

# The Rise & Rise of India's Private Sector



India Inc's growth story has created a momentum of its own, stoking employment, raising compensation and driving demand

This year, when Forbes magazine published its annual list of billionaires, it had 10 new entrants from India. No other country, barring the US, had seen so many new entrants to the Forbes list.

In large measure, India Inc's increasing presence in the Forbes listings reflects the growing prowess of India's private sector. Just a decade ago, India Inc was being written off as inefficient and of low productivity. Today, Indian companies are scaling new heights. Many of them are now recognised as world-class - Bharat Forge, Ranbaxy, Tata Steel, Asian Paints, the A V Birla group, Tata Motors, Infosys, Moser Baer to name just a few. Many are acquiring companies overseas, stepping up exports, raising quality standards, improving cost efficiencies and product innovation capabilities. This, in turn, has generat-

ed a virtuous circle of wealth-creation for their promoters and of course, millions of shareholders!

Indeed, the market value of listed companies in India Inc hit \$651 billion on March 24, 2006 — an increase of \$268 billion from the previous 12 months. Moreover, over 100 listed companies have a market cap of \$1 billion plus today, as opposed to around 70 last year. Not surprisingly, almost 50 per cent of India's GDP is estimated to come from its private sector, compared to 33 per cent in China.

What makes India's private sector so dynamic? How has it emerged as a global force to reckon in less than 15 years of reform? One reason is the sheer advantage of the country's political economy. Competition, however limited in the pre-1990s era, allowed the private sector to meet the challenges of globalisation rapidly

and competitively. Unlike other BRIC economies like Russia and China, Indian entrepreneurs have operated in a democracy for decades, giving private entrepreneurs the space to maximise their capabilities.

According to a global benchmark study by Deloitte Touche Tohmatsu, Indian manufacturing companies enjoy gross profits and sales growth rates that are nearly twice that of global manufacturers. Deloitte's study in India suggests that local manufacturers record average sales growth of 15 per cent against 7 per cent for their global peers. They deliver average gross profit (earnings before interest and tax) growth of 16 per cent compared with an 8 per cent global average.

### GAINING MOMENTUM

Since 1991, the investment environment in India has improved consistently, leading to improved profitability of the private sector. India Inc has been responding positively to liberalising policy measures. After an initial slow start, Indian companies have shown that they are not afraid of global competition.

The macro-economic numbers tell the story of strengthening self-confidence born of continued success. For one, the average growth rate of private investment during the Eighth Plan was 15.51 per cent a year and grew to 16.06 per cent in the Ninth Plan period. Today, private investment is growing at a little over 20 per cent a year.

For another, savings by the private corporate sector — reflecting the high retained earnings from higher profits — grew at 24.9 per cent in 2004-05. There has been a continuing upward momentum in the savings of the private corporate sector as a proportion of GDP — it rose steadily from 3.6 per cent in 2001-02 to 4.8 per cent of GDP in 2004-05.

India Inc's growth story has created a momentum of its own, stoking employment, raising compensation and driving demand. In this respect, India is unique in that, unlike south-east Asia and China, it has been bolstered by rising domestic demand. India, in fact, is one of the few countries in the world that has least to fear from a slowdown in US demand. If anything, it's India that is emerging as the most exciting market to be in. For instance, in the telecom industry, private

GSM mobile operators have recorded a 49 per cent increase in revenues during the first quarter of the current financial year over the first quarter of the previous year. Domestic demand for automobiles is rising at around 8 per cent a year, while consumer goods are growing at over 10 per cent a year. Air-conditioners and refrigerators are witnessing a surge of over 30 per cent. Similarly, the FMCG industry is growing at 5.3 per cent a year.

### GETTING A GLOBAL FOOTPRINT

One of the remarkable points about the domestic private sector is that it has looked outward in less than 15 years of liberalisation. Since 2000, India Inc has made over 300 overseas acquisitions with deals worth over \$10 billion. By 2005, the pace had picked up considerably. In that year, there was a three-fold rise in overseas buyouts by Indian companies.

In fact, Indian companies are emerging as prominent players in some countries. Think London, an FDI agency, said that India has emerged as the second largest investor in London (second only to the US), accounting for 30 per cent of the total foreign investment in London. In 2005, as many as 22 Indian companies set up base in London.

India's private sector products and services are also increasingly finding a presence in the export markets. IT and ITES have long been major forex earners. Now, it is also common for pharma and auto components majors to register higher export turnover than domestic revenues. Ranbaxy, Dr. Reddy's, Infosys, Bharat Forge and Wockhardt are all in this league. Not surprisingly, this has powered India across the \$100 billion export mark this year.

### CREATING WEALTH

This success can be attributed to the novel outlook of Indian manufacturers, who are leveraging innovation like never before. They are developing products faster, deploying lean manufacturing and other dynamic production techniques and managing supply chains far more efficiently as standard operating procedure. Lead time for new product development has come down by as much as 50 per cent in the past three years. For example, the development of the brake system in India takes six months, in Korea it is eight

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months, in Germany 12-14 months.

Inventories are being reduced too — by 20 to 30 per cent in the last four years. On a scale of 1-10, a research study has shown that Indian manufactured goods quality could be rated at seven, against Germany's nine.

Little wonder that, contrary to popular perception, India's role is no longer solely a global back-office; it is also rapidly emerging as a manufacturing hub to the world. Companies like GE, Kodak, Timex, Colgate, Unilever, Whirlpool, LG, Toyota, Nokia, General Motors, DaimlerChrysler, Renault, Delphi, Volvo, Ford, Visteon, Hyundai, Honda, Suzuki, Denso, Bosch, Cummins and many others are increasing their imports from India.

This global vote of confidence clearly suggests that the Indian private sector has come of age. A decade on, don't be surprised if many more Indians find a place on the Forbes rankings.

*Ajay Khanna can be reached at [ajay.khanna@cionline.org](mailto:ajay.khanna@cionline.org)*

*The views expressed here are personal.*



**Ajay Khanna**  
Chief Executive Officer  
India Brand Equity Foundation