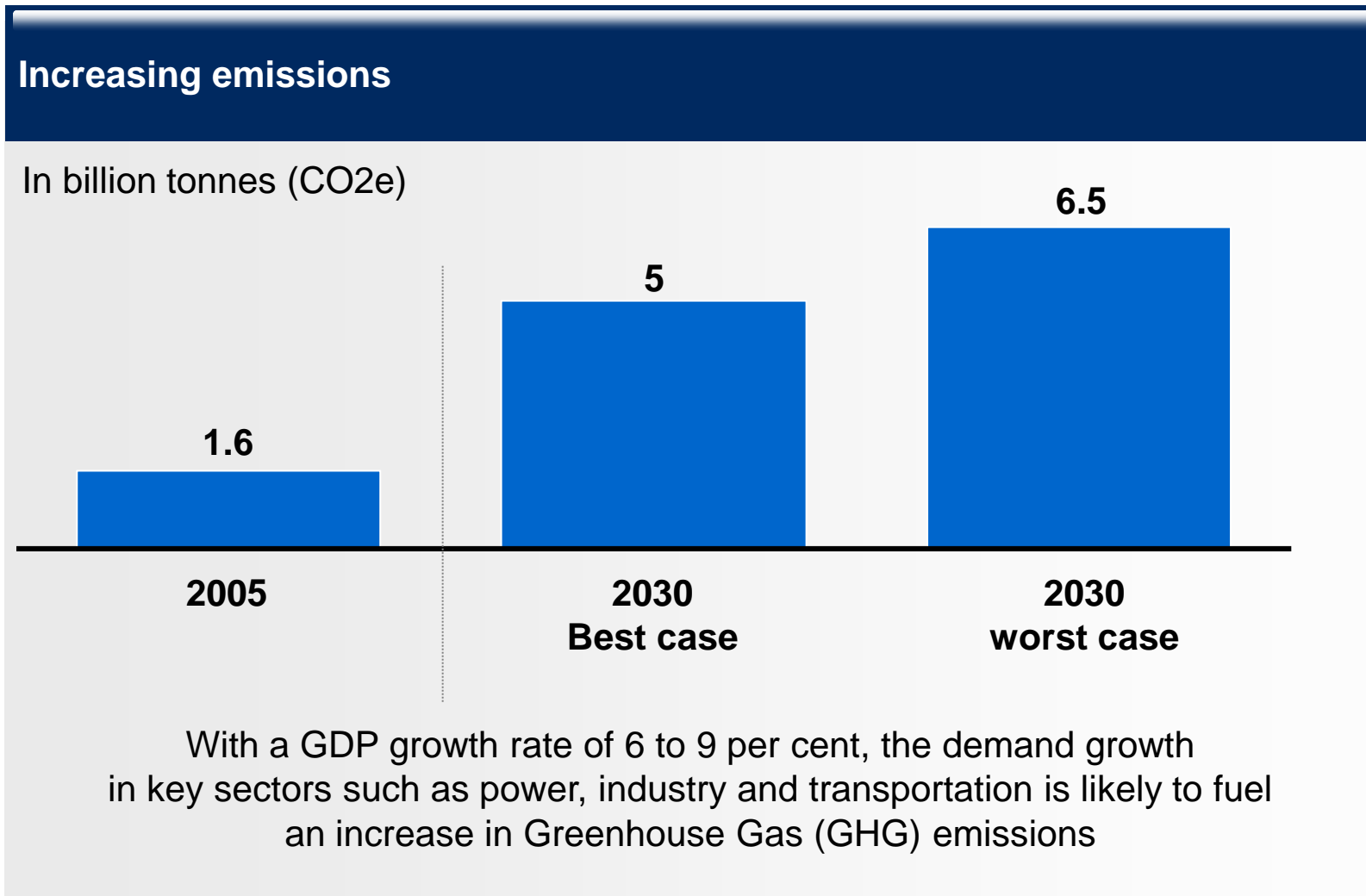


Preference true across cities and income segments, but especially true among the youth

Percent agree/strongly agree in India



India faces a serious climate change challenge with emissions expected to increase four-folds in next 20 years



India's fight against climate change also throws up business opportunities where MNCs could have an edge with their advanced technologies...

Potential opportunity areas

Clean power

- Renewable energy technologies like Hydro, Wind and Solar power generation
- Cleaner power generation technologies
- Using cleaner coal technologies like super critical and ultrasupercritical

Energy-efficient industry

- Energy-efficient technologies and processes in energy-intensive industries such as
 - Steel
 - Cement
 - Chemicals and
 - Oil refining

Green transportation

- Fuel-efficient cars and commercial vehicles including electric / hybrid vehicles
- Developing integrated multi-modal logistics system like creating rail and coastal freight corridors which can reduce oil consumption

Sustainable habitats

- “Green building” – like insulation, high efficiency HVAC
- High-efficiency appliances and electronics
- Energy-efficient lighting like LED lighting

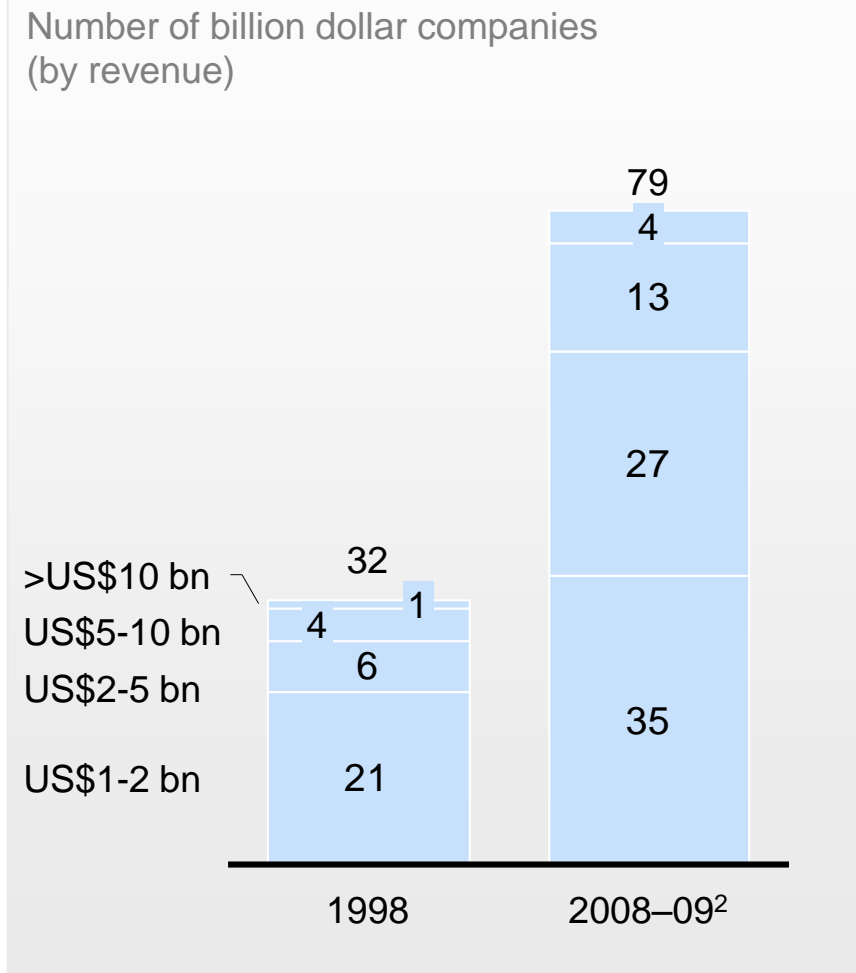
Sustainable agriculture & forestry

- Efficient irrigation techniques and high efficiency pumps
- Improved farming tools
- Better farmland and forestry management techniques and services



India is witnessing a rapidly growing private sector with global aspirations

The transformation



Some success stories ¹



- Awarded Best Bank of the Year 2008 by The Banker magazine at Banker Awards in London
- Oldest Bank with sales of US\$ 10.9 Bn and market cap¹ of US\$ 32 Bn



- Became a bank in 2000; 2nd largest bank in India today
- Current market cap¹ at ~ US\$ 21 Bn



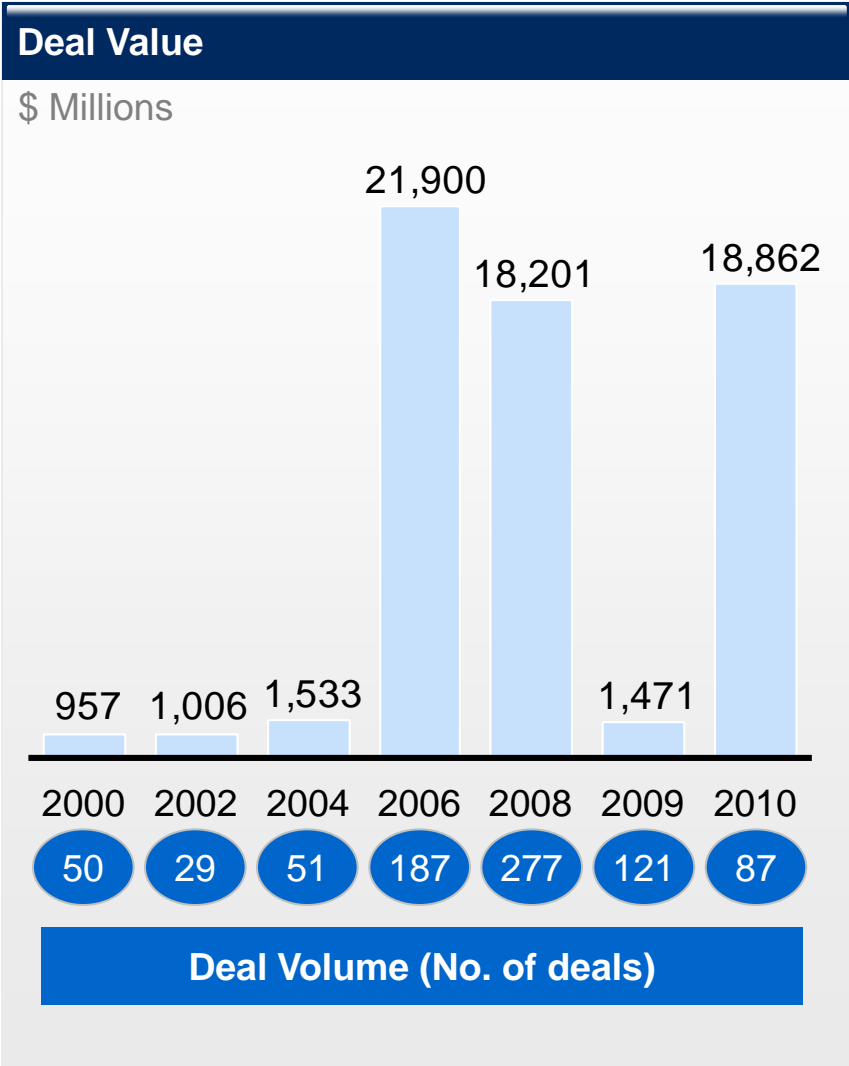
- Reliance Communication emerged as a confident and smart company that emerged on top in a saturated and highly competitive industry
- Current market cap¹ at ~ US\$ 8.3 Bn



- India's largest non-ferrous metals and mining company & one of the fastest growing private sector companies
- Sales at US\$ 4.6 Bn & market cap¹ US\$ 6.52 Bn

¹ Market Cap as on 22 Jun 2010 and Sales as on last reported Financial year end
² March 2009 Reported results.

Indian companies are going global in a big way with outbound M&A witnessing a sharp increase from 2005 onwards



 	<p>\$12,983 Mn</p>
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<p>\$10,700 Mn</p>	 
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 	<p>\$5,731 Mn</p>
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<p>\$2,624 Mn</p>	 
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 	<p>\$2,300 Mn</p>
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<p>\$1,794 Mn</p>	 
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1 Upto May 12, 2010

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Imperatives to capture the India opportunity



Seven imperatives to capture the India opportunity



1 Visible, strong and consistent top leadership commitment and support

2 Customise offerings to meet the changing Indian needs

3 Innovate business models and operations to compete effectively in an Indian context

4 Scale-up via major deals and partnerships

5 Leverage India for global products, services and talent

6 Actively shape and manage perception and regulation

7 Empower the local organization and develop a compelling talent proposition