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DOING BUSINESS IN INDIA: UNLIMITED OPPORTUNITIES

White Paper Series

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DOING BUSINESS IN INDIA –UNLIMITED OPPORTUNITIES

India being one of the fastest growing economies in the world offers immense opportunities. India is now regarded as a preferred investment Destination. Some of the main factors being:

- **Strong macro economic fundamentals**

  - Second fastest growing economy in the world. Average GDP growth rate of above six per cent over the last decade. Grew at 8.2 % in 2003-2004.
  - Second largest emerging market, and 4th largest economy in terms of purchasing power parity
  - A 300 million middle class that offers a huge domestic market
  - Savings Rate: Around 26% of GDP
  - Foreign Direct Investment inflow into India was US$ 3.5 bn. in 2002. Foreign Institutional Investors (FIIs) have invested over US$ 7.5 billion in India during 2003.
  - High growth potential over a long period: Goldman Sach's forecast: India to emerge as 3rd largest economy by 2050 with the economy projected to grow by 5% annually
  - India has one of the largest higher education systems in the world and offers a range of world-class professionally skilled manpower especially in the new economy sectors.

Indicators of Development

Foreign Reserves	Exceeding US $ 100 Million.(Aug. 2004)
GDP growth	8.2 % (2003-2004)
Mobile Subscribers base	42.12 Million (July 2004) 13 Million (March 2003)
Teledensity	7.0 % (2004) from 3.0 (1998)
Radio Broadcast stations	AM (153) FM (91) SW (68) 1998
Internet Subscribers/Connections	Over 20 Million (2004)
Internet Service Providers 43 (2000)	43 (2000)
PC Penetration	Crossed 3 Million in 2003-2004 (Overall base 11 Million) Notebook segment recorded 74% growth, selling over 88,800 units in 2003-04

Source: Industry

- **Leader in Knowledge Industry**

    - India is also a preferred business process-outsourcing destination. 250 of Fortune 500 Companies are clients of Indian companies
    - India is also the R&D base for over 100 of Fortune 500 companies, with GE's largest R&D Center outside US
    - High quality standards in the field of IT with over 2/3rd of world's SEI CMM Level-5 companies being Indian
    - Large pool of World Class scientific and technical manpower – over 650,000 workers in knowledge industries alone

- **India's pharmaceutical industry** is the 4th largest in terms of volumes. India is among the top five manufacturers of bulk drugs

- **Diversified and Strong manufacturing base**

India's competitive edge also extends to the manufacturing sector. With a diversified and strong manufacturing base Indian industries have excelled in world class manufacturing in a variety of industries. Some examples being:

- Many major MNCs like Volvo, GM, GE, Chrysler, Ford, Toyota, Uniliver, Clariant, Cummins, Delphi sourcing high quality components and hardware from India
- Indica, a 100% indigenously designed car, is being exported to Europe as Rover City
- Hero Honda is world's largest manufacturer of motorbikes
- Tata Iron & Steel Company (TISCO) is the lowest cost producer of hot-rolled steel in the world
- Bharat Forge is world's largest single location forging facility supplying to Toyota, Honda, Volvo, Cummins, Daimer Chrysler
- Hyundai Motors India is set to become the Global base for manufacturing small cars by M/s. Hyundai Motors
- Moser-baer is world's third largest producer of optical media and lowest cost manufacturer of CD-Recorders
- Essel Propack is world's largest manufacturer of laminated tubes with 30% of global market

- *AT KEARNEY Business Confidence Index 2003 has ranked India as the 6th most attractive investment destination. India ranked as the 3rd most attractive investment destination for US and British investors and 6th most attractive destination for manufacturing investors.*
- *AT KEARNEY has also ranked India as the top destination for business process outsourcing.*
- *ATK`s Global Retail Development Index -Has ranked India 2nd Most attractive Retail Market to enter*

Three of the fastest growing sectors are been the IT/ITES, Mobile/Cellular growth and the Retail Sector.Other sectors like Financial Services -Insurance, Banking, Healthcare, Media, Infrastructure are also witnessing rapid growth.

Challenges for India

However India has to still sort out some nagging issues of the past –

Labour Laws – Protection of organized labour has been carried to extremes in the past and it has resulted in reduction in the growth of employment. However things are being seen in a new light now. Solutions balancing the twin goals of providing flexibility to entrepreneurs as well as protecting rights of the workers have to be found out.

Fiscal Deficit – The persisting high fiscal deficit is a cause for concern. Populist policies announcements by new governments have been on of the main reason for the rising deficit.

Small Scale Industries Reservation – Even today SSI`s are protected by reserving certain products for the small-scale units. However the very basis of this protectionism is nullified as large-scale manufacturers can import the same products. This policy deserves a re-look.

Educational Backlog – The literacy level of 65 % after 57 years of Independence is not a significant progress. Much has to be done to provide a continuous pool of qualified professionals.

MEDIA

Segment	Foreign Investment allowed
TV Software Production	100%
Hardware Facilities, Uplinking, Hub etc	49%(including FII Portfolio Investment)
Cable Network	49%(including FII Portfolio Investment)
Direct-to-home (DTH)	49%(including upto 20% FDI rest from FII/NRI)
Terrestrial Broadcasting FM	20% FII Portfolio Investment
Film (Production, Exhibition and Distribution)	100%

The above is subjected to certain conditions and restriction of activities

Key players - Rs 1,481-crore Bennet Coleman Company Limited BCCL. Rupert Murdoch`s Star with a turnover of Rs 1,200 crore in July 2003 is fast closing in, while the Rs 800-crore Sony and the Rs 500-crore Sun are growing rapidly.

Key events

June 2002
Restrictions on foreign investment lifted: Foreign holdings in news and current affairs publications are now allowed up to 26% while technical and other non-news media can sell up to 74% to non-Indian companies. Editorial and management control would have to remain in India hands.

Aug. 2003
AMP acquires stake in *Hindustan Times*: Australian financial services group AMP acquired 19% of the *Hindustan Times*, a Delhi based general newspapers, the first transaction of its type after the 2002 regulatory liberalization.

Sept. 2003
***Financial Times* acquires stake in *Business Standard*:** The *Financial Times* (FT) announced the acquisition of a stake in the Mumbai based *Business Standard* newspaper. The investment of Rs141 million (US$3.1 million) gave the FT a 13.85% stake in the pink broadsheet which is printed in seven Indian cities.

Jan. 2004
Wall Street Journal announces Indian edition: Dow Jones announced an agreement with Bennett, Coleman & Co. Ltd., publisher of *The Times of India* and *The Economic Times*, to establish a joint venture to publish an Indian edition of the *Wall Street Journal*.

Dow Jones will own 26% of the new business, the maximum allowed under current rules. The Indian *Journal* will be published five days a week.

Bennett, Coleman has been among the more aggressive Indian companies in taking advantages of the liberalization of foreign media ownerships rules first announced in June 2002. It also announced a joint venture with **BBC Worldwide** to publish speciality consumer magazines in India.

April 2004
NDTV IPO - Raises Rs. 1.09 Billion. Oversubscribed 16 times.

Until June 2002, foreign companies were not allowed to own print media operations in India. At that time, the government announced a limited relaxation of those restrictions. The new rules are as follows

- News publications can take up to 26 % foreign investment
- Technical and non-news media can take up to 74% foreign investment.

So far, BBC Magazines acquisition of a stake in the Times of India Group's *Filmfare* and *Femina* titles is the major magazines investment so far.

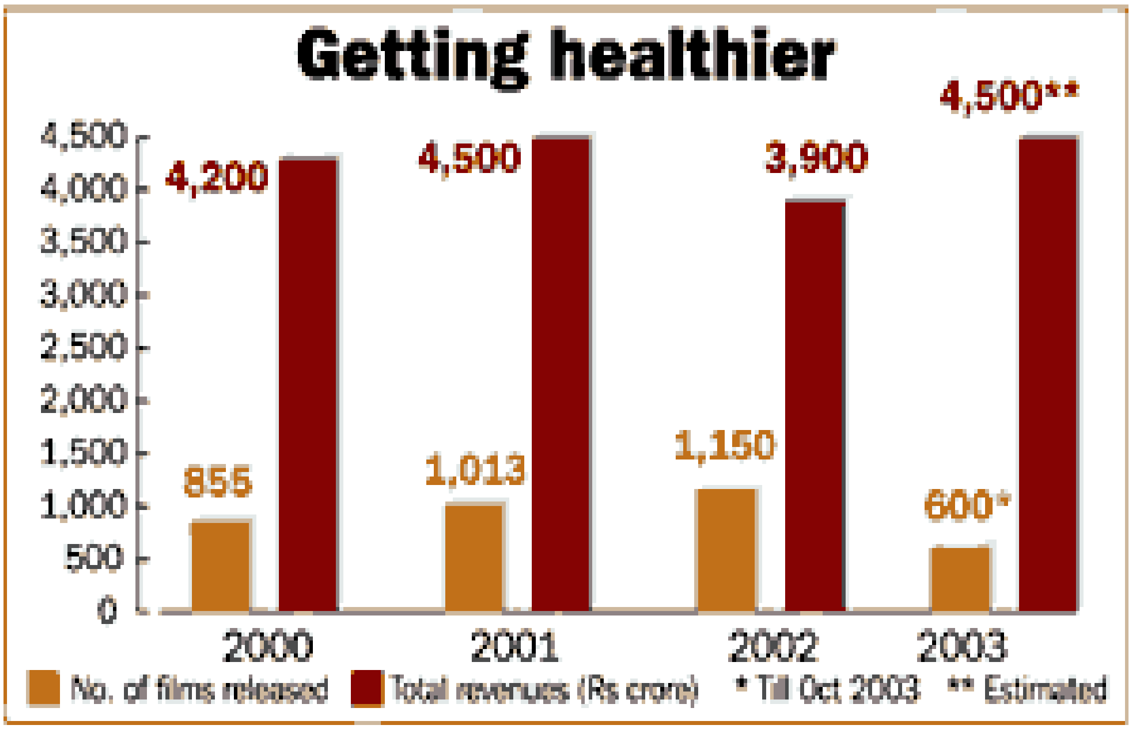
- Media giants like Bertelsmann, Vivendi Universal and Time Warner are either in an advanced stage of entry or have started their work in India.
- Finally, existing financial content and data processing companies like Dow Jones, Reuters, Bloomberg and AFP - which currently operate in India through their 100 percent subsidiaries - are toying with the idea of seeking fresh equity partnerships.

Films

Filmmaking, distribution and exhibition is now largely controlled by the organised sector, by a dozen or so rapidly-integrating companies. A host of film companies are funded by venture capital funds, banks and institutions. Some players - iDream Production, Metalight, Crossover Films, Galaxy Entertainment, The Factory, Shringar Cinemas, Applause Entertainment, Adlabs Films, PVR Cinemas and DT Cinemas. The Indian film industry is one of the oldest and churns out the most number of films in the world. Over 1000 films are released every year in various languages.

A combination of things like industry status and a tax-holiday saw a new wave of investment in production and, more importantly, exhibition (Multiplexes) in 2000. Going by industry estimates, about 1,000 new screens will be coming up at a cost of about Rs 2.5 crore-3 crore each. That is Rs 2,500 crore-3,000 crore will be going into film retailing in the next 2-3 years.

As in developed markets , consolidation seems evident in future. Existing players in India - Columbia Tristar, Sony Pictures Entertainment ,Twentieth Century Fox, Paramount Pictures, Warner Brothers.



India to be one of the world's largest digital theatre country

Digital exhibition is already changing the way thousands of Indians watch films. There is little doubt either in the film industry or in investment banking circles that eventually it will change in several ways the making and selling of movies.

Around the world

Digital theatres	India	US	China	Brazil
Current	130	78	50	1
Estimates	2,000 (Mar 2005)	N.A.	2,500 (Dec 2009)	100 (May 2004)

Source: Industry officials and websites

Cable TV

The seeding of Indian market was due to CNN broadcasting Gulf war. Zee TV and other popular channels initiated the growth of Cable TV services in India in the early 90's. From mere 410,000 C&S households in January 1992, the number of cable homes went up to 1.2 million by November 1992. IRS 2002 survey estimates that there are about 38 million C&S HHs out of 79 million TV households currently.

- Indian cable and satellite industry is one of the fastest growing industries in the world.
- At present there are about 250 channels beamed over Indian skies with more than 100 channels cover Indian Diaspora. Major Broadcasters are Doordarshan, Zee, Star, Sony, Sun TV, ESPN - Star Sports. Other prominent broadcasters are ETV, CNBC, Turner and Discovery.
- The broadcasters present business model has a mix of revenues form advertisement and incremental revenues from subscription. Currently there are 32 pay-channels and rest are free to air channels.
- The cable and satellite broadcast business has undergone a continuous transformation. In beginning, it was driven by small cable operators. It is estimated that in 1995 there were about 60,000 cable operators in India. Increasing costs of operations and need of fresh investments to upgrade cable plants to accommodate more number of channels has led to consolidation amongst smaller operators. The consolidation has resulted in number of operators reducing to half and several of them joined hands to set up headends of 40-50 channels.
- Cable industry witnessed the entry of organized sector MSOs such as Siti Cable (A part of the Zee Network), InCable, and Hathway. These organized sector MSOs have established about 200 headends in metros and major towns to cater services to cable operators. Independent operators have consolidated their networks and are providing services in mostly semi-urban and rural areas.

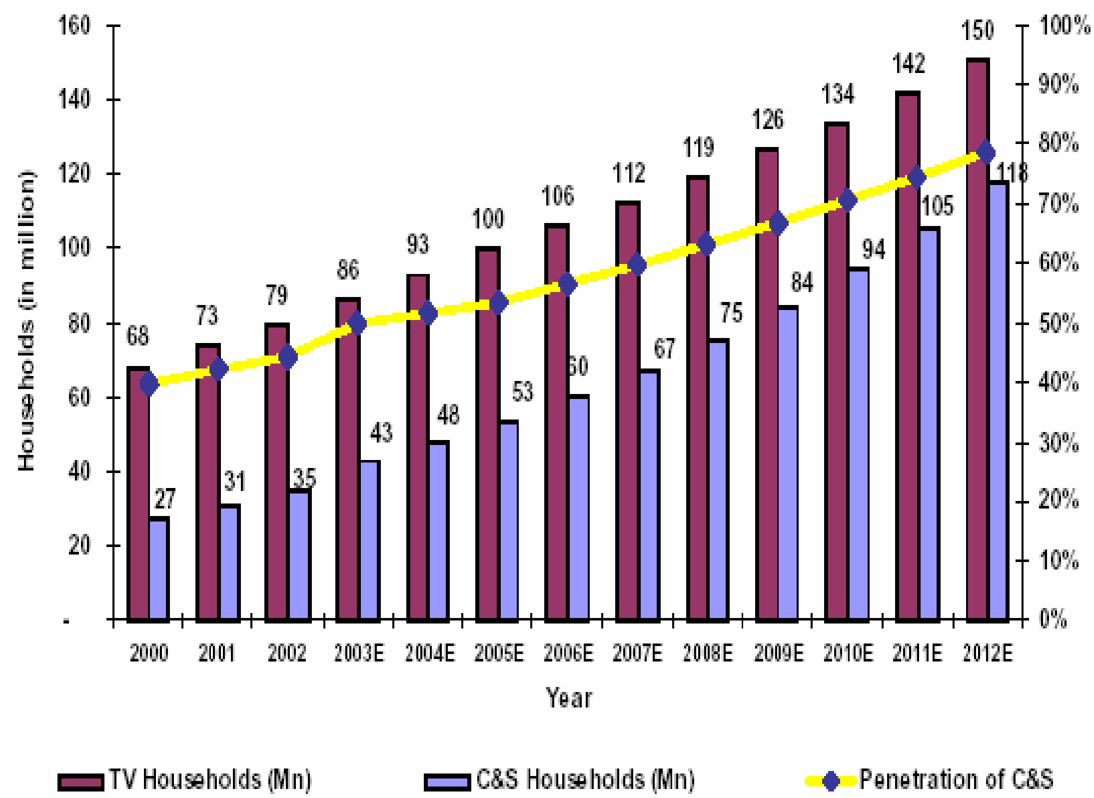
Current Market Scenario and future prospects

Due to tough competition in this highly unorganized, non-regulated industry (no adherence to standards and quality of plant) the cable pricing had gone to the tune of Rs 50 – 100(USD 1-2) per month in the initial years of operation. Existing average price per sub per month average is Rs 125 on all India bases. The main reason for low price, in the initial period was to achieve higher penetration in large middle class population by broadcasting free to air channels. Once channels achieved a critical mass they turned to subscription mode. The subscribers resisted the increase in price due to pay channel mode of operation and lack of transparency in the system. Lower price from households has resulted in under-declaration in the value chain. The cable operators declare only 15-20% of their paid connectivity to MSOs and broadcasters. It is noteworthy that the present pay-channel pricing is not addressed to consumer and being charged from cable operators, without leaving distribution margins to them.

- The Indian cable industry is highly fragmented. There are more than 7000 headends and 30,000 cable operators serving 38 million subscribers. Major MSOs like Siti Cable, Hathway, SCV, RPG are present in major metros or towns. They operate on similar model of franchising of cable TV feed to cable operators, who in turn provide last mile connectivity to the subscribers. Siti Cable is India's largest MSO with a viewership of more than 5.4 million households. In smaller towns the cable operators own headends and also provide services to end subscribers.
- Mumbai is the biggest cable TV market is with approximately 2.5 million while Delhi stands second with more than 1.4 million C&S households. The penetration is much high in urban areas in comparison with semi-urban and rural areas. Gujarat, Andhra Pradesh, Maharshtra, Punjab are state with higher penetration of cable TV in comparison to other states in India.

- Despite this heady growth, the C&S penetration in India is still much lower than some of the other developed nations. Increase in ffordability, fall in the prices of Television sets and regional language channels will increase the penetration of Cable TV. The size of the market is expected to increase many folds due to incremental number of subscribers and improvement in service fees.

Growth Profile – Estimates (Yr. ending March)



Source: Industry

Radio

- The FM radio sector was recently privatized. Over 91 players have entered.
- Radio is the most cost effective mass medium owing to its high penetration level.
- Radio advertising revenue has doubled in the last two years to cross over Rs. 200 crores and is expected to grow at a healthy rate.

In a recent move(Aug 2004) that could provide some relief to troubled private FM radio companies, the Telecom Regulatory Authority of India (TRAI) recommended a low one-time entry fee and a revenue share of four per cent in the second phase of private FM radio licensing. TRAI also called for a review of the foreign direct investment norms in the sector as well as the ban on airing news and current affairs programmes.

Under the existing regime, the license fee is determined by an auction, and it escalates 15 per cent every year. FM radio companies have been pushing for a change in the present regime to a revenue share model for quite some time.

Music

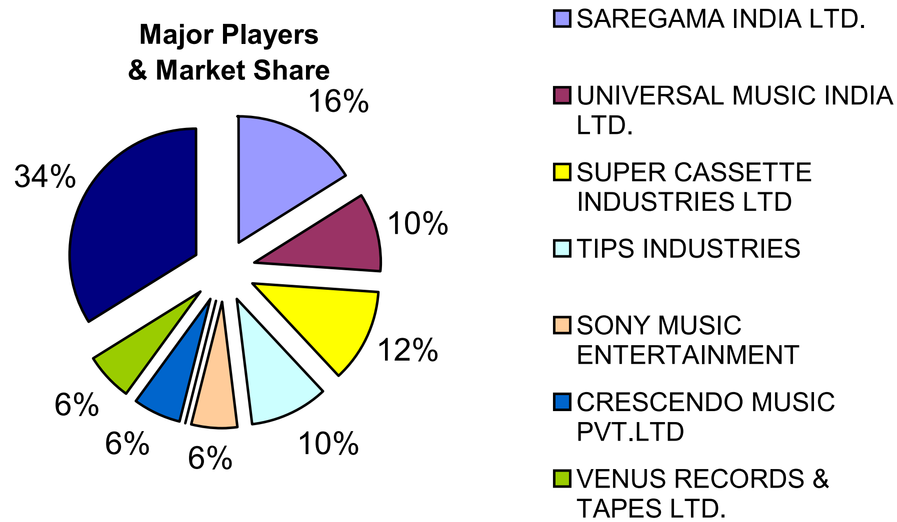
Due to its very nature, the industry is considered an important constituent of the Indian Entertainment industry as a whole, rather than an independent sub-sector.The music industry in India has a unique structure unlike most other global markets. Till 1990, the music market was almost completely dominated by film and devotional music. The early 90's saw the advent of the television and increased consumer exposure to non-film music channels, non-film albums and music videos.

- The Indian Music Industry (IMI) is the second largest in the world in volume terms, trailing only the US. In value terms though, its position is lower, owing to the low unit prices here.
- As for numbers, India is the fourth largest in the world in terms of units, but 23rd in terms of value
- The music industry in India has more than doubled in the last decade. While total music cassette (MC) market constitutes 95% of the market, the compact disc (CD) market is 5% in volume terms. In value terms, it is in the ratio of 70:30, with an export market estimated at Rs. 15 million.
- The Indian music industry at Rs. 18 billion has more than doubled in the last decade. The total music cassette (MC) market constitutes 95% while the compact disc (CD) market is 5% in volume terms.

With a view to controlling piracy, music companies reduced the prices of both music cassettes and compact discs. This has made CD's more affordable; CD's are now available in the range of Rs. 80-100 (from INR 200-275). However, in the short term this has affected the bottom lines of music companies since it volumes did not increase commensurately.
Though CD sales account only for 5% of the total sales, the ratio is expected to increase over the next three to four years. However, the threat of MP3 CD's could substantially impact on the growth of legitimate CD sales. FM Radio has also impacted the sales.

Key Players - While the major players have a large chunk of the organised market (up to 62%), there are a number of small and niche players like *Milestone, Virgin, Times Music, Rajshri Music, Archies Music, Music Today, BMG Crescendo*.

The sheer number of players, several of whom are small in size, has led to the development of niche markets. With its multiple segments and genres, the music business lends itself well to specialization



- Most of the smaller players concentrate on typically non-film areas, mainly because film music requires huge investments, affordable only by the majors.
- Moving away from the acquisition right deals, music companies are turning towards revenue-sharing to de-risk their business models. Such agreements now account for almost 25% of the total market place.
- Music companies are increasingly realising the need for product expansion, music sales alone not enough to sustain profitability. Allied segments like film VCD's and DVD's, product merchandising are new revenue streams being explored.
- Acquisition of smaller labels to expand catalogue reach, venturing into film production are other visible trends.
- The industry has grown from a slow pace of 8-10% (till 1992) to close to 20% in recent years. New entrants, drop in piracy, easier promotion of music due to proliferating satellite television and increased spend on music has contributed to this growth.
- Industry analysts do not expect significant changes in the short term. However, with the re-invention and reform process having been set in motion, positive results are expected to be visible in the next 2-3 years.
- Accordingly, revenues are expected to remain flat in the immediate future and grow gradually from INR 10.4 billion to INR 16.4 billion by the year 2007.

Some of the key factors which will influence this growth rate are:

Increase in Satellite TV
Spurt in Exports , better availability of music
Emergence of large format retail music stores (Music World, Planet M)
Expanding markets due to e-tailing/online music sales
Internet Technology as a distribution agent
Drop in the cost of acquisition of film rights

The industry is poised for strong growth, only the fittest will survive. Those with solid catalogue, strong distribution channels for delivery in multiple formats are likely to emerge winners. With the top players fairly well set with integrated facilities (manufacturing plants, distribution networks), acquisitions to enhance and expand their catalogues/labels ensuring better penetration of non-film music markets, the industry is ready to get into a consolidation mode.

RETAIL

A.T. Kearney`s 2004 Global Retail Development Index (GRDI) an annual ranking of Retail Investment attractiveness among 30 emerging markets rates INDIA as the 2nd most attractive destination.

Retail sales

- Retail sales, which amounted to about Rs 7,400 billion in 2002, expanded at an average annual rate of 7% during 1999-2002. Organised sector contributes just around 2 % of the total retail turnover in India.
- With the upturn in economic growth during 2004-2005, retail sales are also expected to expand at a higher pace of nearly 10%.
- Food, beverages and tobacco accounted for as much as 71% of retail sales in 2002. The remaining 29% of retail sales are non-food items. It is expected that with income growth, Indians, like consumers elsewhere will spend more on non-food items compared with food products.
- Sales through supermarkets and department stores are small compared with overall retail sales. However, their sales grew much more rapidly (about 30% per year during the review period). As a result, their sales almost tripled during this time. This high acceleration in sales through modern retail formats is expected to continue during the next few years with the rapid growth in numbers of such outlets in response to consumer demand and business potential.

Government policy

There has been vigorous opposition to foreign direct investment (FDI) in retailing from small traders who fear that foreign retailing companies would take away their business, lead to the closure of many small trading businesses and result in considerable unemployment. Given the political clout of the small trading community, because of their enormous numbers, the government has barred FDI in retailing since 1997. Hence, at present, foreign retailers can only enter the retailing sector through franchising agreements.

Organisational characteristics

- Given the traditional and underdeveloped state of the Indian retail sector, the organisational characteristics of retail enterprises are rudimentary. Most of them belong to independent enterprises in the form of small family businesses.
- Cooperatives have been present in India for several decades, spurred by the encouragement given by the Indian Government, which viewed the cooperative movement as an integral component of its erstwhile socialist policies. However, since the 1990s, there has been a reduction in government support for cooperatives. In 2002, there were about 35,000 outlets run by cooperatives.
- Economic liberalisation, competition and foreign investment since the 1990s led to a proliferation of brands with both foreign and Indian companies acquiring a strong brand equity for their products. Hence, franchising emerged as a popular mode of retailing. Sales of franchises grew at a rapid pace of 14% per annum over the review period. In 2002, there were over 5,000 franchised outlets.
- The other major retailing organisation format is multiples, better known as "chain stores" in India. In 2002, there were about 1,800 chain stores. Among the various organisational formats, sales of chain stores grew at the fastest pace, with sales growth during the review period averaging 24% per year.

Food retailers

There are a large variety of retailers operating in the food-retailing sector. This is not surprising considering the enormous size of the market for food. However, traditional types of retailers, who operate small single outlet businesses mainly using family labour, dominate this sector. In comparison, supermarkets account for a minuscule proportion of food sales. This is because of the strong competitive strengths that traditional retailers possess. These include low operating costs and overheads, low margins, proximity to customers, long opening hours, and additional services to customers (such as home delivery). Nevertheless, supermarket sales expanded at a much higher rate than other retailers. This is because greater numbers of higher income

Indians prefer to shop at supermarkets because of convenience, higher standards of hygiene and the attractive ambience.

Health and beauty products retailers

With growth in incomes, Indians have been spending more on health and beauty products. As in the case of other retailing sectors, small single-outlet retailers also dominate sales of health and beauty products. However, in recent years, a couple of retail chains specialising in health & beauty products have sprung up.(Lever`s Lakme Salons and Marico`s Kaya Skin Clinic, Gold Gym) At present, they account for only a tiny share of sales of these products. However, as Indians spend more on such products in future, their business will undoubtedly expand substantially. There is also scope for entry of more such chains.

Clothing and footwear retailers

Numerous clothing and footwear shops are to be found in Indian cities and towns, especially in shopping centres and markets. These are a mix of traditional and modern stores. Traditional outlets are small and cramped with little emphasis on alluring displays. They basically stock a limited range of cheap and popular items. In contrast, modern clothing and footwear stores are spacious with sample products attractively displayed in windows, sometimes with mannequins. Just as in the case of food retailing, there are also a huge number of retailers selling clothing and footwear in makeshift stalls or on footpaths. Because of their rock-bottom prices, which are much lower than prices of branded products, they attract a large number of customers.

Home furniture and household goods retailers

The home furniture and household goods retailing sector in India is dominated by small retailers. Despite the large size of this market, very few modern and large retailers have established specialised stores for these products. However, there is considerable potential for the entry or expansion of specialised retail chains and it is likely that this will happen during the next few years.

Durable goods retailers

The entry of a large number of foreign consumer durable companies into the Indian market during the 1990s after the government liberalised its foreign investment and import policies transformed this sector dramatically. A much larger variety of consumer electronic items and household appliances became available to the Indian customer. Competition among companies to sell their brands provided a strong impetus to the growth for retailers operating in this sector.

Leisure and personal goods retailers

Rising household incomes due to economic growth spurred consumer expenditure on leisure and personal goods in India. There are specialised retailers for each category of products in this sector. A few retail chains also emerged particularly in the retailing of books and music products. Another key feature of this sector is the popularity of franchising arrangements between established manufacturers and retailers.

Alternative selling channels

Sales through most alternative selling channels are tiny or non-existent. The only exception was direct selling, which grew rapidly over the review period. The main reason for this was that direct selling companies could easily attract a huge number of "distributors", who constitute the key element for the success of any direct selling company. Many of these are unemployed Indian housewives who welcomed this opportunity to earn additional income for their households. The low start-up costs meant that they could easily start this business.(In four years of its operation in India AMWAY has clocked revenues over Rs. 700 crores)

Forecast total retail sales

Retail sales (in real terms) are predicted to rise more rapidly than consumer expenditure during 2003-2008. The forecast growth in real retail sales during 2003-2008 is 8.3% per year (compared with 7.1% for consumer expenditure). Inevitably, modernisation of the Indian retail sector will be reflected in rapid growth in sales of supermarkets, department stores and hypermarkets. Sales from these large format stores are predicted to expand at growth rates ranging from 24% to 49% per year during 2003-2008. However, such rapid growth is from a small base. Hence, they will continue to account for only a small share of total retail sales in 2008.

Key developments in Indian retailing industry:

- *Emergence of Region-Specific Formats*: With organized retail penetrating beyond metros, the retail industry has witnessed the emergence of stores with different sizes and formats.
- *Emergence of Discount Formats*: Larger discount formats are now emerging as major competitors to both unorganized and organized retailers. This has

resulted on account of penetration of organized retail into the lower strata of income groups and consumer demand for increased value-for-money.

- *Entry of International Players:* Over the years, a number of well-known international brands have capitalized on the opportunities available in the sector by executing licensing agreements with Indian players.
- *Development of malls:* The establishment of malls has increased dramatically and funds for such products are being earmarked for non – metros as well.
- *Improvement in Retail Operating Efficiencies*: Existing retail players are taking steps to improve the internal operations of their businesses and are implementing ERP and planning support systems.
- *Improving Profitability and Retail Revenues*: Most of the retail players in the country are experiencing improved profitability which is also expected to improve their credit profile in the industry.

Major retail players having prominence in the organized retail market include Shopper's Stop Limited, Pantaloon Retail (India) Limited, Trent Limited etc. The retail industry is poised for expansive growth over the next few years. The industry is in an investment mode and requires substantial funds for expansion and growth.

International retailers eyeing India

Retailer	Type	Status
Carrefour	Multi-format retailer	Postponed entry
Auchan	Hypermarkets	Evaluating
Shoprite	Supermarkets	Opening in Mumbai
Marks & Spencer	Lifestyle stores	Already in
Dairy Farm	Multi-format retailer	Tied up with RPG
7-Eleven	Supermarkets	Evaluating
Metro	Cash-and-carry	Already in
Wal-Mart	Hypermarkets	Wait and watch
Landmark	Lifestyle stores	Already in
Mango	Apparel retailer	Already in

Source: industry

Wal-Mart wannabes

Retailer	Current turnover (in Rs crore)	Targeted turnover (in Rs crore)	Outlets	Projected outlets
Pantaloon*	700	1,200	31	74 (by 2005)
RPG**	550	1,600-1,700 (FY05)	1	12 (by March 2006)
Shoppers' Stop	400	N.A.	13	40 (by 2005)
LifeStyle	230	650 (FY06)	7	15 (by 2005)
Westside	120	N.A.	13	21-23 (by 2005)
Ebony	85	150 (FY05)	8	14 (by 2005)
Piramyd	72	190 (FY05)	3	19 (next four yrs)
Globus	N.A.	N.A.	7	15-17 (by 2005)

*Pantaloon Retail. Current stores (projected for 2005) — Pantaloons: 14 (24); Big Bazaar: 7 (16); Food Bazaar: 10 (30); Central: 0 (4) **Turnover for all of RPG Retail. No. of outlets is only for Giant, the hypermarket expected to contribute Rs 1,000 cr. in revenues by March 2006 Source: Companies

Petro-Retailing sector has also been thrown open to the private sector.The government has given around 8,000 licenses for setting up of petrol pumps to new entrants. US major Shell has been given the license for 2000 outlets.

HEALTHCARE SERVICES

India's healthcare sector has made impressive strides in recent years. From a US$20.6 bn. it is expected to touch US$46.6 bn. by 2012. This includes the pharmaceuticals market, government and private spending.

- There are economic factors that make India an exciting market. Since healthcare is dependent on the people served, India's huge population of a billion people, represents a big opportunity.

  The various gaps in the Indian healthcare services market presents a vast opportunity. Good healthcare in India is in extreme short supply.

  Hospitals in India are running at 80-90 percent occupancy. With the demand for healthcare far exceeding supply, India's healthcare industry is expected to grow by 15 percent a year for the next six years.

  There is a huge shortage of hospital beds. According to a WHO report, India needs to add 80,000 hospital beds each year for the next five years to meet the demands of its growing population. Using the latest technical equipment and the services of highly skilled medical personnel, healthcare services are available at competitive prices; encouraging patients not only from developing countries but also even from a number of developed ones to come to India for specialised treatment.

- The healthcare industry includes medical care providers – physicians, specialist clinics, nursing homes, hospitals, medical diagnostic centers, and pathology laboratories.
- The size of India's healthcare industry is currently an estimated Rs 4,860 billion, which is roughly 5.2 percent of the country's GDP. The private healthcare segment is by far the dominant segment with a size of Rs 690 billion. Public health spending accounts for only Rs 170 billion, which is a mere 0.9 percent of the GDP. Outpatient spending accounts for 61 percent of the private healthcare segment and inpatient spending accounts for the remaining 39 percent.
- The industry has grown in size and sophistication over the last decade with several corporate groups in the private sector setting up large multi-specialty and superspecialty hospitals in the large cities.
- While the basic health indicators in the country have substantially improved since independence, performance of the industry in terms of coverage, purchasing and delivery is poor vis-à-vis other developing nations like Brazil, Thailand and Korea. India has only 1.5 beds per thousand people in contrast to around 4.3 beds per thousand in other countries. Demand for healthcare is expected to see explosive growth with rise in life-style diseases such as cardio-vascular disorders and cancer.
- According to a recent study, total healthcare spending is expected to more than double to Rs 2,000 billion by 2012, and its contribution to the GDP would be around 8.5 percent. Private healthcare would continue to dominate with a size of Rs 1,560 billion - if health insurance gains wider acceptability, this could go up by an additional Rs 390 billion.
- Expenditure on public health could also double if the Government increases its spend to the target level of 2 percent of GDP. Inpatient spending is expected to increase its share in private healthcare spending to 47 percent while the share of outpatient spending would decline. This industry growth would require a supporting investment of Rs 1,000 billion, 80 percent of which would have to come from the private sector.
- The segment presents a huge opportunity for global healthcare companies, entrepreneurs and investors. As mentioned, demand for healthcare is expected to more than double in the next decade, and to meet this demand, an investment of Rs 1,000 billion would be needed, mostly from the private sector, in the form of public private partnership ventures or purely private ventures. A World Health Organization report states that India needs to add 80,000 hospital beds each year to meet the demand of its population.
- Another facet of the healthcare industry is the 'Preferred Provider Organization', which offers medical services to its clients. It manages almost

all the healthcare needs of the customers except the insurance cover. However, upon the deregulation of the insurance sector, it is estimated that there will be a spurt in activities to set up Preferred Provider Organization and Health Maintenance Organizations.

Backed by its new state-of-the-art medical facilities, pool of highly skilled and experienced doctors, and lower costs, the country has also begun to offer specialist healthcare services to people from other developing countries and even some developed countries such as the USA. Thus, the industry is poised to grow fast growing and emerge as a key industry in the country.

Information Management companies

Information Management companies are information driven organizations that provide non-technical support to organizations in the healthcare industry. Typically, their services include providing customer companies with information on the efficacy of marketing initiatives undertaken, efficacy of medical facility, administration and deliveries, etc. Currently, MNCs such as IMH and Battaerd Mansley have a presence in the information management segment in India. As the healthcare industry grows, one could expect tremendous demand for such niche services.

Pure Research and Development Companies

Capital investment in R&D by Indian health sciences companies is way behind world levels, the average R&D spend being about 2 percent of sales. Given India's commitment to honor global product patents from 2005, the need for novel drug discoveries is poised to increase at a phenomenal rate. Further, the incapability by players in the pharma industry to fund R&D could make them turn to pure R&D companies. Pure R&D companies typically carry out long term R&D focusing on preliminary R&D of new molecules and out-licensing of such molecules.

Contract Research Organizations

Contract Research Organizations are typically engaged in conducting research outsourced by companies in the pharma sector, such as new drug testing (clinical trials), bioequivalence studies biometrics (data management) and site and project management.

These organisations have emerged as a very promising sector within health sciences and have seen phenomenal growth in India. Currently revenues generated by the industry amount to Rs 3.5 billion. The industry is growing at 100 percent a year.

Medical Equipment Suppliers

Medical equipment products include cardiology, X-ray machines, cardiovascular equipment, nuclear medicine devices, critical care IT equipment radiation

therapy machines, etc. Medical equipment suppliers segment includes traders and manufacturers.
Historically MNCs sold medical equipments directly to high-end institutions. Current trends indicate that indigenous players are growing in stature as traders and manufacturers. Industry experts expect the Rs 150 million medical equipment manufacturing segment to grow at 20 percent annually. Major players (MNC and Indian) include Philips, Boston Scientific group, GE Medical, L&T, Wipro, Roche, etc.

Pharma & Chemicals

Investment Policy

The pharmaceutical policy-2002 is aimed at the ensuring abundant availability at reasonable prices within the country of good quality essential pharmaceutical of mass consumption, in addition to strengthening the indigenous capability for cost effective quality production. Drug policy is aimed at ensuring abundant availability of essential and life saving drugs of quality at reasonable price, in addition to strengthening the indigenous production base.

- Control of prices is achieved through the Drugs (price Control) Order, 1995 wherein 74 bulk drugs are presently price controlled. The number of drugs under price control will be reduced under the new Drugs (Price Control) orders to be issued in accordance with the pharmaceutical policy –2002.
- Industrial licensing has been abolished except for products of recombinant DNA technology, bulk drugs requiring in-vivo use of nucleic acids as active principle and specific cell/tissue targeted drug formulations.
- FDI up to 100% is permitted on the automatic route for manufacture of drugs and pharmaceuticals, provided the activity does not attract compulsory licensing or involve use of recombinant DNA technology and specific cell/tissue targeted formulations. FDI proposals for the manufacture of licensable drugs and pharmaceuticals and bulk drugs produced by recombinant DNA technology, and specific cell/tissue targeted formulations will require prior Government approval.

Indian Pharma Industry

The Indian pharmaceutical industry is expected to grow at a CAGR of 19 percent.

- Pharma exports have recorded a CAGR of 21 percent during the last five years. In addition, over the next five years, exports are expected to grow at a CAGR of 23 percent.
- The Indian pharma industry consists of both multinational as well as domestic players. MNCs are primarily present in the formulations segment

and have a negligible presence in the bulk drugs segment. In India, MNCs have created a strong brand identity for their products through high marketing expenditure coupled with global strengths / products. Major MNCs present in this sector include, Glaxo Smithkline, Pfizer, Novartis, Aventis and Merck.

- India being a signatory to the GATT is committed to honor global product patents from 2005. Hence, it is likely that multinational pharma companies may introduce their latest products into the Indian market thereafter. Going forward, Indian pharma companies are well positioned to exploit the US $80 billion global generics market created by several blockbuster drugs going off patent in the next five years. Indian players have already set up subsidiaries and sealed alliances in foreign regulated markets to enhance their distribution network.

Leading Indian companies are also investing increasing amount of resources on new drug discovery and new drug delivery systems. The domestic pharma market is expected to grow at a CAGR of 9.7 percent over the next five years owing to an increase in population, higher purchasing power, pruning of the number of drugs under price control, and introduction of new drugs by multinational companies.

Opportunity in Pharma Sector

Growth reflected by the Indian pharmaceutical industry in terms of infrastructure development, technology base and the range of production is tremendous. The Industry's strength lies in world-class technology, cost effective production of 90 percent of bulk drugs and all required formulation, rich bio-diversity, competitive R&D costs and over 20 percent growth rate in exports. With an increasing number of bulk drugs going off patent, and the capability of Indian scientists in process technology, the share of Indian pharma products in world market is expected to rise further.

Entering on tip-toe

Company/Country	Sales ($bn)	Activity in India*
Teva, *Israel*	3.3	R&D,manufacturing
Ivax, *US*	1.4	R&D
Pliva, *Czech Rep.*	1	No plans yet
Ratiopharm, *Germany*	NA	R&D
Apotex, *Canada*	NA	Plans R&D, manufacturing
Hexal, *Germany*	1.3	NA
Sandoz, *Austria*	2.9	R&D, manufacturing

*Apart from sourcing from Indian companies. NA: Not available

Source: Business World Jan 2004.

A host of foreign generics majors are ramping up their presence in India. This includes setting up large-scale manufacturing facilities, hiring scientists by the dozen and, in short, trying to beat India's off-patent drug manufacturers at their own game. The drugs developed and manufactured by the Indian arms of these companies are destined for the US and western European markets for off-patent drugs, where Indian companies have become the lowest cost players. While foreign majors like Teva, Ivax, and Apotex already have sourcing pacts with Indian companies like Cipla and Lupin for these countries, they clearly want to leverage India better themselves. (See 'Entering on tip-toe') Some facts:

- The $3.8-billion Teva, the world's largest generics company, has hired about 30 scientists in Faridabad to work on the chemical synthesis of generics. It plans to take this number to 50 by the year-end. To accommodate its growing team it will soon be moving to a research and development centre in Greater Noida. Teva has been sourcing bulk drugs and intermediates from Indian manufacturers for nearly a decade, but it was only last year that it bought a manufacturing facility from one of them.

- Ratiopharm, a leading German generics players has recently acquired 68,000 sq. m of land in Goa's Verna Industrial Estate. This will house a formulations development and stability control laboratory employing over 100 research scientists. It already has 18 scientists and other technical staff in Mumbai.

- Canada's largest generics company, Apotex, is investing about $10 million (by industry estimates) in a manufacturing facility and research centre in Bangalore.

- Sandoz recently inaugurated a large-scale tablets facility near Mumbai and plans to make its Indian development centre its biggest.

These companies came in quietly some years ago. Ivax in 1999, Pliva in 2000, and Ratiopharm in 2001. Sandoz came in even before that. They began by sourcing drugs. It is only in recent months that they have stepped up their other operations. The reasons are obvious: low manufacturing and product development costs, and the ability to hire scientists quickly. Developing their own drugs could also help them keep costs lower than if they were buying from an Indian firm that had to be allowed a good margin, says an industry watcher. Other companies rumoured to be interested in leveraging India better: Alpharma of the US and Hexal of Germany.

The technological strength of India in the pharmaceutical sector are derived form:

- Production of 90% of bulk drugs and almost the entire range of formulations
- Self reliant technology for production
- Innovative scientific manpower
- Low R&D costs
- Low cost drug formulating for national health progress
- Strength of national laboratories
- Several MNC's conducting clinical trials in India.

Opportunities in Chemicals

- The well established Indian chemicals industry products a wide range of products of including organic and inorganic chemicals, dyestuffs, paints, pesticides and speciality chemicals. The industry has withstood the challenges from the international market and has soon continued growth in its exports.

- The chemical sector together accounts for over 11% of the total Indian exports. With is established expertise in the IT sector, with focused attention on R&D and its ability to produce high quality products at globally comparative prices, India will play a crucial role in the knowledge based industries in the coming years.

- The petrochemical sector has been witnessing a growth of over 12% in the last decade, which is about twice the growth rate of Gross Domestic products. Significant capacity additions during 1990s have reduced import dependency. The total consumption of major petrochemicals (including polymers, elastomers, synthetics fibres and surfactants) during 2001-02 was about 6 million tones. However, the per capita consumption of commodity polymers and synthetic fibres has been 3.8 kgs and 1.7 kgs respectively, which is much below the world average of 19.7 kgs and 3.7 kgs.

It is envisaged that the demand of polymers would grow at the rate of about 12-13% and synthetic fibres at about 6% in the current decade. To meet the growing demand, additional capacity of about 10 million tones of commodity polymers and about 1 million tones of synthetics fibres would have to be created The rapidly growing demand and huge captive domestic market gives an opportunity for investment of over Rs.70,000 crores.

Biotechnology

- The Indian biotech industry enjoys two percent share of the global market, a figure that is expected to rise with the entry of new players.
- India is on the threshold of a biotechnology revolution, which is fast emerging as this century's most dynamic force. The biotechnology sector is expected to expand to US$4.8 bn. by end 2010.
- The Indian biotechnology industry has registered a 39 per cent growth to touch Rs 3,265 crore (Rs 32.65 billion) in 2003-04.Source - according to the BioSpectrum Biotechnology Industry Survey.
- While investments in this sector increased by 25.99 per cent to Rs 635 crore (Rs 6.35 billion), projections indicate a 33.86 per cent growth (about Rs 850 crore) during the current fiscal.
- During the year 2003-2004, two leading biotech groups -- Serum and Biocon -- surpassed the Rs 500 crore (Rs 5 billion) mark and accounted for a third of the industry size. While Serum was the largest biotech group with revenues of Rs 555 crore (Rs 5.55 billion), Biocon was a close second with Rs 549 crore (Rs 5.49 billion).
- While exports accounted for 55.65 per cent of the total biotech sector turnover, bio pharma accounted for the larger share of exports, estimated at over 76 per cent. With total sales of Rs 275 crore (Rs 2.75 billion), bio services are expected to be the next biggest sector after bio pharma.

On the basis of biotech sales during 2003-04, the BioSpectrum-ABLE top 20 Biotech Companies listed Biocon, Serum Institute of India, Panacea Biotec, Nicholas Piramal and Novo Nordisk as the top five companies in India. Other leading companies include Venkateshwara Hatcheries, Wockhardt, GlaxoSmithKline, Bharat Serums and Eli Lilly and Company.

The setting up of a separate Department of Biotechnology (DBT) under the Ministry of science and technology in 1986 has given a new impetus to the development of modern biotechnology in India. In more than a decade of its existence, the department has promoted and accelerated the pace of development of biotechnology in the country.
Concerted efforts for over a decade in R&D in the identified areas of modern biology and biotechnology have paid rich dividends. The proven technologies at the laboratory level have been scaled up and demonstrated in field. Patenting of innovations, technology transfer to industries and close interaction with them have given a new direction to biotechnology research.

Necessary guidelines for transgenic plants, recombinant vaccines and drugs have also been evolved. A strong base of indigenous capabilities has been created. India's inherent strengths are:

- Rich Biodiversity
- Large reservoirs of valuable diagnostic and clinical data
- Vibrant and inventive pharmaceutical industry
- World class network of educational and research institutions
- Known strengths in mathematics, logic and computational skills
- Super computing and software strengths enable extensive use of bio-informatics in new drug discovery

Core competence in India
- Capacity in bioprocess engineering;
- Skills in gene manipulation of microbes and animal cells;
- Capacity in downstream processing and isolation methods;
- Skills in extraction and isolation of plants and animals products;
- Competence in recombinant DNA technology of plants and animals;
- Excellence in traditional and molecular marker assisted breeding of plants and animals; and
- Infrastructure in fabricating bio-reactors and processing equipment.

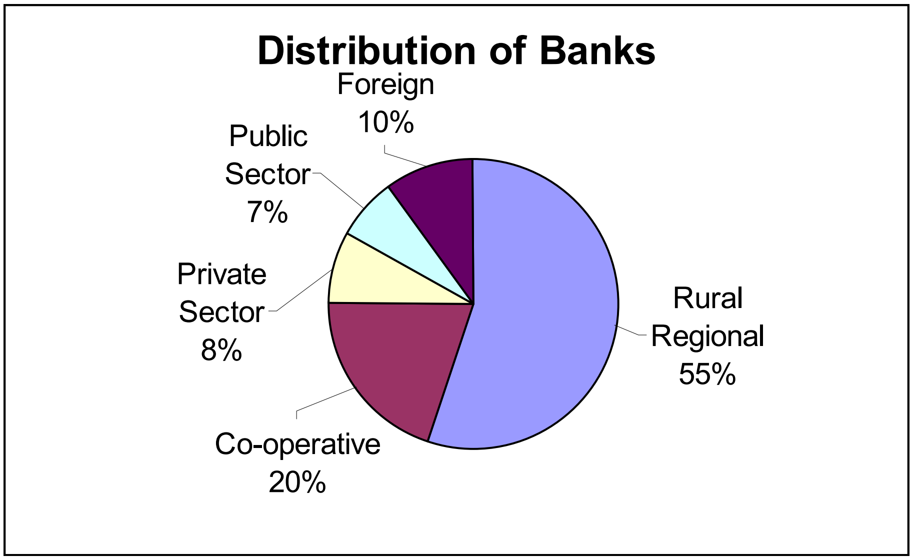
Opportunities in Bio-tech

- Agricultural biotechnology promises to be an important business segment. There are sizeable opportunities for foreign bioscience companies seeking research and business alliances with Indian companies. India offers a huge market for agribiotech products, as the country's economy is substantially dependent on agriculture.

- Demand for biotech products in healthcare is also expected to grow significantly.
- Diagnostics are being increasingly consumed in more than 11,500 hospitals and 14,000 diagnostic laboratories in the country. The current market size is an estimated US $200 million, of which around 50 percent is accounted for by imports. The vaccine market in India is currently worth around US $100 million, and is growing at 20 percent annually. In recombinant therapeutic proteins, the Government has granted marketing licenses for around 25 proteins and currently, all are imported barring one.
- Bilateral and multilateral international collaboration in R&D especially for knowledge base and product and process development - Many Indian companies have introduced products of original research through technology transfer from R&D institutions of India in the field of vaccines, diagnostics and reagents. Some others have teamed up with foreign companies for sourcing technologies and are experimenting with new products produced by foreign technologies with a view to introduce them into the Indian market within the frame work of Indian laws.
- India is expected to gain leadership in bioinformatics owing to its large resource pool of molecular biologists, statisticians and software programmers. The global bioinformatics market is around US $2 billion, which is expected to grow to US $60 billion by 2005. According to experts, India is well placed to garner a 5 percent share of this global market.
- There is an increasing trend to outsource low cost R&D functions by MNCs. This represents a tremendous opportunity for Indian companies to carry out contract research for overseas companies. The current global spend on outsourced R&D is an estimated US $7 billion, which is expected to grow at 30 percent per annum over the next five years Typically, opportunities exist in gene sequencing work, CDNA library preparation, genetic research, new crop varieties and early stage drug development.

Venture capital funding requirement of Rs 3,000 million has been estimated for this segment. Financial institutions such as the Small Industries Development Bank and ICICI Bank have committed about 35 percent each.
Some of the active players in biotechnology in India include Cipla, Dr Reddy's Laboratories, Eli Lily-Ranbaxy, Monsanto India Limited, SPIC, Zydus-Cadila, Scheering India Limited, Morepen Labs, Biocon, Torrent Biotech and Wockhardt Biotech.
The field of biotechnology both for new innovations would form a major research and commercial endeavour for socio-economic development in this decade.

INSURANCE, BANKING AND FINANCIAL SERVICES



Opportunities

- India has moved a major way towards financial groups by offering various financial services through separate arms. This is close to the concept of Universal Banking. ICICI merger with ICICI Bank and now merger of IDBI with IDBI Bank has marked the beginning of the trend
- Retail banking is another sunrise sector and holds a promising future in India. The market is growing upwards at 50 % every year. The major cause for the hop on retail banking is that the penetration level is about only two per cent. Thus the actual market potential is tremendous.
- The government is encouraging private sector participation including foreign equity participation up to 26 % of paid –up capital in the insurance industry with the passage of the Insurance Regulatory and Development Authority (IRDA) Act 1999.The opening up of the sector offers tremendous opportunities for insurers insurance intermediaries and other organizations connected with the industry.
- As part of the integration of financial services world over new opportunities have emerged for banks to enter into the area of insurance thus opening up viable opportunities to enhance their non-interest income and improve their performance
- A broad investor base and a vibrant primary and secondary market provide opportunities for financial intermediaries and service providers.
- A large and rapidly growing consumer market of over 300 million people provide opportunities in retail banking and finance
- Increasing globalisation combined with domestic deregulation will create a demand for sophisticated financial products as well as innovative financial products.

- FII Currently handle about a quarter of the Indian market turnover of around Rs. 67 Crores a day or Rs. 2010 crore a month.
- Internet based trading has made a foray and is growing at a healthy rate
- Presently Indian insurance market is on of the least insured markets in the world. It is ranked 57th among 60 countries. Per capita gross premium for a few select countries are given below
- The insurance market has an untapped potential. Post liberalisation, twelve private sector companies in the life segment and nine in the non-life segment have entered the market.

Country	**Gross Premium per capita (US$)**
Thailand	30
Taiwan	407
South Korea	732
India	5

Doubling per capita gross premium can lead to mobilization of US $ 8.9 billion of funds.
Currently 26% FDI is permitted in Insurance. The FDI limit is supposed to be hiked further in future.
Key Players - Companies like LIC of India, ICICI Prudential, SBI Life, OM Kotak Mahindra, Tata AIG, Max New York Life, Birla Sun Life, Aviva Life and Allianz Bajaj. Market leader Life Insurance Corporation's market share dipped from 100 % (pre-liberalisation period in 2002) to 82.39 % with private players increasing their toehold in life insurance industry that logged Rs 3,659 crore in premium income in the first quarter of this fiscal.(Apr-Jun 2004)

Credit Cards

- **Key Players** - Citibank, StanChart, American Express (AmEx TRS), State Bank of India (SBI) along with GE Caps, ICICI Ltd ,HSBC, HDFC and ABN Amro Bank.
- Citibank currently occupies pole-position with over 2 million cards, followed by ICICI, StanChart, SBI, HSBC, ABN AMRO and HDFC Bank.
- The total number of credit cards in the system, is at around the 11-m mark. In the last four years the credit card segment has been growing at a compounded annual growth rate of 35%. This is despite the base is growing larger. The growth in credit cards in the first quarter of this calendar year March 2004 has been higher than that in the last three years. The growth in cards in the quarter ended March '04 was at 38% against 32% in the corresponding period last year. *Source: Visa International*.

- Visa now has around 12.6m debit cards and 6.2m credit cards in circulation as on March '04. The total number of credit cards as on that period was at around 11m while debit cards were at more than 20 m.

Overall, about 0.6 per cent of personal consumption expenditure PCE in India is through credit cards. This means that for every Rs 100 spent on consumption, only 60 paise is routed through credit cards. The comparable figure in the US is 16 per cent. The Asia-Pacific region also shows higher usage of credit cards in terms of PCE.

INFORMATION, COMMUNICATION AND TELECOMMUNICATIONS (ICT)

The Indian IT industry has grown impressively in the last 10 years from a US$150 million in 1991 to US$17.6 bn. in 2002-03. In 2002-03 the software and services exports were approximately US$9.6 bn. and the domestic software and services market was approximately US$2.2 bn.

- The IT enabled services covered US$2.3 bn. in 2002-03. The IT hardware industry was about US$3.5 bn. The Indian software and services export market is expected to reach US$50 bn. by 2008.
- It is estimated that the Indian software industry employs nearly 550,000 employees, a third of which is employed in software exports. India is expected to have a headcount of around 4 million IT professionals by 2008.
- The Indian IT industry is approximately 2.8 percent of India's GDP and is expected to become 7 percent by 2008.
- Software exports constitute more than 16 percent of the total exports from India in terms of revenue.

TELECOM

- India is the fourth largest telecom market in Asia after China, Japan and South Korea.
- The Indian telecom industry is the eighth largest in the world and the second largest among emerging economies.
- The industry has witnessed an explosive growth in recent years. Teledensity has more than doubled from 2.3 percent in 1999 to 4.8 percent in 2002. The Indian telecom market size of over US$8 bn. is expected to increase three-fold by 2012.
- Even in India, in March 2004, the number of mobile phones exceeded fixed-line ones in Delhi, Mumbai, Chennai and Punjab. Given the present growth rate it seems mobiles will overtake fixed lines around October 2004, nation-wide.
- Interestingly, 2004-2005 could also be the year when the total of private sector lines would exceed public sector ones.

- India is expected to see the highest growth rate in the Internet market in the Asia-Pacific region in the next five years, according to a report by the international market research firm Gartner Dataquest.
- From 2001 to 2005, India is expected to enjoy an average Internet subscriber growth of 44 per cent a year, the report said.
- At that point, India will have 21.3 million subscribers, making it the fourth largest Internet market in the Asia-Pacific region behind China, Japan and South Korea.
- The report predicted that the Asia-Pacific region, led by China and Japan and an emerging market in India, will overtake the US as the world's largest Internet market within the next three years.
- The WLL-CDMA subscribers are likely to grow faster than the users of GSM-based cellular phones in the current financial year, a study conducted by Morgan Stanley and NASSCOM shows.
- According to the study, WLL-CDMA subscribers would grow by an impressive 86.6% in FY05 as against the 40% growth being projected for the GSM users. The revenues of the Indian telecom sector would grow by 21.4% in FY05 to US$12.41bn from US$10.94bn in the previous financial year, the study reveals.
- WLL-CDMA services would be the fastest growing segment and the only one to witness an increase in Average Revenue Per User (ARPU), it adds.

AGRI AND FOOD PROCESSING

India is the world's second largest producer of food next to China and has the potential of being the biggest in the world. Agriculture is a very important sector for the sustained growth of the Indian economy. About 70 percent of the rural households and 8 percent of urban households are still principally dependent on agriculture for employment.

Food processing is a key industrial sector in India and accounts for gross output of more than US$69.4 bn. out of which value-added food products comprise US$22.2 bn. Size of the semi-processed and ready to eat packaged food industry is over US$1 bn. and is growing at over 20 percent a year.

LIGHT ENGINEERING AND MANUFACTURING (AUTO COMPONENTS)

India has a strong engineering and capital goods base. The Indian manufacturing sector has been growing at the rate of about 5.9 percent in the nineties. With a size of US$22 bn., the engineering sector exports stood at US$6.6 bn. In 2001-02 and imports at US$4.9 bn. in the same year. The engineering manufacturing sector employs over 4 million skilled and semi-skilled workers (direct and indirect).

The competitive advantage that India offers to the manufacturing sector is skilled technical manpower, competitive labour cost, an English speaking population, indigenous availability of raw materials, large domestic market allowing economies of scale, strategic location allowing exports to countries near and far and diversified industrial base with supporting industries

Hyundai motor India

Year of launch: 1998

Investments: $700 million (additional commitment: $200 million)
India revenues (2003): Rs 4,800 crore ($1.04 billion)
Global revenues: $16.9 billion

- The Chennai plant is Hyundai's largest outside S. Korea
- Hyundai Motor India is India's second largest car maker (leader in the B and C segments of the market)

India: Global hub for Santro

The present capacity of 120,000 cars is being increased to 250,000 a year with an additional investment of $200 million. The Xing badged as Atos Prime is being exported to Italy, Spain and the Netherlands.With a strong export potential, HMIL is now chalking up strategy wherein it wants to become India's largest passenger car exporter.

TOURISM

India has a huge and diverse potential for tourism ranging from pilgrimage tourism, beach tourism, spiritual and health tourism to leisure and adventure tourism. The amazing diversity offers tourists everything they would want from a holiday.
The Government of India has allocated US$590 million for the tourism sector for the period 2002-07. Actual foreign tourist arrivals were 2.54 million in 2001, projected to increase by 68 percent by 2007 and a further 45 percent between 2007-2012.

Opportunities for collaboration abound in:

1. Eco-tourism.
2. Leisure tourism, including cruises.
3. Packaging and promoting intra-regional and inter-regional tours.
4. Creation of theme parks.

5. Tourism infrastructure development.

FOOD PROCESSING

Opportunities

- Largely untapped domestic market of 1000 million consumers
  - 300 million upper middle class consumers consume processed and packaged food
  - 200 million more consumers expected to shift to processed packaged food by 2010
- India is world's third largest producer of food due to diverse agro-climatic conditions and large trait of arable and irrigated land. A wide ranging large raw material base suitable for food processing industries
- India produced 50% of worlds Mango,19 % of banana and 36% of cashewnut.
- India produces 38% of Worlds Cauliflower 28% of green peas.
- Food processing industry is expected to grow at the rate of 16 to 20 %
- An average Indian spends 50 % of household expenditure on food items
- Demand for processed food rising with growing urbaniztion and income levels
- Huge unrealized potential for investment

Areas for bilateral co-operation in
  - Investment
  - Technology transfer
  - International Trade with India as base : Fruits and Vegetable products,Animal products , Fisheries , Consumer Industry,Wine manufacturing , Dairy Products Food packaging , Cold chain infrastructure , Food processing machinery, Food parks and agri-exports processing zone, Total Quality management System and Human resources development.
- Presence of virtually all major MNC`s like Coca Cola, Pepsi, Lays, Britannia, Danone, Nestle, Cadbury, Levers, Kelloggs, Heinz, International Best Foods, Walls, Perfetti, Van Melle.

Investment Policy

- No industrial license required for food and agro processing industries except for alcoholic beverages and items reserved for the small scale sector which are: Pickles and chutneys, Bread, Pastry, Hard boiled candy, Rapeseed Oil, Mustard Oil, Sesame oil, Groundnut Oil. Sweetened Cashew nut products, ground and processed spices other than spice oil and oleoresin spices , tapioca sago and flour

- Automatic approval is permitted for FDI upto 100 equity of Indian companies . for all food and beverages except for alcoholic beverages and items reserved for the small scale sector.
- Imports of capital goods and raw materials permitted at zero per cent import duty for 100% Export Oriented Units Fruits and vegetables products completely exempt from Central excise Duty

INFRASTRUCTURE

World class, state-of-the-art infrastructure supports economic, industrial and social development. The role of infrastructure as a stimulant for economic growth is imperative. Investments worth US$ 25 bn. are required per year. The Indian Government has announced funds for new infrastructure projects worth US$440 million. Consequently, in addition to augmenting public sector investment in infrastructure, the Government of India has introduced a series of reforms to attract private sector participation and foreign direct investment.

The potential for partnership with India exists in the development of infrastructure such as roads, telecom, railways and airports. Specific opportunities include feasibility studies, detailed project preparation, construction supervision, project management and construction of facilities.

ROADS

Investment Policy

Government initiative for promotion of this key infrastructure sector include:

- Automatic route available for foreign equity participation up to 100% for investment in the roads sector
- Private parties allowed to develop service and rest along the roads entrusted to them
- The national highways Authority of India (NHAI) is permitted to participate in equity in Build Own Transfer (BOT) projects up to 30%
- Investors in identified highway projects permitted to recover investment by way of collection of tolls for specified sections and periods
- 10 years of Corporate Tax Holiday to be availed within 20 years of commission of the project

Opportunities

- The Government of India has taken up a US$12 billion Highway Development Programme to develop over 13,000 km of highways
- World’s largest ever highways project
- Four/six lane of around 13,146 km
- Total cost Rs 55,000crore (US$12billion)

- Investments worth an estimated US$24 billion expected till 2001-08 for the development of National and State Highways

Avenues Include:

- Construction of highways, bridges, railway-over-bridge, elevated section in urban areas, interchanges, bypasses, etc.
- Highway related en route activities like restaurants, Hotels, and rest/parking areas as may be decided by the implementing agency
- Consulting firms: Feasibility studies, detailed project preparation & construction supervision
- Construction Industry: Contracts range up to US$ 50 million
- Investors: BOT projects on BOT and Annuity basis, participation in bonds and direct borrowings
- Equipment manufacturers: State-of-the-art technology deployment, construction, equipment exempted from import duties.

PORTS

Investment Policy

- The Indian Government has announced the following measures to promote foreign investment in the ports sector.
- Foreign equity up to 100% is now permissible in construction and maintenance of ports and harbours and in projects providing support services to water transport, such as operation and maintenance of piers, loading and discharging of vehicles, under the automatic route.
- Open tenders will be invited for private sector participation on a BOT basis
- Major ports have been permitted to form joint ventures with foreign ports, minor ports and other companies to attract technology, better management practices, implementation of development schemes and creation of optional port infrastructure.
- Ten year tax holiday to be availed of during the initial fifteen years has been provided under section 801A of the Act

Opportunities

- The Government of India has taken up a US$ 22 billion 'Sagarmala' project to develop the port and shipping sector under public-private partnership
- Areas identified for privatization or investment by the private sector include:
- Leasing out of existing port assets
- Creation of additional assets such as:
    - Construction and operation of container terminals

- Construction and operation of bulk, break bulk, multipurpose and specialized cargo berths
- Warehousing, container freight stations, storage facilities and tank farms
- Cranage and handling equipment
- Setting up of captive power plants
- Dry docking and ship repair facilities

- Leasing of equipment for port handling and leasing of floating crafts the private sector
- Pilotage
- Captive facilities for port based industries
- Consultancies for:
  - Efficient O&M practices in port management
  - Training for improved productivity
  - Safe and efficient vessel traffic management system

CIVIL AVIATION

Investment Policy

- Foreign equity participation in airport infrastructure is permitted up to 74% witj automatic approvals and up to 100% with special permission. Such participation could also be by foreign airports authorities.
- FDI up to 40% and NRIs/OCBs investment up to 100% is permitted in domestic air transport services
- 100% FDI allowed in Airports; beyond 74% requiring Government approval
- No direct and indirect equity participation by foreign airlines allowed in domestic air-transport services
- Foreign Financial institutions allowed to hold equity in the domestic air transport sector provided they do not have foreign airlines as their shareholders
- Foreign investors allowed to have representation (upto 33% of total) on Board of Directors of a domestic airline company
- Minimum fleet size for a scheduled operated raised from the existing 3 aircraft to 5
- Management contract with a foreign airline is not permitted

Opportunities

- Modernisation and restructure of international Airports at Delhi and Mumbai through formation of joint Venture between the Airport Authority of India and private player, to be selected through an international competitive bidding process

- Important private sector aided projects: New airport near Kochi (US$85.7 million). Development of new airport at Bangalore and Mumbai with private sector participation
- Restructuring & privatization through long term lease
- Green-field airports
- Construction of terminal/facilities
- Ground handling
- Limited opening up of routes (for 3 months) through India for global airlines during peak season.(Dec-Feb)

WHAT GLOBAL EXPERTS SAY ABOUT INDIA

Jonathan Power in International Herald Tribune 7 May2004

- India is better placed than China for future growth. Slowly but steadily, India will overtake China.
- India has created world-class companies that can compete with

the best in the west, often on the cutting edge of software, pharmaceuticals and biotechnology.

Far Eastern Economic Review of 15 April 2004

- Eye-popping 10.4 % GDP growth in the quarter ending in December has excited hopes that India will become the next China, but expectations need to climb even further. India now looks better than China. India's growth model promises more stable, sustainable expansion and bigger returns for investors than China or other adherents of the East Asian development strategy have delivered. Eventually, India should overtake China in growth and per-capita output.
    - India's model should prove more sustainable than the typical East Asian strategy adopted by China. India is developing more efficient corporates, healthier banks, more robust service industries and a bigger consumption base. China has won the sprint; India is training for the marathon.
- Superior corporate performance explains much of India's recent success. According to **JP Morgan**, listed Indian firms deliver a higher return on equity (ROE) than comparable companies in Hongkong, Singapore, Korea, Taiwan, Japan, Malaysia or Hongkong- listed Chinese firms.

Goldman Sachs report "India: Realising BRIC's Potential". (Global Economic Paper No. 109, April 14, 2004)

- India could be a bigger growth story than China over the long run.
- India could become one of the world's three largest economies in less than 30 years (their 2003 BRIC

report predicted this to happen in 50 years).

- We think fundamental changes in the economy and its governance support India's ability to meet our BRIC's Projections. Globally competitive firms are emerging from the country's historically protected private sector and broad-based reform is fostering infrastructure development and greater openness.

UNCTAD Report 13 April 2004 (based on joint survey with 'Corporate Location' magazine of London)

- China and India come out on top, followed by the United States, as the countries for which FDI Prospects are the brightest.

Stephen Roach, MD, **Morgan Stanley** in his report of 2 April, 2004.

- Quite simply, I was blown away by what I saw on my first trip to India, which looks to me to be one of the most compelling macro stories I have seen in a long time.
- After decades of stop and go, the critical mass of a new approach to Indian economic development now appears to have been attained.
- What impressed me the most about India is a new sense of focus and determination. Unlike China, India has a well-developed banking system, vibrant capital markets and a new generation of indigenous world-class companies.
- I have long been a big fan of China's remarkable accomplishments.
  India's awakening is equally impressive.

Young Chan Kim Executive Vice President of LG Group (April 2004)

- "India is the fastest growing market for our company. Growth has been faster than even China".
- LG Group expects its turnover in India to grow from US$1 billion to US$3 billion in the next three years and $ 6 billion by 2010.

Institutional Investor March 2004

- The Indian economy is rocking and rolling, as it mounts a challenge to China's title for the world's fastest-growing GDP".
- They key lesson from the economic performance over the past year or so has been the obvious recognition of India's competitive edge in numerous sectors, be it auto components, automobiles, engineered products, pharmaceuticals, IT enabled services and software.

AT Kearney Report of 30 March 2004

- India tops the "2004 Offshore Location Attractiveness Index" by a wide margin, ranked not only for cost advantages, but also for the depth and breadth of offshoring experience and people skills.

ABN-AMRO report of 29th March 2004

- We believe India has a good long-term potential, comparable to China.
- There is every opportunity for India's potential growth rate to rise to China's level of 7-8% in the next decade". India offers a better story than China for the next two years"

Citi Group report of 16 March 2004 says

- "We maintain our view that the India story is fundamentally strong……….
  We are optimistic on Indian economy.

Merrill Lynch Report of 20 Jan 2004

- Near term we continue to believe market is now vulnerable to a pullback. However, we believe the longer-term story for the market as well as the economy continues to be compelling. Indian market as well as the economy are headed for a sustained spell of strong performance over the next few years.
- We now expect the growth trajectory to move higher with average growth likely in the 7.5 - 8 percent level over the next few years

Business Week (8 December 2003)

- "Quietly but with breathtaking speed, India and its millions of world-class engineering, business and medical graduates are becoming enmeshed in America's New Economy in ways most of us barely imagine".
- It has quoted Paul Saffo of the Institute For the Future in Menlo Park, California as saying "Now Indians are taking the lead in colonizing cyberspace".
- Indian brainpower is already reshaping corporate America.

CNBC of USA, 20 October 2003

- For American CEOs trying to grow their companies, the issue is whether they embrace globalisation. If they do, they must have a presence in India".

Goldman Sachs Report of 1 October, 2003 "Dreaming with BRICs (Brazil, Russia, India and China): The path to 2050"

- India's GDP will reach $ 1 trillion by 2011, $ 2 trillion by 2020, $ 3 trillion by 2025, $ 6 trillion by 2032, $ 10 trillion by 2038, and $ 27 trillion by 2050, becoming the third largest economy after USA and China.
- In terms of GDP, India will overtake Italy by the year 2016, France by 2019, UK by 2022, Germany by 2023,and Japan by 2032. Chinese GDP could overtake Germany by 2007, Japan by 2016, and the US by 2041.
- Among the BRIC group India alone has the potential to show the highest growth (over 5 percent) over the next 50 years. The Chinese growth rate is likely to reduce to 5% by 2020, 4% by 2029, and 3% by 2046.

AT Kearney FDI Confidence Index Report of September 2003

- Global investors upgraded India from 15th to sixth most attractive FDI destination worldwide in 2003.
- Manufacturing investors rank India among the top six most preferred investment locations, while service sector investors ranked India as the fourth most attractive destination.
- India remains as the leading global hub for offshore business processing.

CLSA Report of Summer 2003

- India is the stock market with the greatest short-term and long-term potential in Asia.
- Indian economy has progressed significantly over the past 10 years, while, more importantly, its corporate sector has experienced

what could be described as a glorious revolution.

- India has enjoyed average economic growth of 5-6% for the past 20 years, without any of the boom-bust cycles suffered in some other emerging nations, is a testimony to the essential stability of the country's democracy.
- India has no systemic risk built into its future unlike some other countries.

Select foreign companies making it big in India

Samsung India

Year of launch: 1995

Investments: $111 million (additional commitment: $25 million)
India revenues (2003): Rs 5,000 crore ($1.09 billion)
Global revenues: $33.8 billion

- Largest player in computer monitors, TFT-LCD display devices
- Second largest player in washing machines (16.2%), cellphones, CTVs (15%)
- Setting up its first refrigerator making plant in India, only fifth in the world
- Leader in flat CTVs (26%)

Hyundai motor India

Year of launch: 1998

Investments: $700 million (additional commitment: $200 million)
India revenues (2003): Rs 4,800 crore ($1.04 billion)
Global revenues: $16.9 billion

- The Chennai plant is Hyundai's largest outside S. Korea
- Hyundai Motor India is India's second largest car maker (leader in the B and C segments of the market)

LG Electronics India

Year of launch: 1997

Investments: $110 million (additional commitment: $100 million)
India revenues (2003): Rs 4,500 crore ($978 million)
Global revenues: $9.33 billion

- Leader in CTVs (16.4%), microwave ovens (34.4%), frost-free refrigerators (32.9%), washing machines (24.1%), air conditioners (34%)
- No. 3 in direct cool refrigerators (15.7%)
- Has set up a plant for manufacturing compressors
- Plans to set up another manufacturing unit in Pune

Other multinationals

AMERICAN COMPANIES	Entry into India	Revenues (Rs crore)
Goodyear India	1922	662.53
Bata India	1931	691.91
Colgate-Palmolive (India)	1937	1,056.89
Kodak India	1973	821.77
Whirlpool of India	1982	1,233.12

JAPANESE COMPANIES	Entry into India	Revenues (Rs crore)
Matsushita*	1972	407.12
Suzuki Motor (Maruti)	1983	9,426
Honda Motor**	1984	6,137.96
Sony***	1996	1,000 (approx.)
Toyota Motor	2000	1,750

EUROPEAN COMPANIES	Entry into India	Revenues (Rs crore)
ITC	1910	11,028.41
Glaxosmithkline Pharma	1924	1,196.83
Philips India	1930	1,605.1
Hindustan Lever	1933	11,056.04
Siemens	1957	1,385.55

Source: Business World Sep 15 2003

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