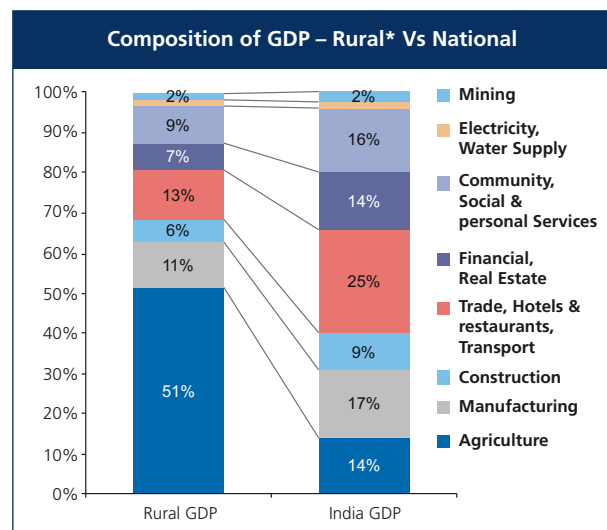
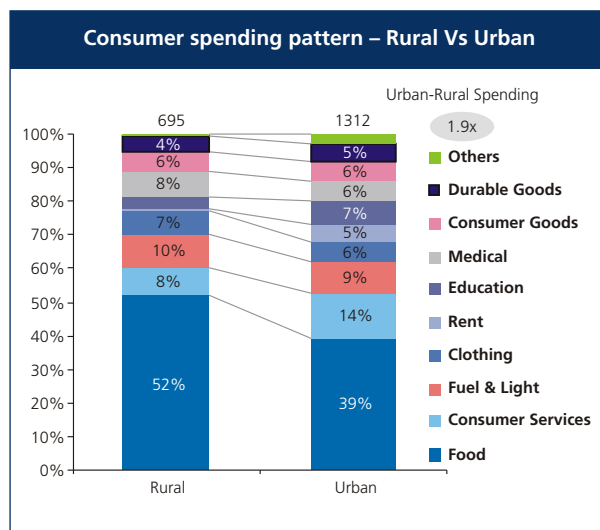


Rural Businesses

Rural India accounts for nearly 70% of the total population and agriculture account for almost half of rural GDP output

Rural India accounts for nearly 70% (approximately 720 mn) of the total population and plays a critical role in the country's economic development. Apart from being a large consumer market, the availability of cheap labour and low-cost land are key drivers for businesses to penetrate rural areas. In addition, the government's focus on inclusive growth (National Common Minimum Programme), and massive infrastructure development programmes is expected to bridge the rural-urban divide. What was once a fully agrarian market is now evolving into a major consumption market—the Monthly Per Capita Expenditure (MPCE) in rural areas is estimated at INR695, nearly half of urban India's MPCE¹.



* Rural GDP data as on 2006, National GDP data (Jul-Sep 2009) Source: NSS, MOSPI, Aranca Research

Stark differences exist in the urban–rural consumer spending pattern; rural spending estimated to be half of urban spending

Besides traditional established industries fast-penetrating the rural markets, there are several new business opportunities emerging in these areas. These include micro-finance/agri-credit, agri-tourism and renewable energy.

Growth drivers

- **Rising per capita income in rural India:**

Almost half of the rural GDP comprises agriculture relative to less than 20% of national output for overall India. Factors such as higher food prices, increase in agriculture income and a shift from farm to non-farm based employment are expanding the average income levels for rural India (growing at 12% per annum)². Thus, companies, across sectors such as financial services, FMCG, telecom and others, aim to tap the rural market in India.

- **Empowerment of rural India through various employment generation schemes:**

The NREG Act 2005, which guarantees every rural household up to 100 days of wage employment in a year, has been highly successful in ensuring improved quality of life and enhanced income for rural households. As per estimates, on an average, daily wages have increased INR20–30 per person due to this scheme. This translates into INR 342bn (approximately USD 7.5bn) per annum

of additional wages. Other schemes for employment include Sampoorna Grameen Rozgar Yojna, National Food for Work Programme and Swarna Jayanti Gram Swarozgar Yojna.

- **Infrastructure development programmes:**

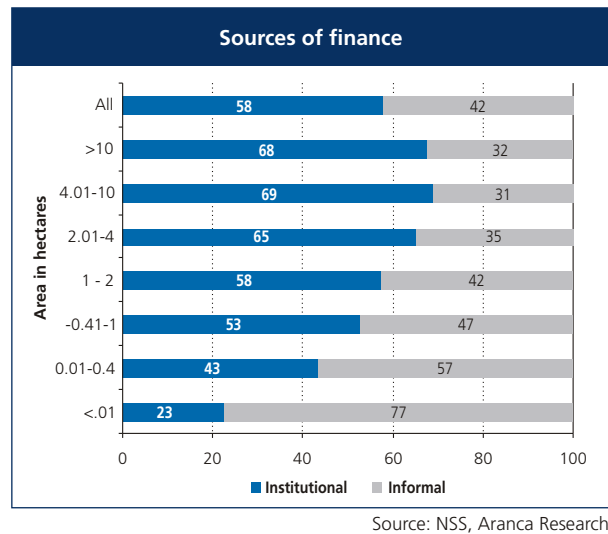
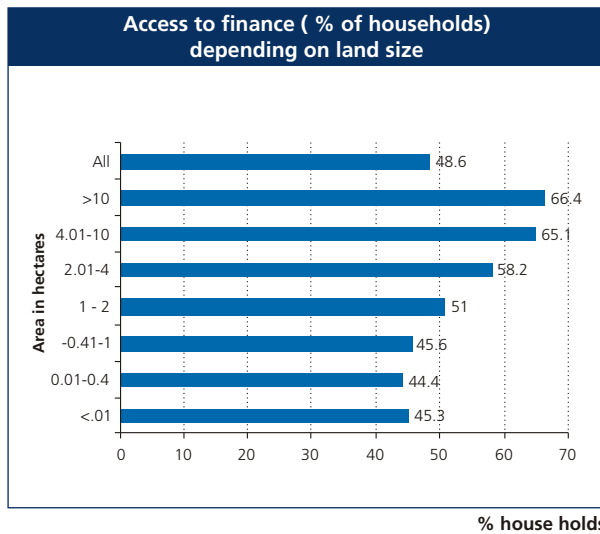
The government has initiated a series of rural infrastructure development programmes under the Bharat Nirman project. Under this project, the government would undertake infrastructure building in the areas of irrigation, rural housing, rural water supply, rural electrification and rural telecommunication connectivity. Other programmes such as the Rajiv Gandhi Grameen Vidhyutikaran Yojana (RGGVY) and Pradhan Mantri Gram Sadak Yojana (PMGSY) have provided a significant boost to rural India.

Various programs for rural development in India	
Segment	Description
Rural roads	A USD 10bn project is aimed at constructing 1,46,185 km of new rural roads, improving 1,94,132 km of the existing rural roads and providing farm to market connectivity.
Rural water supply	Rajiv Gandhi National Drinking Water Mission (RGNDWM) aims to provide safe drinking water to all villages.
Rural electrification	Introduced in 2005 under the RGGVY, the project aims to provide electricity in all villages and habitations by 2009
Telephone connections	The project is expected to ensure telephone connectivity to more than 66,800 revenue villages in the country through Village Public Telephone. Digital satellite phone terminals based connectivity would be provided in 14,100 revenue villages.
Irrigation	A planned target creation of additional irrigation potential for 10 mn hectare during 2005-09
Rural housing	Initiated in 1985, the Indira Awaas Yojana (IAY) provides financial assistance to below the poverty line rural households of backward classes for construction of dwelling units.

Source: Ministry of Rural Development

- **Increasing farm credit a boost to rural India:**

Through the government's focussed initiative of improving farm credit, rural India is benefiting from access to finance for various agriculture needs. The credit off take from the farm sector increased to USD 59bn in 2008–09 from USD 56bn the previous year. On an average, about 48.6% of total households in India have access to finance through a mix of informal and institutional arrangements. Although households with large land availability tend to receive institutional sources of funds, those with small land (less than one hectare) are mostly dependent on informal sources of funds.



Source: NSS, Aranca Research

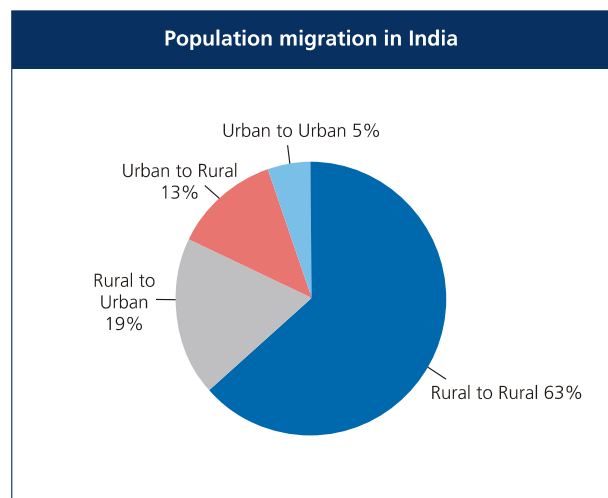
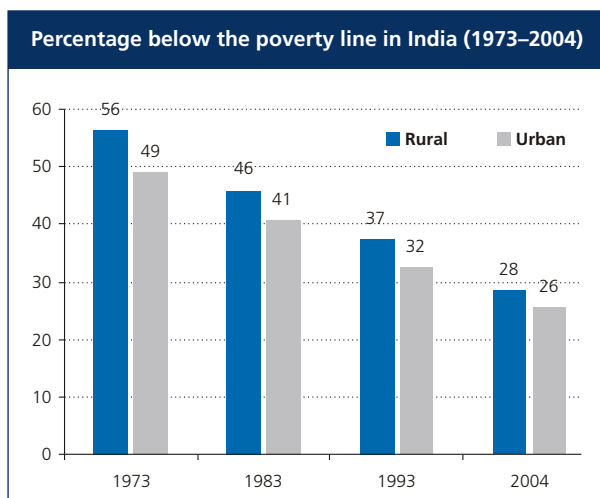
Improving the level of education, healthcare services, and infrastructure in rural areas considered the key challenge

Key challenges

- Weak socio-economic status:**

Though India has been successful in reducing poverty levels; the country's population below the poverty line is more than 300 mn (or around 25% of the total population). Rural India accounts for 73% of the poor population in the country. Furthermore, rural areas lack proper healthcare facilities and socio-economic parameters are weak with relatively high infant mortality rate, poor nutrition levels and low literacy rates.

- Rural development is mostly undertaken through government funds; as a result the execution of several projects under development is delayed. Consequently, significant resources allocated for rural development are under utilised and also lead to cost overruns.



Source: Planning Commission

Currently, rural businesses are highly unorganised with majority of operations being carried out by small time local businesses

- Following are the other factors impacting rural development.
 - The fragmented landholding nature of agriculture is creating systemic challenges of mobilising resources into irrigation, farm subsidies, and fertiliser subsidies.
 - More than 87,000 farmers committed suicide between 2002 and 2006 due to the poor harvest and rising debt levels³. In 2008, the Central government had to announce a farm loan waiver of more than USD 12bn to address this issue.

Rural Businesses – Emerging opportunities in India

	Food & Agriculture	Logistics/ Distribution	Infrastructure	Technology	Others
	Agricultural produce Aqua culture Irrigation projects Packaged foods Farm equipment Water management	Rural distribution networks Rural warehouses Rural roads	Alternate energy – solar/biomass/wind/ micro hydro systems Energy saving lights and equipment (LED lights) Rural connectivity for communications Rural electrification	Rural internet access Internet enabled services for rural India such as weather, crops information BPO operations	Micro-finance Tourism/agri-tourism Healthcare facilities Education Insurance and banking
Key Players	IVRCL, ITC, Godrej Aadhaar	ITC echoupal, HUL, Futures Group, Reliance Fresh	IVRCL, HCC, Rural Electrification Corporation	Google, IT majors	HUL – ishakti, PSU banks

Source: Aranca Research

Rural business opportunities include agriculture, micro-financing, SME lending, and renewable energy projects

Rural business potential alongside the nascent stage of organized sector establishments in rural India is fast attracting venture capital and private equity investments into rural businesses such as Microfinance, water management and renewable energy.

Outlook

Supporting government policies and rural infrastructure development initiatives could enable the rural economy to become an increasingly important target market for businesses in India. Rising income levels, arising from high food prices, and agri-produce, and a shift in employment towards non-farm jobs are likely to drive consumption growth in rural India. The government's several rural development initiatives (such as NREGA), rural electrification, communication infrastructure, and road connectivity are bridging the urban-rural divide in India.

¹ National Sample Survey Organisation report, Ministry of Statistics and Programme Implementation, India

² National Sample Survey Organisation report, Ministry of Statistics and Programme Implementation, India

³ National Crime Records Bureau, India

Important Notice

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