EXECUTIVE SUMMARY

Background

India Brand Equity Foundation (IBEF) commissioned KPMG to undertake a study to capture the experiences of German companies in India. A useful guideline for MNCs seeking to enter India, this report synthesises the insights and strategies of top German companies with an established presence in India.

Key Findings

India is a large and growing market
More than 80 per cent of the companies stated that India is a large market with significant growth potential.

India is emerging as a global manufacturing hub
65 per cent of the manufacturing companies included as part of the study have established manufacturing facilities in India and 30 per cent are planning to set up a manufacturing base in the near future.

India is a services hub
German companies in India have successfully leveraged the advantages that India offers to set up R&D facilities and Business Process Outsourcing (BPO) operations.

Future outlook
German companies are positive about the future outlook of India and plan to strengthen their presence here. Their plans are in line with the role they envisage India to play in their global strategy.

• 64 per cent of the companies, which participated in the study are planning to expand India operations.
• 30 per cent of the manufacturing companies plan to make India a manufacturing hub, leveraging the cost effectiveness of Indian operations. (this is in addition to the 65 per cent manufacturing companies, which already have a production facility in India).
• 18 per cent of the companies plan to leverage the high skilled resources available in India to set up their R&D facilities

Key insights for prospective investors

Have a long term view
91 per cent of the companies interviewed agreed that the Indian market is strictly for long-term players. Most companies felt investors in India need to have a 15 to 20 year vision. The ideal strategy for a company investing in India would be to start small, understand the local market & grow steadily.

Find a local partner
Most German companies interviewed, suggested the best way to enter India is with the support of a local partner. This proven strategy facilitates better interpretation of customer needs and requirements. In addition, a local partner can play a significant role in dealing with legal and regulatory issues. Establishing a local network becomes easier too.
Get the product and pricing right

Having the right product portfolio is a key to success. Product customisation to suit local requirements backed by the right pricing and value positioning is a proven strategy.

Don't compromise on quality, technology and after sales support

Superior technology and quality are established success factors. Indian consumers are increasingly more demanding about product quality and performance. Consumers today are more aware of safety and health aspects. They are willing to pay a premium for extra benefits. Customers find value in German standards and quality processes. Parent company support on these parameters has proven successful.

Overview of the study

<table>
<thead>
<tr>
<th>Sector</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>9</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>4</td>
</tr>
<tr>
<td>Automobile</td>
<td>5</td>
</tr>
<tr>
<td>Chemicals</td>
<td>6</td>
</tr>
<tr>
<td>Services</td>
<td>5</td>
</tr>
<tr>
<td>Machine tools</td>
<td>1</td>
</tr>
<tr>
<td>Power</td>
<td>1</td>
</tr>
<tr>
<td>FMCG</td>
<td>1</td>
</tr>
<tr>
<td>Footwear</td>
<td>1</td>
</tr>
</tbody>
</table>

The study was a combination of primary and secondary research. During the study, KPMG met executives of key German companies across different sectors. The selection of companies was based on several criteria: size of the parent company in Germany, significance of their operations in India, their success in India and cross-sectoral representation.

The study involved analysis of experiences of 32 German companies in India. More companies were studied from engineering, chemicals and automobile sectors, as maximum German investment in India is in these sectors.

Structure of the report

The report covers the following sections:

1. India – Germany relations: A synopsis of current economic and commercial relations between India and Germany.
2. Key insights from the study - German companies’ perception and outlook on India: Advantages offered by India as perceived by German companies. It discusses proven strategies used by German companies to effectively leverage these advantages. Success factors, challenges faced and future plans of these companies are highlighted.
3. Key insights for prospective investors: Key factors to be considered by MNCs planning to invest in India.

India and Germany: economic and commercial relations

Economic relations between India and Germany are strategic in nature. The relationship is based on common interests, shared values and a time-tested foundation of trust.

A century old relationship

Economic relations between India and Germany date back to the 16th century. Between the 16th and 18th centuries, several German companies were established to trade with India and other East Asian countries. In 1867, Siemens laid the first telegraph connection between Calcutta and London. In 1896, Bayer started local operations in India.

German companies in India have earned an excellent reputation, on the strength of their high technological standards, efficient business execution and long term commitment.
Trade ties between India and Germany have steadily improved. Today Germany is India’s fourth largest trading partner (after US, UK and Japan). India’s significance to Germany in terms of trade share is much smaller (trade with India accounts for just over 0.5 per cent of Germany’s total trade), but German companies view India as an important emerging market.

The past two decades - mixed trends
Indo-German trade during the past two decades has had its highs and lows. From 1990-1995 i.e. after India’s market liberalisation process commenced, Indo-German trade jumped 56 per cent from 8.1 per cent in the earlier five year period (1985-1990). 1995-2000 saw a steep fall in bilateral trade with total trade growing only 7.9 percent. From 2000-2005 bilateral trade has been on a steady recovery path and growth in trade volume is expected to be between 40-45 per cent.

Record high in 2004
Indo-German trade crossed a record-setting US$ 7.21 billion mark in 2004. Indian imports grew by almost 35 per cent, while India’s exports to Germany grew by 11 percent.
Trends in imports and exports

From a net exporter to Germany in 2000, India has become a net importer in 2005.

The value of exports has not changed significantly, though the composition of the export basket has changed dramatically.

Evolving product mix
Today, finished goods account for the bulk of India’s exports (72.4 per cent in 2004 compared to 34 per cent in 1984). This shift reflects the growth in capabilities and competitiveness of Indian industry.

Import trade has traditionally been dominated by finished goods. The contribution of finished goods increased from 59.6 per cent in 1984 to 72.6 per cent in 2004.

A wide gamut of products across sectors
India’s exports to Germany are dominated by textiles (28 per cent). Other major items include leather goods (11 per cent), chemicals (8 percent) and electro-technical products (7 per cent). The pharmaceuticals sector has had significant growth and in 2004 the sector contributed 5 per cent of India’s exports to Germany.

India’s demand for high quality capital goods...
However, the bulk goes to China. Among Asian destinations India ranks seventh for German investors.

From an Indian perspective, Germany is an important source of FDI. As per data made available by the Government of India, Germany was the fourth largest investor in India between 1991 and 1999 (after Mauritius, USA and Japan) and the largest European investor. Between 1999 and 2004, Germany slipped to 6th position, losing ground to its European neighbours The Netherlands and the UK. However, German FDI into India more than doubled from US$ 78.78 million in 2003 to US$ 161 million in 2004, enabling Germany to move up to the 4th rank.

Recent German investments in India

- Biotechnology major MWG Biotech AG set up its Indian subsidiary, MWG Biotech Pvt Ltd, in Bangalore. Boehringer Ingelheim is planning to do the same.
- BMW announced building a production site in India. Volkswagen plans to follow suit.

Maharashtra tops in German investment

There is growing competition among Indian states for new investments. States offer investor-friendly
policies such as tax relief and single-window interface as incentives. Karnataka, Andhra Pradesh, Tamil Nadu and Maharashtra are among the top destinations for foreign investment.

For German investments, Maharashtra is the most preferred destination. Karnataka, New Delhi and Tamil Nadu follow. Goa emerged as an attractive location, with substantial increase in the number of collaborations in 2004.

### Statewise Distribution of Indo-German Collaborations

<table>
<thead>
<tr>
<th>State</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maharashtra</td>
<td>32</td>
<td>44</td>
</tr>
<tr>
<td>Karnataka</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>New Delhi</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>14</td>
<td>26</td>
</tr>
<tr>
<td>Goa</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Kerala</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Gujarat</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Haryana</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>West Bengal</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

Indian investments in Germany

Indian investment into Germany has also increased in recent years. Business with Germany provides Indian companies an opportunity to interface with some of the largest companies in the European Union, access cutting edge technologies, innovate products, absorb best practices and expand businesses in more regulated markets. Indian companies have acquired several German firms over the past few years:

- In November 2003 Bharat Forge (BFL) acquired M/s Carl Dan Peddighaus GmbH (CDP), a forging company and a major supplier of critical chassis components to leading automakers, making BFL the second largest forging company in the world. Further in July 2004, BFL acquired CDP Aluminiumtechnik a manufacturer of aluminium components for several high end customers in the European automobile industry.

- Dr Reddy’s Laboratories acquired the fourth-largest German generic drug maker Betapharm Arzneimittel GmbH for US$ 595.2 million. This is one of the biggest overseas acquisitions by an Indian pharmaceuticals company.

- Key Management Group (KMG) in India has announced the acquisition of a 76 per cent equity stake in Chavan Software and Services, a private German company specialising in developing custom made solutions and providing outsourcing services to mid-sized companies.

- Wockhardt Ltd acquired Espharma GmbH

- Sundram Fasteners Ltd (SFL) bought out Textron Deutschland Beteiligungs GmbH to acquire 100 per cent share capital of its subsidiary company, Peiner Umformtechnik GmbH (Peiner)

- Graphite India Ltd acquired Conradty Group for a total amount of US$ 14 million.

Indian subsidiaries of German companies - remarkably successful

Exceeding their parent’s performance According to an Indo-German Chamber of Commerce (IGCC) study which surveyed the annual performances of IGCC member companies over 2001-04, several Indian subsidiaries have been out-performing their parents. Examples include Siemens (subsidiary of Siemens AG), MICO (subsidiary of Robert Bosch GmbH) and BASF (subsidiary of BASF AG). With a sharp focus on efficiency through cost and manpower rationalisation backed by strong German technology, better supply chain management and improved of productivity has enabled these companies to script remarkable success stories.
Promoting Indo-German trade and commercial relationship

Indo-German Chamber of Commerce (IGCC)

The IGCC is one of the most important institutions promoting Indo-German trade relations. Founded in 1956, it is now the largest German chamber abroad with more than 6500 members. (Austria: 3,274; Switzerland: 3,230; The Netherlands: 1,732). IGCC is headquartered in Mumbai with branch offices in New Delhi, Chennai, Kolkata, Bangalore and Düsseldorf and liaison offices in Hyderabad and Berlin.

Indo–German Joint Economic Commission

The Indo-German Joint Economic Commission, set up in the early 1980s, deals with matters of bilateral trade and investment under the joint chairmanship of the Federal Minister of Economics and the Finance Minister of India.

The main Indo-German economic agreements:

• Agreement for the Avoidance of Double Taxation, which came into force on Dec 19, 1996

• Agreement for the Promotion and Protection of Investments, which came into force in July 1998

• Exchange of Notes on the protection of German investments in India of 15 October 1964

• Trade Agreement of 31 March 1955

• Agreements on co-operation in scientific research and technological development of 1971 and 1974

Future outlook

Germany regards India as one of the most important economic and scientific players today, especially for its expertise in knowledge based industries.

<table>
<thead>
<tr>
<th>Companies</th>
<th>Sales growth</th>
<th>Profit growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Siemens Indian subsidiary</td>
<td>11.22</td>
<td>42.41</td>
</tr>
<tr>
<td>Parent</td>
<td>-7.63</td>
<td>8.21</td>
</tr>
<tr>
<td>BASF Indian subsidiary</td>
<td>4.87</td>
<td>9.84</td>
</tr>
<tr>
<td>Parent</td>
<td>1.32</td>
<td>-39.41</td>
</tr>
<tr>
<td>KSB Indian subsidiary</td>
<td>22.06</td>
<td>61.24</td>
</tr>
<tr>
<td>Parent</td>
<td>0.51</td>
<td>15</td>
</tr>
<tr>
<td>Bosch Indian subsidiary</td>
<td>14.23</td>
<td>69.6</td>
</tr>
<tr>
<td>Parent</td>
<td>0.39</td>
<td>17.26</td>
</tr>
<tr>
<td>Merck Indian subsidiary</td>
<td>3.71</td>
<td>-6.6</td>
</tr>
<tr>
<td>Parent</td>
<td>-2.19</td>
<td>-42.35</td>
</tr>
</tbody>
</table>

Indo-German ventures make it to the top

High technology standards, efficient business execution and long term commitment have earned Indo-German JVs, market leadership positions in several product groups in India. IGCC’s annual market share review indicates that Indo-German companies are market leaders in as many as 21 product groups out of the 48 product groups considered in the manufacturing sector. 17 others occupied second spot in their respective industries, while another 10 ranked third.

Industry position of Indo-German JVs

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Market share (%)</th>
<th>Industry position</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICO</td>
<td>Fuel Injection Pump, Nozzle, Nozzle Holder</td>
<td>76.19</td>
<td>1</td>
</tr>
<tr>
<td>BASF India Ltd.</td>
<td>Leather &amp; Textile Auxiliaries</td>
<td>56.98</td>
<td>1</td>
</tr>
<tr>
<td>Bayer Cropscience</td>
<td>Pesticides</td>
<td>11.12</td>
<td>1</td>
</tr>
<tr>
<td>Siemens Ltd.</td>
<td>Medical Equipments</td>
<td>7.71</td>
<td>1</td>
</tr>
<tr>
<td>Siemens Ltd.</td>
<td>Private Automatic Branch Exchange</td>
<td>35.66</td>
<td>2</td>
</tr>
<tr>
<td>Bayer Cropscience</td>
<td>Rubber Chemicals</td>
<td>15.87</td>
<td>2</td>
</tr>
</tbody>
</table>
scope of Indo-German trade is immense, especially as infrastructure continues to improve and the reform agenda is furthered. Implementation of second-generation economic reforms is expected to boost German engagement in India.

Sectors such as software development, biotechnology and entertainment hold immense potential for collaboration between the two countries. The future of Indo-German trade and commercial relationships therefore appears bright.

In the ensuing sections, we shall draw on our study of successful German companies in India to assess the key advantages India offers as an investment destination for German companies, discuss the increasing significance of India in the global strategies of German companies that have invested here, the different roles that India is expected to play in their global operations and the future plans of these companies in India.

These insights have been used to provide key guidelines for prospective German investors, which will enable them to invest and operate successfully in India.

**India represents an exciting growth market for German companies**

“The Future lies in India. India would be one of the biggest economies of the World in the next 20 years. One can’t afford to miss the bus”

*Sunil Gupta, Managing Director*
*Durr India Pvt Ltd*

Many German companies chose to enter India as they perceived it to be a large and high potential growth market. Size of the economy and its rapid growth have been major considerations for German companies to invest in India. As shown in the graph, 76 per cent of respondents in the study stated this as the primary reason for their decision to enter India; the other reasons include change in government policies (21 per cent) and people advantage (12 per cent).

**High on market size and growth attractiveness**

Their experience in the Indian market has done nothing to diminish German companies’ perception of India’s market potential, but has, in fact, further reinforced their confidence. 65 per cent of the companies met rated India, High or Very High in attractiveness of market size, and nearly 85 per cent felt that India was one of the most exciting growth markets in the world.

The Indian economy and market has several features that justify this confidence.
Robust, sustainable growth in GDP

India is one of the fastest growing economies in the world and has a population in excess of 1 billion. In terms of size it is the world’s fourth largest economy in purchasing power parity terms. India has experienced robust growth in the recent past and has a positive outlook (strong and stable GDP growth rate, strong reform process, reduction in external debt as a percentage of GDP and strong FDI inflows). Growth of GDP, in excess of 8 per cent has been achieved by the economy in only five years of recorded history, and two out these five are in the last three years. The nominal GDP has seen consistent growth from around US$ 300 billion in 1994 to over US$ 600 billion in 2005, making India a significant force in the world. The real GDP has been growing quite consistently over the 5 per cent mark over the last few years and reached a high of over 8 per cent in 2004.

The strong fundamentals of the Indian economy have enabled growth without compromising stability. It has been estimated that India has the potential to show the fastest growth over the next 30 to 50 years and by 2050, would be the only country recording growth rates significantly above 3 per cent. The GDP of India has been predicted to be around US$ 900 billion in 2010, around US$ 5 trillion in 2030.

Demographic advantage

Economic growth is closely related to demographic growth and one of India’s most significant advantages today is its demographic profile. The working-age population is likely to continue to grow relative to total population for the next two decades. By contrast many other Asian economies are facing current or imminent...
declines in working-age populations. The World Bank’s population data shows that since the 1970s, medical care and birth control have dramatically reduced the number of children born per couple and dramatically increased the proportion of citizens living past retirement age. India, however, is one of the few countries where not only is overall population rising but the proportion of citizens of working-age is also growing.

Sustained availability of productive population

In India, by 2013, nearly 200 million more people will join the nation’s productive age bracket representing a quantum growth in the consumption class. It is also projected that India in 2050 will have the largest number of young people below the age of 25 years in the world - over 550 million, and the largest number of people in the productive age group of 20 to 60 years - 800 million.

A growing labour force can enable higher growth rates and create an urgent political need for growth: according to the Asian Development Bank, India needs to achieve around 8 per cent average annual growth over the next two decades to create employment for new entrants to the workforce.

India’s forecast lower age dependency ratio over the next half-century means that public finances could come under less strain than in many other countries, potentially making infrastructural investment easier and allowing the economy to continue growing well above the global trend.

Growth in middle and higher income ‘consuming’ class

According to NCAER data, the consuming class, with an annual income of US$ 1000 or above, is growing and is expected to constitute over 80 per cent of the population by 2009-10.

The increase in income levels of the Indian population and the emergence of the consuming class that has higher propensity to spend, offers great growth opportunities for companies, across various sectors.

However, income levels in India will continue to be lower than that for corresponding demographic groups in developed economies, requiring global companies to take a customised, value based approach to the market. The success of low priced, value-for-money products in several categories is testimony to this.

Market size and diversity pose a few challenges

While the large market provides an attractive growth opportunity, India’s large size and diverse population also pose a few challenges. Successful German companies have recognised these and developed mitigating strategies to meet them. For example, India’s geographical spread, coupled with infrastructural challenges – tends to add to higher transportation costs. Many companies therefore seek to locate their plants close to the customer and also invest in building an effective distribution network.

India has a diverse population with varying...
tastes and preferences across regions. In the study more than 65 per cent of the respondents agreed with this. Meeting these needs would require companies to come out with a wide product portfolio, and also customise products to suit local needs. Many companies have developed India-specific products for different regions to mitigate this challenge.

**Leveraging market growth**

Many German companies are growing much faster in India than they are globally. This is the result of a low starting baseline and the rapid market growth in India across sectors in recent years.

Some examples of companies leveraging India’s large market and potential to achieve rapid growth include:

- **B Braun India** is optimistic about its share in the company’s global turnover going up from less than 5 per cent currently, to 8-10 per cent in next 5 years.

- Even though **Suspa Pneumatics India**’s contribution to the firm’s global revenue is less than 5 per cent, more than 15 per cent of the firm’s growth comes from India.

- From revenues of US$ 1.09 million in 2003 **Klüber Lubrications India** expects to achieve US$ 5.65 million in 2006, a CAGR of 71 per cent

- Currently **DHL India** is growing at a rate of 20-25 per cent per year when the industry growth average worldwide is around 16 per cent.

- **Knorr Bremse India** has been growing at a CAGR of 35 per cent for the last 5 years.

- **Abicor Binzel** has been growing at a CAGR of 30 per cent over the last 5 years.

**India is a potential Global Manufacturing Base**

“India can be a very good outsourcing base, probably the best in the world”

*Uday Godbole, CEO*  
*Abicor Binzel*

India’s development in the manufacturing sector and the advantages it offers as a source for manufactured goods has been recognised by German companies operating in the country. Apart from leveraging growth in the domestic market, 30 per cent of the manufacturing companies surveyed in this study are looking at India as a potential manufacturing base, from which they can source goods for other markets.

**Manufacturing Sector – rapid growth**

India’s manufacturing sector grew at an average annual rate of 6 per cent per year in the 14 years between 1990-91 and 2003-04. This was higher than the 5.8 per cent growth achieved by overall Industry and the 5.7 per cent GDP growth during this period.

Manufacturing growth has accelerated steadily from 7.1 per cent in 2003-04 to 9.4 percent in
India is the 2nd largest jewellery market and largest diamond cutting and polishing centre in the world
• India stands 19th in production and 16th in consumption of machine tools in the world
• Among emerging markets, India is a major exporter of heavy and light engineering goods
• Indian Textile Industry is the second largest in the world in cotton trade.
• The Indian Chemical Industry ranks 12th by volume in the world for production of chemicals.
• India is the third biggest leather producer in the world after China and Italy.
• India is world's largest producer of milk, tea and pulses with world's largest livestock population to support food processing sector
• India ranks fifth in the world bauxite reserves next to Australia, Guinea, Brazil and Jamaica

Key advantages in manufacturing

India’s growth in the manufacturing sector, and the country’s growing significance as an exporter of manufactured goods, are based on certain fundamental strengths. These factors are further supported by government policies and regulations to provide a favourable investment climate for investors in the manufacturing sector in India. The three major factors are:
• Availability of quality manpower at low costs
• Availability of raw material
• Enhanced productivity

Quality manpower at lower cost
India has a growing workforce that is English-speaking, highly skilled and relatively low cost. India has one of the lowest labour costs per hour compared to other developed and developing countries. Labour costs form the majority of the total costs of manufacturing companies.
Thus, there is a distinct cost advantage for companies having manufacturing bases in India.

Labour cost as a percentage of value added is about 21 per cent in India, as compared to 23 per cent for China and 30 per cent for Taiwan. It has also been estimated by the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry that off-shoring to India can give up to 40 to 60 per cent in cost savings to multinational companies.

India is marginally more costly than China for most senior managers, such as Directors and CFOs. But costs are significantly less compared to other emerging economies, such as Brazil and Mexico. In a study conducted by A.T. Kearney, India is better off compared to China in terms of educated workforce and management talents.

India’s outlook on future availability of productive manpower is positive, unlike most competing countries. India ranks among top three of 30 nations in terms of availability of skilled labour force. India has a well-developed technical and tertiary education infrastructure of over 250 universities, 1500 research institutions and over 10,000 higher education centres. Every year, about 2.3 million Indian students graduate about 300,000 of them earn a degree in engineering. About 8 per cent of the Indian population ranging between 25 and 34 years of age had attained some tertiary education compared to 5 percent in China.

Another edge for India is that a majority of the tertiary programs use English as the main medium of instruction.

The study reveals that 69 per cent of the German companies covered felt that availability of skilled resources makes India a very attractive destination for setting up their manufacturing plants. India has well developed designing and machining capabilities as well, and ranks second
produced cotton is a significant advantage for the Indian Textile industry. India is the third largest producer of cotton in the world and has the largest acreage under cotton cultivation - nearly twice that of US. India produces nearly 23 varieties of cotton and this diversity makes India capable of catering to various segments in world trade. This gives inherent strengths in raw material availability and prevents any supply side shocks.

The Indian Dyestuff industry has a share of 6 per cent by volume in the global dyestuffs production, which is estimated at 2 million MT. The industry is self-sufficient in raw material supply, as 95 per cent of the raw material required is available locally.

More than 55 per cent of the companies, which participated in the study agreed that the availability of raw materials has increased the attractiveness of India as an investment destination.

Enhanced productivity
Indian economy is much more efficient than it was in the past. A study of trends in total factor productivity growth (TFPG) in India demonstrates how Indian economic policies have impacted productivity in India. India’s previous strategy

India’s attractiveness in availability of raw materials

<table>
<thead>
<tr>
<th>V. Low</th>
<th>Low</th>
<th>Neutral</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>4%</td>
<td>13%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>High</th>
<th>V. High</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>50%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Availability of raw material</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apart from skilled labour, India is also capable of meeting demand for raw material for the manufacturing sector. Availability of a wide range of raw materials is a competitive advantage for India, as it reduces cost of inputs for manufacturing. Also, production of cash crops like cotton and rubber directly assists manufacturing growth as they act as immediate inputs for industry. India has large domestic resources of metals, minerals, rubber, wood, oil and gas, which power domestic manufacturing.</td>
</tr>
</tbody>
</table>

India has rich reserves of minerals like bauxite, iron ore, copper, zinc etc. to support industries like Metals, Engineering, Automobiles and Machine Tools. India ranks sixth in the world in iron ore deposits and fifth in terms of bauxite deposits. Bauxite reserves in India account for 7.5 per cent of the world’s total world deposits. India has about 120 billion tons of coal reserves, making it fourth largest in the world. India’s coal reserves can go a long way in providing for increasing power needs.

Due to its diverse agro-climatic conditions, India has a wide-ranging and large raw material base suitable for the Food Processing industry. India has the largest irrigated land area in the world. It is also the world’s largest producer of milk, tea and pulses.

India has significant reserves of gemstones to support the Gems and Jewellery industry. Key states with gemstones reserves and mining potential are Maharashtra, Madhya Pradesh, Orissa, Chhattisgarh, Bihar, Andhra Pradesh. Orissa has rich deposits of ruby and has about 20 varieties of various gemstones like rhodoline, garnet, aquamarine etc.

Access to low-priced supplies of domestically produced cotton is a significant advantage for the Indian Textile industry. India is the third largest producer of cotton in the world and has the largest acreage under cotton cultivation - nearly twice that of US. India produces nearly 23 varieties of cotton and this diversity makes India capable of catering to various segments in world trade. This gives inherent strengths in raw material availability and prevents any supply side shocks.

The Indian Dyestuff industry has a share of 6 per cent by volume in the global dyestuffs production, which is estimated at 2 million MT. The industry is self-sufficient in raw material supply, as 95 per cent of the raw material required is available locally.
The companies studied. Power, road transport, ports all need to improve significantly to sustain growth in the economy.

A high percentage of companies (74 per cent) said that the existing roads/ports/airports are not sufficient to meet the demand. India’s 12 major ports can handle about 30 million TEU of traffic, while the need is probably close to 100 million. While several initiatives have been taken, and are ongoing, to improve India’s infrastructure on various fronts, more than 70 per cent of the companies feel that the infrastructure growth in the companies studied. Power, road transport, ports all need to improve significantly to sustain growth in the economy.

German companies covered in the study have mixed reactions on efficiency - productivity of their Indian operations. While 30 per cent of respondents felt that their Indian operations were among the most efficient globally, 33 per cent disagreed. However, most firms recognised India’s capabilities and advantages as a manufacturing location.

Manufacturing in India is not without challenges…

Infrastructure remains the most critical challenge for growth of manufacturing in India, according to
India has been unable to keep pace with the growth in the economy. The key area of concern is the gap between what is promised/planned and actually implemented, and the slow pace of implementation. This is the one area most companies feel India needs to address urgently, to unleash its full potential.

...But most German companies remain bullish

Despite challenges, German companies in India have leveraged India’s significant advantages and remain bullish about India’s role as a key manufacturing location. The study indicates that in addition to the 65 per cent manufacturing companies, which already have a manufacturing plant in India another 30 per cent of the companies have plans to make India a manufacturing base in the future.

Some of the examples of German companies leveraging the India advantage for manufacturing:

- **Lapp India’s** Bangalore plant was the group’s first manufacturing plant in Asia.
- **Burgmann Group** considers India as one of the most important markets in the world today in terms of global outsourcing, manufacturing and design hub. The company has been successful in making India the manufacturing hub of critical components for the Burgmann subsidiaries across the globe.
- **Würth Group** looks at India as a source for relatively higher skilled manpower with a potential for higher quality workmanship.

**India as a hub for Services**

“India offers technology and skilled manpower, which are key enablers to any business”

*Umar Balwa, MD
Burgmann India Pvt Ltd*

India’s strengths and success in the Services sector have been much discussed and documented. Services dominate the composition of India’s GDP, accounting for more than 50 per cent. The Services sector has maintained a steady growth pattern since 96-97. This sector, providing employment to 23 per cent of the work force,
that include:

• Setting up R&D centres
• Setting up BPO operations
• Leveraging Indian manpower to provide consultancy services

Research and Development centers in India
Research and Development outsourcing in India is spread across several key sectors such as IT, Telecom, Auto, Research and Pharmaceuticals sector. The sheer numbers of India’s talent force make a compelling case for outsourcing R&D to India. Other reasons are Indian research and engineering education, lower cost, relatively easy access to participants in clinical trials. A large number of German companies have either set up or are planning to set up their R&D centers here:

• India’s capabilities in the high tech research influenced Carl Zeiss’ decision to start operations in India.
• Baerlocher’s globally integrated R&D centre in India became operational in 1998 to leverage the skilled technical and engineering talent available in India.

Business Process Outsourcing
IT enabled services, such as Business Process Outsourcing have been growing rapidly in the recent past and will continue to rise. The BPO Sector has been growing at 60-70 per cent annually and its turnover in 2004-05 reached US$ 5.8 billion from US$565 million in 1999-00. India’s large quantum of English speaking skilled manpower has made India a major exporter of software services and software workers.

Among German companies in India, Deutsche Bank has started Business Process Outsourcing operations in India with the launch of Deutsche Network Services Pvt Ltd in Bangalore for payment and cash management processing.

Consulting Professionals
German companies that provide specialised
consultancy services have been leveraging the technical resource pool in India for their projects in India and abroad.

- Lahmeyer International saw India as a resource pool of individuals with good engineering capabilities. The Indian subsidiary now staffs Indian resources to more and more overseas projects.

- Fichtner has been leveraging the highly qualified Indian resources to not only establish their presence in India but also handle projects at international locations.

Retaining talent – a key challenge
Multinational companies are interested in India because of the rapid growth of its large talent pool and the low cost of operation. Acquiring and retaining the right talent is a challenge. Training and team building exercises are becoming key focus areas for companies in this scenario.

- **Fichtner India** has invested in training & development programs to impart the requisite skills to their employees.

- **Stollberg India** conducts weekly training sessions wherein employees are given training in diversified areas, such as languages, management, technology, etc. Employees are also deputed to the company’s suppliers to get trained on equipment maintenance and operations.

- Apart from the Leadership Development training **BASF** in India ensures that the training need of each employee is mapped and appropriate training courses are run either with in-house or professional trainers.

- **Carl Zeiss India** understands the importance of training and all the employees are well trained to perform their tasks.

- The parent company of **Durr India** has been supporting the Indian subsidiary in training the employees. For example, the engineering team from Durr India is trained in Germany, installation and commissioning people sent to China for training at Durr’s China facilities.

- **Kluber Lubrications** has been very supportive in providing technical training and sales training assistance to employees in India.

  Government support – on the right track.
  India is a very transparent economy and growth is here to stay. Once the infrastructure is in place India will be a really exciting market”

  Ramnath, Head - Finance & IT
  BASF India

  India has already achieved very significant deregulation since 1990: for example, the number of sectors open to foreign participants has expanded steadily, while import and export duties have been progressively reduced. According to the World Bank, the burden of licensing and bureaucratic administration has significantly reduced since 2000.

Investment procedure simplified
Investments in some economic sectors are now given automatic approval by the Reserve Bank of India. In other sectors the government has attempted to streamline the process of approval through the Foreign Investment Promotion Board (FIPB). In practice, companies report that decision-making can still appear arbitrary. Manufacturing investors can incorporate in India as Indian companies or foreign companies. Indian companies may be joint ventures or wholly owned subsidiaries, and foreign equity ownership can be up to 100 per cent. Foreign equity caps apply to some sectors.
**Bilateral Investment Promotion and Protection Agreement (BIPA)**

As part of the Economic Reforms Programme initiated in 1991, the foreign investment policy of the Government of India was liberalised and negotiations undertaken with a number of countries to enter into Bilateral Investment Promotion & Protection Agreement (BIPAs) in order to promote and protect investments, on a reciprocal basis. India and Germany signed this agreement in July 1998. The important elements of BIPA are: National Treatment for foreign investment; MFN treatment for foreign investment and investors; free repatriation / transfer of returns on investment; recourse to domestic disputes resolution and international arbitration for investor-State and State-State disputes; nationalisation / expropriation only in public interest on a non-discriminatory basis and against compensation etc.

**Tax reforms under way**

Corporate taxation is high compared to European and US rates, but average in world terms, and has been significantly reduced in the last 15 years – the top basic rate fell from 48 per cent to 35 per cent in 2004. The indirect tax burden varies from state to state: the federal government is in the process of implementing VAT at two lower rates of 4 per cent and 12.5 per cent; (20 of the 29 states have moved to the new VAT regime starting April 2005). Companies say this can bring a significant reduction in operational costs. Tax related industrial incentives include tax holidays, 100 per cent deductible R&D and capital expenses, accelerated depreciation and exemptions or deferral of state sales taxes. The government is also committed to rapidly expanding the number of concessionary Special Economic Zones (SEZs) where tax is significantly reduced.

**Double Taxation Avoidance Agreement (DTAA)**

India has entered into DTAA with 65 countries including countries like USA, UK, Japan, France, Germany, etc. These agreements provide for relief from double taxation in respect of incomes by providing exemption and also by providing credits for taxes paid in one of the countries.

These treaties are based on the general principles laid down in the model draft of the Organization for Economic Co-operation and Development (OECD) with suitable modifications as agreed to by the other contracting countries. India signed the DTAA with Germany in December 1996.

**Industrial parks**

Government of India is also developing and promoting industrial parks with proper infrastructure and incentives to the companies investing in those parks.

For example, the government has been developing agri-zones and the concept of mega food parks to promote the food-processing industry in India. It is considering investing US$ 22.97 million in at least 10 mega food parks in the country besides working towards offering 100 per cent foreign direct investment and income tax benefits in the sector.

EHTP (Electronic Hardware Technology Park) developed by the government provides benefits to companies that are replacing certain imports with local manufacturing. EHTP benefits include export credits, no duties on imported components or capital equipment, business tax incentives, and an expedited import-export process.

Another package envisaged an outlay of US$ 24.5 million for setting up five leather parks - two in Chennai and one each in Nellore, Agra and Kolkata.
Special Economic Zones

In order to enhance foreign investment and promote exports from the country, the government announced the Special Economic Zone (SEZ) policy. SEZs are deemed to be foreign territory for the purpose of trade, duties and tariffs. It reinforces the government’s realisation of need for a level playing field to be made available to domestic enterprises and manufacturers in order to be globally competitive. Unlike most of the international instances, where zones are primarily developed by Governments, the Indian SEZ policy provides for the development of these zones in the government, private or joint sector. This offers equal opportunity.

Currently a number of SEZ projects are coming up in the country, including conversion of some existing Export Processing Zones into SEZs. In addition, approval for setting up of 36 SEZs in various parts of the country in the private, joint sector or by State Government have been given. In addition three new SEZs have recently started operations.

SEZs offer high quality infrastructure facilities and support services, besides allowing for the duty free import of capital goods and raw materials. Additionally, attractive fiscal incentives and simpler customs, banking and other procedures are offered in such zones. For example Gems & Jewellery units in SEZs can receive precious metals i.e. Gold, Silver and Platinum prior to exports or post exports equivalent to value of jewellery exported. This implies that they can bring export proceeds in kind against the present provision of bringing in cash only.

Most German companies’ studies acknowledged policy and regulatory initiatives had been undertaken to promote business in India, but felt that gaps still exist. While policies have been framed, the feeling is that they have not been implemented uniformly or rigourously.

Thus, nearly 80 per cent of the companies studied felt that procedural bottlenecks still create unnecessary delays. This was also felt to be the reason for India’s relatively slow progress in building infrastructure, which is seen as another area for improvement. On how Indian laws treat foreign firms, the majority (44 per cent) felt that Indian and foreign firms are treated on par, but nearly 39 per cent disagreed. 40 per cent of companies felt that government policies are not clear cut and are open to interpretation. Overall, nearly 45 per cent of the companies felt that government support to business needs to be improved.

In India unnecessary procedural bottlenecks create delay

India attractiveness - Ease in understanding policies
India - a key growth market for the future

Considering the growth potential in the Indian market, most (64 per cent) German companies across sectors have plans to expand in India in the immediate future. This expansion is in the form of increasing capacity, getting into additional segments, and/or increasing market share in existing ones. Following are examples of companies planning to expand their presence in India.

- **Adidas** plans to expand Indian operations by opening more showrooms and launching new products.

- **Zwick Roell** plans to grow aggressively at more than 25 per cent annually.

- **Schuler** perceives India as a high growth market. Over the next 3-5 years the plan is to invest about US$ 20 million.

- **Deutsche Bank** plans to expand its Indian operations by including more products in its Indian portfolio.

- **Henkel India** is in the process of reshaping its business portfolio and formulation of strategies to match the strengths of the firm with growth opportunities in the market place. The plan is to double the Indian turnover by 2008.

- **Beiersdorf India** aims to become one of the top 10 subsidiaries in the group in terms of sales in the next 6-7 years.

India - a manufacturing base

India’s advantage as a source for manufactured goods is being seen by some German companies as a potential lever for future growth. 30 per cent of the manufacturing companies studied have plans to develop India as a manufacturing base.
Some of the examples of German companies with plans to set up / expand their manufacturing facility in India are:

- **Suspa Pneumatics** plans to convert India into a manufacturing base. It plans to increase its production capacity from the current 2 million automobile struts to 5 million

- In the long term, **Knorr Bremse** plans to leverage its India operations and convert India into a manufacturing base.

- **Baumuller KAT** has plans to set up a manufacturing plant in India to cater to the Indian market. The new plant is expected to scale up and become a base for exports.

- **Durr India, DMG India, Schuler India, Beiersdorf India, Carl-Bechem India** all plan to make India their manufacturing base in the future.

**India - a hub for services**

More and more German companies are planning to set up their R&D and outsourcing centers in India as India offers technically skilled manpower at a lower cost compared to most other countries. 18 per cent of the companies are planning to either start or invest more on their R&D facility in India. 6 per cent of the companies are looking at India as an outsourcing destination for their IT and other backend operations.

Some of the examples of German companies with plans to set up/expand their R&D and outsourcing facility in India are

- **Abicor Binzel** has plans to set up a research lab in India

- **Baerlocher India** plans to invest more in R&D infrastructure in India

- **Knorr Bremse** sees India as a possible base for engineering development, providing engineering support to develop new concepts and products.

- **Klüber Lubrications India** plans to outsource R&D and IT services from parent company.

- **DMG India** plans to invest US$ 2.48 million in developing a technology center in India leveraging the rich pool of technically qualified resources.

The experiences of successful German companies operating in India, their perceptions on India and future plans, hold key messages for prospective investors into India. Such investors can seek to take away insights based on the study of existing German companies, which can then aid them in making their investments more successful. In the next section, we look at a few key takeaways for prospective investors.

**Key messages for prospective investors**

An analysis of the key success factors of successful German companies in India, and the insights provided by the top management of these companies in primary interviews, provide several useful messages and guidelines for prospective investors, to make their ventures successful.

**Have a long term view**

The predominant majority (91 percent) of companies covered by the study felt that to be successful in the Indian market, one needs to take a long-term view – at least a 15 to 20 year horizon. Their experience of India has provided several reasons to justify this:

- India is a very price sensitive market – 90 per cent of respondents agreed to this.
- While the market is large, it is also extremely competitive in most sectors. Therefore volumes, at least in the initial years, are expected to be
small. This, in turn, would lead to a longer cycle time in developing a reliable, quality vendor base.

- Procedural bottlenecks still create delays in several areas of setting up and running businesses.

Here is what some of the top executives of German companies in India had to say on the subject:

"India is not a country you can ignore but one should have patience to see results"

Vivek Sehgal, Director and COO
Lahmeyer International India Pvt Ltd

"One has to have a long term vision for investments in India. The ideal strategy would be to start in a small way, understand the local markets & grow steadily."

Sunil Gupta, MD
Durr India Pvt Ltd

"India is an excellent investment destination but players need to come into the country keeping in mind a slightly longer gestation period"

S S Ahluwalia, Director
Baerlocher India Additives Pvt. Ltd

"If you have long term commitment then India is a good destination"

D M Thaker, Managing Director
Schuler India

"This is probably the best time to enter India. India is not a place for short term gains, to succeed one needs to be a medium to long term player"

Satish Kumar, Managing Director
Henkel India Limited

Find a local partner

Many companies, including those who entered India on their own, saw merit in joining up with a local partner, who understands the local market and regulatory nuances, is well networked and can hence effectively facilitate market entry. Having a local partner is seen to have the following benefits:

- Help to better understand government policies and regulations
- To understand customer needs, especially varying needs across geographies
- To find local supply chain partners – vendors / distributors
- India is a huge country, distribution is key and an established local player can help

In the words of some of the top management of these companies:

"To do business in India choose a right partner – a like-minded firm"

Hemant V. Katakkar, MD
Baumuller KAT India Pvt Ltd

"The best way of starting business in India is to find an Indian partner or promoter as one needs to understand the local requirements and realities"

Stephan Gerlich, Country Head
Bayer India

"India is definitely exciting to invest in. Going with an experienced Indian partner will make a lot of difference"

Deepak Kapoor, Managing Director
Zwick Roell

"India offers a lot of potential but to do business in India one requires a close understanding of the market and market conditions"

Vergheese, Managing Director
Steag Encotec (India) Private Limited

Get the product and pricing right

Several German companies surveyed felt that their wide product range was a key success factor that helped to differentiate them in the market. The
primary reason for this is that the Indian market is diverse, and customer requirements and needs often vary widely across regions and market segments. For the same reason, these companies feel that customising the global product for the Indian market will pay dividends.

India is a price sensitive market, and having the right price / value equation is a key to success, according to these companies.

Some examples of companies that have leveraged their product range to succeed in India include:

• **Bayer India** has been successful as the company has been innovating and introducing new products suited for India

• **Klöber Lubrications** follows an intensive knowledge based approach in India where the entire offering is specifically customised to cater to the specific customer requirement. This collaborative approach that seeks to leverage the company’s expertise to meet client specific needs has been a critical differentiator for the company in the Indian scenario, where the market is extremely price sensitive and customers can switch easily.

• **Knorr-Bremse** has been able to achieve CAGR of 35 per cent in the last 5 years, despite the market not growing as fast, through the introduction of newer products into the Indian market. The company’s focus has been on customising existing global products for Indian requirements, rather than developing new products for India.

• **Carl Bechem** has been successful in introducing a wide range of products, which suits the needs of the Indian market. The company has been able to differentiate itself in terms of the superior quality of its products compared to that of competitors.

• **Baumuller Kat** - Indian market being a highly price sensitive market there is a lot of attention paid towards coming up with a suitable pricing strategy. The company receives a lot of inputs regarding this from the parent

• **DMG Group** follows a uniform pricing strategy across the world. In a price sensitive market like India uniform pricing succeeded in bringing transparency and increased the customer’s confidence and faith in the firm.

“India is a gigantic market with wonderful opportunities. If you **hit the market with the right products, you have made it**”

S. G. Narayan, Managing Director

**DMG India**

**Don’t compromise on quality, technology and after sales support**

While India is still a developing economy, Indian customers are fast becoming highly evolved and discerning, due to increasing exposure to global products and services. Indian consumers have become more demanding about product quality and performance. Consumers today are more aware of safety and health aspects and are willing to pay a premium for these extra benefits.

Success in the Indian market would therefore depend upon meeting the growing expectations of customers on product features, performance, quality and after sales service support. Most German companies feel that Indian customers find value in German standards and quality processes, and ensure that products and services in India are on par with what is provided globally. Many companies also feel that leveraging technical support from the global parent in these areas would be key.

Examples of companies that have succeeded due to their quality, technology and service include:

• **Durr India** - The parent company has been supporting the Indian subsidiary in technology transfer & training the local national employees.

• **Henkel India**’s production facilities are at par with the best of the industries and the quality
more German firms are looking to set up operations in India. Indian companies have also started looking at growth opportunities in Germany.

The study of the experiences of German companies in India has thrown up several interesting insights. The study clearly shows that German companies understand and appreciate the advantages India offers, and the promise it holds for future growth. These companies have seen efforts being made by the government to mitigate some of the challenges, and have also leveraged their own strengths to develop specific strategies for the Indian market. Prospective investors can leverage the experiences of these companies to chalk out their own India entry strategies. While there may be some universal guidelines or messages, it is up to each individual firm to customise their approach to India.

“You must come to India...Be patient...Get good local advice...and then enjoy the ride. India is a fascinating place for business and your personal life”

Chris Callen, Country Manager
DHL Express India

management system is certified as per ISO: 9001:2000 guidelines.

- **Knorr-Bremse** plans to expand the presence in India through the introduction of newer technology

- **Daimler Chrysler** India has maintained a constant thrust on the quality of its products and customer service. The company has focused on bringing out products that incorporate the latest technology, with best in class performance and safety features.

- **Bosch** owes its leadership position in the highly competitive Indian auto component sector to its technology and quality edge

**Conclusion**

Indo-German trade and commercial relations, which go back more than a century, have picked up momentum in recent years. Successful German companies in India are seeking to further consolidate and augment their presence in the country, as well as leverage their Indian operations for supporting other markets. At the same time,