

How can Australian firms unlock the Big Fat Indian Market?

With global economies struggling to recover from the grip of worldwide recession, Australian companies need to seek alternative avenues for growth. India with its exponential economic growth and burgeoning middle class presents a unique and promising opportunity for Australian businesses. While the “fit” between Indian growth needs and Australian expertise seems too perfect to be true, the gateway to India remains rocky. This white paper outlines various opportunities for Australian businesses in India, the challenges they could face and what they should do to ensure they don’t miss the opportunity.



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Looking beyond the fence, towards India

The global economy has faced various setbacks in the last five years. The outlook for 2011 continues to be uncertain. High unemployment rates, fiscal tightening and the risk of global currency wars continue to threaten global economic recovery. According to an UN report, global economic expansion will be below expectations, 3.1% in 2011 and 3.5% in 2012.

For Australia, this increases the risk of over-dependence on traditional export markets such as Europe and USA. It is imperative that Australian business houses look at newer destinations for expansion.

Among the emerging economies, apart from China, India is undoubtedly the most important market. India's economy is heavily dependent on domestic consumption and it has one of the world's highest domestic savings rates. It is expected that countries with sturdy domestic economies such as India will recover first and lead the recovery of global growth.

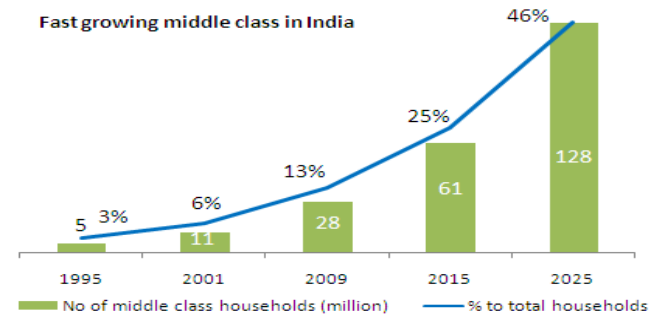


India is the world's second most populous nation after China with a population base of 1.2bn as of 2011. After adopting the liberalisation policy in 1991, it has transitioned from being a closed economy to a trillion dollar open economy.

Today, India has a stable central government, a broad structural framework and soft infrastructure (a transparent judicial system, improving corporate governance, etc) in place. According to a study by McKinsey Global Institute, if India manages to sustain its economic growth, from its current rank of 12, it will catapult itself to being the fifth biggest market in the world by 2025.



It is estimated that household disposable income will grow at a CAGR of 5.3% during 2005 to 2025. The amalgamation of fast growing household incomes and growing population is expected to culminate into a major increase in India's overall consumer spending.



Source: McKinsey Global Institute Report | *The Bird of Gold: The rise of India's consumer market*

India's economic growth rates have been hovering in the range of 7% to 9% in the past few years and are expected to maintain the growth in the next decade. This is backed by increasing domestic consumption, rising service demand and a steadily growing industrial output.

The International Monetary Fund (IMF) expects India's GDP to grow at 9.4% for 2011 and at 8.4% for 2012.

The agricultural sector's contribution to the GDP has reduced by more than half over the last four decades. Instead, India's economic evolution has been propelled by double digit growth in industrial production and a strong services sector.

FDI in India has quadrupled in the last five years

The last decade has seen a substantial rise in FDI inflows in India, reiterating global confidence in India's growth story. India was ranked third in global foreign direct investments by UNCTAD.

Internal consumption has been the key to economic growth

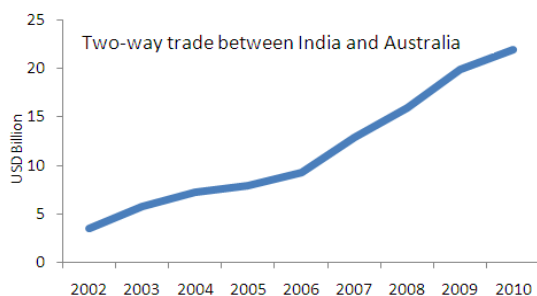
India's trade to GDP ratio stands at 35.4% (in 2010) compared to other emerging economies such as China (48.2% in 2010).

Despite tripling its exports since 2000, India's exports to GDP ratio currently stands at around 13.4% (2010) as compared to China's 26.4% (2010). India's economy has remained fairly insulated from external shocks because of this lesser reliance on international trade.

As India enters into the next stage of development, growth will be more robust for sectors that are directly influenced by domestic consumption and infrastructure spending.

India-Australia: The journey so far

Bilateral trade between India and Australia has grown rapidly over the years, increasing from less than USD 3bn in 2002-03 to around USD 20bn in 2009-10. India is today Australia's third largest merchandise export market, while Australia is India's eighth largest trading partner.



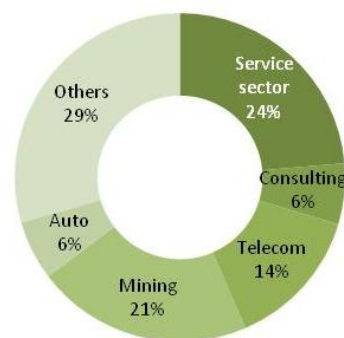
Source: India FDI Fact-sheet, DIPP, Australian Government department of foreign affairs and trade

The complementarities between the two economies have been the key drivers of this increase in trade. Australian exports of minerals such as iron ore and

coal have helped India meet her growing economic demands as well as fill infrastructure gaps.

Further, rising Australian investments in Indian sectors such as agriculture, financial services, infrastructure, telecom and mining are boosting key sectors of the India's economy. On the other hand, Australian firms have gained productivity and cost benefits from India's services industries.

Key sectors in India attracting Australian FDI (2000-2009)



Source: India FDI Fact-sheet, DIPP, Government of India, April 2009

Aussie success stories in India

Macquarie Equities

Macquarie officially opened their Mumbai office in March 2006. A property division was set up in 2008 and Macquarie is currently setting up an infrastructure fund in collaboration with the State Bank of India. In 2009, the company opened an office in New Delhi to support their operations and now currently has more than 60 employees in India.

Woolworths

Woolworths has established a joint venture in 2006 with the Tata Group to operate a number of electronics stores in India under the brand name 'Croma', along the Dick Smith retail outlets model. There are now over 30 stores across India.

Leighton Contractors Pty Ltd

Leighton set up an office in Mumbai in 2004 and is having considerable success in winning offshore oil and gas projects. Leighton opened new offices in New Delhi and Chennai in March 2006. Its most recent success is a Pipeline Replacement Project for ONGC valued at USD 755mn.

ResMed

ResMed which is a leading manufacturer of sleep apnoea equipment has been marketing its products through a distributor and has had an office in India since 2005. In 2009, ResMed concluded strategic acquisition of a local

medical sales distribution network to focus on sales while ResMed focuses on marketing and promotions. It plans to sell a hundred thousand units in India in the next five years.

Cochlear

Cochlear which is a manufacturer of a unique hearing implant system has been successfully operating in the Indian market since the last 15 years. It is planning to invest USD 15mn over a period of five years in India and set up 45 cochlear implant clinics.

Opportunities for Australia in India

1) Agriculture

The agricultural sector contributes ~17% to the Indian GDP while agricultural and related jobs contribute to ~60% of the population. Growth in agriculture has not kept pace with overall economic growth and public investment in agriculture has steadily declined over the years. The major issues faced by the sector have been droughts, floods, poor technology and insufficient funding.

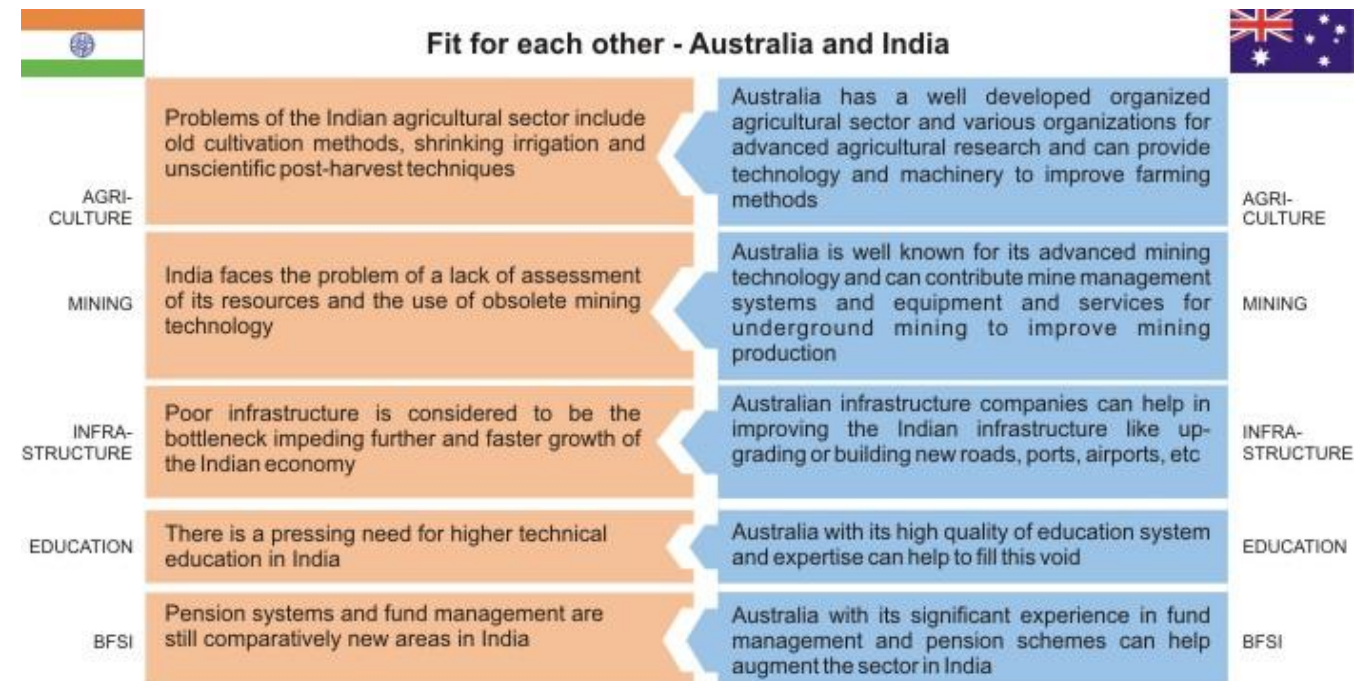


While domestic production in India has weakened because of old cultivation methods, shrinking irrigation and unscientific post-harvest techniques, Australia has a well developed organized agricultural sector and various organizations for advanced agricultural research. Australia being a major agricultural producer and exporter should look at exploring the key sectors mentioned below in the Indian agricultural industry:

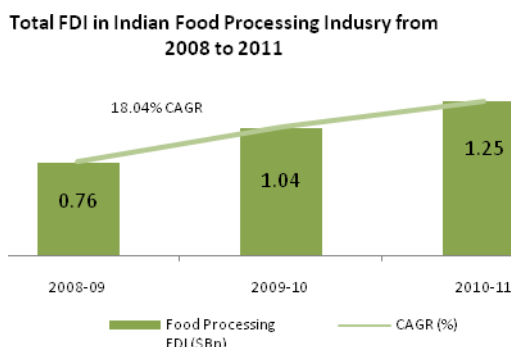
Technology and equipments: There is good opportunity for investment in efficient methods of cultivation like high density planting and micro agronomic techniques. As a result of unscientific post-harvest methods, much of the agricultural produce is wasted every year and there is a need for advanced freezing processes and equipments that will help to preserve the agricultural produce for longer periods of time.

Cold chain and cold storage: The cold storage market is underdeveloped, fragmented and has very few integrated logistics management players. There is a large opportunity to develop a cold storage infrastructure for fruits. Main markets such as Delhi and Mumbai have limited access to fruits due to the lack of cold chain infrastructure.

Fruits: Demand for imported fruits like kiwis, blueberries has gone up as a result of the growing



middle class and urban population. Foreign expertise would be required for cultivating these fruits in Indian climates. Currently, less than 6% of the fruits produced in India are processed into products like jams, jellies, sauces, juices, etc.



Source: India FDI Statistics, www.dipp.gov.in

Opportunities exist for developing flavours, pulps and concentrates of various fruits.

Grains: India is the second largest producer of wheat and rice in the world. However, the cultivation methods used to produce these crops are still obsolete. Good opportunity also exists in the storage and processing market for these food grains. The packaged bread, cake and pasta market in the country is also growing steadily.

“There’s broad complementarity between Australia and India which is visible across a number of sectors already. One well known example is the resources sector, where Australia is a source of minerals as well as equipment, technology and services, as well as investment to assist the exploitation of India’s own resources. Other key sectors hold similar potential, including clean energy, broadly across education and skill based training needed by Indian corporates, as well as agriculture. Australian agricultural producers are some of the most efficient in the world, from how they manage water, develop new cultivars, grow crops and livestock, and manage harvest and post-harvest handling and storage – all elements that would benefit India’s agricultural sector.” **Patrick Kearins**, Trade Commissioner, Austrade

Water management: Australia has a well-developed and sophisticated water management system in place. Australia’s irrigation industry is widely deemed as a model for the world.

Many of the fruit orchards in India use obsolete technology and have very low productivity. The poor quality of fruits is linked to old methods of cultivation and the practice of monoculture. Further, research and extension work has not yielded results on the ground partly due to the government’s low priority to horticulture compared to staples. This offers a potential opportunity for Australian companies to develop new varieties in India such as Red Chief from Australia (apple) which is currently imported from Chile.

Training in production, post harvest process, traceability and development of protocol in these processes are other opportunity areas.

The organized retail market in India is growing at a good pace and there is rising health awareness amongst the middle classes and urban populations. This creates a good opportunity for opening fresh fruit and juice centres in India, since Australia already has established expertise in fruit juice chains. Opportunities also exist for developing pulps, jams, jellies and concentrates of various fruits.

Further, India has a focused objective to modernize agriculture sector and its post-harvest technologies and has welcomed 100% FDI in the agriculture and food processing sectors. This is something that Australian agricultural and related companies can look forward to.

Immediate opportunities for Australian investment in agriculture exist in:

- Agricultural machinery
- Fertilizers
- High Yield technology
- Cold storage providers
- Water management

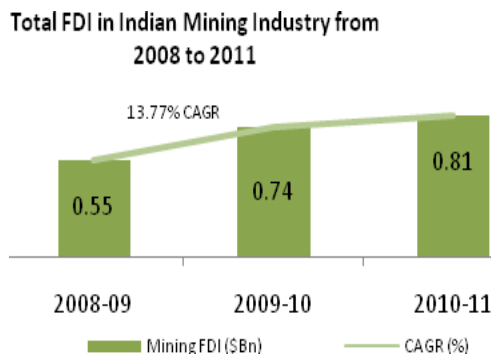
2) Mining and Resources

Australia is a resource-rich country and is well known for its advanced mining technology. Currently, over 60% of the world’s mines use Australian software. India is a resource-rich country as well but lacks processes to assess resources and still uses obsolete mining technology. Many resource-rich areas in the country remain unexplored and untapped.



The need for modernization in the Indian mining sector remains strong and will be the major driving force behind adoption of Australian technology by Indian mining companies. Indian mining companies are also looking at modern underground mines as surface coal mines and minerals get depleted. Australia provides expertise for the Indian mining sector in terms of resource evaluation, mine management systems, mine planning and optimization, equipment and services for underground mining.

India is currently facing huge coal shortage and the government estimates that it will touch 15% by 2012 and by 2021-22 the shortfall will be to the tune of 269mn tonnes. India has the fourth largest reserves of coal in the world at 267bn tones but coal production is unable to keep up with the demand.



Source: India FDI Statistics, www.dipp.gov.in

Along with ramping up domestic coal production, India is also moving towards environmentally sustainable coal mining methods. With years of expertise in efficient and environmentally friendly coal mining, Australia is the ideal country to provide its technical expertise to India. Also, as Australia has diverse geographic conditions, Australian mining companies have good experience in tropical climate and can help countries like India. Rio Tinto, the Australian mining company already has successful mining operations in India.

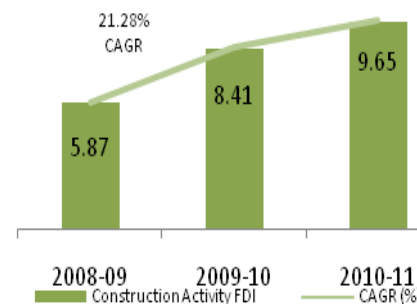
Immediate opportunities for Australian investment in mining exist in:

- Technology
- Coal washing
- Mine management systems
- Equipment and services for underground mining

3) Infrastructure

Infrastructure growth remains a top national priority for India as the government tries to match the pace of infrastructure growth with economic growth. The government is planning to invest USD 1 trillion in infrastructure during the next five years. Poor infrastructure is considered to be the bottleneck impeding further and faster growth in the agriculture, manufacturing and services sector. Thus the government is actively encouraging foreign investment in infrastructure.

Total FDI in Indian Construction Industry



Source: India FDI Statistics, www.dipp.gov.in

Growth opportunities in key infrastructure sub-sectors are profiled below:

Ports:

Under the Eleventh Plan USD 19.6bn will be invested in ports. NMDP (National Maritime Development Programme) has cleared 276 projects for private participation and capacity expansion.

Roads:

Investment of USD 50bn planned up to 2012 for the NHDP (National Highway Development Programme) to develop more than 50,000 km of National

Highways in seven phases. Increased private sector contribution; Build Operate and Transfer (BOT) to attract more private investors and generate steady cash flow through annuity / toll.

Railways

Government increased funds allocation to USD 3.49bn for rail infrastructure. Encouragement in private participation and metro projects initiated in major cities is attracting foreign players as well.



Air:

AAI (Airports Authority of India) to spend USD 3.07bn in the next five years (2010 -2015) for modernization of metro/ non-metro airports; 100% tax exemption on airport projects for a ten year period; private sector participation in Greenfield airports and modernization.

Power:

USD 115.56bn allocated (Eleventh Plan) to the power sector. Income tax holiday for ten years in the first 15 years of operation along with zero duty fees on capital goods' import.

The Indian Government has been actively encouraging private participation in infrastructure projects by offering tax benefits and regulating the reform process. More than 30% of the planned outlays are expected to come from private participation.

Immediate opportunities for Australian investment in infrastructure exist in:

- Upgrading and building new highways
- Development of expressways and toll ways
- Expansion of existing roads

- Creation of ring roads, bypasses, grade separators and service roads
- Development of Metro projects in major cities
- Re-development of existing stations to world-class stations
- Modernization and upgrading of airports
- Creation of training centres for aviation industry professionals

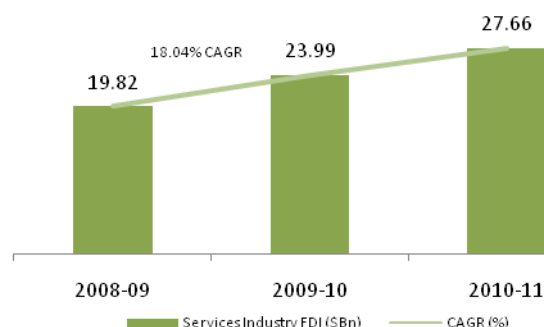
Australian companies from the State of Victoria have expressed strong interest in helping India develop sustainable urban infrastructure. The companies together have set up the Australian Urban Systems Cluster that offers expertise in planning and designing ecologically friendly urban cities at competitive costs.

4) BFSI

India has a well developed financial infrastructure and the financial sector is garnering a lot of foreign interest. As trade ties with foreign countries increase, the opportunity for banking and financial services also widens.

The Indian banking sector is well developed with a good mix of state, private and foreign players. It remains the most dominant segment of the financial sector.

FDI in Indian Services Industry



Source: India FDI Statistics, www.dipp.gov.in

The banking sector in India is currently dominated by national banks (51.2% of the aggregate deposits) but the opportunity for foreign banks is huge. Foreign banks operating in India offer services like retail banking, trade finance, foreign exchange, remittances and funding and hedging solutions. Remittance

remains a big business as the global Indian Diaspora remitted USD 55bn in 2010, the highest in the world.

The banking sector in India along with asset management and wealth management is an attractive option for investment as Australian banks and funds look to expand in emerging economies. The big four Australian banks already have a presence in India. Banks can leverage on the presence of the large Indian Diaspora in Australia for remittances and NRI banking services.

CBA (Commonwealth Bank of Australia) which began operations in 2010 handles almost 50% of the remittances to India from Australia. ANZ has re-entered the Indian market when it recently set up an office in India, after exiting a few years back. With its Indian office, the bank hopes to provide services to its current overseas clients who have been exploring business opportunities in India.

Immediate opportunities for Australian investment in BFSI exist in:

- Wealth management
- Pensions / superannuation
- Asset Management
- Corporate banking
- Insurance

Apart from the above four key segments, opportunities for Australian businesses lie in sectors such as education, healthcare, telecommunication, retail, hospitality and auto.

Challenges of doing business in India

Though India is one of the most lucrative business destinations, Australian companies, apart from cultural differences, have had to face various other challenges while starting a business in the country. According to World Bank's Doing Business 2010 Index, India ranks 133rd among 183 countries for ease of doing business. It also has the lowest rank among the BRIC nations.

India. Reasons for this include, dealing with construction permits, high taxes, environmental issues, enforcing business and closing a business.

Further India is a multifarious market due to regional diversity, existence of a huge unorganized market and numerous legal and administrative hassles. To add to it, inadequate infrastructure facilities, red-tapism and corruption compound the challenges of operating in

"Currently the biggest impediment is the lack of familiarity with India. There is a lot of focus on the China market but India is also a good option because there are cultural similarities between Australia and India, especially English and a similar legal system" . . .
Bryan Clark, Manager, The Australian Chamber of Commerce and Industry

To be successful in India, it is imperative for Australian companies to understand the nuances of handling India's complex business environment. They need to understand the importance of effective market intelligence (MI) to comprehend the Indian business environment.

Main challenges of doing business in India:

- Presence of a large grey and unorganized market
- The rural-urban divide
- Regional diversity
- Lack of market information, corruption and red-tapism
- Government and environmental clearances
- Labour problems, product acceptance
- Inadequate infrastructure



The Key to the Big Fat Market

However, on the brighter side, India ranks amongst the top 50 nations for protecting investors. India also ranks 51st among 139 countries surveyed for the Global Competitiveness Index 2010-11 (published by the World Economic Forum) and scores higher than Brazil (58th) and Russia (63rd). Various multinational companies are still queuing up for doing business in India despite the challenges and delays, as opportunities outnumber these impediments. So what can Australian companies do to make sure that there are no hiccups in their India entry strategy?

Market research and due diligence

Market research is also the more important in India mainly because of insufficient information from secondary sources. Data available from government sources does not take into account the unorganized market and is also mostly dated.

"Australian companies definitely appreciate the value of research and due diligence in enabling India entry. The information should come from trusted sources. The source has to be independent and it's critical that the agency or the advisor is un-biased and can provide independent, un-biased advice." . . . Bryan Clark, Manager, the Australian Chamber of Commerce and Industry

Due diligence can be helpful while doing a background check of prospective partners, validating their financial credibility, scale of operations, litigation status and management structure. Due diligence helps to fill data gaps which often occur while researching unorganized and under-documented sectors in India.

Involve consultants with India entry experience

Australian companies should seek intervention from consultants who have experience in guiding other foreign businesses into entering the Indian market. Such consultants can offer valuable tips for sourcing, contract negotiation and vendor selection for a

business. They can also offer guidance about management styles suitable for Indian organizations and employees.

"There have been some India entry failures, but Australian companies which did their research and due diligence right, have done really well. So the key is to not get scared, but ensure going about in the right way". . . Deepak-Raj Gupta, President, Canberra Chapter, Australia India Business Council

Identify local partners

Apart from being familiar with India's diversity and on the ground reality, local partners are also helpful in overcoming language barriers. Local partners can conduct face-to-face interviews and thus play a vital role for collating information at a granular level. Local partners can also reach out to the highly fragmented unorganized sector and rural areas.

Over the last five years, Australia's trade with India has been growing more rapidly compared to any other top market and is estimated to cross USD 20bn in the next three years. So as global markets contract under the weight of recession, its time Australian companies start looking at India as a key strategic business partner. However, they need to make sure that their India entry strategy is backed by effective market research and local knowledge.



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With close to eight years of experience in research, consulting and investment banking support operations, Aniket has worked on a variety of projects such as mergers & acquisitions, private placements, restructuring of companies, turnaround strategies, industry & sector studies, opportunity assessment studies, and competitive intelligence. He has an MBA degree in finance from the ICFAI Business School, a Postgraduate degree in Commerce and a degree in Law. Currently Aniket works as a project manager in the research and consulting vertical at ValueNotes. You can connect with him through his [linkedin](#) profile.

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