EXECUTIVE SUMMARY

India's economic integration with the world's economies is increasing

Global economic integration has created a market for all kinds of products and services cutting across national borders. The Indian economy is also clearly on the path of integration with the global economy facilitated by a number of measures such as declining tariff barriers, liberalised foreign direct investment (FDI) regime, capital market reforms and legal protection for Intellectual Property Rights. India's engagement with the rest of the world is reflected in its terms of trade, which has crossed Euro 200 billion and reflects the country's growing significance in international trade. Exports have clocked a high growth rate in the period 2000-01 to 2005-06, crossing Euro 85 billion in fiscal 2005-06. Imports have also witnessed a similar surge, having grown from Euro 52.9 billion in 2000-01 to Euro 118.2 billion in 2005-06, at a compounded annual growth rate (CAGR) of 17.4 per cent. Performance on the trade front is expected to be even better in the financial year 2006-07. In the first nine months of 2006-07, India had already clocked exports of Euro 76.1 billion, and imports of Euro 111.5 billion.

Economic co-operation with the Italian economy has also grown

Bilateral trade between India and Italy has shown robust growth, especially over the past two years. Bilateral relations between the two countries received a major impetus after the visit of the Italian Prime Minister to India in February 2005, and the subsequent visit of the Indian Commerce and Industry Minister in October 2006. Exports to Italy, which were roughly Euro 1.38 billion...
in 2000-01, grew to Euro 2.07 billion in 2005-06. Imports from Italy also got a tremendous fillip, having more than doubled from Euro 0.76 billion to Euro 1.52 billion, during the same period.

Today, Italy is India’s fourth largest trading partner in the European Union, the first three being the UK, Germany and Belgium. In 2005-06, bilateral trade was of the order of Euro 3.6 billion. There is potential to enhance bilateral trade as the percentage share of trade is less than 1 per cent of global trade on both sides.

The Italian government has already identified India as a priority country and, in particular, as the Focus Country for 2007.

Till date, Italian investments although spread across various industry segments in India, have not been too significant in volume terms. During the period August 1991 to July 2006, FDI from Italy totalled only Euro 445 million and took the 11th place in the country-wise FDI inflows. Going forward, however, there is little doubt that more Italian companies would join the existing ones in India. Several Italian companies have a large-scale presence in India in the automobiles, auto components, industrial goods, engineering services, cement, textiles, luxury goods, ceramics and fast moving consumer goods (FMCG) sectors. There are strong commonalities on both sides in these sectors, thus creating a huge potential for increased bilateral trade and investment flows. As Italian companies are looking for new trade and investment opportunities in India, it is encouraging to see that the opposite trend has also started. A number of Indian companies have begun to look at Italy as an investment destination.

There still remains a vast pool of unexplored possibilities for collaboration across all industry sectors, particularly at the level of small and medium enterprises (SMEs), an industry characteristic common to both countries. This has necessitated a study to review the operations and growth strategies of Italian companies currently present in India, with a view to analyse their success in establishing themselves in the Indian market. IBEF commissioned a study, which was undertaken by ICRA Management Consulting Services (IMaCS), to showcase the growth stories of these Italian companies. This study will serve as a useful guideline for other Italian companies, which may be keen to do business in India.

This study on Italian companies that are significant

![India's Exports to Italy (Euro billion)](image1)

![India's Imports from Italy (Euro billion)](image2)

*Source: Ministry of Commerce & Industry, Government of India*
investors in India shows that entry into India has meant greater emphasis on adapting to Indian market situations as well as using India as a sourcing base for exports. The study covered companies from diverse businesses - automobiles, auto components, FMCG, apparel retail, textiles, cement, engineering services, boilers, financial services and shipping services. The set of companies chosen for the study by IMaCS are mostly those who have established a strong market position for themselves in the country or range from those that set up export hubs in India because of the country's low cost advantages. They have been selected on the basis of several criteria like size of the parent company in Italy, size of Indian operations and their significance to the global operations of the parent company and market presence in India. Significant care has been taken to ensure that the study has cross-sectoral representation from companies. These profiles are based on secondary research as well as detailed interactions with key personnel at these companies. The latter have been then validated by the respective companies for accuracy of facts.

**Key findings of the study**

It has been observed that most of the Italian companies having a presence in India operate through their wholly-owned subsidiaries and only some through joint ventures, wherein the Indian partner has some significant strength to offer. However for those present through their subsidiaries, the initial entry into India has been mostly through joint ventures with a local partner. These joint ventures have been shelved at a later stage for some reason or the other, but this has in no way impacted the seriousness about establishing a presence in India. The sheer size of the Indian market as well as factor advantages like readily available skilled manpower and lower cost of production, has ensured that Italian companies have a long term view of the Indian market and want to stay invested, irrespective of whether they are making short-term profits or not.

**Italian companies in India have leveraged the India Advantage**

India is the fastest-growing free market democracy in the world. It has a mature and dynamic private sector, which accounts for 75 per cent of India's GDP. Experiences of multinational companies (MNCs) have proven that India is an attractive investment destination, and it is expected to achieve the highest growth rate among the BRIC countries (Brazil, Russia, India and China). With positive indicators, such as a stable 8 per cent annual GDP growth, increasing foreign exchange reserves, a booming capital market with the Bombay Stock Exchange index touching new highs, growing FDI and a surge in exports, it is easy to understand why India is a leading destination for foreign investment. The country offers significant business opportunities in the manufacturing as well as service sectors.

**Large market potential**

India is one of the largest and most diverse consumer markets in the world. Due to the rapid growth of its economy and an increase in disposable incomes of people, the spending power of the Indian consumer is increasing rapidly. India represents a major untapped opportunity, as there are more than 420 million Indians under the age of 25 years. By 2013, another 200 million people are expected to join this category, representing an exponential growth in the 'consuming' class. Nearly 67 million Indians have an average annual income of roughly Euro 28,000. In the backdrop of ongoing changes in world demography and the greying of populations in the developed world, India’s population offers myriad market opportunities. India’s large domestic market has been one of the major factors that have influenced investments by Italian companies.
SAME Deutz, a world leader in farm equipment and engines, has been operating in India since 1999. It manufactures and markets state-of-the-art SAME brand tractors from 35 - 60 HP. Its broad product range and strong distribution reach have helped it garner a significant share of the Indian tractor market.

The most prominent Italian success story in India is that of Perfetti Van Melle, one of the largest manufacturers of confectionery and chewing gum products in the world. It entered India’s confectionery market in 1994 and today leads the Indian sugar confectionery market with more than 25 per cent of its value share. Over the last 12 years, the company’s portfolio has grown from a single brand to having 15 well-established brands today. It also works towards developing products in India. Its Cofitos brand is an example of a product developed in India, which is now a global brand.

Benetton is another case example of an Italian company that has achieved considerable success in India. Today, as a wholly-owned subsidiary of the Benetton Group, it has established itself as a fashionable wardrobe brand. It has created a strong retail identity and an identifiable model of retail servicing and is recognised as one of the pioneers of organised retail in India.

The presence of Rayban (part of the Luxottica Group) clearly demonstrates that the Indian consumer has come of age and there is a significant market for luxury brands in India. The company has effectively leveraged the strengths of its international brands in the Indian market. Many of its global brands have already been launched in India. The company ensures that the new models that are launched in the international markets are launched in India simultaneously. The advertising campaigns used by Rayban in India are global seamless campaigns, thus ensuring a consistent

The largest Italian presence is in the automobile sector, with Italian companies present in the key segments of passenger cars, three wheelers and tractors.

Fiat, amongst the largest car manufacturers in the world and operating across 190 countries, was amongst the first foreign automobile companies to enter the Indian market. It began selling its vehicles in India in the year 1905 through a sales agency - Bombay Motor Cars Agency. Now present through its own manufacturing facilities, its success factors in India are its excellent products, well-established supply chain, increasing localisation content and an attractive domestic market.

Piaggio, the world’s original manufacturer of scooters (with its well-known brand - Vespa) and three-wheelers, entered India in 1998. With its focus on building a strong marketing and sales network, coupled with its empowered local level management and localised product mix, the company today is the second largest three-wheeler manufacturer in India, having more than one-third market share.

New Holland Tractors (India), part of CNH Global N.V., a leading global tractor and farm machinery manufacturer, also entered India in 1998, selling tractors in the 35-75 HP (horsepower) range. Its manufacturing unit in India has already achieved 90 per cent indigenisation. Its strong distribution reach is complemented by its unique sales model, wherein it has entered into tie-ups with various banks and financial institutions to offer attractive retail finance facilities to the farmers for buying tractors. This strategy has resulted in a win-win situation for all the stakeholders, as farmers gain access to latest technology and easily available finance, the financier gets to meet its farm-lending target and New Holland gets ready access to a wide market.
brand identity. This strategy has helped it garner almost half the share in the mid-premium segment of sunglasses and a significant presence in the premium segment.

The ceramic business, in which the Italian industry has been strong historically, is a key growth area in India. Companies like Bisazza, one of the largest manufacturers of glass mosaics for floors and walls, have created a niche in the Indian market with innovative designs and colours, adopted from the global portfolio. The growth in the Indian real estate segment has given a strong boost to Bisazza India’s business. Another Italian company, which has benefited from the boom in the real estate segment is Boss Profiles, a leading manufacturer of ceramic tiles. It has carved a niche in speciality ceramics, like unglazed vitrified tiles, and has also established an unrivalled distribution network and a strong research focus to garner a significant market share.

Italcementi, the fifth largest cement maker in the world, entered India through acquisitions of two cement plants in South India. With a strong distribution network and adroit cost management, the company has achieved a significant market share in the South. It has successfully tackled the complexities of operating in India with its fiercely competitive cement market and price pressures.

In the boilers industry, Ansaldo Caldaie, one of Italy’s leading designers and manufacturers of boilers, used for power generation and environmental applications, has entered India as part of a joint venture with an Indian company. It is a turnkey solution provider (in terms of supply, installation and commissioning) of utility boilers and heat recovery steam generators. Its growth in India has been driven by the positive developments in the power sector and it has executed a number of major boiler projects in India, including those for prestigious clients like National Thermal Power Corporation, Larsen & Toubro and Neyveli Lignite.

**Readily available skilled manpower**

India has an edge over other countries in terms of its skilled and technologically qualified manpower. Over the next 10 years, the country is expected to have a workforce even larger than China’s and become a key destination for knowledge process outsourcing (KPO) and engineering process outsourcing (EPO), along with business process outsourcing (BPO). The country is emerging as a major R&D hub, with over 100 Fortune 500 companies having their bases in India. Italian companies across industries have leveraged this unparalleled advantage of operating in India.

This advantage is most evident in the case of STMicroelectronics, which is amongst the world’s top ten semiconductor companies. It entered India in 1987 and has today grown to become one of the leading suppliers of semiconductors in India. Its advanced R&D Centre at Greater Noida near Delhi is the company’s largest outside Europe and reflects the range of activities carried out by the company in India. ST India specialises in developing high value Intellectual Property (IP), System-on-Chip (SoC) embedded software for end applications and IT infrastructure. In fact, India has recently become one of ST’s major centres for developing key applications such as set-top boxes, DVDs, wireless-telecom instruments, multimedia devices and imaging and automotive solutions. ST India’s contribution to IP is evident from the fact that it has filed for more than 500 patents, of which more than 55 have been granted.

**FATA Hunter** India has successfully leveraged the readily available, large pool of qualified and talented engineers in India, to become a source of engineering services, such as detailed drawings and software, for FATA S.p.A. It has also established
Similarly, Carraro, one of Italy’s largest groups, involved in the design, manufacture and marketing of mechanical and transmission systems, uses its Indian facilities as an outsourcing hub for itself, as well as for direct exports. Direct exports are made to leading companies like Case New Holland (in the USA) and John Deere (in Mexico and the USA). Carraro India has a dominant position in the Indian tractor market as well, with all the key manufacturers of the Indian tractor industry, namely, Escorts Limited, New Holland India Limited, L&T John Deere, Mahindra & Mahindra and Punjab Tractors Limited, being its customers.

Vincenzo Zucchi, a large manufacturer of household linen in Italy, has formed a joint venture with Welspun India Limited, a vertically-integrated textile manufacturer in India. The performance of this joint venture, christened Welspun Zucchi Textiles Limited, has relied heavily on the design strength of its Italian parent, and the high quality of raw material manufactured by its Indian parent. The lower cost of production in India has contributed strongly to its success. Today it is the largest bathrobe manufacturer in India, with sales to Zucchi accounting for nearly 40 per cent of its total sales and the remaining sales coming from customers in the USA, Europe and Middle East.

In the management consulting space, Value Partners is the only Italian firm in India that offers strategic consulting services to European firms and local groups in consolidating their growth and/or diversifying the geographical scope of their businesses. In India, it has leveraged the rich experience of its local consultants to develop strong competencies in growth industries like telecom, retail and mall development.

**Lower cost of production in India**

India has one of the lowest labour costs among developing countries, and it also offers a cost-effective manufacturing base. The Ministry of Commerce & Industry, Government of India has estimated that offshoring operations to India can result in a cost benefit of up to 40 to 60 per cent for companies from developed countries. The low cost scenario in India has been utilised by MNCs, including Italian companies, to make India a sourcing and export hub. This is aptly illustrated by companies in the auto components and industrial goods industries.

**GRAZIANO Trasmissioni**, a leading manufacturer of transmission products (gears, synchronisers, gearboxes, axles, transaxles, power shift transmissions and other sub-assemblies), receives almost two-thirds of its turnover from exports, made to Europe and the USA.

**Concomitant increase in demand for support services**

A growth in trade and investment relations between India and Italy has also resulted in increased demand for support services. Primary among these services is banking services, which has recently joined this growth bandwagon. Leading Italian banks like Banco Popolare di Verona e Novara, Banca Monte dei Paschi di Siena and Banca Popolare di Vicenza have set up
their Representative Offices in India so that they are seen by their customers as service providers for international business as well. In India they provide every assistance that their Italian clients may need in their commercial business within the Indian sub-continent. The assistance provided includes interaction with local clients and banks, as well as legal and regulatory help. Their portfolio of services includes information on business opportunities in India, assistance in developing new commercial contacts, consulting services related to laws and regulations governing trade and investment activity in India, trade promotion and market research activities. These banks have built strong teams of committed staff, who have a sound understanding of both the Italian as well as the Indian economies. They aggressively track key developments in the two countries, which may impact the businesses of their clients. After the opening up of the Indian financial sector in 2009, there is a high likelihood that Italian banks may also explore opportunities in setting up of branch operations.

**Italia Marittima**, one of the oldest shipping companies in the world, enjoys the unique distinction of being the first foreign shipping company to be permitted by the Government of India to open its own Branch Office in the country, way back in 1949. The company started its Indian operations in the bulk cargo and passenger service segments and migrated later to container services. Its business is anticipated to grow substantially over the next few years, especially with the growth of bilateral trade relations between India and Italy.

**Alitalia**, the leading Italian airline, has a long relationship with India dating back to 1960 and recognises India as a prime strategic location for its business. Over the last decade, India has emerged has a high growth economy and hence, has witnessed a tremendous increase in business and tourism. Alitalia aims at increasing its current share in the passenger and cargo operations in India in the near future, given the increasing business between India and Italy.

**Experiences of Italian companies in India offer learnings to future entrants**

As India makes rapid strides in its economic growth, it is increasingly becoming an attractive destination for international companies, thus heating up the competition in the domestic market. At the same time Indian companies are becoming more and more competitive. Italian companies cannot ignore the fact that in order to face this competition, they have to emerge stronger in the Indian market. Those companies that are already present in India, are seeking to further augment their presence in the country and have strong future plans for themselves. As more and more Italian companies, especially SMEs, enter India to leverage its factor advantages, they also need to understand that they have to localise their products and operations to suit the Indian requirements.

The Italian companies, which are already present in India, realise that it is essential for them to give sufficient flexibility and bandwidth to their local management, in order to succeed. Even though most companies have a presence in India through their wholly-owned subsidiaries, and some through joint ventures with Indian partners, the key message is the involvement of local people in the important decision-making processes.

The trend towards investments into India will soon extend to the next rung of companies, which are looking at aggressive growth, and intend to leverage India either from the point of view of a large domestic market, or as a sourcing hub for the parent company for its global network. These companies that are lined up to make an entry in India need to realise that it is essential for them
to first understand the Indian market well and localise their products and/or processes to the Indian situation. Even for those companies who do not aim to sell in the Indian market, but rather prefer to export from India, the message from the current experiences of Italian companies is loud and clear. They need to actively empower the local management and make them an integral part of the global vision and growth plans, so that the requisite capabilities in order to succeed are built.

Potential Italian investors can leverage the experiences of Italian companies compiled in this study to chalk out their own India entry strategies. This study provides several key takeaways for companies, which can customise their strategies based on these experiences.