Uncovering the business value in India

Balancing opportunity with complexity

A perspective on India

June 2012

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A perspective on India

India represents an enormous opportunity for global businesses. International trade, across various sectors, is buoyant and having achieved US$ 520 billion of exports and imports in 2007, it is expected to reach US$1,300 billion in the next two years.

India is second only to China in terms of size

Population

1.2

billion

Economy expected to increase by

7.3%

in 2013

With a population of 1.2 billion, India is second only to China in terms of size. Indeed, according to CFO Innovation Asia, demographers believe that the country will overtake China (population: 1.3 billion) in the next 20 years, as 181 million new citizens are born in a youthful India every decade as compared to 73.9 million in an ageing China. With the median age of 25 (versus 35.5 years in China), India has a labour pool unmatched by its Asian competitors. The United Nations predicts that the country's working age population (15 to 64 years) will increase by 135 million by 2020, thanks to its high birth rate which demographers estimate will run until 2050. Europe, China, Australia and the US on the other hand, will witness a reduction in their workforce.

India had a GDP growth rate of a remarkable 8% in 2009-10 in the wake of the global financial crisis. In 2010-11, it went on to emphasise its position with an even stronger growth rate of 8.6%. The country attracted US$ 19.43 billion of foreign direct investment (FDI) in 2010-11. Alongside, growth in the manufacturing sector was running at 8.1%.

Even though the Indian economy has slowed down recently in light of the uncertainty in Europe, opportunities for significant growth are still present. The biggest problem in India has been inflation which was averaging at 9.4% in 2011. With monetary tightening and slowing growth, inflation is expected to plateau to 8% this year and 7.3% in 2013. The Indian economy has grown by 6.5% this year and economists expect it to expand by 7.3% in 2013. Even though reduced, this is still the kind of growth that leaders of developed economies can only aspire to at present.

While the recent political deadlock had limited the efforts to increase access to FDI, the Indian government is expected to pursue this with renewed vigour over the next two years. The promising FDI data towards the closure of the financial year 2011-12 indicates a slight uptrend.

An appetite for investment

Although FDI inflows declined in 2009-10 and 2010-11, there has been a recent increase in foreign inflows. In 2011-12, FDI inflows recorded a strong growth of 34% (US$ 12 billion). In particular, FDI inflows into equity capital rose by 88% to US$ 36.5 billion.

According to the United Nations Conference on Trade and Development, India still ranks second in global FDI growth, behind Brazil, and is seen as one of the top five attractive destinations for international investors. In 2011-12, sectors which attracted large FDI inflows were chemicals (US$ 7.2 billion), services (US$ 5.2 billion), pharmaceuticals (US$ 3.2 billion), telecom (US$ 2 billion), construction (US$ 2.8 billion), power (US$ 1.65 billion) and metallurgical industries (US$ 1.8 billion).

FDI of up to 100% is allowed in the following sectors in India:

Automatic route

- Food processing
- Brewing and distillation of alcohol
- IT and IT enabled services
- Manufacture of consumer and industrial products (except the ones that are reserved for small scale sectors, require industrial license or are prohibited)
- Transportation services
- Hotels and tourism
- Power
- Advertising and films
- Data processing and software development
- Business and management consultancy services
- Market research services
- Construction of infrastructure
- Construction of ports and harbours
- Accounting and book-keeping services
- Health and medical services
- Storage and warehouse services
- Greenfield pharmaceutical projects
- Greenfield airport projects

Approval route

- Broadcasting of non-news channels
- Publishing/Printing of speciality magazines
- Courier services
- Test marketing activities
- Single brand retail trading
- Tea plantation
- Titanium mining
- Brownfield pharmaceutical companies

Automatic route with conditions

- 18 Non-banking financial services
  - Merchant banking
  - Underwriting
  - Investment advisory
  - Financial consultancy
  - Portfolio management services
  - Stock broking
  - Asset management
  - Venture capital
  - Custodial services
  - Factoring
  - Credit rating agencies
  - Leasing and finance
  - Housing finance
  - Forex broking
  - Credit cards
  - Money changing
  - Micro credit and rural credit
  - Wholesale trading
- Construction and development of townships
- Agriculture and animal rearing
- Airports
- Helicopter and seaplane services
- Maintenance and repair services
- Flying and technical training institutes
- Industrial parks

The growth of the Indian economy is based upon rapid urbanisation, poverty alleviation and building much-needed infrastructure. This creates significant opportunities for foreign investment.

In addition to this, India is now Asia's biggest buying economy, and has the world's largest growing middle class. The 2011 PwC report, Profitable growth strategies for the Global Emerging Middle (GEM) estimated that by 2021, India will have about 600 million people constituting its emerging middle-class segment (See figure below).

This fact has certainly not been lost on Indian CEOs. According to the 15th Annual PwC Global CEO survey, 38% of the CEOs interviewed in India stated increased share in existing markets as the main opportunity for business growth over the next 12 months. However, 70% named changes in consumer behaviour and spending as the chief business threat.

For global businesses seeking to enter India for the first time, understanding new consumer segments driving Indian growth is important.

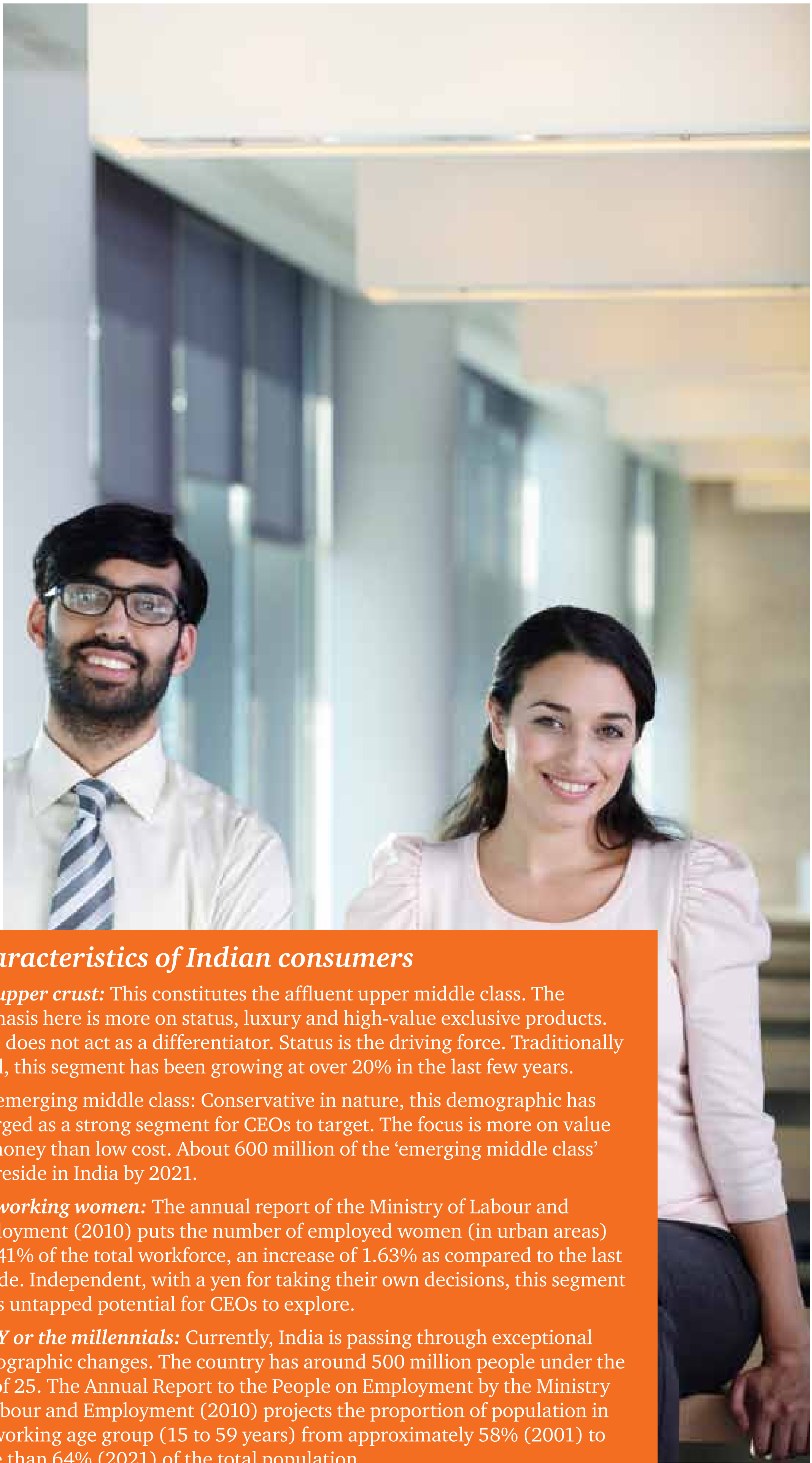
> *"70% of the CEOs named changes in consumer behaviour and spending as the major business threat"*

Indian businesses have certainly begun to learn these lessons and now, spurred on by the successes of companies such as the Tata Group, have their sights firmly set on establishing themselves as true multinationals.

In many cases, this means finding suitable foreign partners. Therefore, the provision of foreign capital to fund domestic growth becomes critical. Potentially, it's this foot in the door that gives them access to the rest of the world.

India's population distribution (millions)			1.19 billion		1.36 billion	
Household income/year (INR)		$*/day per capita	2010	CAGR (%)	2021(Projection)	(%)
> 8,50,000	Upper middle +	>$10	80	9.7%	190	14%
3,00,000 – 8,50,000	Middle	$5-$10	170	6.3%	300	23%
1,50,000 – 3,00,000	Emerging middle	$1.7-$5	470	1.9%	570	42%
< 1,50,000	Low	<$1.7	460	-4.6%	290	21%

Sources: PwC analysis, NCAER (National Centre for Applied Economic Research), CMI.
** The emerging-middle income bracket, PPP adjusted is US$5 - US$15 per capita per day. Alternatively, US$1,850 - US$5,550 per capita per year.*
All figures are reported at 2010 constant prices.



Characteristics of Indian consumers

The upper crust: This constitutes the affluent upper middle class. The emphasis here is more on status, luxury and high-value exclusive products. Price does not act as a differentiator. Status is the driving force. Traditionally small, this segment has been growing at over 20% in the last few years.

The emerging middle class: Conservative in nature, this demographic has emerged as a strong segment for CEOs to target. The focus is more on value for money than low cost. About 600 million of the 'emerging middle class' will reside in India by 2021.

The working women: The annual report of the Ministry of Labour and Employment (2010) puts the number of employed women (in urban areas) at 5.41% of the total workforce, an increase of 1.63% as compared to the last decade. Independent, with a yen for taking their own decisions, this segment holds untapped potential for CEOs to explore.

Gen Y or the millennials: Currently, India is passing through exceptional demographic changes. The country has around 500 million people under the age of 25. The Annual Report to the People on Employment by the Ministry of Labour and Employment (2010) projects the proportion of population in the working age group (15 to 59 years) from approximately 58% (2001) to more than 64% (2021) of the total population.

Source: Winning in India's retail sector: Factors for success

Opportunities amidst complexity

The Indian economy is constantly evolving and growth opportunities are present across multiple sectors. The 1.2 billion-strong population is underserved with products and services, creating a significant, sustained investment potential spread across sectors ranging from infrastructure and energy to consumer goods and financial services. Despite the obvious attractiveness for foreign investors, the question of cost arbitrage remains. On the plus side, the country has an extensive and growing low-cost workforce. However, interest rates and energy prices are high and infrastructure is poor making logistics a problem and contributing to growing inflation.

> *"The biometric initiative is going to create the biggest database in the world. It will have an enormous impact on the banking model and those further down at the bottom of the pyramid. It will be a driving force for mobile banking"*

Nevertheless, certain sectors represent big opportunities for foreign investors. One is coal. With more Indians enjoying the trappings of middle-class life and the country industrialising and urbanising, demand for coal-fired electricity is rising almost in line with economic growth. India has the world's fifth-largest coal reserves and has successfully found another carbon-based raw material to generate electricity–a combustible product gas created from underground gasification of coal that cannot be mined. It has raised US$ 130 billion over the past five years, out of which approximately US$ 60 billion has come from the private sector. This makes it the largest-ever private-sector investment the country has seen. It is expected to grow further.

Despite the discovery of another raw material, the fact remains that India is still unable to extract sufficient coal to meet domestic demand. Another issue is the Indian government's refusal to privatise the coal industry and bring in foreign buyers. As a result, the country is heavily investing in foreign coal assets, particularly across Australia, Africa and the US, to meet the exponential demand.

As a result of the shortage of coal, electricity needs are not adequately met. The system delivers 10% less electricity than customers want during peak periods. Additionally, the grid does not reach some 300 million people or a quarter of the population. This represents an opportunity for foreign companies skilled in mining and coal generation technology. Heavy investments in the coal sector, particularly in underground mining, will be needed to increase the pace of domestic coal production in India.

Another big opportunity for foreign investors comes from the country embracing a system of biometrics. India's Unique Identification project, also known as Aadhaar, which means 'the foundation' in several local languages, has one goal--to issue identification numbers linked to fingerprint and iris scans of every person in the country. This will create a database of more than 1.2 billion people. This includes everyone from Himalayan mountain villagers to Rajasthani desert nomads, from call-centre employees in Bangalore to the street-beggars of Mumbai. It is a system that will take in more than 300 languages

Delhi and Mumbai are fast reaching saturation levels. In the coming decade, Tier II and Tier III cities will command the attention of CEOs around the world.

and dialects, creating a portable national ID that cannot be faked. It is by far the biggest and most technologically complicated biometrics programme ever attempted anywhere in the world and services will flow from it.

At the moment, less than half of the households in India have a bank account. The rest keep their savings in the house. This unbanked money isn't gaining interest, either for its owner or for the bank. If these millions of people are able to put the money in the banking system, individuals will gain from the interest they earn and the financial system will have more capital to invest. E.g., if each one puts just US$ 5 into a bank account, it will add billions in new capital to the financial system.

The Indian government has made Aadhaar sufficient proof for opening a bank account and getting a mobile phone connection. This will bring a large section of the population into the financial sector and the mobile phone market, creating enormous opportunities for new growth. The government has also set in place processes including an ecosystem of registrars enrolling people, enrolment agencies, training agencies that train operators keying in the data and fingerprint reading and iris scanning device manufacturers, for 2012. The new biometrics system is an enormous opportunity for investors in Indian banks and mobile phone systems.

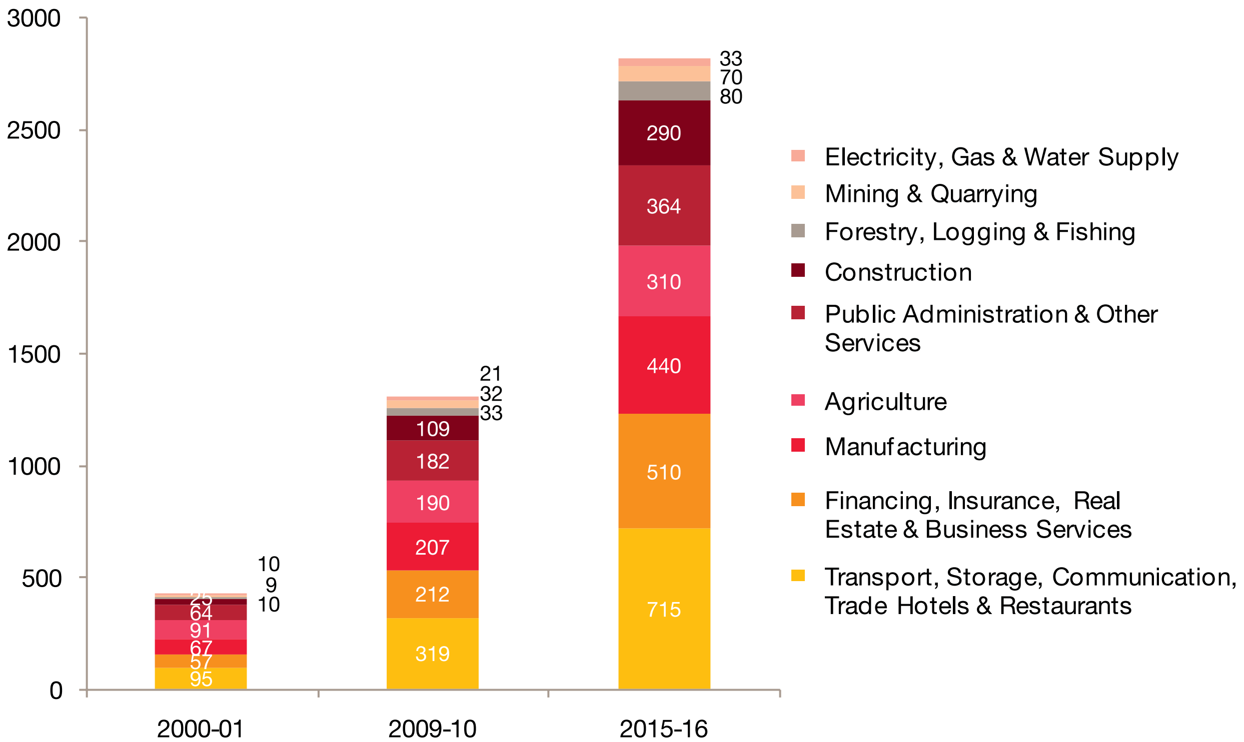
PwC India's Associate Director, David Wijeratne says, "The biometric initiative is going to create the biggest database in the world. It will have an enormous impact on the banking model and those further down at the bottom of the pyramid. It will be a real driving force for mobile banking."

There are other investment opportunities garnering the attention of developed economies. There is a strong growth opportunity in power generation led by the exponential growth in the economy, the increasing propensity for electricity consumption and expanding urbanisation. Over the next five years, India has planned to add close to 75 GW to its power generation capacity. This also offers an opportunity for developing evacuation capacities and supply-related original equipment manufacturers (OEMs) such as conductor manufacturing, insulator manufacturing and tower fabrication. The country is also looking to build a strong renewable energy portfolio in the coming years. The Indian government is offering a number of incentives such as preferential tariff and generation-based incentives to renewable energy developers to accelerate investments in that space.

The Indian oil and gas sector is replete with opportunities across its value chain and sub-sectors. While securing supplies is a clear priority, the past exploration activity has been confined to on-land and shallow basins in the country. It is widely believed that deepwater and ultra-deepwater oil and gas resources hold the key to substantially increasing domestic production. Indian companies have limited technical and monetary bandwidth or experience to undertake exploration and development activities in these areas. This creates a plethora of opportunities for strategic investors with relevant technical expertise and financial muscle such as BP (which has acquired a 30% participating interest in the oil and gas acreages of Reliance Industries for US$ 7.2 billion) to invest in the country through partnerships with local public and private sector companies.

Infrastructure and road-building is another opportunity for foreign investors. Cash-strapped infrastructure developers are in the market looking for equity investment in as many as 40 road projects in India. Projects are now up for sale because of lower-than-expected toll collection, rising cost of credit and bottlenecks in land acquisition. Influential developers are also looking for investors to finance other projects.

GDP by sector in US$ billion



**Projections based on past growth rates*
Source: PwC analysis, World Bank, IMF, OECD, World Economic Outlook, The Reserve Bank of India.

Unfortunately, some Indian towns and villages still lack good road connections. Wijeratne says, "This has a big impact on consumer goods companies trying to expand out of the main cities into the rural market."

There is also a large opportunity in refrigerated logistics. The price of food is increasing as agricultural produce comes from rural India. By the time it reaches the cities, it can't be sold because it has deteriorated either in transit or through inadequate storage. Therefore, refrigerated logistics is a significant investment opportunity and a huge need.

Based on the Indian government's identification of tourism as a growth area with an aim to promote the country culturally as well as economically, Wijeratne comments that this sector also represents an opportunity for foreign investment through tour companies and hotel and leisure groups.

Despite these obvious opportunities, India's unique market is littered with contradictions.

- India's retail sector is one of the largest economic growth drivers and contributes over 13% of GDP but only 4% of the 12 million retail outlets are 500 sq ft or more in size
- The soft drinks market exceeds US$ 2 billion and is dominated by Coca-Cola and Pepsi, yet Thums up (a domestic brand now owned by Coke) still dominates this market with a 17% market share

Even though the Indian government is highly active in shaping and responding to such issues, it still has a long way to go.

A staggering 92% of CEOs interviewed in India were 'extremely concerned' or 'somewhat concerned' about bribery and corruption.

Building relationships is key

Companies investing in India or setting up operations will have to work with minority governments. The Congress party has lost its dominant status. The number of political parties that contest elections, win seats in Parliament and gain cabinet portfolios has increased. Minority governments and cabinet instability are now regular features of Indian parliamentary politics. However, the country is not unique in that respect. According to PwC Partner, Mark Laurie, "It's not too dissimilar to what we have seen in Australia. Companies would know how to deal with that."

> *"You can't capitalise on that unless you have someone there who understands the nuances and complexities"*

The Indian government is highly active in shaping the market and all entry plans need to account for this. Government regulations make India relatively restrictive when compared to other developing economies, such as Brazil, China and Russia. The country is ranked 132 out of 183 in the annual World Bank Ease of doing business ranking.

One of the big issues is the war for talent. The 15th Annual PwC Global CEO Survey reveals that 47% of CEOs were focussed on creating a vibrant and skilled workforce. Further, around 66% said they were 'very confident' about having access to the talent needed to execute their company's strategy over the next three years. Neither, the Chinese (38%) nor global (30%) peers responded with the same sort of confidence.

The problem, however, is the high degree of churn in the Indian workforce. Studies show that there is a 20 to 30% attrition rate across industries. Laurie recommends companies to invest heavily in training as a retention tool. Some might even set up campuses to hold on to their employees in the same way that Indian firms such as Bharat Forge Ltd have done, so successfully.

Another big issue is graft and corruption. According to the same PwC survey, a staggering 92% of CEOs interviewed in India were 'extremely concerned' or 'somewhat concerned' about bribery and corruption. They considered it a major threat to the growth of their businesses. The Indian government is aware of this and anti-corruption debates dominated politics last year. The anti-corruption legislation was brought into Parliament. It is now in the process of being enacted. The endeavour, if successful, will strengthen anti-corruption laws by making the act of offering a bribe a punishable offence.

Laurie says that companies investing in India need to find local partners for joint ventures. "The country," he states, "is not one market but many. It is complex and requires working with locals who understand the scene."

E.g., Tier I cities, such as Delhi and Mumbai are fast reaching saturation levels. In the coming decade, Tier II and Tier III cities will command the attention of CEOs around the world. Out of the 700 malls planned in the country, almost 40% are expected to come up in Tier II and Tier III cities. Jaipur, Coimbatore, Ludhiana and Chandigarh will be among the top markets over the next few years.

Several Tier II cities are also witnessing large mixed-use projects in housing, retail, entertainment and hotels. These are attracting big investments and creating job opportunities.

"You can't capitalise on that unless you have someone there who understands the nuances and complexities," says Laurie.

Strategic partnerships, especially in distribution, are critical in India due to the lack of infrastructure and appropriate channels. The number of channels for several markets is limited and some of them are unique to the country. Thus, creating an effective strategy to establish the right relationships across channels should be a critical consideration for market entry.

These links are particularly critical for working with large family-owned companies that dominate the intensely competitive Indian economic landscape.

"Organised markets in India are typically dominated by a few players," Laurie says. "Deeply entrenched players are aggressive about protecting their turf and will resist new entrants in organised sectors. 'Race to the bottom' scenarios are common in service-focussed industries such as retail and telecommunications. Entrenched players tend to ignore newcomers in markets growing at double-digit rates and with considerable size."

"To win in the Indian market, one needs to deploy a shift in mindset to achieve new value propositions delivered through innovative business models, starting with the question--What is the need in the market that I can meet?"

Wijeratne says that companies need to invest in these relationships before they even start.

"Any foreign company looking to do business in India does need local representation and the best way to do that is through someone who is there."

These connections provide the foreign company with access to policy decisions in areas such as banking and telecommunication. It helps create an understanding of how business is done in India by being a part of the policy discussions, even if there is not much room to actively shape them. With significant presence of large family-owned companies, the involvement in policy discussions becomes even more important.

"You have to put aside the time to build almost a one-on-one relationship with that senior family member," Wijeratne says. "It's about understanding more about the ethos, about what they're trying to do with their business and build a personal and professional relationship. Do not try to push the process too much in the initial stages but at the same time, show them what they can get out of a relationship with yourself."

But building that relationship can take time. PwC India's Strategy Leader, Shashank Tripathi, says that it has taken him as long as 18 months to do it.

★ Cities with populations exceeding 5 million

★★★ Three star states (large populations, high GDP per capita, well developed infrastructure)

★★ Two star states (large populations, average GDP per capita, considerable infrastructure gaps)

Jammu & Kashmir
Population: 12.55Mn
GDP: USD 9.13Bn
Language: Kashmiri

Punjab ★★
Population: 27.70Mn
GDP: USD 42.11Bn
Language: Punjabi

Haryana ★★
Population: 25.35Mn
GDP: USD 45.67Bn
Language: Hindi

Rajasthan ★★
Population: 68.62Mn
GDP: USD 53.93Bn
Language: Hindi

Madhya Pradesh ★★
Population: 72.60Mn
GDP: USD 45.81Bn
Language: Hindi

Gujarat ★★★
Population: 60.38Mn
GDP: USD 90.65Bn
Language: Gujarati

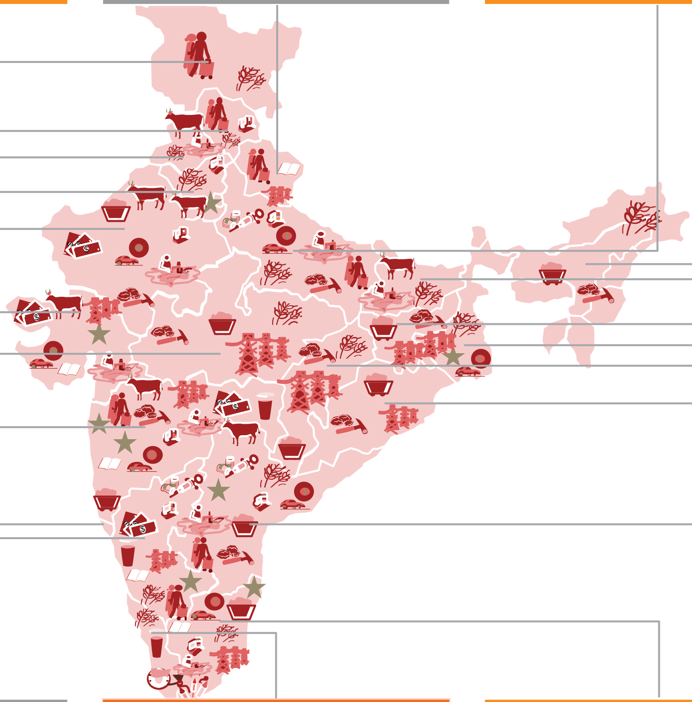
Maharashtra ★★★
Population: 112.37Mn
GDP: USD 190.31Bn
Language: Marathi

Goa
Population: 1.46Mn
GDP: USD 5.46Bn
Language: Konkani

Himachal Pradesh
Population: 6.86Mn
GDP: USD 9.14Bn
Language: Hindi

Uttarakhand
Population: 10.12Mn
GDP: USD 13.1Bn
Language: Hindi

Uttar Pradesh ★★
Population: 199.58Mn
GDP: USD 109.77Bn
Language: Hindi



Karnataka ★★★
Population: 61.13Mn
GDP: USD 70.89Bn
Language: Kannada

Kerala
Population: 33.39Mn
GDP: USD 48.63Bn
Language: Malayalam

Tamil Nadu ★★★
Population: 72.14Mn
GDP: USD 97.97Bn
Language: Tamil

Bihar ★★
Population: 103.80Mn
GDP: USD 35.6Bn
Language: Hindi

Assam, Tripura, Meghalaya ★★
Population: 37.80 Mn
GDP USD 25.24 Bn

Arunachal Pradesh, Nagaland, Manipur
Population: 6.08 Mn
GDP: USD 4.95 Bn

West Bengal ★★★
Population: 91.35Mn
GDP: USD 84.57Bn
Language: Bengali

Jharkhand ★★
Population: 32.97Mn
GDP: USD 22.46Bn
Language: Hindi

Chhattisgarh ★★
Population: 25.54Mn
GDP: USD 23.19Bn
Language: Hindi

Odhisha ★★
Population: 41.95Mn
GDP: USD 34.27Bn
Language: Oriya

Andhra Pradesh ★★★
Population: 84.67Mn
GDP: USD 100.35Bn
Language: Telugu

Source: PwC analysis, World Bank, IMF, OECD, World Economic Outlook, Reserve Bank of India, CIA World Fact Book.

Preparing for a successful market entry

While the growth potential in various Indian industry sectors is immense, concerns around the economic scenario and political and policy environment can make companies looking to enter India a little apprehensive.

Attracting FDI and foreign entrants depends on multiple factors such as macroeconomic environment, business cycle, investment gestation period, return on investment (RoI) and business risk. The current global environment has seen the Eurozone crisis intensify, causing investors to play safer and focus on lower risk assets and more stable currencies.

> *"Taxation and regulatory issues can introduce delays or lower returns but shouldn't overturn investment decisions"*

The effect isn't demonstrated in the depreciation of the Indian rupee alone. Amidst the global slowdown, the FDI inflows in China fell for the fifth straight month in March to US$ 11.76 billion as companies curbed their investment. China received US$ 29.48 billion of FDI in the first three months of 2012, which is down 2.8% from the previous year. Conversely, India has seen a healthy number of FDI transactions in the last year.

Besides, FDI has opened up considerably since the 1990s and Fortune 1000 companies are present in

one form or another. The FDI policies are liberal and guidelines are fairly simple. However, the regulatory framework hasn't complemented the FDI guidelines well enough since the commitments on policy have not been met and transfer pricing regulations have been tight.

The regulatory framework will benefit through quicker decisions on reforms and their implementation. Further, a tug-of-war between the parliamentary parties, tax authorities and taxpayers has led to issues around the General Anti-Avoidance Rules (GAAR), retrospective taxation and delays in the Goods and Services Tax and the Direct Taxes Code. This is likely to make firms hesitant to invest in India.

Akash Gupt, Leader, Regulatory Services, PwC India, says, "Taxation and regulatory issues act as irritants but should not act as critical influencers for investment decisions. These issues can introduce delays or lower returns but shouldn't overturn investment decisions."

According to Saurav Bhattacharya, Associate Director, Direct Tax, PwC India, "The GAAR and retrospective taxation have been implemented in other countries. These have been under discussion in India for some time. For companies looking to enter the country, there is greater clarity on what can happen. They can go ahead to build the uncertainty around these issues into their return expectations. Similar issues are not likely to come up again."

However, it needs to be acknowledged that the central government is taking steps to correct the course. According to Suchint Majmudar, Associate Director, Transfer Pricing, PwC India, "The Advance Pricing Agreement that the Indian government is trying to implement for products and services should boost foreign investment, reduce litigation and add certainty and an unanimity of approach towards transfer pricing. Additionally, the National Manufacturing Policy is on the anvil and is likely to promote FDI across the Delhi-Mumbai corridor, in particular. Implementation will be the key to success."

The recent depreciation of the Indian rupee may have lowered the returns from investments made by global firms in India. However, according to Moody's, the depreciation will help correct the macroeconomic imbalances in the fiscal and current accounts. Gupt says, "The currency depreciation is a temporary phenomenon. The RBI is taking aggressive measures to control the slide. It is also trying to bring back the money that came as FII or FDI through different measures." The Indian government is also looking to expedite the capping of subsidies on liquefied petroleum gas to ensure that the subsidy burden is reduced, correcting the account deficits.

> *"Taking a long-term view to put the company on a sustainable growth path in India is important"*

According to Majmudar, "Even though any new investments being made from this point on are likely to be a lot cheaper for global companies looking to enter India, business plans need to be structured with a long-term view without resting too heavily on the currency situation. The population of India is large and underserved. The growth opportunity this creates is here to stay."

Addressing the softer but equally risky issue of graft and corruption is another area. The enormous social cost of corruption on the poorest countries of the world is widely acknowledged, as is its corrosive impact on democracy and good governance for the rich and poor alike. Less understood is the price paid by business. The search for new opportunities is increasingly taking companies into emerging markets, including the fast-growing economies of Brazil, Russia, India and China, where they confront unfamiliar business practices. Being able to manage risk in new environments is a necessity as businesses compete globally. Companies must be able to confidently seek new opportunities without exposing themselves to undue risk.

Vidya Rajarao, Leader, Forensic Services, PwC India says, “In the West, there are clear linkages between actions and their legal implications. However, in most emerging markets, including India, these linkages are not as clear. This makes good governance extremely important. It is essential for foreign firms looking to enter India to place governance before returns projected from emerging markets.”

Companies need to understand that administrative and regulatory procedures in India take time if they have to be done properly. This can delay the returns but prevent potential future litigations. According to Rajarao, “Boards need to have the patience to examine how the high rates of return will get generated in emerging markets. They need to ensure that the strong governance standards they set across the globe or in their home country are instituted in India even if it comes at an expense of the extra 2% year-on-year growth. Taking a long-term view to put the company on a sustainable growth path in India is important.”

Kunal R Gupta, Fraud Investigation Services, PwC India comments, “Comply before you invest. It is important to set up a local compliance office with standards of trust and ethics as strong as global offices. Companies need to set up local hotline numbers for reporting misdeeds by anyone associated with them. Finally, it is important to judiciously differentiate the individual and corporate in assessing indulgence in malpractices.”

How to get started?

PwC has a long and well-established history in India in building strong relationships with clients and helping them grow successfully. PwC India's Strategy practice has extensive experience in assisting foreign companies enter the Indian market. The practice uses its knowledge of local market developments and consumer trends to help companies assess the potential of the market and set realistic growth expectations. Where opportunities have been identified, we help companies devise the market entry strategy, identifying the value proposition and positioning required to target relevant consumers, and develop effective business models to execute the entry strategy. We work across a number of industry verticals such as industrial products, engineering services, retail, consumer goods, pharmaceuticals, healthcare, aerospace and defence and telecommunication.

PwC India is able to bring experience from across its tax, assurance and advisory businesses to assist companies in mitigating the risks associated with entering the Indian market and operating successfully without succumbing to challenges. The firm utilises its knowledge of local laws, procedures and markets to provide companies with policy clarifications and guidance to navigate relevant regulations associated with entering a specific Indian sector.

Building upon the opportunity identification and clarification of regulatory requirements, we at PwC India are well-placed to advise and assist companies in establishing operations through identifying potential joint venture (JV) partners, conducting necessary due diligence and setting up local compliance offices.

The immense growth potential of the Indian sectors has been harnessed well by companies that put in adequate time to understand the nuances of the market and its practices. Making investments in a phased manner, these companies have gradually built an operating base that helps them sustain high growth rates.

Leading global companies across various sectors such as Foods & Beverages, Engineering Services and Healthcare have spent the extra time required to abide by regulations in setting up their operating bases. Now, the Indian operations of these companies have grown into profitable businesses that continue to expand at rates which are the highest among the global markets that they operate in. These companies continue to invest in India aggressively and some of these are looking to double their investments in India over the next five years.

Tripathi's main piece of advice to foreign companies is to 'keep it simple.'

"You take what your strengths are in your home market and try to apply them to the Indian market, taking the time to navigate the country's nuances carefully," says Tripathi. "It may not be the perfect way, but it's the best way to start."

> *"You take what your strengths are in your home market and try to apply them to the Indian market, taking the time to navigate the country's nuances carefully"*

About PwC

PricewaterhouseCoopers Pvt Ltd is a leading professional services organisation in India. We offer a comprehensive portfolio of Advisory and Tax & Regulatory services; each, in turn, presents a basket of finely defined deliverables, helping organisations and individuals create the value they're looking for. We're a member of the global PwC Network.

Providing organisations with the advice they need, wherever they may be located, PwC India's highly qualified and experienced professionals, who have sound knowledge of the Indian business environment, listen to different points of view to help organisations solve their business issues and identify and maximise the opportunities they seek. Their industry specialisation allows them to help create customised solutions for their clients.

We are located in Ahmedabad, Bangalore, Bhubaneshwar, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune.

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