

"The India Connection"

Why it is important for your Company to do business with India

This article examines the reasons why India is playing a key role in the strategies of most forward thinking international companies. Whether your company is looking to market its products/ services, looking to hire good quality talent, source materials, technology and project management expertise, carry out manufacturing operations or make a financial investment, India is a market that you can ill afford to ignore. This article deals with facts that make India an attractive destination and why the country will continue to remain attractive in the next decade.

India's GDP on a Purchasing Power Parity basis is estimated at \$4.726 trillion (January 2008) which makes it the 4th largest economy in the world. With a middle class population is that more than the population of the EU and with an average annual economic growth rate in excess of 8.5% for the last four years, India is one of the most attractive destinations for most international companies today. Its not just the large Transnational Companies but

SMEs who are also beginning to take a close look at India. One has to only take a look at the packed flights to India, overfull hotels (even at exorbitant rates!) and the number of foreign delegations coming into India, to assess the all time high interest levels in India. This interest in India is not an accident but a result of several factors.

Figure 1.1 Why India?

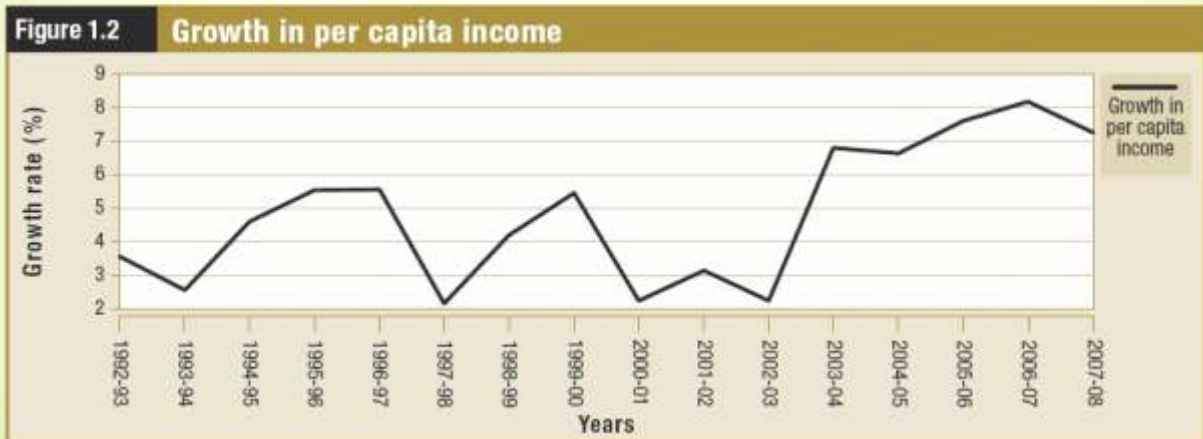
- ♦ Progressive movement towards delicensing and deregulation.
- ♦ India is the world's largest democracy.
- ♦ Consistently high economic growth rate for the last 5 years
- ♦ Large pool of young skilled labour force, cost effective production facilities, large domestic market.
- ♦ Capacity upgradation in infrastructure, industrial base and intellectual capital.
- ♦ Progressive tax reforms
- ♦ Progressive opening of the economy to FDI
- ♦ Portfolio investment regime liberalized
- ♦ Liberal policy on technology

collaboration

- ♦ Economic and political stability
- ♦ Established judicial system

India : The marketing destination

Consumer markets are undergoing a metamorphosis at an unprecedented rate on account of increased purchasing power, shifts in the buying behaviour, demography dynamics, growing urbanisation, opening up of the retail segment to private and foreign players and changing trends/lifestyle. The key factor has been rise in per capita income. Income grew by 3.1 per cent during the 12-year period, 1980-81 to 1991-92. It accelerated marginally to 3.7 per cent per annum during the next 11 years, 1992-93 to 2002-03. Since then there has been a sharp acceleration in the growth of per capita income, almost doubling to an average of 7.2 per cent per annum (2003-04 to 2007-08). This rate is sustainable going forward. This means that average income would now double in a decade, well within one generation, instead of after a generation (two decades).



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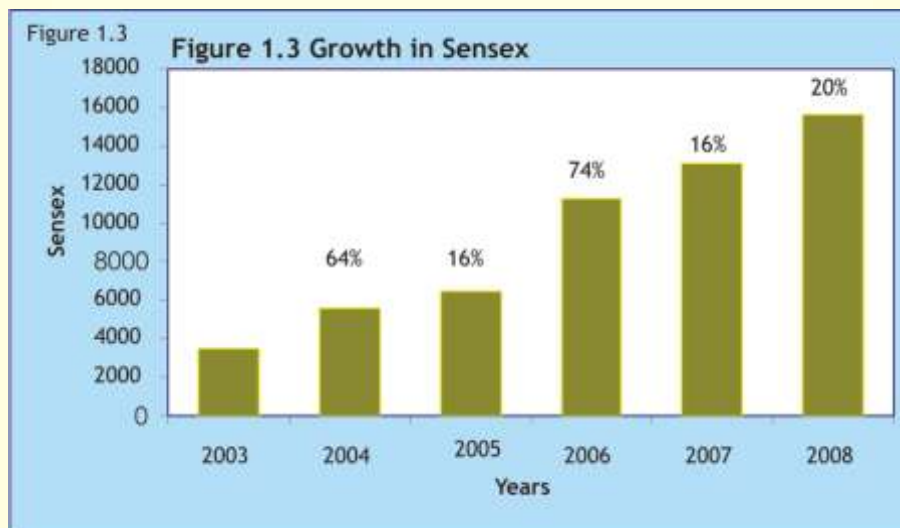
Another interesting statistic is that Indians are probably the youngest country in the world with a staggering 60% of the population below the age of 25. The implication over the next 20-25 years when this segment of the population will be economically active is clear to see to most international marketers. If you are planning to sell your goods/ services to Indian consumers, the macro economic factors certainly point to a favourable environment. India : The investment destination

Successive governments over the last 16 years have demonstrated their committed to maintain the 8 plus growth rate and provide a conducive policy environment to private businesses. Foreign Direct

Investment (FDI) is allowed in almost all sectors barring a few sensitive areas such as defence. Further, FDI is allowed in most of the sectors under the automatic route with only an intimation to the RBI and/ or nodal sectoral authority. Few cases which do not fall within the automatic route are referred to the Foreign Investment Promotion Board. FDI equity inflows in 2006-2007 (including reinvested earnings) were US\$19.5 billion as compared to US\$7.7 billion in 2005-06 (source: UNCTAD World Investment Report 2007). This is a growth of 153%. There is no doubt that the FI numbers for 2007-2008 will be higher than the previous year. The 10 sectors attracting highest FDI into India are: electrical equipments (including computer

software & electronics); services sector (financial & non-financial); telecommunications (radio paging, cellular mobile, basic telephone services); transportation industry; fuels (power plus oil refinery); chemicals (other than fertilisers); construction activities; drugs & pharmaceuticals; food processing industries and Housing and Real Estate. The 10 top investing countries are: Mauritius, USA, UK, Netherlands, Japan, Germany, Singapore, France, South Korea and Switzerland.

It is significant to note that not a single country from the Middle East or Africa figures in the Top 10 indicating the tremendous scope for investments from this region into India in the future.



On the secondary markets front, the BSE index (Sensex) scaled a high of 20,000 towards the end of and NSE Index (Nifty) rose to close about 6100 mark. Both the indices have more than tripled between 2003-07. On a point to point basis, sensex and Nifty indices rose by 47.1 and 54.8 per cent respectively during 2007. The Indonesia (18.43) and Taiwan price to earnings (P/E) ratio was 27(20.14), indicating that Indian in December, 2007 as compared to 21 in the previous year.

The Sensex has since corrected to 17,000 levels in April 2008 with the PE multiple reducing to approximately 22.5. PE multiple of Indian stocks was the highest amongst the select emerging market economies such as South Korea (15.04), Thailand (19.92), Malaysia (16.07), However, considering that initial

quarterly results of Indian companies for the January-March 2008 quarter indicating towards a 25% bottomline growth the current PE multiples and market levels for Indian stocks seems to be justified. With world class trading and settlement systems, fairly high levels of corporate governance and transparency in corporate earnings and good financial results expected to be sustained

in the medium term, Indian markets are still a good place for an international investor to invest.

India : The sourcing destination

India's exports traditionally dominated by gems and jewellery, handicrafts, leather and textiles have in the last decade been charged by increased share of software services, manpower services and technology transfer.

With its large base of English speaking skilled human resource, it is most sought after destination for business process outsourcing, Knowledge processing etc. India boasts of the second largest English-speaking scientific, technical and executive manpower in the world. This coupled with relatively low costs, high competency levels, reliability and ability to work hard have made it popular with TNCs for outsourcing design, programming, technical support and call centre support work to Indians.

There has been an impressive growth in the area of higher education with an increase in annual student enrolment from 7.26 million in 1997-98 to 10.48 million in 2004-05. Enrolment of women students rose from 2.45 million in 1997-98 to 4.04 million in 2004-05, constituting 40.4 per cent of the total enrolment. Number of students passing out from Engineering Colleges was 385,689 in 2007 from India as against 351,537 for China and 277,437 in the USA. There are nearly 113,000 qualified Chartered Accountants from India of which 10,000 are settled abroad. Apart from work being done for TNCs by Indians in India, there are nearly 7.5 million Indians working outside India. India exports software to 95 countries around the world. 82%

of the US companies ranked India as their first choice for software outsourcing. Leading companies worldwide realize that to maintain stay ahead, they need to reduce costs, provide the best quality, use the latest high-tech skills, and be reliable and innovative. India has been a major beneficiary of this trend. Of the 23 software companies in the world that have achieved the prestigious SEI-CMM Level 5, 15 of them are Indian. India has the highest number of ISO-9000 software companies in the world, according to Nasscom.

IT/ ITES sector is a high priority area for the Government. The National IT Task Force submitted its 108 point Action Plan to promote IT in the country. The Government of India has approved the plan and is in the process of implementing it. A separate Ministry of Information Technology has been set up to expedite swift approval and implementation of IT projects and to streamline the regulatory process. The Information Technology Bill that was passed in the Indian Parliament in May 2000, has now been notified as the IT Act 2000. The IT Bill brings E-commerce within the purview of law and accords stringent punishments to "cyber criminals". With this, India joins a select group of 12 nations that have cyber laws. Software Technology Parks of India offer world-class infrastructure and various incentives and concessions to encourage foreign investment and promote software development in India.

Figure 1.4 India Climbs 12 spots in the latest World Bank Doing Business Study

Each year, the World Bank conducts a study on Doing Business, which compares measures regulations impacting 10 stages of a business' life.

This years study which compared 178 countries saw India being ranked at 120, up 12 places from 132 from the Doing Business 2007 Report.

India made significant progress in areas of 'Getting Credit' which was ranked at 36 in 2008 as against 62 in 2007 and 'Trading Across Borders' at 79 (142 in 2007). In areas of 'Starting a Business' (111), 'Dealing with Licenses' (134), 'Employing Workers' (85), 'Registering Property' (112), 'Protecting Investors' (33) and 'Closing a Business' (137), India's ranking saw a marginal deterioration. 'Paying Taxes' saw deterioration from 158 to 165. 'Enforcing Contracts' ranking remained unchanged at 177. The rankings showcase India's progress in modernizing its financial sector and in dismantling trade barriers but also highlight continuing problems with relatively complex tax administration and endemic delays in the legal system.

Singapore topped the World Bank Doing Business Study as the easiest place in the world for doing business. India's peers China, Russia and Brazil were ranked 83, 106 and 122 respectively in the Study. More details can be found at <http://www.doingbusiness.org>. The author is Director of WealthTree Partners, a cross border advisory firm which assists companies from the Middle East and Africa region to do business with India. S Venkat can be reached on venkat@wealthtree.in and +91 98211 52537. More details about WealthTree Partners, a member of the Indo Arab Chamber of Commerce and Industry, can be obtained on their website www.wealthtree.in.

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