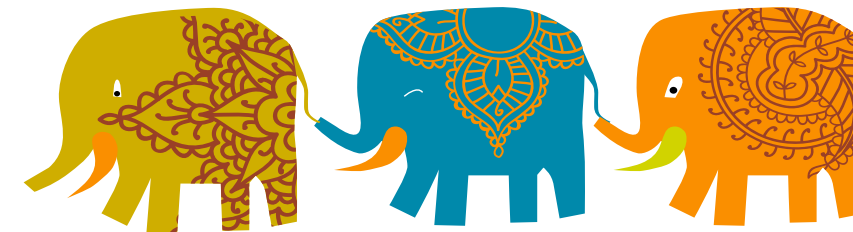


India has been largely unaffected by the global recession, and its growing domestic market is attracting investments from Europe and Asia. TEXT BY KAISA HERNBERG

# All eyes on India



“Hello sir, how may I help you?”

When you pick up the phone to get in touch with customer support from anywhere in the world, chances are that your call will be answered in India. For a long time, the country has been a popular destination for European and American companies to outsource labour-intensive work that requires a certain level of expertise and language skills. After all, India has a vast pool of university-educated workers that all speak fluent English. Each year, about three million graduates from a multitude of academic institutions enter the workforce, and 65 per cent of the country is part of its working population.

Times are changing, however. With a population of over one billion, a thriving middle class, one of the world's fastest-growing economies and quickly increasing domestic purchase power and demand, India has also become a noteworthy market in itself.

Over the past couple of years, European and Japanese companies including Sodexo, Vodafone, NTT Docomo and Panasonic have been actively acquiring Indian companies to gain access to the local market. Companies operating in the telecom

sector have been particularly active, but acquisitions have also been made by service organisations, firms making household products, mining companies and pharmaceutical companies.

## INFRASTRUCTURE - A TRUE CORNUCOPIA

And it's not just the multinational conglomerates from large countries that are knocking on India's door. **Tero Nummenpää** of corporate finance consultancy Translink Finland tells that he is in talks with several Finnish clients who are eyeing up the Indian market.

But what do relatively small companies from relatively small countries have to gain in a huge market already bustling with serious international players? For one thing, there is room for all kinds of operators in a large market.

“In many sectors, there are a lot of family-owned medium-sized companies that lack the management skills to grow their business beyond a certain point. They represent attractive acquisition and partnering opportunities,” says **Rohit Berry** of BMR Advisors, Translink India.

As a growing and developing economy – the

“Even if the global economy remains sluggish, there are a lot of industries in India that are backed by strong domestic demand.”

"I wouldn't recommend sending in a couple of guys to set up a local office. They'll get lost just trying to find their way from the airport."

"Indians have been actively buying companies from Europe and are also venturing into emerging markets in Africa and Asia."

projected GDP growth for 2009–2010 is 6.5 per cent, despite the recession – India is in many ways in a state of flux that presents business opportunities that the old economies of Europe and North America lack. Because India has invested heavily in infrastructure development, for example, a lot of opportunities are being created for both local and foreign firms.

"This is a key focus area for the government," Berry says. High growth sectors include roads, airport infrastructure, ports, thermal power, nuclear power and logistics. Another growth area is the renewable energy sector, with invest-

ments being made in the production of wind, hydro, solar and biomass power.

Many Indian businesses are only now beginning to outsource public service functions. "Indian Railways has announced a plan to outsource its IT operations," Berry says. "We are talking about a half a billion dollar deal, so there is a lot of profit to be gained."

"Even if the global economy remains sluggish, there are a lot of industries in India that are backed by strong domestic demand," he continues. These include telecom, pharmaceuticals, cars, retail, fashion, commercial real estate and financial services.

## A tenacious tiger

**THE** Indian market has maintained steady growth even during the global economic slowdown and is expected to be among the first ones to get back to speed.

- 11.8% growth in per capita income between 2007–08
- 7% growth rate between 2008–2009
- Projected growth rate for 2009–2010: 6.5%
- Growth rate expected to return to 9% within two years
- Strong and growing domestic consumption, 65% of GDP in 2008
- 54% of population is below 25

### ASK THE LOCALS

So how does one go about entering a vast market like India? With certain difficulty, say the experts. "One thing that I wouldn't recommend doing is sending in a couple of guys to set up a local office. They'll get lost just trying to find their way from the airport," says Nummenpää.

Berry stresses that personal relationships matter a great deal in India, which is why it is absolutely necessary to have local management or business partners. In addition, the sheer size of India's population and geography make it a complicated area to set up distribution networks. He recommends buying a local company with existing customers and distribution channels. "It really is the smartest way to go about it," he says.

Furthermore, Berry and Nummenpää both point out that the local bureaucracy does not favour green field operations. Setting up a business from scratch requires a lot more time-consuming paperwork than an acquisition does.

Local expertise is also required in finding the right company to acquire, both during the negotiation process and when dealing with taxation. "The market is very fragmented, which makes it difficult to identify potential targets. And because the tax regime is complicated, you really need to know what you're doing," Tero Nummenpää says.

There are also some restrictions regarding foreign ownership in certain industries, such as telecom, media and insurance. And, like everywhere else, there are unwritten rules to doing business

that only the locals know. "In India, you need to keep written records of everything. Verbal agreements aren't always honoured," Berry says.

### THE INDIAN INVASION

Representing another sign of change, the flow of corporate transactions now travels two ways. Indians have been actively buying companies from Europe and are also venturing into emerging markets in Africa and Asia.

"The Indian IT sector has been dominated by investments to the US, and now companies are seeking out opportunities in Europe," says Nummenpää. In particular, Indian IT firms have been interested in markets in which it is possible to conduct business in English – The UK, Ireland, the Scandinavian countries and the Benelux countries. And the IT sector isn't the only active one; Berry cites a long list of Indian investments to Europe that includes everything from cars to hotel chains to energy. For example, such traditional English auto brands as Jaguar and Land Rover are now under Indian ownership.

India has also traditionally had strong ties to Africa, with significant Indian populations in several African countries. Currently investments are being made there in many sectors. Indian companies are also active in other economies in the Indian subcontinent, including Sri Lanka and Afghanistan, Berry adds.

In the long run, Indian companies are expected to provide a gateway to investments in various emerging, global markets. ■

**Finnair flies to Delhi six times a week.**

# Mistakes are easy to make – and avoid

India is a vast country with several different languages and cultures, as well as its own kinks and quirks when it comes to doing business. Here are some dos and don'ts to keep in mind when acquiring a business in India.

❏ Do not regard India as a homogeneous country or culture. It's actually a multitude of nations within one state, each with its own local customs, language and culture. Make sure that you operate with a partner who is familiar with your location of choice.

❏ Be meticulous when you check the background of your target company, as there is a risk of contingent or past liabilities falling on the new owner. There is no central business registry, so you will need local help. Evaluating alternative transaction structures in order to minimise risk is also advisable.

❏ Make sure that your acquisition target can offer proof for the expertise, products, customers and sales channels it claims to have.

❏ Don't expect family-owned businesses to have sophisticated systems and controls. Prepare to participate actively in managing operations and setting up required systems.

❏ Personal relationships play a significant role in business. Cultivate relationships with Indian promoters and their existing business networks.

❏ Prepare to set up systems that are in compliance with environmental laws, health and safety standards, as well as other official requirements.

❏ Enlist the help of reliable local experts to assist you in finding the right acquisition target, seeing the transaction through and sorting out complex local tax systems.

