India vs. BRICs: a comparison of the e-commerce ecosystem

An EY white paper
The Indian e-commerce space has attracted great interest from the industry and financial sponsors (private equity funds/venture capitalists). There is a lot of speculation around the future of the sector, though most participants – the players, the funding institutions and the public – are largely positive in their outlook. Still, a multitude of questions surround this nascent sector’s state and growth:

- Will e-tail and e-travel (expected CAGR of 45% and 30%, respectively, till 2018) actually witness the phenomenal growth expected?
- Will e-commerce companies be able to sustain the momentum they have garnered in the last few years?
- How will the supporting ecosystem (logistics, payments, internet and data penetration, and regulations) pan out to maintain and grow the desired e-commerce wave?

Though developments on all fronts support the growth of the sector, answers to these questions remain elusive.

However, there is merit in understanding the e-commerce sector in the countries that India is most often compared with – China, Brazil and Russia – to understand their maturity and growth. Can India learn from these countries? Are there conclusions that can be drawn from their growth trajectory? This paper explores these questions, while studying the Indian e-commerce space.

Comparison of key numbers: India vs. BRICs

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>China</th>
<th>Brazil</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retail e-commerce</strong> (US$ billion – 2014)</td>
<td>5.2</td>
<td>426.3*</td>
<td>16.3</td>
<td>17.5</td>
</tr>
<tr>
<td><strong>Internet user base</strong> (2014)</td>
<td>243m</td>
<td>649m</td>
<td>108m</td>
<td>84m</td>
</tr>
<tr>
<td><strong>Online shoppers</strong></td>
<td>35m</td>
<td>361m</td>
<td>33m</td>
<td>30m</td>
</tr>
</tbody>
</table>

* Includes sales through Customer to Customer platforms but excludes travel and event tickets

Source: IAMAI, eMarketer, yStats

The significant implications from a look at the key numbers are:

- Though the Indian internet user base is just second to China, only 14% of internet users shop online, compared with 30%-35% in Brazil and Russia, and 55% in China.
- The ticket size of online transactions in India is nearly 70% lower than any of the other three BRIC countries.

Indian internet users are still using the service for several activities other than shopping, such as social networking, video streaming and emails/browsing. Further, the Indian online shopper is purchasing low-value items, implying that e-commerce portals are being used primarily for research and not to purchase high-ticket items. The consumer is still more comfortable buying higher value items from stores.

Consumers in Brazil have a higher propensity to buy consumer electronics, home appliances, furniture and jewelry online. Indian consumers, on the other hand, prefer to buy low-ticket items such as books and gifts online. For high-value categories such as home appliances and jewelry, the need to touch and feel the product before buying weighs heavily on the consumers’ purchase decision.
Ecosystem maturity - India vs. other BRIC countries

Indian e-commerce companies are constantly innovating in terms of their product portfolio, user interface and marketing strategies. However, the sector’s growth will depend upon other aspects of the ecosystem also, all of which together determine success.

**Figure 2: E-commerce ecosystem**

Demographics of the internet user

The demographics of internet users define their spending patterns and behavior. India has a higher proportion of internet users between the age of 15 and 35 compared with other BRIC economies.

**Figure 3: Internet user demographics¹**

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>China</th>
<th>Brazil</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet user base under age 35</td>
<td>75%</td>
<td>59%</td>
<td>60%</td>
<td>56%</td>
</tr>
<tr>
<td>Urban rural split</td>
<td>63:37</td>
<td>72:28</td>
<td>81:19</td>
<td>60:40</td>
</tr>
<tr>
<td>% of women internet users</td>
<td>39%</td>
<td>45%</td>
<td>49%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: Comscore
Also, fewer women are online in India compared with the other countries. These demographic characteristics of the Indian internet user imply that the “high earning-high spending” profile of the population (i.e., the population aged above 35 and women) are not spending significant time shopping online.

There is a sizeable e-tailing opportunity for the population above 35 years of age. They are the high retail spenders and are currently more comfortable shopping offline than online. The women internet user population in India is the lowest compared with the other BRIC economies. Studies have found that more than 80% of women shoppers recommend their online purchases to other women. Therefore, the ability to tap the women segment will help expand the overall e-commerce pie.

Internet users in India are mainly an urban and educated segment of the population. However, India’s internet user mix is shifting toward rural areas, driven by cheap and easy access to smartphones. The rural population is increasingly aspiring to own the latest mobile phone, clothes and electronic brands. Further, the internet user mix in India is expected to even out between rural and urban areas by 2018. As a result, the rural segment is too big for e-commerce players to ignore.

**Internet penetration**

Internet penetration in India compared with the other BRIC countries is still nascent. However, this does not mean that the market available for e-commerce players is not significant. In terms of actual numbers, the available pool of internet users that can be targeted is only third in the world, next to China and the US. Further, India is poised to surpass the US to become the country with the second-largest internet user base in 2015.

<table>
<thead>
<tr>
<th>Internet user base (2014)</th>
<th>Internet penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>243m</td>
<td>19%</td>
</tr>
<tr>
<td>649m</td>
<td>46%</td>
</tr>
<tr>
<td>108m</td>
<td>53%</td>
</tr>
<tr>
<td>84m</td>
<td>59%</td>
</tr>
</tbody>
</table>

Source: Internet Live Stats website

**Figure 5: Average data connection speeds (Mbps), 4Q14³**

<table>
<thead>
<tr>
<th>Country</th>
<th>Speed (Mbps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>22.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>16.8</td>
</tr>
<tr>
<td>Japan</td>
<td>15.2</td>
</tr>
<tr>
<td>Russia</td>
<td>9.0</td>
</tr>
<tr>
<td>China</td>
<td>3.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.0</td>
</tr>
<tr>
<td>India</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: Akamai
However, the average broadband speeds in India are the lowest among the BRIC economies. In addition, broadband adoption with speeds in excess of 4 Mbps and 10 Mbps was 7.8% and 1.1% of internet users in India, respectively, in 4Q14. This is in stark contrast to Brazil, China and Russia, where a higher proportion of users had speeds exceeding 4 Mbps.

![Figure 6: Fixed broadband prices (as a % of GNI per capita)]

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GNI per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3.66%</td>
</tr>
<tr>
<td>China</td>
<td>3.54%</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.42%</td>
</tr>
<tr>
<td>Russia</td>
<td>0.54%</td>
</tr>
</tbody>
</table>


The Indian internet user has to spend one of the highest amounts on broadband as a proportion of their income, compared with their BRIC counterparts. This indicates that internet affordability and accessibility is higher in these countries. High broadband speeds at affordable prices are essential to support the growth of e-commerce.

The National Telecom Policy – 2012 (NTP–2012) is a step toward increasing internet usage in the country. NTP – 2012 aims to achieve 175 million broadband connections by 2017 and 600 million by 2020 at a minimum speed of 2 Mbps, and provide higher speeds of 100 Mbps on demand. The lower price (in absolute terms) of fixed broadband prices in India will complement the Government’s initiatives to boost internet penetration.

**Mobile penetration and data speeds**

Mobile proliferation has been a key driver for e-commerce in all countries including India. Interestingly, not only does India have more internet-enabled mobile connections than Brazil and Russia combined, the time spent online using the mobile is also among the highest. However, the internet usage on mobiles is not resulting in online shopping.

![Figure 7: Mobile ecosystem]

<table>
<thead>
<tr>
<th>Mobile subscriptions</th>
<th>Daily internet use on mobile</th>
<th>Active mobile internet users</th>
<th>M-commerce (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India 946m</td>
<td>3h, 24m</td>
<td>200m</td>
<td>0.6</td>
</tr>
<tr>
<td>China 1,300m</td>
<td>2h, 35m</td>
<td>565m</td>
<td>140</td>
</tr>
<tr>
<td>Brazil 276m</td>
<td>3h, 47m</td>
<td>79m</td>
<td>1.1</td>
</tr>
<tr>
<td>Russia 245m</td>
<td>1h, 42m</td>
<td>48m</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Digital, social and mobile in 2015, We Are Social, January 2015
One of the key reasons is India's low mobile data speed, which is among the lowest in the world. Mobile internet users in India have also reported issues such as widely varying network speeds, app-related issues (lengthy lag time, and longer time for refresh), connection breaks, session failures, and webpage load time issues.

In addition to poor internet speeds, there are other issues inhibiting the growth of mobile commerce. The user experience on mobile websites needs improvements, as most of these sites are not optimized for use on mobile devices. Furthermore, mobile users view smartphones primarily as devices to be used for social media and messaging applications. The perception of the mobile as a device for e-commerce transactions is still not high among mobile internet users.

**Modes of payment**

The Indian buyer has always been more comfortable making cash transactions, both online and offline. Further, banking coverage in India is low compared with other BRIC economies, and credit card penetration is the lowest among all BRIC. Consequently, the use of credit cards for online payments is limited, and cash-on-delivery (CoD) is the most popular payment option among Indian buyers.
Indian e-commerce players offer several payment options such as CoD, credit/debit card payments, net banking, and cash cards, among others. However, concerns around the safety of online transactions and credit/debit card information, and payment gateway failures have limited the use of electronic payments. India’s central bank introduced two-factor authentication to increase the safety of online payments. However, the unintended consequence of two-factor authentication is the inconvenience of going through multiple steps to complete a transaction.

Other BRIC countries are relatively mature in the payments aspect. Chinese e-commerce players have gotten around the payments conundrum through the use of a third-party online payment solution that allows individuals and businesses to execute payments online in a secure manner. Its escrow service has made consumers confident about conducting online transactions without being concerned about product delivery and quality. This is because payment is only released to sellers when consumers confirm the delivery of orders.

In Russia, consumers are using the “payment upon delivery to the post office” option. Considering the wide coverage of India’s postal network, this option could become very popular with buyers, especially those located in remote areas.

The real revolution in the payments landscape will come from the growth of mobile wallets, which are still at a nascent stage in India. Mobile wallets facilitate and increase the convenience of digital transactions. Mobile wallets will enable unbanked customers to conduct online transactions. The potential is huge – even though more than 40% of India’s population is unbanked, the country’s mobile penetration exceeds 80%. This will, in turn, help boost the m-commerce segment in India. Regulations around the use of mobile wallets need to evolve further to promote m-commerce.

**Logistics of the order fulfilment cycle**

E-commerce players across the BRIC economies have faced issues in last-mile delivery and fulfilment, and have explored different options to crack this puzzle. Online retailers have discovered that errors in the delivery and returns process can prove costly and time-consuming. Instances of delayed deliveries, damaged/lost parcels and wrong product deliveries, especially during flash sales, have negatively impacted the reputation of e-commerce brands.

**Delivery charges:** In India, delivery charges are observed to be high (INR60–100) and account for close to 10% of the transaction value. High delivery charges are one of the reasons that deter consumers from making online purchases. Consumers across Brazil and Russia have cited “free delivery” as one of the main factors influencing online purchases. More than 40% of e-commerce purchases in Brazil during 2014 did not attract shipping charges.

**Delivery delays and errors:** The main reasons for delivery delays and errors in India are the fragmented logistics and poor physical infrastructure. Moreover, the transport infrastructure is mainly established around the metros.
In BRIC countries as well, the geographically vast area leads to delayed deliveries. This implies that no e-commerce company or logistic player can single-handedly address the entire market. To tackle the delivery challenges, e-commerce players in Brazil have started providing options such as “purchase online and collect in-store” and pick-up at post offices. E-commerce players in Russia have opened multiple warehouses to reduce delivery times.

**Warehousing design and automation:** The growth in e-commerce has triggered greater demand for warehouse space. Warehousing is a critical link in the e-commerce supply chain and addressing this aspect can reduce the time and costs involved in order fulfilment. Warehouses in BRIC economies lack the automation levels and state-of-the-art technology employed in the US and Europe.

Adoption of automation can lead to manifold benefits for e-commerce players. In addition to increasing order fulfilment speed, automation can improve order accuracy and help in managing an increasing number of SKUs. One of China’s leading online direct sales companies launched an automated warehouse in 2014, which helped improve its order processing efficiency and expanded its ability to provide same-day and next-day delivery. The warehouse provides the company the ability to sort more than 16,000 packages per hour with an accuracy of 99.99%. A leading US-based global e-commerce player employed around 1,000 robots in its warehouses. This helped the company reduce delivery lead times.

**Returns:** E-commerce players are also grappling with the challenge of product returns. According to industry estimates, product return rates in India range between 5% and 25%, depending upon the category of goods and location of the consumer. While most Indian e-commerce players provide a 30-day return scheme, the returns process is not smooth. There have been instances of players refusing product returns by consumers.

Product returns increase the overall cost for the e-commerce player, who bears the cost of the return in most cases. The challenges associated with product returns were addressed by a new regulation passed by China in 2014. The new rules require e-commerce players to offer a seven-day unconditional return policy, but make customers responsible for return charges. This protects consumers’ rights and eliminates the possibility of false return cases by consumers.

**Regulatory environment**

E-commerce still remains a largely unregulated segment with nascent laws across the BRIC economies. The benefit of having a well-defined policy framework is evident from China’s example. Between 2011 and 2014, China made efforts to regulate the market to iron out glitches and promote the sector. China’s B2C e-commerce sales quadrupled during this period.

Laws regulating e-commerce in India are still evolving and lack clarity. This poses a challenge for potential entrants and existing players. There is a need for a well-defined legal framework to govern the e-commerce market. This will enable e-commerce players to gain a deeper understanding of the legal regime and develop effective risk management strategies.
There are no specific e-commerce laws in India. The segment is governed by the IT Act 2000. In addition, e-commerce laws in India need to comply with other statutory laws, such as the Indian Contract Act, and other foreign investment regulations.

Foreign direct investment (FDI) is allowed up to 100% under the automatic route in B2B e-commerce activities. However, FDI is prohibited in the B2C e-commerce space.

In 2011, China introduced a five-year plan for e-commerce development (2011-2015) in order to double sales, improve e-commerce service levels and attract international e-commerce players.

China also plans to introduce a broader e-commerce law to further boost the market.

Brazil passed regulations for e-commerce in 2013. The rules require e-commerce portals to provide clear information about the product, service and supplier from whom they are buying.

For e-commerce transactions, tax is applicable to the state from which the product was shipped and not the state of the buyer.

In 2014, Russia reduced the value of tax-free e-commerce that can be imported from foreign online shops from €1,000 to €150, with the maximum parcel weight being reduced from 31 kg to 10 kg per month. A duty of 30% will be levied on purchases exceeding €150.

Customs rules in Russia are considered very restrictive, especially for cross-border e-commerce. The documentation needed for cross-border e-commerce imports includes proof of value and credit card ownership.

Russia is also introducing new personal data rules that require online retailers to store personal data about consumers in Russia from 2016.
Imperatives for the Indian e-commerce sector

An analysis of the BRIC ecosystem indicates that the Indian e-commerce growth trajectory can be maintained if the below imperatives are addressed:

**Effective conversion by leveraging analytics**

A comparison of Indian internet users and shoppers clearly indicates that even though India has a higher absolute number of internet users compared with any of the BRIC countries excluding China, the number of online shoppers is significantly low. This trend can only be reverted by using analytics to ensure higher conversion of internet users and researchers into shoppers.

The Indian e-commerce market has witnessed fierce competition between players of all sizes. Traffic across e-commerce portals is on the rise. However, this does not always translate to purchases. In a sunrise industry that is set to reach greater heights, the effective usage of data analytics will be the critical differentiator.

Many industry executives have reported benefits such as improved conversion rates, higher traffic, reduced customer acquisition costs, and increased revenue per customer, among others. Analytics has the potential to make a tangible impact across functions such as sales, marketing, customer engagement and operations.

**Figure 14: Potential benefits from analytics**

- 30%-40% Orders on e-commerce portals likely to be driven by analytics
- 30%-40% Increase in conversion rate
- 10% Increase in inventory utilization
- 2X Increase in customer engagement on site

There is a growth in flash sales strategies adopted by leading Indian e-commerce players. While such initiatives helped boost sales, customer satisfaction took a hit with numerous issues reported, such as customers buying out-of-stock products, slow webpage loads, webpage crashes and payment issues. The use of real-time analytics will help real-time interventions in functions such as procurement management, logistics and customer experience to address customer pain-points.

The ability to provide personalized assistance supported by data analytics tools will lead to customer delight. Big data analytics helps e-commerce players track the entire customer journey - from customers’ website visits and navigation to their choice of products and payment methods. The insights derived will empower e-commerce players to drive customer behavior on the portal in real-time.
The leading e-commerce players generate terabytes of data on a daily basis through their customer interactions. Converting them into actionable insights will provide benefits such as increased conversion rate and increased time spent by a customer on a portal. Currently, the use-cases of analytics are mainly focused on the customer front-end. In addition, e-commerce players can use analytics to understand competitors’ pricing strategies, and drive operational and financial efficiencies.

While descriptive analytics models help e-commerce players glean customers’ past behavior, the future will tilt toward the use of predictive models. This will enable e-commerce players to understand the likelihood of a particular customer buying a particular product, and customize offers accordingly.

**The logistics challenge – or advantage**

The indispensable parts of logistics – delivery and returns – go a significant way in creating customer impact as they are the only customer touchpoints. One of the greatest roadblocks to increasing e-tailing penetration is the customer experience with delivery and returns. This is ultimately the result of the design and degree of automation of the supply chain structure, of which warehousing and stocking strategy is a significant part.

Providing new delivery options such as in-store and post office pick-ups will address the issues in last-mile delivery. The next level of automation/innovation could be the use of drones for package delivery, subject to regulatory approvals. Indian companies also need to deploy operational management techniques for better route planning and resource utilization.

One of China’s leading e-commerce companies has overcome the last-mile delivery challenge by investing in major Chinese express delivery companies. The company is also partnering with other express delivery companies to develop a national logistics network, which will allow it to deliver to any Chinese city in a day.

Due to the lack of control in the order fulfillment cycle, the risk of reputation loss for the marketplace is high. The problem can become acute during times of flash sales, when traffic on the website is high and can lead to errors such as buying out-of-stock products. Stringent controls will be needed to ensure that the third-party vendors do not sell fakes, duplicates or second-hand products. There has to be an ongoing mechanism to scrutinize the performance of sellers and take corrective actions based on customer feedback and ratings.
Localization becomes imperative due to the “can’t speak, won’t buy” phenomenon

At a global level, it is observed that the conversion rate from visitors to buyers increases 10 times from localized websites in countries such as France, Italy and Germany. In addition, the average purchase on localized websites is observed to be double that of the English website. The underlying message for e-commerce players is obvious. They will have to talk the language of the customer to cater to the emerging non-English speaking internet population.

![Figure 11: % of consumers who buy only on local-language websites](image)

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>70%</td>
</tr>
<tr>
<td>France</td>
<td>61%</td>
</tr>
<tr>
<td>Turkey</td>
<td>61%</td>
</tr>
<tr>
<td>Germany</td>
<td>58%</td>
</tr>
<tr>
<td>China</td>
<td>54%</td>
</tr>
</tbody>
</table>

Source: Common Sense Advisory

The non-English speaking literate population in India is currently more than 800 million. Making e-tailing accessible to this audience presents an untapped market opportunity of US$800 million, which is 15% of the current segment revenues. Thus, developing vernacular content and localized websites will be critical to the increased growth of the sector.

A few leading e-commerce players have undertaken localization initiatives, which did not yield the desired results due to issues in translation. While there are enough language translation options available in the market, it may make sense to engage language experts to overcome grammatical errors.

Localization can be the next inflection point for e-commerce in India. However, to really make an impact, it should be complemented by local language customer support and local phone numbers. Search engine optimization (SEO) tools will have to be employed to ensure that the localized website pops up higher in search results, and to ensure that products are displayed based on consumer preferences in the specific region. Furthermore, the localization experience will be complete once e-commerce players are able to make their mobile site and apps available in regional languages, translate user-generated reviews, and integrate payment gateways with regional languages.


16. According to EY estimates
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An EY white paper

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