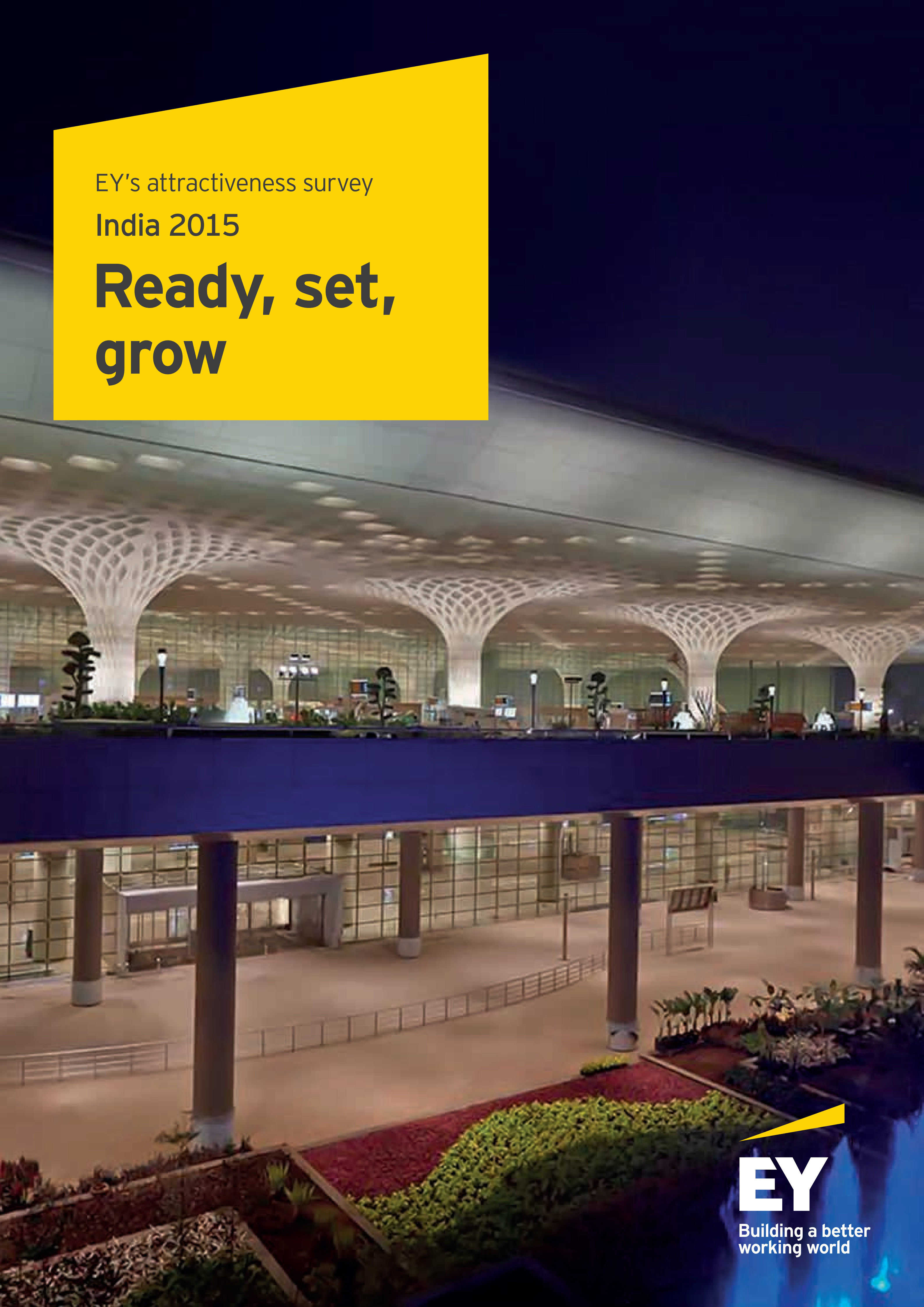
EY's attractiveness survey

India 2015

Ready, set, grow



Building a better working world

EY's attractiveness surveys

EY's attractiveness surveys are widely recognized by our clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to future growth. A two-step methodology analyzes both the reality and perception of FDI in the respective country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

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Cover: Chhatrapati Shivaji International Airport, Mumbai

We would like to acknowledge and thank GVK for their permission to publish images of the Chhatrapati Shivaji International Airport – Terminal 2 (T2), Mumbai.

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Foreword

Ready, set, grow

Rajiv Memani
Chairman – India Region and
Chairman – Global Emerging Markets
Committee, EY

Farokh Balsara
Partner and Markets Leader – India Region,
Ernst & Young LLP

Our recurring *India attractiveness survey* gives us the chance to take a close look at global investor interest in a country that is poised to become the world's fastest-growing major economy this year. Indeed, at a time when most mature markets are expecting a rebound in growth and emerging markets are slowing down, India's developing economy is set to buck the trend.

In what we see as a strong endorsement of India's potential, the majority of respondents to our survey ranked India as the most attractive destination in the world.

The country's vast domestic market and its low-cost, skilled labor market continue to be its most attractive features. But as the survey bears out, the palpable positive shift in investor perceptions, compared with the last edition of the survey released in early 2014, is really an outcome of the new Indian Government's proactive approach to growth, including several measures to make doing business easier, though challenges continue to be there.

Prime Minister Narendra Modi has visited about 30 countries since May 2014, including India's primary sources of FDI: the US, Japan, Germany, China, Korea and Australia. Furthermore, the improvement of India's macroeconomic indicators – in part, helped by declining oil prices – and ongoing efforts to revitalize growth with various new initiatives – such as *Make in India*, *Digital India* and *100 Smart Cities* – have also offered new hope.

We've seen a sharp turnaround in FDI in 2014. After declining for two successive years, investment in India has bounced back with a 32% growth to US$25b – significantly ahead of the 7% growth in FDI seen globally. Further, with FDI capital inflows of US$30.8b during the first half of calendar year 2015, India has emerged as the number one FDI destination in the world.

Several of our survey's findings are particularly interesting. First, international corporations with a presence in India are far more optimistic about the country's prospects than those who are not yet established in the country. Second, respondents representing bigger organizations with annual revenues exceeding US$2b are more upbeat about India than smaller organizations (with annual revenue less than US$2b).

We've also seen manufacturing gaining momentum. Not only has the manufacturing sector led FDI inflows during 2014 and enhanced its share in total FDI investments, it also features prominently in investors' plans for the future. The Government's *Make in India* program has garnered considerable attention in its first six months. Three out of five investors considering entering or expanding their presence in India over the next year say they are looking at manufacturing for either the Indian or the global market.

While traditional FDI hot spots, such as Mumbai, Delhi, Bangalore, Chennai and Pune, continue to lead investment flows, new destinations are also emerging in tier-two locations. Cities such as Ahmedabad, Jaipur and Vadodra, are also seeing rapid growth.

To accelerate investments, our panel of more than 500 respondents highlights India's chief priorities as improving infrastructure, enhancing the ease of doing business, introducing a uniform goods and services tax, improving labor laws, initiating investor-friendly FDI policies and strengthening dispute-resolution processes.

With the Government embarking on reform in its very first year and India's macroeconomic indicators fundamentally strong, investors have not been so upbeat in a long time. While the speed of economic reforms may vary, particularly given the challenges of India's multi-party democracy and legacy systems, the direction is firmly set toward higher growth.

We would like to thank all the business executives, as well as government leaders and EY professionals, who generously shared their time and thoughts to help us with this study.

As always, we look forward to receiving your feedback.

While the speed of India's economic reforms may vary, the direction is firmly set toward higher growth.

Viewpoint

Determined to enhance India's appeal

Amitabh Kant
Secretary, Department of Industrial
Policy & Promotion (DIPP),
Ministry of Commerce and Industry,
Government of India

There is a new vibrancy in India, a new energy. We have opened up all the major sectors to FDI and are the world's most open economy. Every sector, except for multibrand retailing, is now open. This has contributed to a 48% upsurge in FDI this year in dollar terms.[1] I expect this to double next year.

The Government is determined to make India an extremely easy and simple place to do business. Our first priority is to do away with the many procedures, rules, regulations and red tape built up over the last 60 years. Secondly, we need to introduce consistency, predictability, transparency and clarity in all our policies. This is especially urgent for taxation matters — although, in cases where the tax department has been aggressive, the judiciary has set things right. On several occasions, the Government has emphasized the need for furthering a non-adversarial tax regime. A special memorandum has also been issued by the Central Board of Direct Taxation in this regard. Today, I find the tax department far more receptive and positive. Thirdly, India needs to develop world-class infrastructure.

India is set to become a nation of job creators rather than job seekers.

In terms of growth areas, infrastructure is a sector with immense potential. Others include defense and aerospace manufacturing. There are also huge opportunities in automotive design, assembly and components, pharmaceuticals and food processing. We also need to focus on labor-intensive sectors such as textiles, leather, gems and jewelry.

Our *Make in India* initiative sets out to help India become a hub for design, innovation and manufacturing. We have identified 25 sectors where India has core competencies to become a global champion. We are driving one- and three-year action plans across ministries so that we all work as a team to make India a manufacturing destination.

Aided by measures taken in this year's budget, we will see India become a nation of young innovators. I believe that India will see a huge number of start-ups in both digital and manufacturing in the years ahead, and that India will become a nation of job creators rather than job seekers.

India has been a reluctant "urbanizer" but, over the next three decades, 350 million Indians are likely to move into cities. The Government, with its *100 Smart Cities* Program, has a unique plan to create 100 planned, sustainable and innovative smart cities, driving growth and India's ability to become a technology leader. This will facilitate growth in both manufacturing and services in urban areas.

Simultaneously, India needs a second green revolution in agriculture, achievable by adopting global best practices. Only by developing the services, manufacturing and agriculture sectors will India be able to achieve the 9%–10% growth it is preparing for. In my view, this will bring terrific opportunities for foreign investors across the board.

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[1] "48% growth in FDI equity inflows after *Make in India*," *The Department of Industrial Policy & Promotion, Government of India website*, dipp.nic.in/English, 15 July 2015.

Viewpoint

A bright spot among global economies

Dr. S. Jaishankar
Foreign Secretary, Ministry of External Affairs,
Government of India

In an environment where global growth has been modest, India today stands as a bright spot among the global economies. The impact of global developments on the Indian stock market has been "transient and temporary," and the fundamentals of the Indian economy remain strong. The International Monetary Fund (IMF) has projected a growth of 7.3% for India in 2015.

The results of the *EY's 2015 India attractiveness survey* are a strong endorsement of the Indian growth story and the policy initiatives of the Government.

Administrative reforms, a simplification of approval processes including online project approval and easier environmental clearance procedures have already contributed to improved business sentiment in India and an increase in the ease of doing business.

The manufacturing sector is showing signs of revival, aided by the Government's *Make in India* initiative, which was launched globally on 25 September 2014. Policy initiatives towards unlocking coal and other mining activity, and the liberalization of FDI limits in the railways, insurance and defense sectors have improved India's medium-term growth prospects. FDI flows for fiscal year 2014–15 have already topped US$44b.

The Ministry of External Affairs, through its 183 Indian Embassies, High Commissions and Consulates, has been at the forefront of promoting India as a business and investment destination. Our diplomatic missions and posts are engaging with potential investors and will continue to proactively assist the investor community through briefings and seminars on the Indian economy, provide updates on government policies and initiatives aimed at increasing the ease of doing business.

We hope that readers will find the results of the *EY's 2015 India attractiveness survey* useful in making their assessment of India and in firming up their investment decisions. The results of the survey clearly underline both the strong economic fundamentals of the Indian economy and India's position as the most attractive investment destination in the world.

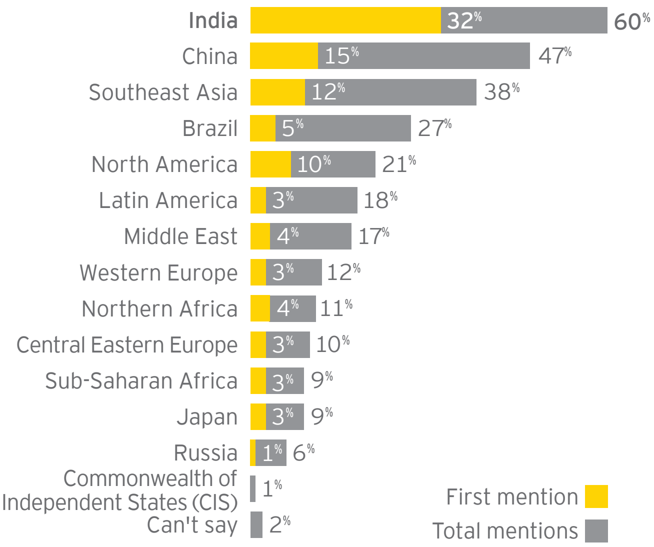
Administrative reforms and a simplification of approval processes have contributed to improved business sentiment.

Executive summary

India at the top

A leading 32% of the investors ranked India as the most attractive market this year, while 60% placed the country among the top three investment destinations.

Rank the three most attractive markets for investment in the next three years (three possible answers)



Source: *EY's 2015 India attractiveness survey* (total respondents: 505).

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Number 1 FDI destination

India has emerged as the number one FDI destination in the world during the first half of 2015. With FDI capital inflows of US$30.8b, India has outpaced all other economies, moving up to the premier position from being in the fifth spot during the corresponding period of the previous year.

2014		Highlights 1H15
680 FDI projects	**37%** rise in projects	**+135%** FDI capital
US$25b FDI investment	**32%** rise in investment	**US$91m** highest ever FDI capital per project
145,000 total jobs created by FDI	**39%** additional jobs	**+221%** FDI capital increase in manufacturing

Source: fDi Markets, May 2015 and September 2015.

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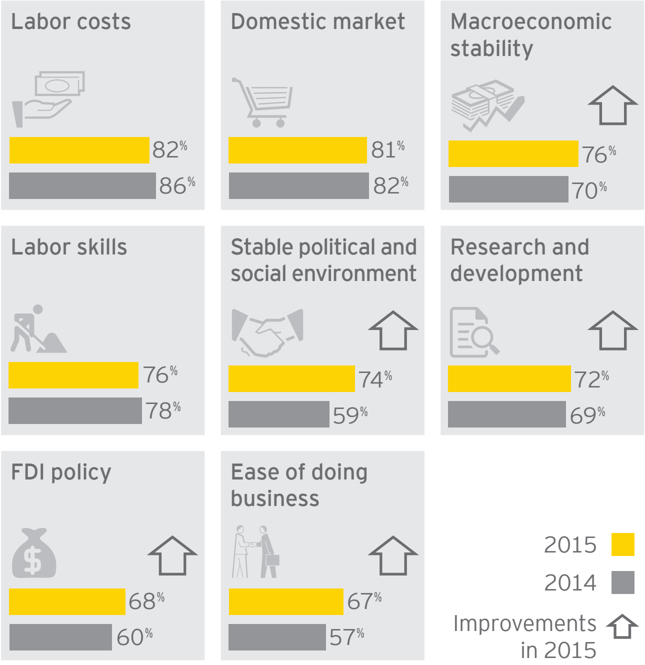
Investors highlight improvements

Business leaders find India's macroeconomic and political stability, FDI policy and ease of doing business more attractive in 2015, compared with *EY's 2014 India attractiveness survey*.

Please rate the following parameters for investment in India as very, fairly, little or not at all attractive. (Percentage of respondents who rated the parameter as "very attractive" or "fairly attractive")



Sources: *EY's 2015 India attractiveness survey* (total respondents: 505); *EY's 2014 India attractiveness survey* (total respondents: 502).

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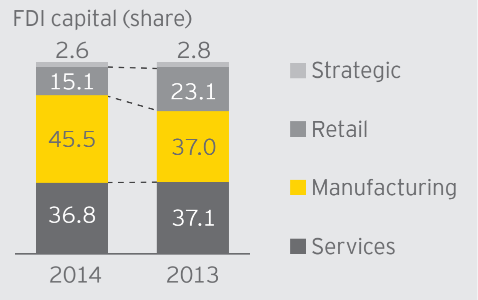
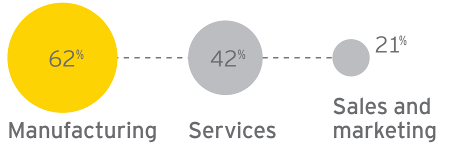
Manufacturing leads investment plans

Manufacturing has regained its share in FDI capital flows in 2014, amounting to approximately 46%. Investors are most optimistic about the sector, with 62% of those interested to expand or enter India over the next year, saying that they plan manufacturing activities.



Source: fDi Markets, May 2015.

What is the nature of the business activity you are planning in India?
(Open-ended question – multiple responses)



Source: *EY's 2015 India attractiveness survey* (total respondents: 265 with overseas expansion plans, who are considering entering or increasing existing operations in India over the next year).

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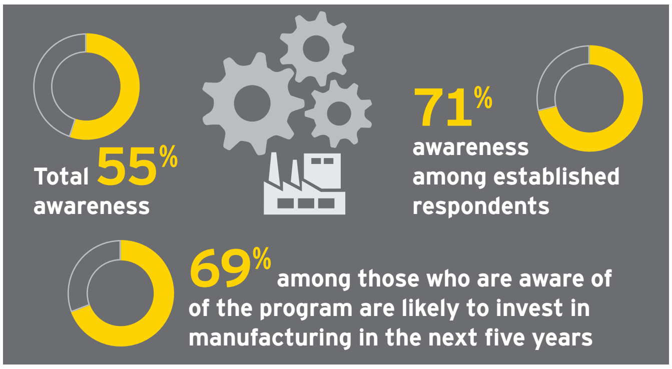
Make in India program: positive for manufacturing

Within six months of its announcement, 55% of our survey's respondents were aware of the *Make in India* program and 69% of those who are aware of the initiative are likely to invest in manufacturing in the next five years.



Source: *EY's 2015 India attractiveness survey* (total respondents: 234, established in India: 173).

Note: The question on awareness of the *Make in India* program was asked to respondents from manufacturing-related sectors, with overseas expansion plans.

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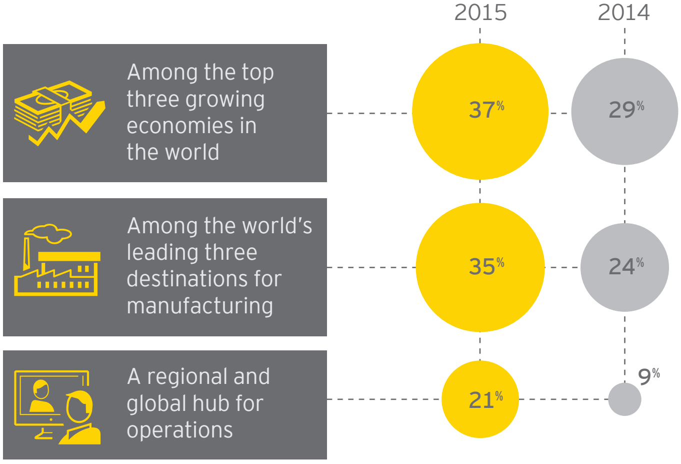
India in 2020: a promising outlook

Investors see India speeding up pace toward becoming one of the world's top destinations for manufacturing, as well as a regional hub for operations.

How do you see India in 2020?



Source: *EY's 2015 India attractiveness survey* (respondents: 250, asked to half of the sample).

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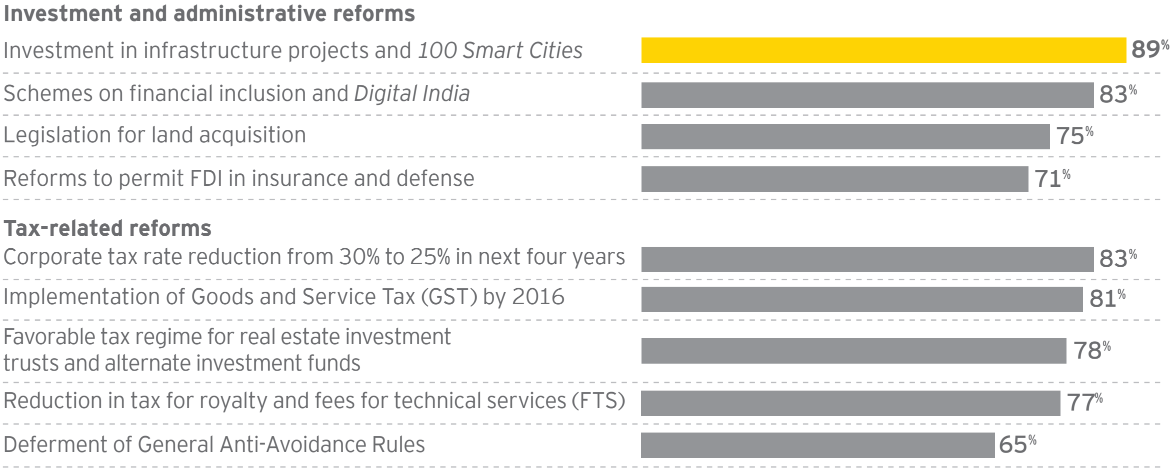
Reforms expected to drive growth

A number of recent government reforms are well received by investors, who expect them to increase India's FDI attractiveness significantly.

What impact do you think the following recent reforms by the Indian Government will have in attracting FDI?
(Percentage of respondents who rated the reform as "very significant" or "somewhat significant")



Source: *EY's 2015 India attractiveness survey* (total respondents: 505).

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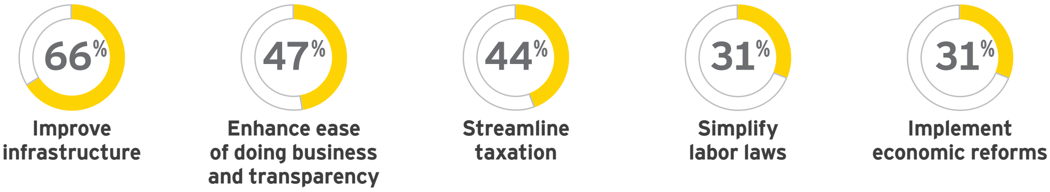
Priorities for action: infrastructure is key

More than two-thirds of international investors highlight the need for India to improve its infrastructure, making it the highest priority for improving India's investment environment.

In your opinion, what should be the three priority measures for improving India's investment climate?



Source: *EY's 2015 India attractiveness survey* (total respondents: 505).

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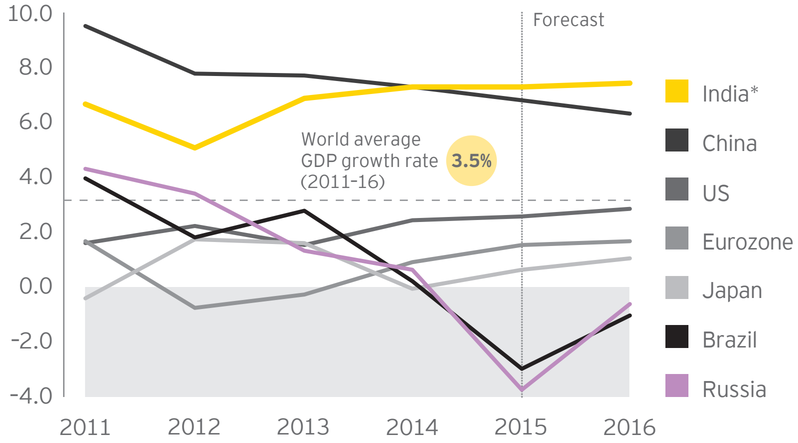
Improving fundamentals

Global growth is showing mixed trends. Advanced economies are picking up and emerging economies are somewhat slowing. India, however, is poised to become the world's fastest-growing major economy in 2015, overtaking China. Stabilizing fundamentals and improved sentiments have enhanced India's prospects, even as growth in China has slowed. India also has a demographic advantage, with 18% of its population in the 15 to 24 age group. In the next 30 to 40 years, these young people will provide a dynamic and productive workforce, enabling faster growth.

India at a glance

GDP (2014)	US$2.0t
Population (2014)	1.26b
GDP growth average (2011-16)	6.8%
FDI projects (2014)	680
FDI capital (2014)	US$25b

GDP growth (%)



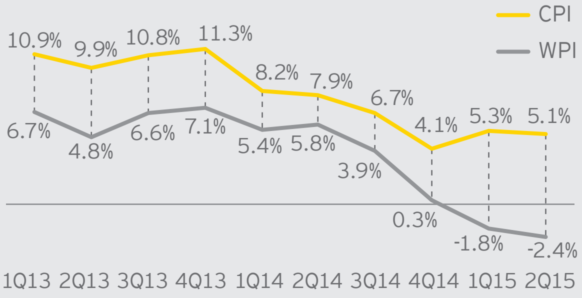
*For India, data corresponds to the financial year, starting in April and ending in March. Growth rates for FY13 onward are at new base year of FY12 (methodology for India's GDP calculation has been revised to market prices as per international standards).

Sources: International Monetary Fund (IMF), *World Economic Outlook*, October 2015.

India's economic fundamentals have improved

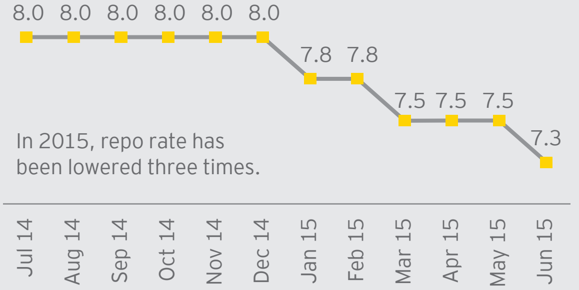
Inflation comes under control …

Inflation (%)



… triggering monetary policy easing

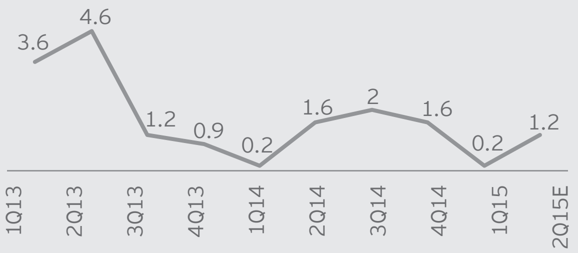
Repurchase rate (Repo rate) (%)



In 2015, repo rate has been lowered three times.

The current account deficit (CAD) is contained …

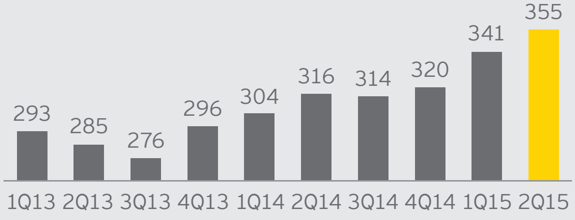
CAD (% of GDP)



Source: *Reserve Bank of India* (data as on 22 July 2015).

… and foreign exchange reserves are rising*

US$b



*Foreign exchange reserves as on quarter ending date.

Encouraging foreign investment

The Indian Government's reforms are designed to benefit foreign investors in two ways:

- Remove the need to obtain government approval for investments (called the **automatic investment** route)
- Increase the size of stakes that foreign investors are allowed to buy

Construction

100% **FDI** permitted under an **automatic route** in construction development

- Minimum floor area reduced from **50,000sqm** to **20,000sqm**
- Minimum capital requirement reduced from **US$10m** to **US$5m**
- Relaxed exit rules, wherein the Government has removed the three-year lock-in period restriction

Defense

Up to 49% stake allowed, subject to government approval (up from 26%)

- Indian single ownership of controlling **51%** no longer required
- Lock-in period of three years on equity transfer removed
- Equity holding greater than **49%** permitted for 'state-of-the-art technology' on Cabinet Committee on Security (CCS) approval

Insurance

Foreign ownership ceiling raised to **49%**, from **26%**

- Automatic trigger of higher FDI limit in the pension sector, as the clause under the Pension Fund Regulatory and Development Authority Act (PFRDA) stipulates a similar foreign investment limit for the pension sector as for the insurance sector

Railways

100% ownership allowed under an automatic investment regime for:

- Construction, operation and maintenance of suburban corridor projects – public-private partnership (PPP)
- High-speed train projects and dedicated freight lines
- Rolling stock, locomotive or coaches manufacturing and maintenance
- Electrification and signaling systems
- Mass rapid transport systems

Potential implications

- Boost liquidity in debt-laden sector
- Attract funds in affordable housing sector

- Facilitate technology transfer and reduce heavy burden of imports

- Access to funds for cash-strained insurance firms from overseas partners

- Help modernize and expand railway projects
- Boost infrastructure and job creation
- Encourage PPPs

Sources: DIPP, Government of India.

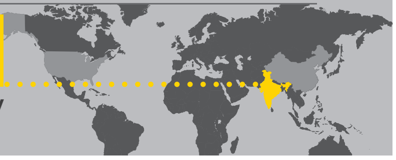
A buoyant today and tomorrow

Today

GDP growth: 2.5 times in the past 15 years

GDP per head growth: 3.3 times in the past 15 years

Foreign exchange reserves growth: 7 times in the past 15 years



Third-largest economy in the world by **purchasing-power parity** after the US and China

Tomorrow

Youngest country in the world by 2020, with median age of **29**

100 million new manufacturing jobs through the *Make in India* program by **2022**

65 million new houses by **2022**

Indian e-commerce market to reach US$43b in the next five years

2014	US$ 10b
2019	US$ 43b

475 million middle-class Indians by **2030**

2012	50m
2030	475m

Sources: Oxford Economics Database; United Nations Conference on Trade and Development; World Bank; IMF; *EY Rapid Growth Markets Forecast*, EY, July 2014; Nomura's India Internet Report.

Reforming the business environment

India's new, pro-reform Government has launched a slew of initiatives designed to encourage investment, including FDI. Prime Minister Narendra Modi aims to transform India's ranking in the World Bank's Ease of doing business ranking from 142 out of 183 economies to 50th place within three years. The Government also aims to reduce the time taken to register a business to 1 day – from 27 days today.[2]

Reforms begun

E-auction over discretionary allocations ✓

- The Government has moved to e-auction natural resources rather than discretionary allocations, which will lead to the efficient utilization of resources and better price discovery.

Doing business made easier ✓

- The Government has taken several steps to ease doing business for companies, including the removal of minimum paid-up capital requirements, the elimination of filing declaration of commencement and single-step incorporation of companies.

Expediting regulatory consents ✓

- The Government launched an "e-biz" portal that integrates 14 regulatory permissions in one place to facilitate easy approvals.

Controlling insolvency and bankruptcy ✓

- To address the problem of insolvency and bring stability to India's banking system, the Government has amended The Payment and Settlement Systems (Amendment) Bill, 2014.

Stamping out tax avoidance ✓

- The Government has set up a law to slash back black money and toughened the rules for undisclosed foreign income and assets parked abroad.

Increasing investment in real estate and infrastructure ✓

- The Government has created two trusts: real estate investment trusts (REITs) and infrastructure investment trusts (INViTs), which will facilitate pooling of investments, tax pass-through and easy exit options.

New framework to revamp public sector banks ✓

- The Government launched the *Indradhanush* program to improve the state of public sector banks. It includes seven elements – appointments, board of bureau, capitalization, de-stressing, empowerment, framework of accountability and governance reforms.[a]

Revisiting the environmental laws ✓

- A four-member committee has been formed to modernize laws related to the protection of the environment, forests, wildlife, water and air.

Reforms to come

Introduce GST

- To simplify the tax structure, the Government is aiming to launch GST in the beginning of April 2016. The new code will create a single tax for all goods and services across the country.

Rationalize corporate taxes

- The Government plans to reduce the corporate tax rate over four years (beginning in FY17) from 30% to 25%, with the phase-out of industry-specific exemptions. The rate reduction is likely to be accompanied by the withdrawal of tax exemptions.
- The Government will amend the Income Tax Act to ensure that Minimum Alternate Tax (MAT) provisions are not applicable to a foreign company that does not have a permanent establishment in India and is a resident of a country having a double taxation avoidance agreement (DTAA) with India. The act will be amended with effect from 1 April 2001. If the company is the resident of a country that does not have DTAA with India, MAT will not be applicable if the company is not required to seek registration under certain sections of the Companies Act 2013.

Financial inclusion

- The Government plans to implement "*Jan Dhan, Aadhaar and Mobile*" (JAM Trinity) to enhance the efficiency of direct transfer schemes and provide support to poor households.

Facilitate land purchases via a new law

- To make transparent and easy land acquisition, the Government introduced a land acquisition bill in Lok Sabha on 24 February 2015, which was passed by Lok Sabha on 10 March 2015. However, it was not ratified by the upper house. The bill is now pending before a parliamentary standing committee.

Reform labor laws

- The Government is keen on merging 44 labor laws into 4, to simplify rigid labor laws. In this regard, a few states, including Rajasthan, Madhya Pradesh and Maharashtra, have already initiated some steps.

☐ Key reforms ▶ Action

[a] "Govt launches mission 'Indradhanush' to revamp PSU banks" *Business Standard website*, 14 August 2015, business-standard.com, accessed 13 September 2015.

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[2] "Govt sets deadline of six months for rolling out Direct Tax Code and GST," *India in Business, Government of India website*, 22 October 2014, indiainbusiness.nic.in, accessed 3 September 2015.

EY viewpoint

Think about what India might add to your global business

Mark Otty
Area Managing Partner,
Europe, Middle East, India and Africa (EMEIA),
EY

1 How has India evolved as an attractive investment destination and what do you notice when talking to global investors about India as an emerging market?

There's no doubt that interest in India has increased. In part, this is due to challenges in some of the other BRICs and high-growth markets. More significantly, investors increasingly see the potential and understand the fundamentals. The new Government has both generated interest and improved the investment climate.

2 What do you believe are India's key strengths that drive investment?

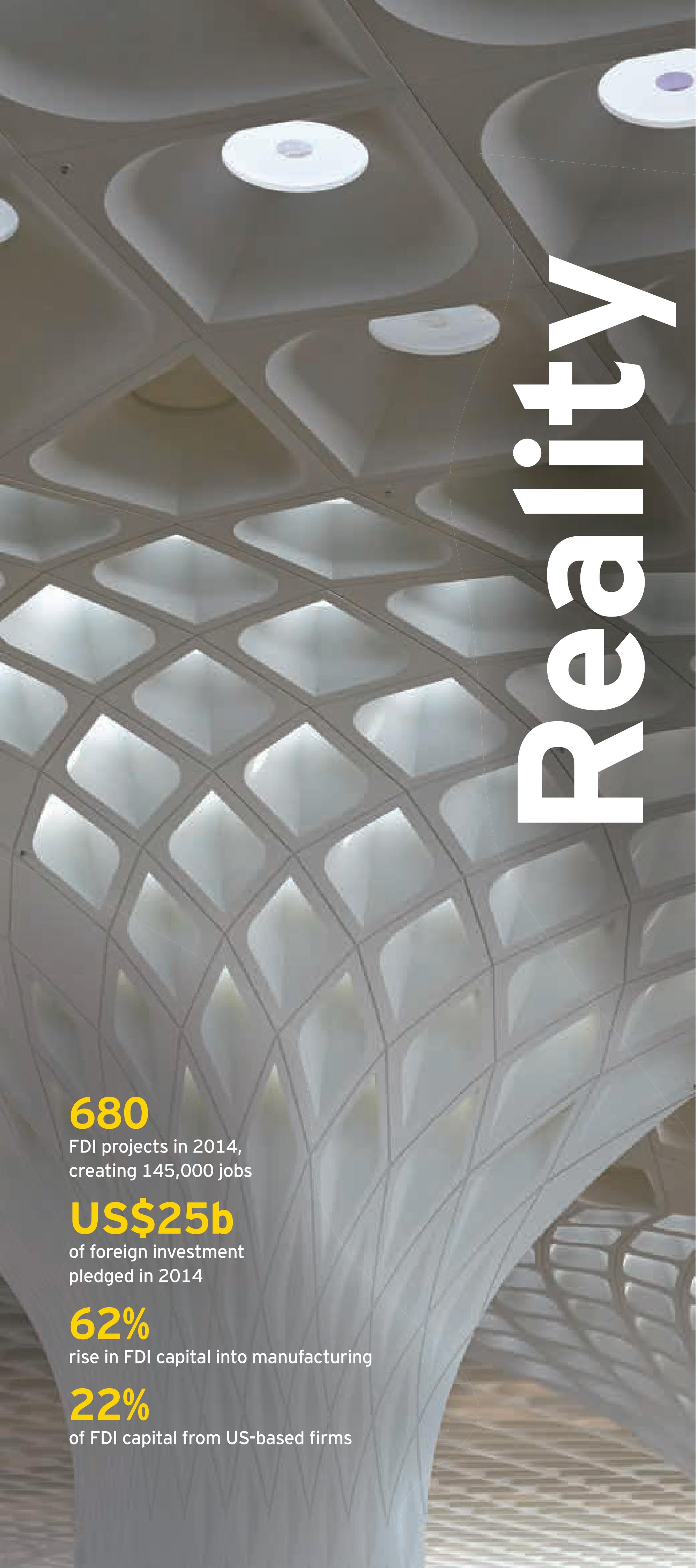
Many commentators focus on the size of the population. This is clearly a great asset, but it does not reflect the true potential. The people I meet in India are well educated, ambitious and entrepreneurial. Yes, there is a rapidly growing middle-class, but it is the quality of the people that is even more impressive than the quantity. In addition to the talent pool and size of the consumer market, India's many world-class businesses that are adept at creating markets and innovating industries greatly contribute to its appeal.

3 What should be the focus areas for India to become a top manufacturing hub in the coming years?

I would suggest investment in infrastructure is a key priority. Alongside this would be accessing technology through acquisitions and partnerships.

4 What would you advise foreign companies about succeeding in India?

It is important to have a good advisor; somebody who really understands the market, including the legal and regulatory environment. Spend time in India, absorb the energy and the culture. Think about your business in the Indian market as well as what India might add to your global business.



Reality

On a growth trajectory

680
FDI projects in 2014, creating 145,000 jobs

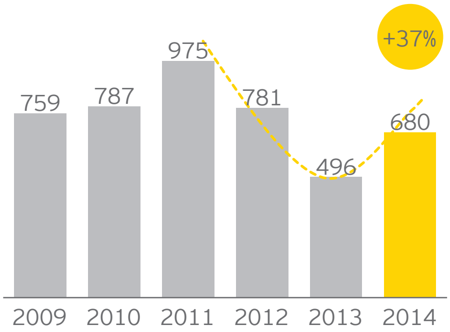
US$25b
of foreign investment pledged in 2014

62%
rise in FDI capital into manufacturing

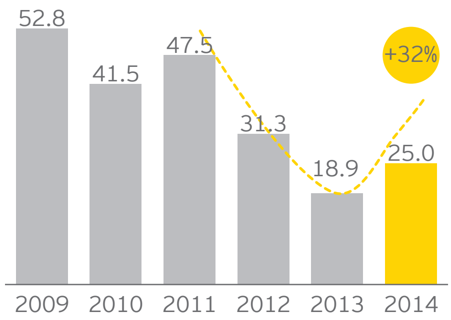
22%
of FDI capital from US-based firms

FDI in India: V-shaped recovery

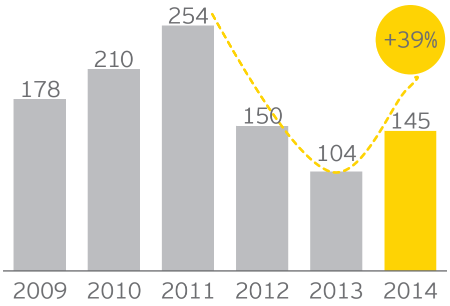
Number of FDI projects



FDI capital
(US$b)



Jobs created by FDI
(thousands)



Source: fDi Markets, May 2015.

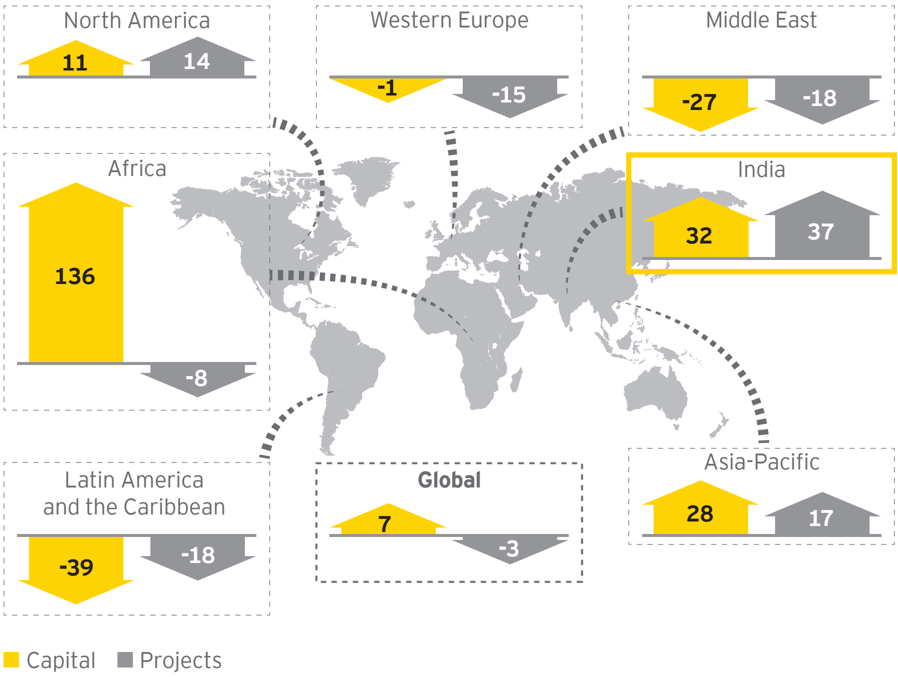
A two-year decline in FDI projects and inflows to India reversed in 2014. Though still far below the 2011 peak, the number of FDI projects rose 37% in 2014, with a proportional increase in jobs created by FDI. The upturn marks a significant change from 2012 and 2013, when slow economic growth, regulatory hurdles, lack of transparency and policy paralysis had deterred investors.

Investor confidence in India has been strengthened by improving economic growth and investor-friendly moves by the new Government. But investors have generally been cautious. In 2014, the average project involved an investment of US$37m, compared with US$40m in 2012 and US$53m in 2010. Investors are positive but wary and keen to see real improvements in the business environment.

The uptick in FDI projects into India contrasts with a 3% slide in the number of FDI projects worldwide, while it outpaced the 17% rise across the Asia-Pacific region.

FDI growth in the world

FDI growth (2014 vs. 2013) in %



Source: fDi Markets, May 2015.

Keval Doshi
Partner – India Region, Ernst & Young LLP

EY viewpoint

Make in India set to be a game changer

1 How are global investors responding to the *Make in India* program?

The program, designed to make India a global manufacturing leader, has stirred interest among global investors, witnessing agreements with China, the US, Germany and other countries during the Prime Minister's visits. But success will stem from a comprehensive manufacturing strategy that focuses on import substitution and exports, as well as on meeting domestic consumption.

2 Which sectors are best placed to benefit?

All manufacturing-led sectors, including automotive, technology, pharmaceuticals, telecommunications and defense, can expect to benefit. But the broader aim is to drive the economy to the next level of growth, so extractive industries and services should also flourish in the years ahead, driven by manufacturing demand. Infrastructure and financial services will need to develop in tandem, making these sectors ones global investors should watch out for.

3 What reforms should the Government consider to strengthen *Make in India*?

The Government has announced several measures to facilitate manufacturing. Cutting corporate tax rates and deferring the General Anti-Avoidance Rules (GAAR) are helpful, and enhanced fiscal incentives for building big modern plants will make manufacturing in India competitive. Reducing logistics time and cost through port modernization, building dedicated freight corridors, introducing business-friendly labor policies, and providing land and power at competitive prices will enhance India's competitiveness. Steps taken toward a stable, non-adversarial tax regime can also help attract and retain businesses in India.

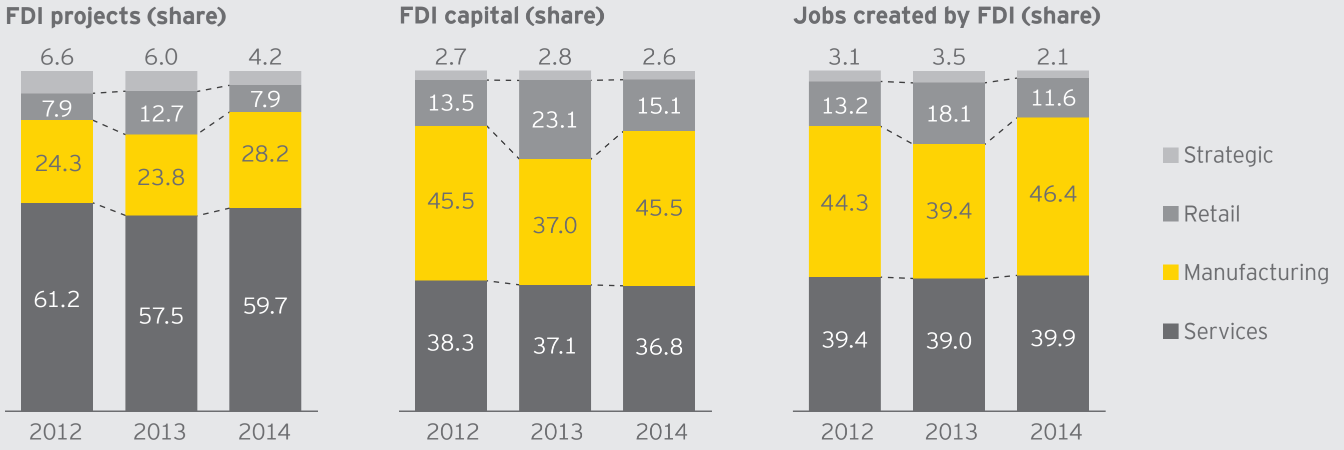
Success can only be achieved if execution is tightly monitored. Due importance also needs to be given to the role of the private sector. Fostering entrepreneurship and backing investment in technology and innovation with a business-friendly regime would help ensure sustained long-term success.

4 The introduction of GST will make Indian manufacturing more competitive. What should the Government keep in mind when designing it?

Reducing the cascading effect of taxes by providing seamless credit for input taxes is essential to cut product costs and enhance India's manufacturing competitiveness.

Make in India gains momentum

FDI in India by activity



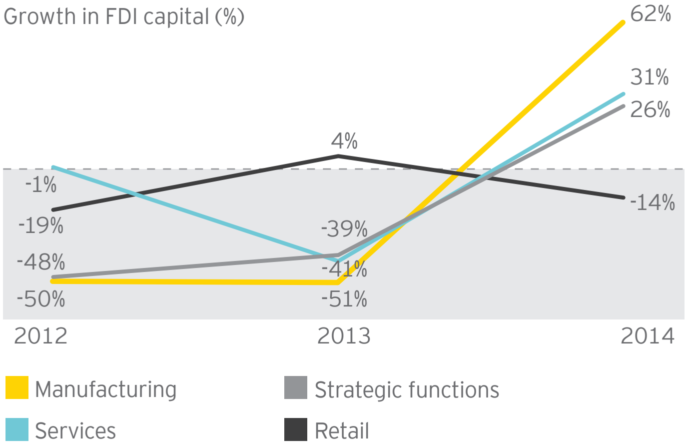
Retail includes retail, construction, recycling and extraction. Strategic functions include headquarters, education and training centers, and R&D centers.
Source: fDi Markets, May 2015.

After a steep fall in 2013, FDI in manufacturing grew at its fastest in seven years. In 2014, investors announced plans to invest a total of US$11.4b in 192 FDI projects, creating more than 67,000 jobs. Manufacturing contributed the highest share of FDI capital and jobs created. Investors from the US, Japan and Germany have increased their pace of investment.

The upsurge coincided with the launch of the *Make in India* program to promote manufacturing in the country. It has also enhanced transparency by auctioning coal and power licenses, and has relaxed constraints on FDI in key sectors. Meanwhile, several states are moving ahead with labor law reform. In its latest Union Budget, the Government also allocated significantly more funds to infrastructure, a move it hopes will also lift manufacturing-related investments.

FDI inflows in manufacturing grows the fastest

Growth in FDI capital (%)



Source: fDi Markets, May 2015.

Make in India: a doorway to business opportunities

Make in India is the Indian Government's flagship program, intended to help turn India into a global manufacturing hub. It aims to:

- Promote the manufacturing of **low-cost**, eco-friendly and **zero-defect** products
- Foster **innovation**
- Enhance **skill development**
- Protect **intellectual property**
- Build best-in-class **manufacturing infrastructure**

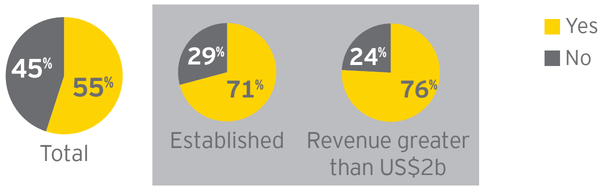
In support of the *Make in India* initiative, the Government has embarked on a series of actions, including those outlined below.

1. **A new trade policy:** export and import taxes on small volumes of goods have been abolished, and incentives have been introduced for export-oriented units (EOUs) and export processing zones (EPZs).
2. **New labor laws:** these include a "single-window" labor compliance process for companies, simpler Provident Fund (compulsory employee insurance and pension) procedures and a new inspection scheme.
3. **Simplification of regulatory compliance:** to make doing businesses easier, companies can now obtain environmental approvals and licenses online.
4. **Improvement of its resource management program:** India has ample reserves of natural resources, including bauxite, coal and iron ore, that can fuel its manufacturing ambitions. The Government is taking steps to ensure they are used more efficiently. It concluded several coal block auctions in early 2015, enabling companies to access these resources. The Government is also encouraging solar and wind renewable power generation projects.
5. **Focus on skill development:** to ensure workers have the right skills, the Government launched its *Skill India* initiative to help the development of manufacturing. The initiative will train over 500 million young people by 2020 to make them more employable.

Source: *Make in India website,* makeinindia.com, accessed 22 June 2015.

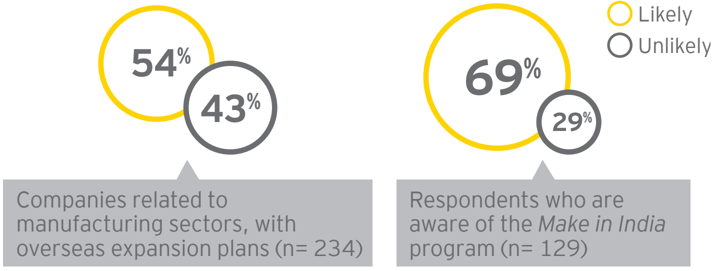
Make in India strikes a chord with existing investors, but needs to increase awareness among those not present in India.

Are you aware of the Indian Government's *Make in India* program?



Those aware are more upbeat about expansion plans

How likely are you to expand or relocate your manufacturing facilities to India in the next five years?*



Source: *EY's 2015 India attractiveness survey.*
Note: the question on awareness of the *Make in India* program was asked to respondents from companies related to manufacturing sectors, with overseas expansion plans; 234 respondents, established: 173, non-established: 61; Companies with revenue greater than US$2b: 102.
*Remaining responded "Can't say."

Within six months of its announcement, 55% of our survey's respondents were aware of the *Make in India* program. However, there is a need to create visibility for the campaign among non-established players, as only 10% of those without a presence in India were aware of it.

Prime Minister Modi has sought to promote the *Make in India* program overseas and has visited more than 25 countries, including the US, Japan, Germany, China, Korea and Australia (by July 2015), securing significant commitments.

Overall, 70% of respondents from companies with revenue above US$2b said they plan to expand or relocate manufacturing facilities to India in the next five years.

Key commitments

Australia

- Five agreements in place, including a civil nuclear deal to sell uranium to India

Canada

- **US$1.4b** committed by Canadian and Indian companies
- **16** commercial agreements signed in defense, energy, mining and infrastructure

China

- Plans to invest over **US$20b** in India's infrastructure over the next five years

France

- Commitment for over **US$2.2b** to help in building three smart cities, including Puducherry and Nagpur

Germany

- Specialized mechanism for German companies to do business in India

Japan

- **US$35b** in Indian infrastructure projects
- **US$4.5b** in Delhi Mumbai Industrial Corridor

South Korea

- Plans to invest **US$10b** in India for infrastructure-related projects

UAE

- Plans to elevate relationship to a comprehensive strategic partnership in major areas such as trade, investment, defense, security, maritime security and intelligence sharing
- Propose to invest **US$75b** in India

US

- Bilateral trade of **US$100b** expected from bilateral investment treaty
- **US$42b** over the next two to three years

Source: *Government of India website*, accessed 3 September 2015.

Making it in India

Bombardier has achieved a high level of localization at both its Savli and Maneja plants, in line with the *Make in India* program. In fact, Bombardier is increasingly positioning the Savli facility as a hub for exports to countries such as Australia, Brazil and Saudi Arabia. It also plans to fulfill a US$228m contract for the Delhi Metro, won in June 2015, from the Savli facility.

Cummins currently houses eight plants at the Cummins Megasite in Phaltan, Maharastra, including a manufacturing plant for engines opened in 2014. This was the third manufacturing plant for Tata Cummins, a joint venture between Cummins Inc. and Tata Motors. The company is also setting up its largest ever technical center in Kothrud in Pune, Maharashtra.

Foxconn intends to establish 10 to 12 facilities in India, including factories and data centers, by 2020. In August 2015, it pledged to invest US$5b in Maharashtra to set up an electronics manufacturing plant and an R&D center, expected to create 50,000 jobs. The company has also entered into manufacturing agreements with a number of technology mega players and plans to invest US$20b in solar projects.

General Motors (GM) announced in July 2015 that it will invest US$1b in India as part of a move to strengthen its business in global growth markets, aiming to double its market share in India by 2020. The new investment is expected to create approximately 12,000 new jobs. The majority of the investment would be directed to focus production both for domestic and export markets, and a part of it will be used to support increased product localization as well as the expansion of GM's domestic dealer network.

Siemens has announced its plan to invest €1b (INR74b) in India, adding 4,000 jobs to its existing workforce. The company might look for M&A in the software industry and would also consider shifting some of its international functions, such as its competence centers, to India.

The examples above are representative and are based on a compilation of publicly available information drawn from a variety of sources, including company media releases, the Government of India and other media sources.

Viewpoint

Taking a long-term view is vital

Philipp von Sahr
President, BMW India

The BMW Group has always looked towards India with a long-term perspective, and our strategy is based on an inclusive approach. If you want to benefit from the dynamics of the Indian market, you need to act today.

According to our "Production follows the Market" approach, we took a bold step in our Asia strategy. We established the BMW India headquarters in Gurgaon, the BMW plant in Chennai, a training center in Gurgaon and a parts warehouse in Mumbai. We have continued to build our operations in India in a systematic way. To date, the BMW Group has invested over INR4.9b (US$82m) in BMW India.

BMW Group India has constantly increased the number of its locally produced car models. Presently, the plant locally produces eight car models and has an annual capacity of 14,000 units. BMW India has a network of 39 sales outlets in the Indian market, and this will be increased to 50 outlets.

The BMW Group has further strengthened its commitment to the Indian market by participating in the *Make in India* initiative. The level of localization at the BMW plant in Chennai has been increased to as much as 50%. Strong localization benefits BMW in terms of cost optimization and value addition. At the same time, it creates business and profitability for our suppliers, resulting in a win-win situation. Additionally, the International Purchasing Office (IPO) in Gurgaon identifies and assesses potential suppliers in India for sourcing production material (components) as well as IT and engineering services to the BMW Group International Production Network.

In my experience, India can compete with the best global players when it comes to quality and cost efficiency. The *Make in India* initiative is a very positive step by the Government toward encouraging business in India. India is a growth market and presents huge opportunities both in terms of demand and supply. The initiative has created a certain positive vibe in the business environment. Businesses are ready to take this forward and now need to be supported with on-ground facilitation. The availability of the right resources, manpower and skills is present. We believe that policies promoting ease of doing business will further enhance India's viability as a global business destination and will attract new investors toward setting up operations here. At the same time, existing investors will rethink before shifting and outsourcing operations to other countries.

A stable, consistent and transparent tax regime and policy framework helps businesses to create and implement a long-term strategy leading to sustainable and profitable growth.

The Indian market has witnessed tremendous growth in the last decade. Though the Indian luxury market is still at a nascent stage, it has immense potential with rising purchasing power, growing aspiration for luxury brands and evolving lifestyles. Considering that India has a population of over one billion, there is more potential for growth.

> **India can compete with the best global players when it comes to quality and cost efficiency.**

Viewpoint

All phones sold in India to be made in India

Hugo Barra
Vice President, Xiaomi Global

India is a thriving country with a large population that is still very young and adopting smartphones at a fast pace, which leads to amazing opportunities for innovation in mobile internet. IDC predicts that, by 2017, India will overtake the US to become the second-largest smartphone market globally. The start-up scene is also growing rapidly, and venture capitalists are starting to take note of the immense potential in the country. Xiaomi wants to be an important player in this process as a hardware and software technology vendor, an internet services provider, an e-commerce business and a major investor in the local start-up ecosystem.

Digital India makes doing business in India much more convenient and opens up a whole new world of possibilities. India is an extremely important market for us, and manufacturing is just one of the ways of showing our commitment. We plan to have a whole suite of Mi services available to fans in India, and have already started to invest time and manpower to make this happen. India is the first global market outside of China to enjoy our Visual IVR feature on the Mi user interface, saving time for users when navigating interactive voice response systems during customer service calls. Xiaomi launched Mi 4i, which was customized for Indian consumers, and also announced features on our MIUI software that specifically cater to local needs.

The *Make in India* program has played a critical role in kick-starting local manufacturing. It has given rise to initiatives that are designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best-in-class manufacturing infrastructure. This means that the various government departments respond even faster, making the process of kick-starting local manufacturing much easier. This has helped to motivate companies like ours to invest in India with local R&D and local manufacturing, among other efforts.

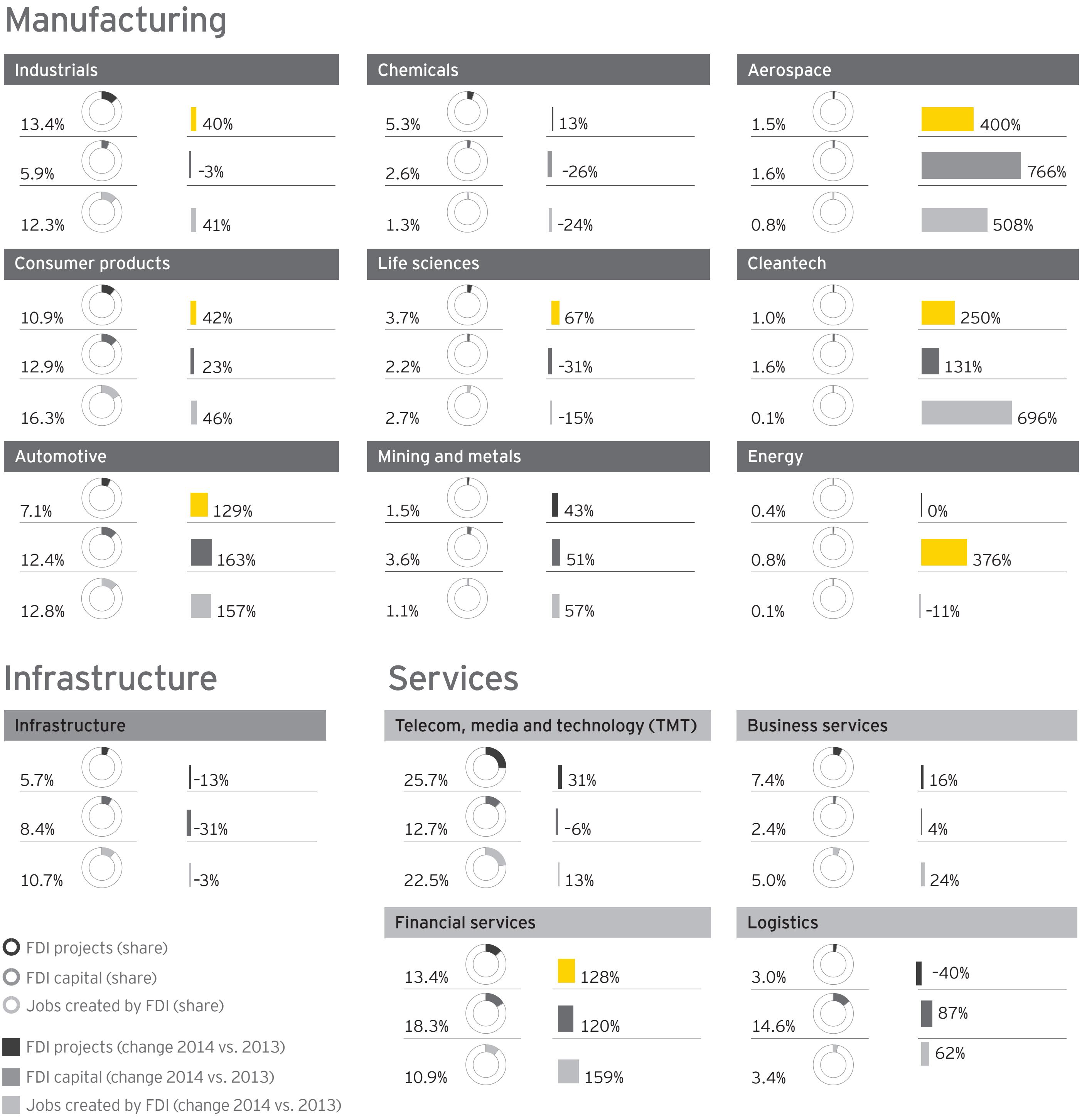
By responding to the *Make in India* program and manufacturing in India, we will reap the benefits of streamlining our supply chain, resulting in working capital savings. It also means that we are woven into the fabric of India and can come closer to consumers in India.

We are already assembling handsets locally in Andhra Pradesh, with components being imported as the mobile component manufacturing ecosystem does not currently exist in India. We do believe that this will change over time as the mobile handset component manufacturing ecosystem here evolves. When that happens, Xiaomi will certainly be open to sourcing components locally. It is our long-term plan to have all phones sold in India to be made in India.

***Digital India* makes doing business in India much more convenient and opens up a whole new world of possibilities.**

Manufacturing on the rise

The year 2014 witnessed a spike in FDI capital in the manufacturing sector, particularly in automotive, aerospace and cleantech. Infrastructure investments declined, on the other hand, as high debt and interest rates concerned investors. Services remained robust, particularly looking at financial services, which accounted for the highest FDI capital share in 2014, witnessing 120% YOY increase in FDI capital.



Source: fDi Markets, May 2015.

Industrials

Includes machinery, tools, textiles, rubber, wood products, printing and packaging

The Government's top priority efforts on infrastructure provision are expected to drive industrial machinery demand, particularly from mining and metals, underpinning the growth of industrials. The Government's target of building 30 kilometers (km) of road every day (from 11km today) for the next two years will lift demand for heavy infrastructure, construction equipment and materials.[3] *Power for all*, aimed at ensuring 100 gigawatts (gw) of clean energy by 2022 (making India one of the largest solar power producers in the world),[4] and the country's rapid emergence as a leading consumer of materials such as paper and rubber, can further reinforce the pace of industrial growth.

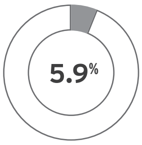
Looking ahead, manufacturers will need to focus on containing costs and managing risk, while concerns about power shortages, the cost of power and the availability of skilled labor will need to be addressed to maintain the momentum.

FDI snapshot

2014 vs. 2013

40%	in FDI projects	↑
3%	in FDI capital	↓
41%	in jobs	↑

2014



Share of FDI capital

91 FDI projects

15,680 jobs created by FDI

US$1.5b FDI capital

Top sources (2014)		
1 US	28.5%	↑
2 Japan	16.7%	↓

Top destinations (2014)		
1 Bengaluru	17.6%	↑
2 Chennai	12.6%	↑

FDI capital (share) Arrows depict increase or decrease (2014 vs. 2013).
Source: fDi Markets, May 2015.

OBO Bettermann opens its maiden manufacturing facility in 2014

OBO Bettermann, a Germany-based electrical cable management systems and products company, plans to increase its investment to US$32m in India by 2017. The company has its presence in 60 countries, with an annual turnover of US$550m. The company has made India its manufacturing base owing to its geographical proximity with Sri Lanka, Bangladesh and the Middle East, which make exports easy. In India, it has already established a state-of-the-art manufacturing facility near Chennai and has further plans to open a testing and development center.

Source: "OBO Bettermann opens its maiden manufacturing facility," *Auto components India website*, 1 December 2014, autocomponentsindia.com, accessed 3 September 2015; "OBO Bettermann plans more investments in India," *The Business Standard website*, 9 October 2014, business-standard.com, accessed 10 July 2015.

Consumer products

Consumer preferences are changing in India and awareness of international brands is strengthening. Government moves to facilitate investment inflows into this sector (relaxation of FDI limits in retail) and the proposed unified GST are expected to amplify investor interest. Other recent policy changes also help, including a lower customs duty on 22 components used in premium consumer electronic products and the removal of import quantity caps.[5]

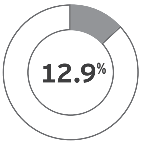
Nonetheless, consumer product companies planning to enter India must consider that consumer dynamics, distribution and supply chains are often very different to those elsewhere.

FDI snapshot

2014 vs. 2013

42%	in FDI projects	↑
23%	in FDI capital	↑
46%	in jobs	↑

2014



Share of FDI capital

74 FDI projects

23,563 jobs created by FDI

US$3.6b FDI capital

Top sources (2014)		
1 UAE	40.2%	↑
2 US	23.5%	↑

Top destinations (2014)		
1 Hyderabad	10.8%	↑
2 Mumbai	7.4%	↓

FDI capital (share) Arrows depict increase or decrease (2014 vs. 2013).
Source: fDi Markets, May 2015.

Mondelez investing US$ 190m to create largest plant in Asia-Pac

Mondelez India is part of US-based Mondelez International. Its presence in India was formed as Kraft Foods acquired Cadbury India in 2010, and then changed its name to Mondelez India in 2014, as part of a transition process initiated in 2012. Cadbury, now Mondelez India, has been a chocolate category leader in India for over six decades and has diversified into beverages, biscuits, gums and candy, aligning with the company becoming one of the world's leading snacking companies. Mondelez has announced plans to invest US$ 190m in Andhra Pradesh to establish the company's largest manufacturing plant in Asia Pacific. The investment in India is part of the organization's supply chain reinvention for addressing growth demands in the emerging markets, drive significant productivity and margin gains. It is also expected to be the largest chocolate manufacturing plant in India.

Sources: "Get refreshed to the delicious all new Apple Tang this summer," *Mondelez International website*, in.mondelezinternational.com, accessed 7 July 2015; "Mondelez International to Invest $190 Million in Largest Plant in Asia Pacific," *Mondelez International website*, 2 December 2013, mondelezinternational.com, accessed 3 September 2015.

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[3] "Roads and Highways," *Ministry of External Affairs, Government of India website*, 20 June 2015, mea.gov.in, accessed 3 September 2015.

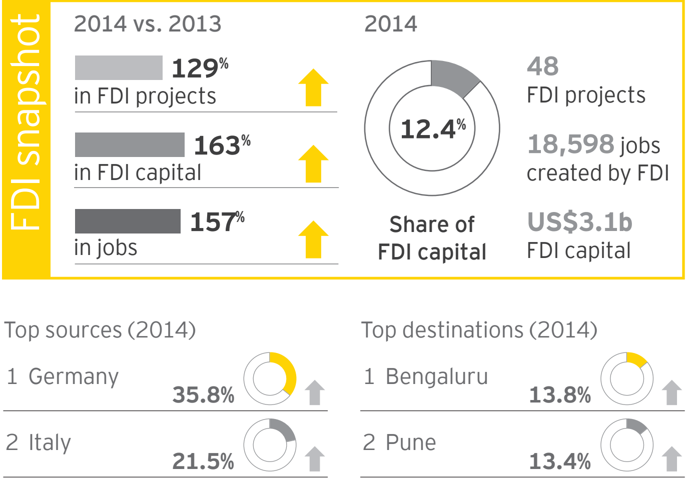
[4] "US may help Narendra Modi Government achieve target of 100 gigawatt of solar power," *The Economic Times website*, 23 January 2015, economictimes.indiatimes.com, accessed 14 April 2015.

[5] Union Budget 2015-16, *Union Budget 2015-16 website*, indiabudget.nic.in, accessed 23 June 2015.

Automotive

India produced 3.84 million cars and commercial vehicles in 2014, according to the International Organization of Motor Vehicle Manufacturers. All of the world's biggest carmakers are present in the country, and while it remains a strong market for motorcycles, manufacturers have tried to help buyers upgrade to cars by producing affordable small cars as well as developing automotive financing, flexible payment options and insurance services.

With potential demand, including for premium and luxury cars, low labor costs and a well-developed component industry, India is expected to achieve scale and cost competitiveness, which could help India become a preferred regional manufacturing hub for global MNCs. With the impending GST, original equipment manufacturers (OEMs) need to review their strategy for business in India.



FDI capital (share) Arrows depict increase or decrease (2014 vs. 2013).

Source: fDi Markets, May 2015.

Volkswagen Group — building a long-term presence

Volkswagen Group has been present in India since 2001 and now has approximately 5,000 employees in the country. The company sells vehicles under five of its brands in the country: Audi, Lamborghini, Porsche, SKODA and Volkswagen. It now has 122 dealerships in 113 cities across the country and is positioning itself to capture a sizeable chunk of India's car market. The company's aim is to increase its share of vehicles sold in India from 3%–4% to 6%–7% by 2018. In January, it unveiled plans for a state-of-the-art engine assembly and testing facility in Chakan, Pune. The plant was set up with an investment of INR2.4b (US$40m), taking the firm's investment in India to US$750m. The factory is located close to one of Volkswagen's two Indian assembly plants, the other being at Aurangabad.

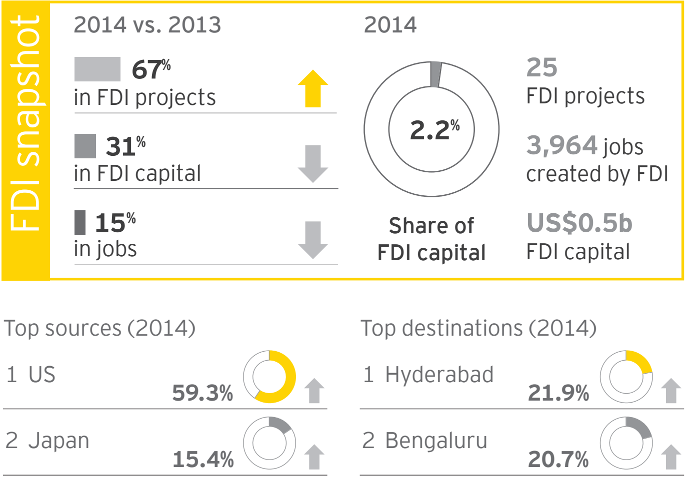
Source: "Indian Spirit Meets German Excellence," *Volkswagen India website*, volkswagen.co.in, accessed 7 April 2015; "VW India boss outlines turnaround plan," *Automotive News Europe website*, europe.autonews.com, accessed 1 September 2014.

Life sciences

India's life sciences industry is highly fragmented, with more than 24,000 companies, offering opportunities for consolidation.

Hyderabad, the pharmaceutical capital of India, remains the major hub for drug manufacturers. The newly formed state of Telangana aims to develop an integrated pharmaceutical city spread over 11,000 acres.[6] It has also eased regulations and started to offer incentives. Bengaluru is fast emerging as India's "pharma city," attracting US$114m in FDI in 2014.

The Government is encouraging the sector with policies designed to make India a global leader in manufacturing pharmaceuticals and self-sufficient in drug supply. It also supports affordable health care, encouraging the use of generic compounds, while it is keen to develop more pharmaceutical research, drawing upon talented graduates. In addition, to address concerns over weak intellectual property (IP) protection, which hampers India's medical equipment sector, the Government has created a committee to examine the problem and develop solutions that will drive investment.



FDI capital (share) Arrows depict increase or decrease (2014 vs. 2013).

Source: fDi Markets, May 2015.

Mylan expands its presence in India

Mylan Laboratories Limited has R&D facilities for active pharmaceutical ingredients in Telengana and Andhra Pradesh; oral solid dosage facilities in Maharashtra, Madhya Pradesh and Telengana; and injectables facilities in and around Bengaluru.

In 2015, the company is expected to launch products created by its Biologics R&D Laboratory. The Indian business does not only supply the local market, but exports around the world.

In August 2015, the company received approval from the Foreign Investment Promotion Board (FIPB) for a further US$800m (INR50b) investment into India, where it plans to enter the female health care business.

Source: *'FIPB website*, 13 August 2015, fipb.gov.in, accessed 4 September 2015.

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[6] "Industry Thumbs up for 11,000 acre Hyderabad pharma city," *Etelangana website*, 4 December 2014, etelangana.org, accessed 3 September 2015.

Seizing opportunities in the pharmaceutical sector

Viewpoint

Susanto Banerjee
Head Finance — Global Operations, Mylan

The pharmaceutical industry is a step ahead when it comes to adopting India as a research and manufacturing base. Foreign investment can help our industry become more efficient and cost-effective with improved technology and processes, enabling better quality and cheaper drugs. FDI and portfolio investment in pharmaceutical businesses in India require prior approval by the FIPB and are subject to conditions. But, in my view, this has never hindered investment in the sector.

For an international company seeking to maintain global quality standards, the ease of doing business in any market depends on the strength of the regulatory framework in that market. A robust regulatory framework can give better access to world-class medicines to the consumer and, at the same time, ensure higher competitiveness.

The pharmaceutical market in India is big, and it is growing fast. The future growth potential is significant, so the business opportunities are sizable. And India's competent and scalable workforce is a definite advantage. Leadership talent has developed over the years, and investors worldwide have realized that India produces efficient global leaders in good numbers. English is a common business language in India, and that helps in integrating Indian operations with global platforms.

Further simplification of taxes will attract and retain more investment. In particular, clarity on supply chain taxation, tax relief on clinical research, simplification of transfer pricing taxes, rationalization of reinvestment of profits by local entities and simpler profit repatriation procedures, will encourage global investors. India needs better dispute resolution and judicial systems.

Investors should be careful to retain local leadership talent and must introduce global policies with a local flavor. It is time for investors to recognize that the local business environment has vastly improved. The pharmaceutical market is intensely competitive, but has huge potential.

The pharmaceutical market is intensely competitive, but has huge potential.

Infrastructure

The slide of infrastructure FDI projects in 2014 can be partly attributed to difficulties in obtaining finance, including high costs of debt and capital, and a squeeze on credit. Difficulties in obtaining regulatory clearances and land added to the challenges.

The Indian Government announced an increase of infrastructure investment by INR700b (US$12b) in its 2015–16 budget, and has taken several other steps to relaunch investment in the sector. These include setting up a National Investment and Infrastructure Fund (NIIF) with INR200b (US$3b) as seed investment for infrastructure companies,[7] the approval of REITs and InviTs, the introduction of 3P India to improve regulations, the financing of structures and the management of contracts,[8] as well as an MoU with the US for setting up an Infrastructure Collaboration Platform (ICP).

FDI snapshot

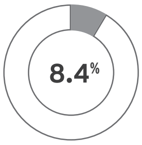
2014 vs. 2013

13% in FDI projects ↓

31% in FDI capital ↓

3% in jobs ↓

2014



Share of FDI capital

39 FDI projects

15,487 jobs created by FDI

US$2.1b FDI capital

Top sources (2014)		
1 Japan	40.1%	↑
2 Singapore	28.8%	↓

Top destinations (2014)		
1 Delhi-NCR	16.8%	↓
2 Vishakhapatnam	13.5%	↑

◔ FDI capital (share) Arrows depict increase or decrease (2014 vs. 2013).

Source: fDi Markets, May 2015.

Services maintain uptrend

Services, which contributed almost 60% of GDP, saw a 42% increase in FDI projects, while FDI inflows rose by 31% in the same period.

Sales, marketing and support services

- Sales, marketing and support received the highest number of FDI projects within the services activity in 2014, with 161 FDI projects worth US$2.3b. The US accounted for around one-third of them.
- Delhi-NCR and Mumbai remained the major hubs, but new locations, including Ahmedabad, Pune and Kolkata, are gaining popularity.
- Rising media and telecoms penetration in rural areas and among middle-class consumers are shifting purchasing preferences toward branded, higher-quality products. Foreign investors have taken note and are striving to build their brands, improve routes to consumers, and develop sales and distribution infrastructure, backing these with more customer care centers.

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[7] Union Budget 2015-16, *Union Budget 2015-16 website*, indiabudget.nic.in.

[8] Union Budget 2015-16, *Union Budget 2015-16 website*, indiabudget.nic.in.

Viewpoint

Digital will level the playing field in the long-term

Raju Narisetti
Senior Vice President — Strategy, News Corp

I think the scale works in India's favor when compared with a lot of other countries. India is attractive from an investment point of view because there are a lot of factors that are going right. There is a stable Government, a Government that is generally perceived as being friendly to business. Anybody believing in the fundamentals of India is going to be bullish over the next decade or so.

The Government has articulated consistent, transparent, steady and non-retroactive tax as a key priority. That and reducing the paperwork burden on businesses are the two areas where the Government can actually follow through on making it easier to do business in India.

The fact that there are now tens of millions of Indians who will live their lives on mobile is opening up a lot of opportunities that were not there before. Digital information can actually be a level playing field between India's haves and have-nots, between rural and urban. Transparent, accurate and accessible information enables individuals to make better decisions, and there is an appreciation of the social impact that digital can have. However, India's digital ambitions run far ahead of its current digital infrastructure, and private-sector support will be needed.

When you think about India, you still have to think of it being a hybrid digital model, with strong online and offline connections. The entire business model has to be thought through and tweaked a bit to work in India. I think that long-term macro digital conditions in India are great, and that those who have a well-thought-out long-term strategy will find success in the country.

As with any other country, India comes with its set of challenges. In the technology sector, people with the higher-level skills sets critical for digital business, such as in design and user experience, do not come cheap.

Investors need to spend a fair amount of time in the country, really understanding it. And they must choose the right partners with the right values, ethics and business fit. No matter how good the business model is, execution remains the most important differentiator between hope and reality.

Investors must choose partners with the right values, ethics and business fit.

Technology, media and telecoms (TMT)

India's reputation as an IT and information technology enabled services (ITES) powerhouse is set to receive a great impetus with the global digital transformation. More recently, the emergence of cloud computing has become an attractive bet, with investments in cloud computing infrastructure nearing the US$1b mark and major players active in this space. India's technology industry has become a global digital skills hub, with around 7,000 firms focused on digital technologies. Around 150,000 employees are reckoned to have social, mobility, analytics and cloud (SMAC) skills.

The telecom sector is also evolving and developing rapidly. Mobile connections are now available even in remote and rural areas. The country has about 973 million mobile phone users with a telephone density penetration rate of 77.5% as of April 2015.[9] India is set to enter a new growth phase marked by the proliferation of data services.

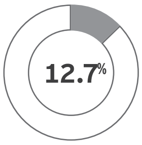
Investors need clear information on spectrum availability, a rational pricing structure and adequate financial incentives to stimulate growth in the sector.

FDI snapshot

2014 vs. 2013

▨	**31%** in FDI projects	↑
▮	**6%** in FDI capital	↓
▮	**13%** in jobs	↑

2014



Share of FDI capital

175 FDI projects

32,491 jobs created by FDI

US$3.2b FDI capital

Top sources (2014)

1 US	**45.4%**	↓
2 Japan	**10.6%**	↑

Top destinations (2014)

1 Bengaluru	**24.0%**	↑
2 Mumbai	**12.7%**	↓

◌ FDI capital (share)   Arrows depict increase or decrease (2014 vs. 2013).

Source: fDi Markets, May 2015.

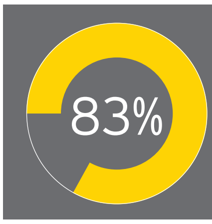
Digital India drives Cisco's investment plans

Cisco Systems, the world's largest maker of networking equipment, has begun to tap into opportunities stemming from the *Digital India* campaign. The company invests US$1.7b in India each year. In June 2015, it also announced its plan to invest an additional US$20m on training over the next five years, as well as US$40m on the expansion of relevant facilities. Cisco also targets to make India its manufacturing base to support the *Digital India* vision by leveraging its global supply chain expertise, which could further help in advancing the manufacturing ecosystem in India. The company currently gets 2% of its global revenues from India, which it expects to increase in the coming years. Cisco employs over 10,000 people in India across cities such as Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune, of which 8,000 people are part of the R&D setup.

Sources: "Cisco Announces New Investments to Expand Its Presence in India and Deepen Its Commitment to Help Drive India's Digital Transformation," *Cisco website*, 18 June 2015, newsroom.cisco.com, accessed 4 September 2015.

Digital India

The Government has embarked on an ambitious INR1,130b (US$17.7b) *Digital India* program that seeks to transform India into a digitally empowered society and knowledge economy. It aims to expand rural internet coverage to 250,000 villages, and leverage information and communication technologies to deliver e-governance services.



of our survey's respondents expect the *Digital India* initiative to have a significantly positive impact on attracting FDI to India.

Impact of *Digital India* by 2019

Internet access for all

- Broadband in **250,000 villages** and universal phone connectivity
- As many as **400,000 public internet access points**
- Wi-Fi in **250,000 schools** and all universities; public wi-fi hot spots for citizens

Adoption and manufacturing of IT products and services

- **India to be leader in IT** use in services – health, education and banking
- **E-governance and e-services** across government departments
- **Net zero imports** by 2020

Empowering citizens with digital inclusion and job opportunities

- Digitally empowered citizens – public cloud and internet access
- Digital inclusion: **17 million trained for jobs** in IT, telecom and electronics
- Job creation: **17 million direct** and at least **85 million indirect jobs**

Source: Department of Electronics & Information technology (DeiTY), Government of India.

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[9] *Telecom Regulatory Authority of India website*, trai.gov.in, 16 June 2015.

Viewpoint

We came here for the skills, stayed for the innovation

Dinesh Malkani
President, Cisco India & SAARC

India's domestic market is picking up and there's a marked improvement in our investment climate. We have to give credit to the Government for its engagement with industry, as well as for actively addressing structural challenges.

For the IT industry, India offers a large and growing market, a young technical workforce and globalizing companies. Cisco's deep presence in India is testimony to the country's attractiveness. We came here for the skills, stayed for the innovation, and now we are enabling transformation. We are betting big on India and we want to help contribute to the country's transformation.

The Indian IT market stands at US$73b and is expected to grow at 10% to become the second-largest market in the Asia-Pacific region by 2018. Indian firms have a huge opportunity to deepen their competiveness as they digitize themselves.

The nation is at a digitization inflection point thanks to the *Digital India* vision. We have a massive ecosystem of IT development and production in our backyard. About 10 million Indians work in the IT industry, and it is central to the social and economic transformation in the country. India is the fourth-largest base for start-ups worldwide and, with 1.5 million engineers graduating annually, there is huge potential for technology innovation. We can leapfrog to digital infrastructure. As smartphone penetration rises, we expect around nine billion mobile app downloads in 2015. There are more than two million app developers in India — reaching three million by 2017.

Foreign investors can leverage this steadily growing industry and ecosystem. The Government has rightly recognized the need for a simple and transparent tax regime. Furthermore, efforts in this direction will only boost investor confidence.

India offers huge potential for technology innovation.

E-commerce on the rise

The technology revolution in the past couple of years has placed the e-commerce sector on a new growth trajectory. The growth has been supported by robust investment in the sector and sharp increases in internet users; it took three years to add 100 million users (2010–13), while the next 100 million were added in just 18 months.[10] As the 1.26 billion population gears up to be digitally connected, there lies an opportunity of providing products and services through the digital platform. Of the total internet users in India, just 16% currently transact online, providing huge headroom for growth to pick up in this space.

Within e-commerce, e-tailing (the selling of retail goods on the internet) is rising at an exponential rate. Between 2014 and 2016, it is expected to grow at a compound annual growth rate (CAGR) of 30%–40%, while e-commerce, in general, is expected to grow at a CAGR of 10%- 15% during the same period.[11] Currently, of the total 66 million digital commerce users, 38 million are e-tailing users. Factors such as lower price, convenience and wider product choices, alongside a supportive ecosystem with high penetration of advanced technologies such as smartphones and high-speed internet networks, will enable much faster growth of the e-tailing segment. Shopping through smartphones is set to become another game changer. It is estimated that, as of June 2015, there were 213 million mobile internet users compared with 173 million in December 2014, a jump of 23% in just six months.[12] It is also estimated that mobile commerce will contribute more than 70% of total online revenue.[13]

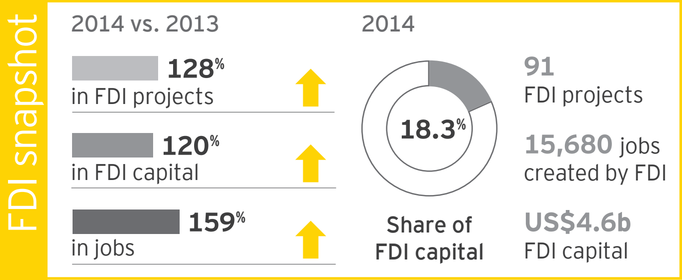
Currently in India, 100% FDI in business-to-business (B2B) e-commerce is allowed while, for business-to-consumer (B2C), it remains restricted. According to the Federation of Indian Chambers of Commerce and Industry (FICCI), the Government should consider a proposal of allowing FDI in B2C e-commerce with a focus on sourcing from Indian manufacturers; this will provide an impetus to both domestic and foreign investors.[14]

Financial services

In 2014, the majority of investments in financial services were directed toward India's big cities. However, several second-tier cities, including Ahmedabad, Coimbatore, and Kochi, are also becoming attractive, as demand for banking services increases.

Key government measures to boost investment in the sector include the Jan Dhan campaign for financial inclusion, payment banks and small finance banks, the new bankruptcy law, the Strategic Debt Restructuring Scheme, the New Pension Scheme and Gold monetization scheme.

The insurance sector has also started to gain traction, as the ceiling on foreign ownership of Indian insurers was raised to 49% from 26%. The resulting capital infusion is expected to bolster the financial strength of insurance companies. India presents a huge opportunity for health insurance companies, since only 17% of Indians have private health insurance (as of March 2014).[15]



Top sources (2014)

1	UAE	20.4%	↑
2	US	17.0%	↑

Top destinations (2014)

1	Bengaluru	6.8%	↑
2	Ahmedabad	6.8%	↑

▦ FDI projects (share) Arrows depict increase or decrease (2014 vs. 2013).

Source: fDi Markets, May 2015.

Cigna banks on market opportunity in insurance

American insurance company Cigna Corporation entered the Indian health care market in 2014 as Cigna TTK Health Insurance through a joint venture with TTK Group. The venture invested INR1.3b (US$22m) in setting up six branches across major Indian cities and now operates in 11 cities. The company is looking to establish a multichannel distribution model in India that will use bank partnerships and nonbanking finance companies, along with analytics and digital channels.

Sources: "Cigna TTK Health Insurance Launches Business operations in India," *Cigna press release*, 25 February 2014, newsroom.cigna.com; "Cigna Enters Indian Health Insurance Market," *The Wall Street Journal website*, 25 February 2014 wsj.com, accessed 14 May 2015.

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[10] *Internet and Mobile Association of India website*, iamai.in, accessed 3 July 2015.

[11] "Mobile Internet in India 2014," Internet and Mobile Association of India (IAMAI), IMRB International.

[12] "Mobile Internet in India 2014," IAMAI, IMRB International.

[13] "M-Commerce to contribute up to 70% of online shopping in India:experts," *The Business Standard website*, 30 November 2014, business-standard.com, accessed 10 July 2015.

[14] "Govt. should open e-commerce: Why FDI is a good for Indian retailers," *First Post website*, 14 May 2015, firstpost.com, accessed 3 June 2015.

[15] "Only 17% have health insurance cover," *The Hindu website*, 22 December 2014, thehindu.com, accessed 3 June 2015.

Opening the door to foreign finance

Viewpoint

Dr. R. Seetharaman
Chief Executive Officer, Doha Bank

Government reforms are likely to have a big impact on financial services in India. International banks can now reinforce their presence in the country and, as India's businesses develop, international banks can profit from the growing economy and infrastructure construction, and help develop international trade. International banks should find opportunities in trade finance, export financing and financing for long-term projects, as well as in treasury management and investments.

India also has a surging population of high-net-worth individuals, so there are opportunities in wealth management. And as middle-class consumers spend more, they will want loans to support their spending. International banks should be able to benefit by offering a wider range of banking products to both retail and business clients in India.

Meanwhile, raising the limit on foreign ownership of insurance businesses to 49% should also attract more FDI to financial services. As the Indian insurance industry expands, it will need additional capital — and the new regulations will give us the much-needed flexibility to raise this capital. International insurance companies are expected to take advantage of the changes, which should result in up to US$10b of international capital inflows.

Inward investors will also benefit from reforms, making it easier to do business, creating a "single window" for administrative procedures and providing clarity in government policy. The Government has already reduced the number of documents needed for foreign trade and enabled online applications for environmental clearances. More clarity and better coordination between national and state governments can further stimulate investments.

Meanwhile, wider economic initiatives, including the recent benchmark interest rate cut by the Reserve Bank of India, should help stimulate growth. Lower rates are being passed on to borrowers. The ending of state control of diesel prices and the mining amendment bill should help draw in more FDI, and Indian banks will benefit from all of these developments.

So overall, I think the prospects for rising FDI in India are good, and that it is important to attract more investment into financial services to help finance India's economic growth.

India has a wide range of opportunities for international banks.

Emerging sectors

In 2014, the Government liberalized the FDI limit in the defense sector and has removed restrictions such as the lock-in period of three years on equity transfer. Alongside, the Government is laying emphasis on clean energy, for which it has set a target of generating 175gw of power through renewable energy by 2022. As a result, FDI capital inflows are gaining pace in aerospace and defense as well as the cleantech sector.

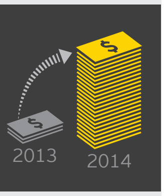
Aerospace and defense

Ninefold increase of **FDI inflows** in **2014**

FDI capital inflow

US$403m

(up from **US$47m** in 2013)



The Government of India has identified defense manufacturing as a key sector in its *Make in India* program, making it an attractive investment sector. However, each case will have to undergo an approval process as specified by the FIPB, and clearances will be given only on a case-to-case basis.

Sector attractiveness propositions:

- Raised FDI limit to **49%** from 26%
- Equity holding greater than **49%** permitted for "state-of-the-art technology" on CCS approval
- Digitalized the application process
- Removed its restriction of the minimum **51%** holding by a single Indian entity in a defense venture
- Announced tax and export incentives, such as a weighted tax deduction of **200%** for both capital and revenue expenditure incurred on scientific R&D (excluding expenditure on land and building)[1]
- Identified **16 broad categories** of defense items that are now allowed to be exported, bringing India at par with international laws governing arms trade[2]
- Sharply reduced the number of products for which manufacturers require special licenses
- Extended the duration of **defense industry licenses** from three to **seven years**

The impact is already evident, with various global and Indian companies, such as SAAB, Textron, Bharat Forge, Punj Lloyd and Mahindra & Mahindra, looking for partnership or having already formed joint ventures recently.[3] MoUs between Reliance Defence Ltd's (RDL) with Abu Dhabi Ship Building (for construction of naval ships), the Tata Advanced Systems Limited (TASL) with Boeing and Mahindra Defence with Airbus Helicopters are examples of such partnerships. In February 2015, German aerospace material and logistic provider ThyssenKrupp set up a facility at the aerospace special economic zone (SEZ) near Devanahalli in Bengaluru to offer supply chain management solutions to local aerospace and defense parts suppliers.

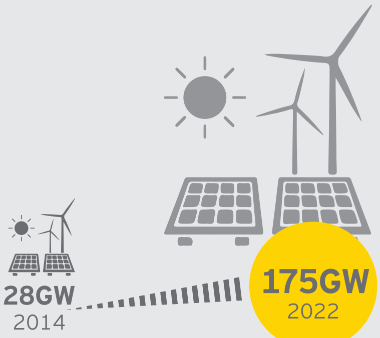
In June 2015, the **US** and **India** also signed a **10-year defense framework** pact toward joint development and manufacture of defense equipment and technology (including jet engines, aircraft carrier design and construction) in India.

1. *Make in India website*, makeinindia.com, accessed 25 August 2015.
2. "Arms exports to get a boost as Ministry of Defence okays 16 broad categories of products," *The Economic Times website*, 18 August 2015, economictimes.com, accessed 25 August 2015.
3. "Mahindra & Mahindra to acquire Pipavav Defence in Rs 3,000-crore deal," *The Economic Times website*, 12 February 2015, economictimes.com, accessed 30 August 2015; "Punj Lloyd gets FIPB nod to manufacture defence gear," *The Economic Times website*, 18 December 2014, economictimes.com, accessed 30 August 2015.
4. "Reliance Defence and Abu Dhabi Ship Building sign MoU for naval and commercial services," *Reliance Infrastructure website*, rinfra.com, 15 September 2015.
5. "Boeing and Tata Advanced Systems announce strategic aerospace partnership to *make in India*," *TATA website*, tata.com, 7 September July 2015.

Cleantech

Doubling of **FDI inflows** in **2014**

- FDI inflows in cleantech reached **US$400m** in 2014, up from US$174m the previous year. Investors in the sector have become more active as the Government has increased its focus on the use of renewable and clean energy.
- India's renewable energy generation capacity doubled to **28GW** in FY14 from 14GW in FY09.
- India needs **US$200b** of additional investment in renewables by 2022 – half of it from abroad – to increase its wind and solar power capacity.
- Japan's SoftBank, along with Foxconn Technology Group of Taiwan and Bharti Enterprises, plans to invest **US$20b** over the next 10 years for solar projects in India.
- The US-based SunEdison Incorporated has also shown its intention to invest **US$15b** to develop solar and wind power projects by 2022.



Source: Ministry of New and Renewable Energy, Government of India; Union Budget 2015-16, *Union Budget 2015-16 website*, indiabudget.nic.in; "Soft Bank keen to invest in AP's solar & wind projects," *Government of Andhra Pradesh website*, 23 June 2015, ap.gov.in accessed 3 September 2015.

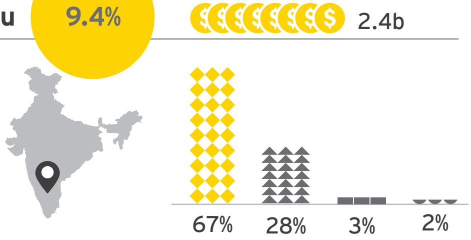
India's top FDI destinations

(Share of FDI capital in 2014)

Bengaluru 9.4%

The technology hub of India attracted more than 45% of the investments in the TMT sector (electronic components, and software and IT services), as the Government offers 50% capital subsidy on R&D units. Industrials (diversified) is picking up pace: foreign investors initiated six industrials projects worth US$236m in 2014, up from just one in the previous year.

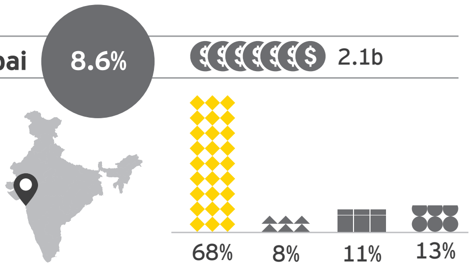
- The new industrial policy (2014–19) is in place to attract INR5t (US$83b) of investments and create 1.5 million jobs in manufacturing, particularly industrials.



Mumbai 8.6%

The financial capital of India received most interest in the financial services sector, with 14 projects, worth US$734m, in 2014. The UAE was the top investor in the financial services sector, while the US is investing in the TMT sector.

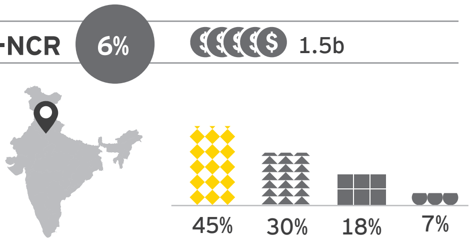
- Rapid urbanization is happening in the suburbs nearby Mumbai (Navi Mumbai, Thane, etc.) as cost and resources constrain the city. This will open opportunities for financial services, technology and infrastructure sectors.



Delhi-NCR 6%

In 2014, FDI in the Delhi-NCR region slipped to US$15b, from US$23b in 2013. The FDI landscape in the region is dominated by infrastructure investments, as the NCR region (nearby area to the capital city) continues to witness a high urbanization rate. Also, as the region hosts a vast talent pool, it is the hub of various MNCs, particularly in the business services domain.

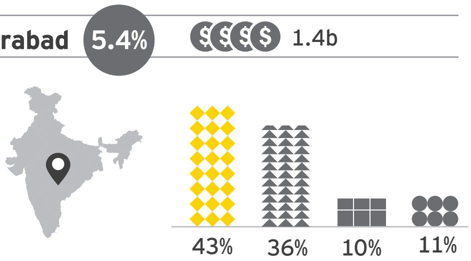
- The Delhi-NCR region has developed into a strong business center, attributable to high talent availability in the region and also being the country's capital. As the urbanization rate and geographical spread of Delhi-NCR region expands further, it is expected to continue attracting investments.



Hyderabad 5.4%

The city received the highest number of projects in the past five years, worth US$1.4b. Most of the investment was directed toward the financial services and consumer products sectors, with life sciences picking up. After the split of Telangana from Andhra Pradesh, Hyderabad became the joint capital of the two states and is, therefore, receiving special focus.

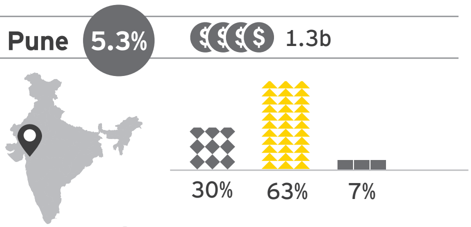
- A new industrial policy was launched in 2015, with a focus to promote manufacturing and enhance ease of doing business. The State Government has created a land bank of more than 150,000 acres for industrial purposes.



Pune 5.3%

Pune attracted smaller projects – most of them toward the TMT sector. In terms of FDI capital, automotive was the most attractive sector.

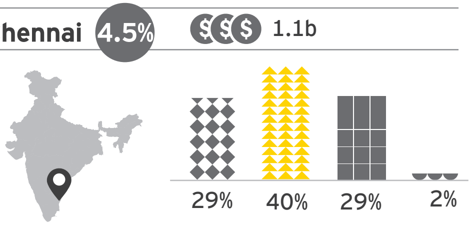
- Large IT parks, such as Hinjawadi and Magarpatta and three SEZs in Pune, offer IT and software services companies a robust infrastructure to set up operations at a reasonable cost.



Chennai 4.5%

TMT and automotive were the most preferred sectors in Chennai. Chennai Port has a dedicated berth for automobile exports. Also, the modern Chennai Port acts as a gateway for exports and imports.

- The Government's Super-Mega Policy – investment of INR15b-INR40b (US$250m-US$670m) and Ultra Mega Policy – investment over INR15b-INR40b (US$250m-US$670m) for integrated automobile projects will attract investors.



$ FDI capital in US$b ▨ Business implications ⁘ Services ⁘ Manufacturing ■ Retail ● Strategic

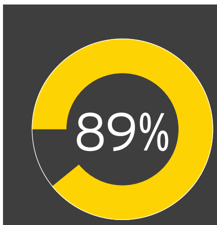
Retail includes: retail, construction, recycling and extraction.
Strategic functions include: headquarters, education and training centers, and R&D centers.

Source: fDi Markets, May 2015.

Smart cities

In September 2014, the Indian Government unveiled plans to build *100 Smart Cities* by 2022, which is expected to:

- Boost demand in the real estate, construction and TMT sectors
- Boost demand for digital technologies – initiative to lead to more than INR20b (US$330m) of extra investment in the technology sector, according to International Data Corporation (IDC)



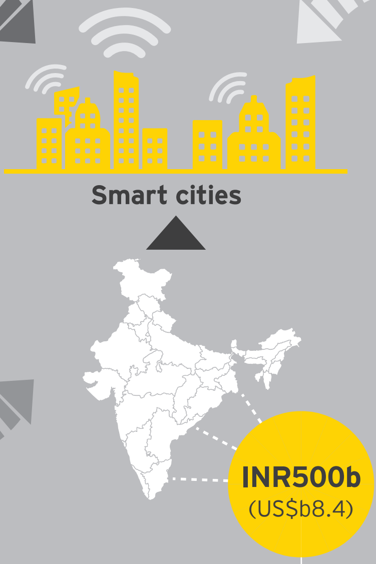
of our survey's respondents expect the *100 Smart Cities* initiative to have a significantly positive impact on attracting FDI to India.

Many advanced economies and private players are laying down long-term investment plans for smart cities

Foreign investors

NEC, the Japanese technology firm, is eyeing investment in more than **20 smart cities** in **Uttar Pradesh**, **Andhra Pradesh**, **Telangana** and **Karnataka.**

Cisco is partnering with **Navi Mumbai**, **Pune**, **Jaipur** and **Lucknow** to **provide networking infrastructure** for smart city projects.



Foreign governments

- ✓ The **U.S.-India Business Council** is **supporting Vishakhapatnam's transformation into a smart city.**
- ✓ **France** has pledged **€2b (US$2.1b) to smart city projects in Puducherry and Nagpur.**
- ✓ **China Small and Medium Enterprise** Investment Ltd. is **providing US$3b** to **Gujarat** for developing smart cities.

Indian Government

The **Indian Government** is devoting a sum of **INR500b (US$8.4b) over five years** to support smart city development.

Sources: "Gujarat signs MoUs worth over Rs 30K crore in China," *Business Standard website*, 21 May 2015, business-standard.com, accessed 22 May 2015; "Smart city project: Japanese tech firm NEC wants to partner at least 20 cities," *Business Standard website*, 21 April 2015, business-standard.com, accessed 22 April 2015; "Cisco to provide networking infra for four smart city projects," *Hindu Business Line website*, 28 May 2015, thehindubusinessline.com; "Smart Cities – Transforming Life – Transforming India", *Accommodation Times website*, 9 Jan. 2015," accommodationtimes.com, accessed 26 September 2015; "India on brink of urban revolution: UN-backed report," *The Economic Times website*, 17 September 2014, economictimes.indiatimes.com, 14 May 2015; "France to invest 2 billion euros in India; help in development of three smart cities," *Economic Times website*, 10 April 2015, economictimes.indiatimes.com, accessed 11 April 2015.

Viewpoint

India can be a springboard to success for Korean investors

Dong Seok Choi
Regional Chief Director General for South Asia, Korea Trade-Investment Promotion Agency (KOTRA)

Apart from the positive economic indicators — India is one of the fastest-growing major economies in the world today and the third-largest economy on purchasing power parity terms — India's big strategic advantage is its geography.

India is placed as a strategic bridge for Africa, the Middle East, SAARC and ASEAN Emerging Markets. To the west lies the huge Middle East and Africa market of 1.2 billion people; to the east, the market of 1.4 billion people in China. And, as we know well, India itself offers a huge domestic market of 1.26 billion. For Korean investors, this means that India can be a springboard into new emerging markets across the globe.

Furthermore, India is working to transform itself into a major manufacturing hub. The *Make in India* program ushers a new wave of entrepreneurship, resurging India and accelerating economic growth to attract foreign investment into India.

The Government's initiatives aimed at improving India's ease of doing business, with the states competing against each other, is an important step for attracting foreign investors. Along with this, the *Skill India* campaign and 100 Smart Cities project to enhance infrastructure will improve the country's manufacturing capacity. With stable government policies and the proactive approach of the Modi Government, I see India building a foothold as a manufacturing hub within 10 years. But competition will come from other emerging markets, in particular Vietnam, Indonesia, Mexico and Brazil.

To make the most of opportunities in India, Korean investors should broaden their focus in India beyond logistics, marketing, sales and services. They should seek to build their global supply chains through joint ventures, M&A, technological alliances and upstream investments.

The most important sectors for Korean investors include automotive, energy and transport, and it is necessary to move up the value proposition in sectors such as defense, aerospace, liquefied natural gas (LNG), shipbuilding, smart cities, high-speed railways and nuclear power generation. It is also essential to have a heavy focus on capital-intensive projects and medium and high technology.

India is a very promising market as a whole and offers remarkable opportunities. It is important to localize your business model and be aware of the specific needs, tastes and preferences of Indian consumers. To succeed, Korean businesses must overcome the culture gap and develop an understanding of the Indian mindset.

The timing is right for the *Make in India* program to attract foreign investment into India.

India's emerging locations

Investors warm up to second-tier cities for investment

Investors are showing increased enthusiasm for India's second-tier cities. In 2014, FDI projects in smaller cities surged 79%, compared with just 21% in metropolises. Cities such as Chakan, Halol, Jaipur, Mohali, Sanand, Thrissur, Vapi and Varanasi are increasingly becoming industrial hubs. For example, Sanand, in Gujarat, is becoming an export hub for vehicle makers, a trend reinforced by expansion plans unveiled by Ford and Maruti Suzuki.[16]

In FDI terms, many smaller cities are increasingly emerging as investment destinations. Big metropolises are facing pressure on resources, especially land, reflected in rising prices. The development of new smart cities should reinforce the geographical spread of FDI. Thirty-five percent of businesses established in India rate Ahmedabad as India's leading emerging city, followed by Vadodara (15%), while non-established investors preferred Jaipur.

Emerging cities for investment

Target smart cities

What are the emerging Indian cities for investment?

1 Ahmedabad 26%

- The city emerged as the fastest-growing investment destination, with the number of FDI projects increasing to **23** in **2014** from 8 in 2013, and FDI reaching **US$682m** from just US$285m a year ago.
- Perceived as the top emerging city in India by respondents from the TMT, industrials, business services, infrastructure and energy sectors, the city benefits from the development of sound infrastructure, skilled labor and a widening industrial base.

2 Jaipur 13%

- Proximity to Delhi and investor-friendly policies in the state make it an attractive destination for foreign investors. As infrastructure in the National Capital Region becomes saturated, the 250km corridor between Jaipur and Delhi is increasingly becoming a hot spot.
- Jaipur emerged as a favorite among first-time investors, particularly in telecoms and IT-enabled services.

9 Surat 6%

Respondents from the infrastructure sector are very optimistic about the future prospects of the city.

- It has the largest diamond-cutting and polishing industry in India. The State Government has plans to expand the footprint further by building a diamond trade hub, Surat Diamond Bourse, with an investment of **INR1.25t** (**US$21b**).
- It has fast emerged as a commercial hub in the past few years, with the Government considering connecting Surat with Mumbai through an underground tunnel with a proposed investment of **INR900b** (**US$15b**).

Sources: "Gadkari moots Rs 90,000 cr underground ring road for Mumbai," *Business Standard website*, 15 December 2014, business-standard.com, accessed 27 August 2015; "Microsoft selects Surat for 'smart city' project," *The Times of India website*, 5 April 2014, timesofindia.com, accessed 27 August 2015.

3 Vadodara 12%

- Vadodara is considered as the third most rapidly emerging city, especially favored by energy investors as it is endowed with natural resources and abundant sunlight, making it attractive for renewable energy firms.
- Vadodara has also started to adopt a solar rooftop concept, which is seeking attention of investors.

4 Coimbatore 8%

This city is particularly favored by respondents from industrials, infrastructure and energy.

- Coimbatore is famous for cotton production, textiles and engineering goods.
- The city hosts two SEZs with five more in pipeline.
- It has aerospace component manufacturing cluster, while there is also a plan to set up an electronics and software cluster spread across 157 acres.
- The city is working towards improving its transportation networks, such as the establishment of the Bus Rapid Transit (BRT) system.
- It has affordable land in its outskirts, which strengthens its investment prospects.

Sources: "South Korea Keen to Invest in Punjab: Envoy," *NDTV website*, 20 August 2015, ndtv.com, accessed 27 August 2015; "Punjab offers 600 pre-cleared sites to foreign investors," *Business Standard website*, 21 August 2015, business-standard.com, accessed 27 August 2015.

Source: *EY's 2015 India attractiveness survey* (total respondents: 505).

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[16] "Ford opens plant in Sanand; to launch Figo Aspire," *The Hindu website*, 26 March 2015, thehindubusinessline.com, accessed 27 March 2015

7 Chandigarh 6%

Chandigarh was considered to be emerging mainly by the respondents from IT and IT-enabled services.

- The Chandigarh Technology Park in North-East Chandigarh, the IT Park in Mohali and the Rajiv Gandhi Chandigarh Technology Park are the major attractions for TMT companies.
- The State Government offers lucrative benefits for foreign investors. It recently offered 600 pre-cleared sites to foreign investors wanting to set up industrial and business units in the city. In August 2015, when delegates from South Korea visited the state, the Government offered them a plug-and-play industrial park around Chandigarh in sectors such as infrastructure, automobiles, IT and consumer electronics. This industrial park will also provide other incentives such as reduced power tariffs and investment support.

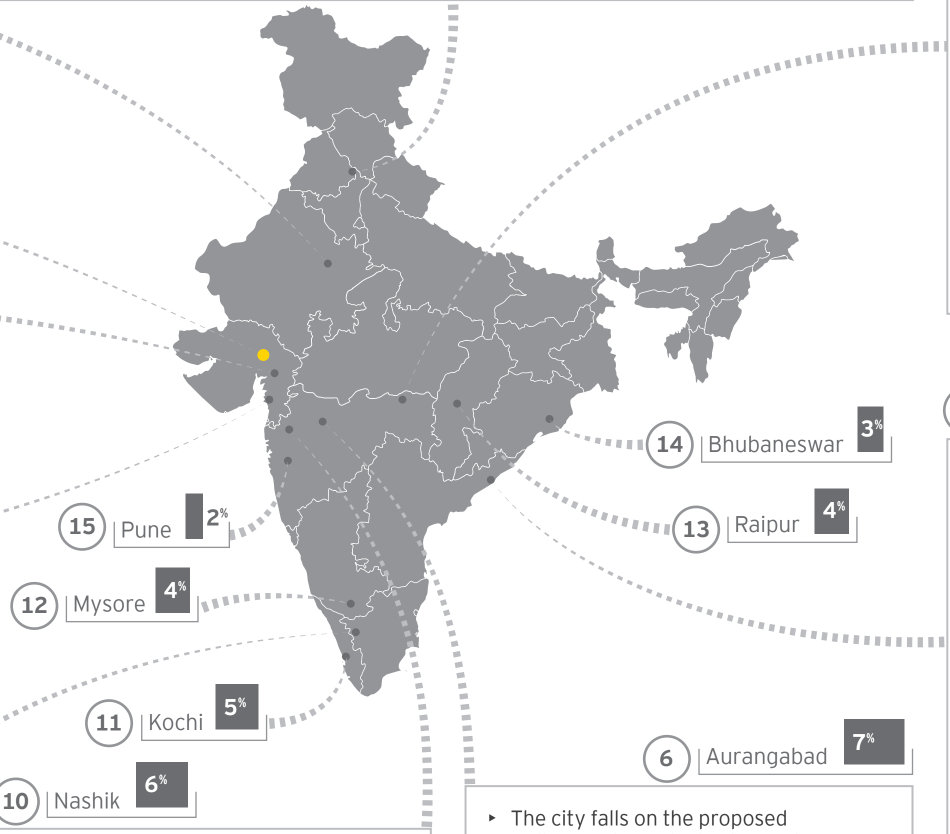
Sources: "South Korea Keen to Invest in Punjab: Envoy," *NDTV website*, 20 August 2015, ndtv.com, accessed 27 August 2015; "Punjab offers 600 pre-cleared sites to foreign investors," *Business Standard website*, 21 August 2015, business-standard.com, accessed 27 August 2015.

8 Nagpur 6%

The city is considered the second most emerging city by respondents from the business services sector. Knowledge-intensive companies find Nagpur an attractive proposition due to its low infrastructure costs and the availability of talent.

- Its strategic location makes it a logistics hub for India. The logistics sector is an important focus as it will act as a major leg of support to the Government's *Make in India* initiative. Abundant and cheap land makes Nagpur an attractive proposition to be developed as a multi-modal logistics hub.
- The Government is considering developing more IT parks in the city.
- The State Government has launched an ambitious project, the Multi-modal International Cargo Hub and Airport at Nagpur (MIHAN), which aims to make Nagpur a major transportation hub.

Source: "Move to make Nagpur a multi-modal logistics hub," *The Hindu website*, 25 May 2015, thehindu.com, accessed 27 August 2015.



5 Vishakhapatnam 7%

- The Visakhapatnam-Kakinada Petroleum, Chemicals and Petrochemical Investment Region (PCPIR), which will consist of several SEZs, industrial parks, free trade and warehousing zones, as well as export-oriented units, is a big boost for the energy sector investments.
- The Vizag-Chennai Industrial Corridor (VCIC), India's first coastal corridor, is being developed in partnership with the Asian Development Bank. This will be instrumental in spurring manufacturing and enhancing connectivity with ASEAN and East Asia for trade.
- The Information Technology Investment Region (ITIR) for the IT sector shall make doing business easy by processing the application within four weeks and providing seamless power supply.
- The Government has set its sights on improving the maritime infrastructure in India through the *Sagar Mala* project.

Sources: "PCPIR to propel growth between Vizag, Kakinada," *The Hindu website*, 5 September 2014, thehindu.com, accessed 26 August 2015; "Investors pin high hopes on industrial corridor," *The Hindu website*, 15 May 2015, thehindu.com, accessed 26 August 2015; "Cisco to help AP in making Vizag a smart city," *Business Standard website*, 3 February 2015, business-standard.com, accessed 26 August 2015.

10 Nashik 6%

Larger companies (revenue greater than US$2b) are most optimistic about Nashik as an emerging city.

- The city is primarily known as a hub for automotive, engineering and electrical industries.
- Various industrial zones in the city host renowned manufacturing units.
- The city enjoys the geographic advantage of being located near prime metros such as Mumbai and Pune, with good rail and road connectivity with Mumbai.
- It has abundance of talent and ready infrastructure.

Source: "Nashik: Scoring high on connectivity and affordability," *The Indian Express website*, 6 September 2014, indianexpress.com, accessed 27 August 2015.

6 Aurangabad 7%

- The city falls on the proposed Delhi-Mumbai Industrial Corridor (DMIC).
- It is a manufacturing hub for automotive, engineering and life sciences.
- Low labor and land costs make it an attractive destination for manufacturers, while its connectivity to Pune, Nashik and Mumbai (industrial hubs) is convenient for suppliers and traders
- It is among the eight cities where the Government plans to develop electronics manufacturing clusters (EMCs). These clusters would be eligible for incentives such as refunds on capital expenditure for new units or for expansion of more than 25% of existing capacity.

Source: "Electronics manufacturing cluster in Aurangabad soon," *The Times of India website*, 21 August 2014, timesofindia.com, accessed 26 August 2015.

EY viewpoint

States race to improve their attractiveness

Gaurav Taneja
Partner & National Leader –
Government & Public Sector –
India Region, Ernst & Young LLP

1 In the first year of a new national Government, what have India's states done to become more investor friendly?

With the pro-reform Government at the center, the state governments have also embarked on adopting policies and processes to attract investments. To help improve India's ranking in the World Bank's *Doing Business* report, the DIPP has recently issued a state-by-state report ranking the states on their implementation of business reforms. Some of the top-performing states, such as Rajasthan and Madhya Pradesh, are among those taking the lead in reforming labor laws by simplifying and reducing registers and returns. Maharashtra, Chhattisgarh and Jharkhand have moved to improve "single window" clearance, online compliance, investor support, land availability, construction permit delivery, environmental and labor compliance, and so on. In the south, Andhra Pradesh and Karnataka have new industrial policies, while Telangana has launched its Telangana State Industrial Project Approval and Self Certification System (TS-IPASS).

2 Historically, the economically advanced states in west and south India have attracted the most FDI. Are others starting to catch up?

Changes in attractiveness can take three to five years to deliver results in the form of foreign-owned businesses trading in a particular state. States such as Madhya Pradesh, Rajasthan, Chattisgarh, Jharkhand, Uttar Pradesh and Odisha feature in the top 10 states in ease of doing business rankings and are actively seeking investors.

3 Location choices can make or break mega investments. How do you help clients find the right location for their business when setting up or expanding in India?

Every industry and operation has its own location needs. But choices hinge upon access to three elements:

- Inputs (land, water, power, raw materials, skilled manpower and suppliers)
- The target market (domestic consumers, logistics and distribution networks)
- The business ecosystem (industrial policy, permits, labor relations, incentives, industrial infrastructure, ports, roads, etc.)

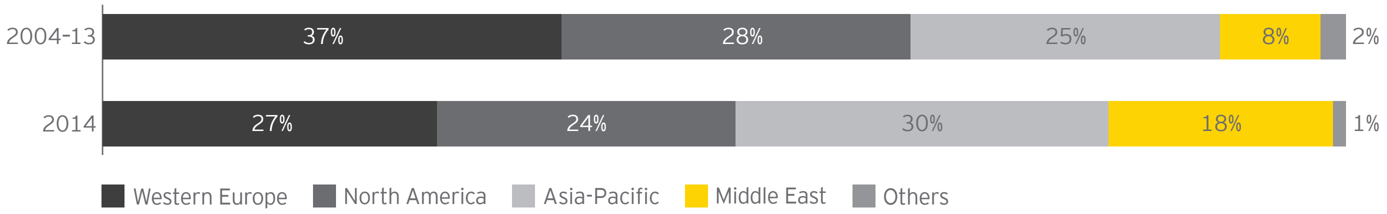
4 Lack of skilled labor is a major concern for several states seeking to attract FDI. Is anything being done to enhance labor quality?

The Government wants everyone to benefit from growth, so it has started the *Skill India* initiative to provide technical training, and has set up a Ministry of Skill Development and Entrepreneurship to coordinate training nationwide and reduce the gap between skilled labor demand and supply. It is aided in these initiatives by three government bodies: the National Skill Development Agency, the National Skill Development Corporation (NSDC) and the National Skill Development Fund, and it is working closely with 33 sector skill councils and 187 training partners registered with the NSDC.

New investors jostle

Changing portfolio of FDI investors in India

FDI in India by source region (share of FDI capital)



Source: fDi Markets, May 2015.

Europe stays loyal as new rivals appear

While Western European companies collectively have been India's biggest group of foreign direct investors, as companies from elsewhere have also entered India, their share of FDI inflows has gradually declined. The value of investments from the UK, which has historic links with India and a large population with origins on the sub-continent, more than halved to US$1b in 2014, the lowest in more than a decade. Projects from the UK, however, have since rebounded strongly in 1H15, registering a 615% increase in 1H15 compared with the same period last year. Meanwhile, German investment doubled to US$2b. Following the lead of German automotive champions, many of Germany's mid-market manufacturers have made India their home: there are now more than 1,600 Indo-German collaborations and over 600 Indo-German joint ventures in operation. Germany and India build on their strategic partnership through regular Intergovernmental Consultations (IGCs).[17] However, long-running talks on an India-EU trade agreement appear to have stalled, and European manufacturers continue to wait for lower import duties on the cars they ship to India, while they also demand strong support in terms of IP rights.

US remains the top investor

In 2014, US-based firms invested in 195 FDI projects, up 28% from 153 in 2013, while capital flows registered a 12% increase, reaching US$5.6b. US constituted 22% FDI into India, during 2014, making it the highest FDI contributor among the countries.

US-based companies launched 41 manufacturing FDI projects (+64%). A new government-to-government *India Investment Initiative* aims to boost long-term investments by US-based corporations in India, benefiting from capital market and policy reforms. In 2014, US-based investors pumped more than US$900m into the financial services industry, the highest amount since 2008.

US-based companies continue to target leading metropolises. Many US-based investors are in the technology industry while Bengaluru, Delhi-NCR and Mumbai, with their big tech clusters, are favorite destinations.

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[17] "India-Germany Relations," *Ministry of Economic Affairs, Government of India website*, mea.gov.in, accessed 12 April 2015.

US investment: after tech, infrastructure and defense

While India's infrastructure sector is in need of investment, it has received little attention from US-based companies. In a bid to increase US inflows, the two Governments have set up an Infrastructure Collaboration Platform (ICP), and the US has pledged to partner with India in developing three smart cities: Ajmer, Allahabad and Vishakhapatnam. US-based aerospace manufacturer Boeing, which supplies India with military transport planes, hopes to finalize a contract by the end of 2015 to supply Apache and Chinook military helicopters, and is planning logistical support centers for the Indian Navy.

Source: "India, U.S. signs three MoUs on smart cities," *The Hindu website*, 25 January 2015, thehindu.com, accessed 14 May 2015.

US$41b

The U.S.-India Business Council has committed an investment of **US$41b** by its members in the next three years. This investment will support India's ambition of becoming a **global manufacturing hub**.

"USIBC Honors Prime Minister Modi at Washington Reception," *U.S. – India Business Council website*, usibc.com, 30 September 2014; "PM Modi's US Visit: $41 billion investment commitment an encouraging development says FICCI, *Prime Minister Narendra Modi website*, narendramodi.in, accessed 21 September 2015.

Singapore centers on technology

In 2014, companies from Singapore initiated 21 projects in India, up from 13 in 2013. However, the amount of capital invested declined slightly to US$1.1b from US$1.4b in 2013, signaling smaller project size. This can also be partly attributable to an increased focus on TMT projects in 2014 in comparison with more capital intensive infrastructure-related projects, which registered a decline. More specifically, companies from Singapore initiated 11 TMT projects in 2014 worth US$195m, up from US$134m in 2013.

Modest but growing: Chinese investment in India

Last year, Chinese investors launched 23 FDI projects in India, with a combined value of US$644m. Project numbers increased, but their total value dropped. Most investments were in TMT and automotive. But the two countries' Governments are keen to increase Chinese investment inflows. During a September 2014 visit, Chinese President Xi Jinping pledged to invest US$20b[18] in India over the next five years to help develop industrial parks as well as the infrastructure sector. A subsequent visit by India's Prime Minister to China led to the signing of 21 trade and investment deals totaling US$22b.

The sun also rises: Japanese investors follow through

Japanese companies, the third-largest group of FDI investors in India, invested around US$2.6b in 2014 – about the same as in 2013 – but the number of FDI projects surged by 58%. It may be that some of these are follow-up expansions by companies already established in India that are reinforcing or extending their operations. Japanese firms were the leading industrial investors (infrastructure and automotive) in India last year. And during a visit to Japan by Prime Minister Modi in late 2014, Japanese companies committed to another US$35b of investments.[19] To facilitate further investments, India has set up a *Japan Plus* management team, which will comprise representatives from the Government of India, its Ministry of Economy, Trade and Industry, and the Government of Japan.[20] The team will facilitate fast-track investment proposals from Japan. Japanese companies have also agreed to provide financial, technical and operational support for introducing bullet trains in India.

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[18] "List of Documents signed during the State Visit of Chinese President Xi Jinping to India," *Ministry of External Affairs, Government of India website*, 18 September 2014, mea.gov.in accessed 3 September 2015.

[19] "Japan doubles India investment to $35b," *Business Standard website*, 2 September 2014, business-standard.com, accessed 14 May 2015.

[20] "Japan Plus constituted to fast track Japanese investments," *Press Information Bureau, Government of India website*, 9 October 2014, pib.nic.in accessed 4 September 2015.

1H15 update: India emerged as the top FDI destination

Fewer but larger

FDI projects

▼ -1%

FDI capital

▲ +135%

Jobs created by FDI

▲ +37%

Highest ever
FDI capital per project

US$91m

Manufacturing picks up

Manufacturing activity
(FDI capital)

US$24.8b
+221%

80%
share in FDI capital

+22%
FDI projects

Energy, metals and mining were the most active manufacturing sectors.

Top cities

Second-tier cities blossom ...

Second-tier cities
FDI capital

▲ +142%

FDI projects

▲ +30%

... but metropolises remain favorites.

Bengaluru received the highest (57) number of FDI projects, worth **US$5.2b.**

Top sources

US investors scale up their projects

FDI capital

▲ +252%

FDI projects

▲ +6%

China and UK inch up

China initiated
16 FDI projects (+220%),
worth **US$4.1b**.

The UK initiated
44 FDI projects (+91%),
worth **US$3.6b**.

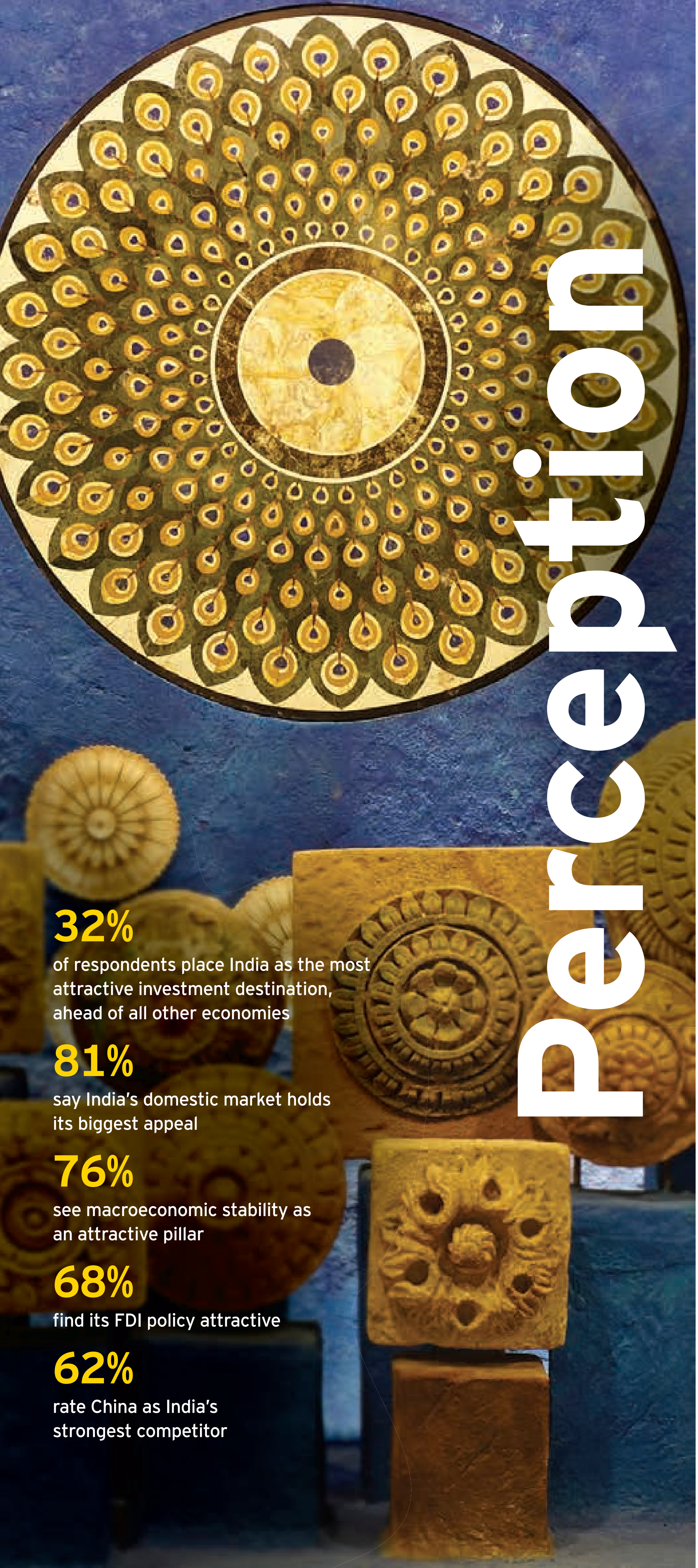
Source: fDi Markets, September 2015.

Note: YOY changes (compared with 1H14)

In 1H15, India attracted 338 FDI projects and investment totaling US$30.8b – a massive increase from US$13.1b in the same period a year ago. Though the number of FDI projects only changed a little, their scale increased dramatically as investors launched a series of big manufacturing FDI projects.

Perception

India at the top



32%

of respondents place India as the most attractive investment destination, ahead of all other economies

81%

say India's domestic market holds its biggest appeal

76%

see macroeconomic stability as an attractive pillar

68%

find its FDI policy attractive

62%

rate China as India's strongest competitor

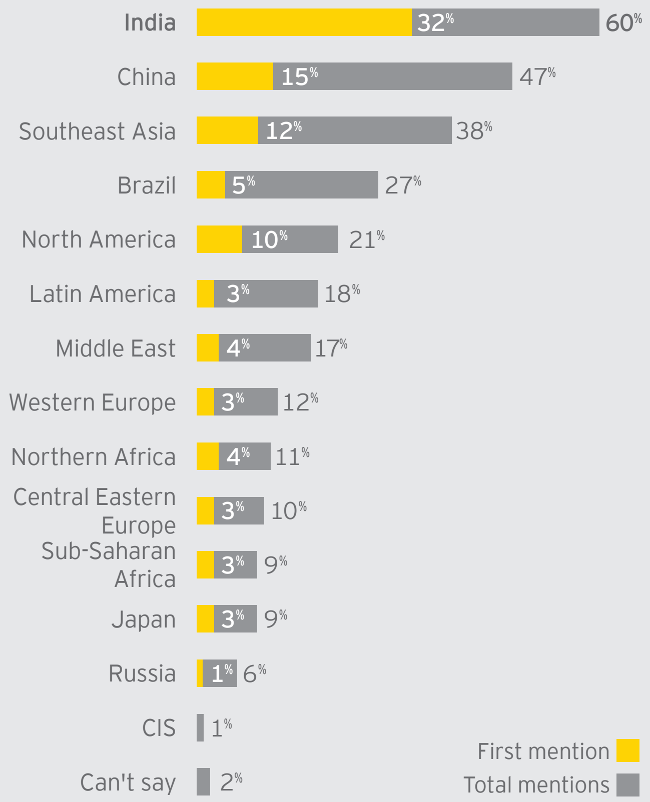
Outpacing the competition

A leading 32% of international investors ranked India as the most attractive market, while 60% placed the country among the top three investment destinations. Respondents believe that ongoing economic reforms are increasing opportunities for them to develop their companies profitably in India. Enthusiasm is strongest among companies with annual revenue exceeding US$2b. Overall, 71% of respondents from big companies think India will be more attractive than other regions.

Respondents who already have business activities in India are more confident about the country's attractiveness, perhaps an indication of its real potential and equally of its relatively low awareness among those not invested in the country. Among those who are not established in India, 35% rank India their most attractive option, though they place it second only to China (which 47% see as their preferred investment destination). Although China's economic growth is slowing, it has a huge internal market, a broad manufacturing base and a 30-year record of strong growth. International investors, however, are increasingly looking at India as an investment destination – to manufacture for the domestic and global market, as a center for shared services, and as a regional and a global hub for operations.

India's attractiveness

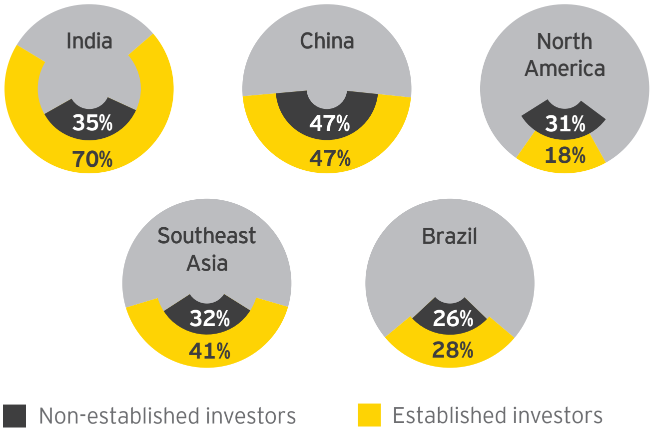
Which will be the most attractive market for investment in the next three years?



Source: *EY's 2015 India attractiveness survey* (total respondents: 505).

Established investors: more optimistic

Please rank the three markets that you believe will be the most attractive for investment in the next three years.

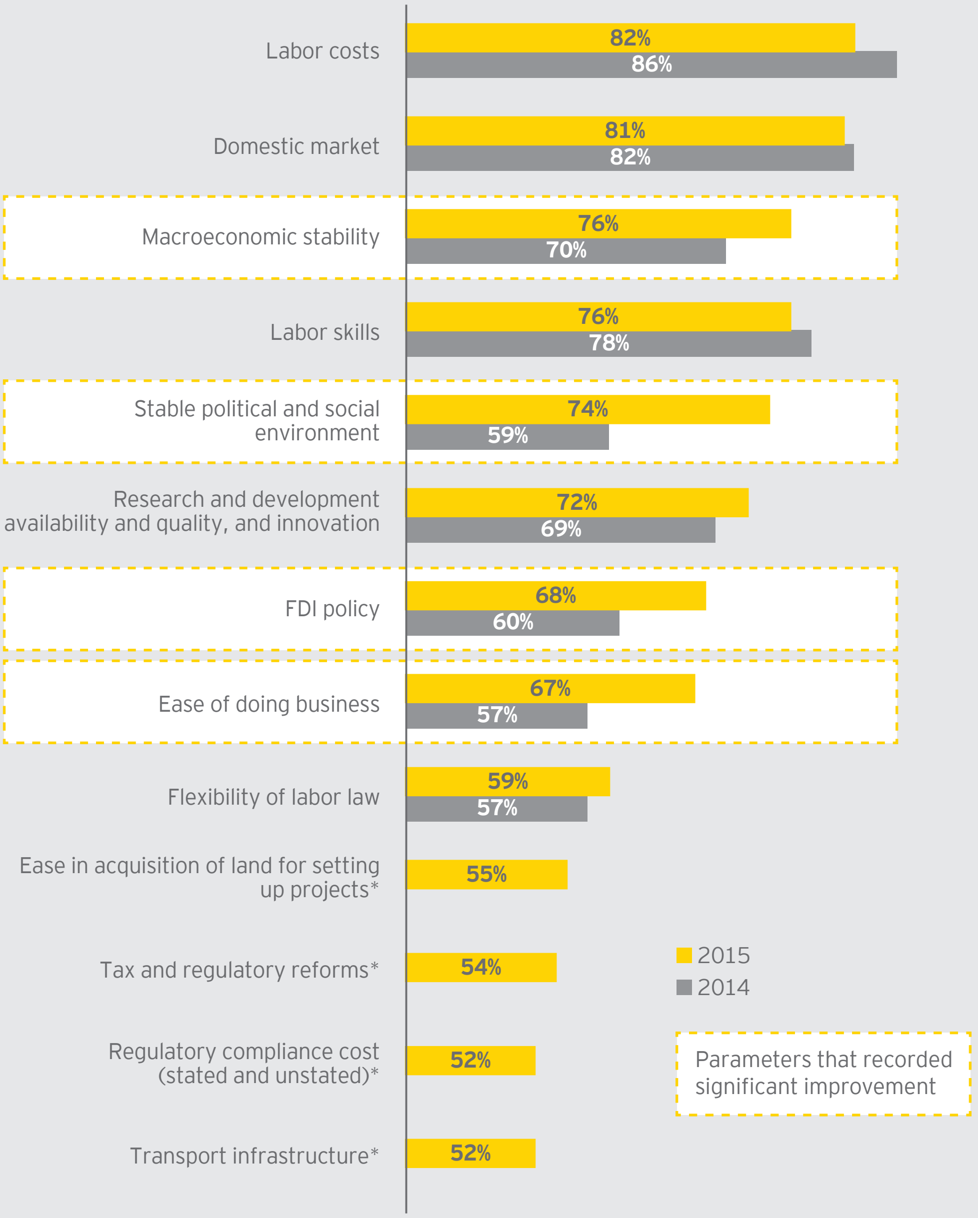


Source: *EY's 2015 India attractiveness survey* (total respondents: 505, established: 359, non-established: 146).

Stability and reforms strengthen attractiveness

Attractiveness pillars for India

Please rate the following parameters for investment in India as very, fairly, little or not at all attractive.
(Percentage of respondents who rated the parameters as "very attractive" or "fairly attractive")



Source: *EY's 2015 India attractiveness survey* (total respondents: 505).
* Added in 2015.

Low labor costs

India's most attractive feature for foreign investors is abundant labor. According to the UN Conference on Trade and Development, India's workforce will reach 557 million by 2020, even as the global labor market tightens. To reinforce this labor cost advantage, the Indian Government is aiming to improve labor skills. Its National Skill Development Policy 2015 aims to ensure one Indian in four has skills appropriate to the labor market by 2020, and there are plans to open 1,500 more industrial training institutes and 5,000 skill development centers across the country.[21]

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[21] "Skills Development: sector profile," FICCI.

A huge and increasingly prosperous market

With 1.26 billion people and growing, India will surpass China and become the world's most populous nation by 2022.[22] Last year, household incomes increased on average by 10%.[23] By 2020, India's per capita income (by purchasing power parity) is expected to rise 59%, outpacing spending-power growth in the US (23%), the UK (22%), Brazil (12%) and Russia (12%).[24] And even as China's population starts to shrink, India's looks set to go on growing: the country has 356 million young population aged 10 to 24, a number that exceeds the entire population of the US (319 million).[25]

Greater political and macroeconomic stability

The election of a pro-reform Government with a clear majority has encouraged investors. As compared with 59% in the previous year, 74% of them rated India's political stability as attractive. Respondents are also much more confident now about India's economic stability. The Government's ongoing economic reforms have quickened investor interest. The boost in confidence also stems from the tale told by improving economic indicators: rising foreign exchange reserves, falling inflation and a shrinking fiscal deficit. The IMF recently reaffirmed its growth forecast for India in its latest World Economic Outlook (WEO), pegging growth at 7.3% for 2015 and 7.5% for 2016.[26]

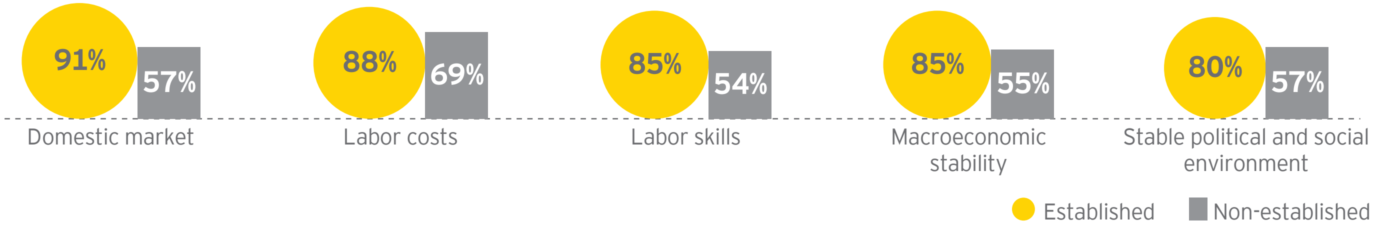
Doing business becomes easier

Investors' rating of the ease of doing business in India improved by 10 percentage points to 67% as the Government started to take action on reducing obstacles to doing business in the country.

The Government has made it easier for foreign companies to invest in defense, construction and insurance. It is seeking to improve India's rating on the World Bank's Ease of doing business ranking so that it will rank among the top 50 countries for doing business in three years' time[27] (please refer to "Reforming the business environment" on page 10 for a listing of key initiatives).

Established investors are more confident on India's attractiveness pillars

Please rate the following parameters for investment in India as very, fairly, little or not at all attractive. (total "very attractive" and "fairly attractive")



Source: *EY's 2015 India attractiveness survey* (total respondents: 505, established investors: 359, non-established investors: 146)

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22 "World population projected to reach 9.7 billion by 2050," *United Nations Department of Economic and Social Affairs website*, un.org, 29 July 2015, accessed 31 July 2015.

23 Emerging Consumer Survey 2015, Credit Suisse Group AG, January 2015.

24 *World Economic Outlook*, IMF, October 2015.

25 "The power of 1.8 billion: State of World Population 2014," *United Nations, Department of Economic and Social Affairs website*, un.org/esa, accessed 14 May 2015.

26 *World Economic Outlook*, IMF, October 2015.

27 "Govt sets deadline of six months for rolling out Direct Tax Code and GST," *India in Business, Government of India website*, 22 October 2014 indiainbusiness.nic.in accessed 3 September 2015.

Sudhir Soni
Partner in an Indian member firm of
Ernst & Young Global

EY viewpoint

New accounting standards will aid investors

1 Do you believe that India's revised Accounting Standards (Ind AS) will help cross-border investment flows?

Yes. The notification of Ind AS aligns with International Financial Reporting Standards (IFRS) and is a big leap forward. Indian accounts will now provide transparent and reliable financial information in a way that is familiar to international investors. This will facilitate cross-border capital flows, cut the cost of capital, and help establish equal and trusted international business relationships because foreign firms will feel more comfortable dealing with Indian companies.

2 Is Ind AS identical to IFRS?

Ind AS is an accounting framework based upon IFRS, but there are some variations. One important difference is that Ind AS allows companies to carry property, plant and equipment at existing carrying value under Indian generally accepted accounting principles (GAAP). Further, Ind AS provides the option to continue the capitalization of foreign exchange differences arising from long-term foreign currency monetary items recognized immediately, before Ind AS becomes effective. So it is vital for accounting policies to be evaluated effectively, both under the transition standard (Ind AS 101) and under other accounting standards, to ensure that corporate financial reporting is closer to IFRS.

3 Do Indian subsidiaries of foreign companies now need to draw up their accounts using Ind AS? And what needs to be kept in mind when switching to Ind AS?

Indian subsidiaries of foreign companies covered in the "road map" also need to present their financial statements under Ind AS. This gives them opportunities to reduce differences in accounting when reporting to parent companies producing consolidated accounts and eliminate duplicated effort. However, implementation of Ind AS 115 (on revenue from contracts with customers) and Ind AS 109 (on financial instruments) in India earlier than the rest of the world may call for added adjustments in group reporting.

4 How does the new Companies Act 2013, which came into force last year, help foster investments?

Strengthening corporate governance, enabling financial reporting under IFRS-converged accounting standards, and reporting by board and auditors on internal financial controls, which are required by the Companies Act 2013, should all add to investor confidence. Companies now have to appoint independent directors, rotate directors and auditors, and face tough punishments and penalties for fraud. Further changes, yet to be implemented, will simplify restructuring, including mergers and demergers, cross-border mergers and fast-track mergers — another plus for investors.

China remains the main competitor

Most investors see China as India's chief competitor, but are becoming more discriminating. They no longer lump the world's two most populous emerging powers together, but see them as competing with different countries in different sectors. Today, the US, an economic and technological superpower, is seen as India's second-strongest competitor, followed by Brazil, while next-tier emerging economies, such as Indonesia and Vietnam, also come to mind.

Infrastructure investors rated **China** a much stronger competitor — a recognition of the weakness of India's transport and energy infrastructure, and China's vastly superior network of roads, high-speed railways and other transport systems.

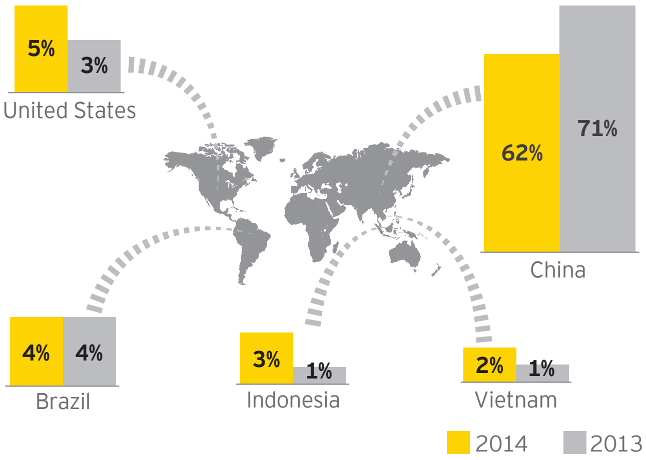
Many investors not established in India, and those working in the IT and telecom sectors, see **the US** as a leading competitor to India. Indian IT companies and engineers compete directly with US-based counterparts. However, India has a cost advantage in providing IT services (three to four times cheaper than the US), which positions it well in an industry easily open to global sourcing.

Brazil resembles India, with a large population and a diverse economy. Its competition with India is likely to intensify. In particular, non-manufacturing respondents consider Brazil almost as strong a competitor for India as the US.

Indonesia is also emerging as a competitor for FDI, sharing the advantages of a large low-cost workforce and a Government that hopes to stimulate growth via business-friendly reforms. Respondents from the energy sector consider Indonesia as India's strongest competitor, after China.

India's competitors

From your sector's point of view, which other country is India's main competitor in terms of attractiveness?



Source: *EY's 2015 India attractiveness survey* (total respondents: 505).
Apart from above, other competitors include Germany, Japan, Korea, Malaysia, Philippines, Thailand and the UAE.

Vietnam has a large population, a literacy rate of more than 90%, and an adaptable and affordable workforce that can meet the needs of IT, pharmaceuticals and financial services companies, as well as labor-intensive manufacturers.[28] A leader in efforts to create a single market among members of the ASEAN,[29] Vietnam is also becoming a major manufacturing hub and is already the second-largest supplier of clothes to the US.[30] More than 13% of respondents in consumer products say Vietnam competes strongly with India for investment.

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[28] "*Doing Business in Vietnam*, 2013," *EY website*, ey.com, accessed 29 May 2015.

[29] "ASEAN Economic Community," *ASEAN website*, asean.org, accessed 29 May 2015.

[30] "Vietnam country profile – Overview," *The BBC website*, bbc.com/news, accessed 29 May 2015.

Viewpoint

Creating growth momentum

Anant Maheshwari
President, Honeywell India

Investment flows into India this year are higher than in the previous year and, hopefully, this trend will continue. However, how does India compare with other regions, such as ASEAN or China, in attracting investment flows? That is the benchmark that India should look at when considering the quantum of FDI inflows.

Collectively, ASEAN countries form an economy similar in size and growth rate to India. Given the speed at which they are moving — and their proximity to China — these countries could be a strong competition to India in terms of attracting investment flows.

Make in India is a great initiative and necessary for India to grow. Honeywell is already "making in India," with seven manufacturing facilities and five technology development centers. Around the time Prime Minister Modi rolled out the *Make in India* program, Honeywell announced its tie-up with Tata Power SED to coproduce our TALIN inertial land navigation technology to offer the Indian Armed Forces a new choice for locally produced, inertial navigation for the first time.

Partnerships such as ours with Tata Power SED will be critical for the success of *Make in India*, and we are encouraged by the Government's efforts to attract foreign investment into the country. This will need to continue in order for Indian companies to gain access to the technology, skills and international markets required for sustainable defense growth.

There are two ways to drive *Make in India*: one for all goods and products for domestic consumption, and the other for exports. We have a large market to drive *Make in India* for goods and products to be consumed within India. I think that is much more sustainable, and that's what China is also moving toward now. It will also then allow us to do the right kind of manufacturing, rather than getting into anything and everything that may come to India. The China model of primarily driving manufacturing for export is something that India should strongly reconsider before replicating.

When you look at the Government's reforms process, it is clear that GST could have a much larger lift into the economy than what is perceived out of it. Over time, it will truly make India one integrated market. It is, therefore, among the biggest reforms that the Government can put through. It is important to have clarity and consistency around India's tax laws. Finally, all supporting laws that are required for infrastructure development also need to be looked into.

ASEAN countries can offer strong competition to India in terms of attracting investment.

View from the middle market

Although larger companies (with revenue greater than US$2b) are drawn to India, we also see a lot of interest from the middle-market (MM) firms (companies with revenue less than US$2b). In 2014, close to an equal number of mid-sized, compared with larger, companies initiated FDI projects in 2014. Overall, 192 MM firms and 195 large companies made inbound investments.

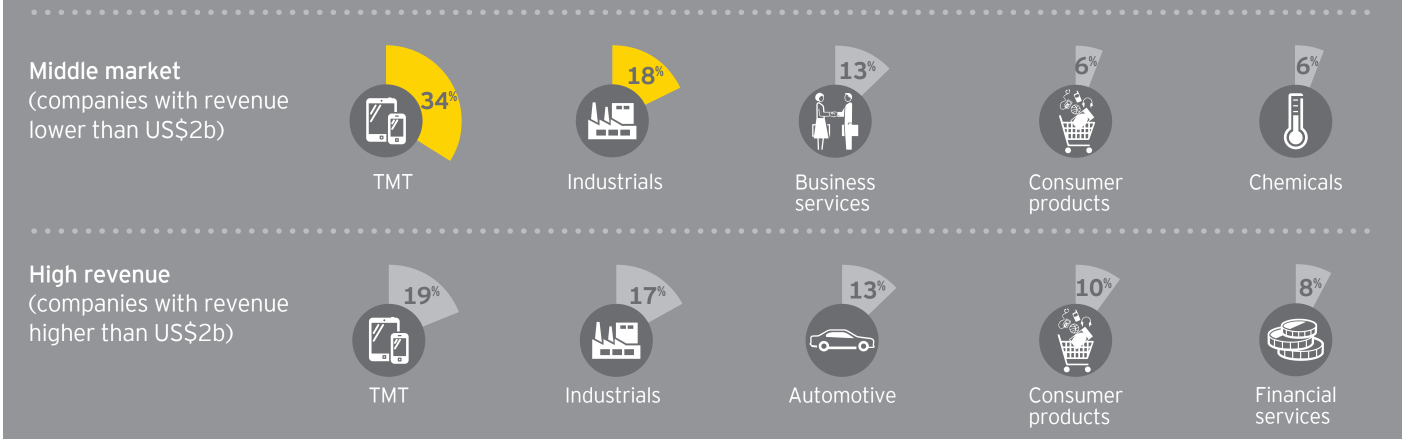
MM firms have concentrated their investments in TMT and industrials, while large companies have a much more diversified spread of activities. MM firms are tapping opportunities arising from the *Digital India* initiative and are much more optimistic about the TMT sector. Digital health, digital education and e-financing are the new centers of activity in this sector. Big investments in automotive, consumer products and financial services remain dominated by larger companies.

Our survey shows that MM firms are cautious about entering India or increasing operations there over the next year: 47% of MM respondents are not willing to expand, against only 18% who are hesitant among larger companies. MMs are keenly watching the steps initiated by the new Government. In particular, companies with revenue less than US$500m say they are focusing on other markets and wish to wait and watch progress on ease of doing business, simplifying tax structures and reducing regulatory hurdles before they invest in the country.

Sixty-one percent of MM respondents are not aware of the Government's *Make in India* program, compared with only 24% of larger companies who are not aware. Our survey also reveals that MM firms believe developing infrastructure and strengthening dispute resolution mechanisms are important action areas to improve the investment climate. To improve India's technology and innovation capacity, they demand increased incentives for companies to invest in R&D and technology.

Note: EY defines MM companies as those with revenue between US$20m and US$3b. However, for this analysis, we have considered MM companies as ones with revenue less than US$2b.

Percentage of companies that initiated FDI projects in 2014, per sector



Source: fDi Markets, May 2015.
MM companies: 192 with revenue less than US$2b and 195 larger companies.

Future

Way to go

62%
of respondents plan to enter or increase their operations in India over the next year

62%
of those planning to invest are looking at manufacturing activities

89%
believe that investment in infrastructure will have significant impact for attracting FDI

75%
consider land acquisition legislation significant

5
key action areas for India: improve infrastructure, enhance ease of doing business and transparency, streamline taxation, implement economic reforms and simplify labor laws

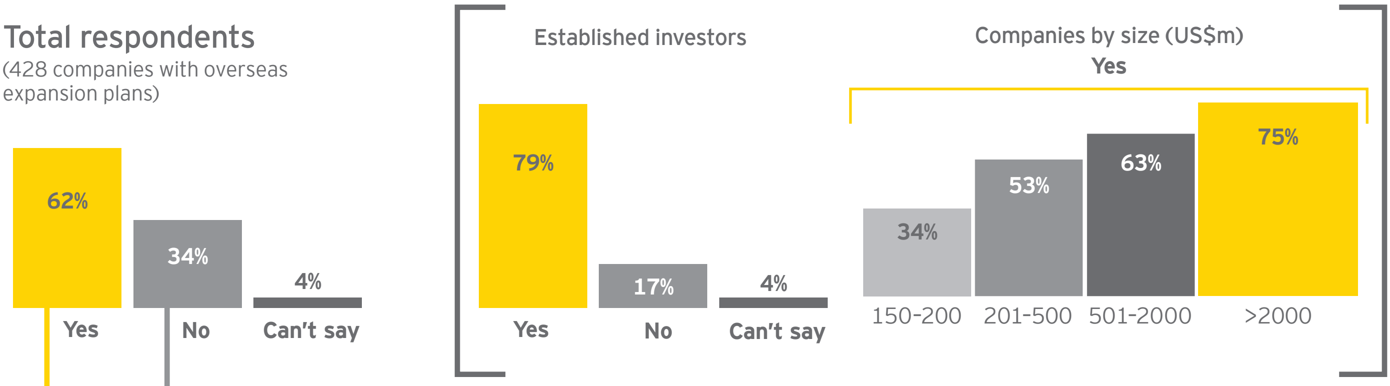
Here today, bigger tomorrow

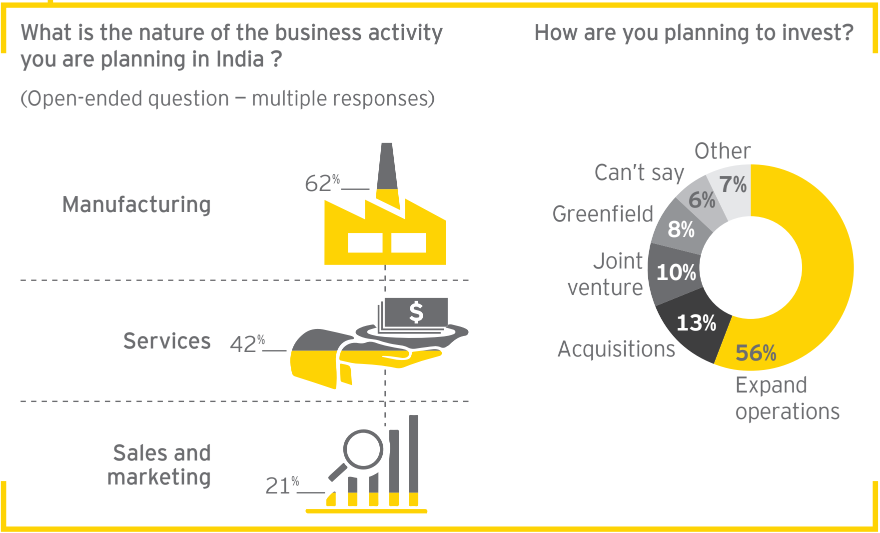
Investors are upbeat on their immediate investment plans, with almost three in every five respondents planning to invest in India over the next year. Those who are planning to invest are primarily looking at manufacturing to serve both Indian and global markets from India. Most of them prefer expanding existing operations, followed by expansion via acquisitions and, if necessary, by joint ventures and alliances. While US-based organizations are inclined toward acquisitions, those from Western Europe tend to prefer joint ventures and alliances.

Investors who are less optimistic about immediate investment plans highlight difficulties of doing business and uncertain tax policies as causes of concern.

Investors upbeat about immediate investment plans

Is your company considering entering or increasing existing operations in India over the next year?





Source: *EY's 2015 India attractiveness survey* (total respondents: 265 with overseas expansion plans, who are considering entering or increasing existing operations in India over the next year).

What is your main reason for not entering or expanding in India over the next year?

Lack of ease in doing business in India	18%
Uncertainty in tax and regulatory policy	13%
Focusing on other market	11%
No business for company's market	6%
Macroeconomic uncertainty	5%
Inadequate physical infrastructure	5%
Can't say (do not suggest)	13%

Source: *EY's 2015 India attractiveness survey* (total respondents: 144 companies not considering entering or increasing existing operations in India over the next year).

EY Viewpoint

M&A and alliances can help manage India's complexities

Amit Khandelwal
Partner and National Leader –
Transaction Advisory Services –
India Region, Ernst & Young LLP

1 Why would a global corporation consider an acquisitive growth strategy in India?

Build versus buy is the classic dilemma facing any decision-maker moving into a new market or expanding operations in an existing one. Global corporations tell us it is India's domestic demand potential that drives them to consider operations here. But they also recognize India's tremendous diversity and resulting complexities. Buying an established business or brand, or joint ventures, can help manage these complexities. Setting up a pan-India distribution network or establishing a consumer brand in multiple states can be slow and very costly. Also, in India, you need to scale up very rapidly, whether in consumer or business-to-business. In technology, for example, that requires speedy regulatory approvals and a lot of employees with the right skills. An acquisition or joint venture may be the appropriate strategic choice.

2 What must a company bear in mind when seeking to enter India via an acquisition or joint venture?

It is vital to have the "mindset for a true partnership," regardless of the form of relationship with any local entity. Too often, we have seen transactions fall through when global investors are not mindful of this aspect. Detailed and independent due diligence from several experts is essential too to avoid surprises later. Valuation takes up considerable mind space, but regulatory and tax treatment of M&A and joint ventures can have significant repercussions. We also believe India's unique nuances make it essential to have a local team supporting entry and managing post-merger integration.

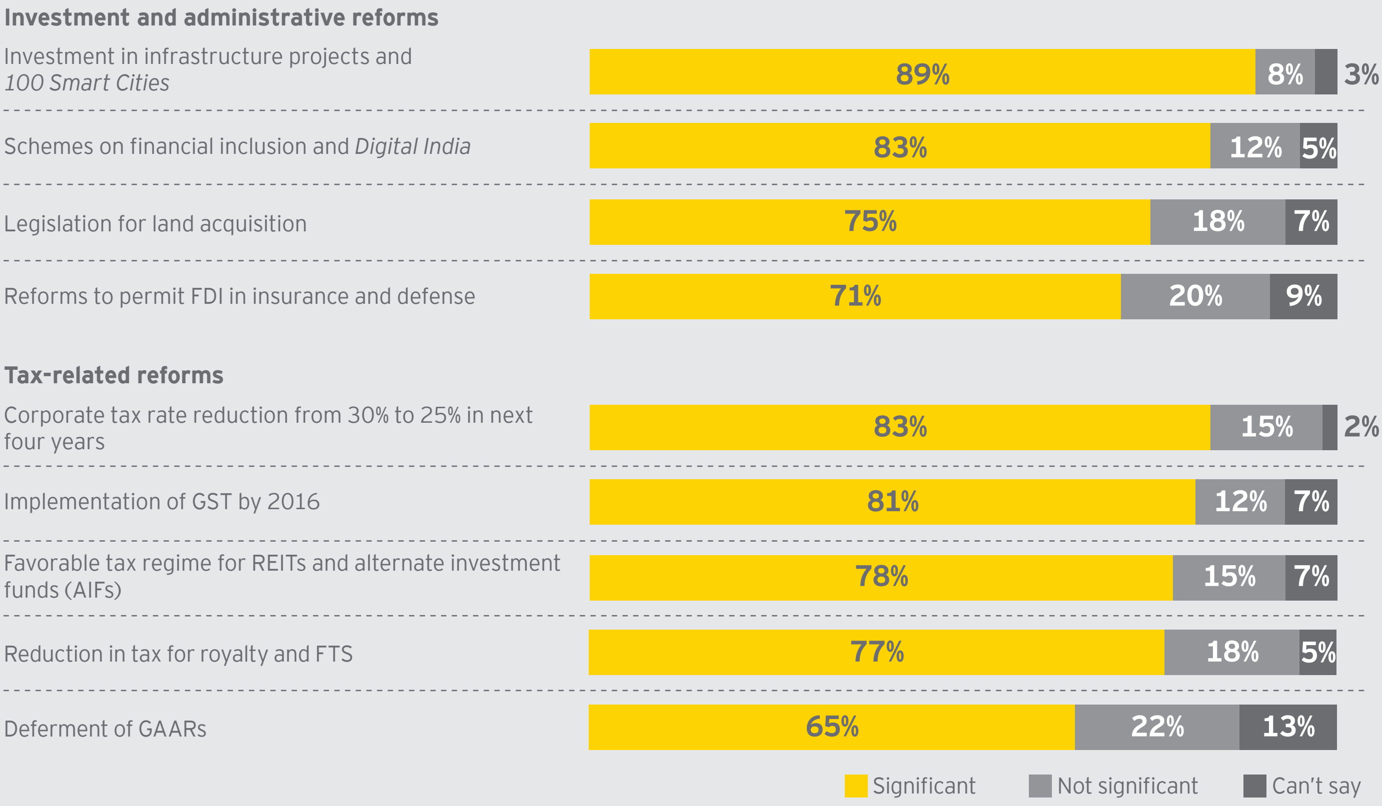
3 Which sectors are seeing most inbound transactions and how will that evolve?

Pharmaceuticals as well as media and entertainment are leaders in disclosed deal value. But by volume, retail and consumer products and technology are the champions. We are seeing interest emerging in areas such as e-retail and social media analytics. Expect more deals here, and in digital marketing and publishing. Reduction of FDI restrictions has led to a sudden upsurge in insurance and medical equipment and, if the reform momentum builds, then defense, railways and real estate should be next on the radars of foreign investors.

Reforms raise investor hopes

Impact of government reforms on investment

What impact do you think the following recent reforms by the Indian Government will have in attracting FDI?



Source: *EY's 2015 India attractiveness survey* (total respondents 505).

Investors who expect India to be the most attractive destination in the next three years are optimistic about the Government's reform program. They highlight the importance of improving India's infrastructure (and developing smart cities). But they also flag the importance of making it easier to acquire land for their projects. A new land acquisition bill, streamlining approval mechanisms and appointing a real estate regulator in each state, should help revive stalled infrastructure development.

Much-needed tax-related reforms are also seen positively by investors. The introduction of a countrywide GST, in place of myriad existing levies (including excise duty, custom duty and luxury taxes), is expected to facilitate business and reduce high administrative costs.

EY Viewpoint

Companies must plan carefully for GST introduction

Harishanker Subramaniam
Partner and National Leader –
Indirect Tax Services –
India Region, Ernst & Young LLP

1 Why is the introduction of GST important for FDI?

The proposed introduction of GST supports the aims of the *Make in India* program. GST is expected to simplify the existing multiple indirect tax structure, improve tax efficiency and make compliance simpler. That will encourage global companies to explore manufacturing in India for both domestic consumption and export markets, creating a significant opportunity for FDI inflows.

2 What steps can foreign companies take to be GST-ready by 1 April 2016?

The GST tax reform will have an enormous impact on foreign companies in India across indirect taxes, supply chain, technology, compliance, accounting and reporting, and change management.

Companies will need to understand how their GST liabilities will compare with today's indirect taxes comprising customs and excise duties, VAT and service tax. They need to make an indirect tax impact assessment and model such impact on their supply chain to see how pricing, margins, working capital and cash flow across procurement and sales. GST will force companies to review their supply chains and identify optimal solutions for the GST regime. The business impact assessment would also identify potential areas of concern, such as tax rates, place-of-supply rules and compliance.

Global companies will also need to modify their Enterprise Resource Planning (ERP) systems to handle tax or business processes change and compliance under GST. Though ERP solution providers will update their systems to handle GST, companies will have to adapt them to their business models, and test to ensure they work smoothly.

Companies must manage this massive change across many internal stakeholders, including areas such as accounting, reporting and controls, to be GST compliant.

3 What are businesses' concerns about the proposed GST and how could these be addressed?

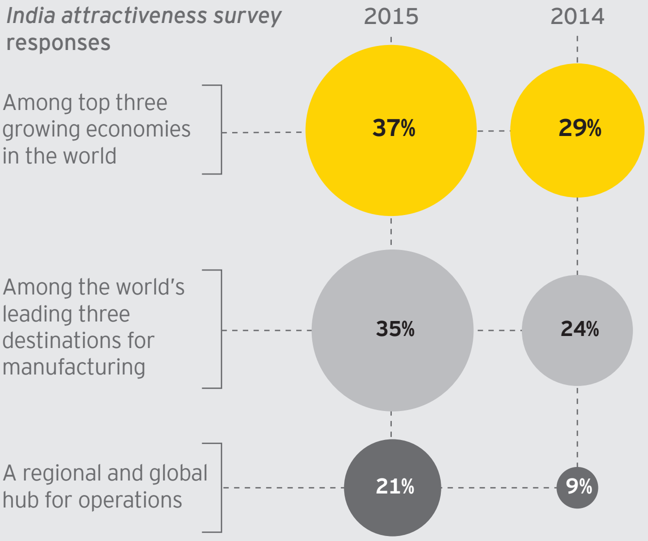
The non-creditable levy of 1% origin tax on interstate supplies of goods (including transfers of stock) outside the GST chain in the proposed GST design needs to be reconsidered. Latest indications suggest that the Government has recognized the concern of the industry, and it is expected that the cascading impact of this levy will be mitigated in the law.

A wider tax base and subsuming of all levies will help eliminate cascading taxes and result in a moderate GST revenue neutral rate. The exclusion of petroleum products, real estate and power needs to be reconsidered. Exclusion of electricity duty and various levies is another area of concern.

Strongly positioned for 2020

India is on course to becoming one of the world's three leading fast-growth economies and a preferred destination for manufacturing, as well as a regional hub for operations. Investors established in India, especially those from manufacturing-related sectors, are much more confident about India compared with the last edition of the survey released in January 2014.

How do you see India in 2020?
Highlights



Sources: *EY's 2015 India attractiveness survey* (respondents: 250, asked to half of the sample).

Accelerating innovation

Our survey indicates that 34% of respondents from manufacturing-related sectors suggest more partnerships between foreign and local companies to improve technology and innovation capacity. On the other hand, non-manufacturing respondents demand more incentives for investment in new technologies.

India's Government is keen to enhance the country's innovation capacity:

- India has partnered with the UK to scale up their bilateral research and innovation relationship by creating a Newton-Bhabha Fund, which will strategize the science, research and innovation cooperation between the countries.[31] Both India and the UK will contribute US$75m each over the next five years to this fund.
- The Government has declared 2010 to 2020 the "Decade of Innovation" and has set up the National Innovation Council to develop a culture of inclusive innovation.[32]
- The Government has in place the Science, Technology and Innovation (STI) Policy, with the emphasis on increasing the expenditure on R&D activities, sharing the risk on R&D investments with private sector and providing new financing mechanisms for entrepreneurs.[33]
- The Government provides tax incentives for in-house R&D on chemicals, drugs, pharmaceuticals, biotechnology, electronic equipment, computers, telecommunications equipment, aircrafts and helicopters. Investment is eligible for a tax deduction equivalent to one-and-a-half times the amount spent.[34]

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[31] "India, UK announce 'Newton-Bhabha Fund' to boost research and innovation," *Business Standard website*, 12 November 2014, business-standard.com, accessed 28 August 2015.

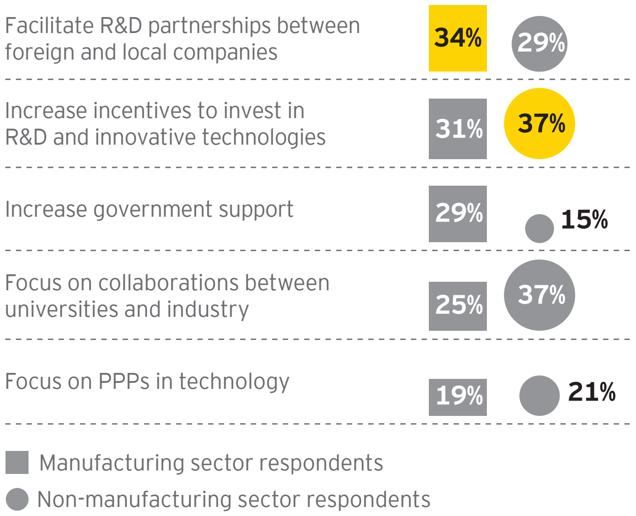
[32] "Decade of Innovations: 2010-2020 Roadmap," *National Innovation Council website*, innovationcouncilarchive.nic.in, accessed 28 August 2015.

[33] Science, Technology and innovation Policy 2013, *Ministry of Science and Technology, Government of India website*, dst.gov.in, accessed 4 September 2015.

[34] "Industrial R&D Promotion Programme (IRDPP)," *Ministry of Science & Technology, Department of Scientific & Industrial Research website*, dsir.gov.in, accessed 28 August 2015.

Technology needs attention

What do you think are the main measures to improve India's technology and innovation capacity?



Source: *EY's 2015 India attractiveness survey* (manufacturing sector respondents: 152, non-manufacturing sector respondents: 103).

Abundant talent availability — an attractive proposition for companies: the World Economic Forum's *Global Competitiveness Report 2015–16* puts India at the 42th place among countries worldwide in terms of innovation capacity. India is strong among the BRICs in terms of availability of scientists and engineers, but lags on other parameters such as university-industry R&D collaboration and patents granted per head.

The research and innovation ecosystem in India presents a significant opportunity for companies across the globe to explore the rich talent availability in the country. Currently, India hosts a number of R&D centers, which either serve the local market or help parent companies innovate products.

For instance, in February 2015, Chinese telecom gear maker Huawei launched an R&D center in Bengaluru with an investment of US$170m. The center will focus on development and delivery of high-quality software platforms, components and applications for the various product lines of the parent company.[35]

Way ahead: R&D has a vital role in enhancing India's manufacturing capacity and sharpening its competitiveness.

The Government is keen on developing dedicated R&D centers in the agriculture and life sciences sector. The robust Indian IT industry will further facilitate the development of these centers. Therefore, foreign investors need to be aware about these specific dynamics to leverage upon the advantages that India has to offer.

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[35] "Huawei announces state-of-the-art Research & Development (R&D) campus in Bangalore," *Huawei website*, huawei.com, 5 February 2015, accessed 4 September 2015.

India will be a top-three market: you can't ignore it

Viewpoint

Prashanth Nayak
CEO, Yazaki India

I feel very bullish about India. Investors have started to feel that India will become an easier, more promising and more profitable country in the next two years or so.

I think that India will be among the top three markets worldwide in almost every sector over the next 6 to 10 years. The struggle for India is that we don't have enough visibility. There is much caution, and there are limitations and constraints. But in the next 6 to 10 years, India can fundamentally transform its global market share. It is important that companies start preparing for this now, in order to be among the early birds participating in this growth story.

In automotive, Tata Motors, Mahindra, Bajaj Auto, Hero Motors and TVS Motor Company have established engineering capabilities and are offering products far below the prices at which multinational automotive manufacturers will do business in India. Incomers will have to learn new ways of doing new things in India — and that will reinforce the attractions of using India as a global hub. Similarly, car assemblers or component makers cannot ignore India. India is a market that will decide whether you continue to be number one, because large market shares are unlikely to be achievable in Europe, the US or Japan.

The Government has earnestly started on a *Make in India* program. However, greater clarity on policies and increased focus on infrastructure will go a long way in giving investors the right ecosystem to thrive. Also, I think labor reforms and skill development are other areas to consider.

Foreign investors should be clear that India is not another China, so I think it is very important to come here with a particular long-term vision. Also, to understand India, you need to be "in" India. Opportunities cannot be judged with presentations and spreadsheets.

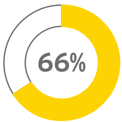
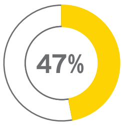
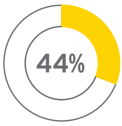
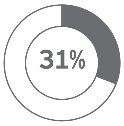
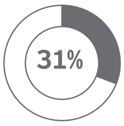
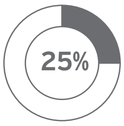
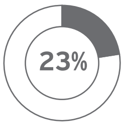
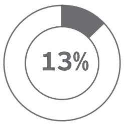
Incomers will have to learn new ways of doing new things in India.

India's priorities for action

Investors are very clear about what needs to happen in India to enhance the country's investment attractiveness. More than two-thirds highlight the need for better infrastructure, making this the highest priority for any Government seeking to improve India's economic performance. Complex regulations and the lack of transparency are the next biggest concern for foreign companies considering setting up or expanding operations in India. Investors also spotlight hurdles that obstruct the efficient use of land, labor and other resources.

Key action areas

In your opinion, what should be the three priority measures for improving India's investment climate?

Improve infrastructure	 66%	According to the *Global Competitiveness Index 2015–16*, India ranks **81** out of **140** on the infrastructure pillar, much below its BRICS counterparts.[1]
Improve ease of doing business and transparency	 47%	According to the *Corruption Perception Index* by Transparency International, India ranked **85** out of **175** in 2014.[2] Though FDI limits have relaxed, focus is needed on reducing the multilayered process for approval.
Introduce a uniform tax regime and supportive tax administration	 44%	A single, transparent tax policy is needed, in place of multiple regimes. The single, nationwide GST is eagerly awaited. Investors also seek minimization and resolution of tax disputes.
Improve labor laws	 31%	Investors are keen for changes to labor laws that will offer simpler norms for hiring and exits.
Speedily implement economic reforms	 31%	The land acquisition legislation and the introduction of the GST are seen as two critical reforms.
Improve labor skills	 25%	Indian industry requires **22** million new skilled workers each year, but only **4.3** million a year are being trained.[3]
Ease the permitted FDI limit	 23%	Though limits on foreign ownership have been relaxed in many sectors, restrictions remain in sectors including e-commerce, and print and electronic media.
Strengthen dispute resolution mechanisms	 13%	A complicated court system, inefficient procedures and backlogs impede resolution of disputes. More than **INR4t (US$67b)** is at stake in ongoing tax appeals and litigation.[4]

Source: *EY's 2015 India attractiveness survey* (total respondents: 505).

1. World Economic Forum, *Global Competitiveness Index 2015–16*.
2. Corruption by country/territory, *Transparency International website*, transparency.org, accessed 31 July 2015.
3. *Eleventh Five Year Plan*, Government of India.
4. Budget 2014–15, Speech of Arun Jaitley, 10 July 2014, *Ministry of Finance, Government of India website*, finmin.nic.in, accessed 31 August 2015.

Business implications

Understand that India is unique

Global corporations who have succeeded in India will vouch for strategies based on local relevance. India is also a very diverse market, comprising a mix of regions and customers with different preferences and requirements. If the investment destination is India, companies need to be in for the long haul, and that means securing support at the very top of the organization.

Assess sector options

India's pro-reform Government has opened access to sectors that were previously largely reserved for domestic companies or for the Government.

- **Construction**: it is estimated that India's infrastructure would need an investment of at least INR26t (US$450b) in the next five years.[36] However, many Indian infrastructure groups are hampered in their ability to respond to government calls for investment by weak balance sheets and high borrowings.[37] Foreign companies can bring funds, technology and project management skills to help solve these challenges, but will also need to pay close attention to risk management, including finance and regulatory risk.
- **Defense**: equipment purchases are forecast to reach US$250b over the next decade.[38] The Government aims to raise the proportion of domestic procurement to 70% from 40% today, and encourage suppliers to create 100,000 jobs.
- **Insurance**: foreign companies are now allowed to own up to 49% in a local insurance venture. This is a fast-growing market, as a rising middle-class is seeking increasingly sophisticated financial products and investments.
- **Railways**: India foresees US$137b of railway investment over the next five years.[39] Indian Railways will also invest in improved freight services. Equipment manufacturers should find opportunities in providing almost every kind of equipment needed by a modern railway, from ticketing to track.

Evaluate strategic alternatives

Foreign investors seeking to expand in India will often need to find domestic partners. Not only is ownership in some sectors restricted, building up in-house knowledge of regulatory requirements, procedures and distribution channels can be arduous. Developing partnerships with domestic companies is an alternative. Mergers and acquisitions offer an entry strategy, but need to be very carefully weighed. India can also be a promising source of low-cost services and products, which can be integrated into a multinational supply chain.

Prepare for tax changes

The adoption of a nationwide GST in place of myriad local taxes is proposed to take effect in 2016. This is expected to simplify hugely both tax management and logistics in Indian companies, and facilitate location of operations on sites where they can most effectively serve their markets. Companies need to prepare to make this transition to the new tax, which would impact all key aspects of operations.

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[36] "India required INR26t for its infra financing in 5 yrs," *PHD Chamber of Commerce and Industry website*, 8 January 2015, phdcci.in, accessed 21 September 2015.

[37] *India Infrastructure: built on debt, Financial Times website*, ft.com, 22 June 2015.

[38] *India's $250bn arms shopping list tempts wary investors, Financial Times website*, ft.com, 24 February 2015.

[39] *India plans $137bn of railway investment*, Financial Times, ft.com, 26 February 2015.

Methodology

EY's 2015 India attractiveness survey is based on a twofold, original methodology that reflects the following.

1 The real attractiveness of India for foreign investors

Our evaluation of the reality of FDI in India is based on data provided by fDi Markets, a service from The Financial Times Limited (2015). This is the only online database tracking cross-border greenfield investments covering all sectors and countries worldwide. It provides real-time monitoring of investment projects and job creation, with powerful tools to track and profile companies investing overseas.

The fDi Markets database tracks new greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical (greenfield) operation. M&A and other equity investments are not tracked. There is no minimum size that a project must reach in order to be included, but every project has to create new jobs directly.

Data on FDI project creation and job creation is widely available. However, many analysts are more interested in quantifying projects in terms of physical assets, such as plant and equipment, in a foreign country. The fDi Markets figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where.

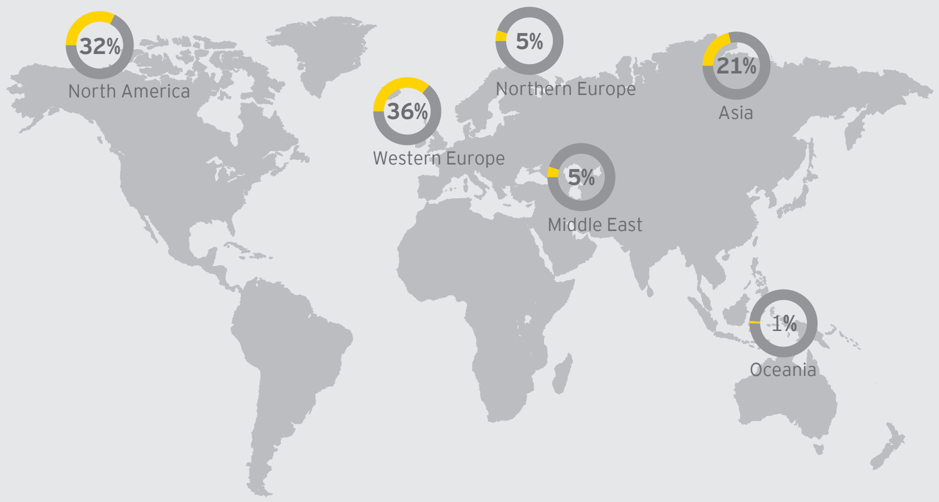
2 The perceived attractiveness of India for foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country's or an area's ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute between March and April 2015, via telephone interviews, on a representative panel of 505 international decision-makers. Business leaders were identified and interviewed in 28 countries.

Of the 505 interviews, 50% were conducted in India and 50% outside India.

Profile of companies surveyed

Geography



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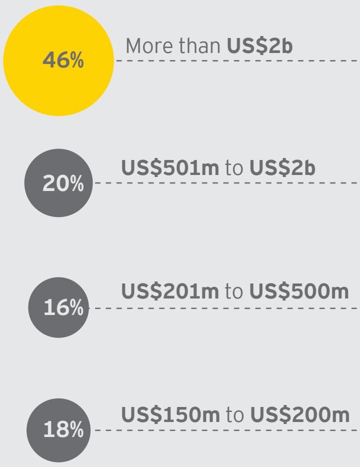
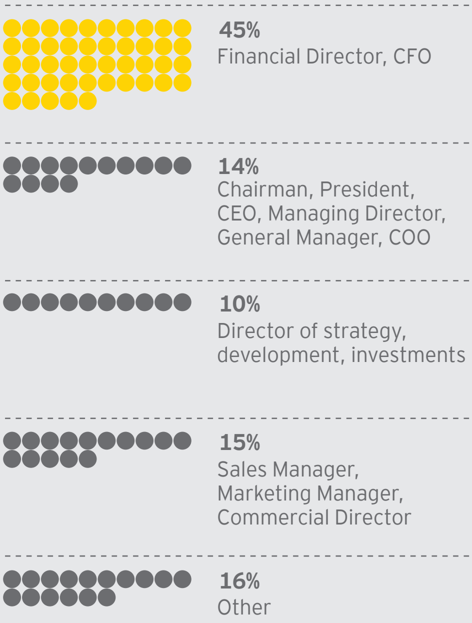
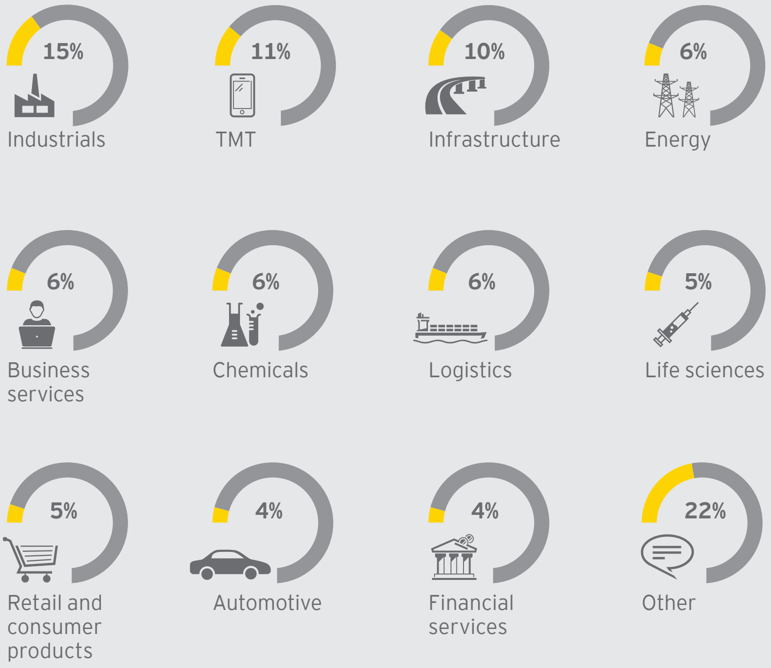


Job title



Sector of activity

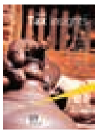


EY in India

EY in India is the market leader in assurance, tax, transaction and advisory services. It has a presence in 12 Indian cities, providing services to leading private organizations, fast-growth entrepreneurial companies and government bodies.

EY has been acknowledged as the country's leading professional services organization by several independent studies. It has also been consistently recognized as one of India's top employers of high-quality talent. EY works with communities in different parts of India in the areas of education, environment and entrepreneurship.

Publications



India Tax Insights
A quarterly magazine on tax and regulatory issues

Guide to first-time adoption of Ind AS
This publication elaborates the salient features of the recent Ind AS.

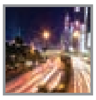
Sector insights

Public private partnership in India at crossroads

Energizing the Indian power sector

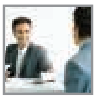
India maritime 2015

India's transport sector



Speeding ahead on the telecom and digital economy highway

Tracking structural issues for appliances and consumer electronic

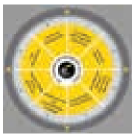


New directions, new hope in insurance

The retailer

M&E quarterly

Our online platforms

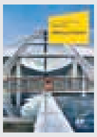


Compass on the Companies Act 2013
ey.com/in/companiesact2013.

The GST roadmap
www.ey.com/in/gst

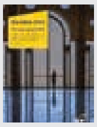
EY Emerging Markets Center publications

EY's 2015 Africa attractiveness survey: making choices



Despite economic headwinds, *EY's 2015 Africa attractiveness survey* is confident that Africa is still a continent on the rise. Where is Africa in its journey and what is required to secure inclusive and sustainable growth? To find out, visit **ey.com/attractiveness**.

BaroMed 2015: the next opportunity



EY's BaroMed 2015 uncovers the remarkable potential of the Mediterranean region.
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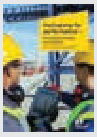
Partnering for performance: emerging markets perspective The CFO and the CIO



This report is the first in a series of reports tailored for the emerging markets that form part of the EY global CFO program, *Partnering for performance*. The report explores the contribution that CFOs can make by partnering with other executives to grow, protect and transform their organizations. Download the report at **ey.com/emergingmarkets**.

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