Capitalizing on the India opportunity
Helping French companies achieve business success in India
Capitalizing on the India opportunity
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In the past decade, bilateral relations between India and France have strengthened considerably, as evidenced by the increasing number of high-level state visits between our two countries. Both France and India are working towards enhancing their economic relations by identifying collaborative opportunities for growth.

During French President Nicolas Sarkozy’s visit to India in January 2008, it was decided that bilateral trade (currently EUR 6.8 billion) will be doubled by 2012. France is now among the top 10 foreign investors in India, with about 1,000 technical and financial collaborations in varying stages of implementation.

At Ernst & Young, we have been closely associated with the rapid evolution of Indo-French business ventures over the last decade.

We believe that the potential is immense. French companies have expressed interest to invest EUR 10 billion during 2007-2012 in diverse sectors.

In the wake of a tenfold increase in the Indian middle class and a threefold growth in household income, consumer spending in the country is likely to quadruple to around EUR 1 trillion by 2025. As a result, opportunities for the manufacturing industry are forecasted to be worth EUR 125 billion in the next five years. Further, the Indian government is targeting an investment of approximately EUR 14 billion over the next two years to establish and upgrade its infrastructure. With their established credentials in different sectors...
such as aerospace, energy, defense, food processing, pharmacy, fashion, design, etc., French companies have tremendous potential. This publication provides an overview of the Indian economy and its 10 most relevant sectors to consider from an Indo-French perspective. We trust these sector snapshots will quickly update you with the current state and sector drivers as well as the position of key foreign players in the market today. In addition, you will find some relevant tips related to investing in India: dealing with the local regulatory environment, conducting successful due diligence or taking cultural differences into account.

I do hope this report will provide you with a rich and fresh perspective on Indo-French business prospects in India. I would also like to thank all our French clients for providing their comments based on their Indian experience.

As always, we welcome your feedback and look forward to interacting with you.

Rajiv Memani
Country Managing Partner
Ernst & Young India Pvt. Ltd.
What India has to offer to foreign investors

Sustaining momentum amid global turmoil

- After years of sustained growth, the global economy is expected to contract by 1.3% during FY09. This has led governments across the world to use monetary policy actions and fiscal stimuli to maintain macroeconomic stability.
- In these times of global slowdown, India has remained on the growth path with an average annual growth of 8.3% in real gross domestic product (GDP) in the last five years.
- The effect of global recession on the Indian economy has been subdued due to the lower share of export sectors (20.2%) in FY08 in domestic production and resilient domestic demand.
- The Indian economy has witnessed a paradigm structural shift after the economic liberalization in 1991. The services sector has increased its share of GDP from 44% in FY91 to almost 57% in FY08.
- The Indian economy has a strong savings culture, which is highlighted by the growth in gross domestic savings at a compound annual growth rate (CAGR) of 22% in the last six years.
- The Indian financial system has remained robust with little exposure to toxic assets. With Reserve Bank of India (RBI) interventions, the benchmark prime lending rate for public sector banks came down to 11.50% in March 2009 from a high of 13.75% in September 2008.
- As on 10 April 2009, India’s foreign exchange reserves are stable at around USD253 billion.

A stable and robust economy during global crisis
- Attractive investment destination: FDI growth/rules
- Favorable demographics, talent pool
**Recent interventions and outlook**

- In the past year, the Indian government and the RBI have taken various measures to maintain liquidity in the financial system and stimulate domestic demand.

- Rationalization of indirect taxes affecting key industries such as automobiles, cement, household appliances, steel and textiles

- Allocation of approximately INR140 billion to develop national highways and rural roads along with authorization of India Infrastructure Finance Company Limited to raise INR100 billion via tax free bonds

- Reduction in repo rate by around 425 basis points since 20 October 2008 along with reduction in reverse repo rate by around 275 basis points since 8 December 2008

- Reduction in cash reserve ratio and statutory liquidity ratio by 400 and 100 basis points, respectively

- The new government has also outlined key action points for its strategy to propel India on to a higher trajectory of growth.

  - Systematic removal of bottlenecks in infrastructure projects, along with expeditious approval for public-private partnership projects awaiting clearances
  
  - Roadmap for listing of public sector undertakings ensuring government equity of at least 51%, which has the potential to raise around USD90 billion

- Stable government and long-term fundamentals such as domestic consumption and investments, place India on a firm ground amid international turmoil.

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**India has become an increasingly attractive destination for foreign investors**

**Foreign investment inflows**

<table>
<thead>
<tr>
<th>Year</th>
<th>USD billion</th>
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</thead>
<tbody>
<tr>
<td>FY01</td>
<td>3</td>
</tr>
<tr>
<td>FY02</td>
<td>6</td>
</tr>
<tr>
<td>FY03</td>
<td>5</td>
</tr>
<tr>
<td>FY04</td>
<td>11</td>
</tr>
<tr>
<td>FY05</td>
<td>6</td>
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<tr>
<td>FY06</td>
<td>6</td>
</tr>
<tr>
<td>FY07</td>
<td>9</td>
</tr>
<tr>
<td>FY08</td>
<td>22</td>
</tr>
<tr>
<td>FY09</td>
<td>29</td>
</tr>
</tbody>
</table>

*FDI*  *Portfolio investments*

Source: Reserve Bank of India, Department of Industrial Policy & Promotion, Centre for Monitoring Indian Economy

**Break-up of foreign direct investment (FDI) by sector (FY09)**

- **Services sector**\(^*\), 31%
- **Telecommunications**, 15%
- **Housing and real estate**, 14%
- **Computer software and hardware**, 9%
- **Construction activities**, 10%
- **Automobile industry**, 6%
- **Power**, 5%
- **Metallurgical industries**, 5%
- **Chemicals**, 3%
- **Petroleum and natural gas**, 2%

*Services includes financial and non financial services*

Source: Department of Industrial Policy & Promotion
Despite the global slowdown, India has achieved FDI inflows of around USD25 billion in FY09. The newly elected government plans to further stimulate FDI into India through appropriate policy changes.

As of February 2009, the Indian government has received 542 investment proposals with proposed investment of around INR1.59 trillion.

India has continued to be the second-most attractive location globally for FDI as per United Nations Conference On Trade and Development (UNCTAD) Survey 2008-2010.

According to a recently conducted survey by the Japan Bank for International Cooperation, India is the most favored destination for long-term Japanese investment.

Over the period 2007-12, India needs investment averaging USD99 billion per annum in 10 major infrastructure segments to support its planned annual growth rate.

Sound fundamentals, government policy initiatives and changing focus of recession-hit companies have the potential to further increase FDI into India.
Favorable demographics, talent pool

India is headed towards a demographic sweet spot

- In the coming years, India is poised to reap a strategic demographic dividend as evident from the current state:
  - Approximately 55% of the population is below 25 years of age.
  - Median age of India is around 24 years.
  - Around 63% of the population falls in the working age group.
  - English speaking population of around 150 million.
- The future outlook is even brighter:
  - Median age is expected to rise to 29 in 2020.
  - By 2020 the working age population is expected to increase to 66%.
  - India’s English speaking population is expected to exceed 300 million to become the largest in the world by 2020.

Percentage break down of India’s population

<table>
<thead>
<tr>
<th>Year</th>
<th>Under 15</th>
<th>15-64</th>
<th>Above 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>32%</td>
<td>63%</td>
<td>5%</td>
</tr>
<tr>
<td>2020</td>
<td>28%</td>
<td>66%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Qualified professionals are on the rise

- Over 2.3 million graduates are added every year in India.
- India produces the highest number of qualified engineers and the second-highest number of trained doctors.
- The number of enrollments in higher education in India, at 11 million in 2006, compares well with averages for BRIC (Brazil, Russia, India and China) countries and developed economies.
- The government’s National Skill Development initiative focuses on the creation of 500 million skilled workforce by 2022.

Country-wise people and skill availability (score out of 3)

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
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<tbody>
<tr>
<td>India</td>
<td>2.48</td>
</tr>
<tr>
<td>China</td>
<td>2.33</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.83</td>
</tr>
<tr>
<td>Poland</td>
<td>1.22</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.17</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1.14</td>
</tr>
</tbody>
</table>

Source: 2009 A.T. Kearney Global Services Location Index

India’s population (in billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Under 15</th>
<th>15-64</th>
<th>Above 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>60%</td>
<td>63%</td>
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<tr>
<td>2007</td>
<td>64%</td>
<td>64%</td>
<td>6%</td>
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<tr>
<td>2010(E)</td>
<td>65%</td>
<td>65%</td>
<td>6%</td>
</tr>
<tr>
<td>2015(E)</td>
<td>66%</td>
<td>66%</td>
<td>6%</td>
</tr>
<tr>
<td>2020(E)</td>
<td>66%</td>
<td>66%</td>
<td>6%</td>
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Sectors of interest for Indo-French partnership

Overview

Aerospace and defense

<table>
<thead>
<tr>
<th>Segment</th>
<th>Defense</th>
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</thead>
<tbody>
<tr>
<td>Current state</td>
<td></td>
</tr>
<tr>
<td>• India is among the largest buyers of defense equipment and services in the world. The country currently spends 2.35% of its GDP on the defense sector.</td>
<td></td>
</tr>
<tr>
<td>• In the wake of heightened terrorist activity in recent times and the deteriorating political situation in the neighboring countries, the Indian government is enhancing its defense capabilities and deploying modern combat equipment in its police and armed forces.</td>
<td></td>
</tr>
<tr>
<td>• The government introduced an amended “Defense Procurement Procedure (DPP)” in August 2008 to promote private sector participation and increase transparency and accountability in defense procurement.</td>
<td></td>
</tr>
<tr>
<td>• Defense offset policy: A vendor has to compulsorily invest a minimum of 30% of the order amount by purchasing subsystems or services from India (in case of contract with a foreign company where the contract is valued over USD62.5 million).</td>
<td></td>
</tr>
</tbody>
</table>

10 Capitalizing on the India opportunity
The Government of India has approved 100% FDI in the MRO segment to leverage international expertise and funds. International players are also opting to offshore their global contracts to India to benefit from low manpower costs. Indian research and development (R&D) capabilities are being progressively recognized, as large aerospace majors form partnerships with academia/industry and establish captive R&D centers in the country. India is an attractive destination for R&D due to its inherent advantage of having a large pool of highly qualified low-cost engineers and scientists. Aerospace manufacturing and R&D in India has largely remained in the public domain with government institutions such as Hindustan Aeronautics Limited, the Defence Research & Development Organization. Original equipment manufacturers (OEMs) in the aerospace and defense sectors are shifting their focus to design and system integration from vertically integrated manufacturing. At the same time, they are working with several Indian firms in aerospace design and manufacturing, helping them to improve their capabilities and enhance their work profile.

Currently, the Indian aerospace engineering outsourcing/offshoring market is valued at USD800-1,000 million (INR38.4-48.0 billion). In financial Year 07 (FY07), the Indian maintenance, repair and overhaul (MRO) market was valued at USD440 million.

### Aerospace

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### Outlook

- India’s defense budget is expected to grow at 7-8% annually over the next five years.
- It is expected that India will spend about USD100 billion during the eleventh five year plan (2007-2012).
- Modernization of the Indian armed forces is considered to be lagging behind by 10 years. The current profile of equipment held by the Indian Armed Forces is:
  - State-of-the-art: 15% vs. required 30%; Mature: 35% vs. desirable 40%; Obsolescent: 50% vs. acceptable 30%.
- Driven by its domestic demand and outsourcing potential, the country is expected to emerge as the fastest growing MRO market over the next 10 years. India’s MRO spending is estimated to reach USD1.2 billion in FY17, exhibiting a CAGR of 11.8% during CY07-17.
- The Indian MRO industry has the potential to service a fleet of 1,000 commercial and 500 general aviation aircraft by 2020.
- In terms of availability of aircraft, Boeing estimates that India needs 1,000 commercial jets, worth USD100 billion, in the next 20 years to meet its air travel demand.
- The growth in the engineering aerospace sector will be led by players providing high-end services.
- One of the major advantages of an MRO company in India is low manpower cost, roughly USD30-35 per hour or about 60% less than western Europe or the US.
Current state

Defense

- The indigenization, development and production of defense equipment in the public and private sectors come under the ambit of the Department of Defence Production. The department has eight defence public sector undertakings (DPSUs) and 39 ordnance factories with a wide-ranging production infrastructure.
- Till now, the private sector had a limited presence in defense manufacturing. However, recent government initiatives are focusing on enhancing private sector participation through indigenization and offset regulations. The Ministry of Defence aims to achieve 70% indigenization by 2015.11

Aerospace

- The commercial aircraft-manufacturing market is dominated by European Aeronautic Defence and Space Company (EADS) and Boeing. Other players, including Bombardier, Cessna, Embraer and Hawker, manufacture aircraft in the regional and business aviation category.
- Key MRO players in the country include Hyderabad Aircraft Maintenance Company, the GMR Group, Air Works India Engineering, Max Aerospace Taneja Aerospace & Aviation Limited, Bird Air Services Private Limited and Duke Aviation.3

Foreign aerospace and defence OEMs outsource defense work to mainly three types of Indian companies.

1. DPSUs, IT/engineering companies, e.g., Hindustan Computers Limited (HCL), Infosys, QuEST Manufacturing
2. Other players, e.g., the Tata Group, and Larsen & Toubro Limited (L&T)
3. Auto component manufacturers, e.g., Mahindra and Mahindra (M&M) and Tata Automobiles
Strategic analysis

- Defense manufacturing has traditionally not been a stronghold for India due to the absence of a mature supplier base in the country. However, today the country is rapidly building its capabilities to emerge as a preferred destination for defense manufacturing. The resurgent manufacturing sector is making its presence felt abroad by adopting international quality standards and establishing technologically advanced manufacturing facilities.

- The global recession and significant margin pressures have forced global aerospace and defense OEMs and tier-1 suppliers to undertake major restructuring and cost-cutting exercises. These players are outsourcing manufacturing work to low-cost and high-value-generating countries such as India.

- Global aerospace and defense companies (EADS, Boeing, Thales, BAE Systems, Honeywell International, Raytheon and Lockheed Martin) have formed various ventures and partnerships in the country to address this huge opportunity and meet offset requirements.

- Leading Indian companies (Tata, Mahindra, Bharat Earth Movers, Wipro and Hindustan Aeronautics) are developing/enhancing their defense offerings to move up the value chain, which is encouraging foreign companies to outsource work related to manufacturing rather than only systems and low-value IT assignments.

EADS
- EADS has signed 25 initial pacts with Indian companies to meet the potential offset requirements of fighter jets proposals.
- EADS has directed its European tier-1 outsourcing partners to send a larger portion of their outsourcing orders to India. This indirect outsourcing will make EADS’ total outsourced business in India grow 10 times by 2020 from the current EUR100 million.
- EADS signed a joint venture (JV) with L&T to design, develop, manufacture and provide services in the fields of electronic warfare, radar, military avionics and mobile systems.

Boeing
- Boeing plans to bid for USD20 billion worth of defense aircraft orders over the next 10 years.
- Boeing has decided to bid for two defense projects (worth USD2 billion) in the next few months. It intends to supply 22 helicopters and 12 heavy-lift helicopters.
- Boeing plans to buy aerospace structures and aviation electronics products worth USD600 million (INR29.4 billion) from seven firms in India as part of the offset against winning a USD2.1 billion contract to supply eight P-8I reconnaissance planes to the Indian Navy.

BAE Systems
- BAE Systems wants to set up shop in India instead of opting for the conventional route of selling military equipment from the US or the UK.
- The company has formed a 26:74 JV with M&M to focus on land defense systems for the Indian market. Further, both the companies are in discussions for a naval JV.
- The Indian Air Force has entered an agreement with BAE Systems for 59 Hawk advanced jet trainers.
French companies in India

**Direction des Constructions Navales Services (DCNS) Group**

- The DCNS Group launched its India operations through its wholly owned subsidiary. DCNS is already a major contractor for India’s six Scorpene submarines being constructed by Mazagon Docks Limited.
- DCNS is planning to set up a fabrication facility in India to manufacture warships and submarines for the Indian Navy.
- Garden Reach Shipbuilders and Engineers Ltd. plans to set up a three-way JV with DCNS and an Indian IT company for a ship-designing facility. The JV will set up a design center in Kolkata, spread over 1,200 square feet.

**Thales SA**

- Thales is currently working on the Indian Army’s air defense project, which entails the purchase of 1,000 short-range missiles.
- Thales aims to double its India business from EUR250 million to EUR500 million in the next five years.
- The Government of India has approved the proposed JV between Thales and Samtel Display Systems to develop and build helmet-mounted sight and display systems and avionics in the country. Thales has invested INR1.1 million in the JV.
- Bharat Electronics Limited is in advanced talks with Thales to set up a JV to make radar for the Indian civilian and military markets.

**Others**

- Dassault Systems has tied up with KPIT Cummins Infosystems Ltd. to pursue joint solutions and business development.
- Hindustan Aeronautics Limited plans to tie up with Latecoere to bid for manufacturing contracts from Airbus.
"India is one of the world’s largest importers of defense arms and equipment and is fast emerging as an important defense market with huge business potential, with defense budget expected to record a growth of 8% on a year-on-year basis. In the interim budget for fiscal year 2009-10, the Indian Government has allocated USD35.42 billion for the defense forces (a 34% increase over the last fiscal year), and approximately 40% of this budget will go towards capital acquisition. Considering nearly 50% of the India’s military equipment has become obsolescent, India is expected to spend about USD100 billion during the five year plan 2007-12 to modernize the Indian Armed Forces. Further, with the FDI limit in the defense sector expected to be increased to 49%, it provides a unique opportunity for European aerospace and defense players to establish a long-term strategic relationship with the Indian Ministry of Defence and its establishments as well as with the Indian companies in private sector."

"There are markets you cannot ignore, and India is probably the largest accessible export market nowadays for western companies. There are a lot of drawbacks: complicated regulations, slowness of decision making process, decisions we don’t always understand, but let’s face it, if one can hold on long enough, it is rewarding. So even though we keep complaining all the time, it is a great market."

French player in the aerospace and defense sector
Overview

Automotive
The Indian automobile industry was worth INR1,635 billion in FY09.

During FY04-09, automobile sales increased from 7.2 to 11.2 million units. The share of exports in total sales has more than doubled in five years to 14% in FY09.

### Segment Drivers

#### Current State

- **Passenger vehicles (PV):** During FY04-09, domestic sales increased at a CAGR of 11% (to 1.5 million units) while exports rose at a CAGR of 21% (to 0.3 million units).1
  - India is emerging as a manufacturing hub, especially for small cars (Hyundai Motors and Ford Motor export 36% and 58% of production, respectively).1
  - The country is emerging as a destination for automotive R&D (Renault-Nissan, Honda, Maruti Suzuki).
  - The sector witnessed the launch of the USD2,500 PV, Nano (new, ultra-low cost segment).

- **Commercial vehicles (CV):** During FY04-09, domestic sales increased at a CAGR of 8% (to 0.4 million units) while exports grew at a CAGR of 20% (to 42,000 units).1
  - Sales witnessed steep declines (total sales falling by 22%) in FY09 due to slowdown in industrial activities and global financial crisis.
  - The sector is undergoing a structural shift toward the smaller and light commercial vehicle category.
  - The market is dominated by domestic players such as Tata, Ashok Leyland Limited (ALL) and M&M.
  - Foreign players are increasingly entering through the JV route (Volvo-Eicher, Nissan-ALL, Mahindra-Navistar).

- **Two-wheelers:** During FY04-09, domestic sales increased at a CAGR of 7% (to 7.4 million units) while exports rose at a CAGR of 31% (to 1 million units).1
  - Sales witnessed steep declines (total sales falling by 22%) in FY09 due to slowdown in industrial activities and global financial crisis.
  - The segment is witnessing an increase in technical/production alliances with global players.
  - Growing domestic automobile market
  - Increasing replacement demand
  - Rising exports/outsourcing demand for various processes by global OEMs.

- **Auto components:** During FY03-08, sales grew at a CAGR of 23% (to USD18 billion) while exports grew at a CAGR of 26% (to USD3.8 billion in FY08).2
  - Domestic players are increasingly adopting the inorganic route to expand globally.
  - Global OEMs and suppliers are increasingly outsourcing components (BMW, GM, Volkswagen, Volvo, Bosch).

#### Sector Drivers

- **Rising disposable income**
- **Wider dealer/financiers network**
- **Better connectivity by roads across the country**
- **Reduction in average ownership period**
- **New product launches**
- **Growth in the services sector and need to transport employees**

- **Growing economic activity**
- **Road and infrastructure development**
- **Increase in the overall freight and passenger movement, and in the share of road**
- **Growing acceptance of Indian CVs in the international market**

- **Rising disposable income**
- **Wider dealer/financiers network**
- **Wider choice of offerings**
- **Rural markets**

- **Growing domestic automobile market**
- **Increasing replacement demand**
- **Rising exports/outsourcing demand for various processes by global OEMs**

- India is expected to become the world’s seventh-largest automobile market by 2016 and the third largest by 2030.3
  - Total sales are expected to reach USD120-160 billion by 2016, and the investment required is estimated to be USD35-40 billion.4
  - The country is expected to emerge as a low-cost manufacturing hub for small cars and auto components.
Capitalizing on the India opportunity

Current state

Market share analysis

Key foreign players*

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of origin</th>
<th>Indian partner</th>
<th>Year of entry</th>
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<tbody>
<tr>
<td>Suzuki</td>
<td>Japan</td>
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<td>GM</td>
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Notes: *with market share of at least 2% in their respective segments (not applicable for auto components); # - country of origin of the foreign player; GM – General Motors; M&M – Mahindra & Mahindra; S. Mazda – Swaraj Mazda; F. Mogul – Federal Mogul Corp.; HMSI – Honda Motorcycle and Scooter India; ALL – Ashok Leyland Limited; HH – Hero Honda; VW – Volkswagen

PV share, by volume, FY09¹

CV share, by volume, FY09¹

Two-wheelers share, by volume, FY09¹

Auto components share, by volume, FY08²

Notes: *with market share of at least 2% in their respective segments (not applicable for auto components); # - country of origin of the foreign player; GM – General Motors; M&M – Mahindra & Mahindra; S. Mazda – Swaraj Mazda; F. Mogul – Federal Mogul Corp.; HMSI – Honda Motorcycle and Scooter India; ALL – Ashok Leyland Limited; HH – Hero Honda; VW – Volkswagen
Strategic analysis

Among multinational corporations (MNCs), Asian vehicle manufacturers dominate the PV market.

- The success stories of Japanese players include that of Suzuki, which currently holds a 47% share in the Indian PV market and Hyundai with 16%.¹
- Honda, present in the PV and two-wheeler space, holds a 14% share in two-wheelers, and its JV with Hero Honda has 49%.¹
- Most of the successful players have entered through JV’s with Indian companies.

European players have a significantly smaller market share than the Asians, but are strengthening their foothold.

- Key European players include the VW Group (Skoda, Audi and VW), Volvo, Renault, MAN, BMW, Michelin, Daimler and Continental.
- Daimler (Mercedes-Benz) and Skoda have been successful in gaining market shares in their respective segments over the years.

French companies in India

Renault

- May 2008 - Renault and Bajaj Auto formed a JV for a proposed ultra-low-cost segment car.
- June 2005 - Renault entered India and set up a JV with M&M to launch the Logan sedan. It set up a plant in Nashik at a capacity of 50,000 units and sold 26,500 units in the period May 2007 (launch) to March 2008.⁵

PSA

- June 2009 - PSA Peugeot Citroen plans to set up a manufacturing base at either Hyderabad or Chennai. It further plans to source automotive components from India.⁶

Others

- June 2009 - Michelin announced its plans to invest INR110 billion in a new plant in Tamil Nadu.
- June 2007 - French auto components major Valeo Group forms a JV with India-based A K Minda Group to produce security system products.

"Indian auto industry currently accounts for only 0.5% of global auto exports. Several vehicle manufacturers plan to use India as a hub for small car production for the domestic as well as export markets. Therefore, as an industry, we will need to grow and maintain a strong domestic market to provide the scale needed to garner a larger share of the global vehicle and components markets."

"India is a land of small cars available at a competitive price. Within this framework, in a developing country with a high growth rate and a unique culture, French companies have to come up with innovative products and organizations adapted to the context. It is this challenge that we have to face if we want to benefit from the growth."

French player in the automotive sector
Overview

Retail and consumer products

<table>
<thead>
<tr>
<th>Segment</th>
<th>Luxury products</th>
</tr>
</thead>
</table>
| **Current state** | - The luxury market in India is estimated to be approx USD600 million. However, it is much smaller than China’s (USD6 - 7 billion).  
- There are 1.6 million households in India that can afford luxury goods, compared to 1.7 million in China.  
- While India accounts for less than 0.5% of the global luxury product sales, it is one of the fastest emerging luxury markets.  
- Jewelry, apparel, time wear and accessories are the largest constituents of the segment in India, accounting for more than 50% of luxury product sales.  
- The luxury products segment in India is still in an emerging stage, mainly due to the lack of a luxury retail environment. Luxury products are mostly sold through luxury hotels with shopping plazas.  
- In a recent trend, shopping malls dedicated to high-end brands have opened up, providing greater opportunities to consumers to buy these products. |
| **Sector drivers** | - Rising disposable incomes  
- Increased aspirational values associated with luxury products  
- Increasing exposure to global luxury and fashion brands through:  
  - Increased foreign travel by Indians  
  - Rising number of international fashion events in India  
  - Rising retail investments in luxury products  
  - Proliferation of high-end malls in urban areas |
The consumer products sector (excluding consumer durables and food products) was estimated at USD18 billion in FY08.¹ The sector comprises the fast moving consumer goods (FMCG) sector valued at USD17.4 billion and the luxury products segment worth USD600 million.²

The retail sector was estimated at USD330 billion in FY08.³ Food and grocery, textiles and apparel and jewelry are the three largest retail categories in India.

<table>
<thead>
<tr>
<th>FMCG</th>
<th>Retail</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Indian FMCG sector was valued at approximately USD17.4 billion in FY08, which mainly includes personal and home care products.</td>
<td>• The retail sector in India was estimated at USD330 billion in 2008.</td>
<td>• The luxury products market in India is expected to grow at a CAGR of over 20% until 2015. It is expected to be one of the fastest-growing emerging-market countries for luxury products.¹³</td>
</tr>
<tr>
<td>• It is characterized by well-established distribution networks and intense competition between the organized and unorganized segments.</td>
<td>• The share of organized retail has gradually increased over the years, from less than 1% in 1999 to 5% in 2008.⁴</td>
<td>• The total market size of FMCG products is expected to grow at a CAGR of over 20% until 2015. It is expected to be one of the fastest-growing emerging-market countries for luxury products.¹³</td>
</tr>
<tr>
<td>• FMCG retail is largely unorganized, with the share of modern trade being less than 5% across most categories.⁵</td>
<td>• The “food and grocery” category has the highest share in the overall Indian retail market, approximately 62% of total retail revenues, followed by “clothing, textiles and fashion accessories” (9.5%).¹⁰</td>
<td>• Growth of organized retail, clothing, textiles and fashion accessories are the largest category, with a 38% share. Food and grocery accounts for about 10.5%.¹¹</td>
</tr>
<tr>
<td>• Growth of FMCG in the rural Indian markets is overtaking that of the urban market, which is expected to be developed as a strong growth driver for the market.</td>
<td>• However, in organized retail, clothing, textiles and fashion accessories are the largest category, with a 38% share. Food and grocery accounts for about 10.5%.¹¹</td>
<td>• In its latest global retail development index for 2009, AT Kearney has rated the Indian retail sector as the most attractive among 30 emerging markets, which is likely to reignite global retailer interest.¹²</td>
</tr>
<tr>
<td>• However, a below-normal monsoon is likely to impact the agricultural sector, which may result in a slowdown in growth from the rural markets.</td>
<td>• In its latest global retail development index for 2009, AT Kearney has rated the Indian retail sector as the most attractive among 30 emerging markets, which is likely to reignite global retailer interest.¹²</td>
<td>• The Economic Survey of India for 2008-09 had recommended relaxation of the FDI limit in retailing, but the government has not made any changes in retail FDI-related regulations in the budget for the year 2009-10.</td>
</tr>
</tbody>
</table>

| • Increase in domestic consumption, driven by higher disposable incomes, specially in rural areas | • Growing disposable incomes | • The retail sector is expected to increase to USD475 billion by 2012, growing at a CAGR of 9-10%. Organized retail is projected to grow much faster at a CAGR of 20-25% to reach approximately USD26 billion by 2010.¹⁵ |
| • Increased product penetration | • Favorable demographics: increasing urbanization, growing middle class | • Due to a slowdown in economic growth and high rentals during a significant part of 2008, retailers have experienced a drop in footfalls. Therefore, the growth in 2009 is expected to be lower than that in 2008. However, domestic retail majors are reviving their investment plans as India’s economic outlook has improved and consumer confidence has strengthened. |
| • Growth of organized retail | • Investments in infrastructure creation, including supply of real estate and malls | • Value retailers are also expected to have an advantage over lifestyle retailers with an increase in the “value-seeking” approach of Indian consumers. |
| • Greater awareness and preference among consumers for branded products | | |
Current state

Market share analysis

Home care share, by value, 2007

- Unilever, 30%
- P&G, 7%
- Nirma, 24%
- Other, 39%

Personal care share, by value, 2007

- Unilever, 51%
- P&G, 8%
- L'Oreal, 4%
- Godrej, 7%
- Other, 30%

Key foreign players

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of origin</th>
<th>Indian partner</th>
<th>Year of entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>LVMH</td>
<td>France</td>
<td>DFS Group</td>
<td>2003</td>
</tr>
<tr>
<td>Cartier</td>
<td>France</td>
<td>Navratna Bharat Retail</td>
<td>2008</td>
</tr>
<tr>
<td>Gucci</td>
<td>Italy</td>
<td>Murjani</td>
<td>2007</td>
</tr>
<tr>
<td>Versace</td>
<td>Italy</td>
<td>Blue clothing</td>
<td>2008</td>
</tr>
<tr>
<td>Mont Blanc</td>
<td>Germany</td>
<td>Entrack</td>
<td>1997</td>
</tr>
<tr>
<td>Armani</td>
<td>Italy</td>
<td>DLF</td>
<td>2008</td>
</tr>
<tr>
<td>Nestlé</td>
<td>Switzerland</td>
<td>None</td>
<td>1959</td>
</tr>
<tr>
<td>L'Oreal</td>
<td>France</td>
<td>None</td>
<td>1994</td>
</tr>
<tr>
<td>Unilever</td>
<td>Netherlands</td>
<td>None</td>
<td>1933</td>
</tr>
<tr>
<td>P&amp;G</td>
<td>US</td>
<td>None</td>
<td>1964</td>
</tr>
<tr>
<td>Carrefour</td>
<td>France</td>
<td>None</td>
<td>2007</td>
</tr>
<tr>
<td>Metro</td>
<td>Germany</td>
<td>None</td>
<td>2003</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>US</td>
<td>Bharti</td>
<td>2006</td>
</tr>
<tr>
<td>Decathlon</td>
<td>France</td>
<td>None</td>
<td>2008</td>
</tr>
</tbody>
</table>
Capitalizing on the India opportunity

Strategic analysis

- A majority of the foreign players in the Indian consumer products and retail industry are based in Europe and the US.
- The European presence in the Indian market is led by Hindustan Unilever, a subsidiary of Unilever NV, which is the largest player in the Indian FMCG market.
- Switzerland-based Nestlé is one of the largest FMCG companies in India, with a dominant share in food and beverages.
- The luxury products market is dominated by European players, mostly based in Italy, France, Germany and Spain. Most brands are present in India through JVs with Indian partners or via franchise arrangements.
- The retail market is still dominated by domestic players, as entry regulations in India do not allow foreign retailers in multi-brand retailing. A 51% foreign ownership is allowed only in single-brand retailing ventures.
- However, certain segments such as wholesale cash and carry, where foreign retailers are permitted, have seen increased activity. Germany’s Metro is one of the earliest entrants in the Indian wholesale cash-and-carry market. France’s Carrefour, UK’s Tesco and Wal-Mart are among the other key players.
- Several foreign players have entered the Indian retail market through JVs with Indian retailers, providing back-end logistical and supply chain management support.

French companies in India

LVMH
- July 2009 - TAG Heuer launched its high-end mobile phones in India.
- June 2009 - LVMH plans to launch two new Belvedere brands by September 2009.
- February 2009 - TAG Heuer plans to launch 53 global watch models in India. The company is aiming to capture a 10% share of the domestic luxury watch market.

L’Oréal
- April 2009 - To expand its share in the Indian skin and haircare category, L’Oréal has introduced shampoos, conditioners and fairness moisturizers in sachets.

"The Indian retail market is definitely a challenge. In the retail sector, we expect more clarity and opening for foreign players in the next two years. The cash-and-carry model is a unique way to be the first in the market and start climbing the inevitable learning curve."

French player in the retail and consumer products sector

LVMH
- March 2008 - L’Oréal reported sales of INR6 billion (approximately USD120 million) from its Indian operations in 2007.

Carrefour
- June 2009 - Carrefour was reported to be in discussion with Pantaloon Retail to acquire an equity stake in Future Fashion Merchandise.
- April 2009 - Carrefour announced definitive plans to open its first cash-and-carry outlet in India by the start of 2010.
### Overview

**Food industry**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Food industry</th>
</tr>
</thead>
</table>
| **Current state** | ▶ The Indian food industry, which is estimated to be worth USD181 billion,\(^2\) comprises establishments and individuals engaged in the production and processing of food, either in its raw form or in the form of processed and packaged products.\(^1\)  
▶ The industry is classified into two broad categories — unprocessed and processed. The unprocessed industry accounts for approximately 53% of the industry, but is mainly comprised of unorganized players producing primary food products.  
▶ Processed foods, which account for 47% of the food industry, is further divided into primary processed (21%) and secondary processed (26%). This segment is witnessing high growth rates and significant focus in terms of government support, corporate activity and consumer interest.  
▶ Despite the growth witnessed in the sector so far, the penetration of processed food is still very low in India. Approximately 2.2% of the total fruits and vegetables produced are processed in the country. This is substantially low, as compared to nearly 65% in the US and over 30% in several European countries. |
| **Sector drivers** | ▶ Rising disposable incomes  
▶ Growth in demand for processed foods  
▶ Rising demand for functional foods  
▶ Growth in organized retail – leading to increased visibility of packaged and processed food products  
▶ Potential demand from rural markets – development of roads, ports, railways and airports expected to improve access and increase penetration in rural areas in the long term |
The food industry* in India was estimated to be worth USD181 billion and the food retail sector** was worth USD249 billion in FY08.1

The carbonated (or soft) drinks segment was worth USD1.9 billion and the alcoholic drinks segment worth USD12.2 billion in 2008.1

### Beverage industry
- The Indian beverage industry, which is categorized into soft drinks, alcoholic drinks, juices, bottled water and hot drinks, was worth over USD18 billion in 2008.1
- The carbonated (or soft) drinks, juices, bottled water and hot beverages segments were worth USD1.9 billion, USD0.3 billion, USD0.6 billion and USD3 billion, respectively. The alcoholic drinks segment is worth USD12.2 billion.2
- Soft drinks: the changing retail scenario and the establishment of convenience stores, supermarkets and hypermarkets have provided soft drink players with opportunities to push their brands through consumer promotions, product sampling, attractive point-of-sale displays and gift packs. There is a growing demand for natural and healthy soft drinks including sports drinks and juice-based carbonates.
- Alcoholic drinks: the industry is experiencing a gradual movement of people toward alcoholic beverages as they enter their 30’s. Increasing liberalization, the exposure and experience of international culture are also contributing to the growth of this segment. The Indian made foreign liquor segment is also growing significantly, with whiskey and white spirits being two important and the fastest-growing sub-segments.
- Increased availability and strong distribution network of players in the carbonated drinks segment
- Rising consumer focus on health and wellness – leading to a demand for functional and health drinks
- Increasing social acceptance of alcoholic beverages
- Bundling of beverages with combos at fast foods chains
- Role of media – heavy advertising by cola and alcohol companies

### Cold chain infrastructure
- Cold chain is defined as a logistics system, which provides a sequence of facilities to maintain ideal storage conditions for perishable products, from the point of production up to consumption within the food chain. At present, this highly critical segment has a minimal presence in the Indian logistics infrastructure.
- The total cold chain market in India is worth USD475 million, of which the chiller segment, which includes fruit and vegetables packhouses, potatoes and apples, contributes approximately USD357 million.4 The rest is dominated by seafood, meat and poultry.
- India’s estimated cold storage capacity is 19.6 million metric tons, which is significantly less than India’s annual horticulture production.3

### Outlook
- The food industry in India is expected to reach USD318 billion by 2020. The country’s per capita food consumption is also forecast to increase by a healthy 19%, although from a low base, to reach USD183 in 2013.2 This forecast is the result of the growth of a middle-income consumer group and a continued growth of organized retail, as domestic retailers look to expand their market share to prepare for competition from international retailers in the future.
- The overall beverage market is expected to have a value of about USD37 billion by 2020.1
- The Union Budget 2009 is expected to stimulate the growth of the food and beverage industry, particularly rural demand due to a 144% increase in allocation to the National Rural Employment Guarantee Scheme. Also, the government’s announcement to implement a goods and services tax from April 2010 will make way for a single tax regime across product categories, leading to the rationalization and simplification of the tax structure.
- However, a below-normal monsoon is likely to impact the agricultural sector, resulting in a slowdown in growth from the rural markets. It could also hit household budgets across income classes by pushing food prices further up due to low production and shrinkage in supply of food articles.

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* Food and food products at wholesale prices  ** Retail sales of food and grocery, food services and tobacco market
Current state

Market share analysis

Alcoholic drinks share, by volume, 2008

- United Breweries, 26%
- Others, 36%
- United Spirits, 19%
- SABMiller, 19%

Soft drinks share, by value, 2008

- Coca-Cola, 32%
- Others, 26%
- Pepsi, 27%
- Parle Products, 15%

Key foreign players

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of origin</th>
<th>Indian partner</th>
<th>Year of entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cadbury’s</td>
<td>UK</td>
<td>None</td>
<td>1948</td>
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<td>HJ Heinz</td>
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<td>GSK</td>
<td>UK</td>
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<td>1924</td>
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<tr>
<td>Coca Cola</td>
<td>US</td>
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<td>1993</td>
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<td>Pepsi</td>
<td>US</td>
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<td>Heineken</td>
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<td>AB-Inbev</td>
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<td>Unilever</td>
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<td>Diageo</td>
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<tr>
<td>Danone</td>
<td>France</td>
<td>Britannia</td>
<td>1990</td>
</tr>
<tr>
<td>General Mills</td>
<td>US</td>
<td>None</td>
<td>1995</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>France</td>
<td>Seagram</td>
<td>1996</td>
</tr>
</tbody>
</table>

"The food industry is a very promising market. Everything is possible but nothing is easy.

On the one hand, the local supply chain is still completely scattered but is very efficient. However, on the other hand, we have to deal with a nascent cold-chain, where it’s relatively easier to transport frozen goods than fresh. We shouldn't expect the same standard of quality we witness in Europe, but training and transferring our know-how are definitely key factors to success. In any case, I recommend that new entrants, especially small to mid-sized enterprises (SMEs), should collaborate with Indian partners in order to better manage the cultural challenges."

French player in the food industry sector
Strategic analysis

- A majority of foreign players in the Indian food and beverage industry are based in Europe and the US.
- European companies in the Indian market are led by Hindustan Unilever, a subsidiary of Unilever NV, which is one of the largest players in the processed food segment.
- Switzerland-based Nestlé is one of the largest FMCG companies in India and has a dominant share of the food and beverages sector.
- The soft drinks market is dominated by the US players, including Coca-Cola and Pepsi. The soft drink majors have been present in the country through their subsidiaries for over a decade and have grown exponentially.
- The alcoholic drinks segment is dominated by European players including Heineken, AB-Inbev, Diageo and Pernod Ricard. The global alcohol players are targeting developing markets, such as India, for their next phase of growth.
- The companies have stepped up their activities not only by expanding their product offerings in the Indian market, but also by entering joint ventures and acquiring Indian players. As Indian consumer tastes and preferences are changing, companies are continuously investing in new product launches, innovation and market research to keep abreast with changing demands.
- Apart from this, the growth in this segment is restricted due to strong regulations and government intervention.

"The food and beverage industry in India is expected to sustain its growth momentum at approximately 12–15% over the next few years. With a relatively stable demand outlook and no significant evidence of down-trading by consumers, there is no major threat to sustained growth as most of the high-growth categories still remain underpenetrated. Foreign investment in the sector is on the rise, and MNCs are also expected to make significant investments over the next five years, affirming faith in the Indian market.

The beverages segment is characterized by intense competition. For companies to survive, they need to be well aware of changing consumer trends and behavior, focus on health and wellness, ensure supply chain efficiencies, innovate, and invest in marketing and branding activities."

French companies in India

Danone
- July 2009 – Danone announced plans to launch its brands in biscuits, mineral water, cereals, dairy, baby food and medical nutrition segment in India.
- June 2009 – The Indian government cleared Danone’s FDI proposal to re-enter India.
- April 2009 – Danone formally exited its Indian JV with the Wadia Group, selling its interest in ABI Holdings Limited, held through Britannia Industries, thereby ending its long and strained relationship with the Wadia Group.

Bongrain

Pernod Ricard
- April 2009 – Pernod Ricard overtook Radico Khaitan and emerged as India’s second-largest spirits marketer by volume. The company is now second only to United Spirits and has been growing at the rate of 25% annually.
Overview

Life sciences

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<table>
<thead>
<tr>
<th>Segment</th>
<th>Pharmaceutical formulations and bulk drugs</th>
<th>Biotechnology</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current state</strong></td>
<td>‣ The total pharmaceutical formulations and bulk drug market (domestic and exports) was estimated at USD16.6 billion in FY08.¹ The Indian industry currently accounts for 8% of the global pharmaceutical production, making it the world’s 4th largest pharmaceutical producer and 13th by value worldwide.</td>
<td>‣ The sector is mainly classified into bio-pharma, bio-services, bio-agri, bio-informatics and bio-industrial segments.</td>
</tr>
<tr>
<td><strong>Domestic</strong></td>
<td>‣ During FY03-08, domestic pharmaceutical sales increased at a CAGR of 14.6% (USD7.7 billion).</td>
<td>‣ Bio-pharma is the largest industry segment, accounting for approximately 70% of total revenues, followed by bio-services (15%) and bio-agri (12%) segments.²,³,⁴</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>‣ Exports of active pharmaceutical ingredient and formulations grew at a CAGR of 24.2% (USD4.1 billion) and 33.3% (USD4.8 billion).¹</td>
<td>‣ The biotechnology sector has grown at a CAGR of 34.3% (USD2.5 billion) during FY03–08 with an approximately 10-fold growth witnessed in bio-services and bio-agri segments.²,³</td>
</tr>
<tr>
<td></td>
<td>‣ Currently, Indian exports comprise around one-fourth of the global generic drugs market with an approximate share of 42% in regulated markets.</td>
<td>‣ Exports account for a 56% share of the total biotech sector, with bio-pharma (60% of total segment sales), bio-services (95%) and bio-informatics (79%) segments getting a major share of revenues from exports.³,⁴</td>
</tr>
<tr>
<td><strong>Sector drivers</strong></td>
<td><strong>Domestic</strong></td>
<td><strong>Exports</strong></td>
</tr>
<tr>
<td></td>
<td>‣ Increasing public expenditure on health and health insurance; focus on tier II/III and rural markets</td>
<td>‣ Impending patent cliff</td>
</tr>
<tr>
<td></td>
<td>‣ Chronic segment driving growth</td>
<td>‣ Driven by the US market with increasing focus on emerging markets</td>
</tr>
<tr>
<td></td>
<td>‣ Launch of products under patent by MNCs</td>
<td><strong>Exports</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>‣ Alliance of Indian companies with big pharma companies for emerging markets</td>
</tr>
</tbody>
</table>

¹ The sector is mainly classified into bio-pharma, bio-services, bio-agri, bio-informatics and bio-industrial segments.
² Bio-pharma is the largest industry segment, accounting for approximately 70% of total revenues, followed by bio-services (15%) and bio-agri (12%) segments.
³ The biotechnology sector has grown at a CAGR of 34.3% (USD2.5 billion) during FY03–08 with an approximately 10-fold growth witnessed in bio-services and bio-agri segments.
⁴ Exports account for a 56% share of the total biotech sector, with bio-pharma (60% of total segment sales), bio-services (95%) and bio-informatics (79%) segments getting a major share of revenues from exports.

A new regulator for biotech products – National Biotechnology Regulatory Authority – is being established by the government.
The life sciences industry in India is estimated to be around USD22 billion in FY08, comprising the pharmaceutical sector, USD18.3 billion, and the biotechnology sector, estimated at USD2.5 billion. The pharmaceutical sector includes domestic and export markets of both formulation and bulk drugs as well as contract research and manufacturing services (CRAMS) and clinical trials. The pharmaceutical sector has grown by 21% during FY03-08, while share of exports in total sales increased from 39% to 54% in this period.

<table>
<thead>
<tr>
<th>CRAMS</th>
<th>Clinical trial</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ The Indian CRAMS market is estimated to be USD2.5 billion in 2009.</td>
<td>▶ The size of the Indian clinical trials market is approximately USD300 million in India with a CAGR of 39% over the last few years. India participates in 7% of the global Phase 3 trials and 3% of the Phase 2 trials. India is ranked 12th among the number of active sites across 60 countries. India is ranked third among most attractive clinical trial destinations after the US and China.</td>
<td>▶ The domestic formulation market is likely to see an upward trend to reach USD20 billion in 2015. However, an extension of price regulation to all 354 essential medicines as proposed in the drug policy currently under draft might serve as a barrier to the growth of the domestic market. Exports of pharmaceutical formulations and bulk drugs is expected grow at a CAGR of 21% till 2013.</td>
</tr>
<tr>
<td>▶ Contract research is estimated to be USD900 million, with a CAGR of 65% between FY 2007-10. India was estimated to be around 3.5-4% of the global contract research market. India has the third-largest drug development workforce in the world.</td>
<td></td>
<td>▶ The biotechnology industry is expected to grow at a CAGR of approximately 29%, reaching around USD5 billion by 2010 and about USD15 billion by 2015. The new biotech policy adopted by the government is expected to be a major driving factor for this growth.</td>
</tr>
<tr>
<td>▶ Contract manufacturing is estimated to be approximately USD1.6 billion, with a CAGR of 43% between FY07-10. India was estimated to be 4% of the global contract manufacturing market. It has around 119 united states food and drug administrations and 84 UK Medicines and Healthcare Regulatory Agency approved plants and accounts for one third of drug master files and highest number of abbreviated new drug applications in the US.</td>
<td></td>
<td>▶ The CRAMS sector is expected to show a compounded growth of 43% to reach a market size of USD3.3 billion by 2010. The clinical research industry is likely to experience exponential growth with the industry expected to grow three times from USD200 million in FY08 to USD600 million by FY10.</td>
</tr>
<tr>
<td>▶ Increasing outsourcing by pharma companies across the value chain</td>
<td>▶ Driven by high number and low cost of investigators, speed of recruitment, genetically diverse and treatment-naïve population and a strong IT enabled services sector</td>
<td>▶ The clinical trials market is expected to grow to USD600 million by 2012 on account of increasing confidence on speed of recruitment by Indian sites, qualified investigators and shifting trials to emerging countries due to the cost value proposition.</td>
</tr>
<tr>
<td>▶ Demonstrated capability by Indian companies across the value chain with lower costs than their western counterparts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
"First of all, the demographic size of the country that represents one-fifth of the world population and the epidemiological profile make the Indian market among the largest in the world.

Second, the birth rate of the country of more than 25 million per year makes it one of the most important public health challenges.

Third, economic growth of around at least 6% CAGR from 2005 to 2015 should improve per capita income and enhanced awareness about healthcare in the country.

Even if these factors will be the growth engines for the health sector, the players will have to face some challenges such as: extremely competitive pricing structure; scattered distribution channel; cold chain and infrastructure-related issues; access to rural markets.

All in all, India is and will remain a large interesting market but very challenging from an operational viewpoint.

The ones that will have the long-term vision and the resolve will be the winners."

**French player in the life sciences sector**
**Strategic analysis**

**Domestic pharmaceuticals**
- The Indian pharmaceutical market is highly fragmented, with the top 10 companies contributing 36% of the total revenues. Eighty-one percent of the revenues come from Indian companies, although GSK, Abbott, Pfizer and Sanofi Aventis are the MNCs in the top 15 companies.
- The advent of the patent regime in 2005 has encouraged MNC companies to launch products under patent in India, however, pricing of the product is a key to success in this market.
- Most MNCs are either present in India, setting up shop or have tie-ups with Indian companies to market their products in India.

**Biotechnology**
- The biotechnology sector is highly dominated by domestic players, with foreign players active only in the bio-pharma and bio-agri segments.
- Roche is the largest foreign player in the bio-pharma segment and has launched a variety of biotechnology products through its direct marketing or alliances with domestic companies.
- Major foreign biotechnology players such as Amgen and Biogen Idec have also set up their offices in India, and are mainly engaged in initiation and monitoring of clinical trials on their innovative products.

**CRAMS**
- CRAMS in India is driven by the domestic players with key foreign players such as Lonza and Patheon setting up base in India or forming alliances with Indian companies.
- India's cost efficiency, skilled manpower, technical capability and cultural compatibility are some of the factors attracting both customers and vendors to do business in India.

**Clinical trials**
- India is increasingly becoming a hub for clinical trials, both for companies, which are setting up captive centers (GSK, Novartis), or clinical trial players establishing base (ICON, Quintiles).

"The Indian life science industry continues to grow at a healthy rate even in current challenging times. With a growing healthcare sector, increasing focus of MNCs to grow India operations and the global pressures relating to cost optimization, India should continue to do well in the future. Clear focus areas for India to improve its leadership position in this space would be intellectual property rights regulations clarity, better adherence to regulatory requirements (like FDA, etc.) and focus on improving efficiency of CRAMS/R&D activities."
Overview
Energy and utilities
The Indian oil and gas industry is worth USD159.8 billion, or approximately 15.2% of India’s gross domestic product.

The country’s oil and gas consumption increased at a CAGR of 4.4% during the 1997–07 period as compared to the global average of 1.4%.

India’s power sector, with a total installed generation capacity of approximately 150 GW, currently suffers from 15% peak deficits and will require approximately 20,000 MW of capacity addition annually to support its economic growth.¹

India’s water management industry is estimated at USD1 billion. Approximately 70% of the market is governed by industrial and municipal water treatment.

“India is on the eve of a gas boom with production likely to double or triple within a 5-year period. Despite the lack of clarity and visibility in the current regulations (upstream as well as downstream), this will trigger a formidable development of gas infrastructure (transmission and distribution) generating potential opportunities for foreign consultants and manufacturers. Considering the current quasi-omnipresence of public companies in the Indian energy sector, public-private partnership schemes offer a natural way to enter this market.”

“Understanding the complexities and underlying interrelationships of Indian business people poses a challenge to foreign players which complicates business planning exercise but which, according to our experience, does not wipe out profit opportunities.”

French player in the energy and utilities sector
As domestic oil and gas production is inadequate to meet demand, there is resulting high dependence on imports and shortages of natural gas. The country imports approximately 78% of its crude oil requirement and 29% of its natural gas requirement.

For the midstream segment, while the crude and product pipeline capacity is reasonably sufficient, the country has inadequate gas pipeline infrastructure. This is due to limited availability of gas supplies within the country (as compared to the demand) and regional concentration of gas sources (in the western and now eastern regions).

India is a net exporter of refined petroleum products, due to its surplus refining capacity. India now has an installed refining capacity of 179.5 million metric tons per annum (MMtpa), while the petroleum product consumption in the country was 128.9 MMtpa during FY08. Private sector players are the leading exporters because they have limited marketing operations in India (as they do not get subsidy support from the Government of India) and have been able to set up complex coastal refineries.

National oil companies dominate India’s oil and gas sector; however, private players are participating in larger numbers, with the enactment of favorable regulatory policies. The exploration and production (E&P) industry is going through many challenges such as volatile crude oil prices, deep sea exploration and a human capital deficit. These challenges have led to fierce competition for reserves and higher production costs as well as structural innovation undertaken by the companies.

India suffers from a power deficit as capacity additions have not happened at the pace of demand growth. The peak demand deficit in the country currently stands at about 15%.

Coal-fired thermal power is the largest source of power in the country, accounting for 53% of the total installed capacity. Natural gas-fired thermal plants account for another 10.5% of the total capacity.

Hydro power, with a 24.7% share of total capacity, is the other major source of power in the country.

Recent years have seen increasing thrust on clean energy generation sources such as nuclear, wind, solar and biomass. Though the existing share of private sector in total generation capacity is only 14%, it is expected to significantly increase due to a strong regulatory and policy framework following EA 2003 to encourage private sector participation.

Generation assets yield attractive returns in the current environment driven by high merchant prices, a vibrant electricity market and sustained supply shortages. Returns may range from regulated returns of equity of 15.5% to as high as above 30% for merchant power plants.

### Installed capacity – fuel mix (as on 31 May 2009)

<table>
<thead>
<tr>
<th>Fuel Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thermal</td>
<td>64.7%</td>
</tr>
<tr>
<td>Hydro</td>
<td>24.7%</td>
</tr>
<tr>
<td>Nuclear</td>
<td>2.9%</td>
</tr>
<tr>
<td>RES*</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

* RES (renewable energy sources) comprises small hydro power, biomass power and wind energy.

### Sector drivers

- The increasing passenger and commercial vehicle population results in growing demand for auto fuels.
- The rising urban population results in growing demand for cooking fuel and gas.
- The growth of the aviation sector results in higher demand for aviation fuel.
- Increasing availability of natural gas through new discoveries and liquified natural gas (LNG) capacities.
- India is positioning itself as an exporting hub for petroleum products. It is targeting developed and select emerging markets, which have deficit refining capacity and, in some cases, are not adding new capacities.

- Per capita consumption of electricity has gone up (704kWh in FY08, CAGR of 5.5% from FY06 to FY08). However, it is still only 25% of that of China and Brazil, and 4% of that of the US.
- The government has ambitious plans for capacity addition – about 78GW and 82GW additions planned in eleventh and twelfth five year plan periods to meet its objective of ”Power for All” by 2012.
- The capacity addition target are more than three times of that achieved during the last decade - thereby creating opportunities in financing (100% FDI), engineering, procurement and construction (EPC), equipment manufacturing including BTG & Balance of Plants, operation and maintenance services etc.
- Wind, Small Hydro, Biomass and Solar technologies are expected to dominate the growth in clean energy capacity driven by attractive feed in tariffs and clean development mechanism (CDM) benefits under the Kyoto Protocol.
- The newly signed Indo-French and Indo-US civilian nuclear cooperation deals have paved the way for substantial increments in nuclear power capacity in the long term.
Power transmission and distribution (T&D)²

- In FY08, T&D losses in the country stood at 26.9%, a significantly high level compared to developed countries, although it is down from 32.5% recorded in FY03. The current inter-regional (national grid) power transfer capacity is 20,86GW, which is inadequate to facilitate efficient transfer of power from power-surplus regions to power-deficit regions.
- Though historically the T&D development in India has been dominated by public sector entities, there are numerous opportunities for private sector participation.
- The government has announced 14 ultra mega transmission projects envisaging a capex of USD40 billion to be developed by the private sector based on Build Own Operate model. The projects are to be awarded based on tariff-based competitive bidding. Similar projects have been announced by various state governments also.
- Distribution franchises are being adopted as the preferred route to privatization. Large investments in modernization and expansion of distribution sector including rural electrification are being undertaken.

Water and waste management³

- Water supply and sanitation and waste management is a state responsibility in India and all major cities have their own local body to carry out these activities.
- In December 2005, the government had launched the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) to undertake urban development initiatives across India. It aims to improve the delivery of water supply, sanitation and solid waste management services during 2006-12.
- A growing economy, industrialization and the resultant urbanization have put pressure on the water industry in the country. The per capita availability of water has deteriorated thereby leading to the increasing need for water treatment and conservation.
- The existing water and waste treatment facilities in the country are inadequate to handle the total water and solid waste generated in India.
- Total waste water discharged by industries in India is about 83,000 million liters per day (mld), out of which only 21% is treated.
- As per estimates, India produces approximately 115,000 tons of municipal solid waste per day with collection efficiency below 50% in most cities.
- Sewage generated by Class I and Class II cities is currently estimated at 33.2 mld while the sewage treatment capacity is estimated to be only 6,190 mld, with another 1,743 mld under construction.
- The government is encouraging private investment in water and waste management through various initiatives.

Outlook

Oil and gas

- Demand for oil and gas will continue to grow considerably on the back of a rising population and economic growth. Therefore, dependence on oil imports is likely to increase due to inadequate proven reserves.
- Rising capacity of LNG terminals and supplies from new discoveries are expected to bring demand-supply equilibrium in the gas market in the long term. This increase in gas supplies will bring more investments in the gas transportation infrastructure and additional demand from city gas distribution and compressed natural gas businesses.
- India is expected to become a refining hub as significant capacity additions are planned over the next five years.
- Domestic M&A activity in the sector is expected to remain subdued. However, funding for city gas projects and other E&P activities is forthcoming.
- Going forward, major challenges for the sector will be to supply sufficient quantity of fuel for energy requirements and developing adequate infrastructure to enable optimal utilization of recent hydrocarbon discoveries.

Power generation, transmission and distribution

- Large private sector investments in the power sector to continue as India is likely to continue to suffer from significant demand-supply gap till at least 2020. Demand to be driven by India’s rapid economic growth, increase in per capita consumptions, electrification of un-electrified villages/rural households and continuing pace of urbanization.
- In addition to domestic coal, which has been the mainstay of Indian generation capacity, imported coal-based plants (especially along the coastline), along with nuclear power, are expected to drive growth in conventional energy.
- Indian companies will look to acquire fuel sources abroad (imported coal/gas/nuclear fuel) including undertaking acquisitions to secure the fuel linkages. Further, they may acquire international assets on opportunistic basis (e.g., GMR’s acquisition of Intergen).
- Renewable energy will continue to be driven by factors including smaller gestation period, attractive feed-in tariffs, CDM credits, renewable purchase obligations on distribution licensees. Small and medium hydro and wind energy is expected to lead the way in renewable energy capacity addition.
- Independent transmission projects initiated by the government along with related state initiatives is expected to open new opportunities in the transmission build, operate and transfer sector attracting both Indian and foreign developers.
- The equipment manufacturing industry will continue to get a boost from the massive capacity additions and modernization plans in the generation and T&D sectors.
- Foreign participation is expected to increase in development and financing of generation and transmission assets, engineering services, equipment supply and technology collaborations in nuclear and clean coal technologies.

Water and waste management

- It is estimated that by 2025, India will have an annual water requirement of 1,050 billion cubic meters (bcm), up 40% from the current 750 bcm. However, per capita availability of water is expected to decline from 2,200 cubic meters currently to 1,341 cubic meters by 2025. Thus, the next decade is expected to witness increased investments in water management and conservation.
- Growing concerns and regulatory mandates in the area of pollution control in the industrial sector will also offer significant growth opportunities to India’s water and waste management industry.
Current state

Market share analysis

Oil and gas production share, by value, FY09

- ONGC, 72%
- Others, 19%

Refining capacity share, by value, FY09

- IOCL, 31%
- RIL, 22%
- BPCL, 13%
- HPCL, 9%
- CPCL, 7%
- Essar, 7%
- MRPL, 7%
- NRL, 2%
- BPRL, 2%

Total power generation capacity, by sector, FY09

- State Center, 52.5%
- Private, 47.5%

Key foreign players

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of origin</th>
<th>Indian partner</th>
<th>Year of entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cairn Energy</td>
<td>UK</td>
<td>ONGC, Videocon, Tata</td>
<td>1995</td>
</tr>
<tr>
<td>BG Group</td>
<td>UK</td>
<td>ONGC, Reliance, GAIL</td>
<td>2002</td>
</tr>
<tr>
<td>ENI SpA</td>
<td>Italy</td>
<td>Hindustan Oil Exploration</td>
<td>2005</td>
</tr>
<tr>
<td>Niko Resources</td>
<td>Canada</td>
<td>Reliance</td>
<td>1995</td>
</tr>
<tr>
<td>Suez Environment</td>
<td>France</td>
<td>Anand Group, Mahindra Infrastructure Developer</td>
<td>1954</td>
</tr>
<tr>
<td>Royal Dutch Shell</td>
<td>Netherlands</td>
<td>BPCL</td>
<td>1928</td>
</tr>
<tr>
<td>BP Plc</td>
<td>UK</td>
<td>Reliance</td>
<td>1999</td>
</tr>
<tr>
<td>Total</td>
<td>France</td>
<td>HPCL</td>
<td>1970</td>
</tr>
<tr>
<td>Gaz de France</td>
<td>France</td>
<td>GAIL, IOCL, ONGC, BPCL</td>
<td>1997</td>
</tr>
<tr>
<td>Areva T&amp;D India</td>
<td>France</td>
<td>na</td>
<td>1957</td>
</tr>
<tr>
<td>Veolia Water India</td>
<td>France</td>
<td>na</td>
<td>2000</td>
</tr>
<tr>
<td>Alstom</td>
<td>France</td>
<td>NTPC, BHEL</td>
<td>1992</td>
</tr>
</tbody>
</table>

Notes: ONGC – Oil and Natural Gas Corporation Limited; GAIL – GAIL (India) Limited; BPCL – Bharat Petroleum Corporation Limited; HPCL – Hindustan Petroleum Corporation Limited; IOCL – Indian Oil Corporation Limited; NTPC – National Power Thermal Corp.; BHEL – Bharat Heavy Electricals Ltd.

Total power generation capacity share, by value, FY09

- NTPC, 21%
- Essar Power, 2%
- Neyveli Lignite Corp., 2%
- Tata Power, 2%
- GMR Infrastructure, 1%
- Others, 72%

100% = 149.3 GW

Oil and gas

- A number of international oil and gas companies have presences in India, and a majority of them are European.
- Cairn India (promoted by Cairn Energy) is emerging as one of the major oil producers in India, with the commencement of oil production from its Rajasthan fields.
- BG Group has a significant presence in the city gas distribution space and has also been a strategic player in the exploration and production sector. In addition, BP has a presence in India through Castrol as a leading lubricants player and also some limited upstream interest.
- Over the years, the Government of India has encouraged participation of international oil and gas companies in the country’s oil and gas sector. International companies have a significant presence in the upstream, refining and gas distribution sectors.
- International players are increasing their focus on India’s lubricant market, as the sector is highly profitable, with lubricant consumption growing at a rapid pace.
International players have a limited exposure in the downstream space as the domestic retail price of certain petroleum products (transportation and cooking fuels) product is regulated, with government-owned oil marketing mandated to sell these products at a subsidized rates.

**Power generation, transmission and distribution**

- AES, China Light & Power, Genting and Ranhill are some of the few foreign developers which have a presence in India. Many other foreign companies, including Suez, Isolux and Union Fenosa, are lining up significant investments in the country.
- Mitsubishi, Toshiba, Alstom and Doosan already have technology/manufacturing tie-ups in the BTG space. In addition, a host of Chinese players, including Harbin, Dong Fang and Shangahi Electric, are active in the EPC and BTG supply space.
- Leading European T&D equipment and solutions companies such as Areva, ABB and Siemens also have established operations in India.

**Water and waste management**

- There is very limited presence of international companies in the water and waste management space in India as it is largely a state responsibility. The role of international companies is limited to specific urban development projects, for which the government seeks international assistance and participation. There is an opportunity for international players to partner with the government to share their project management expertise and facilitate technology transfers.

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### French companies in India

**Total**

- December 2008 - Total, along with its partner Shell, is planning to build a cargo-handling terminal next to its Hazira LNG terminal in Gujarat. Total holds a 26% stake in the LNG terminal and the remaining stake is held by Shell.
- September 2008 - The company announced its plans to invest INR200 million to set up an LPG storage and bottling plant with a capacity of 450 tons in Karnataka.

**Areva**

- April 2009 - Areva T&D India commenced operations at its eight new power transmission equipment manufacturing plants at Vadodara, Hosur and Padappai. The total investment in the plants is about INR9.5 billion.
- February 2009 - Nuclear Power Corporation of India (NPCIL) has signed a memorandum of understanding with Areva (parent company of Areva T&D India) to set up nuclear reactors at Jaitapur, Maharashtra. Under the preliminary deal, Areva plans to set up two to six evolutionary power reactors and provide for lifelong fuel supply for these units. For the security of uranium supply, Areva has offered a stake in its mining projects to NPCIL.

**Veolia Water India**

- June 2008 - Veolia Water India was awarded a EUR24 million water management project by the city of Nagpur in Maharashtra. The project covers the design, construction and operation of a water production plant for a period of 15 years and with a capacity of 240,000 cubic meters per day.

**Suez Environment (Degremont, Safegé)**

- January 2008 - Degremont, a subsidiary of Suez Environment, got a contract from the Mumbai authorities for design, construction and four years of operation of one of the largest drinking water treatment plants in the country. In addition, Degrémont was also awarded a contract to design, build and operate a wastewater treatment and reuse plant in Delhi. These two contracts are together worth EUR86 million (INR4.9 billion).

**Alstom**

- November 2008 - Alstom Projects India Ltd. won an INR4.6 billion contract from Andhra Pradesh Power Generation Corp. The company will build six generating units, each with a capacity of 40 MW, for a hydroelectric project.
### Segment Roads and highways

<table>
<thead>
<tr>
<th><strong>Current state</strong></th>
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<tbody>
<tr>
<td>▶ Spanning approximately 3.3 million km, India’s road network is divided into primary and secondary systems. The primary system includes 70,548 km of national highways, while the secondary system includes 599,662 km of state highways and major district roads.</td>
<td></td>
</tr>
<tr>
<td>▶ Currently, 85% of passenger traffic and 65% of freight traffic constitute India’s road use. National highways account for only 2% of the country’s total stretch of road and bear 40% of the traffic.</td>
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</tr>
<tr>
<td>▶ The Government of India has launched several initiatives such as the National Highway Development Programme, the Pradhan Mantri Gram Sadak Yojana and the Special Accelerated Road Development Programme – North East to upgrade and strengthen India’s national highways.</td>
<td></td>
</tr>
<tr>
<td>▶ Funds to be allocated for the National Highways Authority of India (NHAI) in budgetary estimates (BE) for 2009–10 have grown by 23% over the interim BE for 2008–09.</td>
<td></td>
</tr>
<tr>
<td>▶ During FY09, the government plans to build 12,000 km of roads worth INR1,000 billion in toll collection mode.</td>
<td></td>
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<tr>
<td>▶ The country’s road network currently requires large capacity expansions.</td>
<td></td>
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<tr>
<td>▶ The demand-supply gap has increased due to the unavailability of funds and limited private participation. However, the government has taken steps to encourage private investment in roads.</td>
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<table>
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<tr>
<th><strong>Sector drivers</strong></th>
<th></th>
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<tbody>
<tr>
<td>▶ The government has undertaken several reform measures and projects to optimize the development of the roads sector.</td>
<td></td>
</tr>
<tr>
<td>▶ The private sector’s participation in road infrastructure has increased.</td>
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</tbody>
</table>
In FY08, the total investment in India’s infrastructure was estimated to be approximately 5% of the country’s GDP.

Driven by growth reforms and policy measures, the infrastructure sector has generally been in overdrive in the past. However, the current global crisis has hit private sector activity in the segment.

The government has announced stimulus packages to boost long-term growth prospects of the infrastructure sector.

### Railways
- Spanning 63,332 km and home to 8,000 stations, Indian Railways (IR) is the second-largest rail network in the world.\(^4\)
- IR has witnessed a significant turnaround in recent years. Between April 2008 and February 2009, freight and passenger earnings grew at 12% and 11%, respectively, as compared to the same period in 2008.\(^5\)
- Funds to be allocated for IR have increased from INR108 billion in the interim BE for 2009–10 to INR158 billion in the BE for 2009–10.\(^2\)
- IR is undertaking measures to increase the role of the private sector. The Ministry of Railways has issued 16 licenses for the operation of private container trains and for the development of dedicated freight corridors, rail-side warehouses, multimodal logistics parks and commercial land and space.

### Ports
- India has 12 major ports and 200 minor ports. A majority of the country’s international trade is carried out through maritime transport, and approximately 74% of sea-borne traffic is handled by major ports.\(^6\)
- Cargo traffic handled by major ports has increased from 383.75 million tons (mt) in FY05 to 530.35 mt in FY09. The share of non-major ports to total traffic has also witnessed a rise, from 137.83 mt in FY05 to 207.78 mt in FY09.\(^4\)
- Capacity at major ports has increased from 398.5 mt in FY05 to 555.67 mt in FY09.\(^6\)
- Indian ports are also experiencing the global trend of rising containerization. Container trade has increased from 2.47 million twenty-foot equivalent units (TEUs) in 2000 to 7.7 million TEUs in 2009. This is expected to reach 20 million TEUs in 2020.\(^6\)
- Several new projects, entailing a total investment of INR470 billion and 600 mt of capacity, are expected to commence in FY09.\(^4\)
- The government has encouraged private-sector participation in ports. The private sector will contribute 65% of the total outlay of INR554.01 billion that the government has proposed for major ports in the Eleventh Plan.\(^7\)
- The government has increased investments for modernization, enhanced capacity and the completion of new projects. Between FY03 and FY08, freight traffic grew by 9% and passenger traffic grew by 6%.

### Airports
- India has 454 airports and airstrips, of which 97 airports are owned and operated by the Airports Authority of India (AAI) and 16 are designated international airports.\(^7\)
- The Mumbai and Delhi airports are privatized and are currently being upgraded at an estimated investment of USD4.0 billion over 2006–16. Private consortiums have built greenfield airports in Bengaluru and Hyderabad with a total investment of more than USD800.0 million.\(^8\)
- The first greenfield airport set up under the public private partnership (PPP) model, Cochin airport, is in the process of building the country’s first airport city over 1,300 acres of land. 35 non-metro airports are proposed to be upgraded through the PPP route. For the eleventh five year plan, the AAI has planned a major investment of USD3.07 billion.\(^8\)
- Both the government and the private sector have increased their investments in airports. Over the years, air traffic has increased.

### Outlook
- During the Eleventh Plan, total investment in infrastructure is projected to be INR20,561.5 billion.\(^9\)
- Both the public and private sectors are likely to play an important role in building infrastructure. The share of PPP in infrastructure projects is expected to increase from 17% in the Tenth Plan to 30% in the Eleventh Plan.\(^10\)
- To encourage infrastructure investment through PPP mode, the government has allowed India Infrastructure Finance Company Limited to refinance 60% of commercial bank loans under the “takeout financing scheme” for PPP projects in infrastructure over 15–18 months.\(^2\)
Overview
Infrastructure and construction
continued

<table>
<thead>
<tr>
<th>Segment</th>
<th>Cement</th>
</tr>
</thead>
</table>
| **Current state**     | ▶ In FY09, the Indian cement industry enhanced its capacity by approximately 21 million tons, or around 10% of total capacity. Cement production and consumption grew 7.8% and 8.4% year-on-year, respectively, to 181.4 mtpa and 177.8 mtpa, respectively, with an average capacity utilization of 85.7%.  
▶ In FY09, cement realizations (INR/ton) grew to 3,755.5 from 3,550.6 in FY08.  
▶ In 2Q10, 7.45 million tons of capacity has been added.  
▶ Major cement players have announced plans for capacity expansion. The industry currently has a problem of overcapacity, resulting in softening of prices. |
| **Sector drivers**    | ▶ Government and private-sector focus on infrastructure projects is viewed as one of the most critical drivers of the cement sector.  
▶ Leading indicators are pointing toward revival of the real estate sector, but it will take the sector some time to regain the peak levels of early 2008. |
Cement: at the end of FY09, total cement capacity in India stood at 225 million tons per annum (mtpa).

Glass: India's glass industry is rapidly moving toward more value-added products. Value-added glass products could bring in 50-60% more revenue.

<table>
<thead>
<tr>
<th>Glass</th>
<th>Construction</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ The flat glass industry is categorized into float, sheet, figured and wired glass. Notably, developing nations are experiencing a shift in demand from sheet glass to float glass.</td>
<td>▶ The construction sector in India is considered to be the second largest in terms of economic activity after agriculture, employing a total of 32 million people.</td>
<td>▶ Pan-India capacity expansion by both large and regional players is expected to result in greater capacity consolidation. The addition of approximately 65 million tons of capacity is expected in FY10.</td>
</tr>
<tr>
<td>▶ Float glass is widely used for automobile windshields, window glazing, furniture, doors, and mirrors, among other end uses.</td>
<td>▶ Approximately 54% of all construction activity in India is generated from the infrastructure sector, 36% from the industrial segment and the rest from residential and commercial activities.</td>
<td>▶ The above-mentioned capacity expansion may lead to further softening of prices and margins in the short to medium term.</td>
</tr>
<tr>
<td>▶ The demand for float glass, barring the economic slowdown in 2008-09, has increased at a CAGR of 15-20% during the last 2-3 years against the global growth rate of approximately 4%.</td>
<td>▶ The industry is highly fragmented, with small enterprises dominating at approximately 96%, medium enterprises accounting for 3% and large enterprises constituting the rest.</td>
<td>▶ The industry is likely to witness significant investments toward the manufacture of solar photovoltaic panels in India, which would create a demand for the same in the near future.</td>
</tr>
<tr>
<td>▶ The size of India's float glass market was approximately INR17.0 billion (FY07), and is expected to grow at an annual rate of 10%.</td>
<td>▶ The construction sector has grown at about 12% annually for the past five years. It has grown rapidly in the first half of 2008, slowing down in the second half of the year.</td>
<td>▶ The growing popularity of green, or environment-friendly, buildings in India, which requires the use of high-performance glass, is an opportunity for the sector.</td>
</tr>
<tr>
<td>▶ The flat glass industry is dominated by France-based Saint-Gobain, followed by Japan-based AIS.</td>
<td>▶ In India, the current level of glass consumption is approximately 0.6 kg per capita, compared to approximately 11-15 kg per capita in the developed countries.</td>
<td>▶ Housing and township projects have witnessed growth.</td>
</tr>
<tr>
<td>In India, the current level of glass consumption is approximately 0.6 kg per capita, compared to approximately 11-15 kg per capita in the developed countries.</td>
<td>▶ Replacement demand</td>
<td>▶ The prices of critical raw material have decreased.</td>
</tr>
<tr>
<td>The consumption of processed glass in the architectural segment is on the rise. In the last few years, manufacturers have invested heavily in architectural downstream processing.</td>
<td>▶ With several reform measures, the government has increased focus across infrastructure segments.</td>
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</tr>
<tr>
<td>▶ Presently, laminated windshields are mandatory only for the front windshield of automobiles in India. However, by 2010, it is also expected to become mandatory for the sides and back door. This move could double the demand for laminated glass.</td>
<td>▶ The industry is affected by overcapacity of raw glass and projected surplus of processed glass.</td>
<td>▶ The realty boom and changes in modern architecture have increased the demand for value-added glass.</td>
</tr>
<tr>
<td>▶ The industry is highly fragmented, with small enterprises dominating at approximately 96%, medium enterprises accounting for 3% and large enterprises constituting the rest.</td>
<td>▶ Signs of recovery, visible in the construction sector, are expected to drive the growth of float glasses in the coming years.</td>
<td>▶ The operating margins of construction companies are expected to improve marginally by FY10 with the drop in commodity prices. Overall, the construction sector is likely to grow by approximately 9% during FY08-09.</td>
</tr>
<tr>
<td>▶ The construction sector has grown at about 12% annually for the past five years. It has grown rapidly in the first half of 2008, slowing down in the second half of the year.</td>
<td>▶ Heavy investment has been made in both infrastructure and construction sectors.</td>
<td>▶ Pan-India capacity expansion by both large and regional players is expected to result in greater capacity consolidation. The addition of approximately 65 million tons of capacity is expected in FY10.</td>
</tr>
<tr>
<td>▶ Consumption of processed glass in the architectural segment is growing at a fast pace.</td>
<td>▶ Automotive sector is expected to drive the growth for the glass sector with:</td>
<td>▶ The above-mentioned capacity expansion may lead to further softening of prices and margins in the short to medium term.</td>
</tr>
<tr>
<td>▶ Housing and township projects have witnessed growth.</td>
<td>▶ Increasing production and export of automobiles</td>
<td>▶ The growing popularity of green, or environment-friendly, buildings in India, which requires the use of high-performance glass, is an opportunity for the sector.</td>
</tr>
<tr>
<td>▶ The prices of critical raw material have decreased.</td>
<td>▶ New capacity being set up in India for auto manufacturing</td>
<td>▶ With several reform measures, the government has increased focus across infrastructure segments.</td>
</tr>
<tr>
<td>▶ Replacement demand</td>
<td>▶ 8% cut in excise duty on vehicles and easy availability of flexible automobile loans</td>
<td>▶ Demand for value-added products is expected to grow at a faster rate than demand for basic glass.</td>
</tr>
<tr>
<td>▶ The realty boom and changes in modern architecture have increased the demand for value-added glass.</td>
<td></td>
<td>▶ The operating margins of construction companies are expected to improve marginally by FY10 with the drop in commodity prices. Overall, the construction sector is likely to grow by approximately 9% during FY08-09.</td>
</tr>
</tbody>
</table>
"India is one of the most dynamic markets for land transportation in Asia. There are numerous opportunities for involvement of French companies. French knowledge and experience in land transportation is valued in India, and therefore opportunities of involvement arise at all levels of these projects, such as consultancy, construction, operation and investment (with an increased number of PPPs). However, while being an open market, companies willing to enter in the Indian market should have a long-term view, be patient (the projects often take time to materialize) and be ready to face a number of administrative difficulties as well as high competition."

**French player in the infrastructure and construction sector**
Strategic analysis

- The Government of India has relaxed its policies and introduced various reforms to boost infrastructure investment in the country from both local and foreign counterparts.
- Changi Airports International has signed a memorandum of understanding with Bengal Aerotropolis to build a new airport in Machhiwara, Ludhiana.
- In recent years, the flow of FDI in the cement sector has increased.
- Holcim plans to invest approximately USD2.4 billion in the next five years to set up plants and expand capacity by 25 metric tons in India.
- Foreign players dominate the float glass market in India.
- Saint-Gobain is currently leading the market, followed by Japan-based Asahi.
- Saint-Gobain entered India by acquiring a majority stake in Grindwell Norton, while Asahi entered the country by setting up a wholly owned subsidiary.

French companies in India

**Lafarge (cement)**
- Lafarge entered the Indian market in 1999 with the acquisition of Tata Steel’s cement business. This acquisition was followed by the purchase of the Raymond Cement facility in 2001.
- The company is a leading cement player in eastern India. Its brands, Lafarge Cement and Lafarge Concreto Cement, enjoy high brand equity in this region and are among the most costly brands. Lafarge is planning to set up four greenfield projects in Rajasthan, Himachal Pradesh, Northeast and South India, with a combined capacity of approximately 5 metric tones.

**Saint-Gobain (glass)**
- Saint-Gobain entered India following the acquisition of a majority stake in Grindwell Norton in 1996.
- The group operates in India through eight subsidiaries with 18 manufacturing units.
- The company has identified opportunities in medium-sized buildings, especially in smaller centers, as growth drivers, and is working on products suitable for Indian conditions.

- The company has recently implemented cost-reduction strategies such as the renegotiation of rates with suppliers for its planned greenfield plant in Bhiwadi. The company has earmarked an investment of INR10.0 billion to set up the 300,000-ton facility in Rajasthan to expand its float glass capacity to more than 0.75 mt annually, from the current 0.45 mt per year.
- The company plans to introduce a range of value-added products such as bio-cleaning and aqua-cleaning glasses in India.

**Systra Group (Infrastructure)**
- France-based Systra operates in India through its subsidiary “Systra MVA Consulting (India) Pvt Ltd. The company has offices in Mumbai and Delhi.
- Systra MVA provides professional consultancy services in all aspects of traffic and transport planning and management. Some of the recent projects undertaken by the company include: Delhi airport rail patronage and revenue forecasts, Mumbai MRTS – patronage and revenue forecasts, Mumbai MRTS – traffic and station plans, Mumbai monorail construction traffic management, Project management for the Bangalore metro, and traffic studies for theme park, water park and retail malls at Noida.

"The need for better infrastructure in India is a given. Capacity constraints are evident across all segments of the infrastructure sector. Peak power deficits are around 15–16%, most major ports are operating at 100% capacity utilization and only 17% of the national highways are four-laned. Consequently, public expenditure on infrastructure has witnessed a significant increase - the estimated capital outlay in the eleventh five year plan (2007–12) of approximately USD475 billion is expected to be met through public sector spending as well as private participation. Power, roads, railway, telecom and infrastructure account for over 80% of the planned outlay. The resultant opportunities in development, consultancy, construction, and equipment and material supply are being capitalized upon by a number of French companies such as Egis, Coteba, Systra, Vinci, Bouygues, Lafarge and Saint Gobain. The high gestation period for projects and the political concurrence of the importance of this sector ensure that significant opportunities will continue to exist in the long term."
Overview
Real estate and hospitality

Segment Residential

Current state
- Residential sector accounts for a majority share (approximately 75%) of the Indian real estate industry.
- Housing shortage in India is estimated to increase from 24 million units in 2007 to 26 million units by year-end 2012.*2
- Evolution from unorganized/fragmented market to semi-organized market with pan-India players.
- Developers now focusing on integrated townships and differentiated segments, including affordable housing.

Sector drivers
- Rising young working population
- Increasing degree of urbanization
- Easy availability of cheaper finance
- Declining household size (more nuclear families)

*According to the eleventh five year plan (2007-2012)
The size of the Indian real estate industry is approximately USD16 billion.

FDI inflows in the sector have been of the order of USD6.7 billion from 2005 (opening of sector) through to June 2009.

<table>
<thead>
<tr>
<th>Commercial</th>
<th>Retail</th>
<th>Hospitality</th>
<th>Special economic zone (SEZ)</th>
<th>Facilities management</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>• IT/IT enabled services industry accounts for 60-70% of the demand for office space in the country.¹</td>
<td>• Concept of specialized malls such as wedding malls, jewellery malls and electronics malls are increasingly gaining traction.</td>
<td>• There were 122,979 hotel rooms in India at the end of FY08, of which 63% were approved.¹</td>
<td>• As of 29 April 2009, 335 SEZs have been notified and the Board of Approvals has granted formal approvals to 578 SEZs till January 2009.²</td>
<td>• The government’s interest rate cuts and fiscal stimulus, coupled with a reduction in prices by developers, has driven the revival in demand for residential real estate.</td>
<td></td>
</tr>
<tr>
<td>• Slowdown in demand and rising vacancy levels have led to correction in rentals across the country.</td>
<td>• Real estate players are developing mixed-use projects that offer hotels, amusement/entertainment facilities, commercial spaces and shopping spaces, all at the same location.</td>
<td>• Players have diversified into budget hotels and service apartments.</td>
<td>• Penetration of brands is increasing and branded chains have emerged in the non-5-star segment.</td>
<td>• The focus on integrated township projects is expected to increase as developers have been allowed to access external commercial borrowings for such projects. This may also help housing shortage to ease in the long term.</td>
<td></td>
</tr>
<tr>
<td>• Space constraints and higher prices shifting development to secondary business districts and suburbs.</td>
<td>• Slowdown seen as an opportunity for consolidation by big players.</td>
<td>• Slowdown in demand and rising vacancy levels have led to correction in rentals across the country.</td>
<td></td>
<td>• Developers are once again focusing on residential projects (especially affordable and township projects) besides developing smaller offices.</td>
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<td></td>
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<td>• Due to the economic slowdown, there is an oversupply of office and retail space in most micro-markets. The demand-supply gap is expected to reduce in the future as developers have placed a cap on the launch and completion of projects in these segments.</td>
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<td></td>
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<td></td>
<td>• The exclusion of hotels run by developers from the ambit of commercial real estate exposure is expected to ease funding for such projects.</td>
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<td></td>
<td></td>
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<td></td>
<td>• Despite the slowdown, India witnessed growth of 6.9% during FY09. The Indian real estate industry is currently on the path to recovery and continues to remain attractive in the long run. The industry’s fundamental growth drivers include increasing urbanization, favorable demographics and a lack of sufficient office, retail and hotel space.</td>
<td></td>
</tr>
</tbody>
</table>

The hospitality industry in India was worth INR186.7 billion in FY08. The premium segment (5-star deluxe/5-star hotels), which accounts for 26% of the total hotel rooms, contributed about 60% of the industry revenues.¹
Real estate

The real estate industry in India has evolved from being a highly fragmented and unorganized industry into a semi-organized one, with a large number of small regional businesses and few large corporates with a national presence.

DLF is the largest player in the industry, while Unitech, Ansals, Rahejas and Hiranandani are some of the others.

Competition is on the rise as foreign investors continue to foray into the market.

Hospitality

The Indian hospitality industry is highly fragmented and unorganized.

The Indian Hotels Company is the largest in the industry, while EIH, ITC, Lalit Hotels, Asian Hotels, and Hotel Leelaventure are some of the other key players.

Several international chains, including InterContinental, Marriott, Starwood and Accor, have also entered the Indian hospitality space. This has intensified the competition in the industry.

Real estate developers have also entered the hospitality industry in India by getting into management contracts with hotel chains.

Key foreign players

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hines</td>
<td>US</td>
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<tr>
<td>Tishman Speyer</td>
<td>US</td>
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<tr>
<td>Emaar</td>
<td>UAE</td>
</tr>
<tr>
<td>Accor</td>
<td>France</td>
</tr>
<tr>
<td>Hilton</td>
<td>US</td>
</tr>
<tr>
<td>Starwood</td>
<td>US</td>
</tr>
<tr>
<td>Marriott</td>
<td>US</td>
</tr>
<tr>
<td>InterContinental</td>
<td>US</td>
</tr>
<tr>
<td>Carlson</td>
<td>US</td>
</tr>
<tr>
<td>Four Seasons</td>
<td>Canada</td>
</tr>
<tr>
<td>Sodexo</td>
<td>France</td>
</tr>
<tr>
<td>Knight Frank</td>
<td>UK</td>
</tr>
<tr>
<td>Jones Lang LaSalle</td>
<td>US</td>
</tr>
</tbody>
</table>

Competitive landscape

Real estate

- The real estate industry in India has evolved from being a highly fragmented and unorganized industry into a semi-organized one, with a large number of small regional businesses and few large corporates with a national presence.
- DLF is the largest player in the industry, while Unitech, Ansals, Rahejas and Hiranandani are some of the others.
- Competition is on the rise as foreign investors continue to foray into the market.

Hospitality

- The Indian hospitality industry is highly fragmented and unorganized.
- The Indian Hotels Company is the largest in the industry, while EIH, ITC, Lalit Hotels, Asian Hotels, and Hotel Leelaventure are some of the other key players.
- Several international chains, including InterContinental, Marriott, Starwood and Accor, have also entered the Indian hospitality space. This has intensified the competition in the industry.
- Real estate developers have also entered the hospitality industry in India by getting into management contracts with hotel chains.
Strategic analysis

Real estate

- In the past few years, a large number of international companies have entered the Indian market, primarily through strategic tie-ups with local firms.
- International private equity funding has also increased in the industry, as domestic developers were forced to utilize alternative sources of financing due to tighter bank lending norms and unstable capital markets.

Hospitality

- Attracted by India’s hospitality industry, international hotel chains are increasing their presence in the country.
- For instance, Hilton, Marriott, Starwood, Carlson, InterContinental, Accor and Choice have outlined extensive expansion plans in India.
- Most of the chains have formed alliances with real estate firms who develop these properties.

French companies in India

Accor

- Accor has operations in hotels as well as the services domain in India.
  - Hotels – Launched its Ibis and Novotel brands and plans to open 5,000 rooms in the country by 2010; entered a JV with Emaar-MGF to launch its budget hotel brand, Formule1.
  - Services – Operates in the employee benefits and loyalty solutions space and has acquired two companies in India (Royal Image Direct and Surf God); plans to acquire more companies in India to strengthen its presence.

Sodexo

- Sodexo offers food and facilities management services and service vouchers in India.
- The company recently acquired the catering and facilities management business of the Radhakrishna Hospitality Services Group. It is currently positioned as the largest food services player in India.

“Liberalization of FDI guidelines for real estate in 2005 opened up a tremendous opportunity. India’s sheer domestic market size would ensure an excellent platform for international developers and investors alike. The huge middle-class population will continue to provide the potential in mid-market housing and the budget hotel segment for a long time to come.”

Rajiv Sahni
Partner – Infrastructure, Real Estate & Hospitality
Transaction Real Estate
Ernst & Young Pvt. Ltd.

“Real estate in India offers today many opportunities for investment; however, it is still a challenge to find the right business partner. But if patience and perseverance are among your qualities, you will be successful in India over the long term.”

French player in real estate and hospitality sector
### Segment: IT services

- **Current state**
  - With revenues of USD35.2 billion, the segment accounted for 49% of information technology - business process outsourcing (IT-BPO) revenues for FY09. It has grown at a CAGR of 25.6% for FY06-09.\(^1\)
  - Service providers have increased their focus on value-added service such as system integration and consulting to offer increased value. Further, increased M&A activity has resulted in heightened demand for integration services to integrate networks, systems and processes.
  - According to the FY10 budget, the software technology parks of India (STPI) scheme has been extended until 31 March 2011 and minimum alternate tax has been increased to 15% from 10%.\(^2\) The STPI scheme is aimed at providing tax benefits to IT companies in India.

### Sector drivers

- Focus on domestic sector and emerging markets
- Focus on non-banking and financial services and institutions verticals such as retail, manufacturing and healthcare
- Focus on green IT and energy-efficient solutions
- Increased IT adoption by small and medium-sized enterprise (SME) sector
- Increased spending in e-governance projects

### Software products

- **Current state**
  - During FY09, Indian companies spent USD2.3 billion on software products. This represents a CAGR of 18.9% for FY07-09.\(^3\)
  - Indian product companies accounted for 21% of the segment’s total software revenues for FY09.\(^1\)
  - Technology incubation centers act as catalysts for technology-based start-ups.
  - The FY10 budget has abolished excise duty on packaged software, which may result in a reduction in software product prices.

- **Focus on domestic sector and emerging markets**
- Development of customized software for various verticals
- Improved value perception by global chief investment officers and IT heads
The Indian IT industry is expected to earn revenues of USD71.7 billion in FY09.¹ The Indian telecom services sector has not felt any significant impact of the global economic slowdown; it is still growing at 25% per year. The telecom equipment market is also growing, but has felt the negative impact of the slowdown to a certain extent.²

<table>
<thead>
<tr>
<th>Hardware</th>
<th>Telecom services</th>
<th>Telecom equipment</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>The hardware segment is expected to reach USD12.1 billion in FY09, with the export market contributing USD300 million.¹</td>
<td>The Indian telecom services sector is among the fastest growing in the world, growing at over 25% for the last three years, with mobile phones driving this growth.²</td>
<td>The telecom equipment market is growing steadily as operators are expanding their coverage to all the areas of the country to offer their services in advance.</td>
<td>For IT and telecom market, focus on cost reduction to increase due to the recessionary environment.</td>
</tr>
<tr>
<td>The industry has grown at a CAGR of 19.6% during FY06-09.³</td>
<td>Revenues from telecom services for FY09 amounted to INR1575.4 billion, a 21% y-o-y increase from INR1305.6 billion in FY07-08.²</td>
<td>The Indian telecom equipment industry witnessed a 20% y-o-y growth from INR954 billion in FY07-08 to INR1145.3 billion in FY08-09.²</td>
<td>Focus on green IT to increase – green computing to green datacenters are the way forward.</td>
</tr>
<tr>
<td>The segment accounted for 48.5% of the revenues of the overall domestic market.⁴</td>
<td>By the end of May 2009, the sector’s total subscriber base reached 452.9 million, with its overall tele-density reaching 38.9%.⁵</td>
<td>Revenue from equipment is broadly divided into three categories – carrier equipment (64%), enterprise equipment (13%) and handsets (23%).⁸</td>
<td>Focus on tier-II and tier-III cities, as well as on the small and medium businesses (SMB) segment, for IT services and hardware segments.</td>
</tr>
<tr>
<td>With revenues of USD6.4 billion in FY09, desktops and notebooks contribute the highest share of revenues to the segment.¹</td>
<td>Greenfield operators, with their foreign partners, commenced operations and are set to give stiff competition to the incumbents.</td>
<td>Greenfield operators are giving stiff competition to established multinational players and exerting pressure on their margins.</td>
<td>Rural market to be the next “100 million market” for telecom operators.⁵</td>
</tr>
<tr>
<td>There is an increased demand for notebooks from the consumer segment.</td>
<td>Major code division multiple access (CDMA) operators such as Reliance Communications and Tata Teleservices have ventured into the global system for mobile communications (GSM) space.</td>
<td>Chinese equipment manufacturers are giving stiff competition to established multinational players and exerting pressure on their margins.</td>
<td>Growth of 3G and WiMAX expected to be the key for operators and equipment manufacturers.⁵</td>
</tr>
<tr>
<td>Increased adoption by the SME segment resulting in a 30% increase in PC adoption¹</td>
<td>Favorable telecom policies by subsequent governments</td>
<td>3G and WiMAX network roll-out by mobile operators⁶</td>
<td>Emergence of infrastructure sharing, both passive and active, among operators, especially in rural areas.⁷</td>
</tr>
<tr>
<td>Focus on green data centers and virtualization of servers.</td>
<td>Increased investments, both foreign and domestic, as well as from private sector</td>
<td>Expansion of network in rural areas by all operators</td>
<td></td>
</tr>
<tr>
<td>Growing telecom equipment and flash memory product segments</td>
<td>Focus on rural market resulting in network expansion⁶</td>
<td>Greenfield operators entering market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sharp decline in mobile tariffs, launch of low cost handsets, launch of lifetime validity plans and value added services services⁷</td>
<td>Affordable mobile services</td>
<td></td>
</tr>
</tbody>
</table>

Capitalizing on the India opportunity
Current state

Market share analysis

<table>
<thead>
<tr>
<th>IT services revenues (USD billion)</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCS</td>
<td>6.0</td>
</tr>
<tr>
<td>Wipro</td>
<td>5.0</td>
</tr>
<tr>
<td>Infosys</td>
<td>4.6</td>
</tr>
<tr>
<td>HCL Tech (July–June 2008)</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Indian IT hardware market share, FY08

- HP, 18.4%
- HCL, 11.8%
- Lenovo, 7.6%
- Dell, 7.6%
- Acer, 7.3%
- Others, 42.1%

Telecom services market share, March 2009

- Bharti Airtel, 24.0%
- Vodafone, 17.6%
- Idea, 9.9%
- BSNL, 13.3%
- Tata, 9.0%
- Others, 7.7%

Wireless infrastructure equipment market share, FY08

- NSN, 32.0%
- Alcatel-Lucent, 17.0%
- Huawei, 6.0%
- ZTE, 6.0%
- Others, 6.0%
- Ericsson, 33.0%

Key foreign players

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>IBM</td>
<td>US</td>
</tr>
<tr>
<td>Accenture</td>
<td>US</td>
</tr>
<tr>
<td>CSC</td>
<td>US</td>
</tr>
<tr>
<td>HP</td>
<td>US</td>
</tr>
<tr>
<td>Dell</td>
<td>US</td>
</tr>
<tr>
<td>Lenovo</td>
<td>Japan</td>
</tr>
<tr>
<td>Alcatel-Lucent</td>
<td>France</td>
</tr>
<tr>
<td>Nokia</td>
<td>Finland</td>
</tr>
<tr>
<td>Ericsson</td>
<td>Sweden</td>
</tr>
<tr>
<td>Vodafone</td>
<td>UK</td>
</tr>
<tr>
<td>Orange</td>
<td>France</td>
</tr>
<tr>
<td>Verizon</td>
<td>US</td>
</tr>
</tbody>
</table>

- IT services
- Hardware
- Telecom equipment
- Telecom service
Strategic analysis

Foreign players in IT
- Foreign players are focused on providing end-to-end IT services to their clients to maintain their stronghold on the domestic market.
- They are also focusing on the SMB segment to tap the significant potential of the market.
- Many foreign players have set up their hardware manufacturing plants and R&D centers in India.

Foreign players in telecom
- In the recent past, the growing Indian telecom services market has attracted a significant number of major foreign players such as Telenor, Etisalat and NTT DoCoMo. Many have re-entered the market with a strategic Indian partner.
- Recently, many global giants such as A&T, BT, Cable & Wireless, Orange Business Services and Verizon Business, which provide non-voice long-distance enterprise services in India, announced the formation of an association, Association of Competitive Telecom Operators, to promote their interests in the Indian telecom industry.
- The telecom equipment market is also dominated by foreign players. Ericsson, Alcatel-Lucent and Nokia Siemens Network have garnered more than 60% of the carrier equipment segment.
- Nokia, Motorola, LG and Samsung have handset-manufacturing units based in India to produce middle-range and low-cost handsets for the country as well as for exports.

French companies in India
- Capgemini
  - 2000 – Capgemini acquired Ernst & Young Consulting.
  - 2008 – Capgemini extended strategic relationship with HSBC.
- Atos Origin
  - 2000-01 – Atos Origin established its offshore delivery center in India to cater to its global clients.
  - 2004 – The company started focusing on the Indian domestic IT services market.
- Alcatel Lucent
  - 1982 – Alcatel Lucent entered Indian markets with technology transfer to ITI Ltd. and became the first to manufacture digital switching equipment in the country.
  - 2004 – The company established Bell Labs Research Centre in Bangalore.
  - 2005 – The company entered JV with Centre for Development of Telematics in Chennai to develop broadband wireless access solutions such as WiMAX.
  - 2008 – The company entered a five-year JV, worth USD500 million, with Bharti Airtel to manage the fixed line and broadband telephone operations of the telecom service provider.
  - Alcatel entered a strategic partnership with Bharti Airtel for the latter’s tele-media network with its optical and IP product portfolio.

“After the software and the IT/IS industry, India is becoming the place of innovation for telecom services, triggered by the growth of mobile and the potential of broadband markets. A high competition and the size of the telecom projects require new collaborative services business and innovation in the delivery model. We have JVs with some of our large customers to provide pan-Indian managed services. We will continue to relocate and develop some of our global services centers in India to sustain our fast-growing services business expansion in India and to leverage its innovation toward other markets.”

French player in the information technology and telecom sector
Overview
Financial services

Segment Banking and capital markets

Current state

- Despite the ongoing turmoil in the banking sector worldwide, more than 80 scheduled commercial banks in India continued to register an impressive growth of 20% and 18% in deposits and credit, respectively, in FY09.¹
- The dependence of corporate entities on banks as the primary source for credit increased further after the global financial crisis and its impact on capital and money markets in India.
- After two years of tight monetary and credit policy, RBI has started cutting benchmark interest rates and reserve ratios. Between October 2008 and April 2009²:
  - The repo rate reduced from 9% to 4.75%.
  - The reverse repo rate reduced from 6% to 3.25%.
  - Cash reserve ratio reduced from 9% to 5%.
  - Statutory liquidity ratio reduced from 25% to 24%.

Sector drivers

- Number of households undertaking banking in India are projected to grow at a CAGR of 28.1% during 2007-2011.
- Banks are strongly focusing on fee-based services to boost income.
- There is a healthy credit demand from corporate entities as alternative funding sources have dried up.
- Debt markets may see more activity due to higher government borrowings and likely reforms in corporate debt markets.
The financial services sector in India had experienced major growth after the second wave of economic liberalization in the country and reforms in the sector in the early 2000s. Although this growth phase was temporarily affected by the recent global economic slowdown, the sector is likely to be back on the growth trajectory after a brief period of consolidation, to meet India’s large potential for financial services.

<table>
<thead>
<tr>
<th>Asset management</th>
<th>Insurance</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Assets under management (AUM) have grown at a CAGR of 34% over the last five years to INR6.7 trillion at the end of June 2009.</td>
<td>• India has emerged as the fifth-largest insurance market in Asia with total premiums of INR2,291.7 billion in FY08.</td>
<td>• The regulator is expected to be cautious while opening up the banking sector.</td>
</tr>
<tr>
<td>• There are 38 players; the top five account for 57% of the total AUM.</td>
<td>• There has been strong growth during FY01-FY08, as reflected below:</td>
<td>• The insurance sector is expected to be liberalized further by increasing the FDI limit from 26% to 49%.</td>
</tr>
<tr>
<td>• The share of mutual funds in the financial savings of households has increased steadily from 0.4% in FY2005 to 7.7% in FY2008.</td>
<td>• Total premiums grew at a CAGR of 27.1%.</td>
<td>• The growth momentum in the asset management space is likely to continue in the long term with several new players entering the sector.</td>
</tr>
<tr>
<td>• There is a wide range of products encompassing equity, debt and hybrids. Commodity-linked products are at a nascent stage due to regulatory restrictions.</td>
<td>• Penetration levels (premium income as a percentage of GDP) increased from 2.3% to 5.4%.</td>
<td>• The financial services sector is likely to see some consolidation, although in a sporadic manner.</td>
</tr>
<tr>
<td>• Distribution, which was dominated by third-party distributors, may undergo significant changes in the wake of recent regulatory changes.</td>
<td>• Premium per capita income increased from INR418.4 to INR2,013.8 — life insurance premium per capita increased from INR340 to INR1,769 and general insurance premium per capita rose from INR79 to INR245.</td>
<td></td>
</tr>
<tr>
<td>• The industry is largely restricted to a few cities. The bulk of investments come from Tier-I cities, leaving a large portion of retail savings untapped.</td>
<td>• There are 44 players in the industry (22 each in the life and non-life insurance segments).</td>
<td></td>
</tr>
<tr>
<td>• Strong performance of equity markets during 2003-2007.</td>
<td>• Growing consumer class, rising insurance awareness, increasing domestic savings and investments.</td>
<td></td>
</tr>
<tr>
<td>• Favorable tax treatment for mutual fund investments, with leading corporate treasuries preferring mutual funds to direct investments.</td>
<td>• Introduction of guaranteed returns products besides unit-linked insurance products.</td>
<td></td>
</tr>
<tr>
<td>• Entry of several foreign and Indian players into the industry.</td>
<td>• New distribution channels – bancassurance, brokers and e-channels.</td>
<td></td>
</tr>
<tr>
<td>• Introduction of products such as theme-based funds, international equity funds and gold funds.</td>
<td>• Growing demand for health and auto insurance products.</td>
<td></td>
</tr>
</tbody>
</table>
### Current state

#### Market share analysis

**Banking, by total assets, March 2008**

- State Bank of India: 17%
- ICICI Bank: 9%
- Punjab National Bank: 5%
- Canara Bank: 4%
- Bank of Baroda: 4%
- Others: 61%

**Asset management, by AUM, June 2009**

- Reliance: 16%
- HDFC: 12%
- ICICI Prudential: 11%
- Birla Sun Life: 8%
- UTI: 10%
- Others: 43%

**Life insurance, by total premiums, March 2008**

- LIC: 74%
- ICICI Prudential: 17%
- Bajaj Allianz: 5%
- SBI Life: 3%
- Reliance Life: 2%
- Others: 10%

**Non-life insurance, by total premiums, March 2009**

- New India: 18%
- National: 14%
- United India: 13%
- Oriental: 11%
- ICICI Lombard: 11%
- Others: 30%

### Key foreign players

<table>
<thead>
<tr>
<th>Company</th>
<th>Country of origin</th>
<th>Present in (name of the Indian partner)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allianz</td>
<td>Germany</td>
<td>Banking (Bajaj) Asset management (Bajaj)</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>France</td>
<td>Life insurance (Sundaram) NLI*</td>
</tr>
<tr>
<td>Citibank</td>
<td>US</td>
<td>(none)</td>
</tr>
<tr>
<td>HSBC</td>
<td>UK</td>
<td>(none)</td>
</tr>
<tr>
<td>ING</td>
<td>Netherlands</td>
<td>(none)</td>
</tr>
<tr>
<td>Prudential</td>
<td>UK</td>
<td>Life insurance (ICICI Bank)</td>
</tr>
<tr>
<td>Standard Chartered</td>
<td>UK</td>
<td>(none)</td>
</tr>
<tr>
<td>Standard Life Group</td>
<td>UK</td>
<td>(HDFC Standard Life)</td>
</tr>
<tr>
<td>Sun Life</td>
<td>Canada</td>
<td>Life insurance (AV Birla Group)</td>
</tr>
</tbody>
</table>

*NLI: Non-life insurance  * SBI: State Bank of India
Strategic analysis

- Global players have a noticeable presence in the Indian financial services sector. Players from the US, the UK, France, Germany, the Netherlands and Japan have a strong presence in India.
- Further, there are indications of the regulator adopting a cautious approach toward the expansion of foreign banks in India in the near future.
- In insurance, international players can operate in India only through a joint venture with a domestic firm and cannot hold more than 26% equity in the joint venture.
- There is a significant number of foreign asset managers entering the country, either on a stand-alone basis or through joint ventures with Indian firms.

French companies in India

**BNP Paribas**
- BNP Paribas is the second-oldest foreign bank in India and has now entered other segments under the financial services umbrella.
- BNP Paribas Asset Management bought a 49.9% stake in Sundaram Asset Management in October 2005 for approximately USD22.3 million.7
- Sundaram BNP Paribas Mutual Fund and Fortis Mutual Fund may merge following BNP Paribas’ global acquisition of Fortis.
- Cardif, a subsidiary of BNP Paribas Assurance, entered a 26:74 joint venture with State Bank of India to enter the life insurance business.
- It acquired a 27% stake in Geojit Financial Services, thereby entering the field of stock broking.

**AXA**
- AXA has tied up with Bharti, a leading telecom operator in India, to enter the financial services sector in the country.8
- AXA owns 26% and 75% stakes in its insurance and asset management ventures in India, respectively.

**Société Générale**
- The firm bought a 37% stake in SBI Fund Management in December 2004 for more than USD35 million. By the end of March 2009, it was the sixth-largest asset management company in India.9

**Calyon Bank**10
- Calyon Bank is present in India since 1981, providing various financing and investment banking services.
- The bank’s network in India consists of six branches.
FAQs for foreign investors

What are the investment routes foreign investors should utilize to acquire a stake in an Indian company?

A foreign entity may invest in India under any of the following routes:

- Foreign direct investment (FDI)
- Foreign institutional investor (FII)
- Foreign venture capital investor (FVCI)

Investment under the FDI route and the FVCI route is discussed later in this article (see questions 2 and 3). As regards the FII route, qualified foreign entities seeking investment opportunities in India are regarded as FIIs. FIIs can invest in Indian equities and debt subject to specified limits.

What is the FDI policy in India?

The FDI policy is relevant to foreign entities seeking to establish an Indian presence either by setting up an Indian company (either wholly owned or in joint venture with an Indian partner) or by acquiring a stake in an existing Indian company. Over the last two decades, the government of India has significantly liberalized the FDI policy for foreign investment in India. Currently, the FDI policy permits up to 100% foreign investment in most sectors, including the services sector. In sectors referred to as the “automatic route,” FDI does not require any prior approval from either the government of India or the Reserve Bank of India (RBI). In these situations, the Indian company is required to undertake reporting compliances with the RBI through authorized dealers (i.e., bankers) for receipt of consideration and issue of shares.

FDI through the automatic route is permitted in all activities and sectors (up to specified sectoral caps) except as listed below, which require prior approval of the government of India:

- Activities that require an industrial license.
- Proposals in which the foreign investor has a previous or existing venture/arrangement in India in the “same” field.
- All proposals falling outside notified sectoral policy or under sectors in which FDI is currently not permitted.

Where FDI is not allowed under the automatic route, prior approval of the government of India is required.

The Foreign Investment Promotion Board (FIPB), an administrative body functioning under the Ministry of Finance, considers all proposals for foreign investment that require government of India approval. According to the FDI policy, an application made to the FIPB is normally taken care of within 30 days of submitting an application.

Are there any restrictions on repatriation of capital invested and profits earned in India?

Capital and income arising from foreign investment in India can be freely repatriated (except for cases where the investment is made on a non-repatriation basis). Repatriation is subject to the provisions of a no-objection certificate, which is obtained from the Indian revenue authorities, or a certificate issued by a chartered accountant that confirms that taxes payable, if any, are deposited into the Indian government treasury.

Are any regulatory approvals required for the transfer of shares in an Indian company?

The government of India and the RBI have recently liberalized the procedures relating to the transfer of shares between residents and nonresidents. Currently, their approvals of the FIPB/RBI are not required, except in certain cases subject to compliance with the following conditions as well as reporting requirements and approval from an authorized dealer:

- The transfer is in accordance with the pricing guidelines prescribed by the Securities and Exchange Board of India (SEBI)/RBI.
- The transfer is not subject to the provisions of the SEBI regulations governing acquisitions and takeovers.
- Activities of the Indian company are under the automatic route under the FDI policy.
- Nonresident shareholding, after the transfer, does not exceed the prescribed sectoral limits under the FDI policy.

All proposals relating to acquisition of shares in an existing Indian company by a foreign investor in the financial services sector require prior approval of the RBI. Transfer of shares between nonresidents (subject to certain exceptions) does not require approvals of the FIPB/RBI, and pricing norms do not apply to such transfer of shares, subject to fulfillment of certain conditions.

What are the jurisdictions that have been typically used for structuring investments into India?

Typically, the following parameters are considered by foreign investors while structuring investments through a special purpose vehicle set up in a tax-friendly jurisdiction:

- Tax-friendly country having tax treaties with both host and home countries.
- Lower or no withholding of tax on payment of dividends, interest, royalties, etc.
Low/nil incidence of tax in the tax-friendly country.

Availability of foreign tax credit.

Capital gains exemption.

Low set-up/compliance costs.

Bearable anti-avoidance rules (e.g, treaty shopping, controlled foreign corporation guidelines, transfer pricing guidelines, thin capitalization norms).

In this regard, Mauritius has been a preferred destination for many foreign investors investing in India because of exemption from tax on capital gains provided by the India-Mauritius tax treaty, coupled with a favorable tax regime in Mauritius.

The other jurisdictions normally considered are Singapore, Netherlands and Cyprus.

In the recent past, the Indian revenue authorities have taken certain significant and debatable positions. They are of the view that if there is transfer of shares of a foreign company A by foreign company B in favor of foreign company C, such that the transfer results in effective change in the controlling interest of an Indian subsidiary, the capital gain income accruing to the seller company may be deemed to be income accruing or arising in India. In another case, the capital gains income earned by a company tax resident in Mauritius from sale of shares of an Indian company was considered liable to tax on the basis that, if the Mauritius company is largely controlled by its parent company, the parent company may be considered to be the real owner of income. Following these cases, attempt is being made by revenue authorities to investigate facts in all offshore transactions which have even a remote connection with India to consider whether there is scope for enlargement of the tax base in India.
What domestic tax laws need to be factored into the early days of a company?

The central government levies direct taxes, such as income tax (personal and corporate), and indirect taxes, such as customs duty, excise duty, stamp duty, central sales tax and service tax.

The state governments generally levy professional tax, stamp duty, entry tax and state sales tax.

Local authorities governing designated areas within a state also levy taxes, such as property tax, road tax, octroi, etc.

Recently, the government of India has embarked on an initiative to integrate all indirect taxes (central and state) into a comprehensive goods and services tax regime.

From a foreign investor's perspective, especially where the investment is in an existing Indian company, it becomes critical to understand the company's level of compliance with various taxes affecting its business.

What are the key considerations that should go into finalizing the investment and operating structure for any private equity or venture capital fund intending to invest in Indian companies?

The ability to distribute returns with minimum tax leakage to the "ultimate" investors is a paramount consideration when identifying an investment structure for any private equity/venture capital fund.

The operations have to be carefully structured to ensure that they do not constitute a permanent establishment (PE) in India (i.e., a place of business). The implication of constituting a PE is that income/gains may be taxable in India to the extent that income is attributable to activities carried on in India. PE exposure can be minimized by implementing certain precautionary measures that should be adopted at the outset and followed throughout the fund's activities in India.

The tax consequences arising from employee participation in incentive plans should also be analyzed in the context of the overall structure. Additionally, all transactions between associated enterprises should be at arm's length, in compliance with the Indian transfer pricing legislation.

In summary, investments by a private equity/venture capital fund are of a longer duration, with gains being realized upon sale or dilution of ownership.

To mitigate adverse Indian tax consequences, it is preferable that the above considerations are addressed at the time of establishing a fund and consistently observed during the entire life cycle of the investments in India.

What are the statutory obligations in case of a substantial acquisition of shares or takeovers of Indian companies?

SEBI regulates substantial acquisition of shares in and takeovers of listed Indian companies. An acquirer has to adhere to certain disclosure requirements in case the acquisition of shares or voting rights in a company exceeds specified limits. Further, in the following instances, the acquirer is required to make an open offer to the public:

a. 15% shares or voting rights: an acquirer who intends to acquire shares or voting rights which, along with existing shares or voting rights, would entitle the acquirer to exercise 15% or more voting rights, can acquire such additional shares or voting rights only after making a public announcement to acquire at least an additional 20% of the voting capital of the target company from its shareholders through an open offer.

b. Creeping acquisition limit: an acquirer who holds 15% or more (but less than 55%) of shares or voting rights of a target company, can acquire more than 5% additional voting rights in any financial year (ending March 31) only after making a public announcement to acquire at least an additional 20% of the voting capital of the target company from its shareholders through an open offer.

c. Consolidation of holding: an acquirer who holds 55% or more (but less than 75%) of shares or voting rights of a target company can acquire any further shares or voting rights only after making a public announcement to acquire at least an additional 20% of the voting capital of the target company from its shareholders through an open offer.

However, acquisition of up to 5% voting rights can be made without the open offer if acquisition is made through open market purchase in the normal segment of the stock exchange or through buyback of shares by the target company, provided that the post-acquisition shareholding of the acquirer in the target company shall not exceed 75%.

d. Acquisition of control: irrespective of whether there has been any acquisition of shares or voting rights in a company, an acquirer can acquire control over a target company (directly or indirectly) only after making a public announcement to acquire at least an additional 20% of the voting capital of the target company from its shareholders through an open offer.
What are the pricing norms in the case of allotment of shares on a preferential basis by a company?

Pricing norms under SEBI Guidelines: share issuance by a listed Indian company on a preferential basis [to persons other than qualified institutional buyers - QIB (not more than five)] should be at a price not less than the higher of the following:

a. The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the six months preceding the relevant date.

b. The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the two weeks preceding the relevant date. “Relevant date” is defined as the date 30 days prior to the date on which the general meeting of the shareholders is held to consider the proposed issue.

In case of issuance of such shares to QIB (not more than five), the pricing shall be as per (b) above.

Pricing norms under Foreign Exchange Management Act Guidelines: share issuance by an unlisted Indian company to a nonresident (individual, company, etc.) should be at a price not less than the fair valuation of shares carried out by a chartered accountant in accordance with the guidelines issued by the office of the Controller of Capital Issues.

What are tax rates on income from investments made in India?

Investors in Indian securities typically earn the following types of income/gains:

- Gains from transfer of Indian securities
- Dividend income
- Interest income

Under the Indian tax laws, nonresidents (organized as a corporate entity) are taxed on their income arising from Indian investments at the following base rates (to be increased by appropriate surcharge and education assessment).

For SEBI-registered FIIIs, interest on securities is taxable at the rate of 20%. Long-term capital gains and short-term capital gains on sale of shares, etc. (other than on a recognized stock exchange) are taxable at the rate of 10% and 30%, respectively.

The Indian tax laws provide a pass-through status to certain FVCIs; the investors in such FVCIs are taxed in the same manner as if the investment were made by the investors directly in the investee company.

The rate at which the investors are taxed would accordingly depend upon the status of the investors.

<table>
<thead>
<tr>
<th>Residential status</th>
<th>Liaison office</th>
<th>Branch office</th>
<th>Joint venture or wholly owned subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonresident operates as a foreign company</td>
<td>Nonresident operates as a foreign company</td>
<td>Resident establishes an Indian company</td>
<td></td>
</tr>
<tr>
<td><strong>Tax rate</strong></td>
<td>Not taxable unless construed as permanent establishment of the foreign company</td>
<td>Taxable at 42.33% of net income attributable to Indian operations</td>
<td>Taxable at 33.99% on worldwide income</td>
</tr>
</tbody>
</table>

The rates mentioned in the above table are subject to relief under the applicable tax treaty provisions.

To the extent that tax treaty provisions are beneficial, they override the provisions of the domestic tax laws. Further, depending upon the applicable tax treaty provisions and the domestic tax rules, credit for taxes paid in India (including underlying tax credit for tax paid by investee company) may be available against the taxes payable by the investor in its country of residence.
Due diligence success factors in India

Significant growth in recent years, a low-cost economy and burgeoning demand have led to a lot of US and European investors keenly looking at the Indian opportunity and in turn higher inbound transaction activity. We believe that robust due diligence is key to a good deal. For foreign investors seeking to participate in an Indian opportunity, due diligence is a critical step, not only to understand the risks involved but also to understand the local business culture.

If Indian groups with a global footprint are pretty aware about international standards and level of expectations in transactions matters, those familiar with India will agree that the business culture of domestic players can be different from that in the West. Understanding this difference will help foreign investors approach the due diligence process with appropriate expectations and may help to achieve greater transaction success.

10 tips for successful due diligence

Based on our experience of doing transactions in India, following are the 10 suggestions to help you maximize your chances of deal success:

1. **Target companies may be inexperienced and may require hand-holding**
   
   Small and medium-sized Indian companies typically lack prior deal experience and, as a result, take more time to prepare for due diligence compared to their counterparts in the developed countries. Furthermore, the comprehensive information required for the due diligence process is not always readily available for Indian companies, mainly due to less sophisticated accounting/information systems or lack of appropriate management bandwidth. It helps to be patient. Also, it is helpful to engage local advisors who are able to communicate better with the target company and also understand the local market and regulatory issues, such as listed company acquisition rules, etc.

2. **Manage your expectations and have a clear focus**
   
   Going into the due diligence process with the right expectations is another critical success factor.

   The quality of financial statements, financial infrastructure and business processes will be lower and less explicit than overseas investors may be accustomed to. This results in the need to explore key risk areas and to focus on those.

3. **Look for the word “No”**
   
   Indian culture is less direct in some respects than Western culture, which often leads to misunderstanding. Western investors rarely hear their Indian counterparts say “no,” even though they do not mean “yes.” Do not be drawn into a false (and protracted) process of assuming cooperation by the other side without defined actions and deadlines. When discussing potentially contentious items, document key discussions and dates, as appropriate.

4. **Evaluate corporate governance**
   
   India Inc. is in middle of implementing stronger corporate governance guidelines and enforcement. Regulators are tightening the guidelines and pushing for greater accountability.

   Companies are slowly realizing the importance of corporate governance, and some of the leading organizations developing these standards are benchmarking them to the global standards.

5. **Keep an eye on related-party transactions**
   
   Indian businesses traditionally have had significant family involvement and are generally structured as conglomerates or group businesses, leading to a maze of related-party transactions. Group companies may be structured in such a way that will not be completely reflected in the disclosures required by the Indian accounting standards and law. A good understanding of informal practices and assumptions helps clarify the implications of transactions with related parties.

6. **Avoid legal minefields**
   
   Weak corporate governance is compounded by slow legal systems, in which dispute resolution often remains a distant goal. There are significant issues of enforceability of key contractual rights and statutory protection.

7. **Communicate with care and explain the objective**
   
   In any transaction, communication must be handled with the utmost care. Sensitivity to Indian culture with regard to dealing with typical owner managers will help to make the venture more rewarding.
8. **Manage the controlling elements**

   It is often observed that founding members refuse to give up control and settle for a minority stake. Even in larger companies, founders generally prefer divestment options that do not require them to give up “control” or “information rights.”

9. **Be on the lookout for hidden skeletons**

   Inadequate disclosures may impede the ability to access critical information. Environment issues and aggressive tax positions are some of the areas investors should look into.

10. **Think global, act local**

    Today, India is one of the most exciting emerging markets in the world.

    Skilled managerial and technical manpower match some of the best in the world. These experienced resources, coupled with a middle class whose size exceeds the population of the US or the EU, provide the basis for considerable investment growth opportunities.

    Investment in any foreign country can create anxieties for an investor. In India, these anxieties are further exacerbated by cultural differences and local business practices. India’s economic policies are designed to attract significant capital inflows into India on a sustained basis and to encourage technology partnership agreements between Indian and foreign firms. Policy initiatives taken over the last few years have resulted in significant inflows of foreign investment in all areas of the economy, except those reserved for the public sector.

    Understanding some of the main cultural differences, potential pitfalls, and due diligence success factors should help you to approach investing in India with greater confidence and also to determine when greater investigation and assistance of a professional advisor is necessary.
How to manage Indo-French cultural differences

India: looking through the magnifying glass of culture

India has 16 official languages, and the number of dialects in the country is as high as 1,652, almost 5 times the number of cheeses in France! It is said that local differences and dialects often vary every 10 to 15 kilometers in the country. English is the only language universally spoken by educated people in India. Many Indians speak almost perfect English, and it would be unusual to meet any business person who is unable to converse in the language. Factors that contribute to shaping an individual’s personality are state of origin, socio economic background, religion, exposure to Western culture, etc. Urban Indians can be best described as a unique blend of Indian traditional and modern values.

It is well known that India is a land of contrasts; it is therefore no surprise that cultural differences are one of the biggest challenges foreigners face while conducting business in India. This can become a major hurdle for them in their quest to achieve success. Therefore, cultural differences should not be underestimated while entering a joint venture or conducting M&A in India. On the other hand, an understanding of cultural realities can positively impact a business relationship and become the key to success in the country. Traditional Indian family values mean a great deal to Indians, who are very family-oriented; many meetings begin with questions about family members. Such small talk is considered to be civilized behavior and a good way to progress gradually into meaningful dialog later in the proceedings. India, more than most other countries, places great value on the quality of interpersonal relationships. It is therefore important to value this to form a long-term relationship.
Indians are by nature curious. Foreigners should not feel offended by this, as it is a way of building trust and relationships. Indians tend to ask a lot of personal questions and they may even want to know personal details at the first meeting. Their intention is not to be rude, but to familiarize themselves with the person by asking these questions. In fact, this curiosity is not limited to foreigners, other fellow Indians are also treated in the same manner. Questions related to educational background, professional experience, family, etc., are typical ways of familiarizing oneself with a person.

As in France, society and business are hierarchically arranged in India. Most organizational decisions are made at the top. Having said that, it is important to add that Indians are normally conservative in their decision-making process, which is not always obvious to foreigners. Business processes vary from person to person, which can be confusing for foreigners. In Indian business culture, any final decision must be in accordance with the family’s views and the social structure.

As in all relationship-driven cultures, business entertaining is an important part of the entire process. Business entertaining will rarely be a breakfast meeting, since the working day in India starts in a more leisurely fashion than in the West. Therefore, Indians are more likely to opt for a business lunch or dinner.

Time is fairly fluid. Meetings tend to begin and end late. Moreover, time management is very different in the sense that short-term opportunities may often become a priority over meetings scheduled in advance. Respect for timelines is definitely approached in a different manner from what we know in France.

Indians and the French come from two richly diverse cultures, which can sometimes result in problems arising in their business relationship. This divide can be overcome by adapting to Indian traditions and values by keeping an open mind and attitude and a willingness to accept another culture and its norms.
Thought leadership

Sector-specific industry reports by Ernst & Young India

**Aerospace and defence**
- Eye on defence (a newsletter)

**Automotive**
- Auto-track (a newsletter)
- India auto book
- Revving up! Indian Automotive Industry – A Perspective

**Retail and consumer products**
- Sartorial views (apparel and accessories newsletter)
- The retailer (retail newsletter)

**Life sciences**
- Fostering quality healthcare for all
- The glorious metamorphosis - Compelling reasons for doing clinical research in India
- Paper on clinical trials industry
- Taking wings - Coming of age of the Indian pharmaceutical industry
- Ernst & Young India: the 20 glorious metamorphosis

**Energy and utilities**
- Logexline (logistics newsletter)
- Global 2008: the year when cash was king
- Mining eye
- Petrosight (Oil & gas newsletter)
- Renewable energy in India

**Infrastructure and construction**
- Warehousing without walls
- Infra insight
- Handbook on PPP in urban infrastructure
- Roadmap for successful public private partnership in infrastructure
- Building warehousing competitiveness
Information technology
Contribution by US technology companies in India towards education (a survey)
Global information security survey 2009
IT asset management
Techbytes (a newsletter)

Telecoms
India 2012 - Telecom growth continues
Tower strategy white paper

Real estate and hospitality
Indian real estate - shifting gears
Eye on real estate (a newsletter)

Financial services
Direct investments in the US by Indian enterprises
ICAAP complacency - risks in banking performance
Financial services - State of the industry and way forward
Indian capital markets: funding growth in challenging times
Fin-esse - Excellence in financial markets (a newsletter)

For further information on these publications please contact Markets.EYIndia@in.ey.com, Philippe Jauffret at philippe.jauffret@in.ey.com or Gauri Marwaha at gauri.marwaha@in.ey.com
Think local, act international

Foreign business desks in India

In the current challenging environment, businesses are looking to align their global market positions with their overall business strategies to maintain competitive advantage and provide value to shareholders.

We help you manage your requirements by leveraging our integrated global network of dedicated foreign business professionals – working together to uncover opportunities, manage global and local risks and meet cross-border business needs.

The foreign business desks (FBD) in India act as a bridge between India and multinational companies wishing to explore business opportunities in India. FBD professionals have a keen understanding of their practice-countries’ political, cultural and economic backgrounds. They speak the local language and know what’s important. They help you build international success.

To help you achieve the international potential of your business, we have established the four Foreign Business Desks in India:

- French Business Center
- German Business Center
- Japanese Business Center
- Korean Business Center

French Business Center

The inception of the French Business Center was primarily a result of Ernst & Young France’s effort to assist its French clients.

- Give French and European groups the best possible access to Ernst & Young’s global network resources.
- Provide Ernst & Young’s clients the benefits of our global cross-border experience, unimpeded by geographical, linguistic or cultural differences, in order to:
  - Reduce obstacles that arise as a result of geographical distances.
  - Minimize problems encountered by both subsidiaries and their parent companies when trying to understand local business rules and customs.
- Support Ernst & Young’s French and European clients who are interested in developing business through subsidiaries in various continents.
- Assist Indian companies with their businesses in France by connecting them to the India desk in Paris.

The FBC India typically accompanies Indian projects from the development of an entry strategy to their implementation – facilitating this inter-stage mobility through our comprehensive range of services.

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About Ernst & Young in India

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young Pvt. Ltd. has offices in Ahmedabad, Bengaluru, Chennai, Gurgaon, Hyderabad, Kolkata, Mumbai, New Delhi and Pune. Its workforce comprising over 6,700* people, continues to work toward the firm’s vision of being a trusted business advisor that contributes to the success of its clients by creating confidence and value.

We help our clients achieve their potential through our unique approach, which incorporates various service dynamics, including:

- Rich and pertinent **industry-specific experience** combined with wide-ranging domain knowledge. Our four principal service lines are: assurance, tax, transactions and advisory. Each service line is further streamlined into niche competencies, which enables us to strengthen our outreach and offer a compelling portfolio of comprehensive and well-defined services.

- **Our teams** are multidimensional with professionals from diverse backgrounds, with relevant knowledge and domain perspectives. This helps them understand and address our clients’ concerns from every possible standpoint and provide their inputs in a structured and cohesive manner.

- The **special energy** that unites us - the ‘E’ factor - makes our offerings unique. This E factor is the energy and enthusiasm our people bring to any project or assignment, which clearly sets us apart and gives us our differentiating edge.

- We are **leaders in the professional services** space and our accolades encourage us to continue striving for excellence.

**Some achievements**

- Rated India's tier-one tax firm for six consecutive years by Euromoney’s *International Tax Review*.
- Largest dealmaker in India for seven consecutive years as per Bloomberg M&A league tables, by number of deals
- Number one in the Bloomberg Fairness Opinion Tables 2008, which rank valuations done for M&A deals (both on value and deal count)
- Have risk relationships with 100+ of the ET 200 companies
- Named Financial Advisor of the Year – India 2008 at the FT & Mergermarket M&A Awards
- Recipient of the Golden Peacock National Training Award 2008
- Received the “Excellence in Training” award in the Employer Branding Awards 2008

* The number includes personnel from other member firms of Ernst & Young Global Limited, in India
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