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VALUES OVER VALUE



KERALA

UNRAVELLING THE
GROWTH TRAJECTORY

March 2020



#

Foreword**4****1*****Kerala: An Overview*****6**

Demographics 9

Literacy Rate 9

Human Development Index 9

Economic Drivers 10

2***Kerala and its Peer States: A Quick Comparison*****18**

Gross State Domestic Product (GSDP) 19

Kerala State Sector's BCG Matrix 20

Key Socio-economic Factors: Comparison between States 22

Government Policies 24

3***Kerala: Milestones on the Path of Growth*** 28

Foreign Direct Investment (FDI) 30

Understanding Kerala's Educated Unemployment 32

Increased Focus on Healthcare and Tourism 37

Mapping the Start-up Ecosystem in Kerala 40

Policy Initiatives to Enhance Ease of Doing Business in Kerala 47

NRI Remittances: The Backbone of Kerala's economy 50

4

The Real Estate Sector and Future Possibilities**52**

Real Estate Sector of Kerala: Untapped Potential

53

Future Possibilities

59

- New-age construction technologies: changing the way you build
- Alternatives: An Untapped Opportunity for Kerala

59

60

5

Key recommendations**66**

Foreword

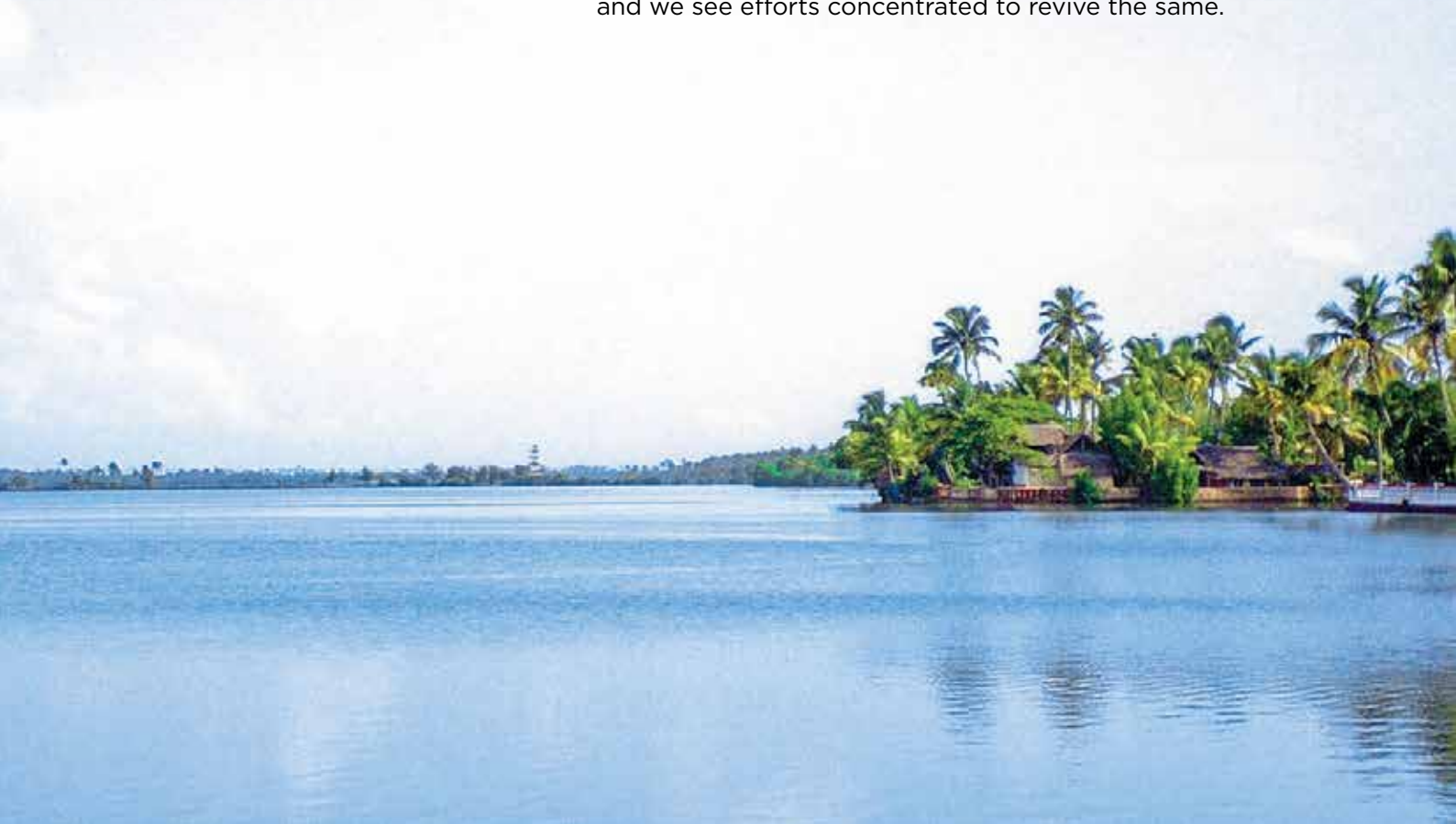


Anuj Puri
Group Chairman

Kerala, a historical state with a rich culture, natural resources, and tremendous future potential. Steeped in several centuries of the spice trade, the state's economy continues to be dominated by this rich tradition. Though the decadal population growth of 4.9% is the lowest in the country, Kerala tops the charts on various parameters such as the highest literacy rate of 93.91%, ranks highest in the human development index with a score of 0.784 and accounts for 19% of the NRI remittances in the country. The southern state has also exhibited unparalleled resilience to keep its economy on the growth path in spite of the devastating floods in 2018.

Though the state's contribution to the national economic exchequer is only 3.98%, the socio-economic fundamentals are robust. A comparison with major states indicates that Kerala is a leader in essential infrastructure and is supportive of human development. Social protection is also an important factor where the state excels. These factors have been enablers for the state to grow continuously despite several impediments such as transportation, warehousing, public administration, and utility services along with low volumes of foreign direct investments in the state.

The industrial policy and the recent MSME Facilitation Bill of 2019 are strong indicators of the state government's intent to develop and promote manufacturing. The falling rank in ease of doing business has been duly considered and we see efforts concentrated to revive the same.



Tourism is currently a major industry and economic driver in the state. Blessed with numerous attractions ranging from the backwaters to hill stations and beaches, the state has been successful in attracting tourists from national and international shores. Ayurveda and alternative medicine have shown immense possibilities that had earlier remained unexplored. A focus on optimisation of this segment along with tourism is capable of opening up new avenues of the wellness leisure industry. This is likely to create opportunities for the health care, services, and hospitality sectors.

Focus on construction, manufacturing, and transportation continues as evident from budgetary allocations. These sectors are capable of generating significant employment within the state that can potentially reduce the migration of the workforce. Kerala also has the second-highest unemployment in the country at 11.4%. There is an immediate need for the creation of employment opportunities. Along with these focus sectors, Kerala is also promoting the start-ups and MSMEs to participate in the growth of the state.

All these efforts are expected to create a favourable impact on the real estate sector of the state. Kerala is home to two budding smart cities that are capable of rebuilding the skyline of the state. Kochi and Thiruvananthapuram have continually shown an appetite for mid and high-end residential real estate assets and have held the pricing firmly. The state is also ready for newer assets such as student housing and senior living owing to favourable demographics.

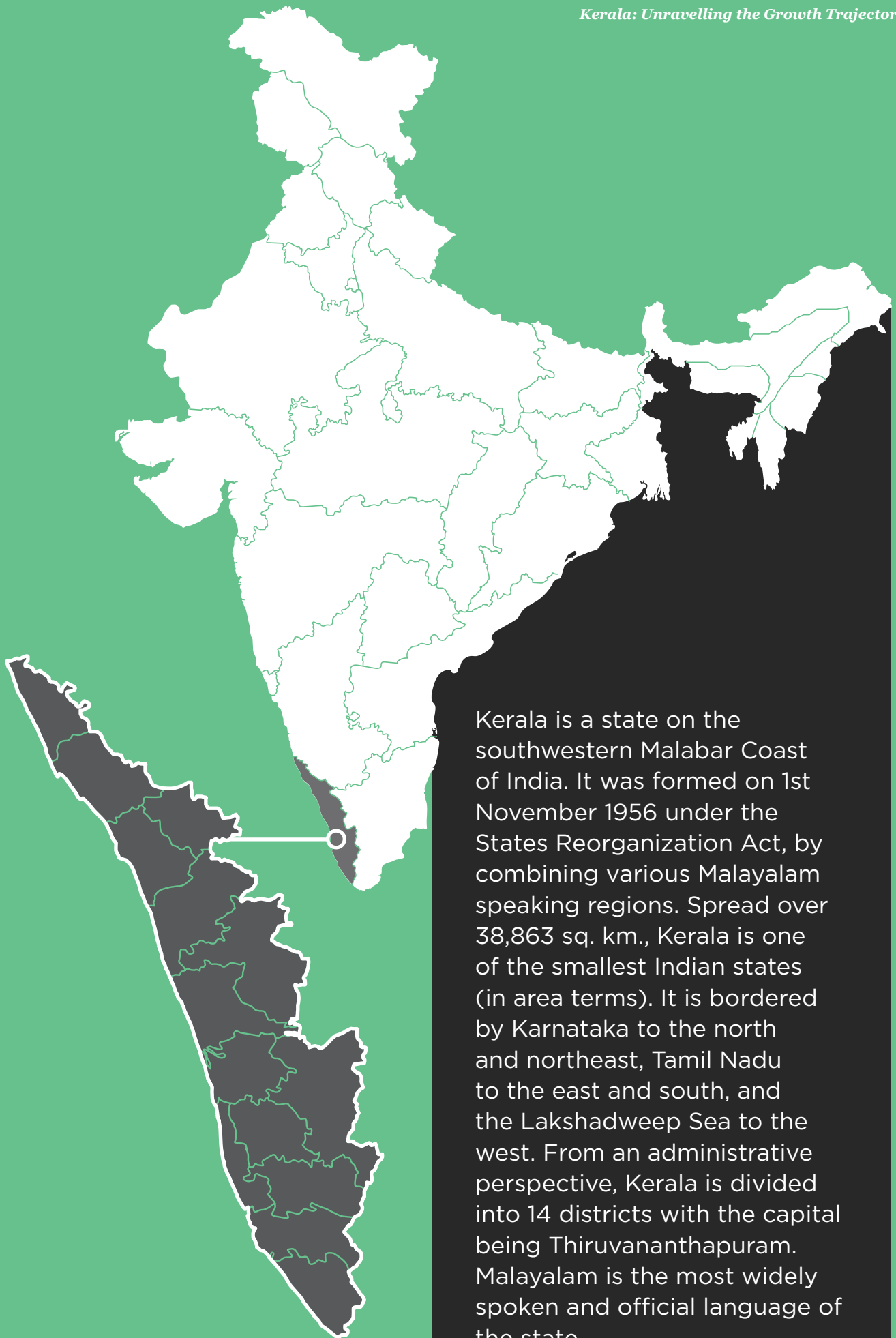
A collaborative approach with the participation of multiple stakeholders is likely to unlock myriad possibilities for Kerala which can help the state to reach the zenith of its potential.



1

Kerala: An Overview





Kerala is a state on the southwestern Malabar Coast of India. It was formed on 1st November 1956 under the States Reorganization Act, by combining various Malayalam speaking regions. Spread over 38,863 sq. km., Kerala is one of the smallest Indian states (in area terms). It is bordered by Karnataka to the north and northeast, Tamil Nadu to the east and south, and the Lakshadweep Sea to the west. From an administrative perspective, Kerala is divided into 14 districts with the capital being Thiruvananthapuram. Malayalam is the most widely spoken and official language of the state.

MILESTONES

**3000
BCE**

Kerala has been a prominent spice exporter since 3000 BCE.

In the 15th century, the spice trade attracted Portuguese traders to Kerala and paved the way for the European colonization of India.

**15th
Century****20th
Century**

At the time of the Indian independence movement in the early 20th century, there were two major princely states in Kerala-Travancore State and the Kingdom of Cochin.

- They united to form the state of Thiru-Kochi in 1949. The Malabar region, in the northern part of Kerala, had been a part of the Madras province of British India, which later became a part of the Madras State post-independence.
- After the States Reorganization Act, 1956, the modern-day state of Kerala was formed by merging the Malabar district of Madras State (excluding Gudalur taluk of Nilgiris district, Topslip, the Attappadi Forest east of Anakatti), the state of Thiru-Kochi (excluding four southern taluks of Kanyakumari district, Shenkottai and Tenkasi taluks), and the taluk of Kasaragod (now Kasaragod District) in South Canara (Tulunad) which was a part of Madras State.

DEMOGRAPHICS



33.4 Million
KERALA'S POPULATION
The state is home to 2.76% of India's population

4.9% Decadal Growth Rate
India average 17.6%

860 Persons/ km²
POPULATION DENSITY
More than 2x of the Indian national average of 370 persons per km²

Source: Census 2011

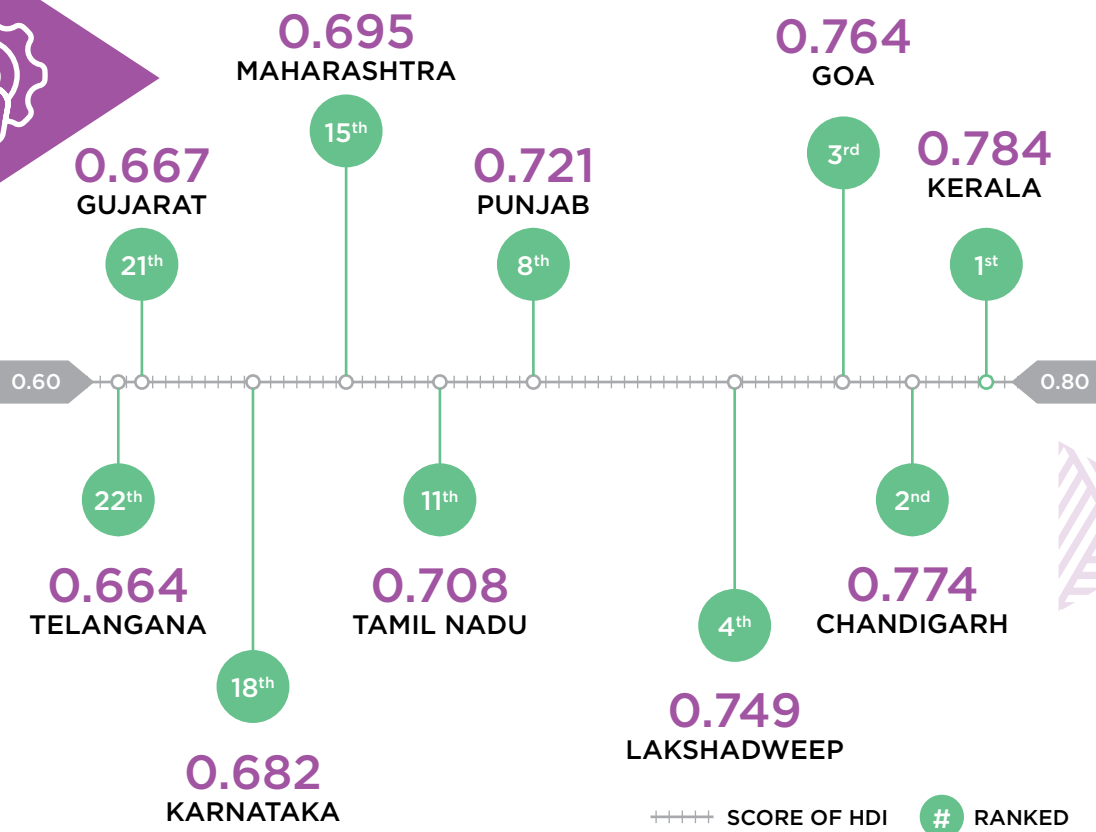
LITERACY RATE



Kerala's literacy rate has improved by 305 basis points (bps) in the past decade which is comparatively lesser than its peers due to a high base.

Source: Census 2011

HUMAN DEVELOPMENT INDEX



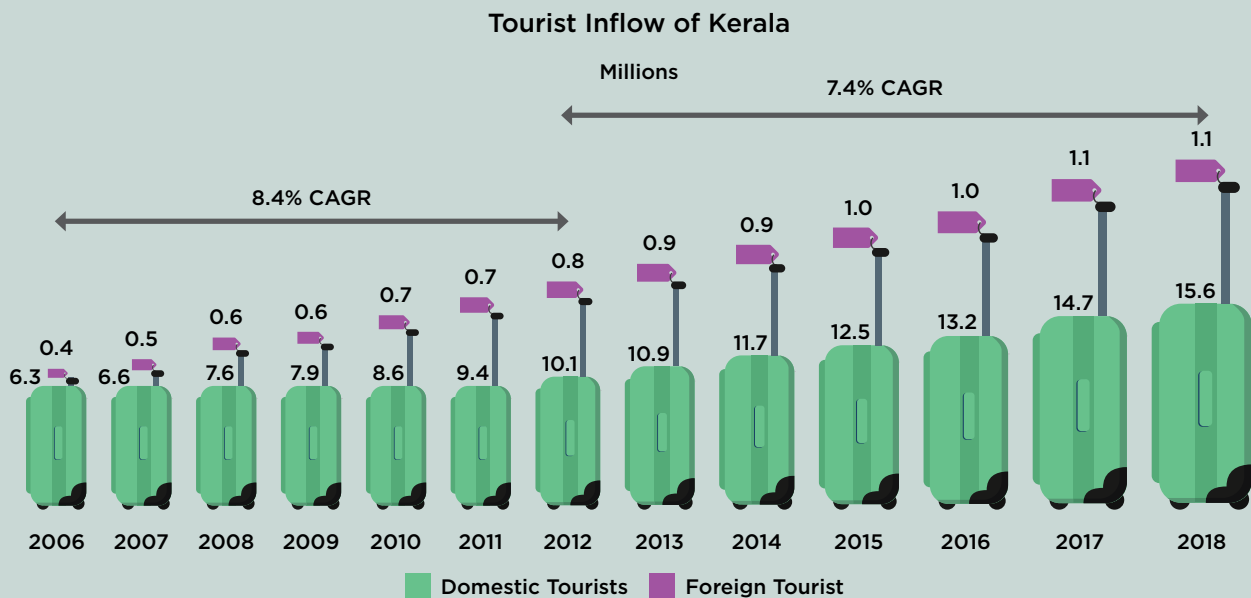
Source: United Nations Development Programme (UNDP)

ECONOMIC DRIVERS

Tourism

Kerala possesses tremendous resources to promote the state as a tourism destination. Kerala's culture and traditions coupled with varied demographics have made the state the most popular tourist destination in India. "In 2012, Kerala became the number one travel destination in Google's search trends in India leaving the Taj Mahal behind". Kerala's beaches, backwaters, mountain ranges, palaces, religious places, wildlife and bird sanctuaries are major attractions

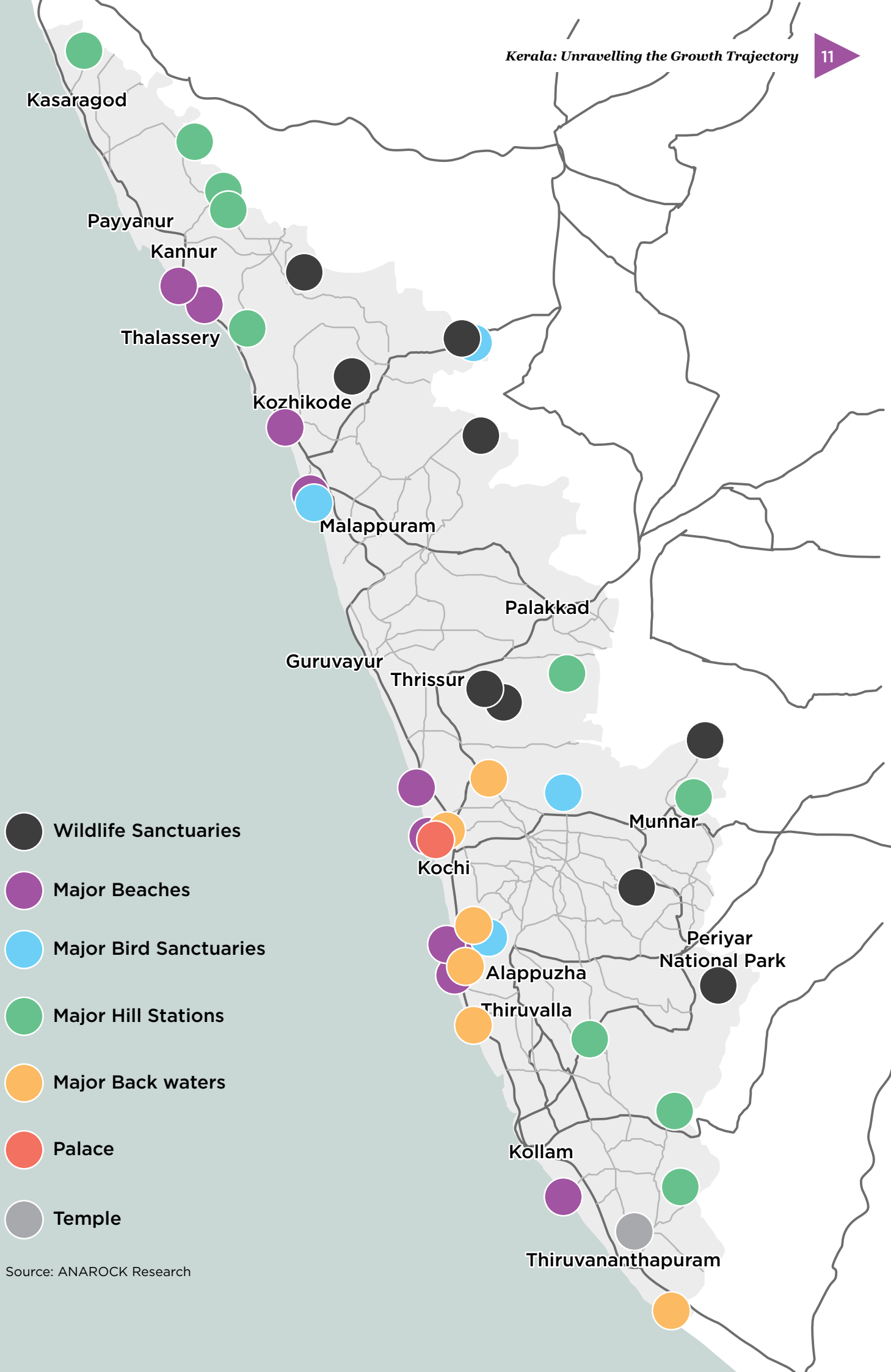
for tourists domestically and internationally. Until the early 1980s, Kerala was a relatively unknown destination compared to other states in the country. In 1986, the Kerala government identified and declared tourism as an important contributor to the economy and became the first state to do so. Due to its picturesque locations, it is often termed as "God's Own Country". In 2012, the National Geographic magazine named Kerala as one of the "ten paradises of the world".



Source: Kerala Tourism Statistics, ANAROCK Research

Tourism in Kerala has grown by nearly 149% between the 2006-2018 period. Domestic travelers in Kerala have accounted for the largest share in inbound tourism, however, their share has come down from 94% in 2006 to 93% in 2018. International travelers have witnessed a faster growth rate compared to domestic tourists in the state. International tourists have witnessed an annual growth of 8.1% between 2006 to 2018 compared to the 7.9% growth of domestic tourists during the same period.

Tourism in Kerala has grown sharply over the last 12 years, but natural calamities like the floods and epidemics such as bird flu made a dent on the overall tourism scenario. Compared to 2006-2012 period, the growth rate in Kerala's tourism has seen a marginal impact between 2012-2018 period.



Source: ANAROCK Research



Note: *Any discrepancy in total figure is due to round-off
 Source: Kerala Tourism Statistics, ANAROCK Research

Kerala’s seasonality compared to other destinations is very different. When other places witness huge dip during the non-peak seasons and have a heavy inflow of tourists during the peak seasons, Kerala’s delta between peak and non-peak tourism

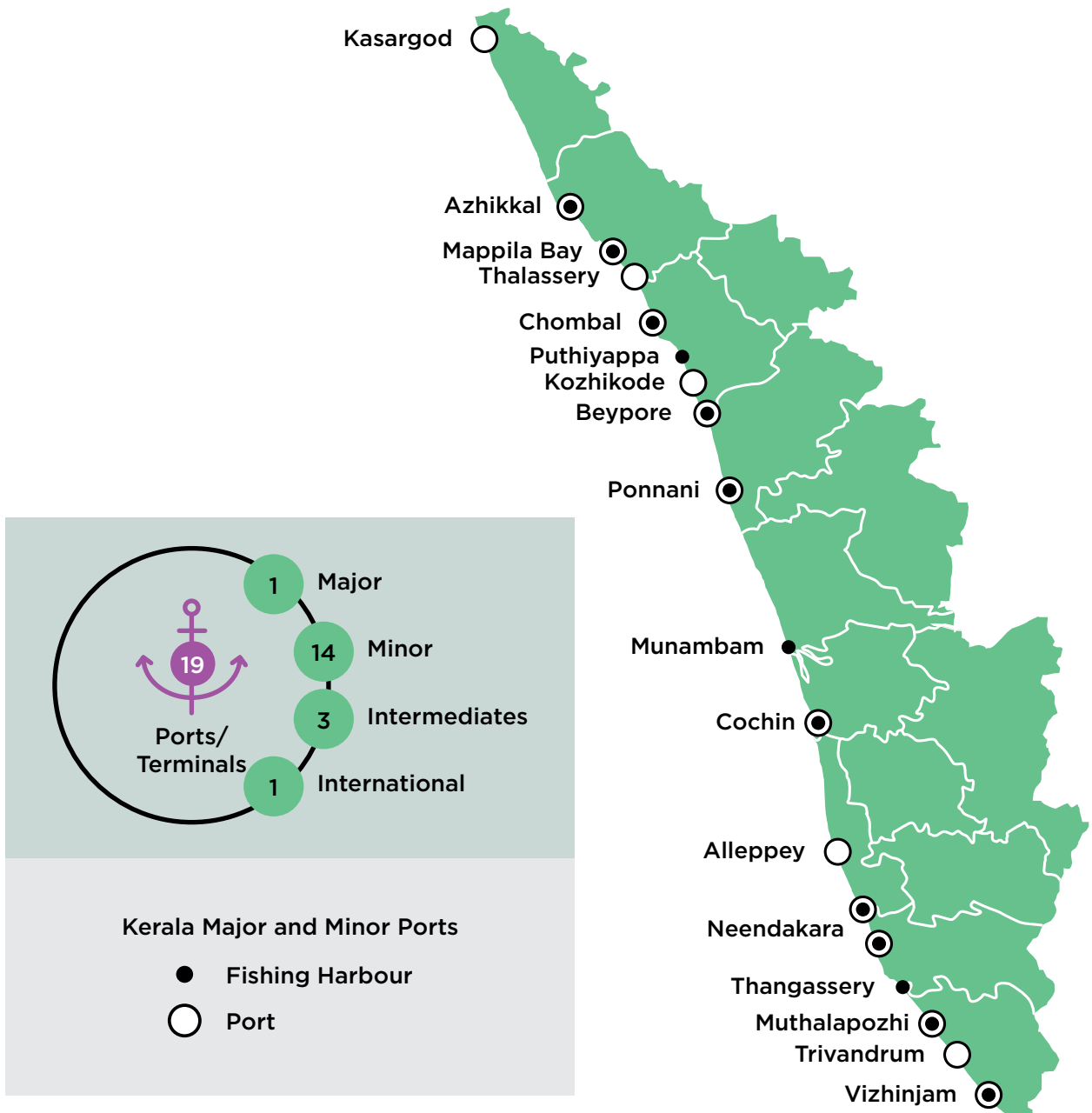
is smaller compared to other destinations. Kerala has been witnessing tourism all-round the year with heavy traffic during the last quarter of every year which is generally looked upon as the holiday season across the globe.

Ports

Kerala has a total of 19 ports/terminals of which 1 major, 14 minor, 3 intermediates and 1 international seaport (major port) is under construction at Thiruvananthapuram. Liquid bulk, dry bulk, dry cargo, and crude & its other products are the major products handled by the ports in Kerala.

The presence of these ports in Kerala provides them with an enhanced advantage over the other ports in India due to their close proximity to the east-west trade route. Today,

nearly 45-50% of India's trade is transhipped over hub ports such as Colombo, Salalah, and Jebel Ali, despite additional cost and transit time due to transshipment. The presence of ports in Kerala near the east-west trade route gives it a strategic advantage which no other state in India enjoys. Once the new port gets operational at Thiruvananthapuram, Kerala, the hub ports such as Colombo, Salalah, and Jebel Ali will face added competition due to the upcoming port's strategic location across the east-west trade route.



Map not to scale. For representation purpose only.

India's transshipment terminals

Located 11 nautical miles off the Middle East trade route and 76 nautical miles off the Suez route, Cochin's proximity to these trade routes makes the India Gateway Terminal attractive as a hub to

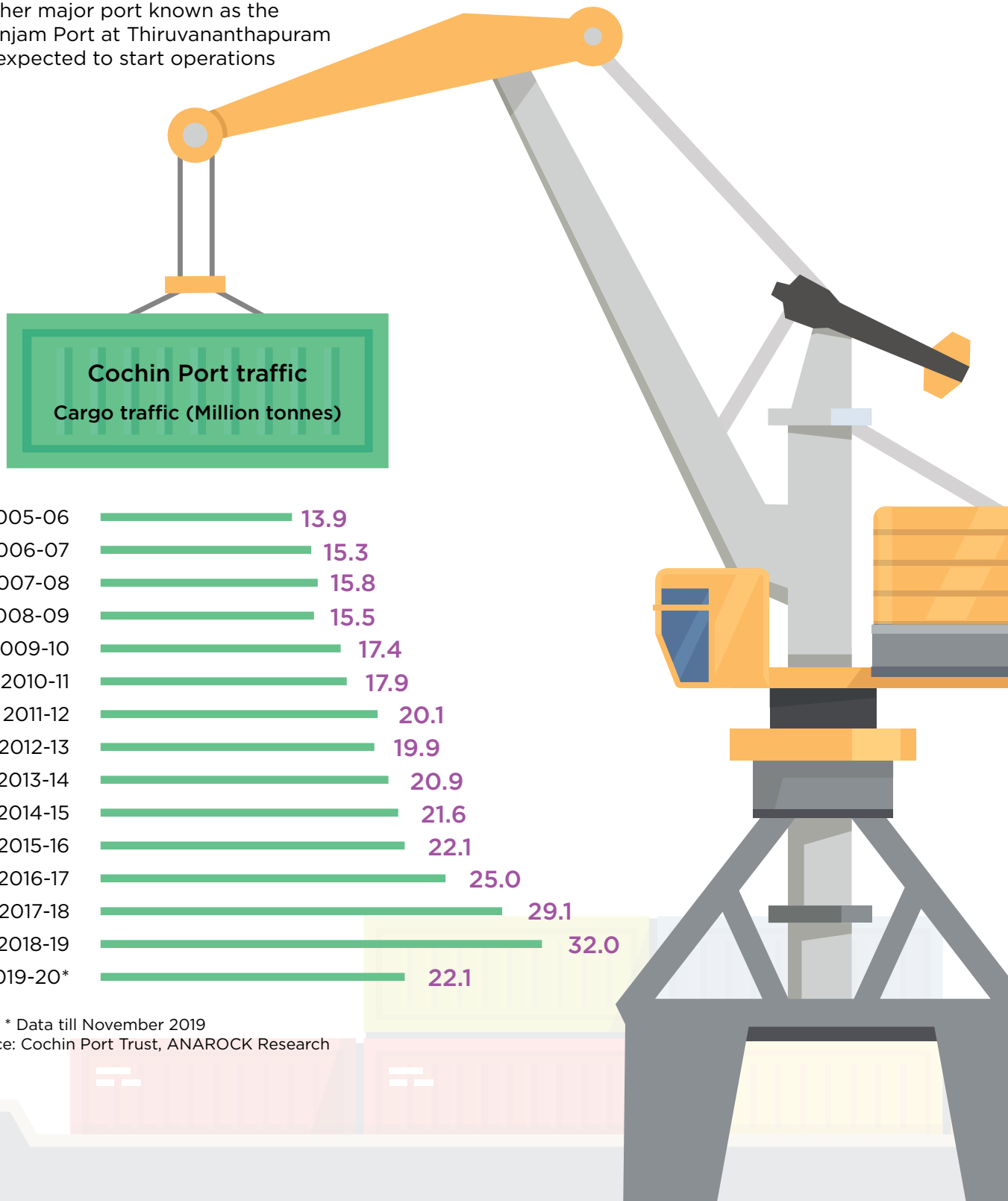
the vessels operating in this route. With the upcoming major port in the capital city of Kerala, Thiruvananthapuram, the entire transshipment scenario of Kerala is expected to touch greater heights.



Major ports in India handled 699.05 million tonnes of cargo during fiscal 2019. Cochin port during the same period handled more than 4.6% of the overall cargo handled by all the major ports in India. Between fiscal 2008 and fiscal 2019, Cochin port witnessed a 6.65% CAGR growth compared to India's growth of 2.74% CAGR over the same period.

by end of 2019 but will be functional by October 2020. It is estimated to handle additional 1.41 million tonnes of cargo by 2022. The addition of this port will open trade doors for India for the cargo which is now being handled by other global peers such as Salalah (Oman), Al Fujairah (UAE), Colombo, Singapore and West Port/Malaysia.

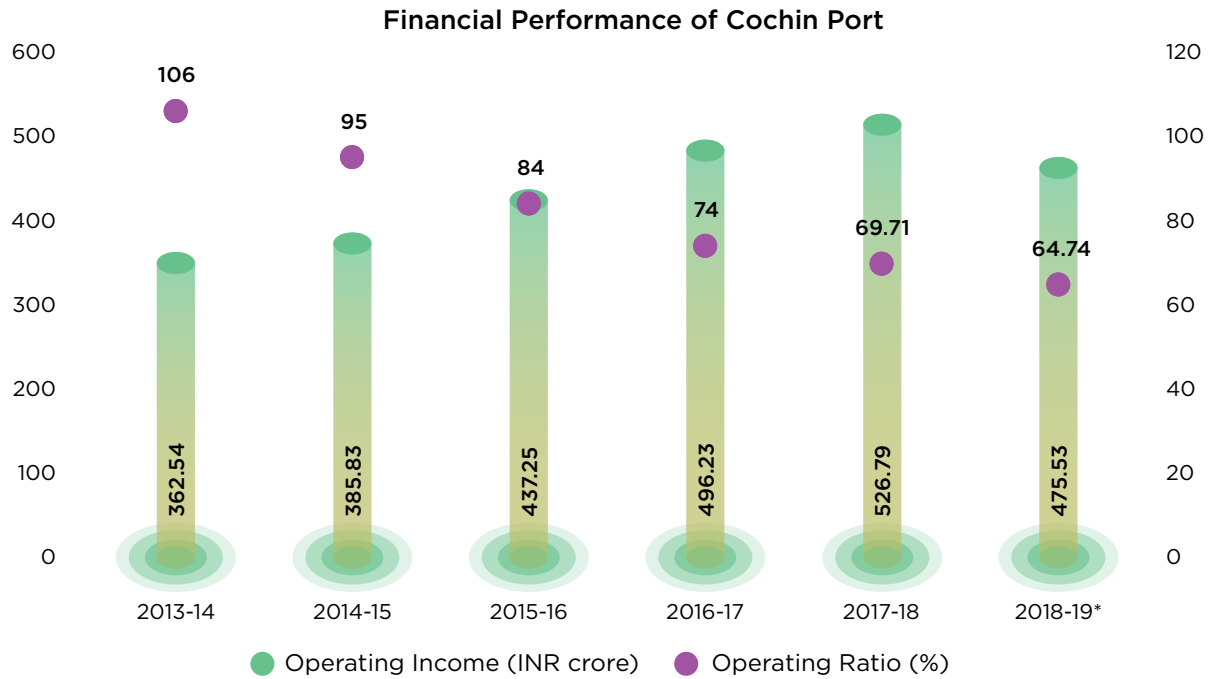
Another major port known as the Vizhinjam Port at Thiruvananthapuram was expected to start operations



Note: * Data till November 2019
 Source: Cochin Port Trust, ANAROCK Research

The operating ratio of Cochin Port has significantly decreased over the last 6 years while the operating incomes have grown significantly. It indicates that the Cochin

port trust is able to gradually improve on their operational efficiencies and lower the expenses indicating improved performance of the port.



Note: * up to January 2019

Source: KSIDC, ANAROCK Research

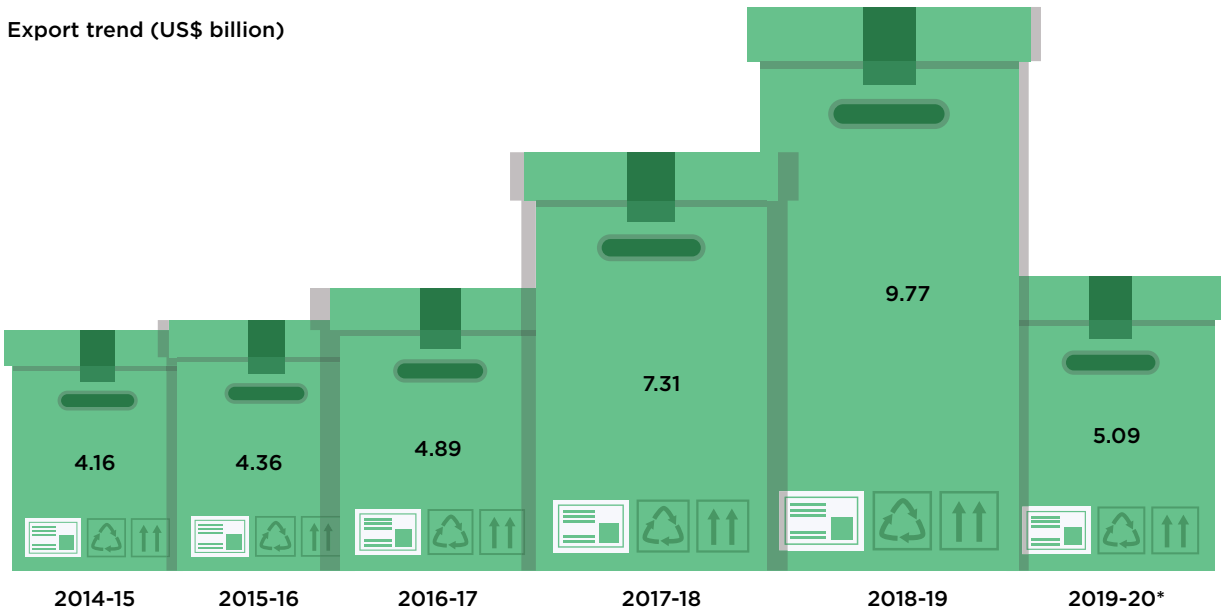


Kerala: The Spice and Commodity Export Hub of India

Kerala plays an important role in the exports of the nation by exporting spices and marine products. Major items of trade are cashew, coir and coir products, tea, coffee, pepper, cardamom, ginger, other spices, spices oil, marine products, machinery, chemicals, coal, fertilizers, and raw materials.

The total export of Kerala accounted for US\$ 9.77 billion during 2019. During 2019-20, till September 2019, the exports stood at US\$ 5.09 billion. During 2018-19, India's total export touched nearly US\$ 330 billion. Kerala contributed to nearly 3% of the overall exports from India.

Export trend (US\$ billion)



Note: * data till September 2019.

Source: Directorate General of Commercial Intelligence and Statistics (DGCIS), ANAROCK Research



While tourism, exports and ports are key drivers of the economy of the Kerala, there are several channels and means to add the necessary impetus by leveraging the state's inherent strengths and core areas of excellence.

2

Kerala and its Peer States: A Quick Comparison



GROSS STATE DOMESTIC PRODUCT (GSDP)

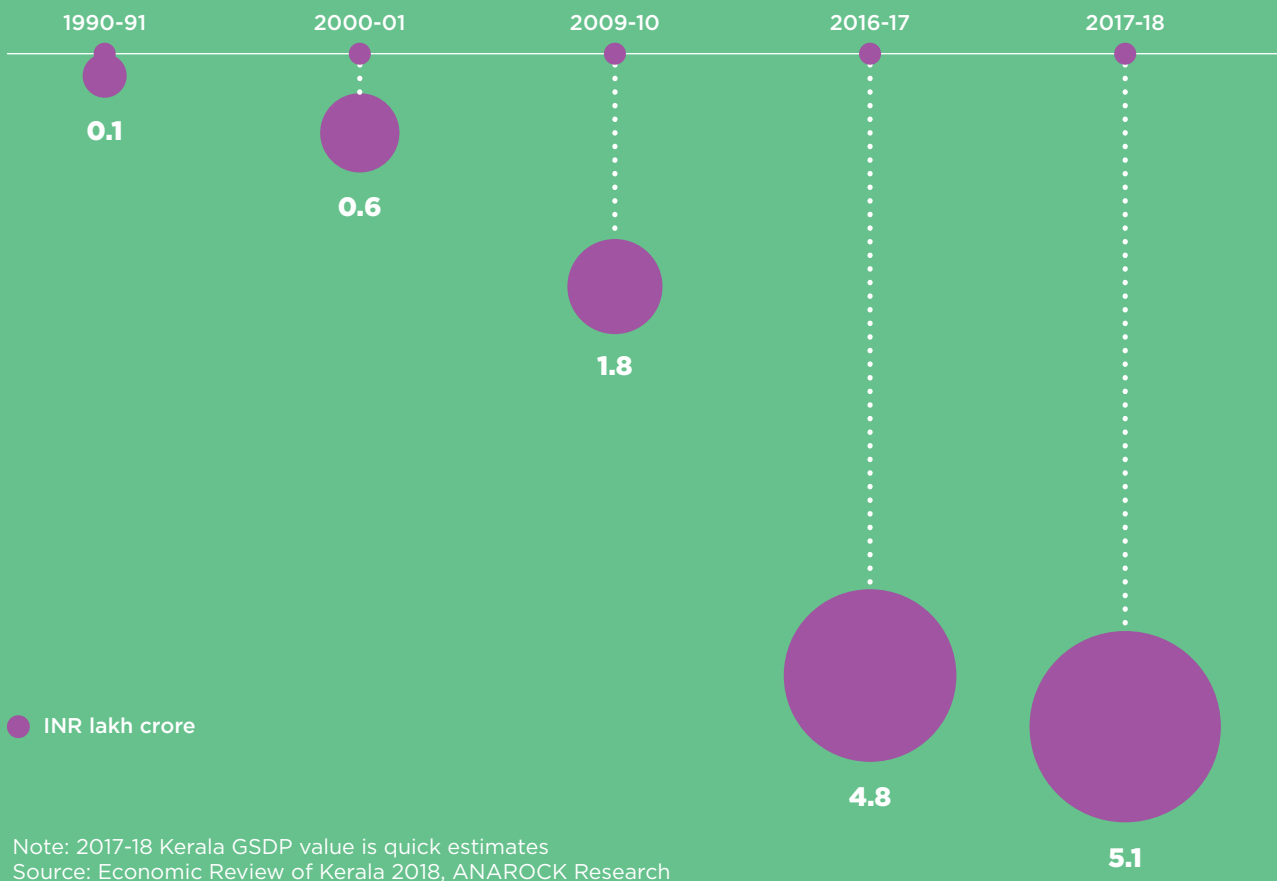
Kerala accounts for nearly **4%** of India's GDP. Kerala's Gross State Domestic Product (GSDP) grew at **6.8%** in 2017-18 in constant (2011-12) prices, which is higher than the **6.2%** growth recorded in 2016-17. The growth rates of Gross State Value Added (GSVA) at basic prices in constant (2011-12) prices were **5.94%** and **4.67%** in 2017-18 and 2016-17, respectively.

In 2017-18, the contribution from primary, secondary, and tertiary sectors to the GSVA at

constant prices (2011-12) was **10.85%**, **27.40%**, and **61.75%**, respectively.

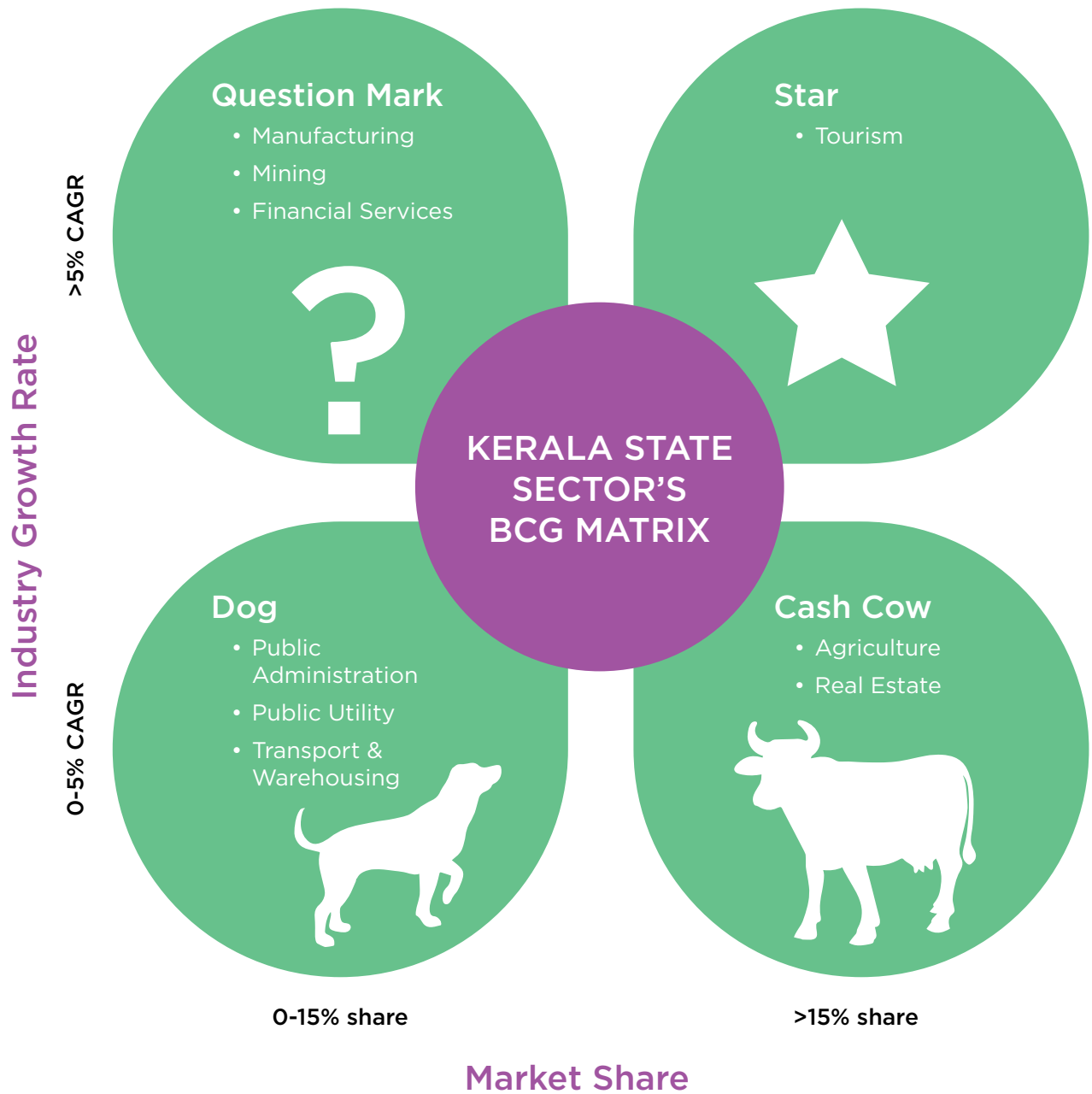
The GSDP growth in the manufacturing sector was **9.2%** in real terms in 2017-18. The corresponding figure was **7.8%** in 2016-17. The GSDP of the secondary sector rose to **13.7%** in 2017-18 from **4.81%** in 2016-17. The tertiary sector GSDP recorded a growth rate of **3.4%** in 2017-18; the corresponding figure in 2016-17 was **5%**.

GSDP Kerala (at constant prices)



The state's economy is highly supported by sectors such as tourism, construction, real estate services, and construction (includes real estate, roads & highways, ports, railways, etc.). Together these three sectors account for nearly 50% of the state economy. However, not all these sectors are

growing at the same pace as the others. To understand the key sectors on which the economy is riding and other sectors for which the governing bodies need to re-plan their strategies, depicted below is the BCG (Boston Consulting Group) matrix.



Note: The above calculations of market share are based on five-year average (2011-12 to 2016-17) as stated in the economic survey and growth of the sectors is CAGR for the same period.
Source: ANAROCK Research

Contribution of each state to the Indian economy

Kerala is one of the smallest states in India, yet it ranks 11th in terms of GDP contribution to the overall economy. It has the potential to increase its contribution to the national economy given the rich and diverse economic drivers latent within the state. There is a need to channelize the governance and

policy support to steer the economy towards holistic development. It is the right time for the government to step up its efforts and react in a manner that looks beyond tourism and uplift the overall growth in Kerala which will also improve its contribution significantly over the next decade.

RANK	STATE	GDP CONTRIBUTION	AREA (LAKH SQ KM)
1	Maharashtra	15.09%	3.07
2	Tamil Nadu	8.34%	1.30
3	Gujarat	8.13%	1.96
4	Uttar Pradesh	8.05%	2.43
5	Karnataka	7.39%	1.92
6	West Bengal	5.43%	0.88
7	Rajasthan	4.91%	3.42
8	Andhra Pradesh	4.55%	1.62
9	Telangana	4.23%	1.12
10	Delhi	4.23%	0.02
11	Kerala	3.98%	0.39
12	Madhya Pradesh	3.89%	3.08
13	Haryana	3.59%	0.44
14	Punjab	2.92%	0.50
15	Bihar	2.68%	0.94
16	Odisha	2.67%	1.56
17	Chhattisgarh	1.71%	1.35
18	Assam	1.66%	0.78
19	Jharkhand	1.61%	0.79
20	Uttarakhand	1.34%	0.54
21	Himachal Pradesh	0.85%	0.56
22	Jammu & Kashmir	0.84%	2.22
23	Goa	0.43%	0.04
24	Tripura	0.24%	0.11
25	Chandigarh	0.22%	0.001
26	Meghalaya	0.18%	0.23
27	Puducherry	0.17%	0.005
28	Manipur	0.14%	0.22
29	Nagaland	0.13%	0.16
30	Sikkim	0.13%	0.07
31	Arunachal Pradesh	0.12%	0.84
32	Mizoram	0.11%	0.21
33	Andaman & Nicobar Islands	0.05%	0.08

Note: J&K is not divided into its newly formed UT's i.e. J&K and Ladakh
Source: ANAROCK Research

KEY SOCIO-ECONOMIC FACTORS: COMPARISON BETWEEN STATES

Kerala and states such as Maharashtra, Karnataka, Telangana, Tamil Nadu, Haryana, Gujarat, and Punjab are some of the key economic contributors to the Indian economy. To compare the strength of each

state through the prism of socio-economic factors, we have identified a few key parameters which will help us assess the overall performance of each state. The key parameters identified are:



**Essential
Infrastructure**



**Social
Protection**



**Transparency &
Accountability**



**Fiscal
Management**



**Economic
Freedom**



**Support for
Human Development**



These six sub-parameters along with few other social parameters such as crime, law and order, welfare of women and children, environment, and delivery of justice assessed by Public Affairs Index (PAI 2018) has ranked each state/UT in India based on their index score of 1.

We have assessed each of these Indian states on these 6 major parameters to understand if the needs of its residents are met by each state and have made life for the residents easier.

Performance index

STATE	KL	PB	TN	GJ	KA	MH	HR	TS
Essential Infrastructure	0.641	0.633	0.630	0.624	0.603	0.596	0.584	0.426
Social Protection	0.516	0.548	0.511	0.490	0.401	0.444	0.430	0.549
Transparency & Accountability	0.429	0.439	0.384	0.429	0.650	0.468	0.615	0.476
Fiscal Management	0.433	0.372	0.401	0.402	0.481	0.426	0.423	0.769
Economic Freedom	0.384	0.396	0.427	0.752	0.494	0.638	0.494	0.587
Support to Human Development	0.649	0.483	0.539	0.417	0.469	0.482	0.426	0.501

Note: ● indicates laggard and ● indicates leader of the set.

KL-Kerala, PB-Punjab, TN-Tamil Nadu, GJ-Gujarat, KA-Karnataka, MH-Maharashtra, HR-Haryana, TS-Telangana

Source: Public Affairs Index 2018, ANAROCK Research

Kerala is a leader in essential infrastructure and human development as it provides an adequate infrastructure to its population along with education and healthcare facilities. However, it lags when it comes to transparency & accountability and economic freedom compared to its peers. Strong intervention by the government is required to uplift the overall economic scenario of Kerala. The untapped potential the state offers needs to be revisited and tackled in a manner to ensure streamlined growth.

GOVERNMENT POLICIES

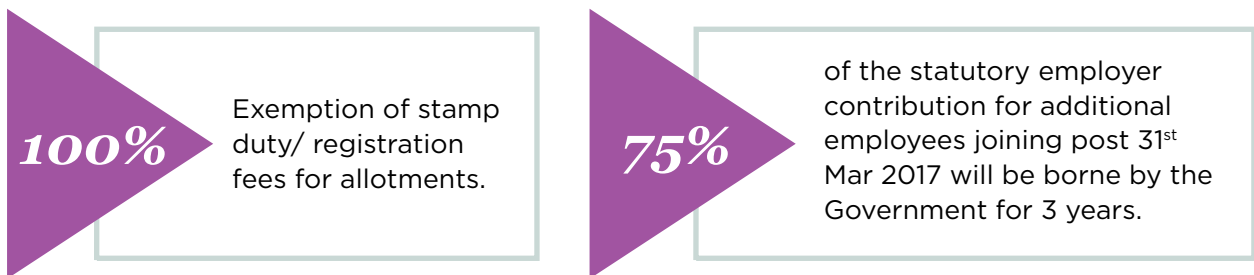
The Government of Kerala intends to transform the state into a vibrant one with flourishing industries and thriving entrepreneurial ecosystem that will provide inclusive and sustainable economic growth. It aims to encourage private investments in all sectors and create an enabling environment by improving the infrastructure through the PPP mode.

The state of Kerala has infrastructure in place for the growth of the MSME sector. Nearly 50% of the population is engaged in the rural sectors which plays a pivotal role in the social and economic development of youth and backward people. The state employs nearly 18 lakh workers in the manufacturing sector. It is interesting to note that only 20% of these

workers are employed in organized units and around 80% find employment in the rural or unorganized sector. Power is no longer a constraint in the state as the availability of power has been increased by 30%. This makes Kerala ready for rapid industrialization.

The manufacturing sector in the state contributes 7.5% of the GDP and generates nearly 14% of the employment. To build a stable economic foundation, the government has developed a robust policy that incentivizes investments and promotes entrepreneurship. According to Kerala Industrial and Commercial Policy 2018, the below key parameters are identified to uplift the industrial output of the state:

Multipurpose Industrial Zones



To fuel growth in the electronics sector, the following infrastructure facilities are to be developed

- Electronics Hardware Park at Amballur, Ernakulam.
- State-of-the-art Electronics Incubator at Infopark, Cochin.
- Defence Park for high-end defence/aerospace/electronics at Palakkad.
- Electronic manufacturing cluster at Kakanad.

Government's support to MSME

- Goods manufactured by MSMEs located in the state will be allowed price preference of 15% in purchases by government departments and state PSUs.
- Government departments and PSUs purchasing goods and services from MSMEs shall be required to make payments within 45 days of acceptance of supplies.
- MSMEs registered with NSIC under a single point vendor registration scheme shall be facilitated by providing them tender forms free of cost, exempting from payment of earnest money during purchases by all government departments and state-owned PSUs.

- The government has also passed MSME Facilitation Bill 2019. The key highlights of the bill which will be used to promote MSMEs in the state are:
 - The bill passed in the assembly in November 2019 allows setting up of enterprises in the state where the investment is less than INR 10 crore, except in the red category of the State Pollution Board, will not require any prior license from the state government.
 - The individual will have to submit an affidavit to the Industries Department through Single Window clearance

Industrial Cluster Development

- The government will provide the matching contribution of 20% of the total project cost towards setting up common facility

Entrepreneurship Development

- **Start-ups:** KSIDC will extend seed fund assistance to innovative ventures/potential start-ups promoted by young entrepreneurs, subject to a maximum of INR 25 lakh per venture or 90% of the initial cost of the project, whichever is lower.
- Sector-specific mentoring sessions will be conducted for young innovators across various sectors. Start-ups coming under

Logistics Sector

- The Industries Department will take the lead role in developing a Logistics Hub in the commercial capital of the State i.e. in Kochi spread across 100 acres. This

Other Sectors

- **Coir:** Ensure 200 days of work for coir workers in a year
- **Cashew:** More than 3 lakh women are employed in 800 cashew factories in the

system. However, after three years, the company will have to get all the licenses necessary to run a business.

- The move aimed at improving ease of doing business in the state where the entrepreneurs can start their venture and not have to juggle with the compliance procedures in the initial days.

centres in the State under MSE-CDP (Micro & Small Enterprises - Cluster Development Programme) Scheme

the Start-up India scheme will be given an extended period of one year over and above the Central Government scheme.

- **Non-Resident Keralites (NRKs):** The government will provide training and facilitation for the rehabilitation of NRKs coming back from abroad through capacity building for enterprise creation. 5% of the allottable area in industrial estates will be reserved for them.

hub will be the nerve centre for all the activities relating to transport, logistics and goods distribution, both for national and international transit.

state. The government plans a massive plantation scheme to increase supply.

Kerala aspires to achieve an economic growth rate of 10% in the future and is aware of the scale of transformation that is required to attain this goal. The industrial sector is expected to lead the change and the policies drafted for the same are expected to spur growth. The main objective will be to ensure

environment-friendly financial growth, a high level of skill development and respectable employment opportunities. To achieve this, there will be a need for productive forces such as science, technology, agriculture and industrial, that will enable and aid the industrial growth of the state in the future.

Tourism Policy

The government is more focused on providing services and amenities to tourists and has laid out policies to create autonomous bodies and councils at district level to ensure smooth functioning of the industry.

- II. Quality tourism with strictly controlled development aiming at high expenditure tourist markets in places that are ecologically sensitive to large tourist inflows

Types of Tourism to be developed

- I. General interest tourism for the masses in situations that can sustain large scale tourist inflow

Incentives and Subsidies for Tourism Projects

- Investment subsidy limited to 10% subject to a ceiling of INR 10 lakh.
- Only approved units will feature in the Tourism Department's publicity material and will be eligible for any concessions and incentives offered by the government.
- Concession in electricity charges with five-year tariff subsidy for the following types of tourism:
 - I. Classified hotels (1 to 5-star, 5-star deluxe, heritage)
 - II. Motels (approved by Department of Tourism, Government of Kerala)
 - III. Restaurants (approved by Classification Committee of Government of India)
 - IV. Amusement parks & recreation centres (approved by Department of Tourism, Government of Kerala)
 - V. Rope ways at tourist centres
 - VI. Institutions teaching surfing, gliding, trekking and similar activities, which promote tourism (approved by Department of Tourism, Government of Kerala)
 - VII. Ayurveda centres with tourism potential (approved by Tourism Dept, Govt of Kerala)
 - VIII. Heritage homes (approved by Tourism Dept, Govt of Kerala under Grihasthali scheme)

The tourism units which undertake expansion/modernisation after five years of availing concessional tariff, will be eligible for concessional tariff for a further period of five years for the additional electricity charges paid by the unit due to expansion/modernisation.

Ayurveda and medical tourism have emerged as a favourite among tourists. This is a unique opportunity for Kerala with hardly any competition from other states. This segment of tourism and alternative medicine or wellness has tremendous potential to catalyse the economic growth. To promote this segment the government has already set forth some basic guidelines:

- Strengthen the approval system and introduce a classification system to grade Ayurveda centres based on the quality of facilities and services.
- Allow only Ayurveda centres approved by the tourism department to function at tourism centres in the name of tourism.

Any attempt to promote industrial or manufacturing activities in the state will augur well for the economy. However, focus on the rubber and coir industries can be leveraged with a specific focus to incentivise or attract industries and investors to these segments.

Tourism, with more emphasis on medical or wellness needs to be institutionalised. There is a need to encash the opportunity that the state possesses naturally by the virtue of its rich heritage.

The desired impact of the state's policies is to create an enabling environment for the economy to grow. To achieve this effectively, employment generation initiatives should be considered across all avenues. Increased employment aids in fortifying the economy of the state by inducing spending and at the same time creates a demand for real estate assets.

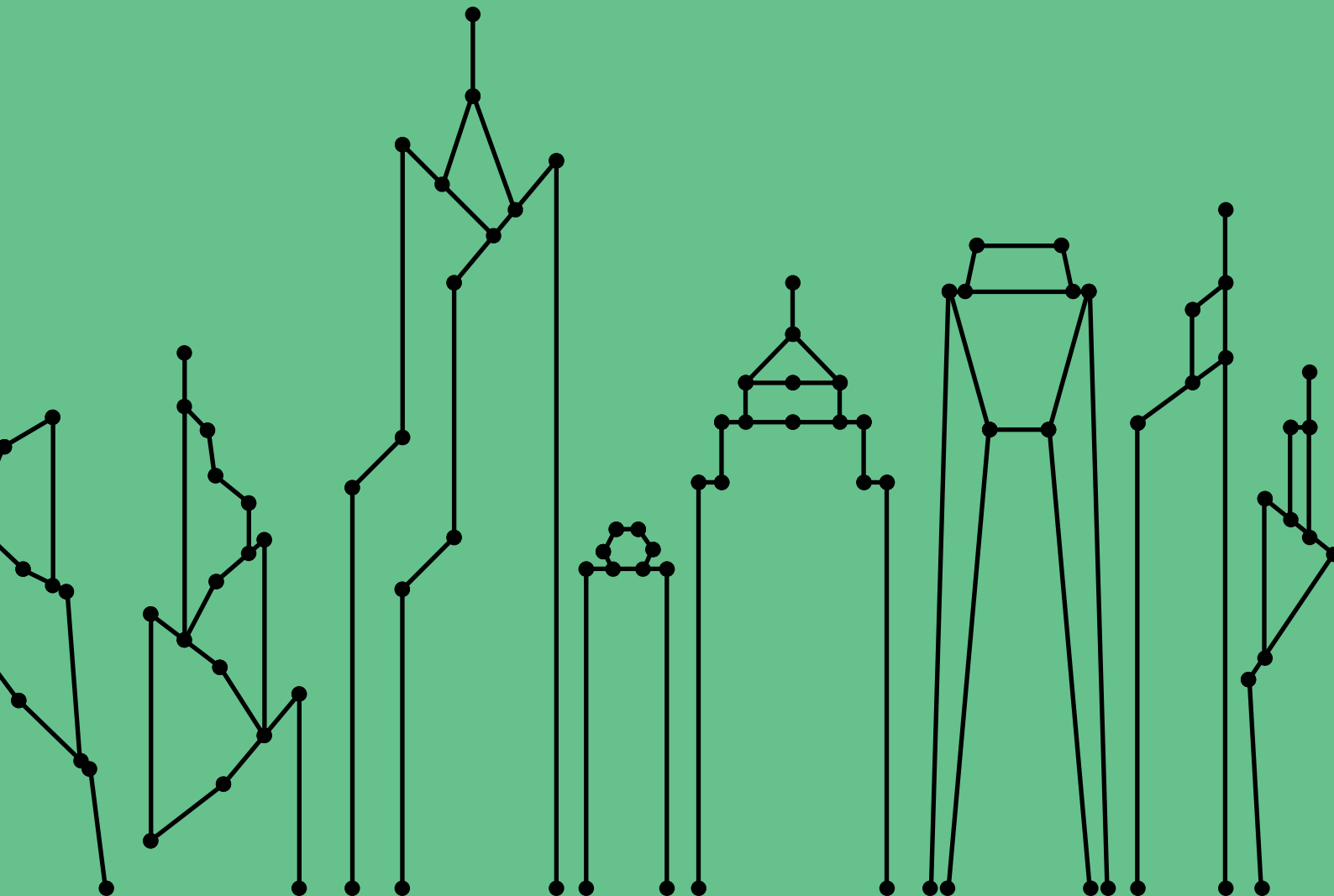


3

Growth Enabling Sectors: An Overview



Kerala state's growth depends on multiple factors such as education, healthcare, tourism, real estate, etc. These factors can be supported by the development of a policy framework to make the state attractive to foreign investors and funds. While the government has taken many initiatives to promote development in the region, the outcome of these initiatives has not been very fruitful. ANAROCK research has assessed key factors that can give the economy of Kerala a boost and also impact the national economy as a whole.



FOREIGN DIRECT INVESTMENT (FDI)

Foreign direct investment is a form of investment in which a foreign company can invest in a company in another country by means of gaining ownership in the entity/project. It is distinguished from a foreign portfolio investment by a notion of direct control. The origin of the investment does not impact the definition, as an FDI: the investment may be made either “inorganically” by buying a company in the target country or “organically” by expanding the operations of an existing business in that country.

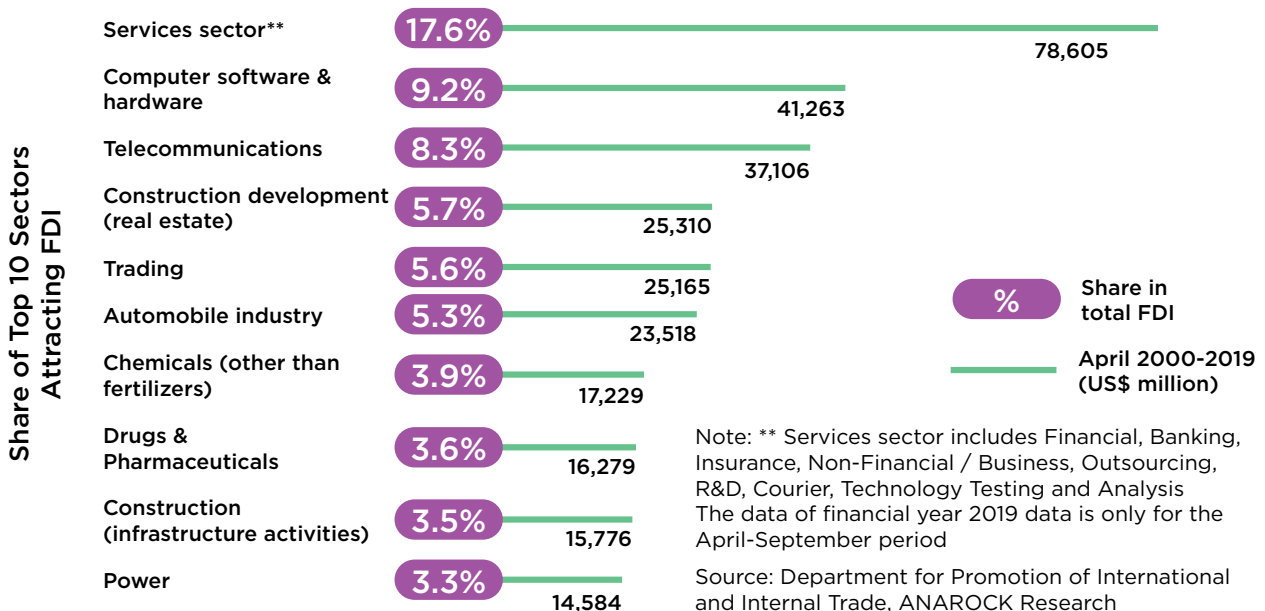
With an aim to promote global investment inflows into the country, the central government has relaxed the FDI norms significantly over the last few years in India. The government allows FDI inflow through two different routes viz; automatic and the government route.

Under the automatic route, the government has allowed the foreign investor to directly invest without the prior approval of the government. While in the second route, the investor needs to take government approvals before investing. In most sectors the government has allowed an automatic route of investments, but the sectors/companies that are controlled by the government generally need to take government approvals before investments.

The following sectors are prohibited to get investments in the form of equity from foreign companies:

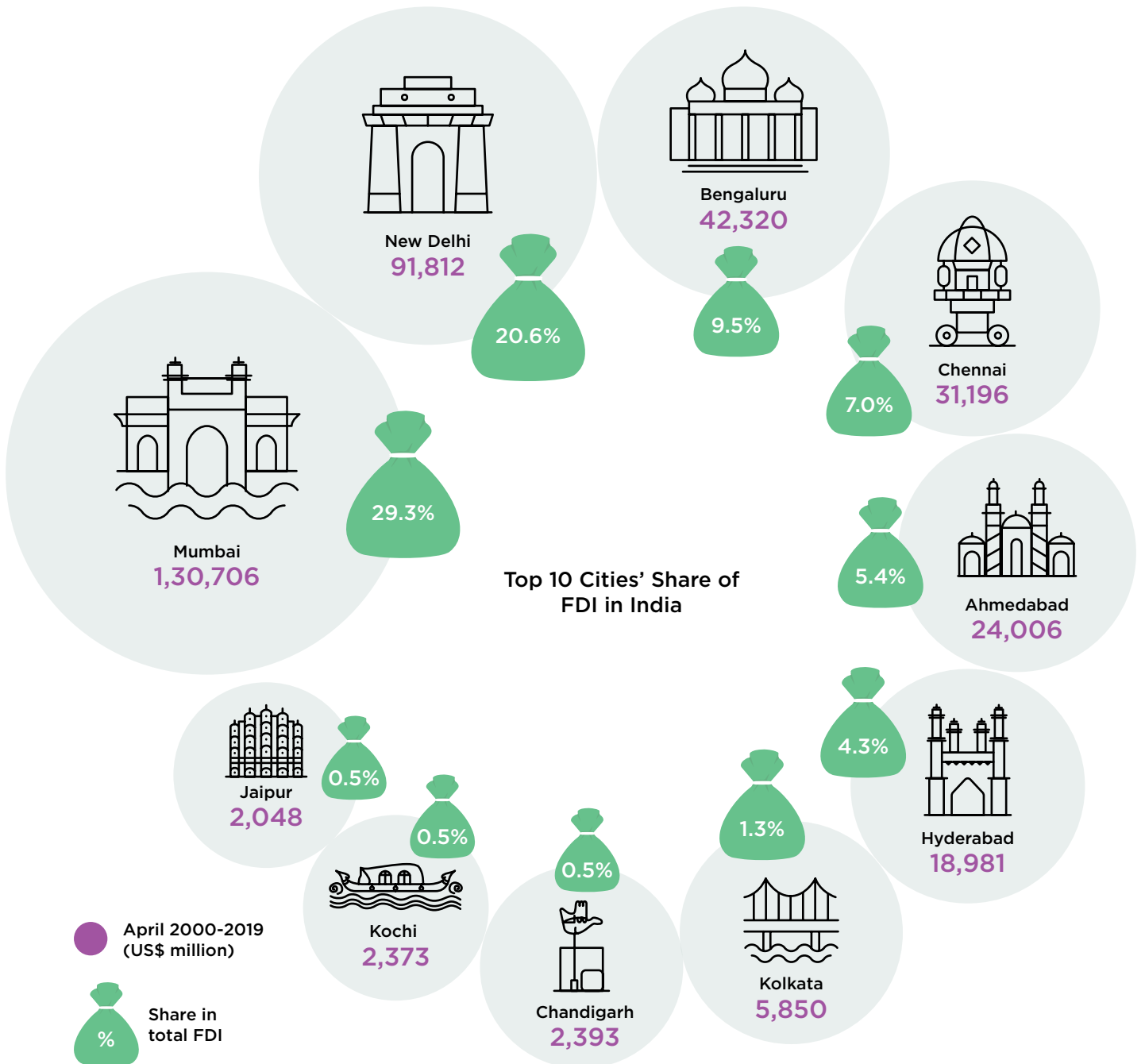
- Lottery business including government/private lottery, online lotteries, etc.
- Gambling and betting including casinos etc.
- Chit funds
- Nidhi company
- Trading in Transferable Development Rights (TDRs)
- Real estate business or construction of farmhouses (Real estate business does not include the development of townships, construction of residential / commercial premises, roads or bridges)
- Manufacturing of cigars, cheroots, cigarillos, and cigarettes, of tobacco or of tobacco substitutes
- Activities/sectors not open to private sector investment e.g. Atomic Energy and Railway operations (other than permitted activities)

In the last two decades (April 2000-September 2019), India has witnessed a total FDI equity inflow of US\$ 446.12 billion according to the Department for Promotion of Industrial and Internal Trade. The service sector which includes financial, banking, insurance, non-financial business, outsourcing, R&D, courier, technology testing and analysis has been the major beneficiary of FDI in India during this period.



Historically, FDI in the real estate sector was not allowed except for NRIs and overseas corporate bodies. In 2005, the RBI issued a notification and the housing, township, built-up infrastructure and construction development sector was opened for 100% FDI with certain terms & conditions. While

the sector started getting FDI in 2005, today it's the 4th biggest sector to attract FDI in the country. The total FDI into the real estate sector since then has been US\$ 25,310 million and accounts for nearly 5.7% of the total FDI received in the country till September 2019.

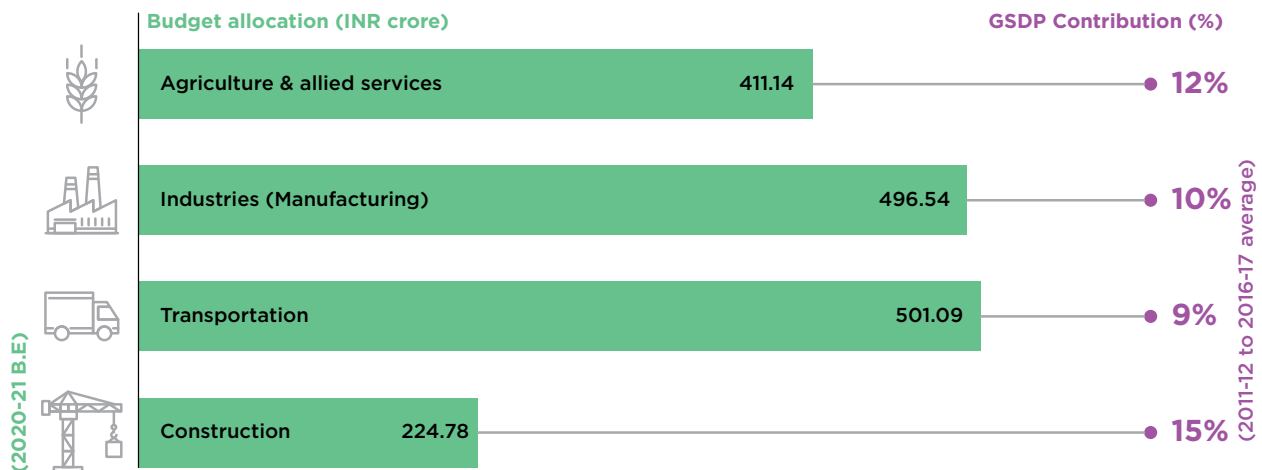


Note: The data of financial year 2019 data is only for the April-September period
 Source: Department for Promotion of International and Internal Trade, ANAROCK Research

The majority of FDI inflow has been in Mumbai and New Delhi and together these cities account for nearly 50% of FDI inflow in India. Kerala's FDI inflow during the last two decades (April 2000 - September 2019) has been US\$ 2.37 billion. As per RBI data released in March 2019, the ease of doing business which is a major factor for attracting foreign players has been declining in Kerala. From a score of 22.87 in 2015, with an all India rank of 18, the score improved to 44.82 in 2017 but during the same period, the ranking of ease of doing business of Kerala dropped

to 21st place. Other states in India grew at a much faster pace by establishing processes and strengthening their existing framework. While Kerala has applied and is applying multiple reforms, the implementation of these reforms has been a problem in the state making it difficult for foreign investors to invest their money into projects/entities in India. For the state to increase its share in the overall FDI in India, there is a dire need to set up new policies and accelerate the entire process for investors to gain trust in the state.

Budget Allocations for Key Sectors Vs Economic Contribution



Source: Budget 2020-21, Economic Surveys.

The four key sectors which contributed nearly half of the Kerala's economy have got a budget allocation of just 13% in 2020-21. For these sectors to flourish, the government needs to open doors for alternate funding in the form of PE/VC or FDI. When the

dependence on private funding for these sectors increases, the government will be able to shift focus to other sectors and increase their budgetary allocations to enable them for private investments in future.

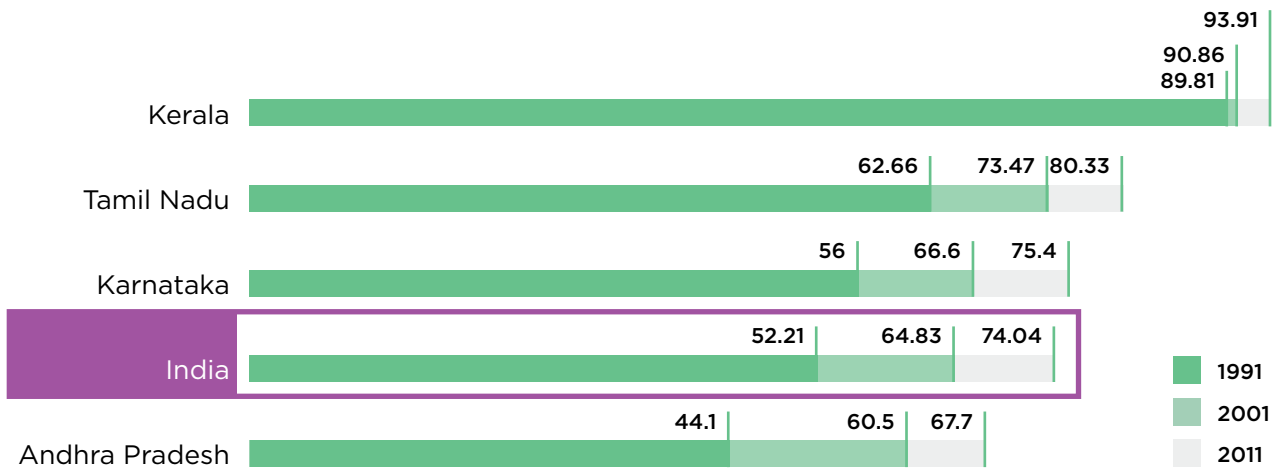
UNDERSTANDING KERALA'S EDUCATED UNEMPLOYMENT

Back in 1817, the Queen of Trivandrum issued a royal decree that read, "The state should defray the entire cost of the education of its people in order that there might be no backwardness in the spread of enlightenment.' She hoped education would make her people' better subjects and public servants."

Since time immemorial, Kerala has always given high importance to education. So much so that, the state has the highest proportion of literate persons among the Indian states. As per Census 2011, the effective literacy rate in Kerala is 93.91%¹. With a continuous focus on education, the literacy rate in the state has improved significantly.

¹http://spb.kerala.gov.in/images/pdf/whats_new/Vol1_E.pdf

Growth in Literacy Rates of Southern States (1991-2011)

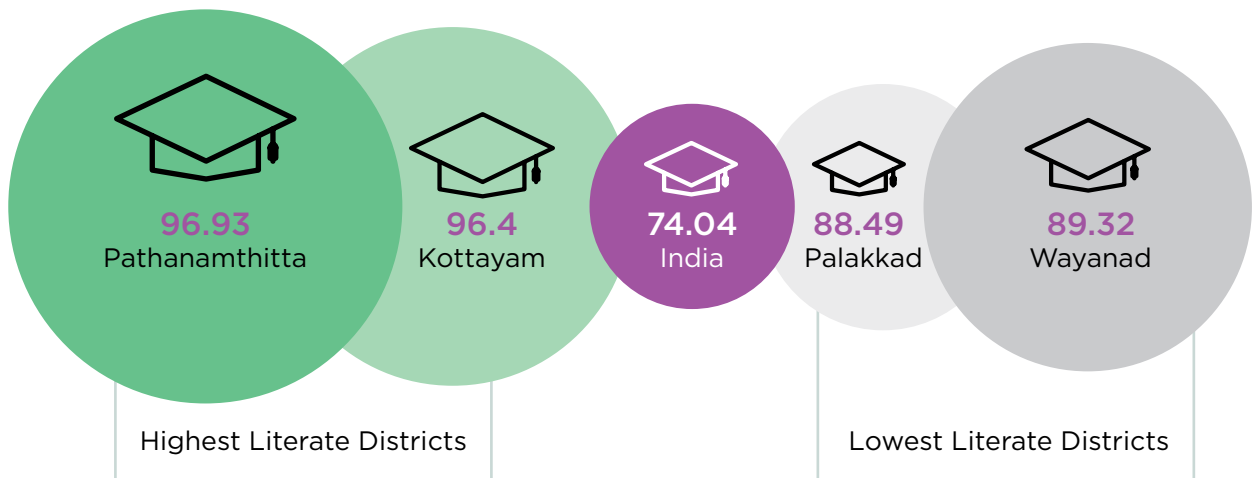


Source: Census Data

The chart below clearly indicates that even the districts with the lowest literacy rate in Kerala (Wayanad- 89.32% and

Palakkad-88.49%) fare better than the national average of 74.04%.

Comparing Kerala’s 2 Districts with Highest & Lowest Literacy Rate with India

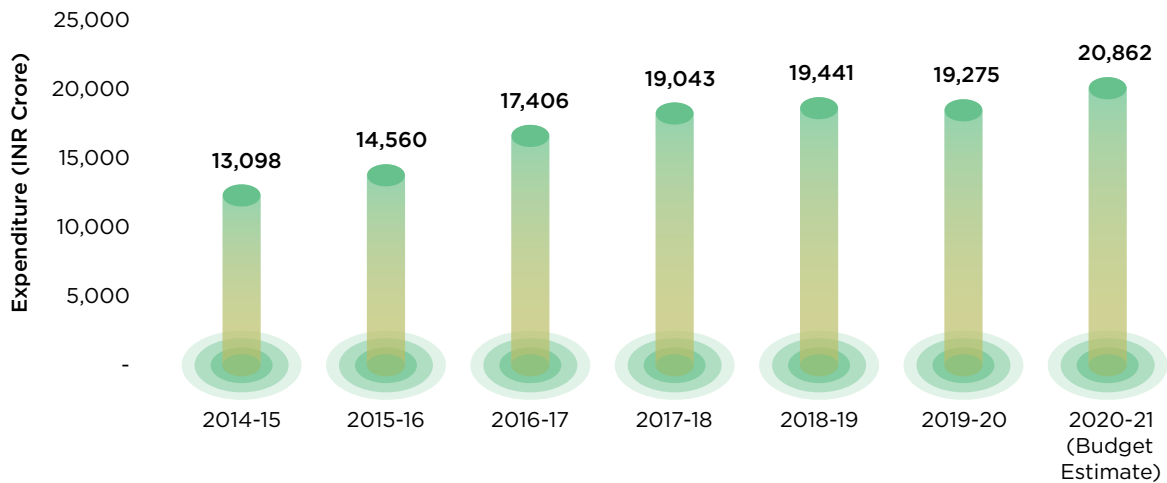


Source: Census 2011

The state’s focus on literacy can be gauged from its annual expenditure for the sector. For FY 2020-21, the state has estimated expenditure of about INR 20,862 crore for education, an increase of 8.2% as against 2019-20 (INR 19,275 crore). Now, when

compared to other sectors such as irrigation (INR 1,167 crore), medical and public health (INR 9,295.96 Crore), or public works (INR 5,084.42 crore), the budget allocation for education is significantly higher.

Trends in Total Expenditure on Education (2014-15 to 2020-21 BE)



Source: State budget documents, ANAROCK Research

Increased focus on education has helped Kerala secure the top spot in the Education and Empowerment Index with a score of 0.97².

The index value is calculated based on participation in education for the 6-18 age group using attendance data, data for early marriage of women, and child sex ratio. Kerala's focus on empowerment, education, and healthcare have made it socially advanced state, which is clearly indicated in the below table. Not to mention, Kerala has also maintained its top rank among the Indian states in terms of performance on the Human Development Index (HDI).

Education and Empowerment Index

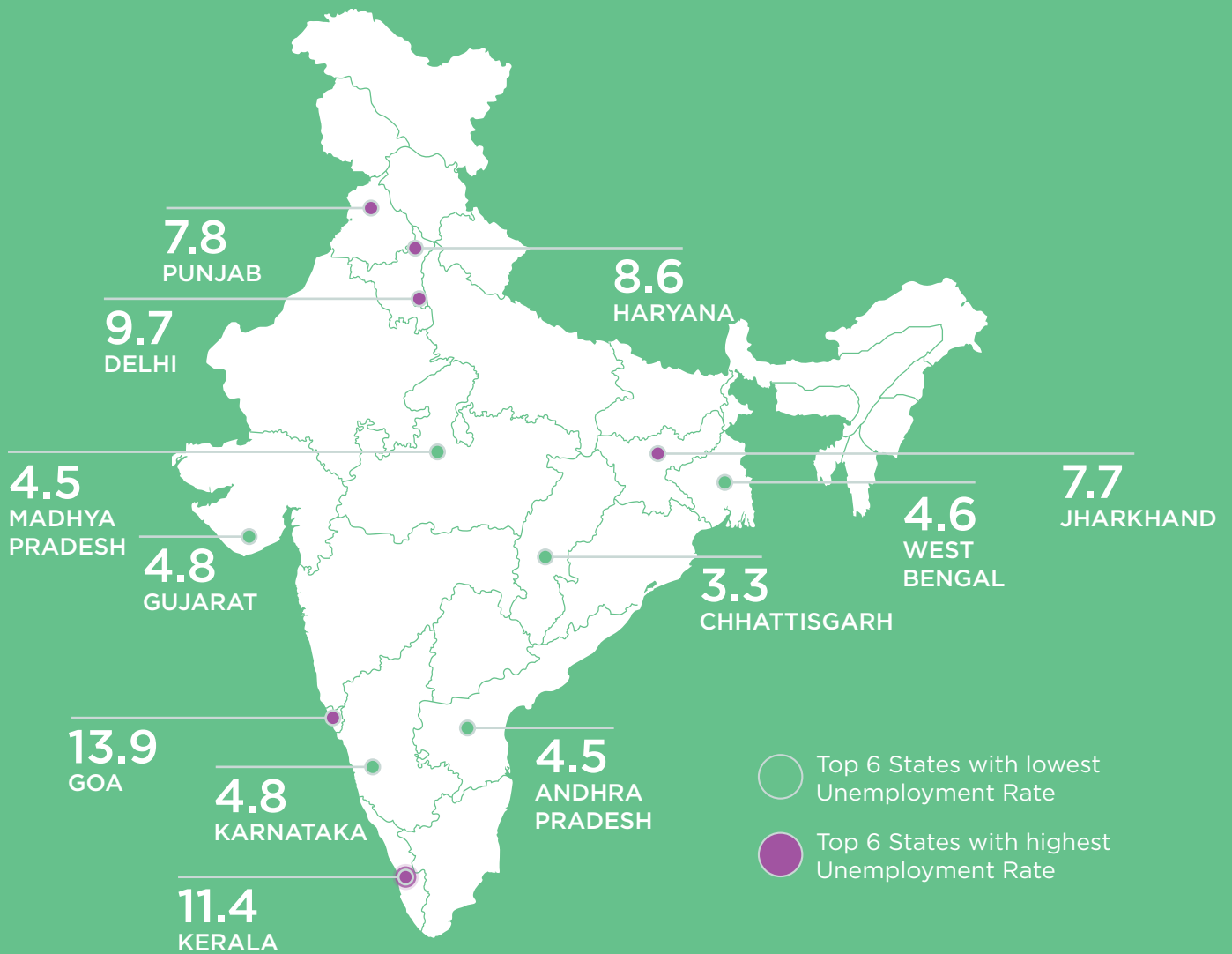
STATE	INDEX VALUE	RANK
Kerala	0.978	1
Tamil Nadu	0.737	2
Karnataka	0.696	3
Telangana	0.616	4
Maharashtra	0.615	5
Andhra Pradesh	0.529	7

Source: Public Expenditure on Children In India: Trends and Patterns

Despite Kerala's immense focus on education, the state has not yet been able to provide its literate population with enough career opportunities. Kerala has an unemployment rate of 11.4% which is higher than the Indian average of 6.1%. Among all states, only smaller states such as Sikkim, Tripura, Goa, and Himachal Pradesh have a higher unemployment rate than Kerala.



²Public Finance for Children across 16 Indian States by the Centre for Budget and Policy Studies



If we look closely in terms of educational qualification, about 37.8% have secondary to higher education, while 29.1% have a degree and above. This clearly indicates that due to a lack of job opportunities within the state, people with higher education levels migrate to other countries in pursuit of better career prospects.

However, being educated is surely beneficial. It allows many from Kerala to find work elsewhere - in other Indian states and

countries. In 2018, there were 21,21,887 emigrants from Kerala across the world³. According to Emigration and Remittances: New Evidences from the Kerala Migration Survey, 2018, the highest emigration is in the Gulf region with 89.2% of the total migration. An additional 10% of the emigrants are concentrated in other countries like the USA, UK, and Australia, etc. This explains why Kerala accounts for highest inward remittances (19%) in the country.

The money sent back home forms the backbone of Kerala's economy. In that sense, maybe, literacy can be considered as the State's chief asset and it is time that Kerala capitalized on the high literacy to enrich the intrinsic value and reduce dependence on remittances.

³EMIGRATION AND REMITTANCES: NEW EVIDENCES FROM THE KERALA MIGRATION SURVEY, 2018

Key issues hampering the education section in Kerala

Lack of employment opportunities in the State has, undoubtedly, resulted in a high rate of unemployment in Kerala. Apart from remittances, agriculture, and tourism, other sectors including manufacturing or IT-ITeS have not really created a massive impact on the overall employment generation in the state. However, the government has taken this into cognizance and is trying to emulate the success of adjacent southern states.

The challenge before the state government is to offer gainful employment to the youth of the State. To address this, the government aims to create an enabling environment for entrepreneurship in the state. Kerala Government seeks to create a new generation of job providers rather than job seekers⁴.

For the same, the government has launched the Kerala Start-Up Mission (KSUM). There are some green shoots as the state holds the first place in the 'start-up promotion ranking' in 2018, according to the Union Ministry of Commerce. Till 2019, there were about 2,200 start-ups across various sectors in the State.

However, for some start-ups, scarcity of capital is the biggest issue. To address this, the state government, in its 2020-21 Budget, announced three crucial measures. These include:

- Loans without asset security will be given to the start-ups that have received work orders from government semi-government or major corporate firms. A scheme is being announced for providing 90% of work order as loan, up to a maximum of INR 10 crore at an interest rate of 10%.
- An amount of INR 73.50 crore is earmarked for Startup Mission in 2020-21. The budget allocation has come down from INR 80 crore in 2018-19.
- **Addressing the issue of the high stamp duty in the State for starting a company, the government has decided to include the problem in the Finance Bill to examine and rationalise the rates. This is expected to attract companies to set up base in Kerala.**

Further, the state government envisages expansion of the IT-ITeS industry in a manner that benefits all the districts. A hub and spoke model have been planned. Thiruvananthapuram (Technopark), Kochi (Info Park) and Kozhikode (Cyberpark) will act as hubs, and the remaining districts will be the spokes. These three IT parks together have more than 800 companies that provide employment to over one lakh tech professionals.

- Technopark is extensively laid out across 724 acres of land in 5 phases, with 9.7 million sq. ft. of built-up space. It has both IT SEZ and DTA areas within the campus.
- Infopark has a total built-up area of 6 million sq. ft.
- Cyberpark a combined built-up area of 8 lakh sq. ft.

An additional space of 10 million sq. ft. is targeted to be developed by 2021 in the IT parks to meet the growing demand from companies.

If we delve deeper, it can be inferred that except Technopark in Thiruvananthapuram, the other two tech parks are occupied by smaller players in the industry. A closer look at Technopark's occupiers suggests that it is home to reputed companies such as Tata Elxsi, Tech Mahindra, Tata Consultancy Services, Oracle, Infosys, H&R Block, Ernst & Young, Quest, and Allianz.

Additionally, a programme for giving employment (Local Employment Assurance Programme - LEAP) to 1.5 lakh people per year will be started through Local Self Government Institutions in the non-agrarian sector through local ventures. Under the programme, employment should be created at the rate of one person per thousand persons. This may be implemented through Kudumbashree, Co-operative Society, or Private Entrepreneurs. Initiatives such as non-plastic products, value-added farm products and other small-scale industries may be included in these initiatives.

⁴http://spb.kerala.gov.in/images/pdf/whats_new/Vol1_E.pdf

INCREASED FOCUS ON HEALTHCARE AND TOURISM

Healthcare

Public investment in health and education continues to yield results for a long period of time. The strong disease surveillance system in the state was demonstrated by the successful control and prevention of the spread of Nipah virus in May 2018. The suppression and control of epidemic disease in Kerala in the aftermath of the floods is also nothing short of a historic achievement.

To further strengthen the state's prospects in healthcare, there are several projects on the anvil. These include:

- Life Sciences Park at Thiruvananthapuram with robust infrastructure facilities that will provide the first integrated approach to life science research to markets covering all segments such as agriculture, food and nutrition, human health, biotechnology, and medical technology. The first phase of the development is expected to be ready by March 2021.

This Park will provide developed plots for large and integrated Bio-IT companies to set up their campuses and ready-to-use modular offices, wet and dry lab space for intermediate, small, and start-up companies.

- With great domestic and international connectivity, Kerala is also looking to strengthen its medical tourism by creating

investor-friendly policies for private players to enhance the establishment of a healthcare facility in various sectors.

Medical tourism holds immense potential in India. Thanks to the traditional Indian systems of medicines, i.e. Ayurveda, Yoga, Panchakarma, Rejuvenation Therapy, etc. As per the Medical Tourism Index Overall ranking, 2016, India is one of the preferred destinations for Medical Value Travel (MVT) as it occupies the fifth position among 41 major medical tourism destinations.

While the metropolitan cities of Delhi, Mumbai, Chennai, Bengaluru, Hyderabad, and Kolkata are preferred cities, Kerala is not far behind and handles about 5-7% of foreign patients⁵. With excellent connectivity, medical tourism has become one of the USPs of the state. Apart from modern and alternative treatment systems, Kerala also boasts of several Ayurveda centres.

Being at the forefront of Ayurvedic revolution, there are also plans to set up medicinal plant preservations and processing unit in the eastern side of Kollam district. Considering the growing demand for herbal products across the globe, Kerala is expected to attract companies in this space.

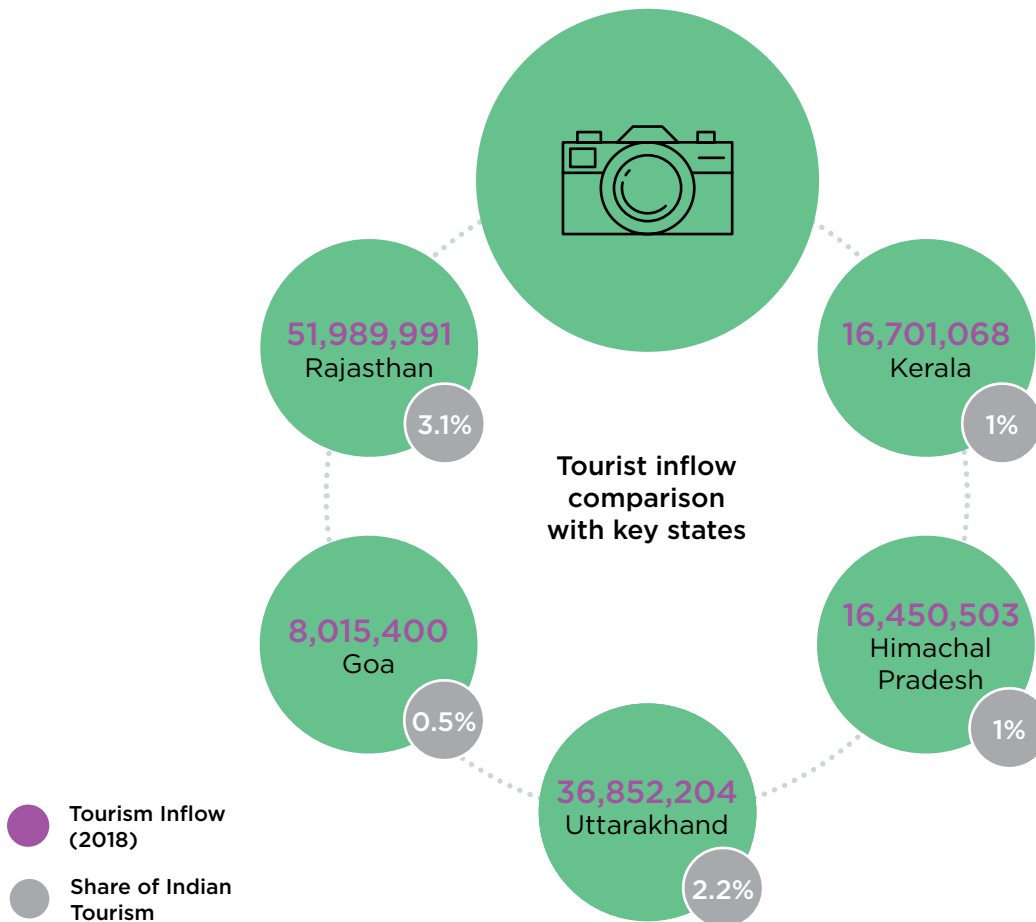
⁵India: Building Best Practices in Healthcare Services Globally



Tourism

Blessed with a diverse landscape and rich culture, Kerala is one of the most popular tourist destinations in the country. From mountain vistas to sprawling tea estates to backwaters to beaches, the state has it all. Kerala's natural beauty and rich culture attract several domestic and foreign tourists every year.

The year 2018 witnessed 0.42% growth in foreign tourists' arrival and over 6% growth in domestic tourists' arrival. This led to an 8.60% increase in total revenue from the tourism industry. Post floods of July-August 2018, tourist flow disrupted temporarily.



Source: Each states' Ministry of Tourism, ANAROCK Research

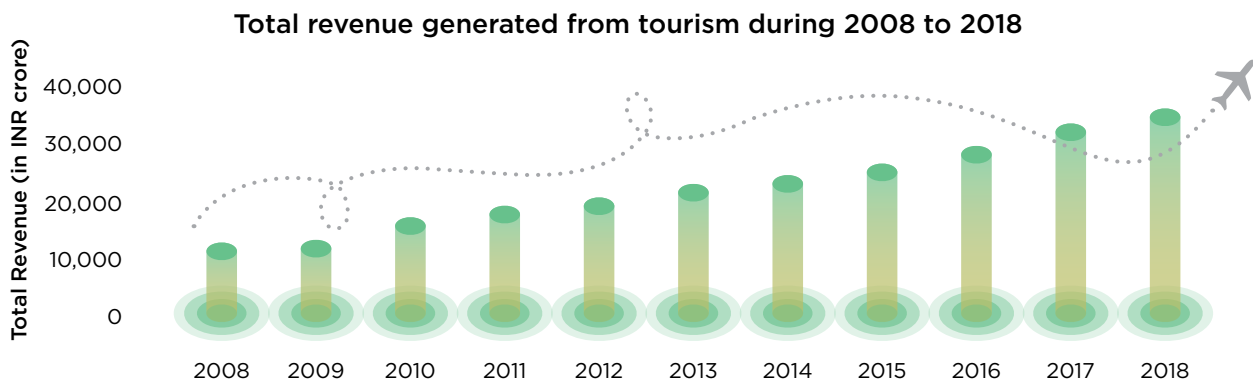
Kerala accounts for only 1% of the overall tourism in India. Compared to other states which are also driven by tourism, Rajasthan's contribution to the overall tourism of the country is the highest with a share of 3.1% tourist due to the presence of forts and palaces followed by Uttarakhand at 2.2%

majorly driven by pilgrimage tourism. Tourism which is the key sector for Kerala has a miniscule contribution to the overall tourism of the country. The state has immense potential due to its location and geography to attract more tourists to it and increase its share in the Indian tourism.

Foreign Exchange Earnings (FEE) Continues to Grow

The tourism sector has the potential to earn foreign exchange, create employment opportunities and act as a significant driver of economic development, the government initiated several measures to promote tourism, which has also won the state several accolades. Here, it is imperative to mention

the huge contribution of houseboats to the State's tourism. Several unnoticed villages of Alappuzha have seen rapid development as its picturesque backwaters, lagoons, wetlands and freshwater rivers grabbed international attention.



Source: Economic Review 2018, Kerala State Planning Board

Foreign exchange earnings from tourism have shown a steady growth over the years. In 2018, Kerala earned INR 8,764.46 crore

as foreign exchange earnings from tourism against INR 8,392.11 crore in the year 2017, recording a growth of 4.44%.

YEAR	FOREIGN EXCHANGE EARNINGS) INR CRORE)	% OF INCREASE	EARNINGS FROM DOMESTIC TOURISTS	TOTAL REVENUE GENERATED FROM TOURISM (DIRECT & INDIRECT) (INR CRORE)	% OF INCREASE
2014	6,398.93	15.07	12,981.91	24,885.44	12.11
2015	6,949.88	8.61	13,836.78	26,689.63	7.25
2016	7,749.51	11.51	15,348.64	29,658.56	11.12
2017	8,392.11	8.29	17,608.22	33,383.68	12.56
2018	8,764.46	4.44	19,474.62	36,258.01	8.61

Source: Kerala Tourism Statistics, ANAROCK Research

To further boost the sector, the government also has several plans on the anvil. For the FY 2020-21, INR 320 crore has been allocated for tourism development.

It must be noted that Kerala tourism has overcome two flood ravages. Effective marketing has played a vital role in this. The state government has constantly been focusing on Tourism Marketing. In 2017-18,

INR 75 crore was allocated for marketing, which increased to INR 82 crore in 2018-19.

The government also plans to commission the Muziris Heritage project in 2020-21, which is to reinstate the historical and cultural significance of the legendary port of Muziris. The entire project is designed to involve and integrate the local community in all intended developmental initiatives.

Besides the four international airports, Kerala may soon have a string of airstrips-heliports, which can operate small, single-engine aircraft connecting major tourist destinations.

The airstrip-heliports would be set up at Ashramam maidan in Kollam, Munnar,

Thekkadi, Kalpetta, Bekal, Guruvayur, Palakkad, Alappuzha beach, Varkala, and Kumarakom. The state government has requested the Centre to include the proposed airstrips under its Regional Connectivity Scheme-UDAN to operate them as feeder ports of the international airports.

To further give a boost to the sectors, the State can focus on:

- As tourism contributes about 16-17% to the Kerala's economy, the state government should ensure measures to sustain tourism growth by making Kerala a safer destination for tourists to visit. The continual outbreak of various diseases could impact this growth.
- Eco-friendly tourism that offers tourists world-class recreation facilities.
- Unlocking the potential of medical tourism with a special focus on traditional Indian systems of medicines.
- To boost domestic and intra-state connectivity, the government must push for airstrips-heliports under the UDAN scheme.
- Being in the coastal region, the state can also explore connectivity via waterways to various cities of India and other nations.
- Currently, only Kannur has a drive-in beach in the State, which is the longest drive-in beach in India and a big tourist attraction. The government can also focus on developing a few more drive-in beaches.
- Lastly, Kerala can also emulate the success of Goa in water sports.

MAPPING THE START-UP ECOSYSTEM IN KERALA

Kerala is one of the most literate and skilled states in India. Schools, colleges, startup incubators, and government institutes have

been linked efficiently and the ecosystem provides an opportunity for the growth of entrepreneurship and innovation.

DID YOU KNOW?

2,200 Startups
in Kerala

Out of which 36% in Kochi⁶

US\$ 44 Million
Funding

Raised by 13 startups in 2019⁷

1.8 lakh
sq ft¹⁰

integrated startup complex
recently opened in Kochi

Kerala ranked among top
5 performers with Gujarat,
Karnataka, Odisha & Rajasthan⁹

230 Innovation & Entrepreneurship
Development Centres

40+ Incubators &
Accelerators⁸

⁶The State of Kerala Startup Ecosystem 2019

⁷The State of Kerala Startup Ecosystem 2019

⁸The State of Kerala Startup Ecosystem 2019

⁹State-wise Startup Ranking 2018 by Department for
Promotion of Industry & Internal Trade (DPIIT)

¹⁰The State of Kerala Startup Ecosystem 2019

Does Kerala check all boxes for a thriving startup ecosystem?

As stated above, currently Kerala has 2,200 startups and many more entrepreneurs are looking to join the growth story. Relatively low cost of operations, availability of skilled manpower and modern technology, and supportive state government policies are some of the key factors providing momentum to the startups here.

The government initiated the startup movement through Kerala Startup Mission

(KSUM) by forging and implementing forward-looking policies for creating a vibrant startup ecosystem. In January 2019, the government opened an integrated startup complex in Kochi, spread over 1.8 lakh sq. ft. Three more projects of such magnitude are in the pipeline which will increase the capacity to 5 lakh sq. ft after completion.

Worker categorisation of state

		KERALA (2012)	INDIA (2012)
Workers by sector (%) *	Agriculture	26	49
	Industry	32	24
	Services	43	27
Workers by wage-type (%)	Self-employed	38	52
	Salaried	22	18
	Casual Wage	40	30
Literacy (%)		94	70
Secondary education and above (%)		43	32

Note: *Any discrepancy in total figure is due to round-off
Source: The State of Kerala Startup Ecosystem 2019

Statewise Wages for Unskilled Labour in India

STATE	MINIMUM WAGE (INR/DAY)	MAXIMUM WAGE (INR/DAY)
Maharashtra	96	248
Andra Pradesh	69	232
Gujarat	100	169
Kerala	110	322
Karnataka	83	228
Tamil Nadu	82	222

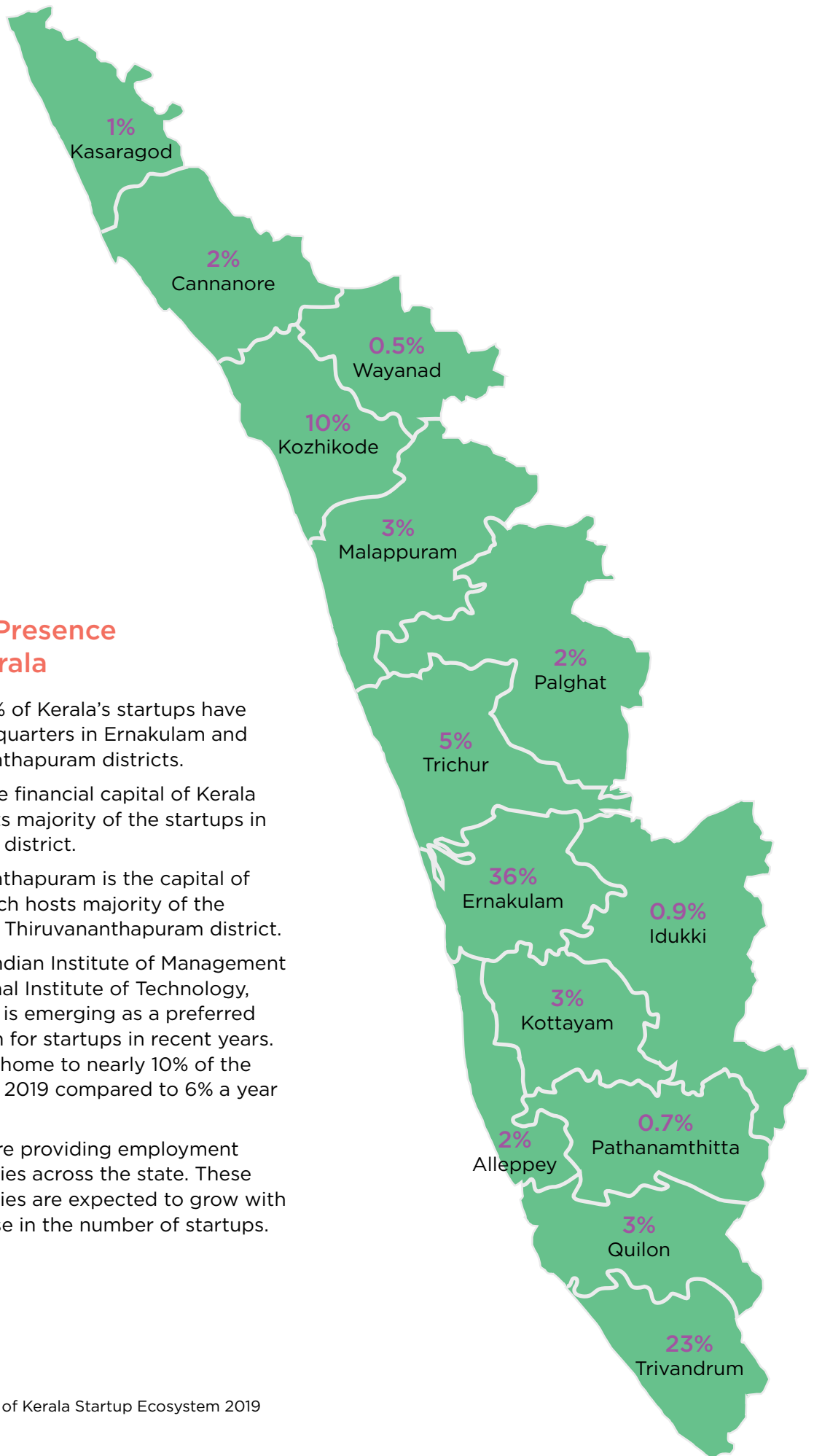
Note: The above wages excludes Variable Dearness Allowance (VDA)
Source: 44th Session of The Indian Labour Conference

Labour cost which acts as the backbone of the construction and manufacturing industry in Kerala is the highest compared to its other counterparts in the country. With the minimum average wage of INR 110/day to INR 322/day, it acts as a hindrance for new players to come and setup base in the city. From the employees perspective, Kerala is the best state to work but looking at the high wage rates, the employers become reluctant towards setting up a base in the state and focus on low cost states like Gujarat, Maharashtra, etc.

- Kerala has 38% self-employed workforce which is less as compared to the India average.
- The state has the highest literacy rate in India but has 40% of unskilled workers which is higher than the India average.
- Nearly 43% of the population in the state is educated to the secondary level and above, which is higher than the India average of 32%.
- High unskilled labour cost in the State compared to other states restricting businesses to enter the state.

Startups' Presence Across Kerala

- Nearly 59% of Kerala's startups have their headquarters in Ernakulam and Thiruvananthapuram districts.
- Kochi is the financial capital of Kerala which hosts majority of the startups in Ernakulam district.
- Thiruvananthapuram is the capital of Kerala which hosts majority of the startups in Thiruvananthapuram district.
- Home to Indian Institute of Management and National Institute of Technology, Kozhikode is emerging as a preferred destination for startups in recent years. The city is home to nearly 10% of the startups in 2019 compared to 6% a year earlier.
- Startups are providing employment opportunities across the state. These opportunities are expected to grow with the increase in the number of startups.

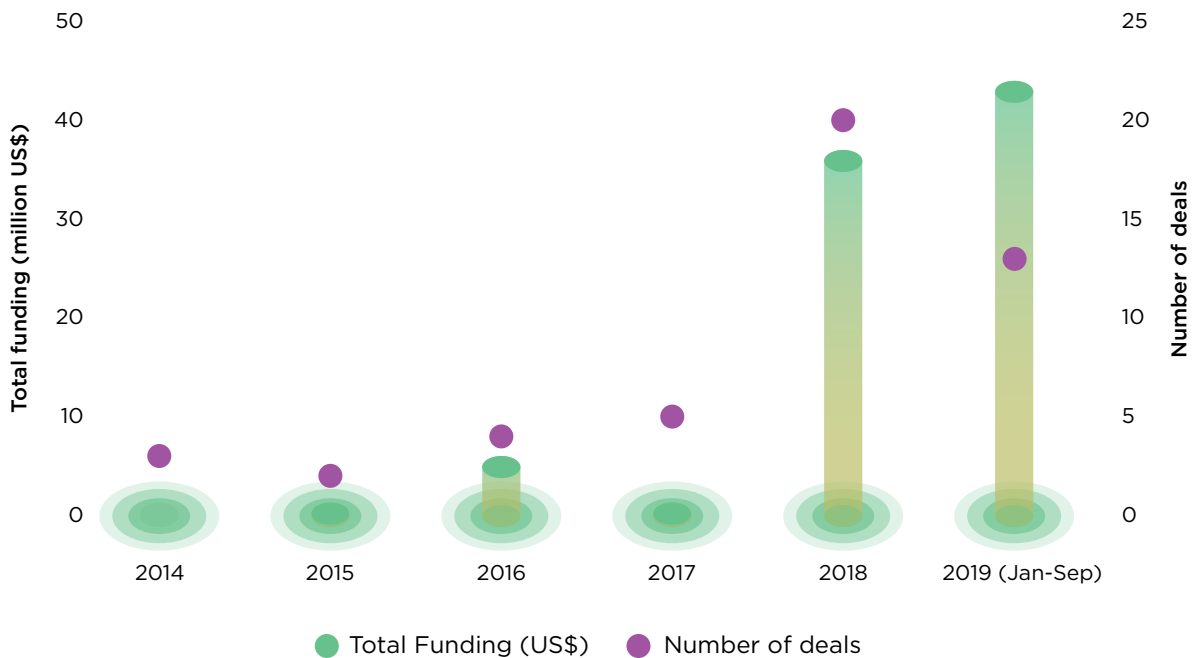


Source: The State of Kerala Startup Ecosystem 2019

Engine Oil for Startups - Investment Overview

The state witnessed significant increase in funding in 2018 and 2019 compared to previous years. This could be because KSUM hosted various events such as Startup India Yatra, Next Big Idea, Design Kerala Summit during 2018 and before. KSUM's efforts have also facilitated Kerala to achieve the rank of the top performer in the State Startup Ranking 2018. In 2019 (Jan-Sept), startups

in the state witnessed an increase of 18% in funding compared to 2018. Startups secured nearly US\$ 44 million in funding spread across 13 deals in 2019 (Jan-Sept). Unicorn India Ventures, India Angel Network Fund, Malabar Angels, Sea Fund, Jose Pattara and Flat6Labs Bahrain are some of the top investors who invested in startups in Kerala.



Source: The State of Kerala Startup Ecosystem 2019



KERALA STARTUP MISSION'S ROLE IN CREATING A VIBRANT STARTUP ECOSYSTEM

KSUM organizes various programs and events to promote entrepreneurship in the state. Some of them are as follows: -



Future Sparks

- To identify and motivate innovative minds among school students of age groups 13-17.
- Conduct workshops and seminars to introduce students to emerging technologies such as artificial intelligence, machine learning, robotics, augmented reality, virtual reality and more.



Innovation & Entrepreneurship Development Centres (IEDCs)

- Mini incubators: Aspiring entrepreneurs go through a network of IEDCs in professional colleges, where mini incubators enable students to work on prototypes. This helps them to imbibe the entrepreneurial spirit during the early days of career.
- Idea Fest: To promote the culture of innovation and entrepreneurship at state-based colleges and other educational institutions.
- INSPIRE'19: A learning program where IEDC student coordinators brainstorm, discuss and create awareness on IEDC, Idea Fest and the importance of entrepreneurship.
- Accreditation Bonus Report: Financial incentives for top-performing IEDCs.

230

IEDCs in Kerala

316

Startups built through IEDCs

1,321

Events organised in IEDCs

OBJECTIVES

- The Kerala Startup Mission (KSUM) is the nodal agency of the government of Kerala for promoting entrepreneurship in the state. It is also the implementing body for the Kerala Technology Startup Policy that supports the state's startup ecosystem.
- It provides different types of funding such as seed funding, early-stage equity funding, patent support scheme, R&D grant, marketing support to startups.
- It has earmarked more than INR 1,000 crore over the period of next four years to provide early-stage funding to startups through Alternate Investment Funds.



MIT FabLabs

- Fabrication Laboratories (FabLabs) are a technical prototyping platform, where people can design and build their own technology for personal or commercial use. Currently, they comprise of roughly US\$ 50,000 in equipment and materials.
- One-day workshops are conducted every weekend to provide a basic understanding of the procedure and technology.



K-Accelerator Program

- Designed to provide national-level exposure to startups who have started gaining traction.



State Startup Events

- Kerala organizes various events such as Startup India Yatra, Data Innovation Challenge, Startup Weekend Women to promote startups in India.

Kerala, Maharashtra & Karnataka: A quick comparison

Although DPIIT ranked Kerala as one of the top performers in the State's Startup Ranking 2018, there are many challenges that remain unaddressed. Maharashtra tops the chart with 2,587 recognized startups (which are registered under Startup India Scheme) whereas Karnataka secured the second position with 1,973 recognized startups. Despite the early launch of startup policy as compared to Maharashtra and Karnataka, Kerala only has 461 recognized startups. The

state notified its own startup policy even before the launch of the Startup India scheme in January 2016, but effective implementation remained a constraint. A comparison of the policies of these states reveal that Kerala could benefit from the first mover advantage. The vision was to create an entrepreneurial environment that will promote economic activities and create employment. In this respect, the state has made limited progress so far.

	KERALA	MAHARASHTRA	KARNATAKA
Launch Year - Startup Policy	2014	2018	2016
Recognized Startups*	461	2,587	1,973
Startup Portal	Yes	Yes	Yes
Unemployment Rate	11.4%	4.9%	4.8%
Ports for Import/Export	Yes	Yes	Yes
Presence of IT-ITeS companies	Limited	Prominent	Prominent

Note: * Data till 2018

Source: Periodic Labour Force Survey (2017-18), State's Startup Ranking 2018

Kerala has an unemployment rate of 11.4% which is higher than the Indian average of 6.1%. The workforce must update their skillsets for the present opportunities that may arise in the industrial or services sectors. These may require skills relating to operating machines and tools in factories or digital

capabilities that are likely to be generated from technological disruptions. The state also has ports and physical infrastructure in place to support the growth of startups, but effective implementation of policies and availability of funds remains a challenge.



Government initiatives such as KSUM paved the path for startups in the state by providing them a sustainable environment, but the availability of funds and skilled workforce remains a challenge that is expected to ease out in the future.

POLICY INITIATIVES TO ENHANCE EASE OF DOING BUSINESS IN KERALA

The vision of the Industrial Policy 2018 is to transform Kerala into a vibrant investment destination with an effervescent entrepreneurial society through inclusive, eco-friendly, and sustainable economic growth with the creation of employment opportunities at reasonable wages.

Kerala aims to become one of the top 10 ranking states in the country as far as Ease of Doing Business is concerned.

In 2017, the State held an unimpressive rank of 21, lowest among the southern states. While Andhra Pradesh retained its first spot, Kerala slipped from 20 in 2016 to 21 in 2017. While the score showed some improvement on the back of several reforms, they were not enough to improve the state's ranking in comparison to other states.

The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, in partnership with the World Bank Group, released the Business Reform Action Plan (BRAP) 2017. The BRAP included 405 recommendations for reforms on regulatory processes, policies, practices, and procedures spread across 12 reform areas, that is, labour regulation enablers, contract enforcement, registering property, inspection reform enablers, single window system; land availability and allotment; construction permit enablers, environmental registration enablers, obtaining utility permits, paying taxes, access to information and transparency enablers and sector-specific reforms spanning the lifecycle of a typical business.

The score was then calculated on the basis of reform implementation and investor feedback. Andhra Pradesh scored 99.73% on reform implementation and 86.50% on investor feedback, clearly indicating the faith of investors.

STATES/UNION TERRITORIES	2015		2016		2017	
	SCORE	RANK	SCORE	RANK	SCORE	RANK
Andhra Pradesh	70.12	2	98.78	1	98.30	1
Gujarat	71.14	1	98.21	3	97.99	5
Karnataka	48.50	9	88.39	13	96.42	8
Kerala	22.87	18	26.97	20	44.82	21
Maharashtra	49.43	8	92.86	10	92.88	13
Tamil Nadu	44.58	12	62.80	18	90.68	15
Telangana	42.45	13	98.78	1	98.28	2

Source: State-wise Ease of Doing Business Rank, RBI

Over the last two years, the state government initiated earnest reforms to improve the business environment¹¹. These include:

- Kerala Single Window Interface for Fast and Transparent Clearance (K-SWIFT), focusing on industrial buildings, is a platform for all future transactions with the government on the issue of granting licenses and approvals in a time-bound manner.
- Invest Kerala Portal, which is a single-window facilitator for investment promotion for prospective and aspiring investors. Currently, the portal has over 100 projects profile.
- Intelligent Building Plan Management System (IBPMS), which provides single point, integrated and holistic online development permissions to applications within the specified timelines.
- The Kerala Micro Small Medium Enterprises Facilitation Act, 2019 to grant automatic approval for investments up to INR 10 crore.

Clearly, the intent of the state government behind these reforms is accurate, but the slow implementation has resulted in the declining rank of EoDB. However, it will be interesting to see if these reforms positively benefit Kerala's rank in subsequent years.

For 2019, according to the Department for Promotion of Industry and External Trade, there are 187 reforms in nine broad categories. These include access to information and transparency enablers, availability of land, environmental registration enablers, obtaining electricity connection, labour regulation enablers, single-window clearance, environmental registration enablers, sector-specific, and land administration and transfer of land and property. The below table indicates the present status.

Ease of Doing Business 2019 status

STATES/UNION TERRITORIES	TOTAL REFORMS	IMPLEMENTATION STATUS	
		YES	NO
Andhra Pradesh	187	187	Nil
Gujarat		187	Nil
Karnataka		187	Nil
Kerala		157	28

* Data till 2018

Source: Department for Promotion of Industry and Internal Trade

¹¹<http://invest.kerala.gov.in/ease-of-doing-business/>

While Andhra Pradesh, Gujarat, and Karnataka have already implemented all 187 reforms across categories, Kerala is

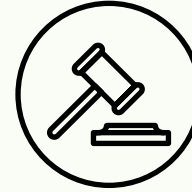
still lagging. The State is lagging behind on the following categories with the following number of reforms in each category:



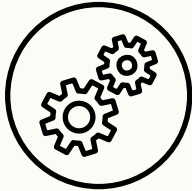
Labour
Regulation-Enablers - 6



Access to Information and
Transparency Enablers - 7



Commercial Dispute
Resolution Enablers - 8



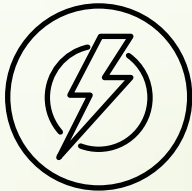
Single Window
System - 1



Land Availability
and Allotment - 2



Construction Permit
Enablers - 1



Obtaining Electricity
Connection - 1



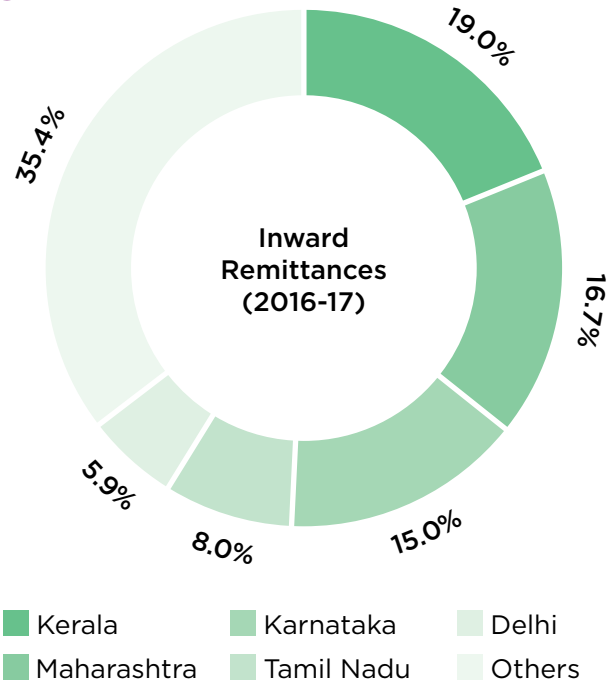
Paying Taxes - 1



Land administration and
Transfer of Land and Property - 1

NRI REMITTANCES: THE BACKBONE OF KERALA'S ECONOMY

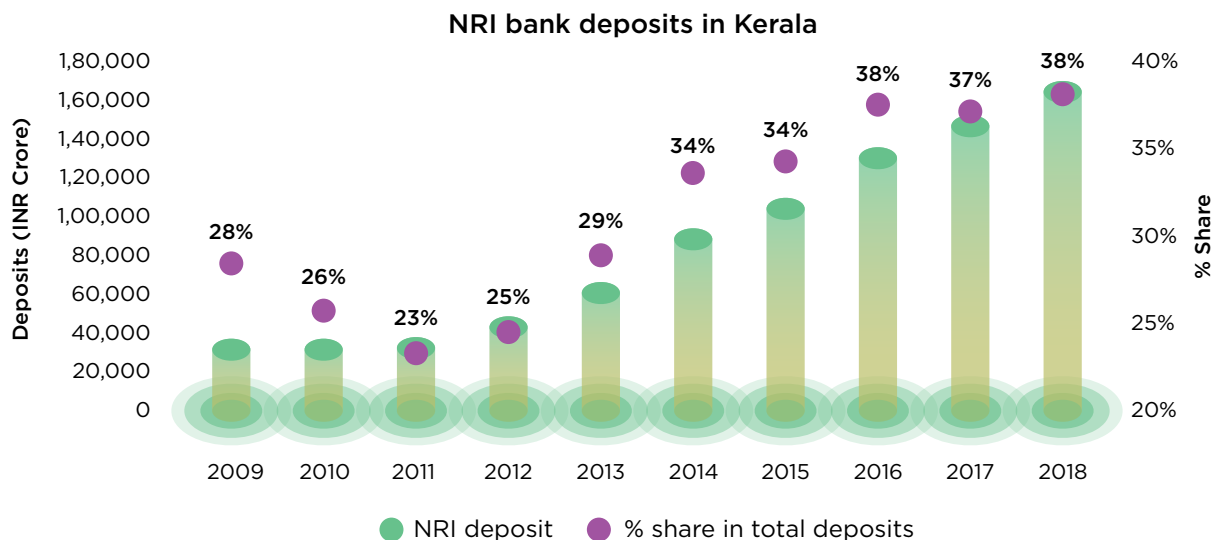
India retained top position worldwide in inward remittances with approximately US\$ 82 billion¹² which is 2.8% of India's 2019 GDP. Kerala accounted for nearly 19%¹³ of the total inward remittances, which is the highest in India. However, Kerala does not send even half as many migrants (low-skilled workers requiring emigration check) overseas as Uttar Pradesh but has the biggest share of remittances. This phenomenon is perhaps due to qualified and skilled people moving out to other countries for employment as Kerala offers limited opportunities to engage its talent pool in productive and remunerative economic activities.



Source: Reserve Bank of India

As per the data of State Level Bankers Committee, the total bank deposits in Kerala as of March 2018 amounted to INR 445,401 crore¹⁴ out of which NRI deposit accounted for 38%. Although NRI deposits have grown by 11.5% in the past one year to INR 169,944

crore¹⁵, the share in total deposits has been range-bound since 2016. However, the share of NRI deposits in total deposits have increased to 38% in 2018 from 23% in 2011. This shows the increased dependability of Kerala's economy on NRIs.



Source: State Level Bankers Committee Report, Economic Review 2018

Dependability of Kerala's economy on NRIs has increased over time which can be a cause of concern. The government must look at other alternates and facilitate the growth of services and manufacturing industry in the state to generate revenue and employment.

¹²World Bank, Estimated data as of April 2019
¹³Reserve Bank of India, Data for 2018

¹⁴Economic Review 2018
¹⁵Economic Review 2018

KERALA SWOT

Strengths

- Constantly expanding economy
- Highest literacy rate in India
- Per capita income (at current prices) of INR 199,101 in 2017-18 (quick estimates) and has been growing constantly over the six years. And nearly 55% more than that of India
- Highest Inward remittance in the country at 19%
- Tourism is among the major contributors to the state economy accounting for 15-17%
- Long coastline, presence of multiple beaches, wildlife sanctuaries, etc and presence of major ports for trade
- Ranks first in education and empowerment index

Weaknesses

- High level of unemployment in spite of highest literacy rate in the country
- Low Foreign Direct Investments in the state
- Low participation of start-ups and IT-ITeS sectors
- High cost of daily wages for the agricultural and non-agricultural workers
- Low focus on public utilities and services

Opportunities

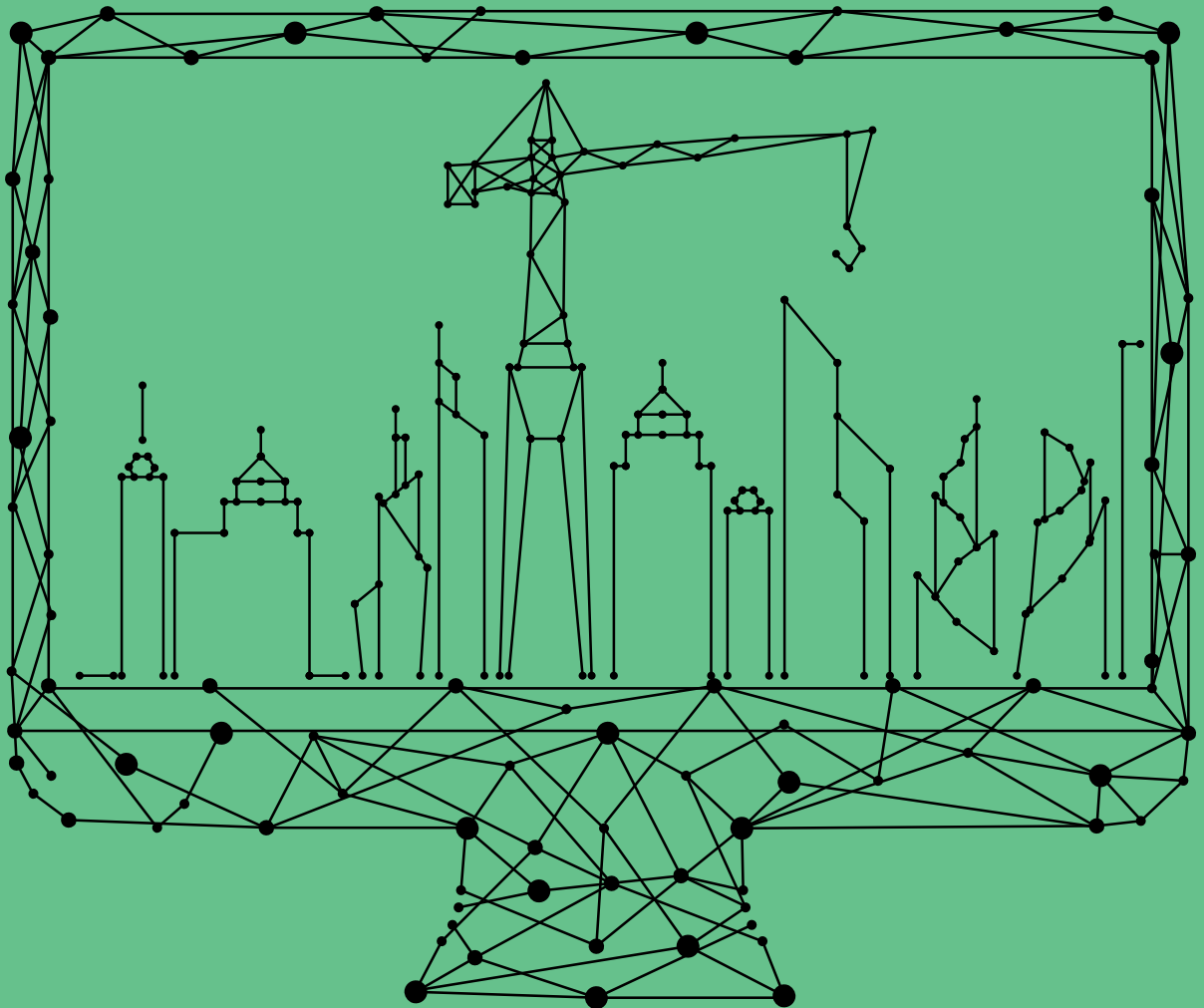
- Housing and real estate as evident from the increasing expenditure of the individuals on these assets
- Presence of several local micro finance and NBFC companies
- Warehousing and logistics sector distribute the agricultural and maritime produce
- Emphasis on the industry to promote manufacturing

Threats

- Unorganised financial services sector
- High dependence on foreign remittances may affect the state if global economic crisis re surfaces
- Government needs to actively pursue the development programs to improve the EoDB rank
- Competition from organised financial services companies

4

The Real Estate Sector and the Future Possibilities



REAL ESTATE SECTOR OF KERALA: UNTAPPED POTENTIAL

Kerala accounts for 2.76% of India's population¹⁶, but its economy at current prices contributed nearly 4% to the national Gross Domestic Product (GDP) during the

year 2017-18 (quick estimate)¹⁷. Thus, Kerala's per capita income at the current price stood at approximately INR 1.8 lakh which was 53% higher than India's average¹⁸ in 2017-18.

Percentage contribution of Real Estate, Ownership of Dwelling & Professional Services Sector

	2011-12	2017-18 (QUICK ESTIMATE)
% contribution to Kerala GSVA	12.55%	16.06%
% contribution to India GVA	12.96%	15.57%

Source: Department of Economics and Statistics Kerala, 2019

Real estate contributes significantly to the Gross State Value Added (GSVA) of the state. Nearly INR 980.2 billion has been contributed to the GSVA of the state in 2017-18, which has increased at a CAGR of 15.08% since 2011-12¹⁹.

As per the Kerala Migration Survey 2018, nearly 4.9% of the NRI remittances in Kerala were used for purchasing a house and

purchasing/improving a land whereas around 5.8% used to repair a house. Thus, the share of pucca houses in the state has increased to 83.5% in 2011 as compared to only 55.97% in 1991. The share of kutcha houses reduced significantly to 2.6% from 24.9% in the same period. The share of pucca houses in the state was more than the India's average in 2011.

	1991			2001			2011		
	PUCCA HOUSE (%)	SEMI-PUCCA HOUSE (%)	KUTCHA HOUSE (%)	PUCCA HOUSE (%)	SEMI-PUCCA HOUSE (%)	KUTCHA HOUSE (%)	PUCCA HOUSE (%)	SEMI-PUCCA HOUSE (%)	KUTCHA HOUSE (%)
Kerala	55.97	19.13	24.90	68.16	21.00	10.24	83.50	12.70	2.60
All India	41.61	30.95	27.44	51.62	30.14	18.24	61.90	25.10	12.00

Source: Ministry of Housing and Urban Affairs

¹⁶Census 2011

¹⁷Department of Economics and Statistics Kerala, 2019

¹⁸Department of Economics and Statistics Kerala, 2019

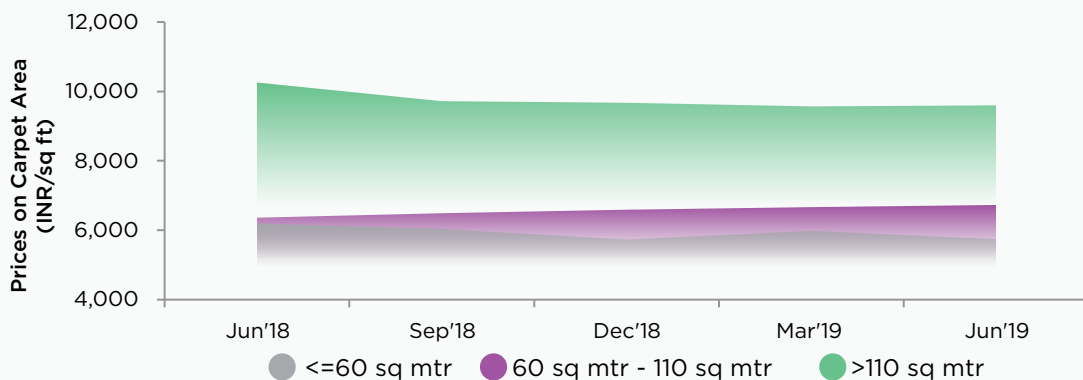
¹⁹Department of Economics and Statistics Kerala, 2019

Kochi & Thiruvananthapuram – Residential Price Trends

Kochi witnessed a price correction of under construction properties

- Composite Housing Price Index for under construction properties has witnessed a dip of 4% in June 2019 as compared to the same period last year.
- Prices of properties in the size range of under 60 sq. mtr. and more than 110 sq. mtr. declined in the range of 6%-7% in the same period.
- Prices of properties in the size range of 60-100 sq. mtr. have increased by 6% in the same period.

Kochi - HPI@Market Prices for Under Construction Properties

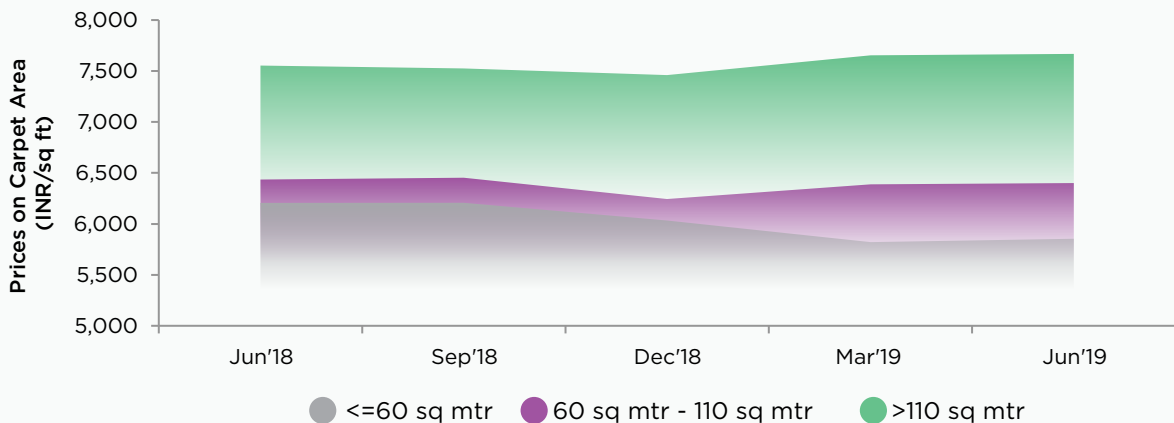


Source: National Housing Bank, Data as on 13th February 2020

Prices of under construction properties in Thiruvananthapuram remained stable in last one year

- Composite Housing Price Index for under construction properties has remained stable in June 2019 as compared to June 2018.
- Prices of properties in the size range of under 60 sq. mtr. declined by 6% in the same period.
- Prices of properties in the size range of more than 60 sq. mtr. have remained stable.

Thiruvananthapuram - HPI@Market Prices for Under Construction Properties



Source: National Housing Bank, Data as on 13th February 2020

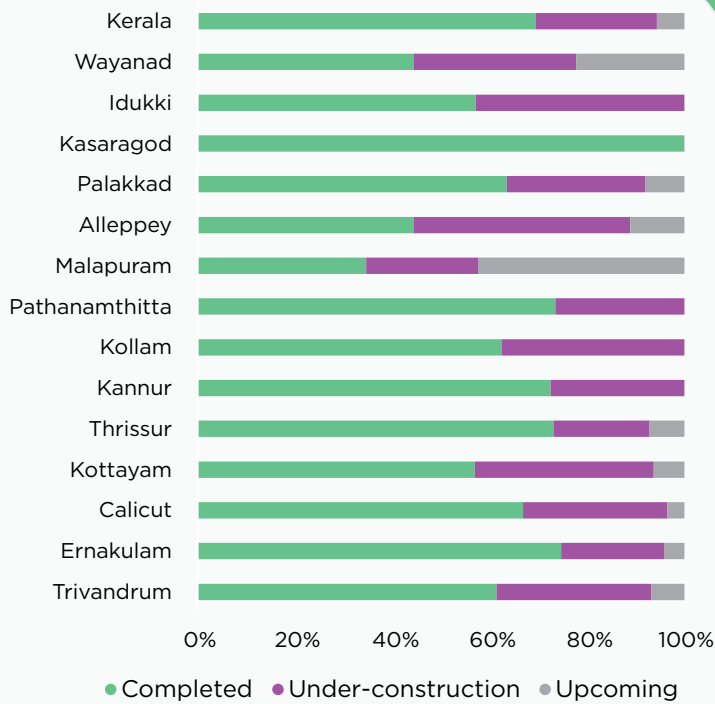
Kochi and Thiruvananthapuram are the prominent cities of Kerala which witness majority of the real estate developments. Kochi witnessed an increase in prices for properties in the size range of 60-100 sq. mtr owing to higher demand in this size range. Residential assets in these size ranges feature under central government’s subsidy schemes

to promote affordable housing through tax incentives and interest subventions.

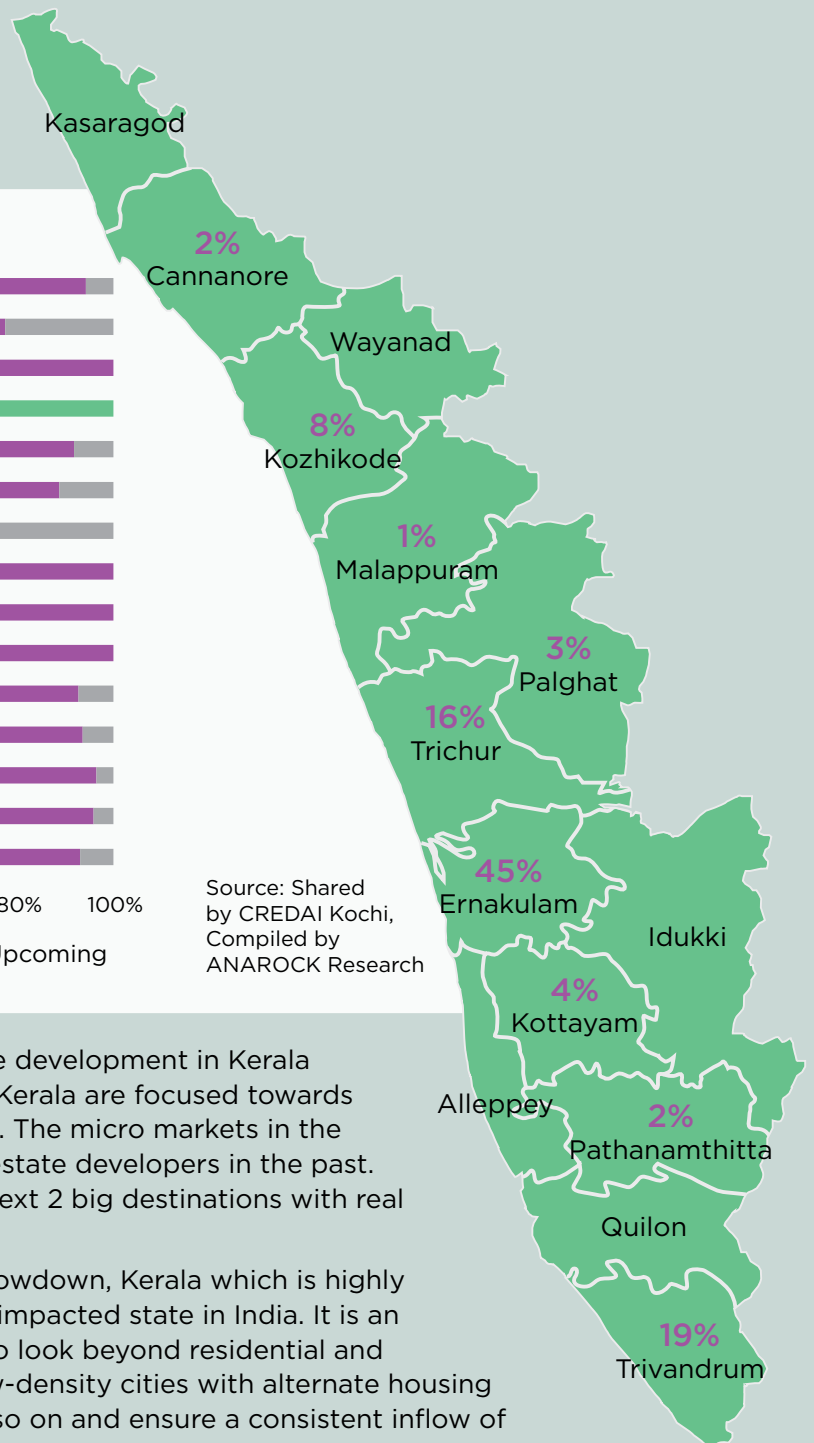
The prices of residential asset went downhill post floods in 2018. While the prices were quick to recover in certain segments in both the cities, Thiruvananthapuram recorded stable prices for the past one year.

Real Estate Projects Scenario in Kerala

Status of Real Estate Projects



Source: Shared by CREDAI Kochi, Compiled by ANAROCK Research



Kochi district is the epicenter for real estate development in Kerala state. Nearly 45% of the overall projects in Kerala are focused towards Kochi, being the economic hub of the state. The micro markets in the city have seen majority of traction by real estate developers in the past. Thiruvananthapuram and Thrissur are the next 2 big destinations with real estate activities in the state.

Currently, as the global economy faces a slowdown, Kerala which is highly dependent on NRI remittances is the most impacted state in India. It is an opportunity for the developer’s fraternity to look beyond residential and commercial real estate and develop the low-density cities with alternate housing class such as vacation/holiday homes and so on and ensure a consistent inflow of funds and beat the slowdown.

Map not to scale. For representation purpose only.

Stamp duty charges on Real Estate Industry

STATE	DESCRIPTION	STAMP DUTY ON SALE DEED (%)	REGISTRATION CHARGES (%)	TRANSFER FEE (%)
Andhra Pradesh	Agreement of sale	5.0%	0.5%	1.5%
Telangana	Apartments/Flats including semi-finished in all areas	4.0%	0.5%	1.5%
Tamil Nadu	Conveyance (Sale)	7.0%	1.0%	-
Kerala	Sale deed (property situated within the areas of Municipalities/Townships/Cantonments/Panchayath)	8.0%	2.0%	-
Karnataka	Agreement of sale of immovable property (Possession given/agree to be given)	5.6%	1.0%	-
Maharashtra	Sale deed	4.0% - 6.5%	1% or INR 30,000 (whichever is less)	-

Note: The data is compiled from official websites of the states; Extracted on 26th Feb 2020.
Source: Compiled by ANAROCK Research

Kerala has around 10% of the stamp duty and registration charges on the sale of the property which is higher than majority of the states in India. Neighbouring states such as Andhra Pradesh, Telangana and

Karnataka have the charges in the range of 6% to 7% only. A competitive stamp duty and registration charges by the government of Kerala is likely to provide impetus to the real estate sector.

Initiatives taken by Kerala Government to promote Real Estate in the state

Kerala government's initiatives to promote commercial and residential developments across the state are expected to create a roadmap for the growth of the sector. A few of these steps are listed below:

- **Pradhan Mantri Awas Yojana (PMAY) –** The state is expected to get the benefit of central government scheme to promote affordable housing. That's because the state has 40% unskilled workforce which can participate in the growth of the affordable housing sector.
- **Smart City Mission –** Kochi and Thiruvananthapuram have been selected to be developed as smart cities under the Smart City Mission of the central government. These cities are expected to see increased real estate activities in the future.
- **Conversion of government's prime land parcels into freehold –** Smart City Kochi, a joint venture company of the Kerala

Govt. and Dubai Holding, has decided to convert around 30 acres of land into freehold to unlock potential for prime real estate developments in the city.

- **Kerala Industrial & Commercial Policy 2018 –** The launch of the policy is expected to promote industrial developments across the state.
- **Diaspora investment company –** The government has planned to set up a diaspora investment company with a 74% stake of non-resident Keralites and a 26% government stake to fund infrastructure projects and NRI townships in the state.
- **Real Estate Regulatory Authority –** The recent notification of the real estate authority in the state was a step in the right direction. It is expected to usher transparency in the sector which is necessary to lure the NRI investments.

Kerala was amongst the last states to notify RERA which impacted the real estate developments adversely. Neighbouring states such as Karnataka, Telangana and Tamil Nadu

have an early movers' advantage. Kerala has had to accelerate the RERA implementation process to restore the faith of buyers into the sector.

RERA Implementation Report Card

STATE	GENERAL RULES	ESTABLISHMENT OF REGULATORY AUTHORITY	ESTABLISHMENT OF APPELLATE TRIBUNAL	WEB PORTAL	REGISTERED PROJECTS
Kerala	Notified	Permanent	Not Established	Setup	05
Maharashtra	Notified	Permanent	Permanent	Setup	24,264
Telangana	Notified	Interim	Interim	Setup	1,634
Karnataka	Notified	Permanent	Permanent	Setup	3,253
Tamil Nadu	Notified	Permanent	Permanent	Setup	1,395

Source: Ministry of Housing and Urban Affairs; Data as on 8th February 2020

The contribution of NRIs to the economy of Kerala is remarkable which can be utilized for the development of the real estate sector. With the growing IT sector and physical infrastructure, the real estate sector has the potential to attract NRI investments. Special schemes for NRIs and marketing campaigns in other countries can also help to raise NRI investments in the sector.



KERALA REAL ESTATE SECTOR SWOT

Strengths

- Established permanent RERA authority.
- Established tech parks offering quality space for the IT-ITeS industry.
- Well established tourism real estate (RE) in the state attracting multiple branded hotel chains to set up base in the state.
- Presence of Prominent Educational Institutions in the state.
- Low debt exposure of the developers improving the financial credibility.

Weaknesses

- Limited presence of branded national level developers in Kerala across the residential and commercial asset class.
- Locally focused developers. Lack of multi-city/state presence of the developer's fraternity.
- One of the last states in India to notify RERA. Only 5 projects registered so far.
- High stamp duty and registration charges. Cumulative charges at nearly 10% of the overall sale deed.
- Stamp duty and registration charge the same across urban and rural areas.
- Unavailability of labour in the state.
- Highest wages for unskilled labour in the state.
- High migration rate in Kerala and high dependence on NRI remittances.
- Slow adoption of advanced construction technology by the developer's fraternity.
- High land cost due to absence of urban and rural divide.
- Lesser floating population from other states.
- Inadequate basic facilities like water and sewerage treatment.
- Government restricted the conversion of wetlands by introducing the new Conversion of Wetland and Paddy Land Act in 2008.

Opportunities

- Change in CRZ rules to unlock options for new developments for hospitality and other core asset classes of real estate.
- Demographics and high presence of educational institutions to provide an opportunity for alternate asset class development such as Student Housing and Senior Living.
- Using modern construction technology to significantly bring down the construction cost

Threats

- Natural calamities act as a threat to the real estate sector in Kerala.
- Sudden change in the coastal rules acts as a major hindrance to RE developments in the state.
- Gulf crisis continues to haunt Kerala's economy.

FUTURE POSSIBILITIES

New-age construction technologies: changing the way you build

Construction technology collectively refers to the deployment of innovative tools, machinery, technology, and manpower used during the construction phase of any project. New-age construction technologies enable strength, precision, quality, and timeliness in the project execution. Today, several semi-automated and automated construction equipment are being used to increase the pace of construction period without compromising on quality and safety. Through multiple research's conducted by various agencies, the usage of construction technologies have resulted in achieving the below results:

- the adoption of proven technology can improve construction industry productivity by 30-45%, as well as improve material predictability and reliability.
- Even though the construction industry has not kept pace with the automation advancements that other industries adopted, automation has proven to be extremely effective in the reduction of cost and timelines without hampering the quality, safety and product.
- Electronic simulation has proven to be a very successful application for the industry improving constructability, maintainability, operability, quality, and safety while reducing cost and schedule of the overall structure.
- Other technologies adopted by the industry, such as Radio Frequency Identification (RFI), wireless and advanced building technologies have all provided industry benefits such as better quality, high productivity, enhanced reliability, less rework and improved inventory management.

For e.g.: RFID technology has multiple applications in the construction industry: Starting from Project management, Equipment and Tool management, Inventory management, Workforce management, etc. With effective planning and use the cost of development can be significantly reduced.

While the construction technologies have started to show beneficial results across the globe, adaptation of construction technology in India and especially Kerala is very low. In India, the usage of advanced construction technologies is limited to using 'Mivan' and other types of formworks.

In 2019, Kerala state government decided:

- To replace the conventional method of construction with prefabricated structures.
- Dependence on mining will reduce significantly with the replacement of construction method.
- The idea is to create and nurture an ecosystem to increase the speed of construction for all projects in Kerala

Considering that the state is hit by floods frequently and the redevelopment cost of the flood-affected areas is on a rise, this move is expected to effectively manage the redevelopment and also be cost-effective.

To change the mindset of developers still utilizing the brick and mortar construction technique, the state is unleashing a massive campaign for familiarizing and popularizing alternative building techniques that use fewer natural resources but provide more safety and comfort at an affordable cost.

However, construction and developer fraternity are still highly dependent on old construction techniques. Even though the use of clay bricks has reduced significantly over the last few years, but the usage of advanced techniques such as prefabrication is yet to be adopted by most of the developers in Kerala.

The pre-fabrication technology that can be widely adopted across various budget segment projects. But the maximum benefit can come for affordable (< INR 40 lakh) and mid-end budget segment (INR 40 lakh - INR 80 lakh) houses constructed with this technique. As the buyers for these budget segments are very price-sensitive, the usage of this technology can bring down the cost of projects by 20%+ and save around 50-

60% time of development as per industry estimates. The advantage of the technology is that every developer can outsource the prefabricated panels and save on setting up the technology inhouse.

Other budget segments can focus on pre-casting which will provide benefits up to the scale of 30-40%. Since, the initial setup cost of the pre-cast facility is high, the advantage of using such technology can be availed easily in large scale projects.

However, the developers are looking forward to the government to promote such techniques by offering incentives, as the adoption of these technologies in the initial phase is a little costly compared to the conventional methods. But, the usage of the same will not only help the business profiles but also the bottom-line of the profit & loss statement of them can significantly improve by self-adapting such techniques.

In Kerala, the adoption of construction technology is yet restricted to the usage of different building materials only, but across the globe, many new construction technologies are adopted to improve the

overall efficiency of the development. These include:

- 3D Volumetric Construction
- Precast Flat Panel Modules
- Tunnel Formwork System
- Flat Slabbing Technology
- Pre-cast Foundation Technique
- Hybrid Concrete Building Technique
- Thin Joint Masonry Technique
- Insulating Concrete Formwork (ICF) Technique

The expenditure on research and development (R&D) of newer construction technologies across the world is on a rise. As with the rising population, the need for new infrastructure and real estate developments is increasing rapidly. However, the R&D expenditure in India is only limited to premier institutes and the usage of new technologies is also limited to mega construction companies. With increased focus on R&D within India, we may be able to control the cost of adopting new technologies and its usage might increase.

Alternatives: An Untapped Opportunity for Kerala

The real estate sector in India has been facing a slowdown for the past 5-6 years, and specifically, the residential segment is still struggling to pick up pace. The sector is dealing with a liquidity crisis, non-serviceability of debt, low demand, slow capital value growth and several other issues. The time has come for the developer fraternity to think beyond the core established asset classes and increase their participation in the development of alternative asset classes.

While several alternative asset classes such as coworking, co-living, student housing, senior living and a few others have emerged in India, not all can be easily adopted in Kerala considering the current state of the affairs and overall cultural background.

Currently in Kerala there has seen immense development of commercial and residential assets for the limited demand the state has housing and office spaces. The government of Kerala has already been working on setting up a start-up park to support entrepreneurs. Nearly 1.8 lakh sq. ft. of the park has opened recently at Kochi. With start-ups being the major occupiers of coworking spaces, and with the government creating space for them to operate in the state, exploring the coworking asset class for the developers in Kerala may not be very fruitful.

On the other hand, key asset classes that the developers in Kerala can consider exploring include:



Senior Living



Student Housing

Senior Living

India in the 21st century has a large population of senior citizens who are financially capable but are living alone and away from their family and children. These senior citizens also aspire for community living amidst modern amenities and an amicable environment that provides physical and medical support.

The concept of senior living in India has gained momentum since the turn of the century. Earlier the ingrained social norm was that it is the moral obligation of children to assume the responsibility of the ageing

parent. Old age homes were perceived as the last resort for older people as it came with the social stigma for the family.

Old age homes in earlier days run by charitable institutions provided shelter care to their inhabitants. Today the concept, assets and infrastructure have transformed significantly. Senior living properties today offer a unique mix of real estate, hospitality and healthcare. With rising life expectancy and higher disposable incomes, the concept of senior living has changed rapidly.

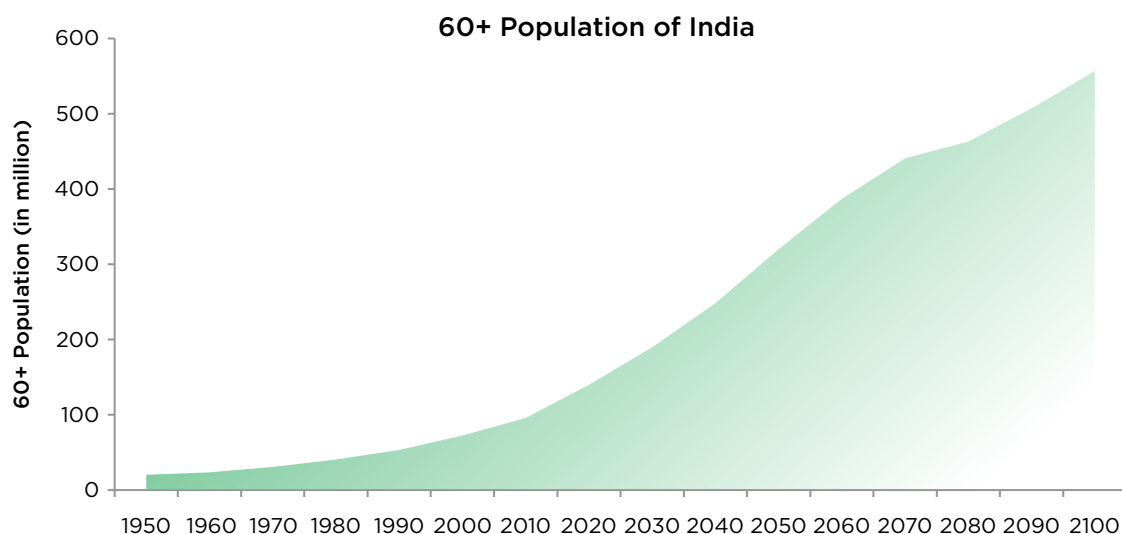
Ageing World Population and Improving Life Expectancy Driving Demand

The world's population is ageing. In almost every country, the population of people older than 60 years is seen to be growing continually. As populations grow older, it is

important to design and innovate policies and amenities specifically targeted towards the older generation.

Rising life expectancy

- According to a study by the United Nations, the global population aged over 60 years more than doubled from 382 million in 1980 to 962 million in 2017. It is projected to reach 2.1 billion by 2050.
- Globally, the number of persons aged above 80 years is projected to rise more than three times from 137 million in 2017 to 425 million in 2050.
- The overall life expectancy in India has improved significantly from 41.4 years in 1960 to 62.5 years in 2000. Improved healthcare systems and precautionary measures adopted have improved life expectancy to 68.8 years in 2018
- In India, the population aged above 60 years has already breached the 100 million mark and is expected to be over 500 million by the end of this century.



Note: Future periods are forecasted based on the current population age group of India

Source: United Nation, Department of Economics and Social Affairs

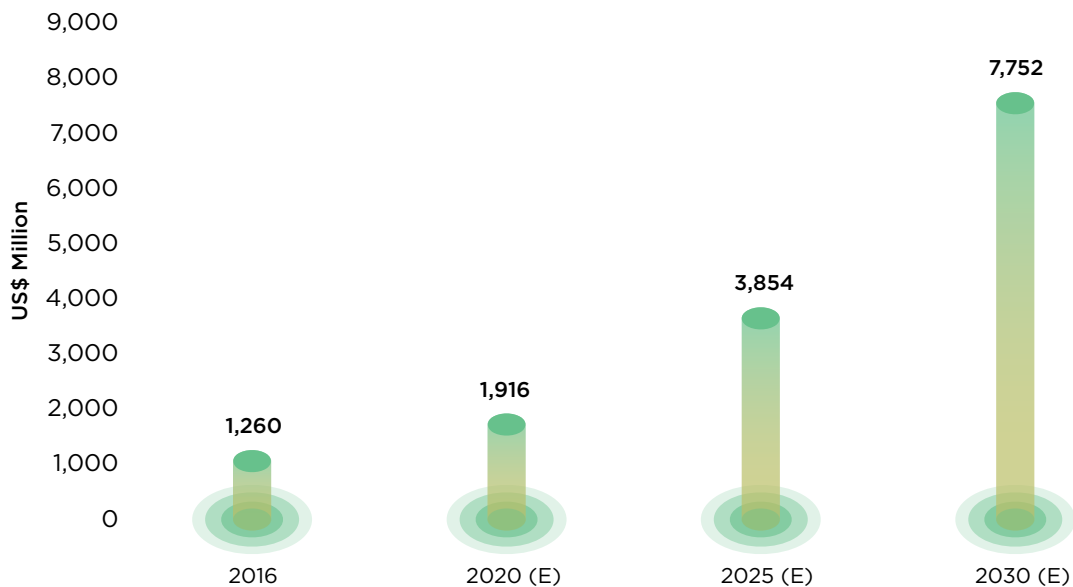
Nascent Segment with High Growth Potential

Post the turn of the 21st century there has been an increasing awareness about the lives and rights of senior citizens in the country. Much of it was warranted due to the transformation of the social practices and trends such as the nuclear families gaining prominence and migration of younger generations to metros or other countries in search of livelihood.

The enactment of Maintenance and Welfare of Parents and Senior Citizens Act in 2007 mandated children to take care of their

parents in old age and the state governments to establish old age homes. As per industry estimates, the size of the senior living industry was estimated to be US\$ 1.26 billion in 2016 and is likely to grow to US\$ 7.7 billion in 2030. It is estimated to grow at a compounded rate of nearly 14% per annum during the period.

Market Size of Senior Living Segment -India



Source: PHD Research Bureau, Survey of the senior housing sector in India, 2016-17

Industry estimates indicate that over 53% of the senior living projects are in the southern cities followed by western and northern regions accounting for 25% and 22% respectively. Bengaluru, Chennai, Hyderabad, Coimbatore, Mysore, and Puducherry are the key cities in the southern region that have emerged as their preference for post-retirement destinations. The key reasons for these cities to emerge as a retirement friendly destination are climate, environment and their connectivity with other parts of the country.

Since senior living is most prominent in South India due to the nature of the cities, and Kerala is currently untapped by this alternate class. Kerala as a state due to its climate and pollution-free environment coupled with dense forests, beaches and mountains can have better scope to develop such projects. As senior citizens would highly prefer a tropical climate, the state can offer the same across various districts.



Student Housing

As the education landscape evolves in India, the country has witnessed a significant revolution in terms of the growing number of students. Currently, the country has over 37 million students²⁰ enrolled in higher education²¹, which is more than double the size of student housing markets in the West. The government also expects to attract

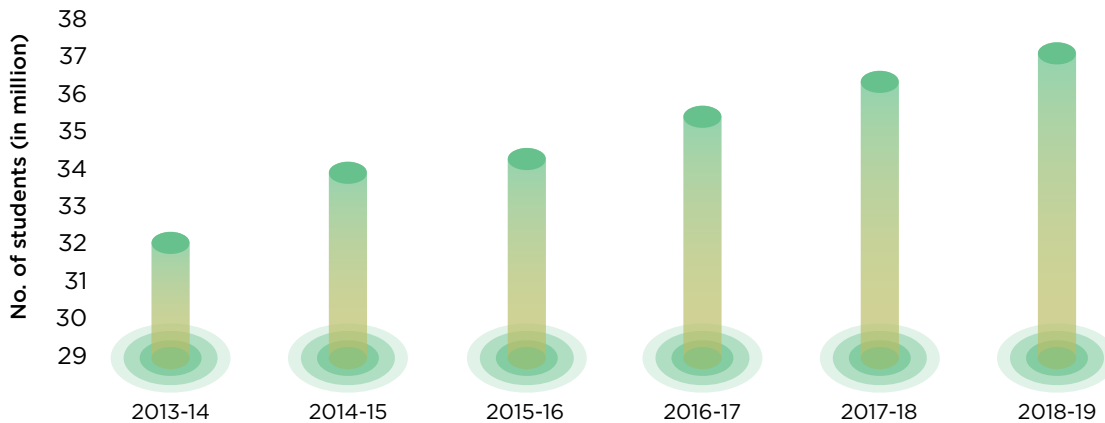
200,000 international students²² to India, more than four times the current number. Kerala in India with many reputed institutes spread across multiple specialties can reap the maximum benefit from the move of central government if it enacts on it at the right time.

The Growth Story of Higher Education in India

Every year, lakhs of students (Indian and international) migrate to various cities of India in pursuit of better educational opportunities. Among many other challenges, finding decent accommodation is the biggest concern for this migrant student population. Before we delve further, let's look at some statistics.

At present, India has more than 37 million students²³ enrolled in universities across the country. From 32.3 million in 2013-14, this number has increased to 37.4 million in 2018-19, an evident rise of 15.7%. Considering that 19% of India's total population is aged between 15 and 24, these numbers are only expected to grow²⁴.

Growth in Student Enrolments



Source: AISHE (All India Survey on Higher Education) 2018-19

Kerala contributing nearly 10% nurses graduating as of 2010 as per International Mobility of Nurses from Kerala (India) to EU report by CARIM India and around 14 universities which has multiple institutes associated with them. The potential of student housing development in the state is immense. Apart from nursing, the state also has prominent institutes like IIM in its Kozhikode district. Additionally, international students

form an important demand generator for purpose-built student accommodation; considering they are unfamiliar with the local market and the language. In 2019-20 Budget speech, Finance Minister Nirmala Sitharaman announced several measures to strengthen the 'Study in India' campaign launched in 2018. The campaign focuses on bringing international students to India for premier education at affordable rates.

²⁰AISHE (All India Survey on Higher Education) 2018-19, Ministry of Human Resource Development

²¹According to All India Survey on Higher Education, higher education is defined as the education, which is obtained after completing 12 years of schooling or equivalent and is of the duration of at least nine months (full time) or after completing 10 years of schooling and is of the duration of at least 3 years.

²²Industry estimates

²³AISHE (All India Survey on Higher Education) 2018-19, Ministry of Human Resource Development

²⁴http://mospi.nic.in/sites/default/files/publication_reports/Youth_in_India-2017.pdf



The Growing Need for Student Housing

With the growing enrolment rate, the need for student housing has become all the more significant in the present times. While the majority of students prefer on-campus accommodation, limited availability and sub-standard living conditions compel them to look outside their college/university.

Currently, for over 37 million students, there are just over 6.54 million hostel beds, which is merely a little over 17.4%. Besides these,

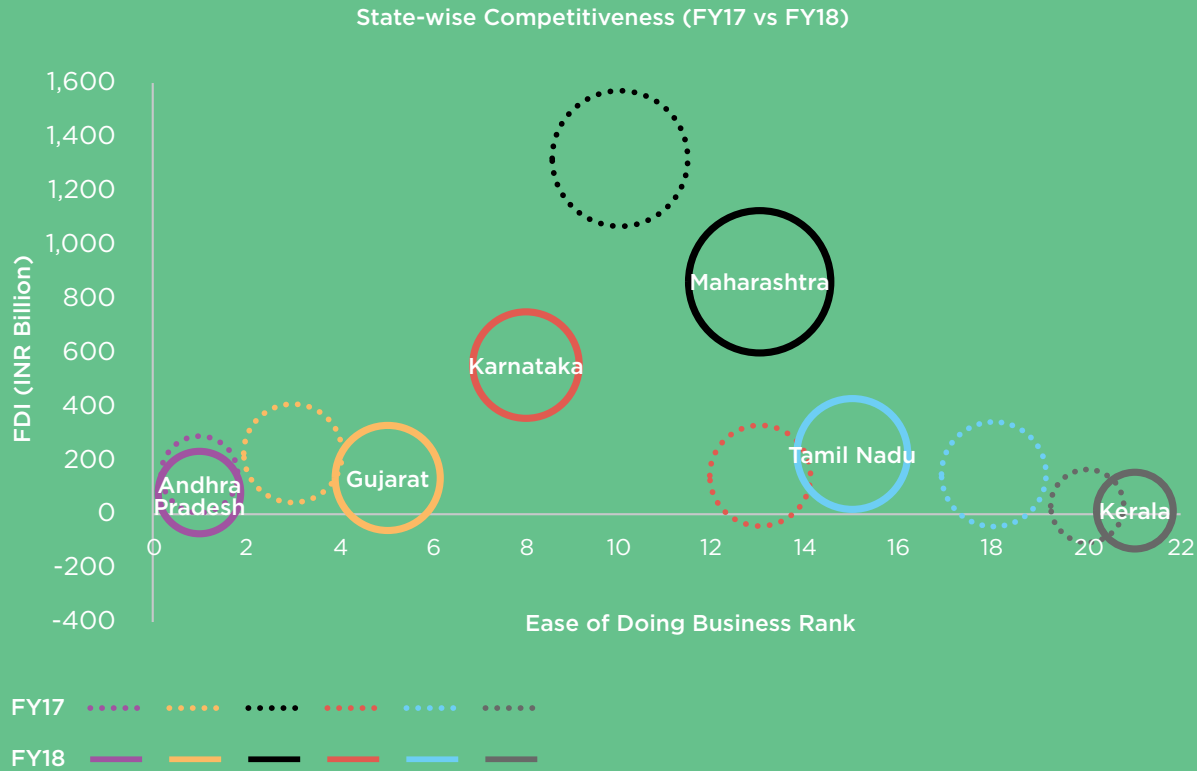
many students also migrate to bigger cities to prepare for a variety of competitive exams, for which there is no substantial data, but this segment surely spikes up the requirement for more beds.

As the economic development gets underway, there will be a demand for new and traditional real estate assets across the states. The need will be more pronounced in areas where commercial and economic activities are initiated. While these will create a demand for traditional real estate assets such as commercial, retail and residential, industrialization will open up avenues for warehousing and logistics.

The aging population and the rising student enrolments within the state are capable of unleashing the potential of several alternate real estate assets such as senior living and student housing.

5

Key recommendations



Source: Reserve Bank of India, Department for Promotion of Industry and Internal Trade

Notes: Size of the bubble represents GSDP at current prices in INR billion

X-axis represents the Ease of Doing Business Rank for 2016 and 2017

Y-axis represents FDI in INR billion

Kerala - FDI data for Kerala and Lakshadweep

Maharashtra - FDI data for Maharashtra, Dadra & Nagar Haveli, Daman & Diu

Tamil Nadu - FDI data for Tamil Nadu and Pondicherry

FOREIGN DIRECT INVESTMENT (FDI) AND EASE OF DOING BUSINESS (EoDB)

FDI and EoDB Rank have a strong positive correlation. Improvement in EoDB has resulted in higher FDI inflows and vice versa. The size of the bubble represents GSDP of the state and is used only to depict the size of the economy.

In 2017, Maharashtra's rank moved to 13th compared to 10th in the previous year. During

the same period, FDI inflows into the state also reduced by 35%. Karnataka stands out to be a winner which improved its EoDB rank to 8th from 13th in the above period. FDI inflows were seen to rise during the time by 287%.

Kerala's rank moved down by one position in 2017 compared to the previous year. FDI inflows declined by 56% in the same period.

GROSS STATE DOMESTIC PRODUCT (GSPD)

Improved EoDB rank and increased FDI inflows are likely to work as a catalyst for the growth of the GSDP. Meanwhile, Maharashtra has the highest GSDP amongst the comparable states considered for the analysis. It stands at INR 24,116 billion in 2017-18

which has increased by 10% compared to the previous year. Karnataka's GSDP in 2017-18 increased by 12% to INR 13,503 billion. Kerala's GSDP has also increased by 10% to INR 7,005 billion in the same period.

TOP 8 RECOMMENDATIONS FOR IMMEDIATE TO MEDIUM TERM IMPACT ON KERALA'S ECONOMY

RECOMMENDATION		IMPACT
Focus on Real Estate sector	Push real estate developments	Development of real estate sector beyond residential will help in promoting entrepreneurship in the state as well. With lower land costs compared to its southern counterparts coupled with tourism from across the globe, Kerala may become the hub for many corporates and brands in India.
	Adoption of construction technologies	Adopting advanced construction technologies in the real estate sector will help increase the development speed and at the same time lower the cost of development. The benefits can slowly be passed to the buyers by lowering the average capital values and boost sales
	Focus on alternative real estate developments	Kerala is known to be 'God's Own Country' due to its serene environment. The state needs to focus on developing alternate real estate assets such as student housing and senior living. The focus should also be to develop the warehousing and logistics industry in Kerala as the state enjoys a key position on the Suez route. With the central government's focus on enhancing the warehousing and logistics industry, Kerala can reap benefits from it due to its strategic position and number of ports.
	Marketing Kerala's real estate beyond the state's border	Kerala's existing real estate can be promoted through various channels across the domestic and global markets through road shows and events. With concepts like homestays kicking in and high tourism inflow to the state, the sector may witness increase in sales.
	Implementation of RERA act	RERA implementation in the state has been a key issue for many buyers. The central government's aim is to increase transparency and increase buyer's confidence in the sector. While Kerala has been one of the last states to notify the act, if the implementation is done in a fast-paced manner, the buyer sentiment will improve significantly
Focus on employment generation		The state with the highest literacy rates has the highest emigration rate as well in India. Majority of the emigration happening from Kerala is outside the Indian borders. If the government focuses on creating employment opportunities within the state, the migrations will be reduced, and the per capita income of the state also is likely to improve significantly
Increase dependence on domestic income		NRI bank deposits have increased from 23% in the year 2011 to 38% in the year 2018. As migration rate in Kerala is high, the remittances in Kerala are increasing. With the government improving the employment scenario of the state, the share of domestic bank deposits might exceed the NRI deposits and the dependence on NRI remittances for Kerala's economy might reduce.
Promote Ayurvedic medical tourism		Kerala being rich in AYUSH medicine should promote alternate medicine in India and across the globe. With only 5-7% medical tourists in Kerala, promotion of AYUSH medicine will help Kerala increase its medical tourism share.
Host Kerala promotion events		Proposal to create an economic summit in Kerala, on the lines of Vibrant Gujarat Global Summit, to promote the state's economy. Such events help the state in raising FDI and also promote the tourism and hospitality industry.
Promote IT-ITeS		IT-ITeS industry is the backbone of South India's economy. Replicating the same model in Kerala will help boost the consumption power of its residents. This can act as a booster to the state's economy.
Promote Industrial Development		Encourage new industries to be set up in the state. The industrial policy creates a conducive environment for new ventures that will favourably impact the economy.
Enabling Start-up environment		Allow small and new entrepreneurs to develop their ideas and interests which will help in generating employment

These 8 recommendations will provide immediate to medium term impact on Kerala's economy. But for the state to flourish and continue to grow at a faster rate, the below mentioned recommendations should be implemented for long-term sustainable growth:

- Fastrack the establishment of diaspora investment company to fund infrastructure projects and NRI townships in the state.
- Focused research reports to showcase the state as a senior living destination.
- Dedicated committee/department to guide NRIs for their investments and returns.
- A portal to connect entrepreneurs, investors, mentors, industry players and academic institutions and foster knowledge exchange
- Development of sector hubs within the cities for the establishment of start-ups
- Conduct seminars to facilitate the communication between start-ups, investors and government departments
- Programs to update the skillsets of workforce
- Focus on increasing private equity investments in the state to flourish the growth of start-ups
- The budget allocation for the start-ups should be increased and stamp duty for starting a company should be reduced to attract companies.
- A big push is required from the government to create private employment as well to increase the income levels in the state.
- While there are over 50 media colleges in the state, there are not enough career opportunities in the field. The government should also focus on creating a hub for media and advertising companies to create job opportunities for media and journalism students.



CREDAI Profile

Confederation of Real Estate Developers' Associations of India (CREDAI) was established in 1999 with a mandate to pursue the cause of housing and habitat providers. It has grown its membership base since then and has more than 20,000 members today spread across 21 states and 220 city chapters.

On the advocacy side, CREDAI is today the preferred platform for National discourse on Housing and Habitat.

CREDAI is a knowledge-sharing network about the latest industry data, technology advancements and industry benchmarks for its members. CREDAI Conclave and CREDAI National Convention are both annual events held over two days each which showcase the latest technological, managerial and financial innovations in the real estate sector presented by leading authorities. These events draw close to 1000 developers, policy influencers and media persons and thus generate rich dialogues.

CREDAI continues to make a conscious effort in bringing Mission Transparency and to protect the interest of buyers. It is in this interest, CREDAI has established a Consumer Grievance Redressal Forum in October 2012, where an aggrieved buyer can register a complaint against CREDAI member developer. By translating investor interest protection into a mechanism, the apex body of real estate developers seeks to resolve consumer complaints expeditiously and promote bestselling practice amongst the developer fraternity. The forum in NCR alone has successfully resolved 3404 cases out of 3529 complaints registered (as in June 2019), with a success rate of 90% Customer Satisfaction. This is the first of its kind initiative, to align the faith of consumers with the member builders, to take up the case of grievances and implement self-regulation of the industry in terms of standards of delivery vis a vis commitment among present / prospective buyers, the government and the media.

CREDAI Youth Wing nurtures the next generation of CREDAI leadership by inculcating a social and ethical commitment. They are encouraged to participate in CSR activities of CREDAI towards this end.

CREDAI Women's Wing encourages women professionals and entrepreneurs in the real estate sector.

CREDAI helps industries associated with the real estate to enlarge their presence and visibility through the Preferred Partnership Program.

CREDAI has imprinted the critical importance of real estate to the GDP of India on the minds of the government, policy makers and general public and has become the backbone of the Real Estate Industry.



CREDAI *Kerala*

CREDAI Kerala has affiliated Chapters at Thiruvananthapuram, Kochi, Thrissur, Palakkad, and Kozhikode with about 170 Developers as members across the state. CREDAI Kerala, under the guidance and support of CREDAI National, has formulated guidelines and policies, and an ethical “Code of Conduct” for its members. CREDAI Kerala imbibes the national standards and values of CREDAI and works towards a more forward-looking and progressive Real Estate Industry in the state bringing in growth and betterment to both the members and their customers. CREDAI has launched MISSION TRANSPARENCY with the intent to inculcate “Transparent practices in business” by its members. CREDAI Kerala has also initiated the “Consumer Grievance Redressal Forum” in all the Chapters to address customer complaints.

CREDAI Kerala is also actively involved in CSR activities through its NGO “CREDAI Clean City Movement” in solving solid waste management issues in high rise apartments and is listed as the successful decentralized operational system by the Ministry of Housing & Urban Development Govt. of India. CCCM is the approved service provider to Suchitwa Mission, Govt. of Kerala. CREDAI has won several awards and accolades from the Govt. of Kerala and other social organizations for the commendable work put in this field.



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