

# HOW TO DO BUSINESS WITH INDIA ?

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# STRUCTURING INVESTMENTS INTO INDIA





*Building Business  
Partnerships*

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# India – Europe- World Trading Equations

# India-Europe-World ~

Most attractive business locations

## Most attractive global business locations in 2005-2006

### Responses from experts

1. China (85%)
2. USA (55%)
3. **INDIA** (42%)
4. Brazile (24%)
5. Russia (21%)
6. UK (21%)
7. Germany (12%)
8. Poland (9%)
9. Singapore (9%)
10. Ukraine (9%)

### Responses from TNCS

1. China (87%)
2. **INDIA** (51%)
3. USA (51%)
4. Russia (33%)
5. Brazile (20%)
6. Mexico (16%)
7. Germany (13%)
8. UK (13%)
9. Thailand (11%)
10. Canada (7%)

*Source:* United Nations Conference on Trade And Development ('UNCTAD')

TNCs – Transnational Corporations

Experts – Foreign Direct Investment Analysts

# India-Europe-World ~

## Major destinations of Indian exports

<b>Countries</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>USD Million 2004-05</b>
<b>USA</b>	8542.34	10924.05	11520.52	13292.67
<b>UAE</b>	2500.28	3336.12	5139.18	7112.62
<b>China</b>	955.19	1980.61	2962.92	4595.64
<b>Singapore</b>	975.62	1425.27	2130.47	3803.25
<b>Hong Kong</b>	2374.42	2620.11	3270.46	3658.79
<b>UK</b>	2168.23	2502.89	3031.27	3551.93
<b>Germany</b>	1794.45	2112.15	2551.30	2649.49
<b>Belgium</b>	1395.36	1666.15	1810.51	2447.08
<b>Italy</b>	1210.64	1360.60	1733.99	2165.24
<b>Japan</b>	1515.58	1868.86	1713.82	1981.63

# India-Europe-World ~

## Major sources of Indian imports

<b>Countries</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>USD Million 2004-05</b>
<b>China</b>	2043.33	2799.29	4063.96	6760.42
<b>USA</b>	3160.34	4455.11	5048.18	6304.33
<b>Switzerland</b>	2880.53	2335.92	3321.52	5829.79
<b>UAE</b>	918.21	959.48	2065.30	4591.31
<b>Belgium</b>	2772.41	3721.56	3986.44	4575.61
<b>Germany</b>	2035.01	2410.77	2926.30	3876.20
<b>Australia</b>	1310.55	1340.26	2656.25	3568.36
<b>UK</b>	2571.93	2784.22	3242.91	3438.35
<b>Korea Republic (South)</b>	1145.76	1525.96	2836.67	3200.61
<b>Japan</b>	2153.76	1841.10	2674.75	3012.09

# India-Slovenia ~ Trading Equations

Trade	Slovenia (USD Million)	Growth (%)
Exports to India <i>(April-December 2005-06)</i>	56.58	22.46
Imports from India <i>(April-December 2005-06)</i>	16.15	9.05

Source: Department of Commerce & Industry, Government of India

# Foreign Direct Investment ('FDI')

an overview



Inflows			
S.No	Country	USD Million	%
1	Mauritius	11,257.53	36.90
2	U.S.A.	4,924.21	15.48
3	U.K.	2,082.46	6.72
4	Japan	2,065.91	6.66
5	Netherlands	1,990.98	6.51
6	Germany	1,565.33	4.97
7	Singapore	1,002.77	3.21
8	France	773.88	2.50
9	South Korea	749.09	2.23
10	Switzerland	614.64	1.94

# FDI ~ findings

Findings	Percentage (%)
Profitable foreign companies through Indian operations	70
Foreign companies planning expansion in India	84

*Source: Federation of Indian Chambers of Commerce & Industry ('FICCI')*

# Industries ~ on the move

- ❑ Information Technology
- ❑ Biotechnology
- ❑ Telecom
- ❑ Infrastructure Development Projects
- ❑ Pharmaceuticals
- ❑ Lifestyle
- ❑ Automotive

# ENTRY OPTIONS



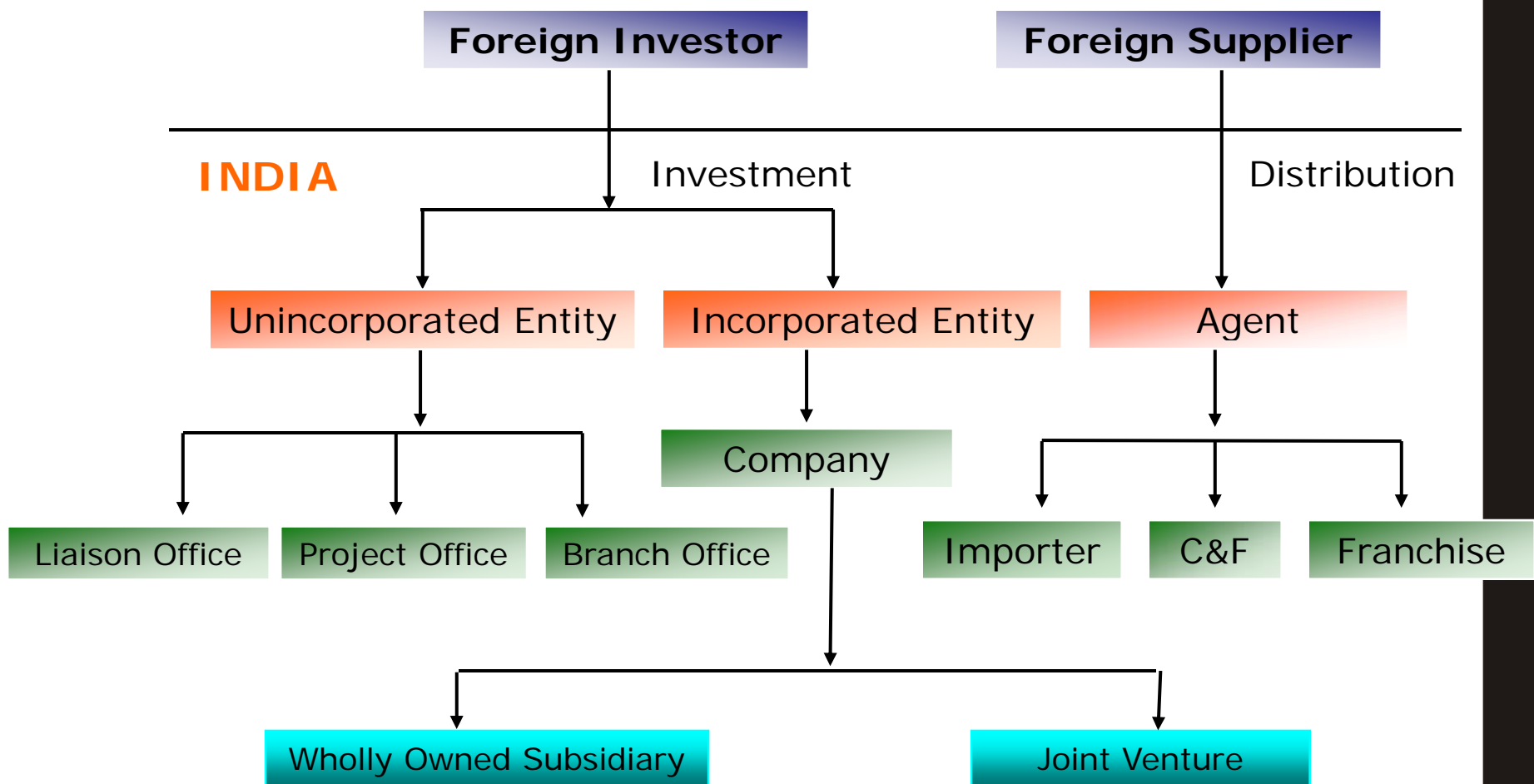
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# Entry Options

- ❑ Liaison Office
- ❑ Branch Office
- ❑ Project Office
- ❑ Company
  - ❑ Greenfield
  - ❑ Brownfield
  - ❑ Joint Venture
- ❑ Agent



# Entry Options





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# Entry Option ~ Liaison Office

## Nature

- ❑ Prior approval required from Reserve Bank of India ('RBI')
- ❑ Communication channel between parent company and Indian companies
- ❑ Cannot undertake any commercial activity
- ❑ Maintains itself out of inward remittances received from parent company
- ❑ Approval granted for 3 years

## Opted By

- ❑ **Companies exploring business opportunities in India**



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# Entry Option ~ Branch Office

## Nature

- ❑ Prior RBI Approval required
- ❑ Scope limited to undertaking specified activities
- ❑ Permitted to remit surplus revenue subject to payment of applicable taxes
- ❑ Taxed at 40 per cent *plus* applicable surcharge and education cess

## Opted By

- ❑ **Research & Development companies**

# Entry Option ~ Project Office

## Nature

- ❑ Set up permitted under automatic route provided specified conditions are fulfilled.
- ❑ Activities restricted to those incidental to the execution of the project
- ❑ Permitted to operate a bank account in India
- ❑ Permitted to remit surplus revenue from project subject to payment of applicable taxes
- ❑ Taxed at 40 per cent *plus* applicable surcharge and education cess

## Opted By

- ❑ **Companies involved in one time turnkey or installation projects**



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# Entry Option ~ Company

## Forms of Company

Features	Public	Private
Minimum Capital (approx.)	EURO 8,600	EURO 1,700
Members– Minimum	7	2
Maximum	NA	50
Minimum Directors	3	2
Listing on stock exchange	Permissible	Not permissible
Reporting requirements	High	Low



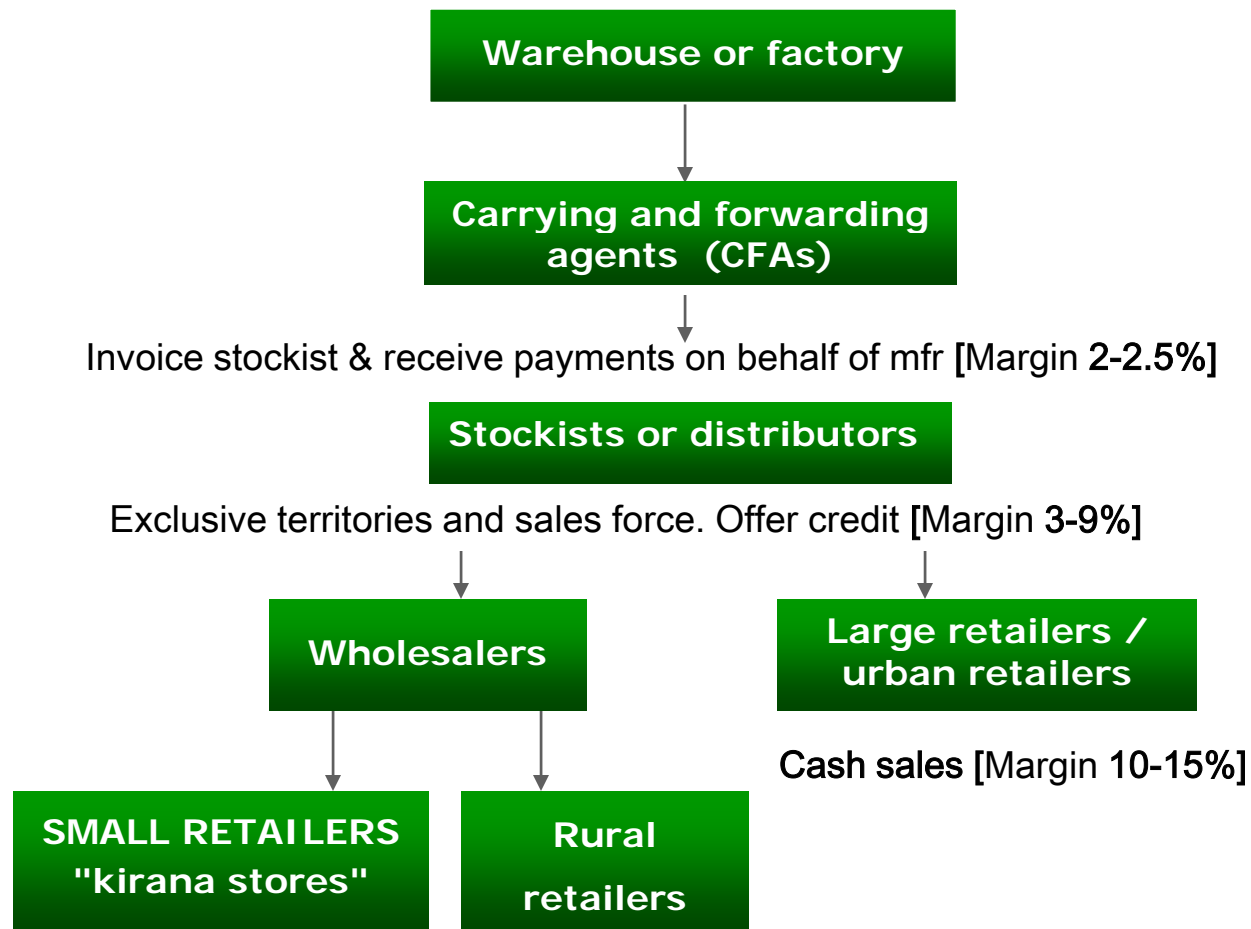
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# Entry Option ~ Distribution

- ❑ Clearing & Forwarding ('C&F') Agent
- ❑ Importer
- ❑ Franchise



# Distribution Chain in India ~ overview





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# Entry Options ~ examples

- ❑ Marks & Spencer (UK): Retail segment visibility in India through **franchise** & Sourcing from India through a **Liaison Office**
- ❑ Louis Vuitton (France): Sourcing products through a **company** in India & operating through an **agency**
- ❑ Mont Blanc (France): Sourcing leather products & accessories from India & operating through an **agency**
- ❑ Robertet (France): Trading operations in perfumery through a **Wholly Owned Subsidiary** in India

# INVESTMENT STRATEGY



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# Investment Strategy ~ FDI Sectoral Caps

Sector	FDI limit (%)
Manufacturing Drug, Pharma, Hotels & Tourism Courier Services	100
Airports	100 (Government Approval beyond 74)
Infrastructure (marketing of petroleum products)	100
Explorations/ mining (coal, diamonds and precious stones)	74
Road, Highways, Ports, Pipeline	100
Power generation (Non nuclear)	100
Banking, Telecom, Civil Aviation	74
Insurance	26

# Investment Strategy

- ❑ Green field project (*Wholly Owned Subsidiary*)
- ❑ Brown field project (*Acquisition*)
- ❑ Joint Venture

# Investment Strategy ~ Greenfield Project



## Market Understanding

- ❑ **Understanding Government Policy**
  - ▶ Licensing
  - ▶ Incentives Offered by State & Central Government
  - ▶ Understanding of Applicable Taxes
  - ▶ Impact of Regional Trade Agreements viz. WTO.
- ❑ **Demand Supply Scenario**
  - ▶ Market Potential
  - ▶ Existing and Emerging Products
- ❑ **Market Study**
  - ▶ Analysis of Major Players – Production Capacity, Financials, Supply Chain Management, Strengths and Weakness

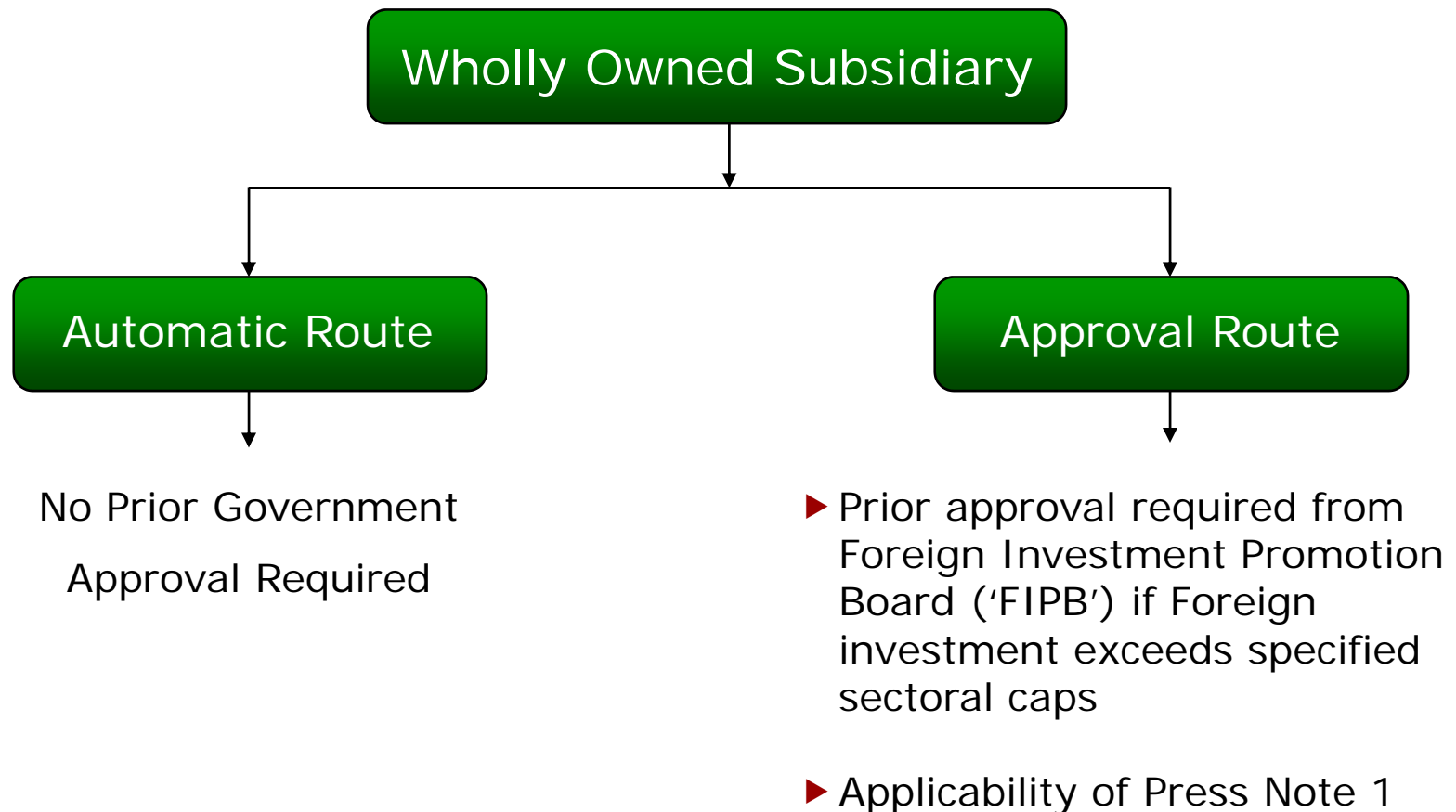
# Investment Strategy ~ Greenfield Project



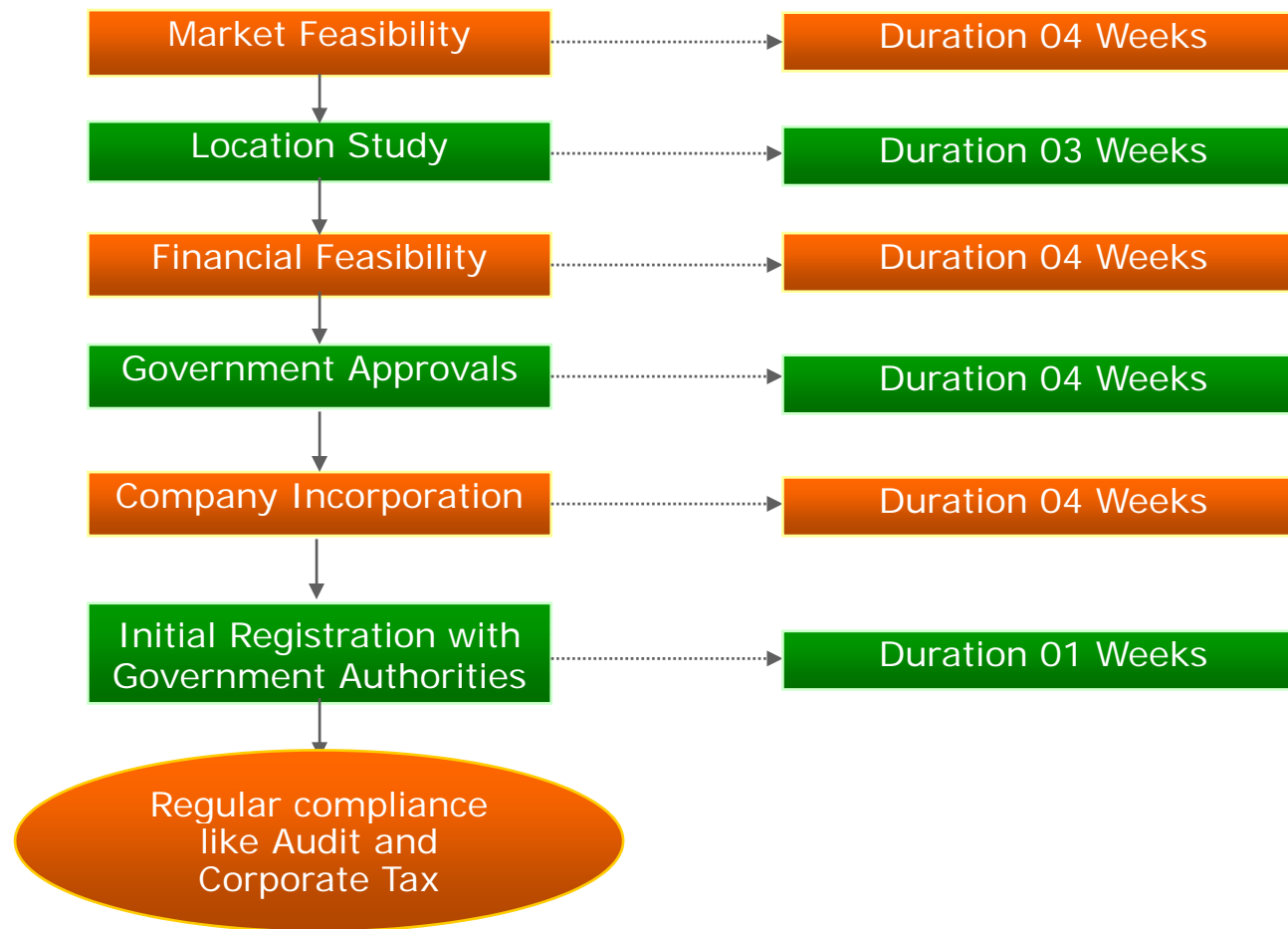
## Policy Matters

- ❑ Analysis of **Sectoral Caps** - Investment Allowed Under Automatic or Approval Route
- ❑ **Negative List** - Gambling & Betting, Lottery business, Atomic Energy, Retail trading (except 'Single Brand' product retailing)
- ❑ **Press Note 1 of 2005** - Special Approval on Investment in Existing Industries

# Investment Strategy ~ Greenfield Project

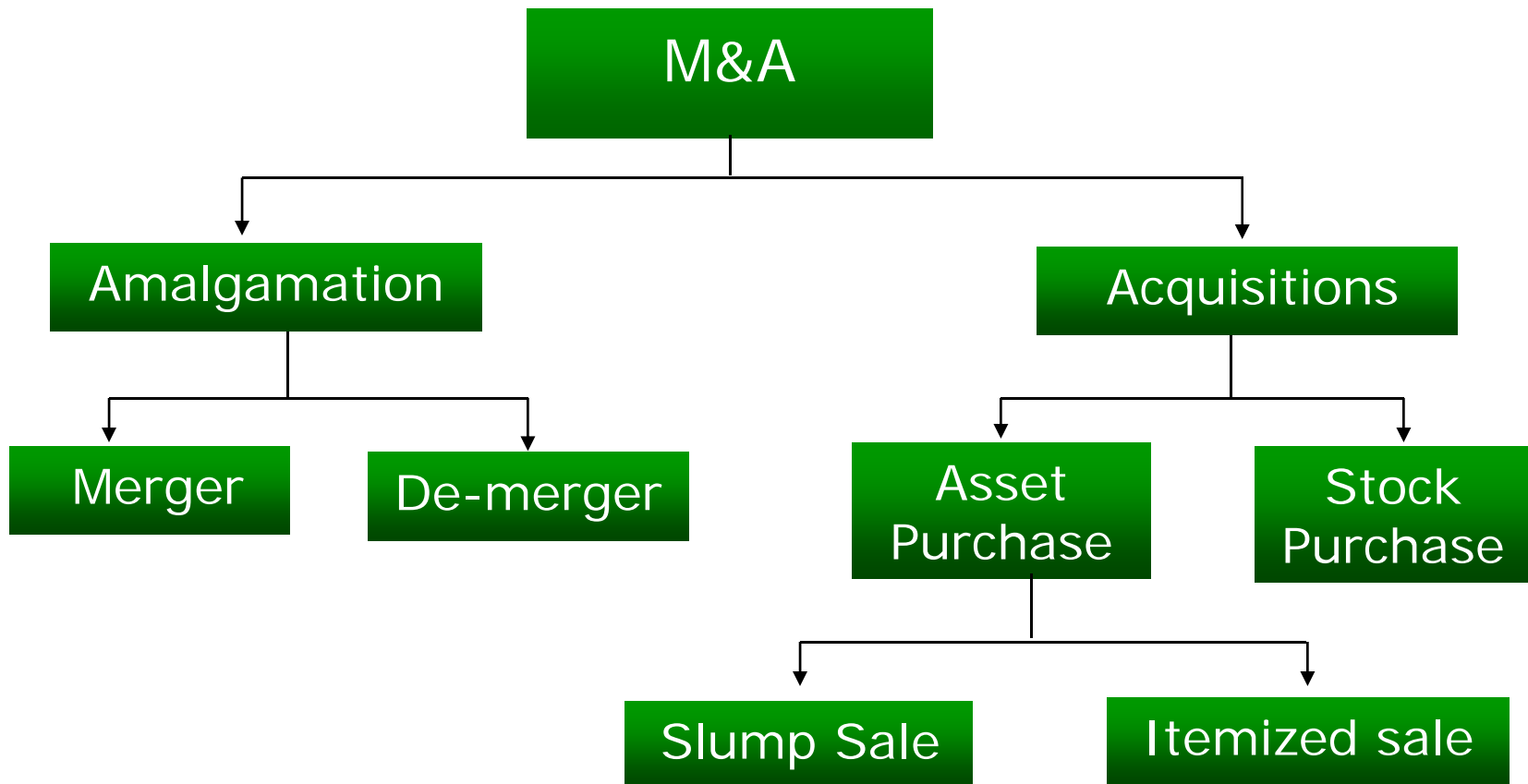


# Investment Strategy ~ Greenfield Project



# Brownfield Project ~

## Modes of Merger & Acquisition



# Investment Strategy ~ Brownfield Project



## Steps

- ❑ Understanding objective for acquisition
- ❑ Defining selection criteria
- ❑ Identifying potential target company
- ❑ Preliminary investigation of the potential target companies
- ❑ Determine *"Best Fit"* target
- ❑ Entering into **Memorandum of Understanding**
- ❑ Conducting valuation of target company
- ❑ Conducting financial and legal due diligence
- ❑ Negotiations with promoters of target company
- ❑ Advice on Transaction Structuring
- ❑ Executing **Share Purchase Agreement**

# Investment Strategy ~ Brownfield Project



## Issues

- ❑ Investment by foreign investor subject to sectoral caps
- ❑ Applicability of Press Note 1
- ❑ Compliance with regulations issued by Securities Exchange Board of India ('SEBI') in case of listed company
- ❑ Transaction by way of de-merger / slump sale / acquisition of shares or assets
- ❑ Transfer price as per guidelines issued by Reserve Bank of India

# Investment Strategy ~ Joint Venture

## Steps

- ❑ Understanding objective for joint venture
- ❑ Defining selection criteria
- ❑ Identifying potential partner companies
- ❑ Credit worthiness study of the potential partner companies
- ❑ Executing **Joint Venture Agreement**
- ❑ Investment in existing company - subscribe to additional shares or form new company

# Joint Ventures vs Fully Owned Subsidiary

- ❑ Value added by Indian Partner
  - Operating Infrastructure
  - Market Access
  - Government Dealing
  - Labour Management
- ❑ Management and Control
- ❑ Dilution of Profits
- ❑ Protection of Technology, Trademarks and Trade Names



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# INVESTMENT STORIES

# Case Study ~ Indo-Japan

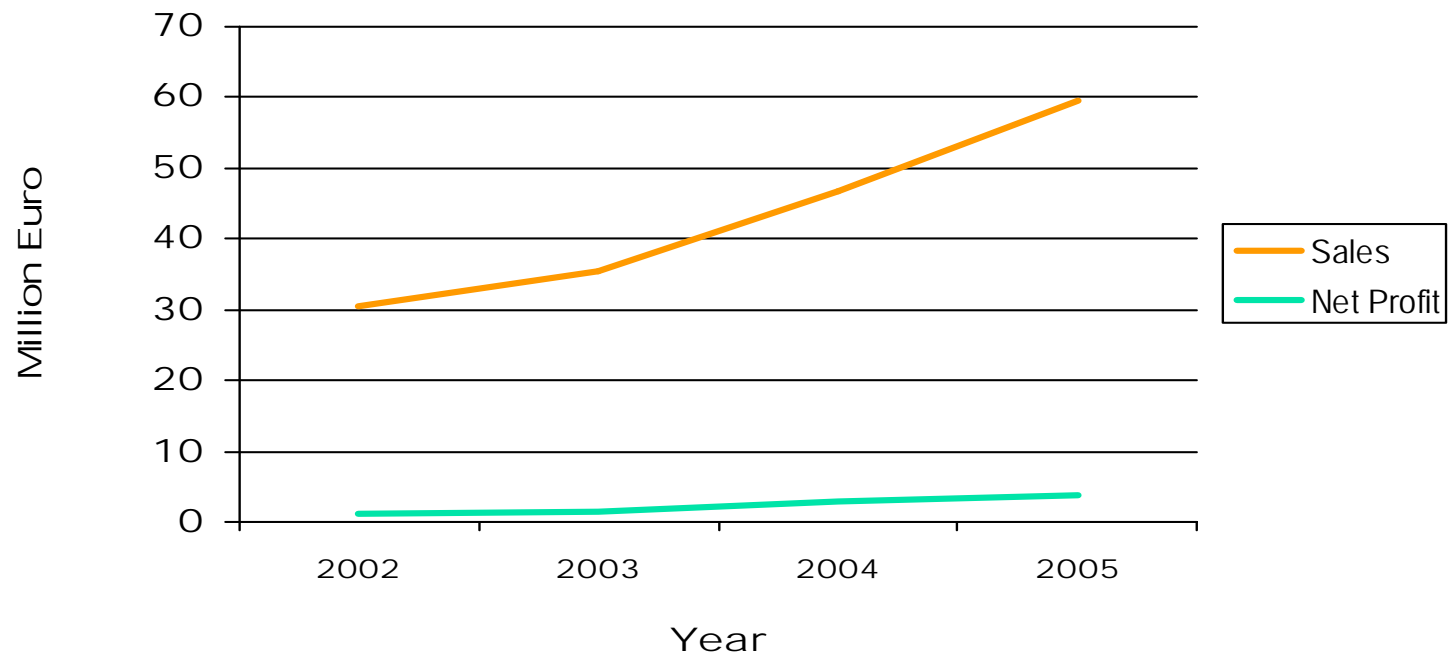
## SONA KOYO STEERING

- ❑ **Collaboration** - Koyo Seiko Company, Japan
- ❑ **Market Share** - 50% in volume and 30% in value
- ❑ **Product Portfolio** - Hydraulic Power Steering Systems, Manual Rack & Pinion Steering Systems, Collapsible, Tilt and Rigid Steering Columns for Passenger Vans and MUVs;
- ❑ **Client Portfolio** - Maruti Udyog Limited, Brakes India, M&M, TVS Suzuki, Toyota, TELCO, Denso India, HM, Keihin Panalfa, Eicher , Hyundai
- ❑ **Achievements** - Named as Global Growth Company in World Economic Forum *Accounts for 45 per cent share of domestic passenger car market. Recently acquired US \$ 35 million order from GM*
- ❑ Largest tier 1 supplier of steering systems in India

# CASE STUDY ~ Indo-Japan

## SONA KOYO STEERING

Growth Trend



# CASE STUDY ~ Indian

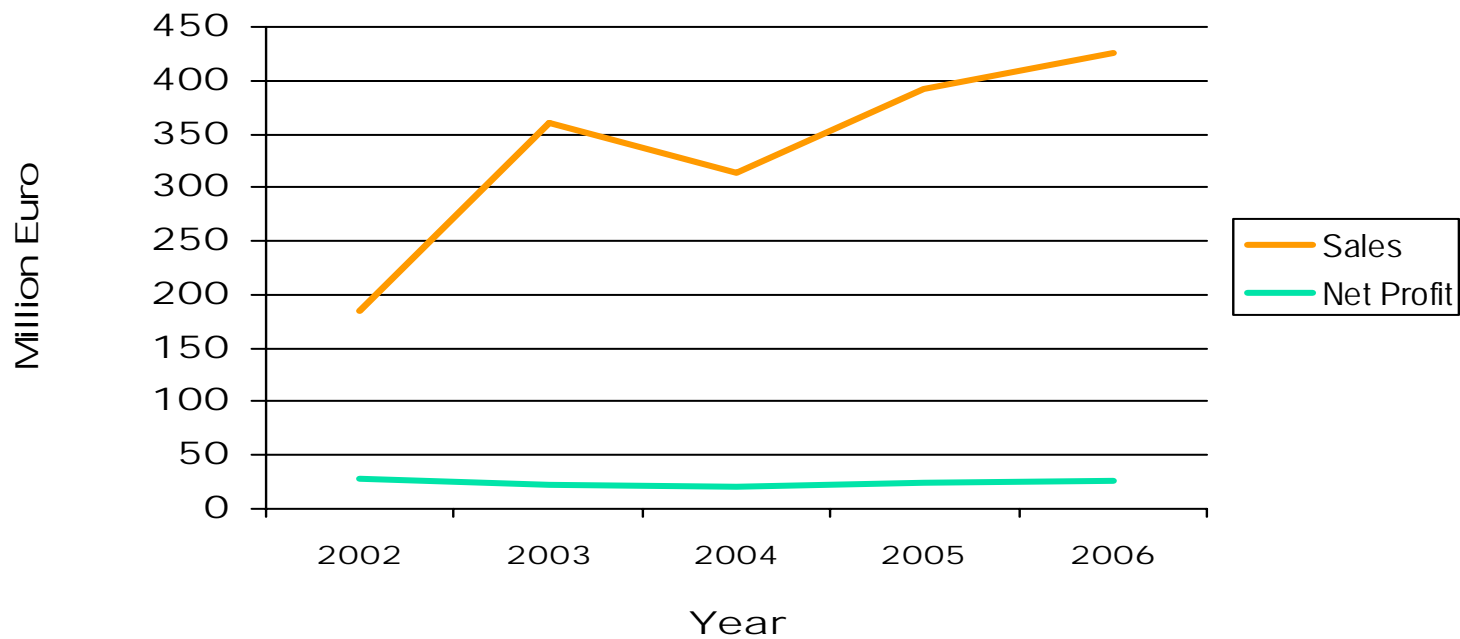
## ARVIND MILLS LIMITED ('AML')

- ❑ **Constitution** – Flagship company of the USD 550 million Lalbhai Group
- ❑ **Product Portfolio** – supplier to leading international denim brands, shirting, knit garments
- ❑ **Export Market** – World's largest exporter selling to Italy, France, UK, Sri Lanka, Nepal, Switzerland, Middle East. AML is Asia's largest denim producer

# CASE STUDY ~ Indian

## ARVIND MILLS LIMITED ('AML')

Growth Trend





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# CASE STUDY ~ Indo-Swiss

## Nestle India Limited

- ❑ **Constitution** – 51% subsidiary of Nestle SA , is among the leading branded food player in the country.

- ❑ **Product Portfolio**

It has a broad based presence in the foods sector with leading market shares in instant coffee, infant foods, milk products and noodles. It has also strengthened its presence in chocolates, confectioneries and other semi processed food products during the last few years.

- ❑ **Operations in India**

Nestle India revamped its distribution structure to drive growth. The company added 15 regional sales offices in its sales and distribution structure in 2004 to drive product reach into the smaller towns and cities across the country.

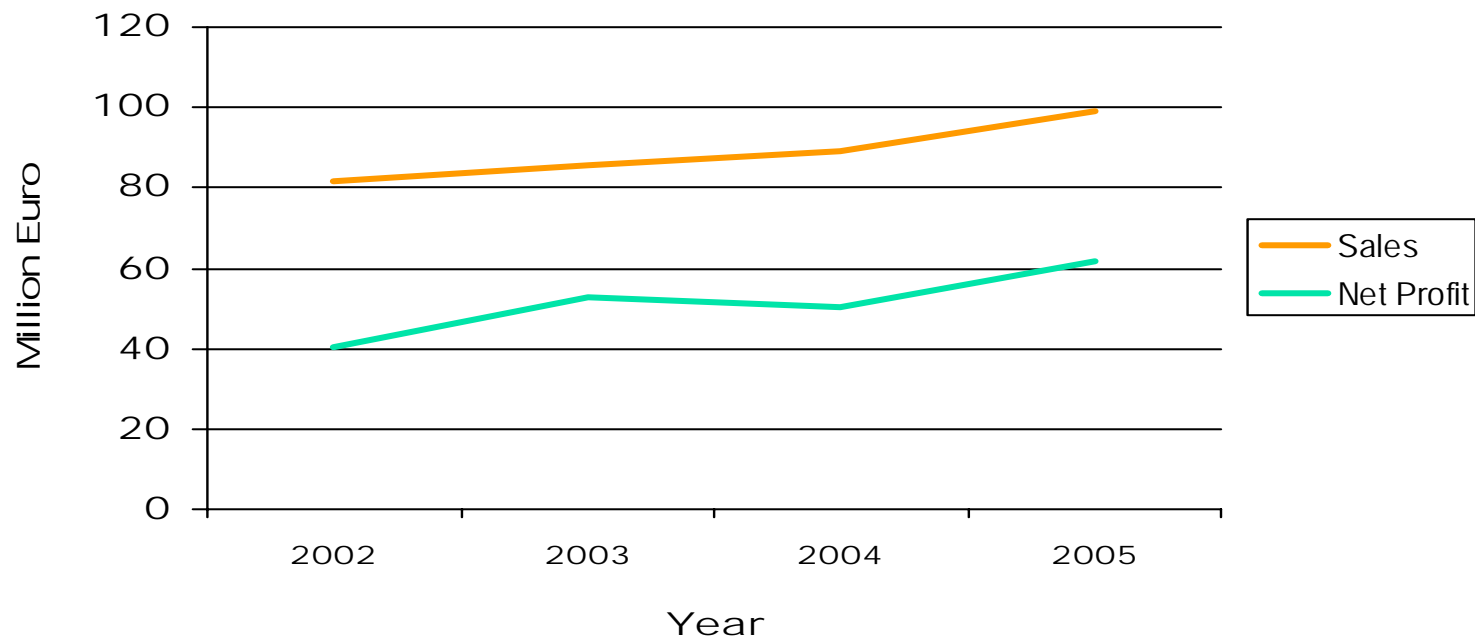


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# CASE STUDY ~ Indo-Swiss

## Nestle India Limited

Growth Trend





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# Investment Stories - Lessons

- ❑ Select Indian partner with clear work profile
- ❑ Foreign company must enforce vision and processes
- ❑ Cost effectiveness prime criteria while targeting Indian consumer
- ❑ Senior Indian professionals can be groomed for top positions
- ❑ Replacement Market not to be ignored
- ❑ Targeting sub-metros and smaller towns

# INDIAN TAX REGULATION SYSTEM



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# Tax System in India

- ❑ **Federal Taxes**
  - ❑ Income Tax
  - ❑ Customs Duty
  - ❑ Excise Duty
  - ❑ Service Tax
  - ❑ Wealth Tax
- ❑ **State Level Taxes**
  - ❑ Sales Tax, VAT, Lease and Works Contract Tax
  - ❑ Profession Tax
- ❑ **District/ Municipality Level Taxes**
  - ❑ Entry Tax/ Octroi



# Income tax

- ❑ Tax Levied on Basis of Residential Status
- ❑ Indian Incorporated Companies Taxed on Worldwide Income
- ❑ Rates of Tax (%) – Maximum Marginal Rate

Tax Payee	Resident	Non Resident
Corporate	33.66	41.82
Individual	33.66	33.66

- ❑ Tax of 10% on Royalties and Fee for Technical Services

# Corporate Tax

- ❑ Relief from Double Taxation through Tax Treaties
- ❑ Tax Holiday for New Units in Backward Area
- ❑ Deemed Profit Provisions Available to Foreign Companies (Specific Industries) – To Avoid Maintenance of Detailed Expense Records
- ❑ Tax Holiday for a 10 years up to AY 2010-11 for 100% Export Oriented Units ('EOU')
- ❑ 5 years Holiday in a Block of first 10 years for units in Special Economic Zone ('SEZ')
- ❑ Advance Rulings on Transactions Possible

# Other Significant taxes

- ❑ **Excise Duty**
  - ▶ On manufacture of goods. Peak rate at 16%
  - ▶ Basic duty + additional excise duty + special excise duty
  - ▶ Credit allowed of duty paid to limit the cascading effect of duty
- ❑ **Customs Duty**
  - ▶ On the import of goods into India. Peak rate at 12.50%
  - ▶ Basic duty + Additional custom duty
  - ▶ Duty drawback on goods re-exported. Significant concessions
- ❑ **Sales Tax** - On sale of movable goods. Rates vary for different states. Substituted by Value Added Tax ('VAT') effective April 2005
- ❑ **Service Tax** - Levied at 12% on identified taxable services
- ❑ **Research & Development Cess**- On import of technology into India at 5% on payments

**THANK YOU**