

Doing Business in India

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Doing Business in India - Topics

- ▶ India at a glance
- ▶ Prime Minister Modi's Roadmap to make success of "Make in India"
- ▶ 2007/09 Case study
- ▶ 12 Essential tips for doing business in India

India at a Glance

India at a glance

- ▶ Despite the global slowdown, the Indian economy continues to grow at a positive rate and has achieved a strong position on the global map.
- ▶ With its robust financial systems and mature capital markets, India has emerged as one of the most attractive destinations for business and investments in the world.
- ▶ India's strong fundamentals, like the growing middle class, cost competitiveness and domestic consumption capacity have made it a preferred destination for MNCs from across the globe.
- ▶ India has a young population, with around 65% in the age group of 15 to 64 years
- ▶ The country's GDP grew by 7.9% for the 10-years period ending 2012-13, despite the global economic meltdown of recent years.

India at a glance (continued)

- ▶ Manufacturing make up only about 14% of the country's economic activity. Compare to that with China's 34% of GDP.
- ▶ Recent World Bank report on best countries to do business in. India's ranking is 142nd out of 189 countries
- ▶ It takes on an average 27 days to register a company in India. In virtually all developed economies it's less than a week.
- ▶ Businesses have to deal with daily power outages due to India's power shortage - and the bribes you have to pay to get things done.

India at a glance (continued)

What Modi is doing

- Six months ago, Modi swept to power in a landslide victory on the premise of getting India's fast-growth model back on track
- After coming to power with a rousing mandate in May, Modi started his term by promising to fix India's government bureaucracy and roll red carpet to global businesses. And he is turning to experts, rather than ministers, to advise on what changes to make.
- As a marketing campaign it's been successful. A new poll shows Modi's approval rating is an astonishing 92%.

India at a glance (continued)

- ▶ What Modi has that none of his predecessors have had for the past 30 years is a sweeping mandate as a result of his crushing electoral victory. The voters have put their faith in him, and now it's his turn to repay that trust.
- ▶ But at the moment there's little in the way of actual improvement. Modi now has to show this 1.25 billion people democracy that things really are different now.
- ▶ Investors have already shown excitement at the prospect of India's economic growth. The benchmark Mumbai Sensex index has increased by 26% this year.

India at a glance (continued)

- ▶ India's economy expanded at a 5.7% rate in the second three months of 2014, busting a long streak of unimpressive numbers. It was the strongest quarterly growth in over two years and it also marked Modi's first 100 days in office.
- ▶ In September, he launched something called the "Make in India" campaign, where he invited companies from all over the world to make their products in India. His mission: make India a manufacturing hub.

Modi's Roadmap
to make success
of
"Make in India"

Modi's Roadmap to make success of "Make in India"

India's India's Union Commerce and Industries Minister Nirmala Sitaraman listed a eight -point action plan to make the government's ambitious "Make in India" plan a huge success.

1. Starting a Business: Reduce time to register a business from 27 days to one day.
2. Dealing with Construction Permits: Now it takes 168 days and 35 procedures. The government wants to consolidate and streamline the approvals.
3. Getting Electricity: It takes 67 days and 7 procedures to get an electricity connection. The government will cut it down to just one procedure and get the connection sanctioned in a week.

Modi's Roadmap to make success of "Make in India"

4. Registering Property: It includes five different procedures and 30 days to register the property. The government wants to make the procedure online.
5. Paying Taxes: On an average, a firm pays 33 tax payments in a year and spends 243 hours in filing taxes. The government wants to reduce this and allow online payment.

Modi's Roadmap to make success of "Make in India"

6. Trading Across Borders: Exporting goods requires 9 documents, takes 16 days and cost \$1170 while importing requires 11 documents, takes 29 days and costs \$1250. The government wants to reduce documentation to just three documents.
7. Enforcing Contracts: It takes three to six years. The government wants to set up fast track courts.
8. Resolving Insolvency: The government wants one law to deal with insolvency issues.

Case Study (2007/09)

Case Study (2007/09)

Background

Mid-west company:

- ◆ Heavy truck & trailer components supplier to NA OEMs
- ◆ All Manufacturing Operations; Customers and Suppliers based in NA
- ◆ Goal: To diversify geographically
- ◆ Decided to enter Indian and Chinese market to diversify geographically
- ◆ India Project

Why a Joint Venture?

JV Key Success Factors

1. Proven local management expertise
2. Robust business model
3. Business philosophy alignment
4. Trust, Fairness and Flexibility

Why a Joint Venture?

Start Up Alternatives

Greenfield

(Wholly owned Co)

- Pro's**
1. Avoid relationship risks
 2. 100 % of financial benefits

- Con's**
1. Longer time to market
 2. 100 % of financial risks
 3. Higher initial investment
 4. Longer payback
 5. Resource consuming
 6. Adds capacity to the market

Acquisition

- Pro's**
1. Fast time to market
 2. 100 % of financial benefits
 3. Avoid relationship risks

- Con's**
1. Higher initial investment
 2. 100 % of financial risks

Joint Venture

partner from other field

- Pro's**
1. Lower initial investment
 2. "Country" mngt expertise
 3. Risk sharing

- Con's**
1. Longer time to market
 2. Benefit sharing
 3. Longer payback
 4. Resource consuming
 5. Adds capacity to the market
 6. Relationship risks

Joint Venture

partner from Industry

- Pro's**
1. Lower initial investment
 2. Business knowledge
 3. "Country" mngt expertise
 4. Fast time to market
 5. Risk sharing

- Con's**
1. Benefit sharing
 2. Relationship risks

JV or Acquisition Are The Preferred Paths

Goals alignment with the potential partner

USCO Strategic Objectives

- 1** → Capitalize on the large and fast growing Indian domestic market
- 2** → Diversify our business (manufacturing, customers, products)
- 3** → Low cost export base for NA and Europe
- 4** → Manufacturing base for low volume and non-core products
- 5** → Selectively add capacity

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11/12/14

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Goals Alignment

USCO Strategic Objectives

USCO

- 1 Capitalize on the large and fast growing Indian domestic market
- 2 Diversify our business
- 3 Low cost export base for EU
- 4 Manufacturing base for non-core products
- 5 Selectively add capacity

INDIANCO

- 1 Manufacturing Technology
- 2 JV enables faster growth rate
- 3 Attain significant position on axle components

Joint Venture in India (USCO & INDIANCO)

Frame Work (continued)

October 2007

- ▶ **Scope - Joint venture for manufacturing, engineering, sales and marketing of components**
- ▶ **Markets - Commercial vehicles, off highway and Agricultural.**
- ▶ **Territory - India and other Asian countries, excluding China.**
- ▶ **Ownership - 50% USCO - 50 % INDIANCO**
- ▶ **Management -**
 - ▶ **Board to have three members from each side**
 - ▶ **Meet 2 times per year at a minimum**
 - ▶ **CEO or GM will report to the board.**
 - ▶ **The General manager managing powers to be agreed**

Joint Venture in India (USCO & INDIANCO)

Frame Work (continued)

October 2007

Bylaws -

- ◆ Non-compete: Both parties to agree it will not engage in other initiatives that would compete with the JV.
- ◆ USCO reserves the rights to establish itself on other business in India, outside the Products.
- ◆ Duration: Maximum allowed by local law
- ◆ Dispute resolution: Binding arbitration, as sole/final process
- ◆ JV to comply with any embargo restrictions by US Government, as we are driven by US laws.
- ◆ Unless mutually agreed by the board a minimum of 50 % dividends payment every year.

Joint Venture in India (USCO & INDIANCO) Frame Work (continued) October 2007

- ▶ **Business case - Initial business case to be reviewed and approved by both parties. Main focus to be in the domestic market, but exports need to be considered.**
- ▶ **Name - Preference is to have USCO name as part of it.**

Potential Partners and Fit

	Kolkata Firm	Punjab Firm	Gujarat Firm	Delhi Firm	Faridabad Firm	Pune Firm	Kolkata Firm B
Brings in local market		✓	✓	✓	✓	✓	✓
Country knowledge	✓	✓	✓	✓	✓	✓	✓
Business Knowledge		✓	✓	✓✓	✓		✓✓
Neutralize competition		✓	✓	✓	✓		✓
Management Philosophy	Public No JV experience	Private No JV experience	Private No JV experience	Similar Several JV's	Private No JV experience	Private No JV experience	Private No JV experience
Willingness to	Yes	Yes (Limited Scope)	No	Yes	Yes	Limited	Very Limited

No Feasible Acquisition Found.

Partnership with Delhi Firm Deemed To Be The Best Option!

Building Business Case

- **Multi-functional team formed:**

- ♦ **DELHI FIRM:**

- Finance
- Manufacturing
- Plant Engineering (part time)
- Sales & Marketing (part time)
- Supply-chain (part time)
- In-house legal (part time)
- Chairman (part time)

- ♦ **USCO:**

- Manufacturing/Supply-chain
- Finance (Part time)
- In-house legal (part time)
- General Manager (part time)

How to Compete Successfully?

1. Superior manufacturing technology

- Material optimization
- Extrusion process for smaller axle shafts
- Hot reverse extrusion for hollow spindles
- Center-less Grinding of bar stock (Long Term)
- Electrical upsetting for axle shafts (Long term)
- COE for die design/build (Long Term)

2. Leverage on strong relationships

- USCO => Multinational US Corporations
- INDIANCO => Local Indian OEMs

3. Strong management team

4. Credibility

- One of the few Tier 2 international forging companies to establish there.

Executive Summary - JV Agreement

- ▶ **50% / 50% Joint venture between USCO and INDIANCO**
 - ▶ To be named USCO NAME - INDIANCO NAME
 - ▶ Equal board representation. Decision by consensus. Binding arbitration for conflict resolution. GM of the JV to report to the board
- ▶ **Greenfield site**
 - ▶ 88,000 SF (Phase 1) of manufacturing area and 5 acres of land.
 - ▶ Partner will build and lease site to JV. Operational by Jan 2010
- ▶ **JV Financials**
 - ▶ Sales revenues- \$ 22.5 M in year two growing to \$ 56.3 M in year 5
 - ▶ Total Investment - Capex of \$ 14.8 M in the first three years. \$ 9.8 M in year one
 - ▶ 31.7% IRR and 4.5 years payback

Identified risks and opportunities

- **Risks**

- ◆ Exchange rates
- ◆ Volumes and Sales
- ◆ Steel economics
- ◆ Project Management
- ◆ Pricing

- **Opportunities**

- ◆ Volumes and Sales
- ◆ Lower initial cost

JV Formed But not executed

- Both the USCO and THE INDIANCO agreed to proceed with the JV
 - Legal from both sides worked together and came up with agreement
 - The USCO decided to shelf the project because of the global economic meltdown. Decided to relook at it when the economy improves
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- Simultaneously, similar effort was being made to form a JV in China. The USCO also decided to hold the Chinese project due to the same reason
- The Chinese Firm went ahead and implemented the program on a very large scale with the help of a professional team

12 ESSENTIAL TIPS FOR DOING BUSINESS IN INDIA

12 Essential tips for doing business in India

1. Don't assume things are the same, no matter how 'Americanized' your business partners may be
2. If you expect something to take a week, it'll take a month
3. You're not that important – even if you're the CEO of a Fortune 10 company
4. If you're like most American corporations, you'll choose Delhi for your Indian headquarters
5. Expect to travel all over India to do business
6. Expect to start and end your day late

12 Essential tips for doing business in India

7. Prepare for things to change at the last minute
8. Even though your Indian counterparts may speak English, there are still language barriers
9. Before booking any trip to India, look at all the religious holiday calendars
10. Address people by their last names
11. Don't go in for a handshake with a woman
12. And you don't need the perfect handshake

Thank You...