

August 2020



Full Potential Revival and Growth

Charting India's medium-term journey



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Preface

A crisis gives us a perspective not afforded by the ordinary cadence of life. COVID-19 is a crisis of dramatic proportions for India, a shared experience of 1.35bn citizens who had to go into lockdown. This shock has impacted the health, social and economic landscape of India in a way that has not been experienced since the events surrounding the country's independence. A war in 1971, earthquakes and disease spread in Latur and Surat, cyclones that devastated coastal areas, and other national calamities cannot begin to compare with the impact COVID-19 has had on the nation.

This report not only highlights the scale of the crisis but also addresses challenges and opportunities for the medium term. Our research shows that beyond the immediate pain, there are opportunities that could bring long-term gains. The crisis has highlighted frictions that were slowing India down as a country. If these frictions are addressed, the nation can accelerate recovery and drive what we call "full potential revival" and growth. This report outlines key principles that can be used by the private and public sectors, as well as citizens, to help achieve growth together. By addressing these frictions, recognising the opportunities, increasing productivity, digitalising further — and doing all these things rapidly — India will realise the full potential of people, organisations, institutions and the country.

We have attempted to validate this approach through an analysis across nine key sectors: health and pharma; financial services; power and mining; consumer and retail; infrastructure and logistics; industrial products and automotive; and technology and education; government; and agriculture. We also analyzed the Micro, Small and Medium Enterprises (MSME) segment, since it will be key to employment

revival. Our report suggests that in each of the sectors, we can repair, rethink and reconfigure for faster growth. This investigation was supported by a survey that spans the country, including non-metro districts, providing a timely 'pulse check' on the nation. We interviewed key sectoral leaders and thinkers both in India and globally to arrive at our conclusions.

Given that COVID-19 cases are still rising, the risks of economic recovery are many. They include likely bankruptcy of companies, layoffs and failures of smaller businesses in the short term. Divisions that exist in every institution could be exacerbated. There is a danger that India may revert to its previous state, squandering the opportunity for change that is inherent in any crisis. In the short term, businesses will have to leverage their balance sheets, digitise further, cut costs, find new resources and rearrange their supply chains. The government is already on a path to reforms, a trend that needs to be accelerated. However, the dangers of not taking action bold enough to put the economy on a path of revival and growth cannot be ignored. Put simply, with a positive frame of mind, India can reinvent the future.

PwC India has already supported multiple sectors, the government and civil society in the first six months of the crisis. The firm has helped companies restart operations after their initial damage control. Our analysis and the framework of this report offer practical suggestions in each sector that can be used for revival and reinvention over a two-to-three year horizon. There will be many challenges on that journey, but also numerous opportunities. PwC, its 450 partners and executive directors, and its 15,000 staff in India are ready and willing to play a role in supporting that full potential revival and growth.



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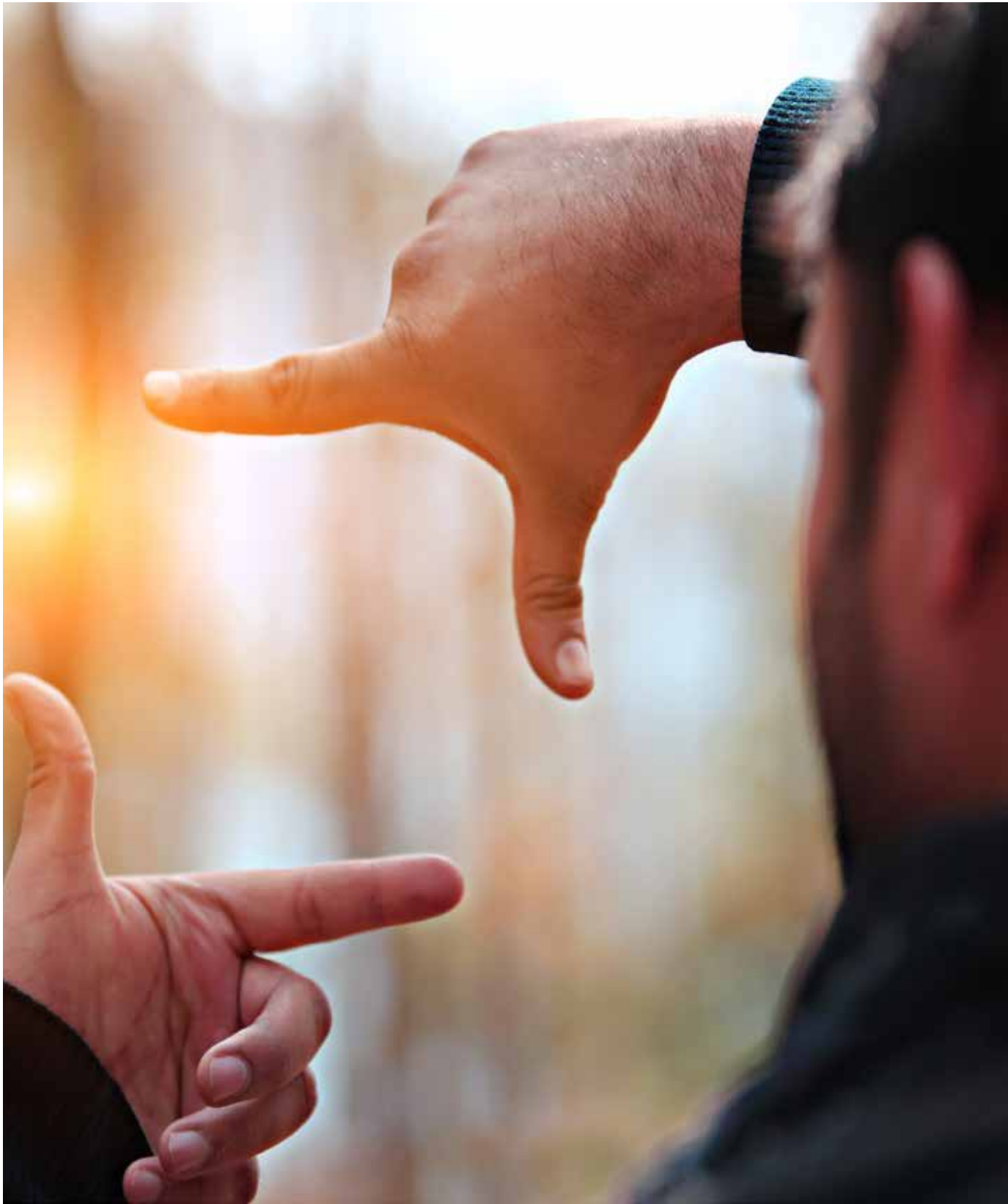


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Executive summary



“Full-potential mindset”

Hidden possibilities in an individual, company, institution or a country not understood before. Opportunities brought to light through a new event, shock or sudden change in circumstances. A perspective that is experienced together by different stakeholders, creating a common vision driving higher outcomes for all. A thought process which recognises immediate challenges but uses this to unite all stakeholders. A mindset which drives urgent concerted and rapid action, creating revival and growth in an individual, organisation or country. An approach that brings together diverse actors by an ambition unlikely to be fulfilled by each alone. A common mission that creates a pool of energy, leading to revival and reinvention.

The COVID-19 crisis has put the world and India to the severest test in a generation. It has created widespread uncertainty on health, social and economic fronts, and is a shock experienced by all the country's 1.35 billion citizens. The pandemic has widened fissures in the global political and economic order, which was already reeling under trade wars. The social and economic impact of this health crisis will be deep.

The Indian economy is now entering its first recession since 1979. Every citizen, young or old, rich or poor, from the north, south, east or west, this time, experienced the disruption first-hand through a national lockdown. India experienced a major balance of payment crisis 30 years back, which led to significant economic reforms. This shock is much more pervasive and is a shared experience that has triggered deep introspection within citizens, organisations and governments in a manner unprecedented in recent history.

Our report is a point of view for revival and growth arrived at by interviews with business, public sector and citizen leaders, sectoral analysis, and a country-wide survey taking a three-year horizon. It is not a prediction of that future, but outlines “principles” for revival and growth in organisations, sectors and the country. It is the starting point of a conversation that takes a medium-term view.

As our investigation proceeded, a more hopeful story emerged.

- Across all segments, sectors and geographies, there is a realisation that this crisis has set us back, but also highlighted frictions, which if we can overcome, can provide rapid revival and subsequent growth
- By addressing these frictions - organisations, sectors and the economy will be able to drive revival faster, make the economy more inclusive and achieve a higher economic potential in the medium term
- A ‘full potential mindset’ will require an execution approach that collaborates across the organisation and society, using technology, rethinking and reconfiguring for long term success

India, an argumentative democracy, is often critiqued for bringing about incremental change rather than something more immediately transformative. Our research shows that COVID-19 has the potential to create a transformative moment by highlighting frictions, seizing opportunities and fostering collaboration. With this positive but realistic attitude and a common agenda, organisations can drive growth with a full-potential mindset, ensuring the economy is even more productive than before. This will drive organisational growth while creating an economy that is inclusive, stable, globally connected and environmentally sound.

Our report is aimed at starting a conversation in different sectors, and with different stakeholders to execute on the key findings to realise India's full-potential ambition.

Uncertain health situation

Containing the virus is an important first step for economic revival. India, with 18% of global population has 9% of Covid cases and 5% of global fatalities at the end of July. The recovery rate in India is 64% - but the inflection curve has not flattened. Cases remain high in urban areas: 100 urban or semi-urban districts out of 730 have a 77% contagion load.

- An early and decisive lockdown enabled India to ramp up its health care infrastructure – increasing the rate of testing per day 30-fold and hospital beds were increased by 50% since the crisis took hold.
- However, reverse migration of workers once lockdown opened led to the virus reaching smaller towns and districts.

An early vaccine discovery, in a country with a strong vaccine production and distribution infrastructure, is a source of confidence, but delivering it to over a billion people will take time. Until that happens, health recovery will rest on testing and tracing at scale combined with social communication, awareness and collaboration.

Medium term economic situation

COVID-19 is an exogenous shock to the economy, impacting both aggregate demand and supply simultaneously. With gradual unlocking footfalls are back to 30% of prep-pandemic levels in urban areas, and demand and supply constraints are easing. But consumer confidence is low, and supply constraints will continue. Geopolitical tensions with neighbours are amplifying economic strains, but as our survey indicates, also uniting the country.

- Government stimulus of INR 20tn and reforms under Atmanirbhar Bharat targeted the lower and middle strata. The focus on micro, small and medium enterprises (MSMEs), food supply and the Direct Benefit Transfer (DBT) are addressing the stress on employment, migration and create a safety net for the vulnerable, with technology a key facilitator to target and transfer funds.

- Domestic expenditure constitutes 60% of the Indian GDP. Across the country's 730 districts, particularly within the lower strata, discretionary spend is low at 30% on average. Stimulus and government programmes have targeted this relatively poor segment, which has a lower contagion density. Metropolitan and urban districts, where discretionary spend is higher at 45% are in locations with high contagion load. This indicates that sources of demand revival will be different in the short-to-medium term. Both rural and urban segments will revive, but at different speeds and with different drivers.
- Overcapacity in industrial production was accumulating over the past two years with the IIP (Index of Industrial Production) dipping from 132 to 129 and capacity utilisation shrinking from 76% to 69% over Q3 FY 19-Q3 FY20. This overhang will limit private sector investments until demand rebounds.
- Government spending, on infrastructure, including health, is expected to help pump prime the economy beyond the stimulus. We estimate that government spending will rise from the current 11.8% GDP to 5-7% extra, tapering back in FY 23 and beyond.
- As imports and exports shrink it is possible our trade deficit turns positive in FY 22, but only temporarily. International recovery will have a bearing on Indian recovery. India has an opportunity to reduce its trade deficit, while offering global organisations an opportunity to relocate production bases to India.
- Unemployment has recovered from the high of 24% but is still untenable at 11%. Employment recovery will be a critical measure of success in the revival and growth phase.

It is difficult to offer a prediction for when recovery will be achieved. A PwC CXO survey in July 2020, polling 225 CXOs, shows that 82 % expect the economy to be back to pre-pandemic levels by June 2021, but much will depend on when the contagion is contained in India.

Key pillars for revival and growth

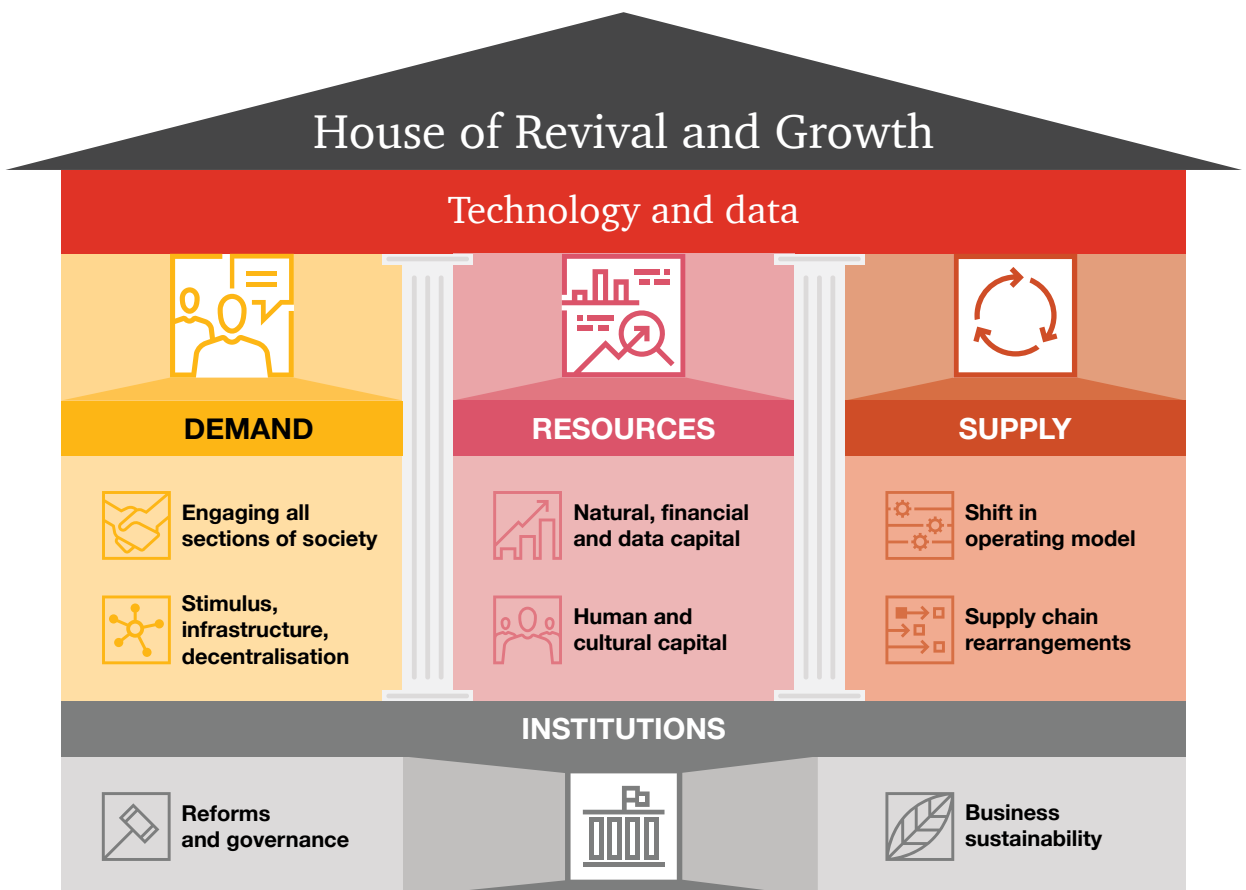
Over the past two decades a broad consensus has emerged in India that a well-regulated market economy is the most productive framework for growth. This principle, applied in the revival and growth phase, should lead to a high growth, inclusive and stable economy that is environmentally sustainable. Inclusion will be as critical as growth.

We highlight eight pillars of recovery and 27 underlying themes which constitute our “house of revival and growth”.

- Driving full demand by “Engaging all sections” and “Stimulus, decentralisation and infrastructure”, with six themes.
- Reviving full supply through “Shift in operating model” and “Supply chain rearrangement”, with seven themes, these will also provide resilience .

- Full and new resources through “Natural, financial and data”, as well as “Human and cultural” resources, consisting of eight themes, will provide fuel for faster revival and subsequent growth.
- Responsive institutions covered as “Reforms and governance” and “Business sustainability” with six themes should guide the policy framework and engender trust in society.
- Data and digital technology are important components that support these pillars, giving recovery momentum and creating resilience.

As we re-construct our economy we must re-align our organisations to a new architecture and in doing so remove frictions that have hampered historical growth. This should aim at rethinking both immediate recovery and reconfiguring for higher productive capacity.





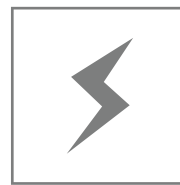
Consumer and retail



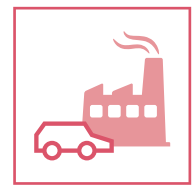
Healthcare and pharmaceuticals



Logistics and infrastructure



Power and mining



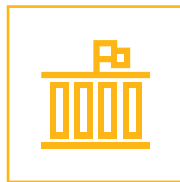
Automotive and industrial products



Financial services



Technology and education



Government



Agriculture



MSME segment

Sector specific implications across nine key sectors and MSME segment

Revival and growth will occur in nine key sectors and MSME segment that make up 75% of our pre-pandemic GDP. In addition, we analysed MSMEs as a sector which constitute 30% of employment spread across the above sectors.

The consumer and retail, health and pharma, automotive and industrial products (IP) sectors will be influenced by similar themes in consumer demand shifts.

- New products and services require an understanding of increasing value consciousness, focus on wellness, safety and health. For instance, one pharma company that produces generic medicine is looking at opportunities for wellness services.
- An additional growth vector is decentralisation of demand. organisations are realizing that in the short to medium term, semi-urban and rural districts will require focus.
- On the supply side, digital operating models and shifts in global and local supply chains will influence these sectors. Both are needed to drive international connects and local resilience.

Power and mining, infrastructure and logistics, information technology and education provide the infrastructure for growth, and are dependent on natural and human resources use.

- By opening these sectors and improving data flows, demand and supply would be better co-ordinated. Power and Infrastructure sectors can benefit from data platforms on customer front end, and back ends.
- Infrastructure requires capital resources to be released and mitigate risks to bring private investments back with better data and physical flows. Capital sourcing requires careful coordination with financial services sector.
- IT, where India has become a global contender is now considering the domestic market where use of vernacular, growing national platforms and widespread digital education will drive adoption and growth.

Financial services and government are drivers of employment, productivity and release resources - capital, land and labour - that are currently underutilised.

- A strong financial service sector is needed to ensure robust capital flows in the economy. This sector was slowing down before the crisis with non-performing assets (NPAs) growing. By cleaning its books, implementing recently instituted bankruptcy proceedings, and recapitalizing, this flow can be revived.
- Government sector is critical for enabling revival and growth. Ease of doing business across the country will unlock productivity. Land, labour reforms, and national platforms have emerged as key enablers. Institutional reforms, including capacity-building in the state are important for growth and productivity boost in all sectors.

Agriculture will play a key role impacting millions of lives and leading enabling inclusive growth:

- Agriculture has been liberalised through Atmanirbhar Bharat. It answers a key national aim - doubling farmers income and provides employment to over 260m Indians. With migrant labour this load may increase and will require the nation's attention.

The MSME segment was singled out for support by the government in the first stimulus package, as the largest employer after agriculture. This segment is largely unorganised with only 13m out of a total 63m MSMEs registered. They can benefit from data use to identify and create ecosystems to support them.

Convergence between sectors is taking place, in a resource scarce environment, and increasing flow of data. For example, the healthcare and pharma sector realised that FMCG channels offer a ready means of widening distribution for PPE and masks. Government has realised that financial services, IT and Telcom, FMCG can provide relevant data to support MSMEs. Finally, with global supply chains being disrupted, each sector has shown an interest in R&D and innovation. Frugal innovation, the process of reducing the complexity and cost of a product, is on its way to maturity in India, can make Indian products and services relevant globally.

Organisational value propositions

Ten value propositions should be considered by boards, chief executives (CEOs) and leaders to provide a roadmap and a framework for revival and growth. They will have to be modified for sectoral requirements and tailored to organisations' current and future capabilities and focus.

Value propositions related to faster demand and a focused portfolio. Rapid and agile demand sensing, business models for a decentralised economy and rebalancing the product or service portfolio will provide organisations a demand boost and focus essential for revival and value accretive growth.

- Rapid and agile demand sensing allows businesses to look at shifts; much like zero-based costing, it seeks to pick up segments and drivers catalysed by COVID-19.
- Business models for a decentralised economy will guide businesses to open new channels, price

points, propositions and supply mechanism to cater to the demand from outside urban areas.

- Rebalancing the product and service portfolio will bring focus and put available resources for profitable growth by reducing the number of products and services; potentially divesting assets that are non-core.

Value propositions crucial for containing cost, creating agility and resilience. Fit-for-future cost structures, comprehensive digital transformation and reorienting global and local supply chains will be required across sectors:

- A fit-for-future cost structure targets excess costs but also retains those capabilities and assets that are important for the future and does this in a manner that is considerate to people.
- Comprehensive digital transformation, both at the customer front end, and within the organisation had already started taking place, there are more opportunities emerging for creating agility by a comprehensive approach and a change process that secures behavioural change.
- Reorienting supply chains, both global and local is designed for resilience so that the external supplier base remains viable as the economy shifts to a revival and then a growth phase.

Value propositions related to resource amplification, retention and conservation.

Upskilling, reskilling and employment, gaining insights from data and capital for survival and revival focus on the resources that will drive revival and growth.

- Upskilling, re-skilled and employment, while seemingly counter to the cost focus, is important for the medium-term revival and growth phase with shifts in the type and location of work.
- Gaining insights from data is a crucial capability, and drives better demand generation, more efficiency and agility and finally taking parts in the wider economy by linking to other platforms.
- Capital for survival and revival will be needed both for immediate cash issues and thereafter to foster growth. Balance sheet management of organisation and better asset management is required for this.

A broader value proposition, what we call a “triangle of trust” between an enterprise, government and citizens is also critical.

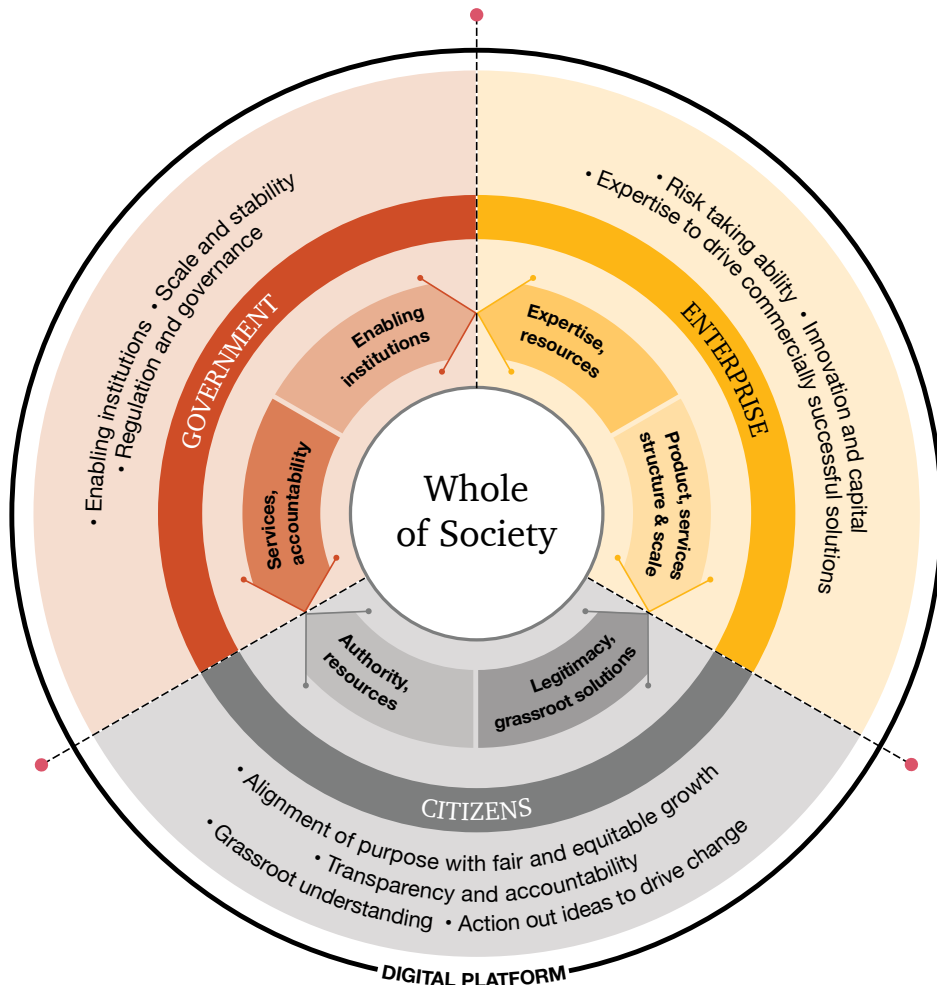
- Creating a shared vision within the organisation and a shared vision across the country is important for generating trust. A realistic but well thought-through revival and growth plan can itself be a starting point.
- Across organisations and enterprises, government and citizens require understanding and engaging with our “two-tone” economy: one part that is organised, English speaking, well paid, and a second part that is unorganised, vernacular but employing most Indians. This will happen if we deepen and widen the economy, a strategic vector at the core of this report.

Whole-of-society execution approach

Our research shows that in a resource constrained, uncertain environment collaborative approaches within and between organisations using digital methods should be considered. We call this “whole-of-organisation/ society” approach using platforms for execution. Unless the whole economy revives, individual organisations will simply not have demand, supply, resources and institutions restored for growth. A sentiment of “we are in this together” has been created and can be harnessed.

Revival and growth can then be executed keeping in mind.

- Organisations should start with a whole-of-organisation approach behind their revival mission. This does not mean predicting the future, but outlining and communicating principles with clarity and empathy. It also means fighting the urge to withdraw within department, functional or geographic silos.

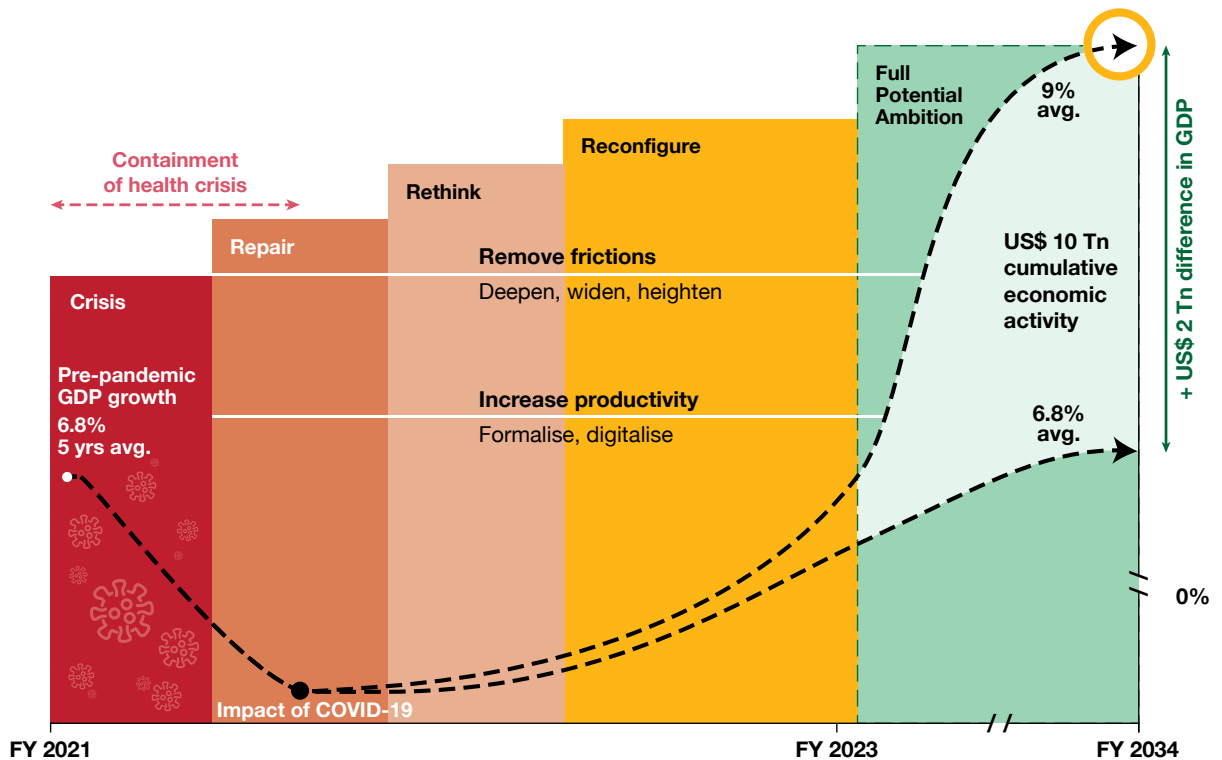


- The core of this change is a mindset which will empower teams. Executing against a revival story, and reconfiguring for growth also means creating teams able to manage twin strategies, operating with different time horizons and requiring different resources and energies.
- Data is a key resource in sharing capabilities, customer and operational insights. It also allows collaboration outside the organisation using platform behaviour. For example, operations managers need to consider suppliers, marketing teams create customer ecosystems; using digital technology.
- Whole-of-society approach using platforms was already being used before the pandemic and was soft tested during the health crisis when citizens, enterprise and government came together to fight the virus.

Full-potential ambition

By removing frictions exposed by this crisis and deepening, widening, heightening, digitalising and formalising organisations and the country, we can bring the economy back on an even keel. But the second ambition is to realise the full potential that has been revealed during this crisis. If \$2.9tn in the economic potential of the economy (FY 20) as the base, then returning to that base is only one ambition. A second, more important task is to unlock our full potential so that we grow faster thereafter.

With widespread involvement of enterprise and citizens in the revival and growth effort, the fiscal load of the government can also be reduced.





Revival

Within organisations, sectors and across sectors we can understand key themes, focus on those that will revive the economy and come out faster from the crisis. This applies to all nine sectors examined in this report, comprising 75% of that GDP. The economy can grow at 6.8% post recovery which represents the growth potential over the 5 years before COVID-19.

Full-potential revival and growth

Future of India – the Winning Leap, a report published by PwC India in 2014, set out three scenarios for India's growth over a 20-year period, ending in 2034. They were 6.6 % growth through rapid human capital and some infrastructure spend, 7% growth with further infrastructure build and a 9% growth trajectory with significant additional productivity improvements. Over the past five years the average growth of the economy has been 6.8% and has broadly tracked scenario 1 and 2.

- During the revival phase, by unlocking frictions in organisations, sectors and the nation as a whole, can additional economic potential be created? We call this 'full potential ambition' signifying greater volume and higher productivity which can achieve the 9% GDP or higher scenario.
- Over the past five years investments in infrastructure, roads and power, reforms like GST have taken place resulting in the growth accelerating from 5.2% pre 2014 to 6.8% which is in between scenario 1 and 2 projected in our previous report
- In the medium term revival and growth phase we can create greater volume of economic activity by deepening, widening and heightening the economy. We can also increase productivity by digitalising and formalising the economy
- Ten vectors that can provide guidance on how the economic potential can be enhanced have been highlighted in the report. These range from investing in physical infrastructure, MSME ecosystem creation, democratisation of learning just to name three.

The prize of a full potential ambition is significant. If we can increase our average growth rate to 9% from the per-COVID-19 5 year average of 6.8%, and by deepening and widening our economy make the growth more inclusive, we can create 3 additional India's with a cumulative additional GDP of US\$ 10Tn, in a decade post recovery. Starting with the 75th anniversary of Independence we can lay the foundations of a bigger, more prosperous and inclusive nation.

Reinventing the future

Executing on the strategy outlined in this report will require careful planning and intense execution by every organisation - and as a country in four broad phases – repair, rethink, reconfigure and report:

- We see the first 100 days as being important in re-thinking the revival, and the subsequent time in reconfiguring for growth. Some organisations may not make it, and they will be required to restart. A final stage is reporting on progress to stakeholders, celebrating success on the way.
- Organisations should look at two types of action – one related to volume of economic activity, which can be achieved by deepening, widening and heightening the organisation and the other related to improvements in productivity by formalising and digitalising
- A decentralised structure that is able to deal with local situations, rather than a centralised implementation structure is best suited for an agile and principles based response. Leaders will both be tested and new leaders created as responsibility gets devolved.
- Enterprises, government and citizens can play a complementary role. New platforms for collaboration and enablement need to be built rapidly, and trust must be engineered. This is not just an opportunity to revive and growth, we can re-invent our future.

Re-inventing the future is an ambition that may seem brave at this juncture. But if there is one country that can do this it is surely India. Before the crisis, we were a stable economy, boasting a positive demography and a well-tested polity. An unprecedented, exogenous shock has created a health, social and economic crisis. But it is also the starting arc for reinvention. We should remind ourselves that many turning points in our history have seen similar brave collaborations. And as economists continue to remind us, revival and growth starts with a positive psyche that triggers action. We call this full-potential mindset.

Even if recovery is delayed as the pandemic takes more time to get under control, or if there are further geopolitical tensions, we remain confident that revival and subsequent growth will take place within the next three years. Keeping a full-potential mindset, collaborating within and across organisations using digital technology we have an opportunity to not only come out of this crisis but realise our hidden, full potential.

This report compiled on 15th August and launched in our Independence Day week, is a small contribution to that mission.

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