India's growth paradigm

How markets beyond metros have transformed

March 2017

EY

Building a better working world

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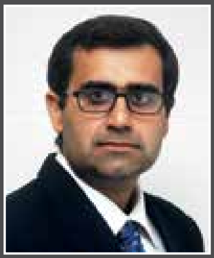

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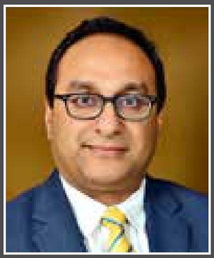

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Foreword

India is forging ahead as the world's fastest growing major economy. Urban clusters are driving this growth, and more consumers and more purchasing power is emerging beyond the metros, particularly in Tier II/III cities. Media consumption has also matured in these markets, and penetration of mediums like print, DTH and radio can even be higher than in metros. As the country's economic and media landscape continues to flatten, sizable opportunities have arisen in this new set of cities.

However, many companies today continue to define their market, marketing and investment plans through a narrow lens focused on just the top handful of cities. But to fully realize its growth potential, India Inc. would be well-served to evaluate these emerging markets. Through our report, we aim to understand this opportunity across India's fifty largest consumption hubs, and map how companies today are approaching individual hotspots.

We hope you find this report helpful in exploring the opportunities this new wave of high-potential urban markets has in store for businesses, marketers and the industry at large.

Executive highlights

Urban areas are the engines driving India's growth

>470mn

People will reside in Indian cities in 2020, up from 420mn in 2015

>70%

Of national GDP will be generated by urban areas by 2020, up from 65% in 2015

8.8%

Real GDP growth of urban India 2015-20 4% higher than rural India

The 50 largest cities* have transformed into major consumption hubs

123mn

People lived in these cities in 2015**

INR 26.4trn

Of household income was concentrated in such markets in 2015

A "new wave" of metros and mini-metros has emerged

8

Metros which possess household income of atleast INR 800bn

2

Additional markets-Jaipur and Surat-will cross this INR 800bn threshold before 2020

26

Cities' household income will exceed INR 400bn in 2020-up from 18 such cities in 2015

* Largest 50 cities as per cumulative household income, excluding cities bordering metros and in Jammu & Kashmir
** A further 41mn lived in surrounding areas as part of the wider urban agglomeration-areas that do not fall under the definition of a 'city' per the government Census

42 new wave markets are catching up to India's 8 metros

6.9mn

Addition to the population base of 42 new wave markets from 2015-20- these cities' population recently surpassed that of metros and the gap will continue to widen

61%

Share of household income in 2020 for new wave markets relative to metros-up from 58% in 2010

Top-11

Fastest growing cities in terms of 2015-20 annual GDP growth are new wave markets

Markets with the greatest gap between demand-side consumption and supply-side penetration belong to this new wave of non-metros

Top-23

Markets that are the most under-tapped by companies today are all new wave cities

These **23 markets** represent **19%** of **metros' household income**-but only **12%** of **retail outlets** **15%** of **telecom centres** and **17%** of **malls**

Media penetration in these new wave markets is rising and has even passed that of metros in certain mediums

42 new wave markets' total population is similar to that of 8 metros today, but they have...

.88x
as many TV households

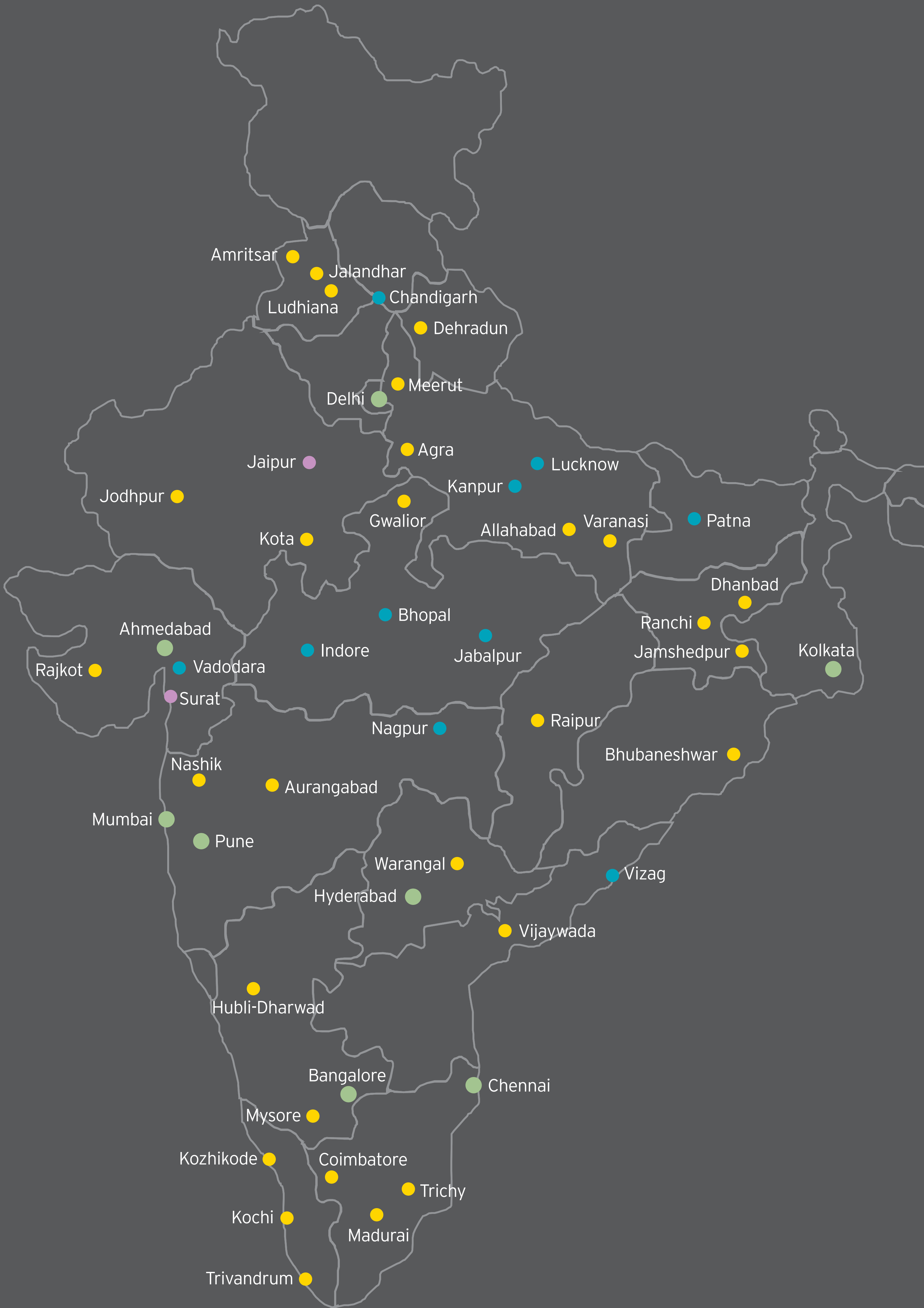
1.26x
as many DTH households

1.06x
times a large print circulation***

0.63x
as many active Facebook users

2.17x
as many operational radio frequencies

*** Adjusted from urban area-level to city-level


Amritsar
Jalandhar
Ludhiana
Chandigarh
Dehradun
Meerut
Delhi
Agra
Jaipur
Lucknow
Kanpur
Jodhpur
Gwalior
Allahabad
Varanasi
Patna
Kota
Dhanbad
Bhopal
Ranchi
Ahmedabad
Indore
Jabalpur
Jamshedpur
Kolkata
Rajkot
Vadodara
Surat
Raipur
Nagpur
Bhubaneshwar
Nashik
Aurangabad
Mumbai
Pune
Warangal
Vizag
Hyderabad
Vijaywada
Hubli-Dharwad
Bangalore
Chennai
Mysore
Kozhikode
Coimbatore
Trichy
Kochi
Madurai
Trivandrum

8 Traditional metros

Ahmedabad	AHM
Bangalore	BNG
Chennai	CHEN
Delhi	DEL
Hyderabad	HYD
Kolkata	KOLK
Mumbai	MUM
Pune	PUNE

42 New wave cities

2 Fresh metros

Jaipur	JPR
Surat	SURT

10 Next set of high-potential cities

Bhopal	BHOP
Chandigarh	CHND
Indore	INDR
Jabalpur	JBLP
Kanpur	KANP
Lucknow	LUCK
Nagpur	NAGP
Patna	PATN
Vadodara	VAD
Vizag	VIZ

30 Additional emerging markets

Agra	AGRA	Kota	KOTA
Allahabad	ALLH	Kozhikode	KOZH
Amritsar	AMRT	Ludhiana	LUDH
Aurangabad	AURA	Madurai	MADU
Bhubaneswar	BHUB	Meerut	MRUT
Coimbatore	COIMB	Mysore	MYS
Dehradun	DHRD	Nashik	NASH
Dhanbad	DHNB	Raipur	RAIP
Guwahati	GUW	Rajkot	RAJK
Gwalior	GWAL	Ranchi	RNCH
Hubli-Dharwad	HUBL	Trichy	TRCH
Jalandhar	JALN	Trivandrum	TRV
Jamshedpur	JMSH	Varanasi	VARAN
Jodhpur	JODH	Vijayawada	VIJY
Kochi	KOCH	Warangal	WRNG

1

Urbanization

Millions more middle class

India is evolving. In its seventh decade of independence, over US$1trn has been added to national GDP, lifting tens of millions into the middle class.

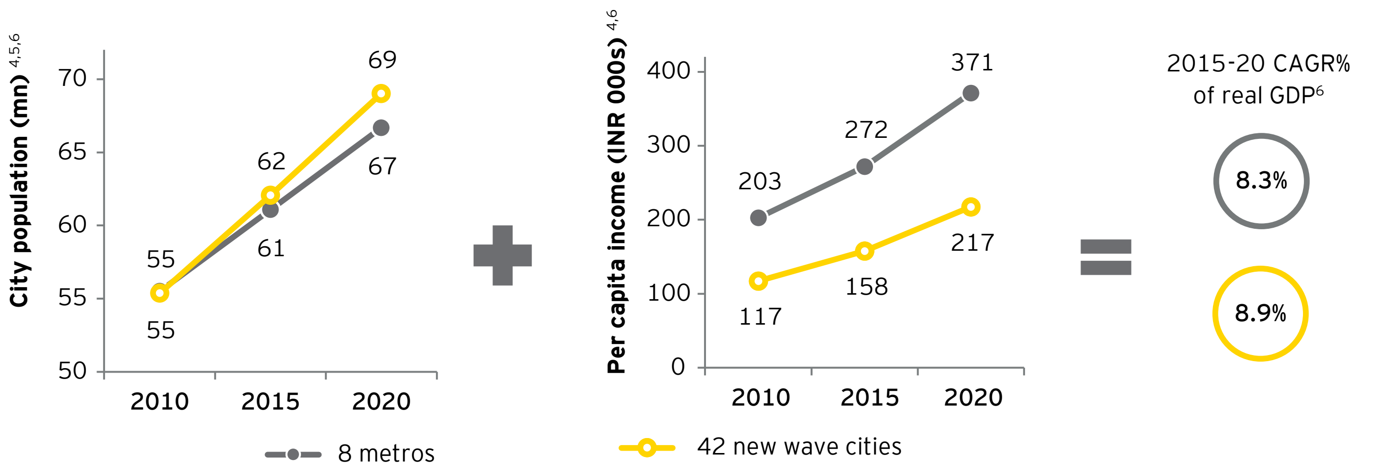
This growth has primarily come from cities, and the population of urban areas has expanded from 340mn in 2006 to 430mn in 2016[1]. Indeed, this 90mn addition alone would rank as the sixteenth largest country in the world today. Given that urban areas are projected to grow their share of national GDP from 65% in 2015 to over 70% by 2020[2], the dynamism of these clusters will continue to hold the key to growth.

A new wave of consumption hubs

The Central Pay Commission's classification of metros on the basis of population originally included just four cities-Delhi, Mumbai, Kolkata and Chennai[3]. Over time this list was expanded to Bangalore and Hyderabad in 2007, and Ahmedabad and Pune in 2014, taking the total number of defined metros to eight[3]. These markets are major consumption centres, each containing household incomes of at least INR 800bn[4], and the opportunity they present to companies has been well-established.

However, there is a new emerging class of cities, with millions of aspirational consumers who are vying for attention on the national stage. These are India's "new wave" consumption hubs-defined here as the next 42 cities by cumulative household income[4]. Taken together, these 50 cities represent the key urban markets for businesses, marketers and investors to target.

Faster gains in population and per capita income will allow new wave cities' GDP growth to outpace that of metros



Due to lower growth in rural areas, both metros and new wave cities are expected to exceed national-level growth projections till 2020 for population (1.1%[7]) and GDP (7.6%[8]). But growth in new wave cities has edged out even metros in recent years, and there are a few important factors at play. First, new wave cities' younger demographics and higher fertility rates have helped their population bases surpass that of metros. Second, as India Inc. began shifting its focus to these markets and modern technologies and practices filtered through, businesses were able to capture low-hanging efficiency gains. The resulting up-tick in employment prospects helped make these cities attractive destinations for migrants, further boosting population levels. As a result, new wave cities registered faster GDP growth in recent years and this is projected to continue till 2020.

1. "World Cities Report: Urbanization and Development", United Nations, 2016
2. "Assembling the Building Blocks", Barclays EM Research, 2014; "A tale of two economies- Rural and Urban", Goldman Sachs Research, 2016; "Home is Where the Growth Is", CRISIL Outlook, 2016; "Cities as Engines of Inclusive Development", Indian Institute for Human Settlements, 2015; EY Analysis
3. "HRA and Cities Classification", Ministry of Finance Portal, 2016
4. "Market Skyline", Nielsen Micro Marketing & Economics, 2015. (Cities bordering metros and in J&K were not considered).
5. "Census of India", Ministry of Home Affairs, 2011
6. EY Analysis
7. "World Population Prospects", United Nations, 2015 Revision
8. "World Economic Outlook", International Monetary Fund, Jan.2016; "Global Economic Prospects", World Bank, Jan.2016

2

Time to re-strategize: 50 not 8

The top 50 markets

The economic landscape of India is changing. It therefore becomes a priority to identify high potential hotspots and then accordingly sharpen strategies, resource allocation and expansion plans.

Through this report we aim to understand fifty of India's largest consumption markets through four key parameters:

I. **Addressable market size:** How large is the potential audience.

II. **Growth prospects**: Will consumption grow in the short to medium-term.

III. **Untapped potential**: How saturated is the market today.

IV. **Media depth**: How easily can messaging reach identified audiences.

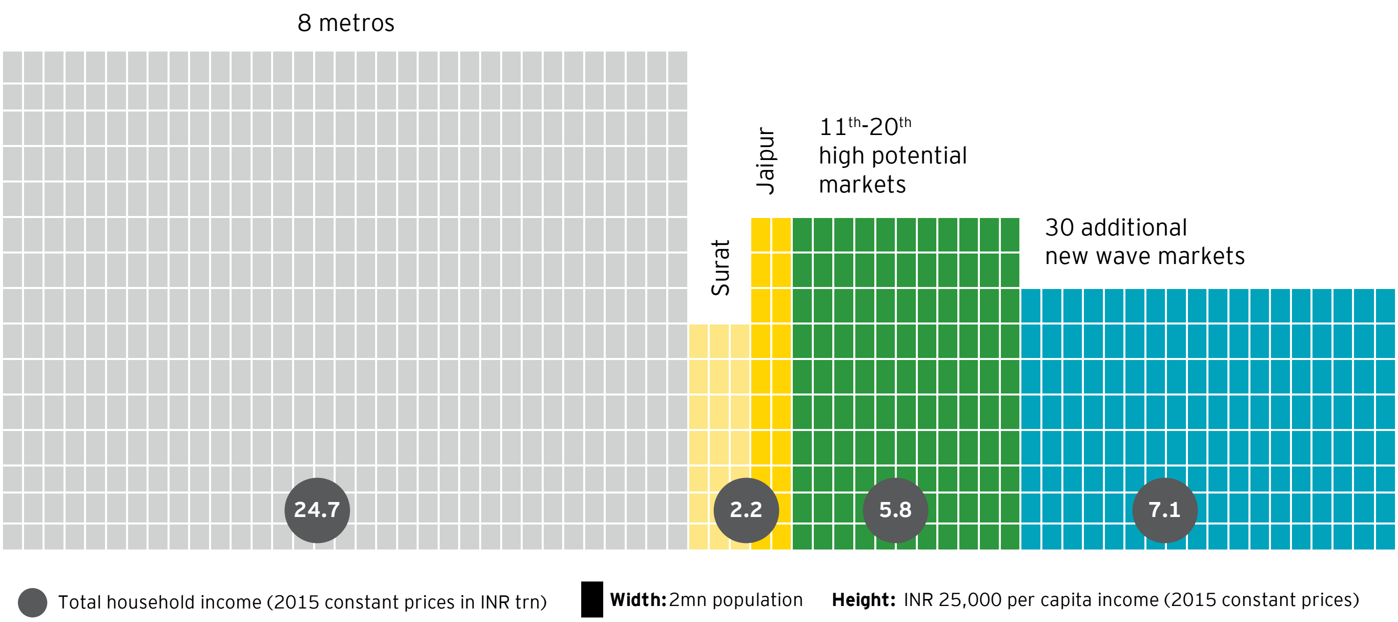
Using these four parameters, we have developed a market potential value for each metro and new wave city. These new wave cities have been clubbed into the groups below and each segment's potential and value drivers are outlined in the following sections.

Shashi Sinha
CEO
IPG Mediabrands

The focus of companies today and the majority of ad spends are still concentrated in the top handful of cities. But as India matures, significant consumption and ad spend growth is coming from aspirational smaller towns. We are seeing major clients in industries like FMCG and Auto getting strong feedback from Tier II/III cities and re-focusing on the same, though such shifts are generally category and client-specific. For instance, e-commerce players have so far concentrated on big cities as the space is strongly driven by distribution.

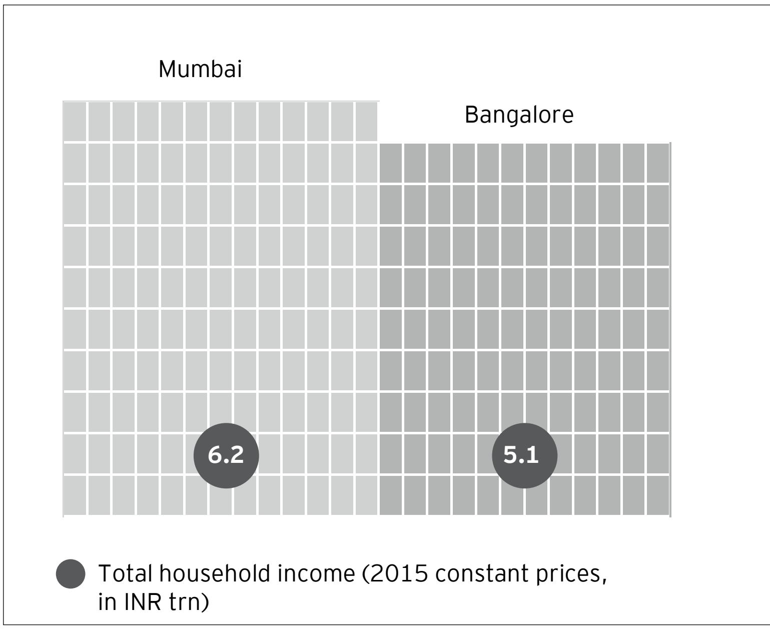
In terms of media consumption, the lion's share of the market still belongs to TV and print, although digital will grow. Partly as a result of its high levels of competition, TV is often the cheaper medium, and is used as the lowest common denominator to reach mass. In contrast, print is primarily localized. As media options in non-metros are often more limited, there are fewer avenues by which audiences are segmented. Advertisers must thus carefully evaluate the efficacy and time spent on localized mediums in such cities.

India's 2020 city skyline[9]



9. EY Analysis

Jaipur and Surat have transformed into India's 9th and 10th metros



India's eight traditional metros have long been the primary focus for India Inc., and these are the only cities that hold at least INR 800bn in household income today. But this is set to change, as Jaipur and Surat join this group.

On the back of robust population growth, investment activity and various government initiatives, Jaipur and Surat are projected to record real GDP growth of 8.7% and 10.3% respectively from 2015-20, relative to metros' 8.3%[10]. As a result, Jaipur and Surat will cross this INR 800bn threshold within one to two years, and total consumption levels will reach 75%-80% of metros like Pune and Ahmedabad[10].

The rising size and affluence of these markets is significant for businesses and marketers alike, who should move from a top-8 city strategy to one centered around the country's ten major consumption hubs.

Favourable demographics[11]

A key characteristic of Jaipur and Surat is their favourable demographics. While Mumbai, Delhi and Bangalore dwarf India's other markets with over 10mn people each, Jaipur and Surat have now grown to population levels exceeding smaller metros like Pune.

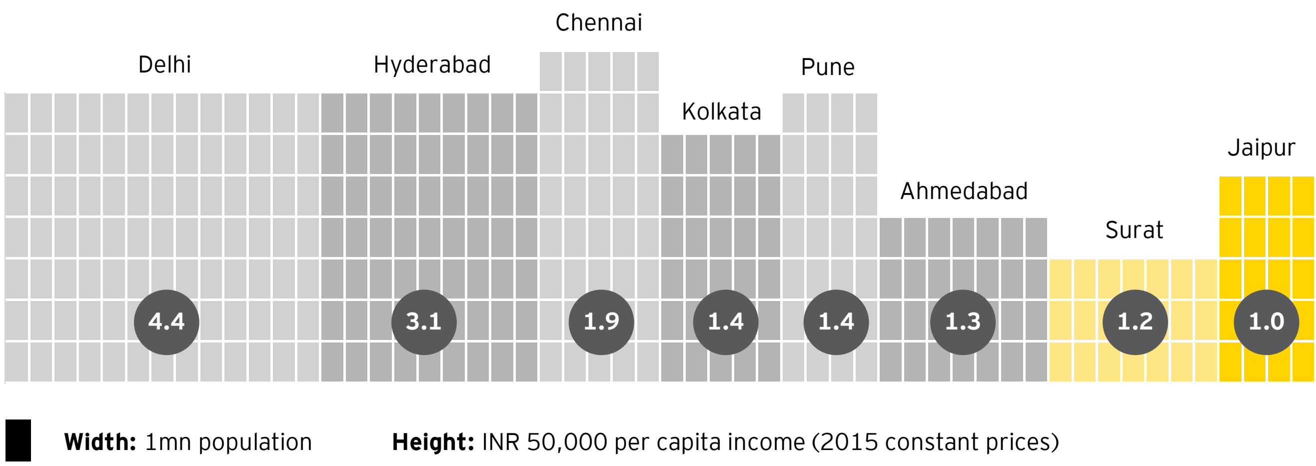
Population growth has been driven by migrant inflows and high birth rates, resulting in the two cities collectively adding over 1.7mn to their population base between 2010-15. Jaipur and Surat also have a distinct advantage in terms of their young working-age cohort, with 22% of their population between 15-24 years, relative to other metros' 20%. This is set to pay dividends on growth, as young, educated workers enter the labour force and become new consumers that marketers can target.

Rising investment activity

Jaipur and Surat are becoming major investment hubs, and were ranked by global investors as the first and fifth most attractive investment destinations after the metros, in EY's 2015 Attractiveness Survey[12]. Several developments across both public and private spheres are driving investment.

10. EY Analysis
11. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; EY Analysis
12. "Ready, Set, Grow", EY Attractiveness Survey, 2015

India's 2020 metro skyline[10]



- Jaipur and Surat have both been selected to be developed under the Central Government's Smart Cities Mission. Developmental projects of ~INR 25bn are planned for each city under this program, including significant initiatives related to water management, solar power and IT automation[13].
- Various infrastructure projects are underway, and are boosting connectivity. Work on Surat's airport extension is due to be completed in 2017, while Jaipur's airport has grown to register monthly passenger traffic of ~300,000 (roughly half of Pune's[14,15]). Meanwhile, Jaipur opened India's sixth metro-rail system in 2015, and further route extensions are already under construction[16].
- Private investment has picked up, with Surat registering 21% y-o-y nominal bank credit growth from 2012-16- higher than any other metro or new wave city[17].
- The multi-billion dollar Delhi-Mumbai Industrial Corridor project is also in progress, and both cities will benefit from being part of this manufacturing and investment backbone.

Increased consumption

High levels of individual consumption are also responsible for these two cities' status as the country's 9th and 10th metros. Jaipur's 2015 annual per capita income of INR 0.20mn was amongst the highest in the country and approaching that of Kolkata; while Surat's INR 0.13mn per capita income was lower, but still comparable to Ahmedabad[18].

Meanwhile, high levels of media consumption are providing significant opportunities for marketers.

- **TV:** Jaipur and Surat have a cumulative 1.5mn TV homes- as many as Pune and Kolkata combined[11].
- **Print:** Jaipur and Surat-based publications have continued to grow both circulation and ad volume since 2012- a feat not achieved by any metro print market[19].

This suggests the scope for advertisers to re-calibrate media plans towards these two markets.

13. "City Wise Projects Under Smart Cities Mission", Ministry of Urban Development Portal, 2016
14. "Airport runway extension to be completed", Times of India, Apr.2016
15. "Traffic News & Statistics", Airport Authority of India Portal, 2016
16. "Project Status", Jaipur Metro Rail Corporation Portal, 2016
17. "Quarterly Statistics on Deposits and Credits of SCBs", Reserve Bank of India, 2012-16; EY Analysis
18. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; EY Analysis
19. "Ad Volume of Reported Publications", TAM Adex, FY13-16; "Circulation of Reported Publications", Audit Bureau of Circulation, 2012-15; EY Analysis

The 11th-20th high-potential cities have become major consumption hubs in their own right- cumulatively equivalent to four metros today

The affluence and size of India's top-10 cities make them markets that simply cannot be ignored by firms looking to grow top-lines. But tapping the next ten high-potential new wave markets can deliver an incremental reach equivalent to Chennai, Kolkata, Pune and Ahmedabad combined.

Sizable economies[20]

When population and per capita incomes are considered together, the purchasing power of these ten cities is nearly INR 4trn which is on par with four metros.

- Cities like Lucknow, Kanpur, Nagpur, Indore and Bhopal have crossed 2mn in population, and present sizable opportunities to grow volumes.
- At the other end of the spectrum, consumers in Chandigarh, Vizag and Vadodara are amongst the most affluent in the country, with per capita incomes over INR 0.2mn.

Growth clusters

There are a few common factors driving GDP growth in these cities- projected to be a robust 8.9% annually from 2015-20.

- All cities (except Patna) have already won funding from the Smart Cities Mission. At INR 40bn-60bn each, the planned projects of Chandigarh, Indore and Jabalpur are particularly notable and are set to boost development[21].
- Leaps in connectivity are taking place, and air passenger traffic in these cities has jumped 57% from 2012-16, relative to metros' 35%[22].
- Investment activity is strong and Patna, Vizag, Jabalpur and Bhopal each registered over 15% y-o-y growth of nominal bank credit during 2012-16- higher than every metro except Ahmedabad[23].
- These cities have also become attractive destinations for FDI. Vadodara, Chandigarh, Vizag and Nagpur were all ranked amongst the top eight non-metro investment destinations by global investors in EY's 2015 Attractiveness Survey[24].

Media depth

The media markets of these ten new wave cities are different to that of metros, in that they skew more towards print and radio relative to TV. This means marketers cannot take a one-size-fits-all approach and must select appropriate media vehicles to target audiences.

For instance, Chandigarh, despite having a population of just over 1mn, serves as a major print hub in the North and has the country's seventh largest print ad volume[25]. Meanwhile, markets like Lucknow and Patna have seen rising print penetration, recording over 8% annual circulation growth in recent years[26]. Not coincidentally, these three literate, print-centric markets are also amongst the top-ranked non-metros in terms of digital consumption.[27]

20. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; EY Analysis
21. "City Wise Projects Under Smart Cities Mission", Ministry of Urban Development Portal, 2016
22. "Traffic News & Statistics", Airport Authority of India Portal, 2016
23. "Quarterly Statistics on Deposits and Credits of SCBs", Reserve Bank of India, 2012-16; EY Analysis
24. "Ready, Set, Grow", EY Attractiveness Survey, 2015
25. "Ad Volume of Reported Publications", TAM Adex, FY13-16
26. "Circulation of Reported Publications", Audit Bureau of Circulation, 2012-15
27. EY Analysis

	Bhopal, Chandigarh, Indore, Jabalpur, Kanpur, Lucknow, Nagpur, Patna, Vadodara, Vizag	Ahmedabad, Chennai, Kolkata, Pune
2015 population + 2015-20 addition [20]	20.4mn + 1.9mn	18.9mn + 1.2mn
2015 household income + 2015-20 addition [20]	INR 3.8trn + INR 2.0trn	INR 4.0trn + INR 2.0trn
Planned Smart City investment (value) [20]	INR 267bn	INR 76bn
2016 car households [20]	0.60mn	0.71mn
2015 FMCG spend [20]	INR 189bn	INR 224bn
2016 TV homes [20]	3.3mn	3.6mn
2015-16 Print ad volume [25]	185mn sq. cm.	142mn sq. cm.
2016 Radio frequencies [28]	33	26

28. Ministry of Information & Broadcasting; EY Analysis

The greatest opportunities for marginal revenue growth lie in the 30 additional new wave cities

While the next thirty new wave cities by market value are typically smaller in size, they tend to also have the highest growth potential. To evaluate this potential, two elements have been assessed for each city- its GDP growth in the medium-term, and its untapped potential today (i.e. gap between demand-side consumption and supply-side penetration).

Cities highlighted in the top-right quadrant of the chart represent markets with the highest growth potential. Nearly all highlighted cities (Allahabad, Dehradun, Gwalior, Jodhpur, Kota, Raipur, Rajkot, Ranchi, Vijaywada and Warangal) belong to this group of thirty additional new wave markets.

Economic growth

The economic outlook in these ten cities is bright.

- Five cities have already secured funding from the Smart Cities Mission, with the value of planned projects in Raipur and Warangal particularly significant at INR 37bn and 29bn respectively[29].
- Connectivity projects are also underway and are boosting economic linkages, with new airports in Allahabad and Dehradun becoming operationalized in recent years[30].
- These markets also have favourable demographics. Over a fifth of each city is made up of 15-24 year olds, with Allahabad, Gwalior and Kota leading the way at ~23%[31]. The entry of this large youth demographic into the workforce promises a growing consumer base and further opportunities for businesses and marketers.

Untapped potential

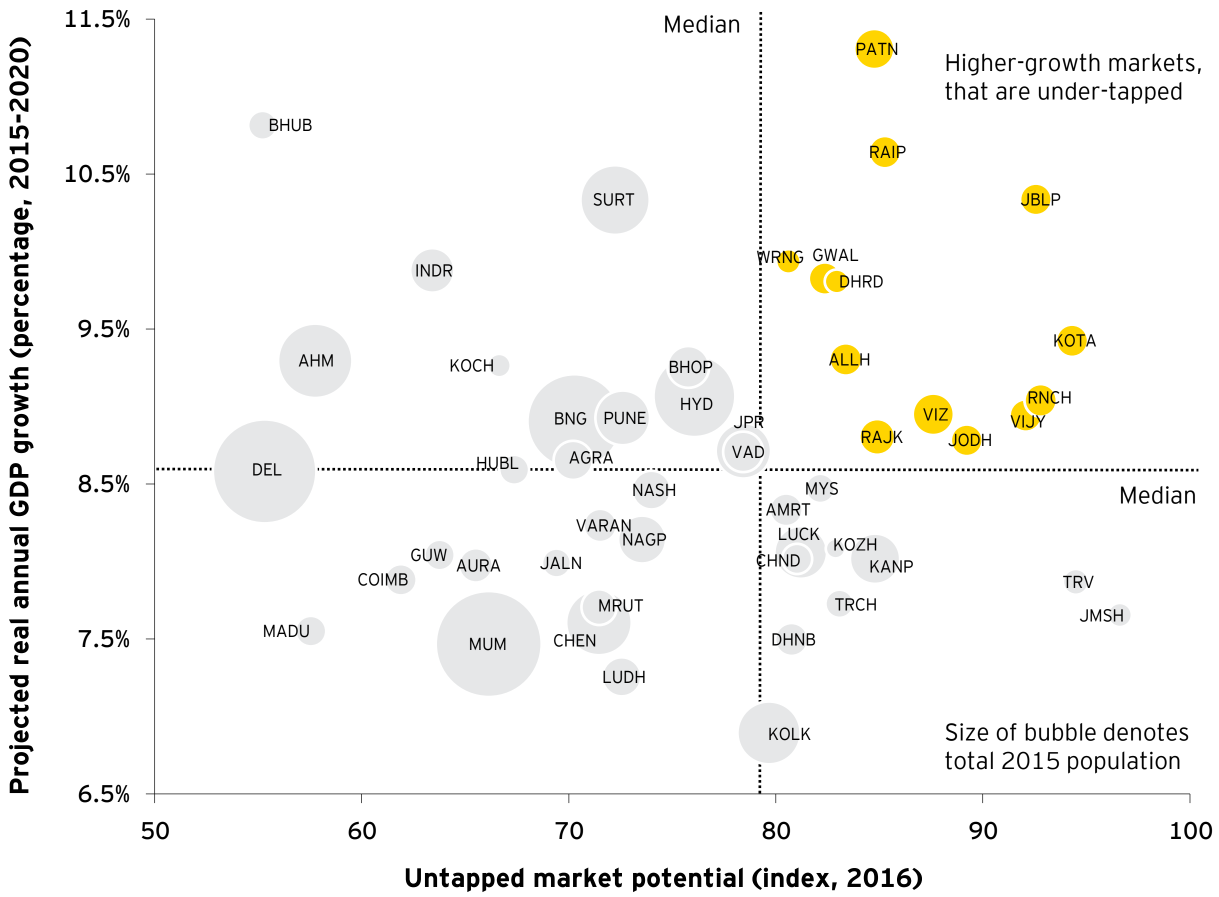
These ten markets are also under-saturated, and there appear to be large gaps between local demand and supply across a range of sectors.

For instance, the high growth and potential of state capitals like Raipur, Ranchi and Dehradun have been singled out by industry experts in the BFSI and Education sectors. In addition, when compared to the overall universe of fifty cities in 2015, these ten markets held:

- 6.6% of expenditure on FMCG, but only 3.8% of retail outlets[31,32]
- 7.8% of expenditure on fashion & durables, but 6.1% of malls[31,32]
- 6.4% of total expenditure, but only 5.6% of telecom centres[31,32]

These gaps suggest significant scope for India Inc. to reach consumers that have been heretofore untapped.

Marginal growth opportunities[33]

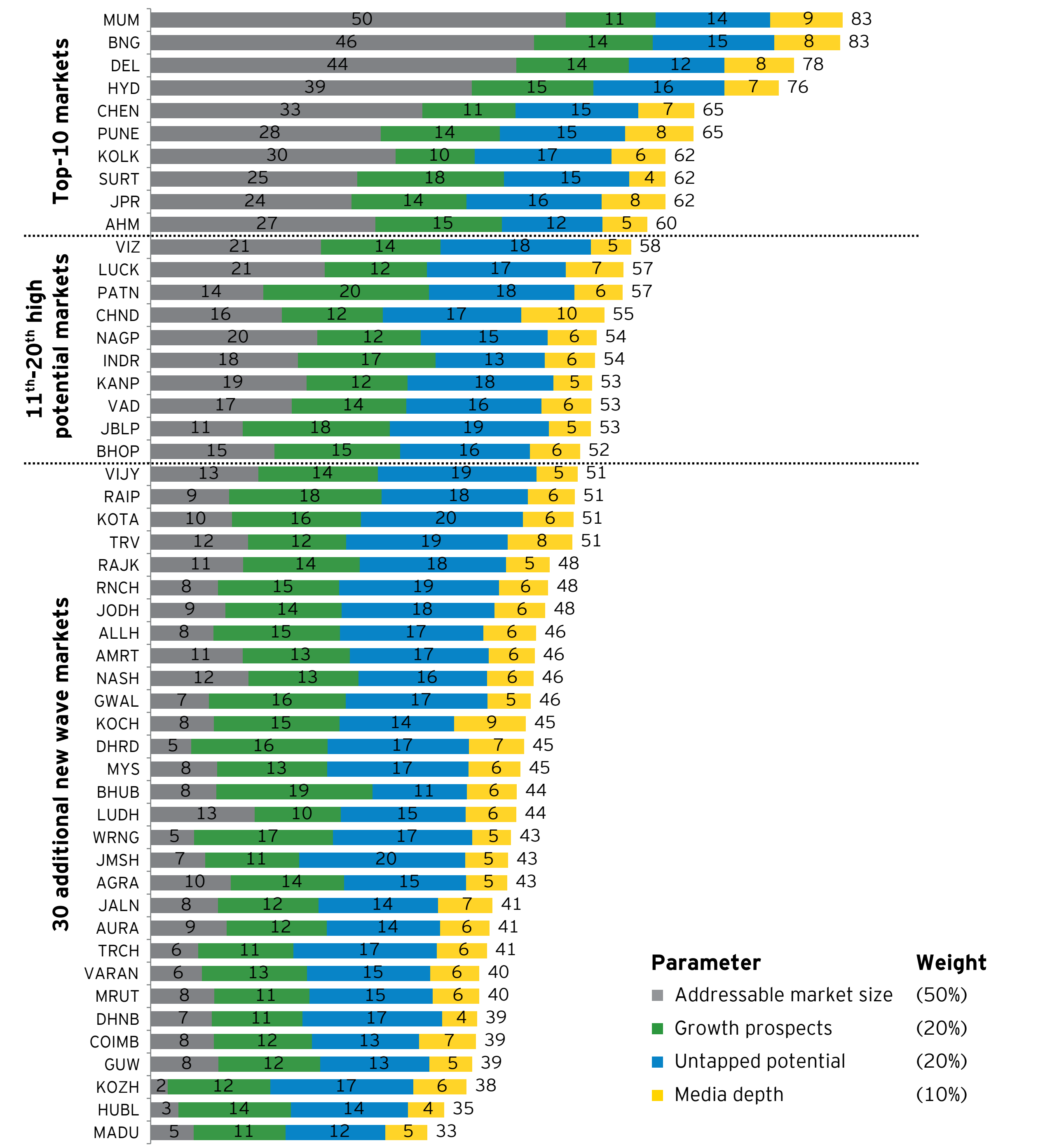


29. "City Wise Projects Under Smart Cities Mission", Ministry of Urban Development Portal, 2016
30. "Traffic News & Statistics", Airport Authority of India Portal, 2016
31. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; EY Analysis
32. "City-wise Points of Interest", MapMyIndia, 2016
33. EY Analysis

Market potential value of 50 Indian cities

We have evaluated each market across four dimensions-size, future growth prospects, level of untapped potential and media depth. The market values are presented here.

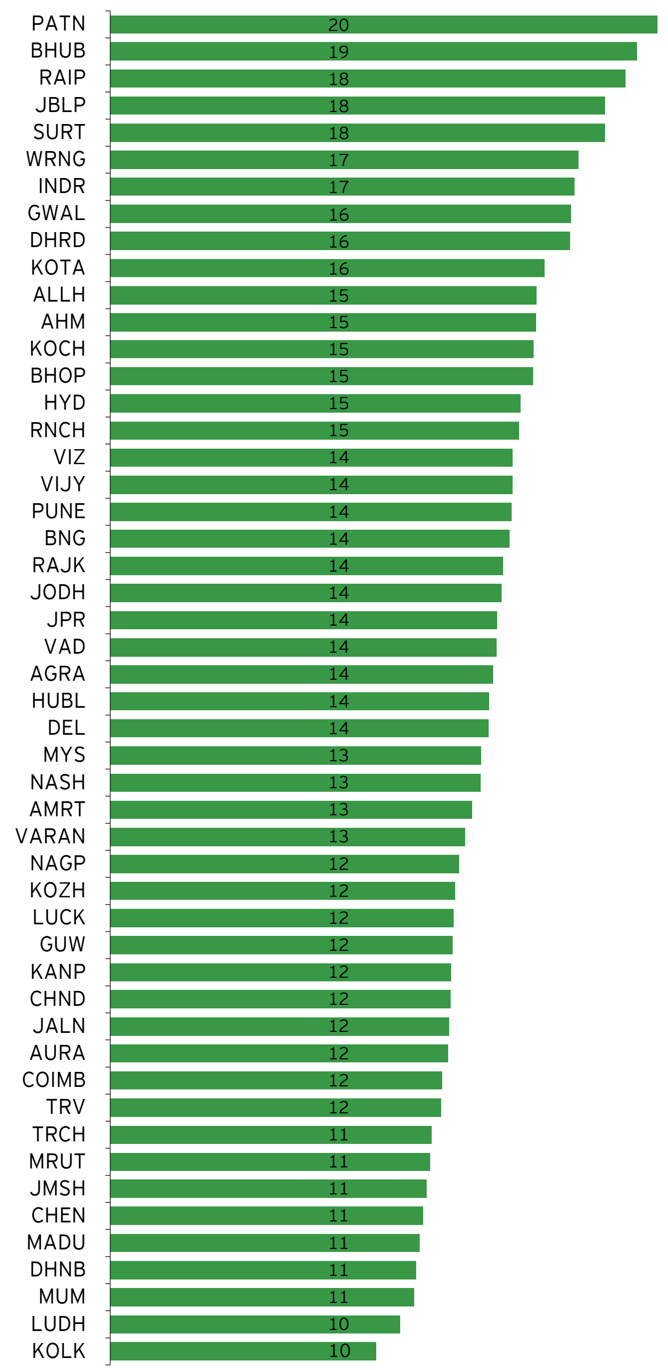
Overall ranking[34]



Note: Values are on a 1-100 scale, with 100 being the highest

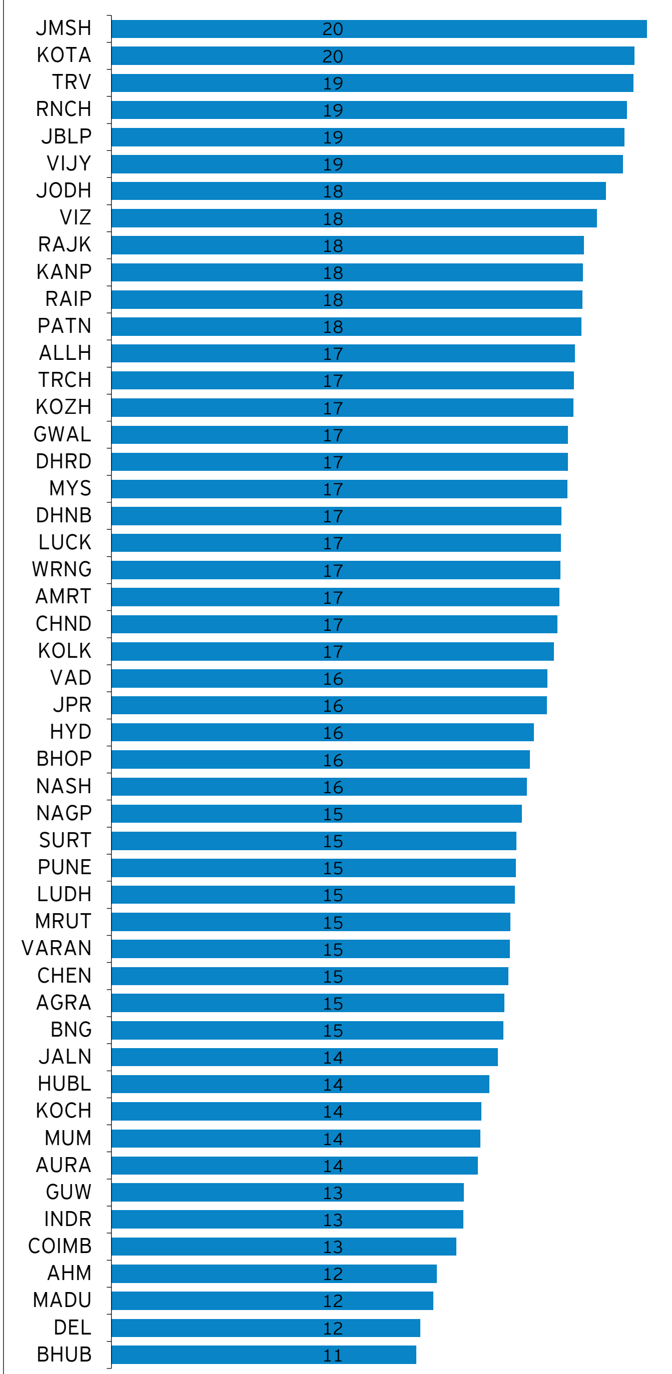
34. EY Analysis

Rankings by growth prospects[34]



Note: Values are on a 1-20 scale, with 20 being the highest

Rankings by untapped potential[34]



Note: Values are on a 1-20 scale, with 20 being the highest

3

Untapped potential

2016e (INR bn)[35]		Top-10 untapped markets[36]
146	FMCG	Chandigarh Dehradun Jabalpur Jamshedpur Kolkata Kota Kozhikode Trivandrum Vijayawada Vizag
56	Retail, fashion and durables	Jaipur Jamshedpur Kota Mysore Nagpur Raipur Trivandrum Vadodara Vijayawada Vizag
49	Auto	Indore Jodhpur Kanpur Kota Mysore Pune Raipur Vijayawada Vizag Warangal
44	Telecom and DTH	Allahabad Chandigarh Dehradun Guwahati Jaipur Jamshedpur Jodhpur Lucknow Patna Ranchi
40	E-commerce	Bhopal Bhubaneswar Indore Jalandhar Kanpur Lucknow Patna Trivandrum Vijayawada Vizag
24	Education	Agra Bhopal Dhanbad Indore Jaipur Jodhpur Kota Lucknow Raipur Ranchi
23 + 22	BFSI and Real Estate	Agra Ahmedabad Allahabad Kozhikode Nashik Rajkot Ranchi Surat Vijayawada Warangal

As India Inc. deepens its reach into a new set of urban markets, it becomes crucial to understand which under-saturated hotspots can drive future growth. To identify these untapped markets, we have evaluated whether each city's supply-side market penetration (eg: per capita penetration of retail outlets, malls, banks, telecom centres etc.) is proportional to its level of demand-side consumption (eg: per capita spend on FMCG, clothing, education etc.). Major advertiser segments have been assessed in this way.

We find that the greatest gaps between consumption and supply-side penetration lie in smaller new wave cities, and these disparities highlight the opportunities for businesses to expand beyond the major centres and plug this gap.

35. EY industry discussions and analysis on media spends
36. EY analysis

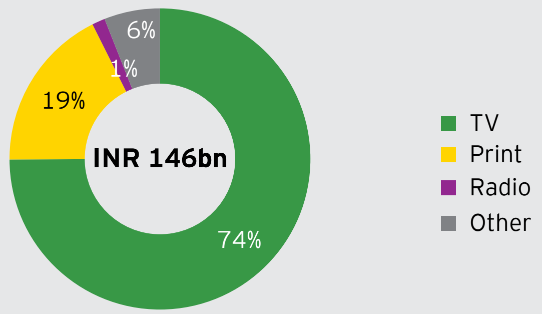
Untapped potential

FMCG

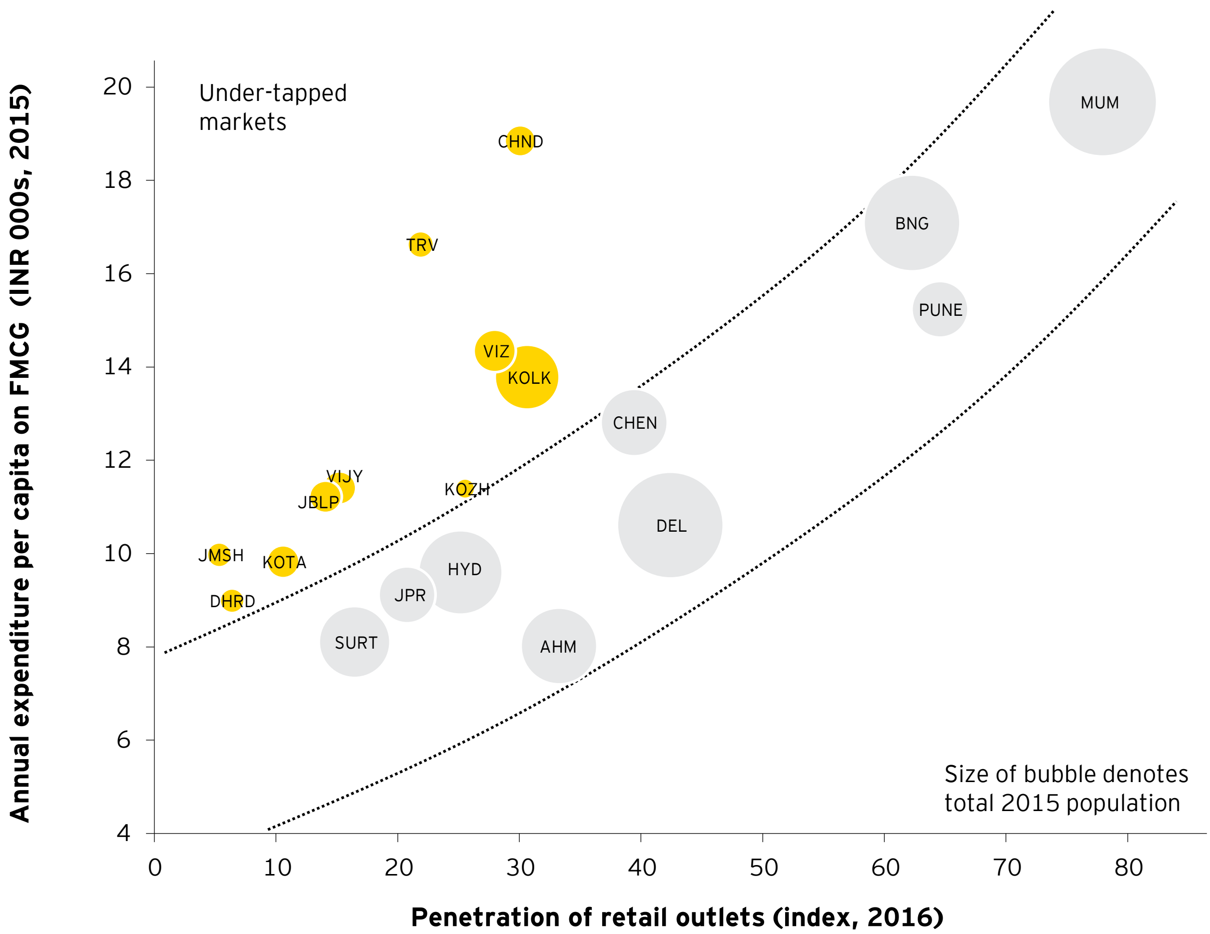
The steady rise of modern trade channels and disposable incomes provide a strong platform for India's FMCG industry, projected to grow 6%-8% annually till 2020[37]. While consumption has been sluggish in recent years, particularly in rural areas, a normal monsoon in 2016 is expected to increase demand[37]. Meanwhile, the continuing strength of urban clusters has seen brands focus on new products/variants in urban-centric categories, and as these consumers move up the economic ladder, there is a burgeoning demand for premium products[38]. Given these consumption trends, and amid a fiercely competitive marketplace, it becomes imperative for companies to tap under-saturated markets.

Top-10 untapped markets: Chandigarh, Dehradun, Jabalpur, Jamshedpur, Kolkata, Kota, Kozhikode, Trivandrum, Vijayawada, Vizag

2016e Ad spend: FMCG

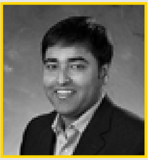


Market trends: FMCG[39]



37. EY Analysis
38. "FMCG Sector Overview", India Brand Equity Foundation, Jan.2016; "Is FMCG growth story tapering?", Business Standard, Jan.2016; "Anticipate with Analytics: The Future of FMCG", Nielsen, Nov. 2015; EY industry discussions
39. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; "City-wise Points of Interest", MapMyIndia, 2016; EY Analysis. (Penetration defined as per capita/per sq. km. density of retail outlets).

Coca-Cola Ltd.

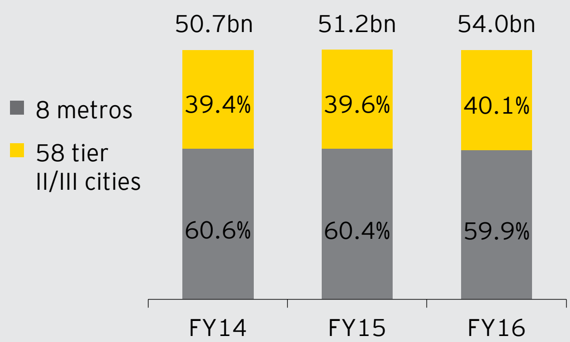


Prashant Parameswaran
Director, Marketing Strategy and Insights
India

"With millions of consumers yet to be tapped in Tier II/III markets, brands are expanding distribution networks and micro-targeting consumption pockets. As a result, while the industry experienced a slowdown in major metros in the past few years, less saturated untapped Tier II/III cities have shown faster growth. Today, the share of our business from urban cities beyond the top-8 metros has grown to ~30%, relative to ~25% from the top-8 markets.

While organized retail has faced challenges beyond the top 15-20 cities, these are often related to mindsets, more than any logistical hurdle. As a result, amid growing competition from regional players, expansion into Tier II/III cities is set to continue. These markets will continue evolving, with trends like premiumisation driving growth in categories like juices and milk-based products."

Industry sales value of non-alcoholic beverages (select cities, INR bn)[40]



LT Foods Ltd.

Vivek Chandra
CEO, Global Brands Business

"The growing consumption power of urban India has led to two key trends in the industry-eating out and healthy foods. These have driven growth for us in categories like branded Basmati rice. Similarly, brown rice was unheard of 10 years ago, but as consumers became more health conscious, sales for this premium product rose ten-fold in just a few years. As consumers keep moving up the value chain and experimenting, alternative and higher-end categories will continue to drive growth.

While consumption patterns are similar across metros and Tier II/III markets, there is a stark gap on the supply-side. Given the strong footprint of modern retail in metros, and with new entrants typically focused on these cities, Tier II/III markets are under-saturated. With scope to expand, the share of shops covered by LT Foods' distribution network in Tier II/III cities rose 2-3 times over the past five years. Given these trends, 42 Tier II/III markets' share of our sales rose from 37% to 40% over a five-year period-with markets registering 3% higher annual growth relative to metros."

Beacon Analytics

Abhinav Jain
Founder and Director

"Various companies, finding metros and mini-metros saturated, have targeted rural areas at the bottom of the pyramid. In the process, many Tier II/III markets have been under-tapped. In fact, a recent study conducted by us showed continuing Tier II/III outlets had 10% higher growth y-o-y relative to metros. These cities are brimming with aspirational consumers, and the marketing of products centres around brand awareness and 'consumer-pull', relative to the 'product-push' approach in metros.

A similar market gap has emerged in distribution. Organized retail, which only contributes ~10% of the market, has faced issues with throughput, costly real estate and distribution for thousands of SKUs. This reality is not likely to change in the short to medium-term. However, there are opportunities to expand in smaller stores with monthly sales of INR 5-10 lakh. But this requires a shift in mindset-to move from the traditional focus on distribution costs to a focus on throughput and overall profit and loss."

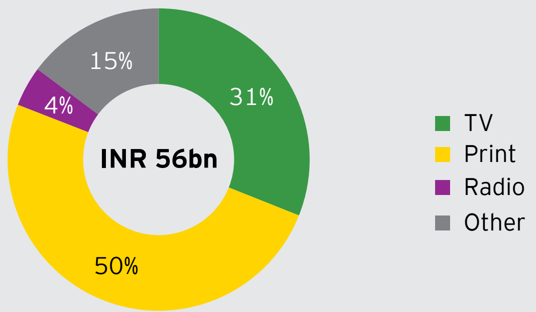
40. "Sales of Water, Soft Drinks, Non-Carbonated Drinks", Nielsen Database, 2016

Retail, fashion and durables

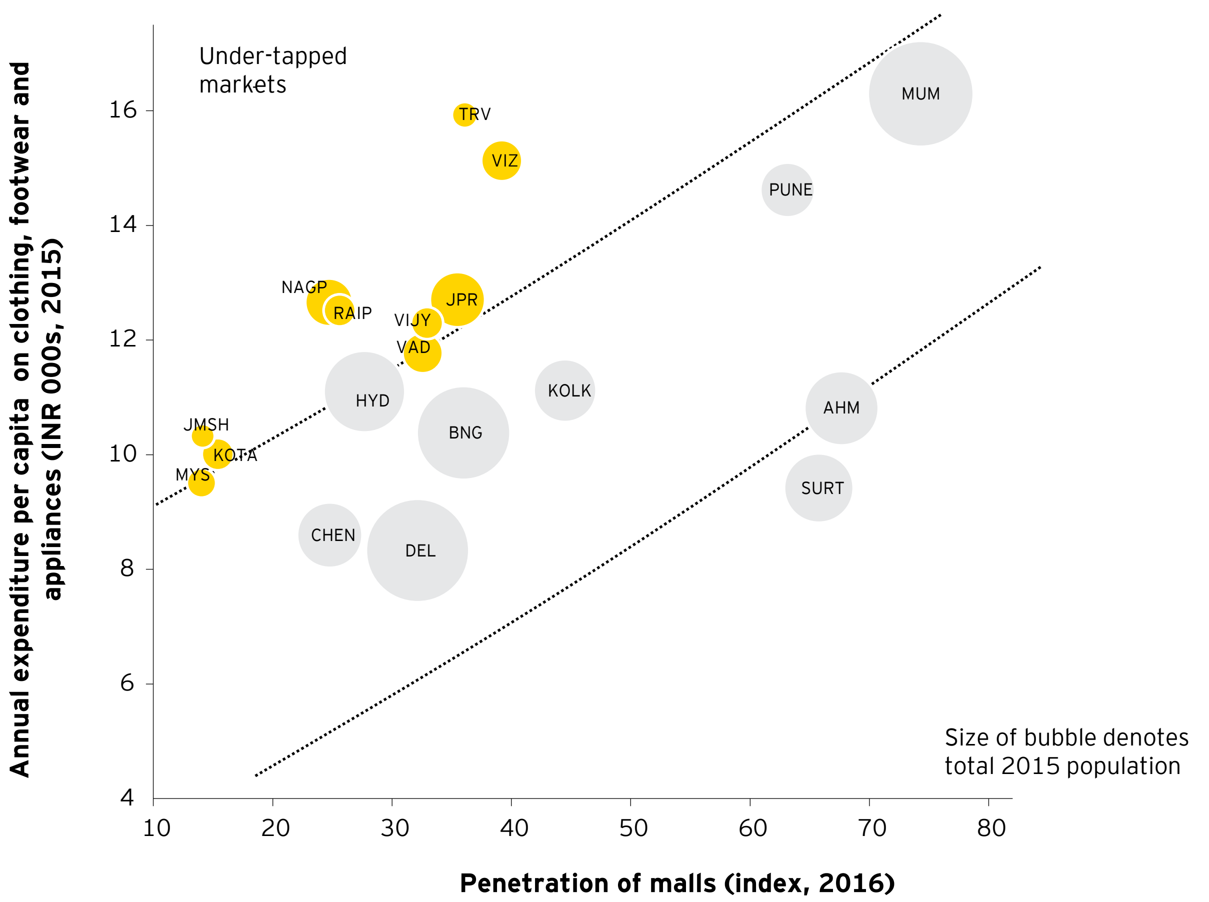
India's retail sector is set to continue its double-digit growth on the back of rising disposable incomes, rapid urbanization and the growth of organized and internet retailing. Fashion (apparel and footwear) is the largest segment in Indian organized retail and this market is projected to grow at a healthy CAGR of ~13% during 2015-2020 from ~INR 4trn in 2015[41]. While organized retail's share of the national market is projected to rise from ~10% today to ~16% by 2020, many new wave cities remain under-penetrated and hybrid offline/online distribution models are becoming increasingly popular[41,42]. Given the millions of aspirational consumers in these markets and their appetite for brands, the untapped opportunity is significant.

Top-10 untapped markets: Jaipur, Jamshedpur, Kota, Mysore, Nagpur, Raipur, Trivandrum, Vadodara, Vijayawada, Vizag

2016e Ad spend: Retail, fashion and durables



Market trends: Retail, fashion and durables[43]



41. EY Analysis
42. "Retail 2020: Retrospect, Reinvent, Rewrite", Retailers Association of India, 2015; "The Year That India's eTail Announced Its Arrival", Technopak, 2014
43. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; "City-wise Points of Interest", MapMyIndia, 2016; EY Analysis. (Penetration defined as per capita/per sq. km. density of malls).

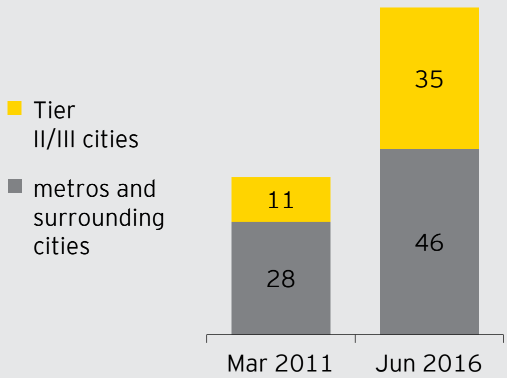
Shoppers Stop Ltd.

Govind Shrikhande
Managing Director

"While we have a strong presence in metropolitan cities, we are increasingly extending our signature bridge-to-luxury experience to Tier II/III cities as well. This strategy is emblematic of the aspirations and concomitant buying power which exists in such markets.

Of course, Tier II/III markets come with a certain set of challenges too. For instance, such markets are often heavily reliant on their local high-streets and are not very accustomed to the department store experience and/or our brand equity. In such cases, we make significant investments in building the brand and establishing a local connect with the community. To further connect with our customers, we aim to have staff conversant in both English and vernacular, as older Tier II/III customers in particular have a preference for local languages."

Number of Shoppers Stop stores[44]



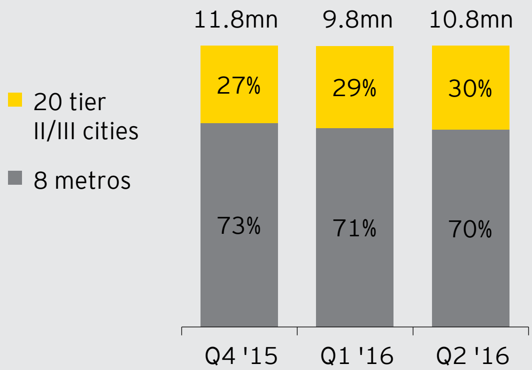
International Data Corporation

Navkendar Singh
Head Mobile Devices Research
India and South Asia

"The Indian smartphone segment has grown nearly ten-fold over the last 5 years, with 103.6mn shipments in 2015. While metros have provided the initial growth, the next wave of growth will come from Tier II/III consumers migrating from feature phones.

Affordability is set to drive growth, with the average selling price of a smartphone nearly halving in the last five years to US$132 in 2015. Heavy investment of telecom operators into new infrastructure will also boost demand, with 4G models already comprising over 60% of smartphone shipments in Q2'16. Lastly, given that smartphone penetration in India remains below 30%- there is a significant market yet to be tapped."

Smartphone shipment breakup (select cities, mn)[45]



Hybrid distribution strategies in Tier II/III cities

Online channels' compelling value proposition in terms of price, convenience and product range has led to 29% of smartphones being shipped online today. However, with vendors looking to make deeper inroads into smaller towns, online exclusive models are being made available offline too.

44. "Quarterly Performance Update", Shoppers Stop, 2011-16
45. "Monthly City-Level Smartphone Tracker", IDC, 2015-16

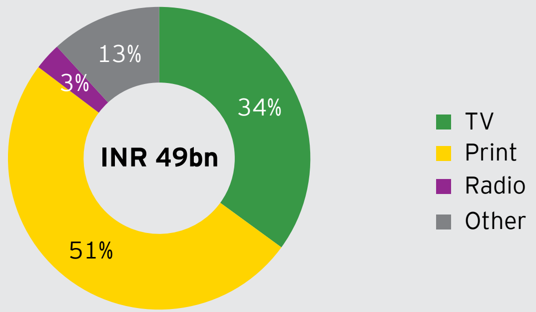
Untapped potential

Auto[46]

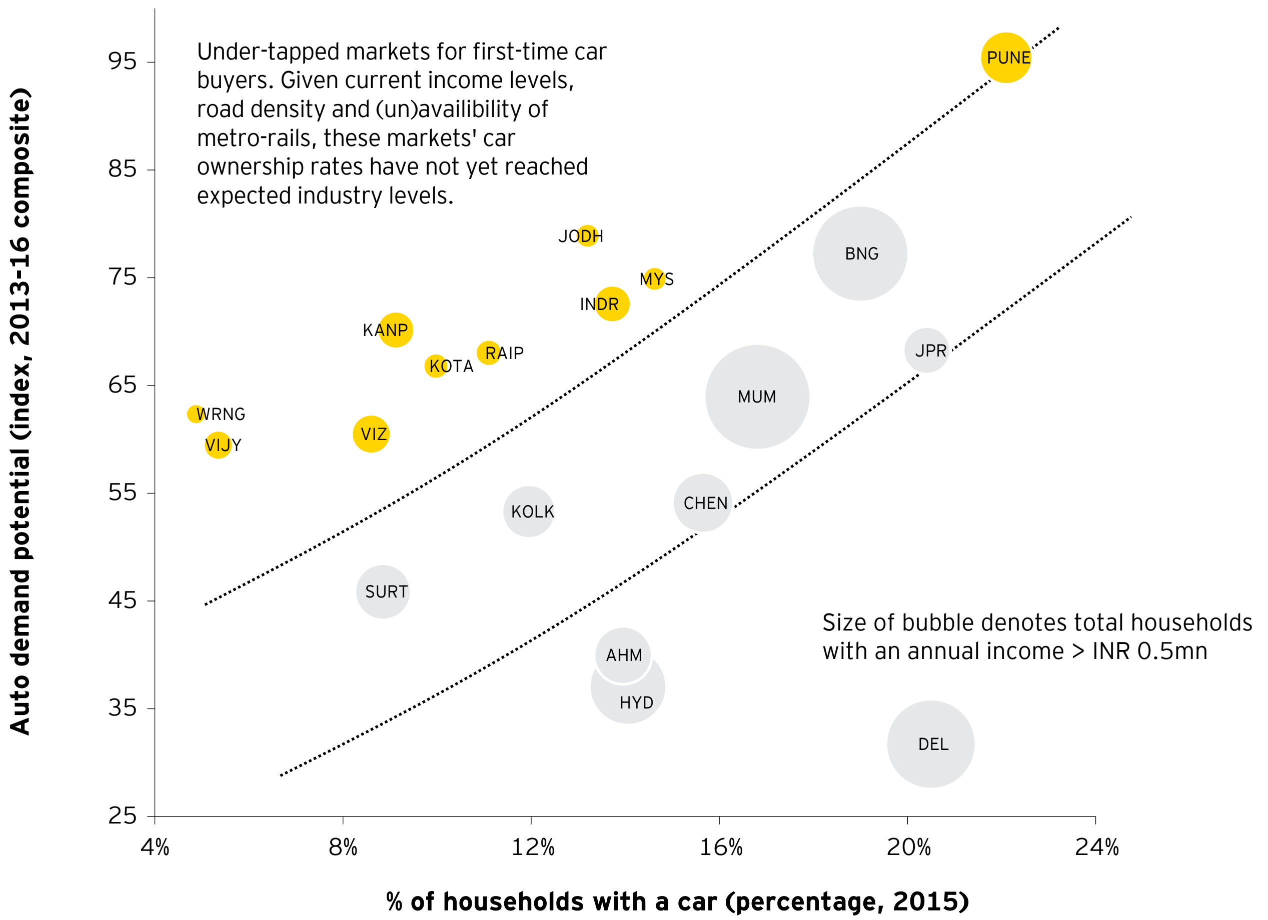
The Indian auto industry has immense growth potential owing to its unique demographic dividend and low penetration levels (India's car penetration of ~32 per 1000 people is just 4%-6% of most European markets as well as the US). As a result, domestic passenger vehicle sales in India are expected to grow robustly at 9%-11% annually from 2015-20 to reach 4.0-4.5mn units by 2020. Growth will be nearly as strong in the two-wheeler segment, which will grow at 8%-10% annually from 2015-2020 to reach ~25mn units by 2020. With auto makers looking to tap into these growth opportunities, several new wave cities are particularly under penetrated.

Top-10 untapped markets: Indore, Jodhpur, Kanpur, Kota, Mysore, Pune, Raipur, Vijayawada, Vizag, Warangal

2016e Ad spend: Auto



Market trends: Auto (4-wheelers)[47]



46. "Domestic Sales Trends", Society of Indian Automobile Manufacturers, 2016; "Road Transport Yearbook", Ministry of Road Transport & Highways, 2014; EY Analysis
47. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; "City-wise Points of Interest", MapMyIndia, 2016; Government metro rail portals, 2016; EY Analysis. (Demand potential combines % of population with an annual income >INR 0.5mn, motorable roads per sq. km., availability of metro rails).

Leading 2-wheeler manufacturer

National Strategy Head
Indian 2-wheeler manufacturer

"Consumer expectations of products, as well as the price points do not vary by the tier of city. However, the nature of demand for 2-wheelers in metros tends towards replacement, whereas there are more first-time buyers in Tier II/III cities. This lower saturation in Tier II/III cities relative to metros results in 3-4% higher sales growth.

Another difference is that with lower real estate costs in Tier II/III markets, showrooms are often larger, and can be put in more prime locations as attractions."

OLA

Anand Subramanian
Senior Director, Marketing Communications

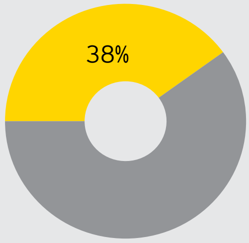
"Tier II/III cities are showing great potential, with mobility often the primary use case of smartphones in such markets. Rising smartphone penetration and 4G connectivity are driving this growth, and cities like Jaipur, Chandigarh and Patna are emerging as the metros of tomorrow. As Tier II/III cities typically have less ready supply chain elements relative to metros, supply creation becomes more crucial than supply aggregation. To ensure sustainability, OLA has therefore looked to develop a local ecosystem in these cities by hosting driver meets, helping drivers procure commercial licenses, as well as having a local office in each market. "

Key initiatives to reach Tier II/III consumers

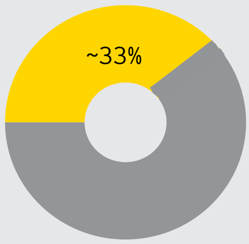
- Expanded low-cost alternative OLA Micro to 75 cities in 2016-achieved the same number of rides in a month as OLA took 3 years to do
- Expanded the app to 9 vernacular languages
- Launched lite-version of the app, which functions using fewer data points

Market trends: Luxury cars[48,49]

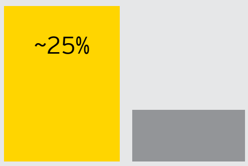
India's luxury car segment grew to an estimated 35,300 units in 2015-more than double of 2010 volumes. Much of the growth has come from new wave cities, whose share of the market has now reached 30%-35%. On the back of more product introductions at the entry-level and a ramp-up of dealer networks across Tier II/III cities, sales are expected to double again by 2020.



Split between new wave cities and metros for ~1.5mn households with annual incomes over INR 5mn



New wave markets' share of total sales in India's luxury cars segment



New wave cities annual sales growth of luxury cars (roughly triple that of metros)

Mobile showrooms have been initiated by Audi and BMW, with tours across cities including Patna, Kota and Agra

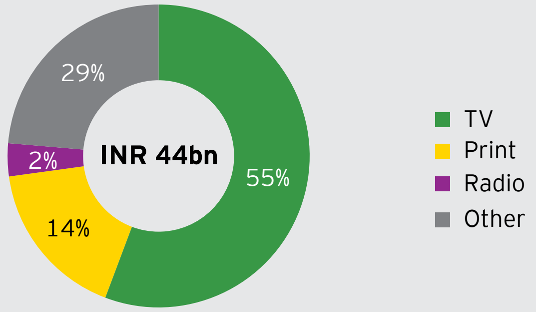
48. "Luxury car sales to double by 2020- IHS Automotive", Business Standard, Feb.2016; "Audi targets Tier II/III cities to spur growth", ET, Jun.2016; "Luxury carmakers drive down new retail ways", Business Standard, Aug.2016; EY industry discussions
49. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; EY Analysis

Telecom and DTH[50]

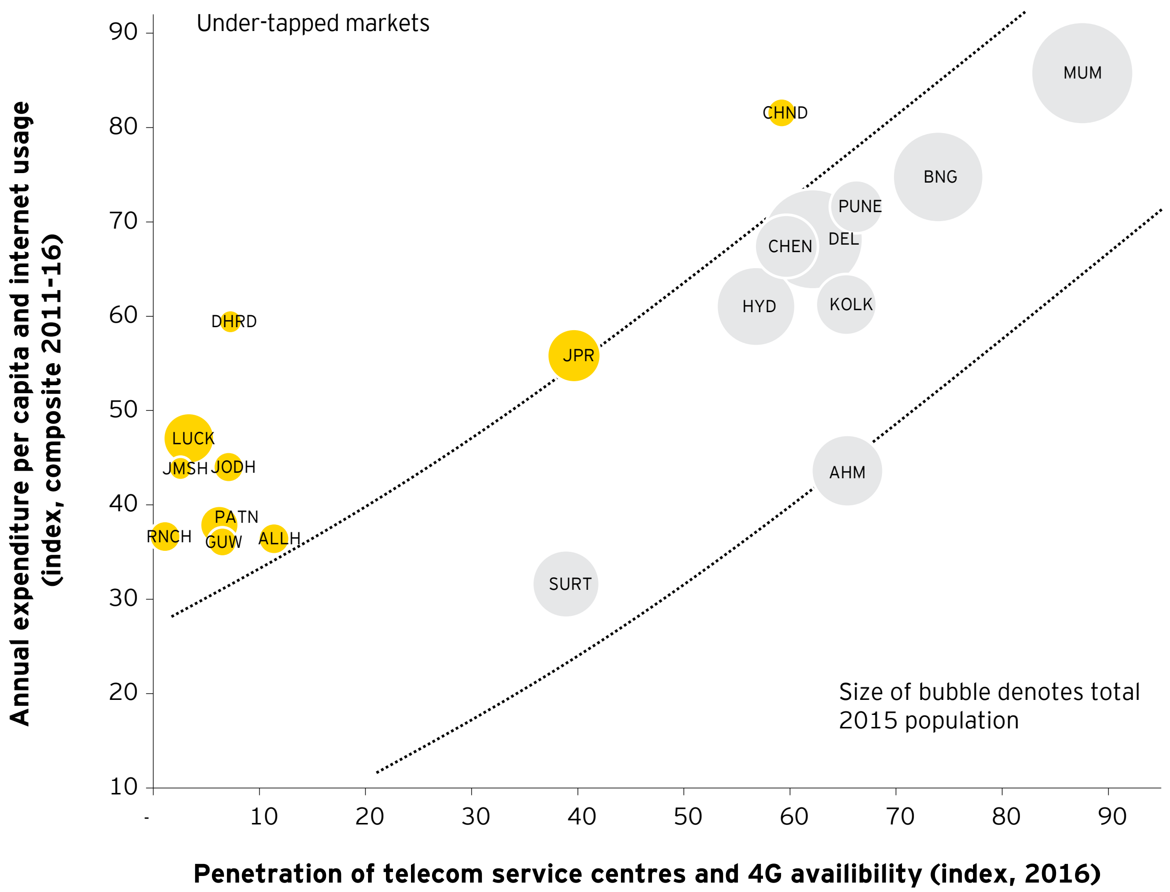
India has grown to the world's second largest telecom market, with 624mn urban subscribers alone. As the cost of smartphones and data fall rapidly and given that voice services have already achieved deep penetration, the next wave of growth is expected to come from data services. By 2020, wireless data is expected to comprise nearly 46% of the sector's gross revenue, while video's share of mobile traffic will rise to 72%. As operators roll-out 4G infrastructure in an aggressive pursuit for subscribers and a piece of this growth, reaching affluent, underpenetrated markets becomes key.

Top-10 untapped markets: Allahabad, Chandigarh, Dehradun, Guwahati, Jaipur, Jamshedpur, Jodhpur, Lucknow, Patna, Ranchi

2016e Ad spend: Telecom and DTH



Market trends: Telecom[51]



50. "Quarterly Indicators", Telecom Regulatory Authority of India, Sep.2016; EY Analysis

51. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; "City-wise Points of Interest", MapMyIndia, 2016; "Survey Results", Indian Readership Survey, 2013; Facebook Ad Platform, 2016; telecom operator public portals, 2016; EY Analysis. (Penetration defined as per capita/ per sq. km. density of telecom centres; 4G availability of top-4 operators considered as of Oct.16).

Vodafone Ltd.

Siddharth Banerjee
SVP-Marketing and Head of Brand, Insights, Activation and Digital
India

"We see revenues growing faster in Tier II/III cities as penetration rises, and there are interesting variations in consumer behaviour across metros and Tier II/III markets. While voice usage is rising in both sets of cities, it is data growth which will require us to understand consumers even more intimately. For instance, we have seen that data usage leans towards utility in Tier II/III markets, whereas metro users consume more videos/ entertainment. Given the rise of vernacular content and improving smartphone penetration, the next frontier of growth will come from players who can demonstrate compelling use cases for Internet."

Chrome DM

Pankaj Krishna
Founder

"The growth of HD penetration and consumption is the big story in today's broadcasting industry. While HD penetration with respect to the national C&S base is at 4.9%, it is 17% within the paid DTH base. As technology and hardware costs fall, we can expect a greater number of HD channel launches and a higher contribution to viewership.

In terms of Tier II/III markets, these cities' Average Revenue Per User has grown 7% y-o-y, 1-2% higher than in metros. The other key difference is the preference towards DTH, with penetration among TV households at 44% relative to 35% in metros. The attractive seasonal offers by DTH players, strategic consumer lock-in periods and intelligent channel packaging have further driven DTH growth in Tier II/III cities. With the lowering of base pack prices across all DTH providers, DTH is fighting head on with digital cable in terms of price points too. "

Leading Telecom Operator

National Product Head
Indian Telecom Operator

"Within the same circle, Tier II/III subscriber bases are growing roughly 1.6x as fast as in metros."

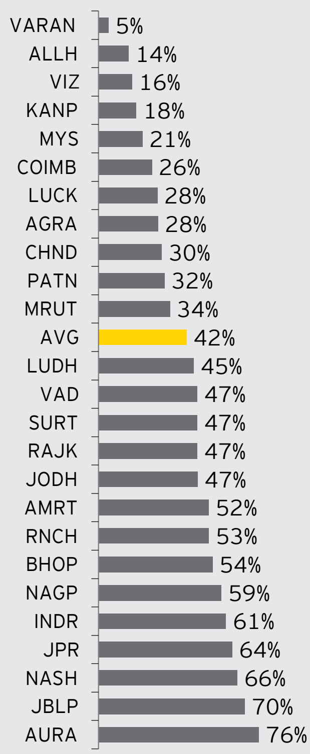
Tier II/III telecom user traits vs metro users

- Similar voice usage
- Lower data consumption overall, but higher on mobile (as fixed services not readily available)
- More time spent on utility/messaging apps and less on entertainment/videos
- Comparable monthly recharge value, but lower average ticket size
- Spend in smaller sachets not lump-sums, and favor pre-paid connections
- Prefer physical stores for recharges/inquiries

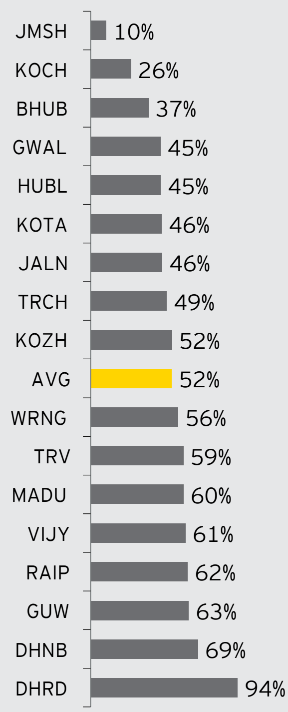
Market Trends: DTH[52]

DTH penetration in new wave cities has risen from 29% in 2014 to 45% in 2016, and markets like Varanasi, Allahabad and Jamshedpur remain under-tapped.

% TV homes with DTH: DAS ph-II cities



% TV homes with DTH: DAS ph-III cities



52. "TV Home Tracker", Chrome DM, 2016; EY Analysis

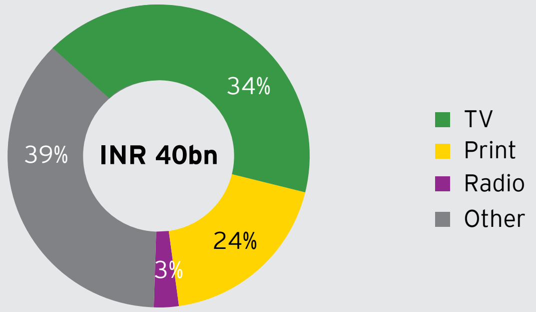
Untapped potential

E-commerce

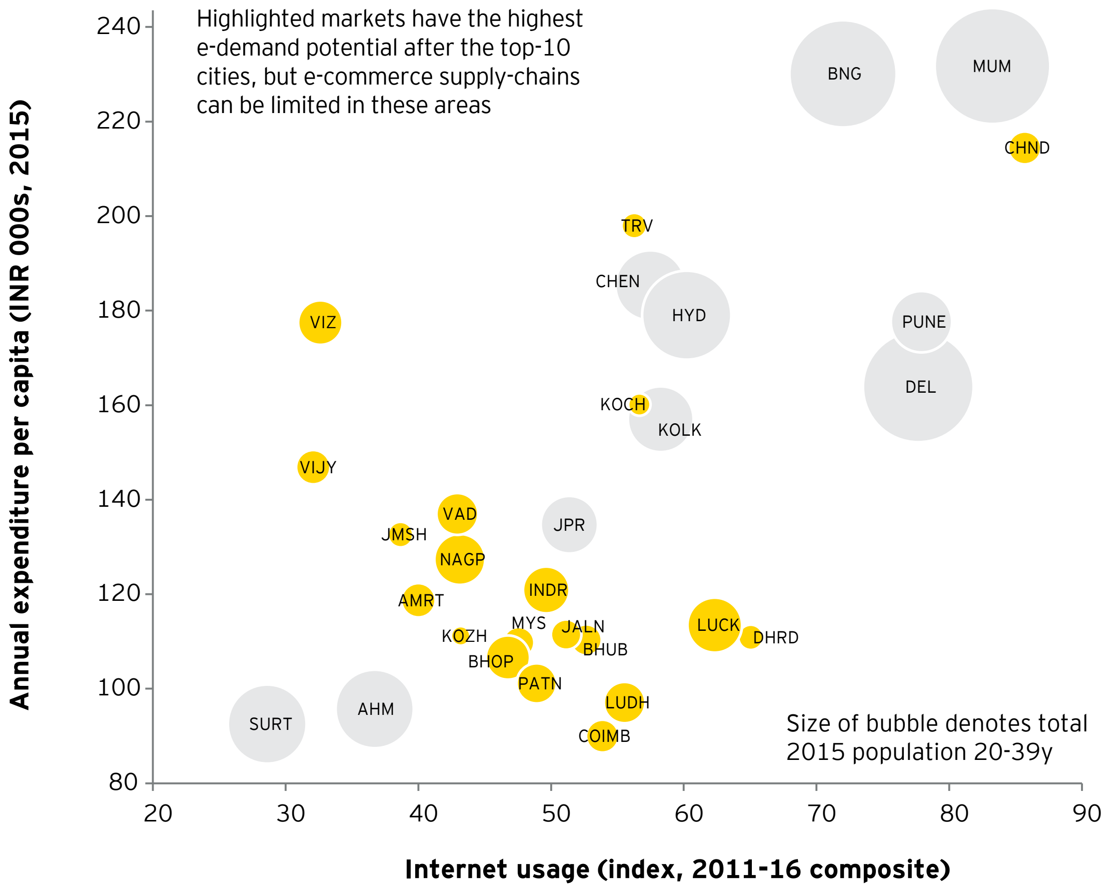
India's e-commerce industry, estimated to have reached INR 2100bn by end-2016, is projected to continue its rapid growth and quadruple in size by 2020[53]. Roughly 65% of e-commerce sales today are being transacted through mobile devices, and this share is expected to increase to over 70% by 2020[54]. While rising middle-class incomes, smartphone adoption and developing 3G/4G infrastructure will drive growth in this industry, some challenges with last-mile delivery remain. As the industry expands supply-chain networks beyond metros, identifying large viable markets with high purchasing power and internet usage becomes a priority.

Top-10 untapped markets: Bhopal, Bhubaneswar, Indore, Jalandhar, Kanpur, Lucknow, Patna, Trivandrum, Vijayawada, Vizag

2016e Ad spend: E-commerce



Market trends: E-commerce[55]



53. "Digital Commerce Report", IAMAI, Jun.2016; "Global E-Commerce Whitepaper", ASSOCHAM-Forrester, May.2016; EY Analysis
54. "Future of Internet in India", NASSCOM-Akamai, Aug. 2016
55. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; "Survey Results", Indian Readership Survey, 2013; Facebook Ad Platform, 2016; EY Analysis

Snapdeal

Jayant Sood
Chief Customer Experience Officer

"E-commerce solves the big problem of access and availability for people in non-metro areas. Over 70% of order volumes on Snapdeal, come from Tier II/III cities. This indicates an evolution in consumer behaviour and expectations, leading to the growing adoption of e-commerce as a habit in these regions."

Tier II/III E-commerce consumer traits

- Very aspirational but have limited access to brands and products
- Pre-dominantly mobile traffic (WAP, app), but users can experience limited data connectivity
- Prefer platforms in native languages
- Prefer CoD as an payment option, but rapid adoption of digital wallets
- North-East (including Guwahati) makes up for 6% of sales, and 12% in fashion

Initiatives taken to target Tier II/III consumers

- Snapdeal has expanded to 69 fulfilment centres across 25 cities-its fast delivery service SD+ now makes up 80% of orders, up from 7% in early-2015. This has allowed it to shorten delivery times in Tier II/III cities to ~6 days
- Snaplite: a mobile-centric version that is 85% lighter in terms of bandwidth, providing a faster web experience in areas with slower network connectivity
- Snapdeal launched a multilingual platform in 11 regional languages in December 2015

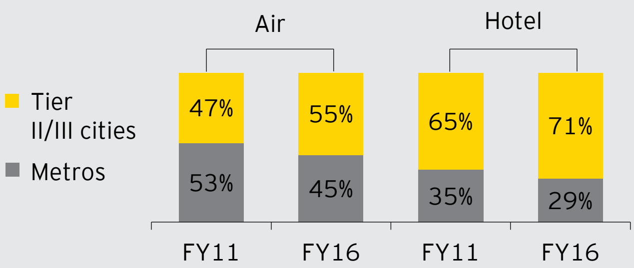
56. Cleartrip, FY2011-16
57. "OLX Crust Survey: Indians stock Rs 78,300cr worth unused goods", Business Standard, Aug.2016

Cleartrip

Aditya Agarwal
Head Corporate Strategy

"Consumption patterns of our Tier II/III customers differ to those in metros. They tend to favour the mobile channel, and due to a leisure-skew (vs. corporate), have longer stays, more passengers per booking and more advance bookings. This results in Tier II/III users having higher transaction values vs metros."

% of Cleartrip volumes[56]



OLX

Amarjit Singh Batra
CEO
OLX India

"The (INR 780bn[57]) used-goods segment is driven by used mobiles, electronics, furniture, cars and 2-wheelers, and other household items. The share of listings from Tier II/III cities for many of these categories has increased from 35% three years ago to almost 50% today. While consumption patterns and popular categories are more or less similar for Tier II/III and metro users, the growth of mobile as a category has been exceptional in Tier II/III markets as a result of growing consumer aspirations, and the availability of reasonably priced and good quality mobile phones on OLX. Some of the other upcoming categories from Tier II/III cities on OLX are tractors, cattle, and agricultural equipment."

High potential Tier II/III used-good marketplaces

- Jaipur
- Surat
- Lucknow
- Kochi
- Aurangabad
- Coimbatore
- Trivandrum
- Vadodara

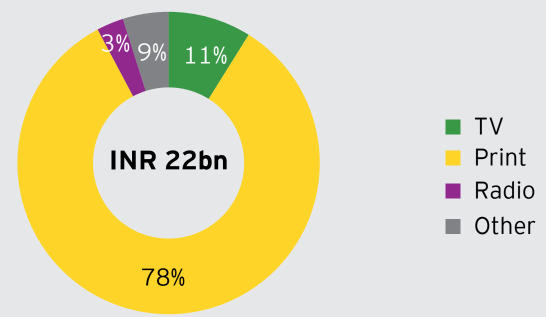
Untapped potential

Education

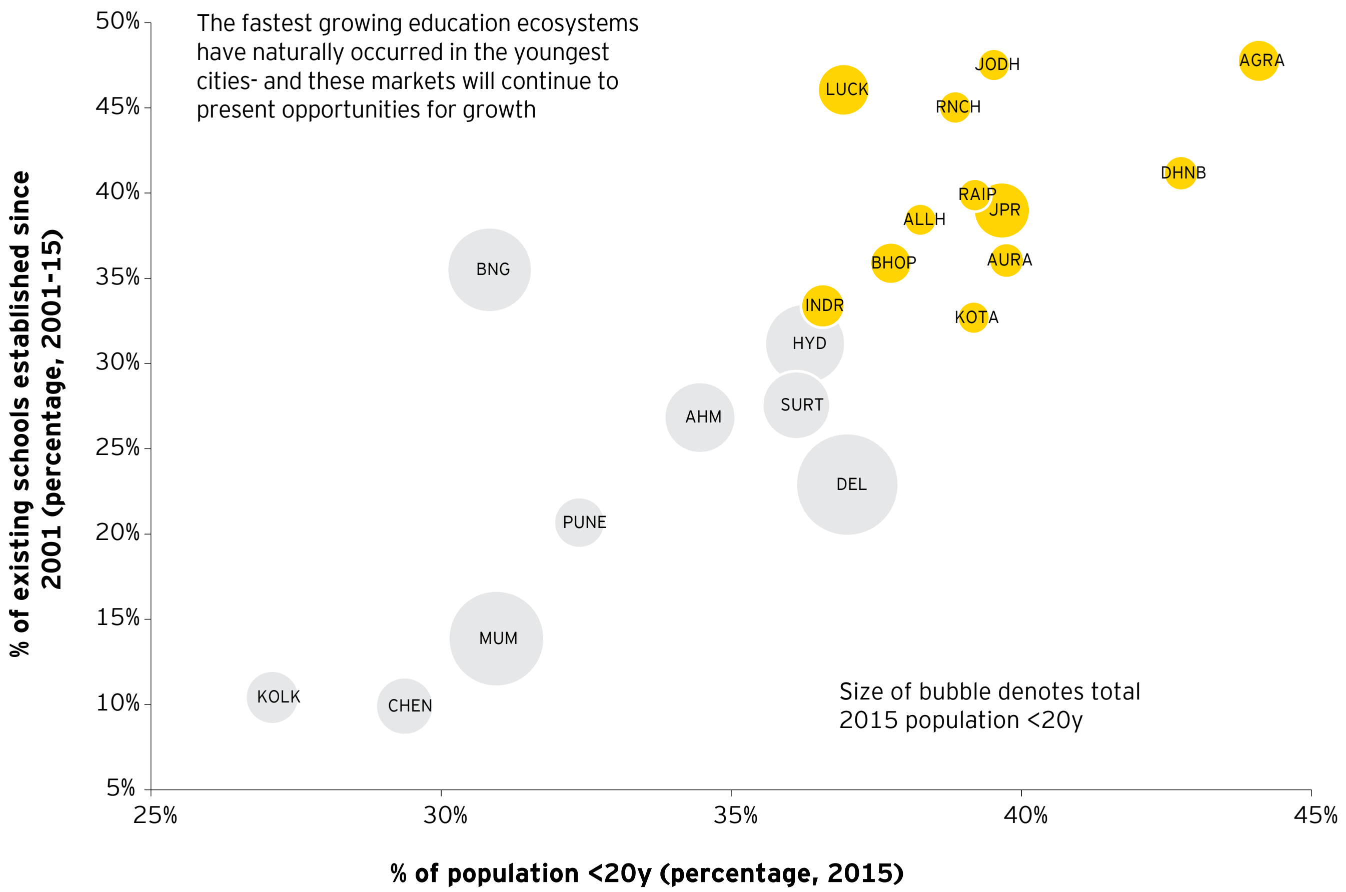
India's education sector comprises more than 1.4 mn schools (enrolling more than 227mn students), 36,000 higher education institutes and 18,000 vocational training centres[58]. Demand in this sector will be robust, with India set to have the world's largest tertiary-age population and second-largest graduate talent pipeline by 2020[59]. Foreign investment is also expected to pick up in this space, given the lack of FDI caps and a recent draft education policy that looks to encourage collaborations with the world's top 200 universities. While educational bodies are largely local in nature, identifying large growth hotspots can help education service providers tap into higher-potential opportunities.

Top-10 untapped markets: Agra, Bhopal, Dhanbad, Indore, Jaipur, Jodhpur, Kota, Lucknow, Raipur, Ranchi

2016e Ad spend: Education



Market trends: Education[60]



58. "Industry and sectors - Education," Ministry of External Affairs website, Government of India
59. EY Analysis
60. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; "Schools established since 2001", District Information System for Education, 2015; EY Analysis

S.Chand Group

Saurabh Mittal
Chief Finance Officer

"Much of our traditional business continues to come from Tier II/III markets, and we are seeing more distributors setting up in these cities. There is greater saturation of schools in metros, with the unavailability of land becoming a particular challenge on the cost-side. As a result, the industry is seeing 5-8% higher growth in many Tier II/III markets relative to metros."

Differences in Tier II/III markets vs metros

- Consumption does not vary much by city-tier as curriculum, subjects, prescribed books etc. are similar, but higher growth markets include Jaipur, Ranchi, Agra
- Trend of Tier II/III schools/students moving from state exams in vernacular to central examinations in English
- Tier II/III distribution is often more dependent on dealer networks, whereas metros require more direct tie-ups
- Due to higher fees per student, metros face greater government regulation of price hikes, while Tier II/III areas have greater capacity to absorb such increases

FIITJEE Ltd.

R. L. Trikha
Director

"The aspiration of parents and students are the major driver for education services, more so than paying capacity. The focus of parents, whether in cosmopolitan metros or in Tier II/III cities, is on the quality of the best available schooling right from an early age. The awareness and exposure to major prestigious examinations has been on the rise across Tier II/III markets. As a result, enrolments in Tier II/III markets are substantial, and comprise 60-65% of our total enrolments."

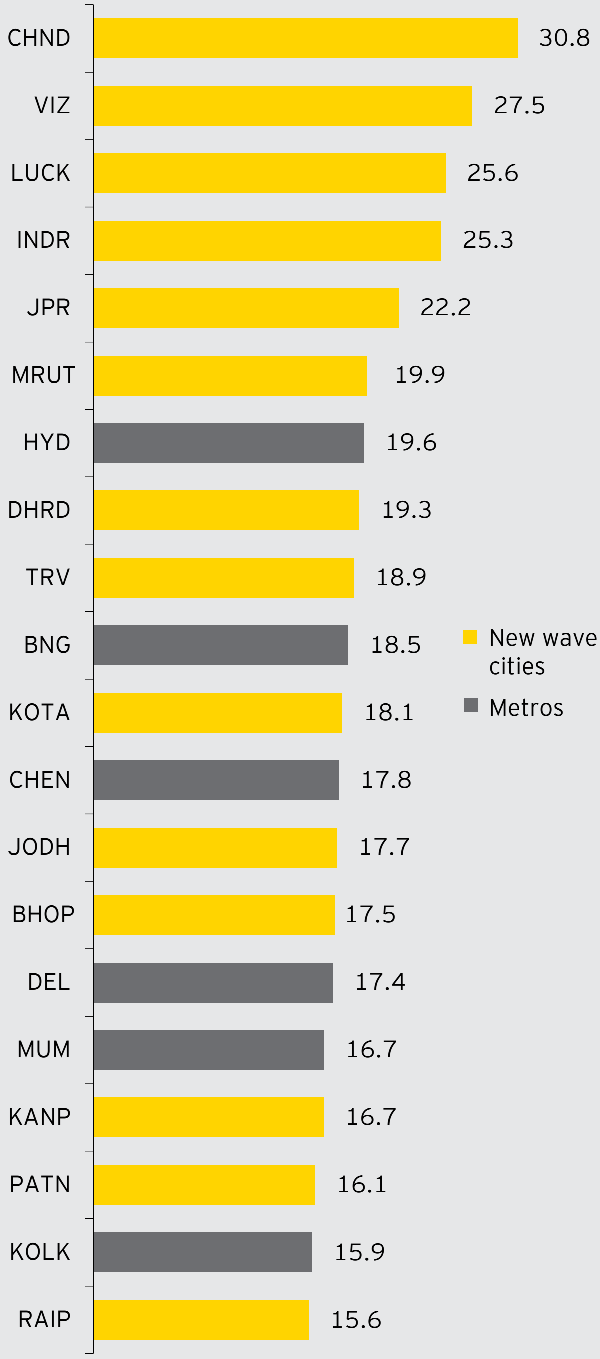
High growth markets include:

- Jaipur
- Lucknow
- Vijayawada
- Ranchi
- Kota
- Bhopal
- Bihar
- Odisha
- Haryana

Market Trends: Education Spends[61]

Unlike expenditures on most other goods, a household's spend on education is not closely tied to overall paying capacity. While households in the top-8 metros typically allocate ~2% of total expenditure to education, the figure is 3-4% for the new wave cities below. Apart from being younger, higher-growth markets in the future, such cities already present sizable opportunities for education service providers today.

Top-20 cities: Annual expenditure on education per household (INR 000s's, 2015)



61."Market Skyline", Nielsen Micro Marketing & Economics, 2015; EY Analysis

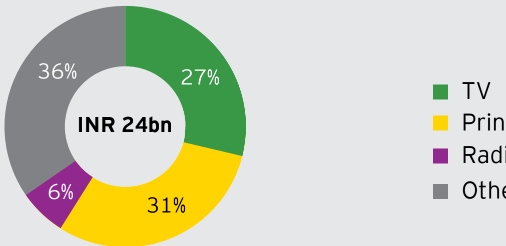
Untapped potential

BFSI

The value of deposits and credits in India's Scheduled Commercial Bank branches (SCBs) has trebled since 2009[62]. Given demonetization, the growth of formal financial channels, particularly digital services and mobile wallets, is set to continue. While the quantum of activity is driven by the top metros, various other high-growth hotspots have emerged.

Top-10 untapped markets: Agra, Ahmedabad, Allahabad, Kozhikode, Nashik, Rajkot, Ranchi, Surat, Vijayawada, Warangal

2016e Ad spend: BFSI

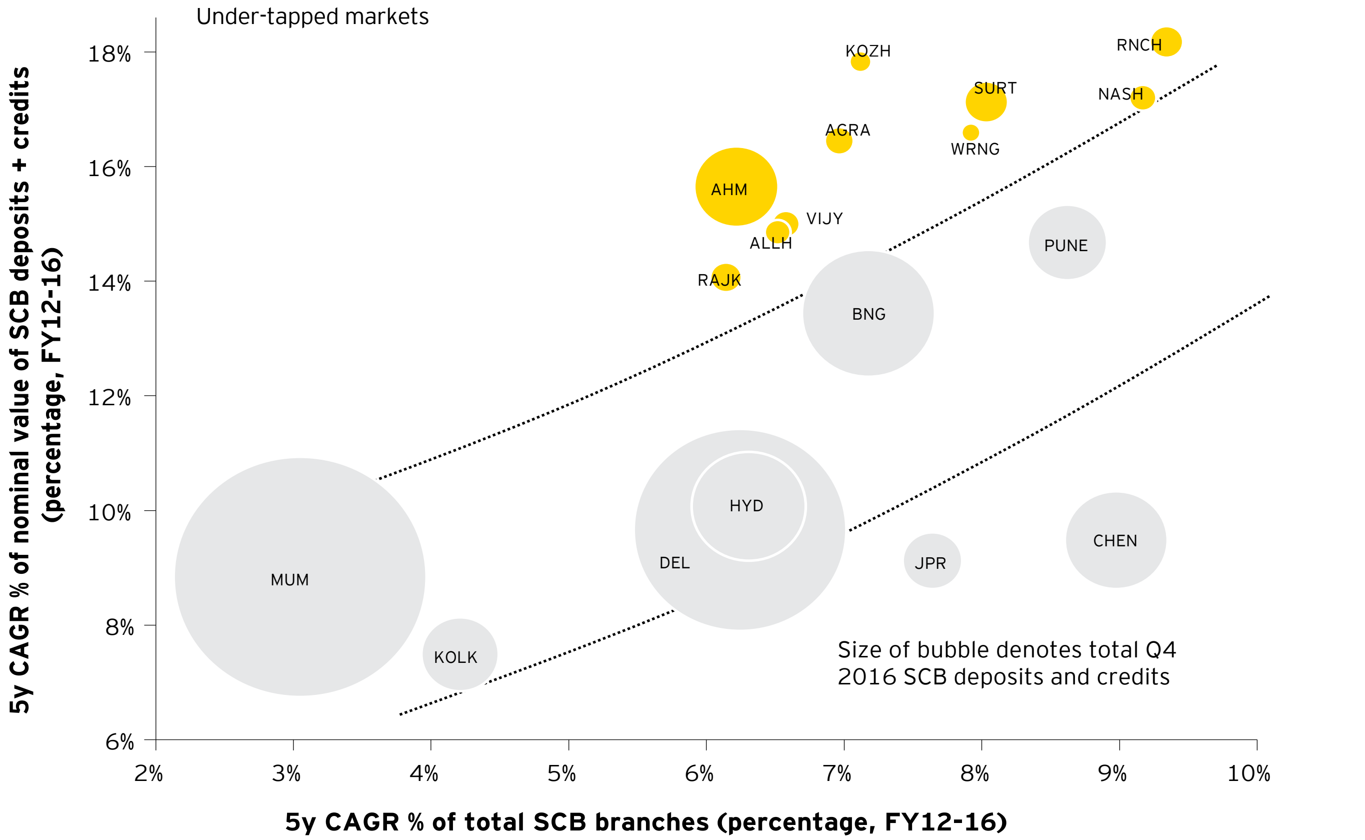


Kotak Mahindra Bank

Virat Diwanji
Executive Vice President and Head Branch Banking

"Kotak's share of branches in the top-8 metros has reduced to ~40% today, from ~55% five years ago, with the next 30 Tier II/III cities making up 16%-18%. High potential cities include state capitals Ranchi and Raipur, as well as cities like Surat, Vadodara and Rajkot. While Kotak's services remain similar across markets, we have seen differences in consumer patterns. Tier II/III customers still prefer physical branches with ~35% of customers using online services vs ~55% in metros. But Tier II/III is showing faster digital adoption, especially on mobiles. As Tier II/III cities move from savings to investment, we are also seeing sales of mutual funds and insurance products catch up with traditional products like fixed deposits."

Market trends: BFSI[62]

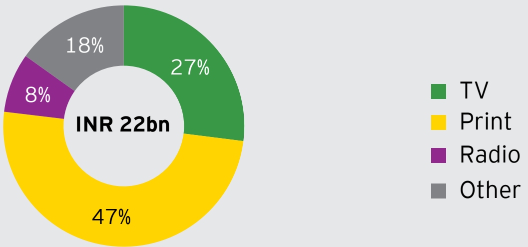


62. "Quarterly Statistics on Deposits and Credits of SCBs", Reserve Bank of India, 2009-16; EY Analysis

Real estate

Indian real estate markets are on a healthy long-run growth path, and will grow at 6-7% annually till 2020[63]. Government initiatives like Smart Cities and AMRUT are expected to boost public funding for housing, reforms to REITs will accelerate private investment and the home-buyer protection bill RERA is expected to raise consumer confidence. The strong growth of credit facilities will also continue to drive demand. In the short-term however, de-monetization is expected to have an impact and some markets may fall up to 30% in 2017[64]. Amid this volatility, some macro trends and longer-run movements are outlined for various cities.

2016e Ad spend: Real estate



HDFC Ltd.-Housing Finance

Conrad D'Souza
Member of Executive Management

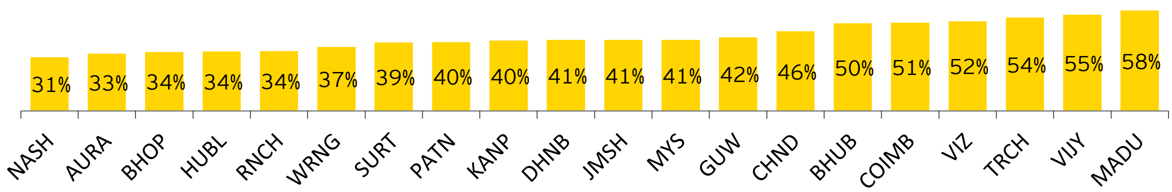
"The key drivers for real estate and housing finance is the creation of jobs, while infrastructure like transport networks and power also play a major role. Supply-side follows demand-the shift from renting to ownership primarily occurs with rising disposable incomes created by better job opportunities.

Today, the top-8 metros account for roughly 70% of home loans, but there is increasing traction coming from Tier II/III cities. High potential markets include state capitals Raipur and Dehradun, along with cities in Andhra Pradesh and Tamil Nadu like Vijayawada and Coimbatore."

Market Trends: Real Estate

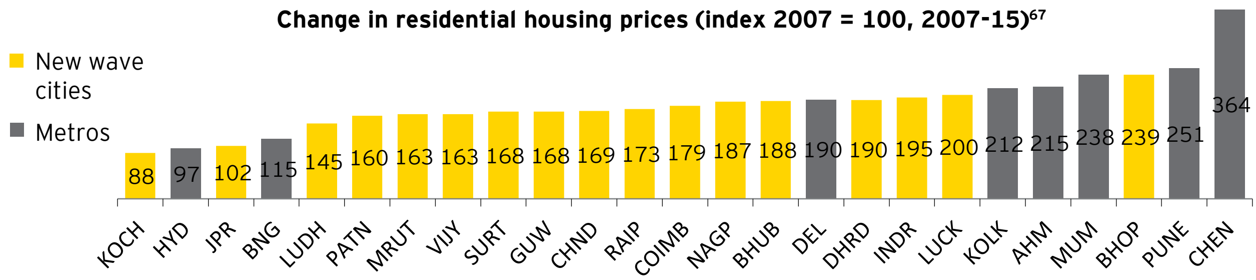
The real estate markets in new wave cities are maturing, as consumers move up the value chain from rentals to ownership. Notably, the five markets with the lowest rates of ownership are in Tamil Nadu and Andhra Pradesh-and may present untapped opportunities for home finance.

Top-20 new wave cities: Share of households without home ownership (percentage, 2011-13)[65]



Apart from demand, prices are also driven by a lack of supply/execution delays, as reported in high-growth Bhopal and Lucknow[66] - markets where there is scope for local developers to further expand footprints.

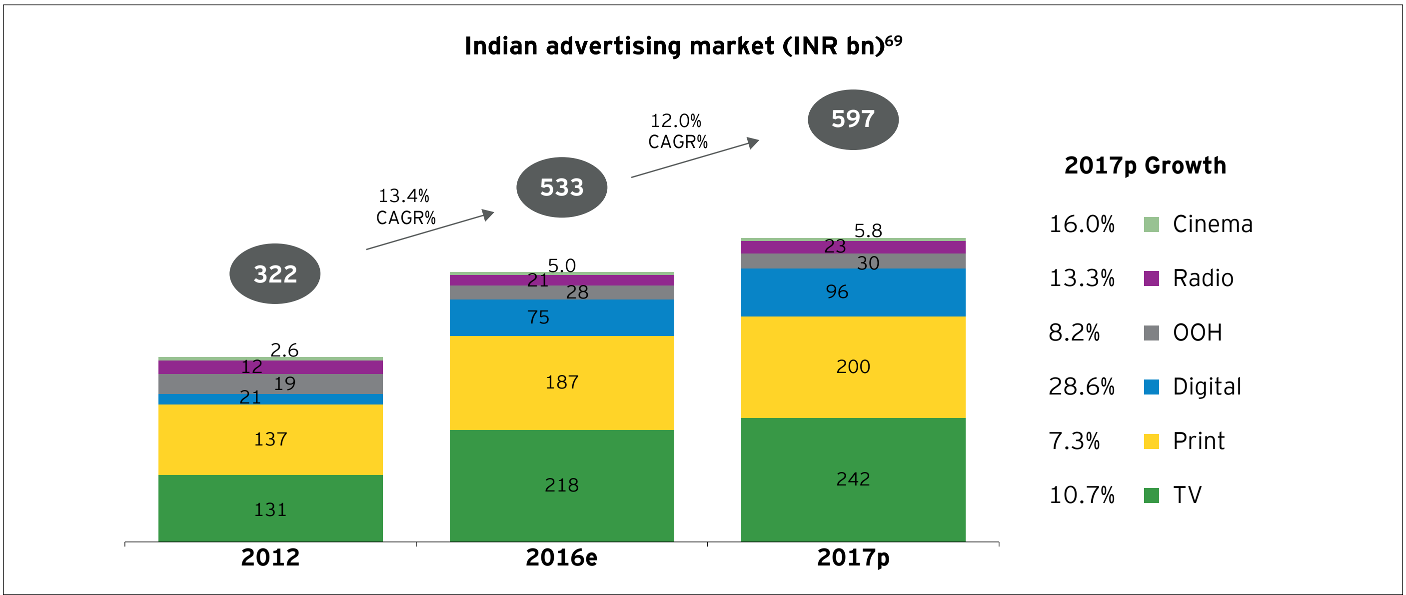
Change in residential housing prices (index 2007 = 100, 2007-15)[67]



63. "India Real Estate Report 2016," BMI Research, 2016; EY Analysis
64. "Housing Prices to Drop", ET, Nov.2016
65. "Census of India", Ministry of Home Affairs, 2011; "Survey Results", Indian Readership Survey, 2013; EY Analysis
66. "Top Indian Cities to Invest In", ET, Oct.2015
67. "Change in Aggregate Residential Housing Prices", National Housing Bank Residex, 2007-15

4 Optimizing reach

India's media industry is thriving. TV digitization, rising vernacular print circulation, smartphone adoption, FM radio auctions and expansion of multiplexes are all boosting media consumption, and have made India the world's fastest growing large advertising market[68, 69, 70]. Buoyed by these drivers, the domestic ad industry is expected to have reached INR 533bn in 2016, entering the world's top-10 ad markets for the first time[68, 69]. While demonetization is expected to have a short-term impact-roughly INR ~15bn of ad spends were deferred in 2016 following the demonetization, the industry is expected to bounce back by Q2 2017[71]. Backed by a robust economy and ongoing advertiser efforts to reach untapped cities beyond metros, growth will continue apace, and India is set to become the 6th largest global ad market by 2020[70].



GroupM

Tushar Vyas
Chief Strategy Officer
South Asia

"The Indian ad market is evolving, and we are seeing growth of smaller cities, as well as new clients in regional markets. Small town ad spend across all key mediums has grown at a CAGR of more than 50% in the last 5 years relative to the national average CAGR. This will get further accelerated with more small screens in the country than big screens and digital leading the way, offering marketers more avenues to reach audiences at scale."

M/SIX

Rajit Desai
Principal Partner

"The media markets in Tier II/III cities are showing faster growth relative to those in metros. The expansion of BARC measurement into smaller towns has helped shift TV spends, while rapidly improving online connectivity is broadening the digital marketplace in these cities."

68. "Carat World Ad Spend Forecast", Dentsu-Aegis Network, Jun.2016; "Ad Expenditure Forecast", Zenith Optimedia, Dec.2016
69. EY industry discussions and analysis on media spends
70. "World Media Spend Forecast", IPG MagnaGlobal, Jun.2016
71. "Will demonetisation impact on advertising be short-term?", Livemint, Dec.2016; "Pitch Madison Advertising Report", Pitch Madison, Feb.2017

TV

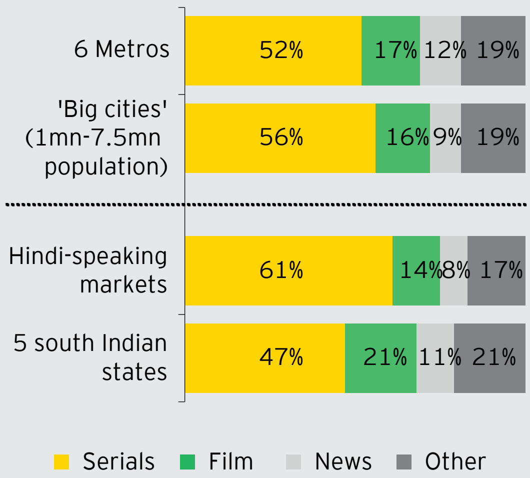
As digitization continues to roll out across India's 175mn TV households, the process has been largely completed in metros and new wave cities (barring a few markets in Tamil Nadu like Coimbatore, Trichy and Madurai)[72]. This has bolstered both the quantum of content (as more channels and packages become available) as well as its quality, with the rising proliferation of HD channels. This digital conversion is also allowing marketers the opportunity to break up a national TV audience into smaller target audiences for the first time. As geo-targeting platforms emerge, it is now becoming possible to deliver messages tailored to specific audiences at a regional, state and even city-level.

Broadcast Audience Research Council

Partho Dasgupta
CEO

"In terms of audience segmentation, India's 6 mega-cities and large urban clusters show similar viewership habits with respect to genre preferences and time spent. Instead, disparities are observed at the regional level. South Indian markets are heavier on TV consumption, with viewers in such states spending more time watching TV than the HSM market. The other key difference is in preference for genres, where South India's strong film culture is reflected in higher TV viewership of films over serials."

Genre-wise TV viewership[73]



Amagi Media Labs

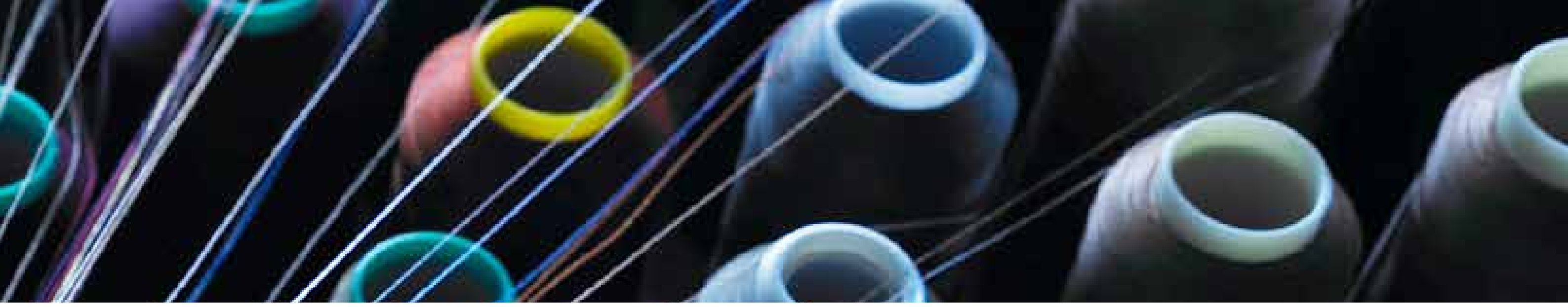
Baskar Subramanian
Co-Founder

"While TV has traditionally been a mass medium, various trends are increasingly making it a local one:

- **Market selection:** Platforms like ours are for the first time giving advertisers the option to target specific locales. These geo-targeting solutions have seen significant uptake not only from national brands with diverse customer bases, but regional SMEs/brands looking to foray into TV ads.
- **Niche content:** Digitization is reducing analog constraints, and broadcasters are leveraging this by launching more niche channels and creating programming for specific segments.
- **Language:** metros and Tier II/III markets are largely homogenous in terms of content preferences, but differences are more pronounced at a regional level. Vernacular content is strongest in the South, with over 90% of viewership on regional channels. Marathi and Bengali also have sizable audiences, garnering 30-50% of local viewership. After this there is a drop-off, and other vernacular content has less than 10% share of local markets.

When advertisers segment audiences like this-selecting the right markets, right programming and right languages for their messaging-they are often able to realize a 2-3% rise in market share."

72. "TV Home Tracker", Chrome DM, 2016
73. "Genre-Wise Viewership", Broadcast Audience Research Council, Week 41 2015-Week 38 2016



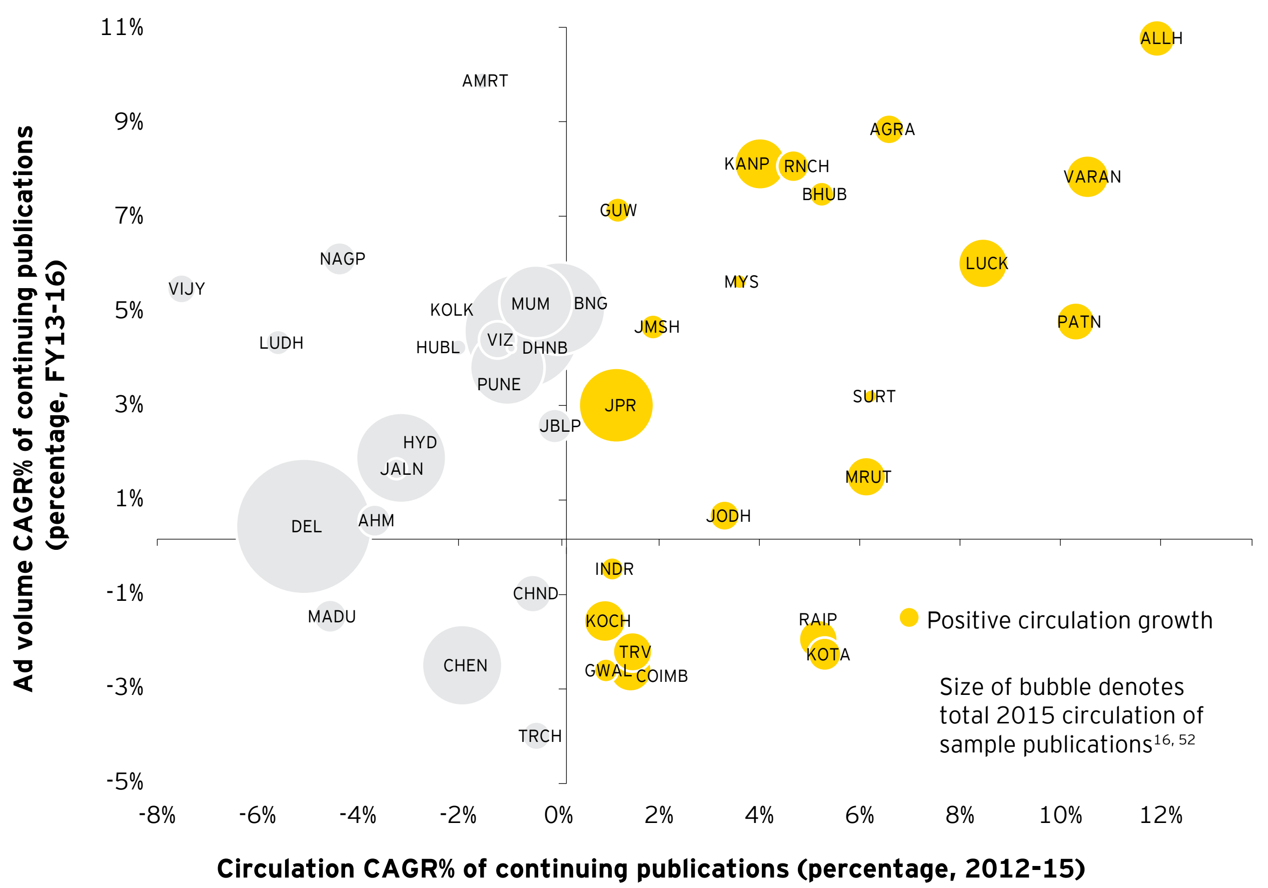
Print

While TV consumption varies little across city-tiers, print skews towards new wave cities. These markets in recent years recorded higher rates of readership, circulation and circulation growth relative to metros. However, this skew has not yet been reflected in media plans, and y-o-y growth of ad volumes has been ~2% for both sets of cities.

This trend of new wave markets achieving stronger circulation growth relative to their ad volume is shown below at a city-level. For instance, while proximate cities Bangalore-Mysore, Delhi-Meerut and Chennai-Coimbatore registered comparable volume growth to one another, the new wave markets recorded significantly higher growth in readers. A similar growth differential can be seen when comparing large markets such as Jaipur, Lucknow and Patna to metros like Pune and Kolkata. Given new wave markets' higher circulation growth, as well as economic growth prospects and untapped potential, there is scope for media plans to be re-calibrated towards such cities.

8 Metros		42 new wave cities	
61mn	≈	62mn	2015 city population[74]
37%	<	41%	2013 readership of any publication[75]
7.5mn	<	8.0mn	2015 circulation[76]
-2.5%	<	2.9%	2012-15 circulation CAGR% (of continuing publications)[76, 78]
2.0%	≈	2.1%	2013-16 ad volume CAGR% (of continuing publications)[77, 78]

Market-wise print trends[76, 77, 78]



74. "Market Skyline", Nielsen Micro Marketing & Economics, 2015; "Census of India", Ministry of Home Affairs, 2011; EY Analysis
75. "Survey Results", Indian Readership Survey, 2013; EY Analysis
76. "Circulation of Reported Publications", Audit Bureau of Circulation, 2012-15
77. "Ad Volume of Reported Publications", TAM Adex, FY13-16
78. Editions were only considered if both adex and circulation data was available-sample had a total circulation of 15.3mn in 2015

Digital

The easy availability of sub-US$150 smartphones and rapidly improving 3G/4G infrastructure has allowed India's internet user base to balloon to nearly 500mn today[79,80]. The key trends in this space include a heavy skew towards mobile, a surge in video content and under-tapped content ecosystems for women and vernacular languages.

80%	Share of Indian internet users on mobile in 2016, up from ~60% in 2013[80]
76%	Video's share of consumer Internet traffic in 2020, up from 53% in 2015[81]
<0.1%	Global share of online content that is in Indian languages[82]
70%	Share of users consuming vernacular content in 2020, up from 45% in 2013[83]
23%	Share of Indian Facebook users that are women, amongst the lowest rates in the world[83,84]
45%	Share of women internet users in 2020, up from 25% in 2013[83]

SVG Media

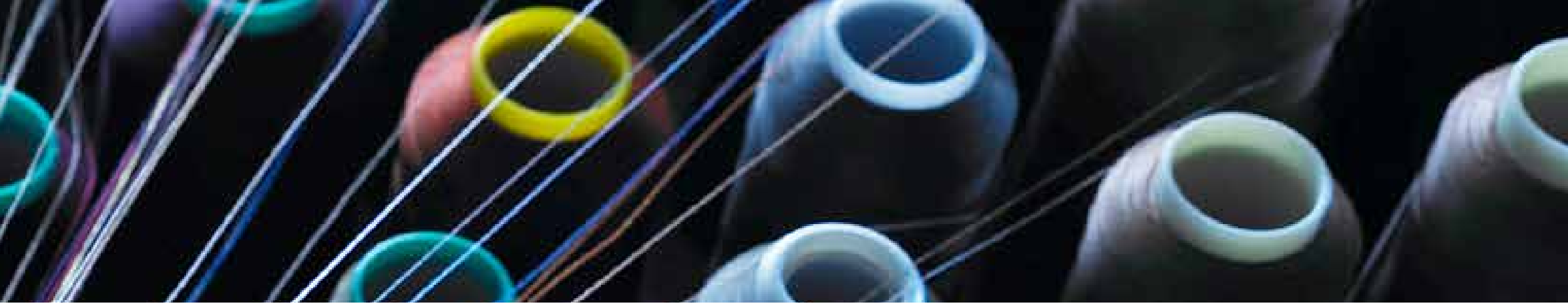
Manish Vij
Founder and CEO

"The rapid rise of low-cost smartphones is allowing Tier II/III and regional consumers to skip the traditional digital evolution, and close the loop on mobile itself. It has resulted in all digital mediums and cities to grow, particularly Jaipur, Surat, Chandigarh, Vadodara, Trivandrum, Kochi, Lucknow, satellite cities as well as state capitals, which tend to have better digital infrastructure."

Initiatives taken to target Tier II/III consumers

- Multi-lingual ads work especially well
- Emphasized messaging clarity, especially in non-HD formats
- Observed conversion rates of 2-3x on media partners that offer alternative mobile ecosystems (browsers, app stores, launchers) These native ecosystems play a prominent role in user trust to download apps and various forms of content
- Tier II/III users are keen to cut steps, and typically close transactions faster on mobile (i.e. more tap-to-touch buyers)

79. "Internet Trends", KPCB, Jun.2016
80. "Mobile Internet in India", Internet and Mobile Association of India, Feb.2016; EY Analysis
81. "Annual Visual Networking Index", Cisco, 2016
82. "Proliferation of Indian Languages on Internet", Internet and Mobile Association of India, Feb.2016
83. EY Analysis
84. Facebook Ad Platform 2016



Radio

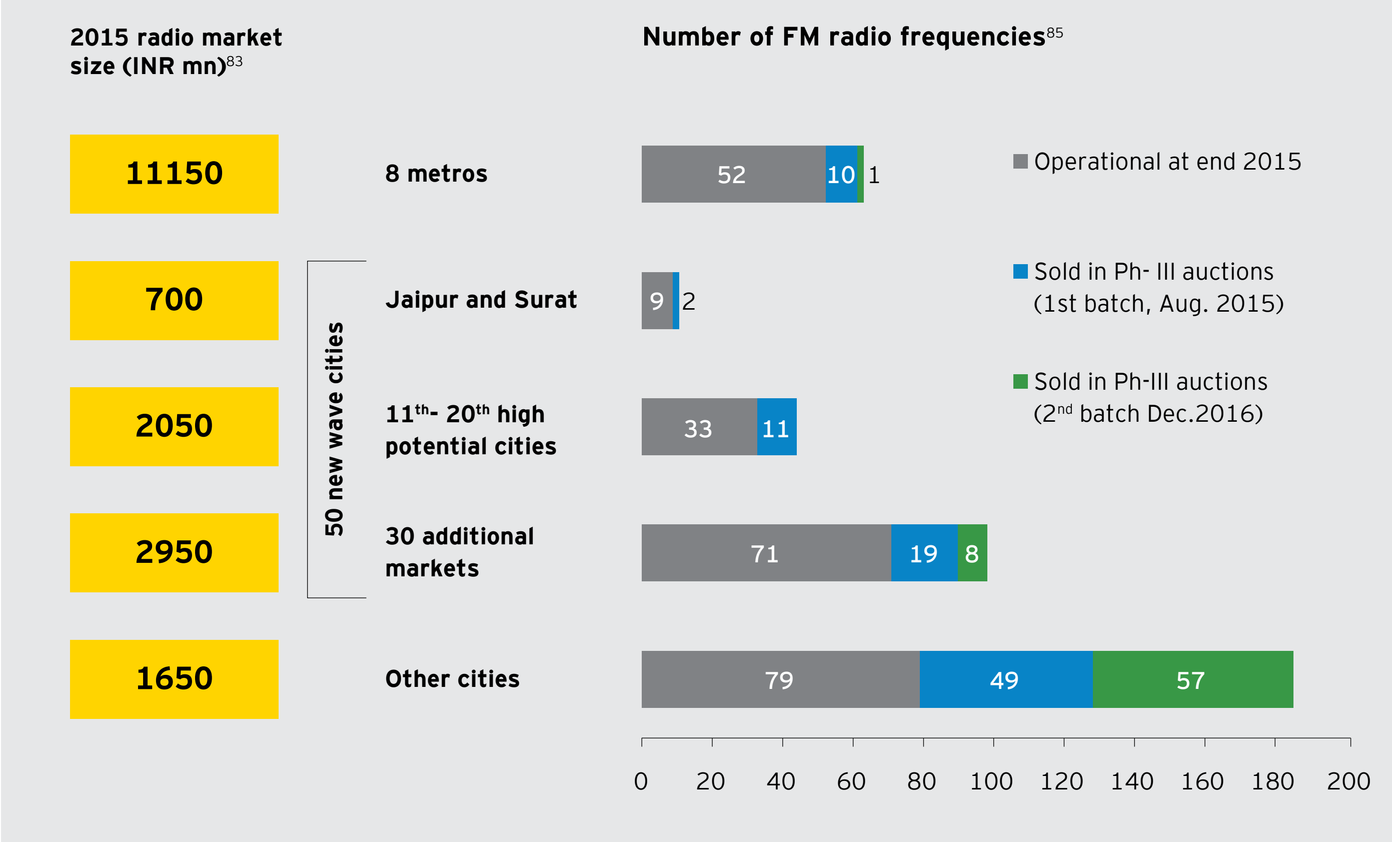
FM radio continues to hold a unique niche in the Indian media landscape. It is an effective reminder medium that can be customized at a city-level, provides free experiences for less affluent consumers and also reaches groups with lower literacy levels.

Recognizing the medium's ability to reinforce messaging and reach additional audiences, print conglomerates have expanded their radio presence and looked to form bouquets with their publications. This has occurred at both the national level (e.g.: Radio Mirchi-The Times Group, Red FM-Sun Group, Big FM-RBNL/ Zee Media Corp., MY FM-DB Corp., Radio City-Jagran Prakashan, Fever FM-HT Media) and regional level (e.g.: Hello FM-Malar Publications, Radio Mango-Malayala Manorama Co., Club FM-The Mathrubhumi Group). Such synergies, coupled with higher entry barriers relative to mediums like print and digital, resulted in ~80% of frequencies and ~90% of industry revenues to be held by the top-10 networks in FY 2016[83]. Having served as the key players in radio's Phase-III auctions, these major networks are set to continue leading the industry's growth.

Radio phase-III auctions

India's radio market today is top-heavy, with the ten largest cities making up nearly two-thirds of total industry revenues. But the FM landscape is flattening with the recently concluded Phase-III frequency auctions, in which more than 140 frequencies were sold beyond the top-10 cities[85]. As radio networks continue to operationalize these channels, the medium's reach in new wave cities and other smaller towns is set to deepen significantly.

Indian FM radio landscape



85. "Auction Results", Ministry of Information & Broadcasting, 2015/16; EY Analysis

Out of home

On the back of a large increase in working-age population, infrastructure development and digital signage, India's OOH industry has recorded double-digit growth in recent years. While demonetization impacted this sector in 2016-17, new wave markets will help growth return to longer-term norms. Various outdoor infrastructure initiatives are driving OOH and transit media opportunities in these cities, including:

- Operationalization of 50 new airports from 2015-25 by the Airport Authority of India[86]
- Development of new metro rail systems in markets like Jaipur, Kochi, Lucknow, Ludhiana and Nagpur[87]
- Road and highway construction through national industrial corridors (e.g.: Delhi-Mumbai, Mumbai-Bangalore, Bangalore-Chennai, Chennai-Vizag and Amritsar-Delhi-Kolkata corridors)[88]

While the industry is currently concentrated in the top metros (over a third of revenues accrue to Delhi, Mumbai and Bangalore[89]) - such infrastructure initiatives will cause this mix to change as more OOH opportunities arise in new wave cities.

OOH serves as a healthy and effective reminder medium to TV and print advertisements, and this efficacy is improving further with the rise of digital OOH. Marketers are being drawn to this medium as it allows them to interact with consumers in real-time, target users at a granular area-level and also receive superior measurement feedback. As a result, although digital OOH only comprises ~10% of the industry today, the segment is expected to grow ~25% annually from 2016-19[90].

Ministry of Railways, Government of India

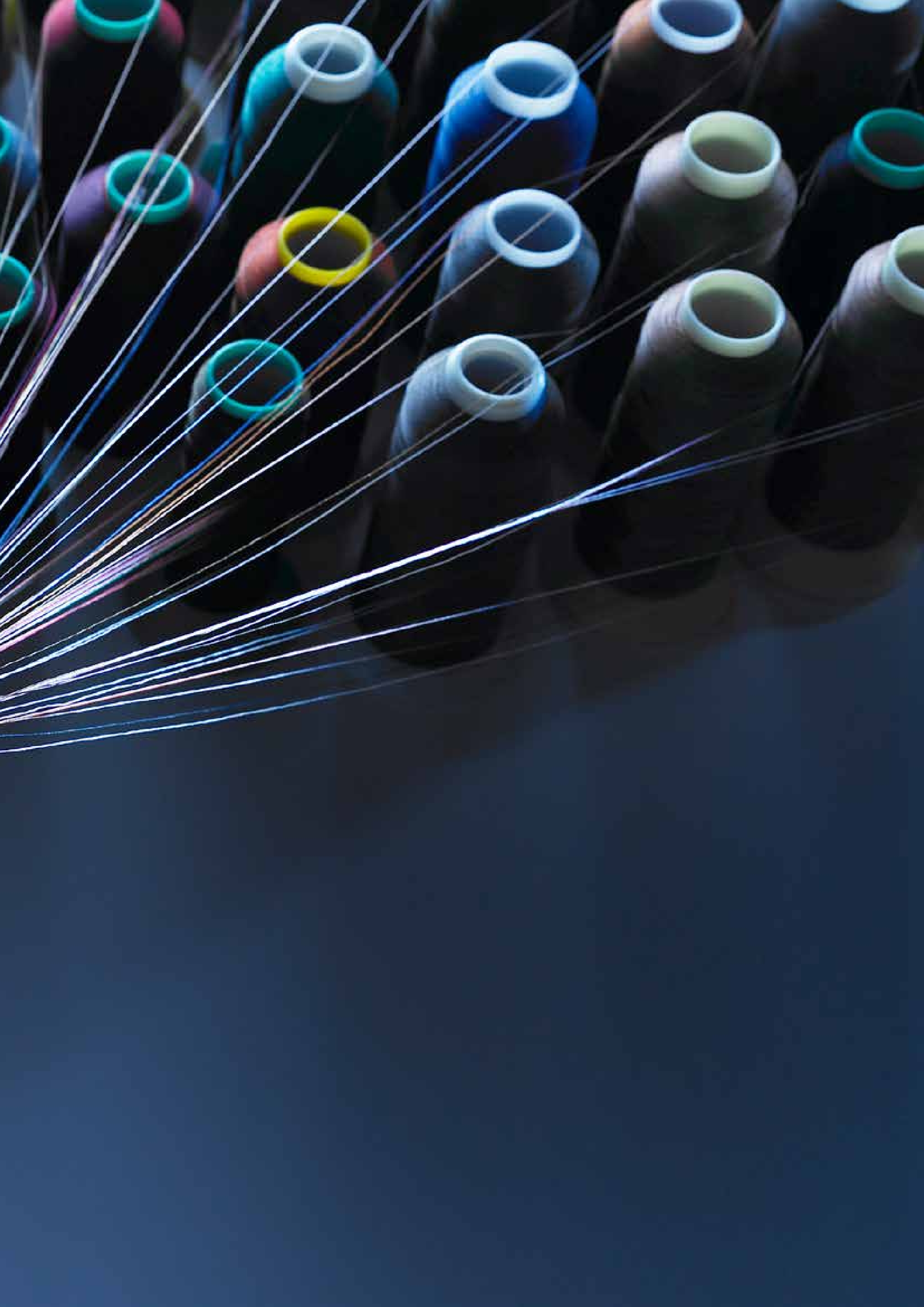
Ranjan Thakur
Executive Director,
Non-fare Revenue

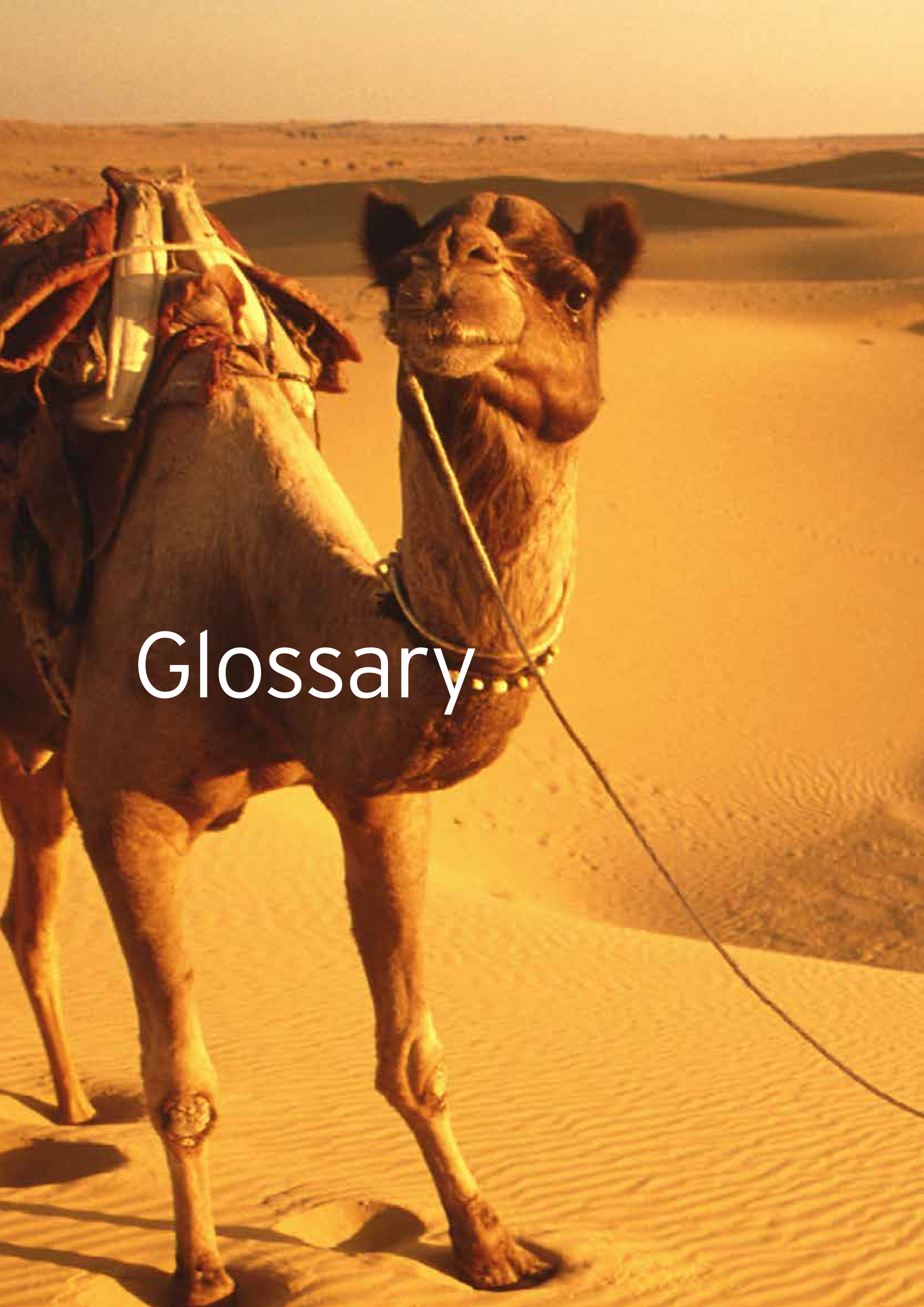
"Out of home advertising provides last mile connectivity with the consumer, creating a strong chance of top-of-mind recall. It adds significant value to the media plan as it acts as a reminder medium that has low cost per contact and high visibility.

As India's metros and major urban cities near saturation levels, especially in terms of economic growth, companies across a range of sectors are moving towards Tier II/III cities. Indeed, this next tier of cities has already been delivering successful economic growth for the past decade.

In terms of transit media, this medium focuses on marketing to consumers when they are "on-the-go" in public places, in transit, in specific commercial locations or waiting (such as in a railway waiting room). As brands better understand transit media's reach in smaller towns and the innovation techniques possible in this medium, they will be able to more effectively target consumers in Tier II/III cities."

86. "Airports Authority of India to revive 50 airports", ET, Nov.2015
87. Government Metro Rail Portals, 2016
88. MakeInIndia Government Portal, 2016; Individual Industrial Corridor NIC Portals, 2016
89. "Pitch Madison Advertising Report", Pitch Madison, Feb.2017
90. "Digital OOH will take the industry by storm (6w Research)", All About Outdoor, Jun.2016





Glossary

Term	Definition
Bn	Billion
CAGR	Compound Annual Growth Rate
City	We consider cities to only comprise their distinct urban areas, per the Census of India-this does not include adjoining outgrowths/suburbs that make up the wider urban agglomeration
De-monetization	The Government of India's initiatives around reforming money supply since November 2016, including the removal of existing INR 500 and INR 1000 banknotes from circulation
DTH	Direct-to-Home
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
Household income	Value of combined gross income of a household
INR	Indian rupee
Metros	8 Indian cities classified as such by the Central Pay Commission-by cumulative household income, these are the top-ranked cities in India
Mn	Million
New wave cities	42 Indian cities with the greatest cumulative household income, after the 8 metros
Real GDP	Gross Domestic Product adjusted for inflation
Tier II/III cities	A generic term used by featured industry professionals in referring to the next set of 30-50 cities after the metros
Trn	Trillion
TV digitization/DAS conversion	Conversion of analog cable TV services into Digital Addressable Systems
Untapped potential	A calculated index measuring the gap between consumer demand and business supply
USD	US Dollar
Y-o-Y	Year-on-Year

Notes:

Notes:

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EY India has a dedicated marketing and advertising practice of more than 350 professionals across 15 key segments of the industry. We provide services to the top global brands including the largest advertisers, aggregating over 40% of total Indian advertising spends. We identify potential areas of savings by analyzing and recommending strategic, process driven and compliance related gaps/ practices which can help client achieve overall efficiency and effectiveness in their marketing initiatives. We are also the leading provider of event risk management solutions in India since 1999. EY has been the process advisor to more than 300 awards.

For further information, please contact

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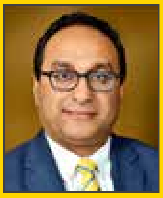

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Bharat has over 20 years of work experience in EY specialising in MARS reviews for over 16 years. He has conducted media plan optimization reviews, marketing spend reviews/agency compensation and performance reviews, below the line spend reviews, and digital media assessments for leading advertisers in India and Pan Asia cutting across various industries: FMCG, oil and gas, telecom, consumer durables, services, etc.

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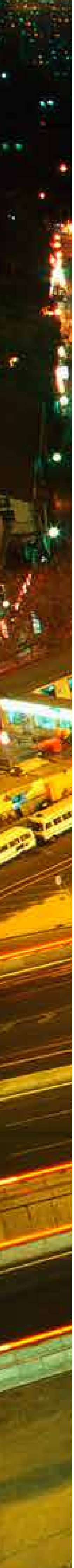

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