



INDIA

FASTEST GROWING
FREE MARKET DEMOCRACY

INDIA



Understanding India

- ▶ Rising consumer spending
- ▶ Growth of services
- ▶ Indian manufacturing establishing itself on the global stage
- ▶ Pervasive communications: Satellite and Cable TV, Basic and Mobile Telephony, Fibre/Broadband
- ▶ Infrastructure growth: Highways, Ports, Urban Transport
- ▶ Growth in literacy & higher education
- ▶ Mature political economy with development as its core agenda

These seven trends have facilitated a fundamental transformation that can best be experienced by visiting the shop floors and talking to the young Indians who are at the forefront of this change. Literally, hundreds of businesspeople have been flocking to India for a first-hand understanding of this change.

“Quite simply, I was blown away by what I saw on my first trip to India” reported Stephen Roach, Managing Director and Global Chief Economist of Morgan Stanley, shortly after his maiden visit to India in April 2004.

“Our class (Wharton MBA for Executives) voted to visit India for the international seminar. Our MBA class is pretty diverse, representing senior managers from Microsoft, Johnson & Johnson, Juniper Networks, Genentech, Amazon.com etc., who see India as a strategic opportunity, much as China was 10 years ago”, state the organizers of a Wharton Executive MBA Class' international seminar in India, clearly establishing the agenda for their September 2004 visit.

As the world's fastest growing free market democracy paces itself for even further growth, can you afford to be left behind?



Why INDIA?

“India's unique approach to development is preparing it to overtake China in the economic growth race.”

Far Eastern Economic Review

April 15, 2004

Economy

India became the fastest growing free-market democracy in the world by clocking **8.2% GDP growth** in the year ended March 31, 2004.

- ▶ Agriculture grew by 9.1% in the year, after notching up 16.5% and 10.5% in the 3rd and the 4th quarters, respectively.
- ▶ Manufacturing, which had posted a healthy 6.7% rise in 2002-03, grew by 7.3% in 2003-04.
- ▶ Other sectors with more than 5% growth included electricity, gas and water supply (5.5%); construction (6.2%); trade, hotels, transport, real estate and business services (6.8%); community, social and personal services (6%).
- ▶ Foreign exchange reserves have grown to over US\$ 120 billion (July 2004)

Dreaming with BRICs: The Path to 2050, a Goldman Sachs Report published in 2003, states that at present rates of growth, the burgeoning market in the country “**would be adding nearly one France every three and a half years and one Australia every year.**”

Agriculture

India is one of the world's largest food producers with an annual production of 600 million tonnes. By far the most richly endowed nation in Asia, India has a tenth of the world's arable land. A Food Chain Revolution is currently underway and has already led to:

- ▶ Buffer stock of food grains (wheat and rice) of nearly 50 million tonnes
- ▶ Nearly 14.2 % share of agriculture in total exports
- ▶ World's second largest exports of rice and 5th largest exports of wheat
- ▶ Introduction of futures trading in edible oil and foodgrains

A new breed of entrepreneurs, supported by newly developed **Agri Export Zones** is helping India become the food basket to the world (AEZs are geographically contiguous areas where capabilities in a single cash crop are developed).

- ▶ Since their inception in 2001-02, the AEZs have notched up total exports of US\$ 100 million, expected to grow to US\$ 2.8 billion by 2007.
- ▶ More than 32,000 farmers are currently undergoing training in exports. If that is any indication, there is a good chance that more and more Indian food items will find place on the shelves of the international food retail chains like Tesco and Sainsbury's.



Manufacturing

India is fast establishing itself as a global manufacturing hub. Contributing close to a fourth of the GDP, India's manufacturing sector has a diversified base of world class capabilities using state-of-the-art technologies. Global corporations are leveraging India's acknowledged strengths in product design, reconfiguration and customisation with creativity, assured quality and value addition - factors that outweigh mere cost considerations.

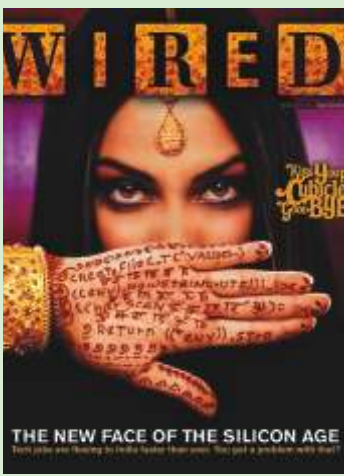
Services

Growing consistently at a rate of 7% per annum, the services sector currently accounts for almost half of India's GDP. Global investment banks, brokerages and accounting firms have set up large research establishments in India. A growing number of US companies are hiring Indian mathematics experts to devise models for risk analysis, consumer behaviour and industrial processes.

India - Preferred Services and Manufacturing Supplier to the World

Company	Outsourcing for
IT Services Infosys Tata Consultancy Wipro	Goldman Sachs, Aetna, Northwestern Mutual, Am Ex, DHL, Verizon GE, Honda, UBS, HSBC Transco, HP - Compaq, Nortel, General Motors, CISCO, Sony
IT enabled Services Mphasis BFL Spectramind	Citi Group, Accenture, Auto Zone, Capital One Dell, American Express, Capital One
Pharmaceuticals Cipla Shashun Chemicals Lupin Laboratories	Ivex, Watson Pharma, Eon Labs Eli Lilly, GSK Pharma Apotex, APP, Watson Pharma
Engineering Bharat Forge Tata Motors Moser Baer Essel Propack	Meritor, Caterpillar, Toyota, Ford, FAW (China) Rover, Imation, BASF P&G, Unilever, Colgate

Source: Enam Securities



Indian MNCs

Indian multinationals are on a global shopping spree for companies. Between 2001- 03, 120 foreign firms worth US\$ 1.6 billion were acquired by Indian companies. Now, they are expanding their M&A activities into new markets like Spain, Brazil, the rest of South America and Europe.

India Inc. - Global Buying Spree

Buyer	Acquisition	Price
Reliance Industries	Flag Telecom, Bermuda	US\$ 212m
Tata Motors	Daewoo, Korea	US\$ 118m
Infosys Technologies	Expert Information Services, Australia	US\$ 3.1m
Bharat Forge	Carl Dan Peddinghaus, Germany	N/A
Ranbaxy	RPG (Aventis) Laboratories, France	N/A
Wockhardt	CP Pharmaceuticals, UK	US\$ 18m
Cadila Health	Alpharma SAS, France	US\$ 5.7m
Hindalco	Straits Ply, Australia	US\$ 56.4m
Wipro	NerveWire Inc, USA	US\$ 18.5m
Aditya Birla	Dashiqiao Chem, China	US\$ 8.5m
United Phosphorus	Oryzalin Herbicide, USA	US\$ 21.3m

Source: Wall Street Journal; IBEF Research

- ▶ Indian firms have about 440 investments in the UK making India the 8th largest investor in that country.
- ▶ 1441 Indian companies have operations in Singapore.
- ▶ 92 Indian-American owned companies in the USA generated business of US\$ 2.2 billion and provided employment to about 19,000 people in 2002.
- ▶ Seven Indian companies are listed on the NYSE and three on the NASDAQ, while over 15 companies are traded on the London Stock Exchange.

Foreign Direct Investment

FDI will continue to be encouraged and actively sought, particularly in the areas of infrastructure, high technology and exports.

P. Chidambaram
Finance Minister, Government of India

Heralded as the **Best Country to be an Investor in** by Newsweek in July 2004, India is likely to emerge as one of the largest consumer markets in the world. On an average, 30-40 million join the consuming class every year. Political empowerment and economic trickle-down have now fuelled ambitions and aspirations in more Indians than in any other period of history.

India welcomes FDI in virtually all sectors. India offers a unique blend of talent and low costs that fit well with the perspective of global corporations seeking to bolster profits and ensure business continuity through multi-country strategies.

Capital Markets

Warburg Pincus' decision to relocate part of its Singapore team to Mumbai is symbolic of the interest private equity investors are showing in India. Even more recently, CalPERS, the US\$ 165 billion public pension fund that sets the tone for investors worldwide and puts a premium on corporate governance practices voted to step into India's booming economy.

Why are Investors so bullish?

- ▶ T+2 on April 1, 2003, T+1 from July 1, 2004
- ▶ Centralised listing authority
- ▶ Simultaneous dual listings
- ▶ Permission to de-list

Other Indian Success Stories include:

- ▶ ChrysCapital generated an IRR exceeding 135% on the sale of its investment in Spectramind to Wipro
- ▶ Jardine Fleming and JP Morgan are expected to earn a substantial premium on their investment in the IPO of NDTV Limited

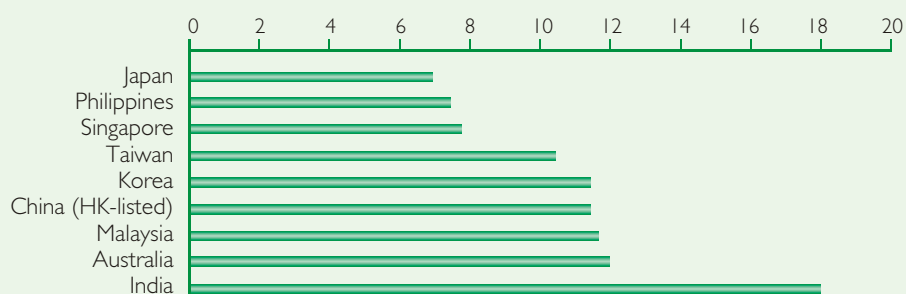
The PricewaterhouseCoopers Global Private Equity 2004 Survey highlights that funds raised for the Asia-Pacific region totaled US\$ 3.3. billion, an 11% increase on the previous year. Media reports have speculated that over US\$ 1 billion of this new funding is targeted at the Indian market.

India and China

“India's model should prove more sustainable than the typical East Asian strategy adopted by China. India is developing more efficient corporates, healthier banks, more robust service industries and a bigger consumption base”, reported Dan Fineman in an April 2004 article in the **Far Eastern Economic Review** titled **Growth Model**. In 2003, Indian companies had a higher return on equity than firms in China.

Leading the Pack

Indian companies had a higher return on equity in 2003 than firms in China



Source: J.P. Morgan

In July 2004, **Newsweek** proclaimed “India's governing institutions are much more mature [than China]... Besides being the “world's largest democracy, the country has a transparent legislation and an independent judiciary.”

India has some important advantages over China - including better protection for intellectual property rights and strong English language skills. Most importantly, in India, unlike in China, investors find it **easy to enter, easy to exit**.

'Caged Tiger' to 'Steady Elephant'

	China	India
U.S. FDA-approved Pharma Plants	20	65
U.S. Pharma Patents ('97-'01)	54	126
CMM rated software firms (population)		
Level 5	2	50 (50% fully local)
Level 4	0	27 (75% fully local)

Source: Prof. Tarun Khanna, Harvard Business School

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