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# EXECUTIVE SUMMARY

## Growing lending and deposit

- Total lending has increased at a CAGR of 10.94% during FY07-19 and total deposits have increased by 17.21% in FY19 and is poised for further growth due to demand for housing and personal finance.

## Higher ATM penetration

- As on May 31, 2020, total number of ATMs in India increased to 210,415 and is expected to reach 407,000 by 2021.

## Rising rural penetration

- As of September 2019, 44 regional rural banks were functioning in the country.
- RBI has allowed regional rural banks with net worth of at least US$ 15.28 million to launch internet banking facilities.

---

**Notes:** ATM - Automated Teller Machine, FIP – Financial Inclusion Plan, RBI – Reserve Bank of India

**Source:** India Banking Association, Reserve Bank of India
ADVANTAGE INDIA
Increase in working population and growing disposable incomes will raise demand for banking & related services.

Housing and personal finance are expected to remain key demand drivers.

Rural banking is expected to witness growth in the future.

Mobile, internet banking and extension of facilities at ATM stations to improve operational efficiency.

Vast un-banked population highlights scope for innovation in delivery.

Rising fee incomes improving the revenue mix of banks.

High net interest margins along with low NPA levels ensure healthy business fundamentals.

Wide policy support in the form of private sector participation and liquidity infusion.

Healthy regulatory oversight and credible monetary policy by the Reserve Bank of India (RBI) have lent strength and stability to the country’s banking sector.

Note: NPA – Non Performing Assets
Source: IBA report titled “Being five-star in productivity - Roadmap for excellence in Indian banking
MARKET OVERVIEW
EVOLUTION OF THE INDIAN BANKING SECTOR

- Closed market
- State-owned Imperial Bank of India was the only bank existing

- Imperial Bank expanded its network to 480 branches
- In order to increase penetration in rural areas, Imperial Bank was converted into State Bank of India

- In 2003, Kotak Mahindra Finance Ltd received a banking license from RBI and became the first NBFC to be converted into a bank
- In 2009, the Government removed the Banking Cash Transaction Tax which was introduced in 2005

- RBI was established as the central bank of country
- Quasi central banking role of Imperial Bank came to an end

- Nationalisation of 14 large commercial banks in 1969 & six more banks in 1980
- Entry of private players such as ICICI intensifying the competition
- Gradual technology upgradation in PSU banks

- As per Union Budget 2019-20, provision coverage ratio of banks reached highest in 7 years.
- According to RBI, India’s foreign exchange reserve reached US$ 534.56 billion as on July 31, 2020.

Note: RBI - Reserve Bank of India
Source: Indian Bank’s Association, BMI
THE STRUCTURE OF INDIAN BANKING SECTOR

Reserve Bank of India

Banks

Scheduled commercial banks (SCBs) (as of September 2019)

- Public sector banks (12)
- Private sector banks (22)
- Foreign banks (46)
- Regional Rural Banks (RRB) (56)
- Urban cooperative banks (1,485)
- Rural cooperative banks (96,000)

Cooperative credit institutions

Financial institutions

- All-India financial institutions
- State-level institutions
- Other institutions

Source: Reserve Bank of India’s ‘Report on Trend and Progress of Banking in India, Reserve Bank of India documents, News Source
Indian banking sector has grown at a healthy pace…(1/2)

- Credit off-take has been surging ahead over the past decade, aided by strong economic growth, rising disposable incomes, increasing consumerism and easier access to credit.

- During FY16-FY20, credit off-take grew at a CAGR of 13.93%. As of FY20, total credit extended surged to US$ 1,936.29 billion.

- Demand has grown for both corporate and retail loans. Services, real estate, consumer durables and agriculture allied sectors have led the growth in credit.

- According to Reserve Bank of India (RBI), bank credit and deposits stood at Rs 102.19 lakh crore (US$ 1.45 trillion) and Rs 140.20 lakh crore (US$ 1.98 trillion), respectively, in the fortnight ending July 31, 2020.

- Credit to non-food industries stood at Rs 101.33 lakh crore (US$ 1.43 trillion) on July 31, 2020.

**Note:** *CAGR till FY20, *- till July 31, 2020

**Source:** Reserve Bank of India (RBI)
INDIAN BANKING SECTOR HAS GROWN AT A HEALTHY PACE…(2/2)

- Access to banking system has also improved over the years due to persistent effort from Government to promote banking technology and promote expansion in unbanked and non-metropolitan regions.
- At the same time, India’s banking sector has remained stable despite global upheavals, thereby retaining public confidence over the years.
- Strong growth in savings amid rising disposable income levels are the major factors influencing deposit growth.
- Bank accounts opened under the Government’s flagship financial inclusion drive Pradhan Mantri Jan Dhan Yojana (PMJDY) reached 40.05 crore and deposits in Jan Dhan bank accounts stood at more than Rs 1.30 lakh crore (US$ 18.44 billion).
- As of June 19, 2020, deposits growth of 11% was marginally lower compared to growth of 11.3% in the previous fortnight.
- Opportunity:
  - Significant growth possible in private sector lending as credit disbursal by private sector banks is expected to increase.
  - Market share of private banks in advances is expected to increase from 27.7% in 2017-18 to nearly 35% in 2019-20.

Source: Reserve Bank of India (RBI)
ASSETS BASE CONTINUES TO EXPAND

- During FY17-FY19, assets of banks across sectors increased. Total assets across the banking sector (including public, private sector and foreign banks) increased to US$ 2.27 trillion in FY19.
- In FY19, total assets in public and private banking sector were US$ 1,441.76 billion and US$ 751.59 billion, respectively.
- Asset of public sector banks accounted for 66.03% of the total banking assets (including public, private sector and foreign banks).

Source: Reserve Bank of India (RBI), Indian Banks Association
Public sector banks accounted for over 60% of interest income in the sector in FY19.

Interest income of public banks reached US$ 98 billion in FY19.

In FY19, private banking sectors’ interest income reached US$ 56.3 billion, whereas, those of foreign banks stood at US$ 8 billion during the same period.

Source: Reserve Bank of India, IBA (Indian Banks Association)
Public sector banks accounted for about 51.7% of other income.

‘Other income’ for public sector banks stood at US$ 13.45 billion in FY19.

In FY19, private banking sectors’ ‘other income’ was US$ 10.51 billion. Foreign banks ‘other income’ reached US$ 2.04 billion during the same period.

Source: Indian Bank’s Association, BMI
Loan-to-Deposit ratio for banks across sectors has increased over the years.

Private and foreign banks have posted high return on asset than nationalised and public banks. This has prompted most of the foreign banks to start their operations in India.

Source: Reserve Bank of India (RBI), IBA Indian Banks Association
NOTABLE TRENDS
### NOTABLE TRENDS IN THE BANKING INDUSTRY SECTOR … (1/4)

**Improved risk management practices**
- Indian banks are increasingly focussed on adopting integrated approach to risk management.
- Banks have already embraced the international banking supervision accord of Basel II. Interestingly, according to RBI, majority of the banks already meet capital requirements of Basel III, which had a deadline of March 31, 2019.
- Most of the banks have put in place the framework for asset-liability match and credit and derivatives risk management.
- The NPAs (Non-Performing Assets) of commercial banks recorded a recovery of Rs 400,000 crore (US$ 57.23 billion) in last four years including record recovery of Rs 156,746 crore (US$ 22.42 billion) in FY19.

**Diversification of revenue stream**
- Total lending has increased at a CAGR of 10.94% during FY07-19 and total deposits have increased by 17.21% in FY19 and is poised for further growth due to demand for housing and personal finance.

**Technological innovations**
- As on May 31, 2020, total number of ATMs in India increased to 210,415 and is expected to reach 407,000 by 2021.
- MDR scrapping to boost Unified Payment Interface (UPI)-based transaction - the Government has proposed scrapping of all charges for payments facilitated through UPI at businesses with annual turnover of more than Rs 50 crore (US$ 7.15 million).
- By 2022, digital assistants, social media and third-party channels are projected to act as primary channels for banking.
- In October 2019, Government E-Marketplace (GeM) signed a memorandum of understanding (MoU) with Union Bank of India to facilitate cashless, paperless and transparent payment system for an array of services.

*Source: Indian Bank’s Association, Indian Banking Sector 2020, Research, FIS report, Bank for International Settlement (BIS), 10th annual ‘Innovation in Retail Banking’ report by Infosys Finacle*
### NOTABLE TRENDS IN THE BANKING INDUSTRY SECTOR … (2/4)

**Focus on financial inclusion**
- Ministry of Finance, Government of India, launched the Financial Inclusion Index. This index will measure access, usage and quality to financial services.
- Department of Financial Services (DFS), Ministry of Finance and National Informatics Centre (NIC), launched Jan Dhan Darshak as a part of financial inclusion initiative. It is a mobile app to help people locate financial services in India.

**Derivatives and risk management products**
- The increasingly dynamic business scenario & financial sophistication has increased the need for customised exotic financial products.
- Banks are developing innovative financial products & advanced risk management methods to capture the market share.
- Bank of Maharashtra tied up with Cigna TTK to market their insurance products across India.

**Consolidation**
- With entry of foreign banks, competition in the Indian banking sector has intensified.
- Banks are increasingly looking at consolidation to derive greater benefits such as enhanced synergy, cost take-outs from economies of scale, organisational efficiency and diversification of risks.

**Demonetisation**
- The effects of demonetisation are also visible in the fact that bank credit plunged by 0.8% from November 8 to November 25, 2016, as US$ 9.85 billion were paid by defaulters.
- Debit cards have radically replaced credit cards as the preferred payment mode in India, after demonetisation.

*Source: Indian Bank’s Association, Indian Banking Sector 2020*
Focus towards Jan Dhan Yojana

- As of September 2018, the Government of India made Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme an open-ended scheme and also added more incentives.
- Key objective of PMJDY is to increase the accessibility of financial services such as bank accounts, insurance, pension, credit facilities, etc. mostly to the low-income groups.
- Bank accounts opened under PMJDY reached 40.05 crore and deposits in Jan Dhan bank accounts stood at more than Rs 1.30 lakh crore (US$ 18.44 billion).
- There are around 1,100 banks that are issuing around 600 million RuPay cards.

Wide usability of RTGS, NEFT and IMPS

- Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) are being implemented by Indian banks for fund transaction.
- Securities Exchange Board of India (SEBI) has included NEFT & RTGS payment system to the existing list of methods that a company can use for payment of dividend or other cash benefits to their shareholders & investors.
- The number of transactions through Immediate Payment Service (IMPS) increased to 189.2 million in volume and amounted to Rs 1.82 trillion (US$ 26.04 billion) in value in July 2019.

Know Your Client

- RBI mandated the Know Your Customer (KYC) Standards, wherein, all banks are required to put in place a comprehensive policy framework in order to avoid money laundering activities.
- The KYC policy is now mandatory for opening an account or making any investment such as mutual funds.
- In May 2020, Minister for Finance and Corporate Affairs, Ms Nirmala Sitharaman formally launched the facility for instant allotment of PAN (on near to real time basis) through Aadhaar based e-KYC.

Source: Indian Bank’s Association, Indian Banking Sector 2020, Pradhanmantri Jan Dhan Yojna, Business India, , NPCI website
Digital influence in the Indian banking sector has been growing faster due to the rising digital footprint.

India’s digital lending stood at US$ 110 billion in FY19.

Digital lending to micro, small and medium enterprises (MSMEs) in India is expected to reach US$ 100 billion by 2023.

Note: E – Estimate, Omdiyar Network and the Boston Consulting Group (BCG)
Source: Digital Lending Report 2019 - BCG
Banking penetration in rural India picking pace

- Of 600,000 village habitations in India, only 5% have a commercial bank branch.
- By May 2020, number of outstanding debit and credit cards were 835.34 million and 57.17 million, respectively.
- 51.4% of nearly 89.3 million farm households do not have access to any credit, either from institutional or non-institutional sources.
- Agriculture requires timely credit to enable smooth functioning. However, only one-eighth of farm households avail bank credit.
- Local money-lending practices involve interest rates well above 30% therefore making bank credit a compelling alternative.

Soaring rural tele-density opens avenue of mobile banking (in%)

- Tele-density in rural India soared at a CAGR of nearly 6.82% between 2011 to 2019.
- Banks, telecom providers and RBI are making efforts to make roads into the un-banked rural India through mobile banking solutions.
- Rural tele density reached 58.21% in 2019.

Source: TRAI
Mobile banking allows customers to avail banking services on the move through their mobile phones. The growth of mobile banking could impact the banking sector significantly.

Mobile banking is especially critical for countries like India as it promises to provide an opportunity to provide banking facilities to a previously under-banked market.

RBI has taken several steps to enable mobile payments, which forms an important part of mobile banking; the central bank has recently removed the transaction limit of Rs 50,000 (US$ 745.82) and allowed banks to set their own limits.

Payments on Unified Payments Interface (UPI) hit an all-time high of 1.49 billion in terms of volume with transactions worth nearly Rs 2.90 lakh crore (US$ 41.22 billion) in July 2020.

Source: PWC, ‘Searching for new frontiers of growth’, Reserve Bank of India
STRATEGIES ADOPTED
### STRATEGIES ADOPTED (1/2)

| Increased use of technology | ▪ As per Union Budget 2019-20, the Government proposed a fully automated GST refund module and an electronic invoice system to eliminate the need for a separate e-way bill.  
▪ In March 2019, India’s eleven largest banks – ICICI Bank, Kotak Mahindra Bank, HDFC Bank, Yes Bank, Standard Chartered Bank, RBL Bank, South Indian Bank, and Axis Bank, launched the first ever blockchain-linked loan system in the country.  
▪ RBI introduced mobile app, ‘MANI’, for visually challenged people to help them identify currency notes. |
| Cross-selling | ▪ Major banks tend to increase income by cross-selling products to their existing customers.  
▪ Foreign banks have been able to grow business despite a much lower customer coverage. |
| Capture latent demand | ▪ Expansion in unbanked rural regions helps banks to garner deposits.  
▪ Increasing tele-density and support of regulators have aided rural expansion. |
| Overseas expansion | ▪ Although at a nascent stage, private & public banks are gradually expanding operations overseas.  
▪ Internationally, banks target India-based customers and investors settled abroad.  
▪ In September 2019, State Bank of India (SBI) became first the Indian bank to open a branch in the Australian state of Victoria. |
| Merger Execution | ▪ In March 2020, the Government of India merged ten public sector banks into four banks to drive credit growth, lift the slowing economy and boost the government’s target of a $5-trillion economy by 2024.  
▪ The consolidation of banks helped create a bandwidth for better management, improve economies of scale and lead to efficiency over medium to long term. |

*Source: Indian Bank’s Association, Indian Banking Sector 2020,*
Privatise Public Sector Banks (PSU)

- On 22nd August 2020, the Government of India announced that it may privatise four public sector banks namely—Punjab & Sind Bank, Bank of Maharashtra, UCO Bank and IDBI Bank
- The government plans to sell its stake and disinvest equity in the four banks in an effort to generate government revenue, which is severely hit amid the coronavirus crisis.

Source: Indian Bank’s Association, Indian Banking Sector 2020,
GROWTH DRIVERS AND OPPORTUNITIES
# GROWTH DRIVERS OF INDIAN BANKING SECTOR

<table>
<thead>
<tr>
<th>Economic and demographic drivers</th>
<th>Policy support</th>
<th>Infrastructure financing</th>
<th>Government initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Favourable demographics and rising income levels.</td>
<td>▪ The Government passed the Banking Regulation (Amendment) Bill 2017 to empower RBI to deal with NPAs in the banking sector.</td>
<td>▪ India currently spends 6% of GDP on infrastructure; NITI Aayog expects this fraction to grow going ahead.</td>
<td>▪ Government has smoothly carried out consolidation, reducing the number of public sector banks by eight.</td>
</tr>
<tr>
<td>▪ India ranks among the top 7 economies with a GDP of US$ 2,73 trillion in 2018.</td>
<td>▪ The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill was passed by Rajya Sabha to strengthen the banking sector (as of Jan 2018).</td>
<td>▪ As per Union Budget 2019-20, investment-driven growth requires access to low cost capital, which requires an investment of Rs 20 lakh crores (US$ 300 billion) every year.</td>
<td>▪ The Government of India will invest Rs 48,239 crore (US$ 6.78 billion) in 12 public sector banks in FY20 to help maintain regulatory capital requirements and financial growth in India.</td>
</tr>
<tr>
<td>▪ The sector will benefit from structural economic stability and continued credibility of Monetary Policy.</td>
<td></td>
<td>▪ The scheme was launched on March 28, 2018 to provide social security to elderly people by providing Rs 10,000 (US$ 155) pension per month.</td>
<td>▪ The Government of India will invest Rs 5,042 crore (US$ 730.88 million) in Bank of Baroda post its merger with two other public sector lenders, Dena Bank and Vijaya Bank.</td>
</tr>
</tbody>
</table>

### Common Service Center (CSC)

| ▪ The Government of India plans to allow Common Service Centers (CSC) to offer banking services. | |
| ▪ CSC will offer free internet through BharatNet till March 2020. | |

### Pradhan Mantri Vaya Vandana Yojna

| ▪ The scheme was launched on March 28, 2018 to provide social security to elderly people by providing Rs 10,000 (US$ 155) pension per month. | ▪ The scheme has subscription limit till 31st March 2020. |
| ▪ The scheme has investment limit of Rs 15 lakh (US$ 23,274). | |

**Notes:** GDP - Gross Domestic Product, KYC - Know Your Customer, RBI - Reserve Bank of India, NPA – non-performing assets  
**Source:** World Development Indicators database by World Bank, WEO Update July 2018
STRONG ECONOMIC GROWTH TO PROPEL BANKING SECTOR EXPANSION

- Rising per capita income will lead to an increase in the fraction of the Indian population that uses banking services.
- Population in the 15-64 age group is expected to grow strongly going ahead, giving further push to the number of customers in the banking sector.
- As per Economic Survey 2018-19, working age population will grow by 9.7 million per year during 2021-31 and 4.2 million per year during 2031-41.

*Note: E - Expected, GDP - Gross Domestic Product
Source: World Bank*
The real annual disposable household income in rural India is forecast to grow at a CAGR of 3.6% over the next 15 years.

Gross Value Added by agriculture, forestry and fishing is estimated at Rs 32.54 trillion (US$ 465.64 billion) in FY20*.

Rising incomes are expected to enhance the need for banking services in rural areas, and therefore, drive growth of the sector. Programmes like MNREGA have helped in increasing rural income, which was further aided by the recent Jan Dhan Yojana.

Note: * 2nd advanced estimates, ** 2nd revised estimates, *** 1st revised estimate, CAGR in Rs
Source: McKinsey estimates, Ministry of Agriculture,
HOUSING AND PERSONAL FINANCE HAVE BEEN KEY DRIVERS … (1/2)

- Rapid urbanisation, decreasing household size & easier availability of home loans has been driving demand for housing.
- Personal finance, including housing finance, provide an essential cushion against volatility in corporate loans.
- Housing units worth Rs 45 lakh (US$ 63,107) will rise on account of additional Rs 1.5 lakh (US$ 2,103) tax deduction.
- The recent improvement in property value have reduced the ratio of loan to collateral value.
- Credit to housing sector increased at a CAGR of 13.4% during FY16–FY20, wherein, value of credit to housing sector increased from to US$ 114.10 billion in FY16 to US$ 188.68 billion in FY20.
- Demand in the low- & mid-income segment exceeds supply three- to four-fold. This has propelled the demand for housing loan in the last few years.

Source: Reserve Bank of India (RBI)
Growth in disposable income has been encouraging households to raise their standard of living and boost demand for personal credit.

Credit under the personal finance segment (excluding housing) rose at a CAGR of 15.46% during FY16–FY19 and stood at US$ 151.75 billion in FY19.

Unlike some other emerging markets, credit-induced consumption is still less in India.

Source: Reserve Bank of India (RBI)
SCHEMES BY GOVERNMENT

Pradhan Mantri Suraksha Bima Yojana
- This scheme is mainly for accidental death insurance cover for up to Rs 2 lakh (US$ 2,983.29).
- Premium: Rs 12 (US$ 0.18) per annum.
- Risk Coverage: For accidental death and full disability - Rs 2 lakh (US$ 2,983.29) and for partial disability – Rs 1 lakh (US$ 1,491.65).
- Gross enrolment under the scheme reached 154 million in FY19.

Pradhan Mantri Jeevan Jyoti Bima Yojana
- This scheme aims to provide life insurance cover.
- Premium: Rs 330 (US$ 4.92) per annum. It will be auto-debited in one instalment.
- Risk Coverage: Rs 2 lakh (US$ 2,983.29) in case of death for any reason.
- Gross enrolment under the scheme reached 59 million in FY19.

Atal Pension Yojana
- Under the scheme, subscribers would receive fixed pension up to Rs 5,000 (US$ 74.58) at the age of 60 years (depending on their contributions).
- The central Government will also co-contribute 50% of the subscriber's contribution or Rs 1,000 (US$ 14.92) per annum, whichever is lower, to each eligible subscriber account, for a period of 5 years.
- Till October 2019, the total number of subscribers were 19 million.

Pradhan Mantri Jan Dhan Yojana
- Bank accounts opened under PMJDY reached 40.05 crore and deposits in Jan Dhan bank accounts stood at more than Rs 1.30 lakh crore (US$ 18.44 billion).
- Under the scheme, each & every citizen will be enrolled in a bank for opening a Zero balance account.
- Each person getting into this scheme will get Rs 30,000 (US$ 447.49) life cover while opening the account.
- Overdraft limit under such account is Rs 5,000 (US$ 74.58).

Capital Infusion Scheme
- Approved extension of Rs 343 crore (US$ 51.16 million) to be infused for three years till FY20 in regional rural banks (RRBs), which will strengthen their lending capacity.

Note: PFRDA – Pension Fund Regulatory and Development Authority of India
Source: News Articles, Pradhanmantri Jan Dhan Yojna, PMO
The consolidated M&A activities are driven by NBFC and banking sector.

In 2019, banking and financial services witnessed 32 M&A activities worth US4 1.72 billion.

Under Budget 2019-20, the Government proposed Rs 70,000 crore (US$ 10.2 billion) to public sector banks.

The Government approved the amalgamation scheme for Bank of Baroda, Vijaya Bank and Dena Bank, the commencement of which started from April 01, 2019.

The total equity funding of microfinance sector grew at the rate of 42 y-o-y to Rs 14,206 crore (US$ 2.03 billion) in 2018-19.

In August 2019, the Government announced major mergers of public sector banks. United Bank of India and Oriental Bank of Commerce merged with Punjab National Bank; Allahabad Bank merged with Indian Bank; and Andhra Bank and Corporation Bank merged with Union Bank of India.

In March 2020, State Bank of India (SBI), India’s largest lender, raised US$ 100 million in green bonds through private placement.

In April 2020, Axis Bank acquired additional 29% stake in Max Life Insurance.

In August 2020, the Chinese Central Bank People’s Bank of China acquired a 0.0065% stake in ICICI Bank for Rs 15,000 crore (US$ 2127.9 million)

Source: News Articles, EY Transaction Annual Report highlights of 2017 and Outlook 2018, Microfinance Institution Network
KEY INDUSTRY ORGANISATIONS
Indian Banks’ Association

World Trade Centre, 6th Floor
Centre 1 Building,
World Trade Centre Complex,
Cuff Parade, Mumbai - 400 005, India
E-mail: webmaster@iba.org.in
GLOSSARY

- ATM: Automated Teller Machines
- CAGR: Compound Annual Growth Rate
- FY: Indian Financial Year (April to March)
- GDP: Gross Domestic Product
- Rs: Indian Rupee
- KYC: Know Your Customer
- NIM: Net Interest Margin
- NPA: Non-Performing Assets
- RBI: Reserve Bank of India
- US$: US Dollar
- Wherever applicable, numbers have been rounded off to the nearest whole number
## Exchange Rates

### Exchange Rates (Fiscal Year)

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<th>Year</th>
<th>Rs</th>
<th>Rs Equivalent of one US$</th>
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### Exchange Rates (Calendar Year)

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*Source: Reserve Bank of India, Average for the year*
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