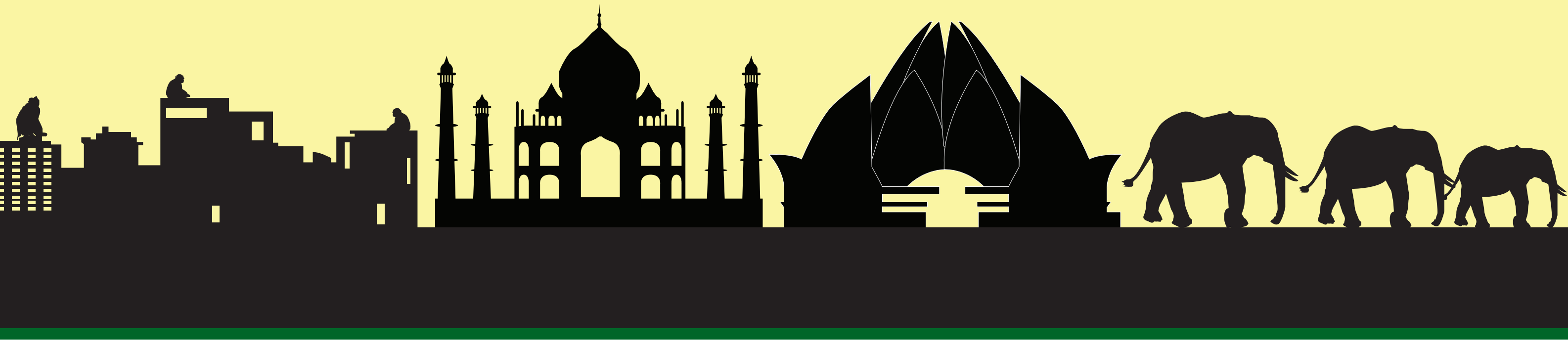
Why India Means Business

A new Government in India has seen a shift in attitude towards foreign companies. ***Arbinder Chatwal****, Leader of Indian Advisory Services at BDO International, talks to Criticaleye about why UK CEOs should sit up and take note*



India is forecast to grow by eight per cent in 2016, overtaking China as the world's fastest growing economy. It seems that after years of talk about the country's promise as a destination for businesses, a corner may have been turned with the arrival of Prime Minister Narendra Modi.

Arbinder Chatwal, Leader of Indian Advisory Services at BDO, speaks to Criticaleye about how best to navigate the regional bureaucracy and legislative mazes that have traditionally made it such a difficult market.

Why is now a good time to consider India?

From a foreign direct investment (FDI) perspective, many issues that were previously caught up in bureaucracy and red tape are now moving forward. This is the first time that India has had a majority Government rather than a coalition – in terms of how significant that is, it's immeasurable.

The other thing to remember is that half the world's middle class population is going to be either Indian or Chinese by 2025, which creates huge opportunities.

How are businesses taking advantage of the new political landscape?

The Indian Government launched 'Make in India', a campaign to attract foreign companies to make products there. India is a low cost manufacturing alternative to China and other territories that's rarely been exploited; this campaign has made a difference. More than that, having the majority Government has unblocked the pipeline for key initiatives.

Is an acquisition or a joint venture (JV) the best approach when entering India?

Certainly, a lot of Indian companies want to work with UK businesses because of their R&D, heritage and innovation.

No matter which option you go for, the key thing is to find the right partner.

It's notoriously difficult to protect any of your innovations or your IP; if you're entering a JV you need to be very ▸

careful. You don't necessarily want to rely on the Indian legal system.

How can companies reduce the risks of a JV?

It is critical you asses what value the other party's going to bring. For example, do they have the right distribution networks?

India has such a rich diversity in terms of culture and geography, not many companies, even domestic Indian companies, are Pan-India. You may think you're going to be distributing or exporting across India, but it's very unlikely.

A great example of this occurred when we were working with a business which was manufacturing equipment going into India; the leaders thought they had Pan-India distribution.

The reality was that when we did some due diligence for them on their distributer and network, we discovered their partner didn't have reach beyond one particular state.

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"It's encouraging for businesses to see that India appears committed to making it easier for foreign companies to enter this vast, complex market. The size and scope of the opportunity in India can overwhelm and confuse executive teams who lack the necessary experience and connections to be successful. As ever in India, it's essential to research your chosen market carefully, as bringing in people who possess local knowledge and have good cultural awareness will often be the difference between success and failure."

Andrew Minton
Executive Director
Criticaleye

What about entering via an acquisition?

We're seeing more high finance investment, but from an M&A perspective, not really. Studies by SP Jain Institute of Management and Research in Mumbai highlight that over 75 per cent of Indian businesses in India are still family-run.

One thing Indians won't do is relinquish control, so going in via acquisition is difficult. Traditional M&A doesn't really happen. However, we're seeing JVs from private equity businesses, which is something we'll see more of.

Is a local partner key to succeeding in such a varied market?

Absolutely, but you don't necessarily need a JV partner. You could have an agent or a distributor, or someone on the ground, so you're working with and employing the right staff.

Do first-timers need to be flexible?

My advice is if you're going into India, go in via a partner or a distributor to start with.

Quite a lot is being done in this space, providing help to businesses so they don't have to be established as a legal entity.

For instance, if you want to export, you can dip your toe in the water for a 12 or 18-month period then, if India's the right market, you can set your business up and structure it in the right way.

How important is location?

First work out where you want to go. Choosing location is absolutely critical in terms of what's going to fit for you. Look at tier one and tier two cities.

What are the consequences of getting it wrong?

In one instance, an automotive manufacturer set-up its business in Delhi, but India's automotive hub is in Chennai, which was a three-hour flight away.

Chennai is where its supply chain were based, where operationally it needed a presence and where relationships needed to be developed.

That operation had to be wound down in Delhi and moved to Chennai, and that cost time and money. Make sure you do your due diligence before you go to India; work out specifically which city you want to be in.

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When you go into India, go with your eyes wide open and be flexible to the local market; don't add your own bureaucracy.

To stand out as a business in India you also have to ask: 'What is my differentiator?' That is critical. ■

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Arbinder heads up the Indian Advisory Services Group for BDO. The group facilitates inbound and outbound business opportunities between the UK and India markets. He is also on the board of the Solent India Business Network, a not-for-profit promoting growth in the region.

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