INDIA & GLOBALISATION



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A good crisis brings greater influence

capital inflows, remittances and a greater share of trade are shaping policy, says James Lamont

he global financial crisis had threatened to turn the clock back on a globalising India. Instead, the hands of time have advanced and the country's impact has increased.

Second only to China as a fast-growing large economy, unlike that export-driven giant, India emerged relatively, "unscathed" by the global economic downturn, in the words of the Asian Development Bank. If economists were surprised

when the country raced away from what had been resignedly called "the Hindu rate of growth" of about 3 per cent to reach highs of 9 per cent in the mid 2000s, they have been even more impressed in past months by India's ability to withstand falling exports and external financial shocks.

The country's economic policymakers have received international praise for their response to the crisis. In recent weeks, projections for a speedy recovery have grown more optimistic.

Manmohan Singh, the prime minister and the man responsible for opening up the economy in the early 1990s, speaks of a return to 9-10 per cent growth in a "couple of years". His finance minister, Pranab Mukherjee, forecasts 7.7 per cent this year, a fiscal stimulus-fuelled rise from 6.7 per cent last year.

"Underlying our system is an inherent political and economic resilience that gives our country and its institutions great strength and buoyancy," Mr

The benefits of foreign Singh reflects. "During the year gone by, the world faced an unprecedented economic and financial crisis. But the Indian economy weathered it quite well. We were affected, but not the EU. so much as many other coun-

tries. This was just as well. The 77-year-old Mr Singh warns that "the impatience of youth" – in a country where 70 per cent of the 1.2bn population is under 35 will increasingly determine India's future. He has prudently chosen education, health, infrastructure and agriculture as the top priorities after winning a second term in office last year.



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He is simultaneously pushing forward the country's interlinkages, striking free trade deals with Asean and South Korea, and negotiating another with

The resilience of the economy rests on a huge domestic market, and, unlike many Asian counterparts, a limited reliance on exports, which are less than 20 per cent of gross domestic While domestic product. demand was largely uninterrupted by the financial crisis, export sectors, such as diamond cutting and polishing, pharmaceuticals and textiles, suffered precipitous declines and are only now recovering.

Foreign capital flows and valuations on Sensex, the benchmark index on the Bombay Stock Exchange, bounced back rather quicker as investors seek returns from one of the brightest poles of economic activity.

Mergers and acquisitions activity is also set to rise. Cashrich companies are weighing purchases in recession hit Europe, the US and other emerging markets.

A fast-growing economy, albeit with a strong internal motor, will hasten globalisation. The industrial sector is expanding at a double-digit rate, services, 55 per cent of GDP, are not far behind. Only agriculture, dented by a poor monsoon and representing 20 per cent of GDP,

lags. But there are still plenty of obstacles in the way of an open economy. "A racing car with the handbrake on," is how one visiting politician describes the drag of over-regulation, red tape, vested interests and decrepit infrastructure.

Lee Kuan Yew, Singapore's former prime minister, identifies failure to follow China's



Continued on Page 2 Prime Minister Manmohan Singh at the White House: there has been international praise for India's response to the financial storm Bloomberg

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Cash-rich companies still eager to expand Pool of skills

New multinationals

The financial crisis has not dented the acquisitive mood, reports **James Lamont**

Gautam Thapar, the chairman of the Avantha group, an Indian industrial conglomerate, is in acquisitive mood.

This year his familyowned enterprise, whose interests range from paper and pulp to electrical engineering and which has revenues of \$3.5bn a year, plans as many as five acquisitions overseas and at home. Two, at least, will be engineering. The Delhi-based company

is illustrative of a deliberate strategy followed by an increasing number of Indian companies, large and mid-sized, to expand overseas, particularly in US and European markets.

With strong balance sheets fortified by a robust domestic economy growing

and confidence in their low- operations in Ireland, the cost business models, they US and UK; France's Sonoview the coming months as a buying opportunity.

'2010 looks very good. We were correctly structured been followed by the when we went into the slowdown and that helps with our finances. We've kept our ammunition dry [for acquisitions]," says Mr Thapar.

Power Systems.

group's food interests.

gary. The company supplies

Over the past decade, a

ing and business processing

industries, and the automo-

tive and pharmaceutical

sectors have captured the

and supply chains.

Over the past five years, customers in 50 countries two pillars of Avantha's with onions, capers, pepbusiness – engineering and pers, cherries and sweetfood services - have transcorn. In pursuit of yearformed themselves rapidly round crop availability, into multinationals. As Global Green is weighing acquisitions in Chile, Peru with Tata Motors' acquisition of Jaguar Land Rover, and Vietnam. many of Avantha's purchases are driven by the handful of Indian companeed to match the country's nies has developed a global low-cost production base presence. The IT outsourc-

with advanced technology. Four years ago Crompton Greaves, an electrical engineering company that is part of the Avantha Group, acquired Pauwels, a transformer manufacturer whose operations span Belgium,

Ireland, the US, Canada and Indonesia. Since 2006, it has bought Ganz, a Hungarian

at about 7 per cent this year company; Microsol, with of Corus, the Anglo-Dutch steel maker.

Smaller companies are following suit and those in matra; and US-based MSE advisory services believe The same pattern has the Indian handful may turn into a stampede.

An example is KPIT Cum-Bangalore-based Global mins Infosystems, the coun-Green acquired InterGarden try's largest automotive in 2006 giving it assets in technology company. It sup-Belgium, Turkey and Hunplies 16 clients with soft-

> 2010 looks very good. We were correctly structured when we went into the slowdown

and that helps'

ware and electronics. Its near 5,000 employees are spread across India, the US, the UK, Germany, France and China. 'There is a distinct shift

limelight by inserting themin the overall car market," selves in business models says Ravi Pandit, chairman The Tata group is the and chief executive. "Comflagship of the trend, with panies will make their cars its high-profile acquisitions here and sell them all over of Jaguar Land Rover and the world.'

Not all expansions have gone entirely to plan. Ahead of the last year's global financial crisis, some burnt their fingers.

Suzlon was a textiles business but became the world's third largest wind turbine company. It bought assets in Germany and Belgium, but its order book and capital raising ability were badly hit by the financial storm. It was struck again when cracks were found in blades supplied to the US market.

The crisis, however, has not deterred companies from nursing global ambitions. At the end of last year,

Mukesh Ambani, chairman of Reliance Industries made his first attempt at a large overseas purchase with a bid to buy LyondellBasell, a struggling Netherlandsbased chemicals producer. A deal would create one of the world's largest chemicals companies, with combined revenue of about \$80bn

Likewise, Bharti Airtel, India's largest mobile tele-

phone operator, made a thwarted bid last year to take a 49 per cent stake in MTN, a South African network with interests across Africa, with a view to undertaking a full merger in a cash-and-shares deal worth about \$23bn.

Regulatory obstacles, however, stood in its way and it has since had to settle for an acquisition closer

to home, in Bangladesh. Sanjeev Dhuna, a banking partner at law firm Allen & Overy in London, believes more is to come. He identifies the following qualities among Indian business leaders: a long-term view, strength from a huge internal market, cash reserves

and access to capital. Moreover, they have a clear idea of what they want to buy overseas and are prepared to wait for it. "Globalisation for Indian companies is a badge of honour," he says. "Some acquisitions don't look successful. But 10 years from now, the client will be looking back and saying that was the right thing to do."

and low costs fosters growth

Pharma research

Home-grown companies are more involved in innovation, says Amy Kazmin

At Jubilant Organosys's new \$20m laboratory in a leafy suburb of Bangalore, Suriya Rao, a 29-year-old with a Master's degree in organic chemistry, hovers over flasks and burners, trying to initiate a reaction to create a molecule with medicinal properties.

In a room nearby, Delhiborn Rajiv Tyagi, a 33-yearold biologist, is cloning proteins to use in tests of newly-synthesised molecules.

The two young men are among 400 scientists that Jubilant employs at its Bangalore Drug Discovery Centre. They, with another 800 in Delhi, aim to tackle the latest global economic challenge to be outsourced to India: the quest for new and better drugs for cancer, diabetes, pain and other global

health problems. "India is moving from labour arbitrage to creating intellectual property," says Hari Bhartia, co-chairman and managing director of Jubilant. "It's not just outsourcing - we are participating in collaborative research.

With many of their blockbuster drugs going off patent in the next few years and a limited pipeline of research costs, with the promising new products, multinational pharmaceutical companies are struggling to get greater bang for their limited research and development bucks.

In this quest, global drug giants such as Eli Lilly, Pfizer, AstraZeneca, Merck

But over the past few years, Indian companies have begun to participate in the discovery and development processes of pharmaceutical multinationals, a trend buoyed by the 2005 strengthening of India's patent laws - part of its commitments to the World Trade Organisation.

Macquarie, the investment bank, estimates the global market for contract pharmaceutical research is about \$38bn, of which about \$11bn goes towards the drug discovery and development process, with the rest for clinical trials.

So far, Indian companies such as Jubilant, TCG, Syngene, the Tata group's Advinus, and Dr Reddy's Aurigene, have moved to take pieces of that pie, tapping a pool of young low-cost talent and experienced scientists who have spent years working in western drug companies but are keen to return home.

In some partnerships, Indian companies receive fees to carry out specified technical tasks to support research abroad, such as synthesising and supplying small quantities of promising molecules using methods developed by foreign

partners. But they have also begun to take the lead in the innovation process, working to discover molecules to tackle diseases specified by foreign drug companies. In these "risk-share projects," they receive basic fees to cover

> 'lt's not just outsourcing' Hari Bhartia of Jubilant Organosys

and Endo Pharmaceuticals promise of "milestone pay have begun turning to a ments" for molecules that handful of Indian groups can move successfully that supply materials and through the development provide technical support process towards clinical trifor innovative research – als in humans

"For the next three to five

years, we will take on more

integrated projects and more risk," says Mr Bhatta-

charya. "The next stage will

be intellectual property

Already, Jubilant, which

has had a drug discovery

deal with Eli Lilly for the

past four years and has just

extended it for another five,

has delivered a "fully home-

grown" molecule for use

against cancer that will

soon begin clinical trials.

Lilly owns the molecule. If

the drug proves successful,

it will be a huge affirmation

not just of the company -

but of the potential capacity

for innovation in India's

Still, industry leaders

drug industry as a whole.

sharing."

Large ambitions for smaller vehicles

Car manufacturing The country is building a name as a centre for low-cost development, writes Joe Leahy

player in India, you have to be in the small and mid-sized segment," Sandeep Singh, deputy managing director for marketing at Toyota Kirloskar Motor, says.

The automotive industry was third fastest-growing in the world last year after China and Germany, according to Siam, with passenger car sales up 17.5 per



t the Delhi Auto Expo cent against a year earlier. 2010 in India's capital in January, the excitement of an emerging nation of new consumers was palpable.

The crowds - mostly men and boys of all ages - jostled from the stand for Tata to those of Japan's Toyota and South Korea's Hyundai, admiring the gleaming creations of modern consumerism that barely more than a decade ago would not have been seen in this country.

During a press conference at the show, the Society of Indian Automobile Manufacturers, the industry body, estimated total attendance would reach 1.8m, which it said would make Delhi the world's third biggest auto show by number of attendees.

"We've had more than 10 global launches of new vehicles. That's definitely the first time that's happened in Delhi," said Sugarto Sen, senior director of Siam.

The mass interest in the show comes as India's automotive sector is emerging as one of the most promising industrial pillars of its rapidly growing economy, alongside telecoms, information technology and pharmaceuticals.

Not only is its car market growing, it is increasing in sophistication as the country builds a name for itself as a centre for low-cost innovation, particularly in small vehicles.

Volkswagen unveiled its bestselling Polo for launch into the Indian market while Toyota and Honda revealed concept small cars for domestic consumers.

"If you really want to be a big

The industry's strong recovery from the global economic slump in 2008 has convinced Siam to retain its projection that it will grow fourfold by 2016.

Under the target, automotive manufacturing would contribute \$145bn to gross domestic product by 2016, compared with \$34bn in 2007, says Pawan Goenka, president of Siam.

Analysts say that target looks ambitious - implying growth of about 16 per cent a year. But few doubt the industry will continue its strong expansion in line with, or better than the wider economy, which is expected to grow about 8 per cent in the next fiscal year ending in March 2011.

"Given the way China has gone, if India were even to follow half of that, yes it [Siam's target] is possible," says Mohit Arora, senior director at research firm JD Power.

The transformation of the automotive industry in the past 25 years is hard to overstate. Prior to economic liberalisation, the roads were the realm of the Hindustan Motors Ambassador - a version of Britain's Morris Oxford - which has been in production for more than 50 years without major change.

The Ambassador shared the roads with the Enfield, a British motorcycle brand that has long since disappeared from the mother country, as well as cars based on old Fiat models.

The entry of Suzuki in a joint venture with the government in the 1980s heralded the beginning

and services.

New sets of wheels: attention at the Delhi Auto Expo focused on compact and hatchback models

modernisation. industry That process stepped up a level two years ago when Tata Motors, India's largest auto maker, unveiled the Tata Nano, the world's cheapest car, establishing the country's credentials as a centre of innovation

'If you really want to be a big player in India, you have to be in the small and mid-sized segment'

The Nano sparked a race for the bottom of the market, with Nissan-Renault teaming up with India's Bajaj to make a car they say will be cheaper to produce than the Nano, which sells for a starting price of more than Rs100,000 (£1,340, €1,540, \$2,178).

many of whom still transport their entire families around on one motorcycle, an unsafe and uncomfortable proposition on the hot and crowded roads.

Attention at the Delhi auto show, however, centred not on the ultra-low cost segment but on compacts and hatchbacks, with Toyota stealing the limelight with its concept car, the Etios.

The Japanese carmaker spent about three years researching the Etios, designing a vehicle cheap enough (with an expected price of about Rs500,000) to appeal to the cost-conscious middle-class consumer but that still meets the Japanese producer's standards.

The entry of Toyota into the mass market - hitherto it had concentrated on more expensive premium sedans, larger vans and sports utility vehicles – is a challenge to the existing market leader, Maruti Suzuki.

With Volkswagen also launch-These ultra-low cost cars are ing the Polo and Honda nearing aimed at the lower middle classes, completion of its cheaper com-

pact, the stage is set for the battle of the small car in India.

Mr Arora says Volkswagen is financially strong but its name is not as well known. Honda is seen as a "technology leader" in India, with its record of delivering stylish high-quality cars. Toyota is a relative latecomer to the country's mass market but its record elsewhere marks it out as a serious threat to Suzuki.

While small cars stole the limelight, a host of other vehicles vied for attention, from the Tata group's new modern trucks to motorcycles and three wheelers aimed at farmers and taxi drivers. Pushing through the teeming crowds, however, one was reminded of what could become the most serious obstacle to this rapidly expanding sector.

With roads and streets already crammed with vehicles and pedestrians and parking lots full, where are people going to drive all of these new wonders of the automotive world?

and increasingly, carry out cutting-edge work themselves – at much lower costs than elsewhere.

probability game, so if I do more with my dollars, I get a greater chance of success," says Swapan Bhattacharya, managing director of Kolkata-based TCG Life Sciences, which was set up in 2001, and recently announced partnerships with Pfizer and Endo to collaborate on the develop-

India's pharmaceutical industry cut its teeth in the 1970s, fostered by local patent laws that only protected the unique processes of synthesising a drug molecule, rather than the molecules

says the drug-discovery Drug companies worked business is unlikely ever to reach the size of the country's massive software and IT services industry, given giants, the long lead time for both discovering drugs, and developing scientific talent. "This is not scalable to 10 times the current size instantly," says Sri Mosur,

Jubilant's chief executive and president of global drug discovery. "It's scaleable to three times or four times the size.

> It's not going to be like an IT company with 100,000 employees. But the value addition for any incremental growth will be significant.

A good crisis brings greater influence on the world stage

Continued from Page 1

focus on infrastructure as one of the biggest handicaps to India's global integration.

confident mood The across Asia has led many international business leaders to comment on the stark contrast between the ambitions of large developing economies and the more introspective, punishing mood in the west

Robert Zoellick, president of the World Bank, is one. "We all look to India now as a rising global economic power and in our interconnected world it has played a helpful role over the tough moments of the past year, not just during the discus-

US Trade Representative, change and the freedom to who once locked horns with India in trade talks. International partners are driven by low-cost and low-

beating a path to the door, lured by the promise of a drive towards manufactur- rising value-added technoloing to add to the momentum achieved by a globalised services industry.

"In the caricature of the already arrived. The IT outglobal economy," says Lord sourcing sector – the likes of Tata Consultancy Serv-Mandelson, the UK's secretary for Business. "China ices (TCS), Wipro and Infomakes it, America buys it, India provides the after sales customer service and Britain does the structured Motors – are innovating and finance." That formulation adopting technologies to create a global "footprint". is changing.

"India stands at a critical sions of the G20, but also in point in its transforma- chief executive of TCS, says

how it has steered [its] tion," he says. "A young the downturn in the west recovery," says the former population is eager for has opened up greater opportunities in IT outrealise this global ambition. sourcing and business If India's initial growth was processing.

But he lays emphasis on value service provision, the developing new capabilities, next wave will be tied to products and business models to remain relevant to cligy-driven manufacturing ents and move into new countries. "When offshoring This next wave has itself was first proposed, no one believed it was a business model " he recalls

The confidence in the growing economy has persys - and automotive indusmeated other areas too. try - including Hero Honda, Over the past year, India Bharat Forge and Tata has sought to play a greater leadership role in multilateral forums debating trade, climate change and reform-N Chandrasekaran, the ing the global financial architecture.

budget will be a test of whether the Congress Party-led government can make the most of the postcrisis period and a strong victory in last year's polls,

by embarking on structural reform. Business groups are lobbying for liberalisation of the defence, retail and financial services sectors, labour market reform and state disinvestments to help

sustain growth projections. The Reserve Bank of India, the central bank, meanwhile, is renewing efforts to broaden financial inclusion, and reach out to the unbanked masses.

In the shorter term, rebuilding foreign exchange

Some believe that the country's economic fortitude is derived from its isolation and a protective shield of regulation, forged over decades of socialist policies and entrenched

local business interests. But the benefits of a greater share of world trade, remittance flows close to \$50bn a year and the appeal of foreign capital forward we leave behind inflows are shaping policy. "India was less affected is a price that we pay in by the crisis than the rest trying to carry all sections of our people along...It is of the world, not because it was isolated but because its perhaps a price worth capitalist fundamentals are paving.

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Next month's national reserves, allowing the rupee strong," argues Shashi Tharoor, the minister of to appreciate to help cool inflation, while maintaining state for external affairs a partially open capital and former United Nations account are the priorities. official. "India will not return to the economics of

"Drug research is a low-

Getty ment of drug molecules.

themselves.

to develop chemical processes to re-create drugs already-proven by foreign pharmaceutical building up strong skills in chemistry research as well as low-cost manufacturing. By the 1990s, Indian companies were supplying offpatent generic drugs to glo-

bal markets, including the US, under their own brand names, and as contract manufacturers for foreign companies. Today, the country has

some 110 drug manufacturing facilities approved by the US Federal Drug Administration.

economic self-sufficiency.'

The embrace of the

South Asia Bureau Chief

Joe Leahy Mumbai Bureau Chief

South Asia Correspondent

FT Contributor

elephant but it is equally true that with each step

Angela Mackay deep imprint. There

nationalism which equated political independence with

outside world, however, will Designer



word: "It is probably true that we are a slow-moving

India & Globalisation

An appetite to lead on climate and trade

World stage

James Lamont says some experts question closer alliance with China

ndia's place in the world is a subject that can raise hackles. Shashi Tharoor, minister of state for external affairs, knows that all too well.

former United The Nations official was pilloried this month for being "anti-Nehruvian" because of the way he summarised a lecture by visiting UK political scientist Lord Bhiku Parekh.

In his summary, Mr Tharoor had said a foreign policy that drew on his coun-

and the contribution of most clearly demonstrated Mahatma Gandhi and Jawaharlal Nehru, India's first prime minister, had "enhanced India's standing ters blamed for being partly in the world but also earned responsible for the collapse us the negative reputation of running a moralistic commentary on world affairs". Western diplomats call it "sniping from the sidelines"

As the economy strengthens, policymakers and academics identify a new role for their country in a more globalised world.

leading nations and the pursuit of a bigger role at the UN has encouraged a move away from the "moralistic commentary" of the old days and the showing of greater leadership in global issues

Trade and climate change discussions in India cannot

try's sense of civilisation, are where the country has be underestimated," says one with whom they could an appetite to play a leading role over the past year. India was in some quarof the World Trade Organisation's Doha Round talks last year. The breakdown was over a disagreement

between the US and India about what would happen if India faced a massive influx of imports and was allowed to raise tariffs. It has since tried to repair

damage. Anand the A seat at the G20 group of Sharma, Kamal Nath's successor in the trade ministry, won applause from the global community, including Pascal Lamy, the director general of the WTO, for trying to close what are still wide gaps. "The significance of these

Baroness Catherine Ashton, European Union High Representative for Foreign Affairs and Security Policy and former EU trade commissioner, of talks hosted in New Dehi in September.

"For India to do this was a risk. You see the discussions were not guaranteed to go well. Yet minister Sharma and the prime minister [Manmohan Singh] were willing to bring everyone together and say India is fully engaged and wants to move forward." The country did not earn

warm words from European partners when it doggedly opposed legally binding carbon emissions in the UN climate change talks in Copenhagen.

But in Jairam Ramesh, the strident environment minister, they found somenegotiate.

After the Copenhagen negotiations, in which India allied with China to con-



We must negotiate from a position of strength and not defensively'

> Jairam Ramesh, **Environment Minister**

front the developed world, Mr Ramesh said the country had to drop its traditional "nay-sayer" approach bal solutions.

"One lesson India must learn from Copenhagen is that we must negotiate from a position of strength and not defensively. [We must present] what we are going to do rather than

what [we] cannot do". He was energised by the 75 minutes of negotiation between the Basic group -Brazil, South Africa, India and China – and US Presi-dent Barack Obama – that climate negotiations. produced the Accord.

Although many see Copenhagen as a failure, he describes it as a "watershed" event, in which China emerged as a wellprepared counter-balance to the US

Encouraged by "pragmatism", he views possibilities for the Basic grouping in negotiating trade pacts and

and be seen as part of glo- reforming the world's finan- but he will not be concial architecture.

Some commentators consider India could go one better and cement a stronger partnership with the US, with whom it shares liberal democratic traditions.

rights and penalties the US

"Obama is constrained,

legal system accords.

Jagdish Bhagwati, profesby addressing the plight of sor of economics and law at its millions of poor people Columbia University in the with an inclusive economic growth strategy. US, has urged the country He is not alone in questo engage with the US more tioning the durability of creatively in both trade and

common cause with China -He has appealed to New so does Mr Singh. The Delhi to be more sensitive prime minister detects to the severe domestic con-China's greater "assertiveness" away from the negotistraints that Mr Obama faces and warned against ating table and on India's too close alliance with border. Others in his gov-China. He suggests seeking ernment voice fears about compensation for the dam-China arming arch-rival age of global warming by Pakistan. understanding better the Their comments serve as

strained forever. We should

have held his hand, given

him some ideas", says Prof

Bhagwati of the climate

He also points out India's

need to build its credibility

change talks.

a reminder that India's place in the world is seldom a comfortable one.

Domestic demand has been the city's best friend

Profile Surat

About 80 per cent of world diamond output is cut and polished in the western centre, writes Kevin Sieff

Every morning, one thousand rough diamonds sent from Africa land on Keval Virani's desk. He takes a quick look at the stones, holding them by the handful to a desk lamp.

"Most people see something like this, and they think of Antwerp or Tel Aviv," says Mr Virani, director of Karp, one of

Its slums were razed and rebuilt. Its 750,000 looms operated almost 24 hours a day,

producing a third of the country's textiles. Diamond polishing outfits thrived, from Karp's towering headquarters to dank basements, where less valuable stones were cut. By 2007-2008, diamond exports had risen to \$14bn, with most operations carried out in Surat. The city's synthetic fabric sector grew to be worth \$8.7bn, making it the capital of India's growing trade in synthetic textiles. Surat was named the country's fastest growing city in 2007, with an annual gross domestic product growth rate of 11.5 per cent. Growth was rewarded by the government: the construction of a nearly completed cargo airport



Attention to local palates pays off

Fast food

Amy Kazmin reports chains are gaining ground as disposable income rises

When McDonald's ventured into India in 1996, it offered an all-American dining experience minus one vital ingredient - the beef.

Its consumption is a widespread taboo, even among the country's meateaters, so the fast food giant substituted mutton in its otherwise standard global menu.

"We thought that we could just replace one red public, as the India Private meat with the other," recalls Vikram Bakshi, Pizza Holding, an arm of JP managing director of Connaught Plaza Restaurants, 32 per cent stake in the which holds the franchise company, which to operate McDonald's in bought in 1999. north and east India. Jubilant has also issued

another 65 to 70 new stores this year, it will have some 310 outlets in 55 cities by the end of March.

Its local menu is dominated by recipes devised for Indian tastes - including a "Pizza Keema Do Pyaaza," and a barbecue (tandoori)

chicken pizza. Nearly all the new stores also have eat-in space, a first for the chain globally and a recognition that for many Indians - especially in smaller towns - dining out is still a popular aspiration.

With revenues of about \$60m last year, Jubilant FoodWorks last week became the first Indian quick-service chain to go Equity Fund and Indocean Morgan, sell their combined

4m new shares, which will

Western chains are still a

small part of India's esti-

mated \$6bn food services

market, accounting for less

than 5 per cent of total

sales, according to Techno-

pak Advisors, a market con-

outlets in India, compared

'The consumers

tastes evolved;

the menus and

evolved, the

McDonald's has just 174

sultancy.

be used to retire debt.

they

Surat's largest diamond cutting and polishing companies. 'They've never been to Surat.'

About 80 per cent of the world's diamonds are cut and polished in the Gujarati city on the country's west coast.

With its smokestacks, slums and 2m migrant labourers, it is an unlikely place for one of the most globalised parts of the Indian economy.

It has battled a series of exceptional natural disasters: an outbreak of pneumonic plague in 1994 and one of the region's worst floods in 2006.

About 250km north of Mumbai, it was the Dutch East India Company's first Indian port in 1607, and has since swung between exuberant growth and near-

destitution.

Its most recent growth spurt, which started in the mid-1970s, put Surat on the map as a hub of India's manufacturing industry. It quickly became one of the country's largest pools of unorganised, cheap labour and a welcome alternative for businesses tired of wrestling with Mumbai's powerful unions.

and the Reserve Bank of India's announcement that it would allow advance payment for rough diamonds without any bank guarantee from nine mining companies.

"It's hard to believe just how much, and how quickly, this city has grown," says Sevanti Shah, chief executive of Venus Jewels, one of Surat's best-known diamond polishing companies. But last year's financial crisis threatened to stall the city's ascent.

Unlike places such as Bangalore, where service industries have been the engine of growth, the highly cyclical and less recession-proof manufacturing industry is the backbone of the economy. At the end of 2008, the diamond industry was operating at about a third of capacity. It shed thousands of jobs. A string of diamond traders committed suicide, dominating the headlines of local newspapers.

"Outsiders thought we were finished," says Rohit Mehta, the president of the Surat Diamond Association. "They told us we were too dependent on the west

Sharp focus: a diamond cutter examines a gemstone in a workshop in Surat

as an export market." Industry leaders took a controversial decision to stem the supply of rough diamonds and avoid flooding the production pipeline. Thousands of domestic migrants returned to their rural homes. But in the year since the worst

'This generation grew up watching diamond advertisements. Their parents wanted gold necklaces. They want diamonds'

of the economic crisis, Surat has bounced back in a recovery led by national consumers. Though the industry is still about 20 per cent off its pre-recession peak, domestic consumption of diamonds nearly doubled last year, bringing in a total of \$5bn,

according to a number of industry leaders. Vasant Mehta, chairman of India's Gem & Jewellery Export Promotion Council, predicts another significant increase in domestic consumption in the coming year.

For the first time, Indian diamond polishers are hitching their fate to home consumers. The trend is noticeable in Surat, where glitzy stores sell diamond jewellery on bayside avenues.

"I don't know where we would have been without domestic consumption last year," says Mr Shah.

Some of Surat's industry leaders have drastically shifted focus, targeting emerging markets.

Keval Virani of Karp says that his compnay, a sightholder – an authorised bulk purchaser of rough diamonds - of De Beers' Diamond Trading Company, has shut down operations in the

US entirely, to focus greater attention on China and India. "We're seeing wealthier Indian consumers, and that helps buoy sales. But it's also a matter of changing tastes," Mr Virani says. "This generation grew up watching diamond advertisements. Their parents wanted gold necklaces. They want diamonds. Domestic demand has also sustained the textile industry. In

Getty

spite of the economic downturn, many of Surat's largest textile manufacturers reported growth of about 7 per cent. Like Mr Virani, Surat's textile manufacturers point to the

recession as a lesson in the importance of the country's strong domestic market. "Why bank on foreign

consumers, when we have so many people here who are hungry to buy?" says Mahendra Kajiwalla, a local owner of textile mills and retail outlets.

But that underestimated the challenge of catering to Indian tastes. With fat content far lower than that of beef, mutton burgers were rubbery, not juicy. McDonald's "special sauce" did not quite suit the meat either. And many Indians still feared eating mutton outside the home, in case it was inadvertently mixed

with beef. After two years of sluggish sales, the company withdrew its mutton burgers after casting round for more popular offerings including more vegetarian items.

Today, 70 per cent of its formats followed India menu is "indigenised", with items such as "paneer salsa wrap," and with 1,200 in China, while various chicken and vege-Yum has just 75 KFC restarian burgers developed taurants in India, against for Indian palates.

2,700 in China. The localisation is paying But with the fast food secoff. McDonald's Indian revetor growing about 15 to 20 nues, which analysts put at per cent a year, they are \$120m, are growing 33 per expanding fast. Yum plans to expand to cent a year, fuelled by new outlets and also an 11 per 500 KFCs - half companycent year-on-year increases owned and half franchisees in India by 2015. The com-

in same-store sales. "We made a lot of mistakes until we got it right," says Mr Bakshi. "But we are really at the cusp of taking off.'

newer entrant, has 151 stores in 35 cities, and aims to reach 500 by 2015.

Yet as market growth accelerates, competition is intensifying. Global chains including Papa John's and Au Bon Pain have recently tied up with Indian companies to test the market, and other US chains are said to

Popular Indian restaurants such as Nirula's and Sagar Ratna, which specialises in south Indian food, are also expanding, with 60

Raghav Gupta, Technopak president, says fast food will continue to grow, dining out mainly on spe-

However, new foreign entrants will not have an easy go of it. "For everybody who has come into the country, customisation for the Indian palate has been a necessity," says Mr Gupta.

"Consumers here still want a McDonald's burger with an Indian taste.

IT support that takes pride in its roots

Profile iYogi

Amy Kazmin on a young company finding success with western consumers

Sara Benton, a homemaker and saleswoman in Peoria, Illinois, was distressed. Her personal computer - loaded with her children's photos and sensitive bank details - was infected by virulent viruses

Each time she tried to use the internet, the viruses redirected her to pornographic websites, unleashing pop-ups with shocking images.

"I couldn't even turn my computer on for fear my kids would be standing there," Ms Benton says. "It was horrible. I spent hours and hours trying to fix it, but I couldn't get it to stop.'

Finally, Mr Benton contacted a young Indian company, iYogi, that helps

PC users in the US and Europe deal with a full range of computer challenges, including viruses, security, installing software, and connecting peripheral equipment such as digital cameras, MP3 players, and printers. Over the next few hours,

Syed Sharique Ali, a 23-year-old iYogi networking expert, and another technician – who had remotely accessed the stricken computer in Peoria from iYogi's sleek headquarters in Gurgaon, India - removed 14 viruses and installed new anti-virus software on Ms Benton's machine.

with other help desks in

The company, which

retail customers.

"They were fabulous," she recalls. "I've worked

the US and they don't even care if they help you. But they kept being pleasant, and they kept trying to help me. It kind of blew my mind that they were in India. A couple of times. I wanted to say to them, 'I can't believe you are so far away'.'

started commercial operations in 2007 and now has 100.000 annual subscribers, is a brave innovator in outsourcing an unabashedly Indian company, offering personal services directly to western

'We firmly believe it's the next generation of outsourcing from India," said Vishal Dhar, iYogi's co-founder, and president of marketing. "It's an approach built on customer ownership and retention." India's massive outsourcing industry earns about \$60bn a year. running call centres for western businesses,

supplying software and IT services and handling other back office processes

Growth has been driven primarily by large western companies cutting costs by shifting whole activities offshore.

But corporate bosses normally instruct Indian call centre workers talking to overseas customers to hide the fact that they are in India, by using

"western" names, accent modification training, and acculturation classes.

Some IT powerhouses do not ask the same of their highly-skilled computer engineers, but this is because these companies mostly supply IT and other back-office support to big companies, rather than interacting with retail consumers.

'I've worked with helpdesks in the US and they don't care if they help'

In that sense, iYogi is blazing a trail. With its witty slogan: "Great Tech Support, Good karma," and photos of its young, hip-looking Indian technicians featuring prominently on its website, iYogi makes no effort to hide its roots.

And it has found that distressed US computer users are willing to look far afield for the support

It is not the only Indian company offering personal services directly to customers in the west. Bangalore-based TutorVista, founded in 2005, uses about 1,200 people to provide unlimited private tutoring to about

they badly need but cannot

find – or afford – at home.

20,000 students in the US and elsewhere for \$100 a month. Pearson, the company that owns the FT, acquired a 17 per cent stake in June. Two other outfits, Bangalore-based GetFriday and US-based AskSunday,

which has a large call centre in Hyderabad, offer personal assistant and concierge services to harried professionals.

But iYogi has tapped into the huge pool of frustrated computer users and appears to be the biggest and fastest-growing outsourcing company reaching out directly to consumers in the west. With 100,000 subscribers to its plan for unlimited

technical support for \$140 a

year and many more "single incident" calls each month, iYogi has more than 1,200 English-speaking

technicians. It expects to double that in the next six months to keep pace with a subscriber base growing a blistering 35 per cent quarter on quarter. Uday Challu, chief

executive, says iYogi, which has raised \$27m in start-up and growth capital from SAP Ventures, Canaan Partners, SVB India Capital Partners, and Draper Fisher Jurvetson, will report turnover of about \$20m for the year to the end of March, and is projecting revenues of more than \$70m next year. So far, iYogi has found particular success among those over 50, who account for 75 per cent of its

subscriber base. But with 320m PCs in use in the US – and retail technical support there estimated to be worth \$15bn-\$23bn a year, iYogi believes it has merely begun to tap the potential.

experiences in India.

such as McDonald's, Domino's Pizza, and Yum Brands' KFC set up shop in the late 1990s, expecting huge demand.

Instead, Indians - accustomed to spicy food served fresh at home, street-side stalls and local restaurants – turned up their noses at the insipid western fare.

But after a decade of experimentation and adapting food to local tastes, fast food chains are gaining ground, as disposable incomes rise and lifestyles change.

"I would call it a revolution," says Ajay Kaul, chief executive of Jubilant Food-Works, master franchisee of Domino's Pizza. "The consumers evolved, the tastes evolved; the menus and formats followed."

Domino's is the fastest growing fast food brand. It has opened 110 stores in the past two years, and with

pany will also open its first Taco Bell this year, a nod to local consumers' hunger for something different. Subway Sandwiches, a McDonald's trajectory reflects the wider story of western fast food company US restaurant chains

be scouting for partners.

to 70 locations each.

as consumers move from cial occasions towards

doing so regularly for convenience.

India & Globalisation

Market recovery bails out the super rich

The wealthiest

Many are diversifying into international property, reports Joe Leahy

Rising gradually, concrete block by plate glass window above the wealthy apartment buildings of south Mumbai is probably what is the world's tallest family home.

creation of Mukesh The Ambani, India's wealthiest person, the house is equivalent to 60 floors in height.

Named "Antilla" after the mythical island, its construction has continued unabated through the financial crisis in spite of its mammoth cost, which Indian media speculates could be more than \$1bn, although people close to Mr Ambani dispute that.

Antilla may make Mr Ambani the most visible of the country's billionaires, but he is by no

number of the nation's wealthy s growing again, following recovery from the economic slowdown.

"They've fared extremely well," says Anuj Chande, head of the South Asia group at Grant Thornton. "The sheer determination and resilience of Indian entrepreneurs stands

them in good stead in terms of weathering the storm." Mr Chande estimates that there are about 1,000 billionaires of Indian origin around the world, half of them living in India itself.

Like China, India was spared the worst of the global crisis. Its closely regulated and relatively small banking system - most of which is in the hands of statecontrolled companies - and its lack of advanced derivatives trading, prevented meltdown in the financial system.

Its economy is also dependent on consumption, with exports playing a much smaller role than in China, sparing it the

after demand for its products in western markets stalled. Even so, the country's super wealthy received a scare when

the crisis set in after the collapse of Lehman Brothers in September 2008 Up until the beginning of that year, the stock market had been

a millionaire factory. Every entrepreneur with a business plan was listing his company and trying to earn a place on the Forbes Rich List.

Mr Ambani's younger brother, Anil Ambani, was the last to ride the equities boom, when he staged India's biggest initial public offering, the \$3bn listing of his start-up electricity generation group, Reliance Power, at the beginning of the year.

That helped to elevate him to sixth on the Forbes list in 2008 with a fortune estimated at \$42bn, just one place below his brother.

Indeed, Forbes calculated in

means the only one. The threat of soaring unemployment world, with a combined fortune per cent in 2008, after rising 117 of \$160bn. Cumulatively, India's billionaires were the wealthiest in Asia, exceeding even those in China, with a worth of \$335bn. The onset of the crisis, how-



'The determination and resilience of Indian entrepreneurs stands them in good stead'

> Anuj Chande, South Asia Group head, Grant Thornton

ever, led to an exodus of foreign money from the market, flooring many paper billionaires. The 2008 that four Indians were market capitalisation of the among the 10 richest in the country's companies shrank 64

per cent the previous year.

By March 2009, just two Indians, Mukesh Ambani and Lakshmi Mittal, the UK-based steel tycoon who made his fortune outside India, remained in Forbes' top 10.

Anil Ambani's fortune at that time shrank by \$32bn - the biggest absolute loss of paper wealth for any billionaire in the world, while another Indian, KP Singh, the real estate baron who runs the country's largest property company, DLF, lost \$25bn. About 28 Indians lost their bil-

lionaire status, including Vijay Mallya, the airline and liquor baron known for his extravagant lifestyle. Another was Ramesh Chandra, whose property firm Unitech ran into cash troubles

Merrill Lynch and Cap Gemini, in their Asia-Pacific World Wealth Report, calculated that alongside India's richest individuals, those who have more than \$1m in liquid assets were adversely affected during

a third to 84,000.

The improvement in the market, however, has bailed out most of the formerly super rich. With stocks recouping most of their losses during the financial

crisis, many tycoons have held rights issues to recapitalise their businesses and are quietly becoming more aggressive again. Mr Chandra's Unitech, for instance, has raised money through equity issues and the sale of a stake in his start-up telecom joint venture to Norway's Telenor.

Mr Mallya, looking as unfazed as ever by global events, in January bid hundreds of thousands of dollars for players for his cricket team, the Royal Challengers Bangalore, which competes in the Indian Premier League, the country's most lucrative sporting tournament.

In another act of defiance, Mr Mallya, even before the crisis was over, stepped into a New York auction to spend \$1.8m on memorabilia of Indian independ-

2008. Their numbers fell nearly ence leader Mahatma Gandhi that he will give to the Indian government.

Mr Chande says that India's wealthy - chastened by the impact of the crisis on stockshave re-emerged on London's property market. Diversification, particularly through international real estate, has become the name of the game.

"That's one thing we're seeing as a result of the downturn in the UK and the continued increase in wealth in India. It's the fact that they're looking now to diversify their wealth internationally," he says.

With western economies still struggling to emerge from the doldrums, Merrill Lynch and Cap Gemini predict that India, alongside China, will remain the main source of new millionaires for some time to come.

"The combined wealth of Asia Pacific's high net worth individuals is estimated to grow at an annual rate of 8.8 per cent until 2018, faster than the global average of 7.1 per cent," they say.

Getty

Growing cultural clout mirrors country's rising economic status

Entertainment

Joe Leahy on international forays by the cricket and film industries

There are times when Lalit Modi, the head of the Indian Premier League, India's most lucrative cricket tournament, has the excited look of a man who has struck gold.

With the 45-day contest preparing for its third annual season this March, Mr Modi announced this month a ground-breaking deal with Google to broad-YouTube – a first for Indian nology company.

"This is the most exciting for \$1bn over 10 years. thing that I've ever done,"

business will work, or how baron, Vijay Mallya. Sponthey will overcome the technical challenges of Citigroup. streaming 60 games live to

millions of users. But few could deny the significance of the announcement, which marked another moment in the power" - the country's global cultural influence through its cricket and Bol-

lywood movie and music entertainment industries. This growing cultural clout is linked to the country's rising status as one of

the world's largest and fastest growing economies. And the startling success as much chance of the IPL is a good illustration of this. Formed little cast the entire event live on more than two years ago, it long as they have was able to sell TV broadsport and for the US tech- casting rights to Sony Universal truths and Entertainment Television

The eight team franchises

sors include Vodafone and

Mr Modi is poised to auction two more teams ahead of the third season in March, setting a reserve price of \$225m – double the maximum amount fetched growth of Indian "soft for a franchise in the previous auction.

What makes the tournament different is its international appeal, with every team featuring several foreign cricket stars. The YouTube deal will enable

'Indian films have as others, as

gripping characters'

vast

overseas

son's Bollywood blockbuster, 3 Idiots, a film about university students that stars male lead, Aamir Khan. The film's distributor, Reliance Big Pictures, says 3

Idiots had amassed \$75m at box offices worldwide by the end of its third week - a record for Bollywood. Sanjeev Lamba, chief

executive of Reliance Big Pictures, says that, as the national movie business reorganises from being a cottage industry into a more modern structure of large studios and media conglomerates, its international reach will increase.

Bollywood and other Indian regional cinema appeals to audiences in many countries outside the west, where it is already a competitor with Hollywood. "Indian films have as much of a chance there as

Hollywood at cineplexes in the US. Bollywood

Still. as evolves, its assault on Hollywood's hegemony will intensify. Reliance plans an English version of its forthcoming film Kites, about a conman in Las Vegas.

'We are going to release the English version as an English language film," Mr Lamba says. Similar limitations to

some extent apply to Mr Modi's cricket franchise. While the IPL talks constantly of becoming "global", the more correct term might be international. It is hard to see it appeal-

ing to many people from non-cricket-playing nations.



Swept along: every Indian Premier League cricket team features foreign stars

says Mr Modi, a cable industry veteran. "At the end of the day, as

a content owner, our job is to get the content to the widest possible audience and with one stroke we are able to get it to the largest YouTube and Google – they have distribution clout all across the world.'

As yet, reality falls short of the hype. YouTube's IPL broadcast plan is still somewhat experimental, with neither party revealing the value of the deal, how the

of the tournament, which is based on the "made for prime-time" shortened Twenty20 format of cricket, were sold for up to \$112m. The tournament, India's only large annual sporting extravaganza, was immediplatform without a doubt. ately seized on by industrialists, Bollywood stars and multinationals as the perfect vehicle to target the Millionaire. nation's emerging mass

consumer market. Team owners range from Bollywood stars Shilpa Shetty and Shah Rukh Khan to liquor and airline

diaspora to tune into games, as well as fans in other cricketing nations in the West Indies, the UK, Australia and New Zealand, South Africa and others. Bollywood, meanwhile, is making an international mark, boosted by the success of the film *Slumdog*

India's

Although a British film, it showcased Indian settings and actors, as well as Bollywood music

Producers point to the hype surrounding this sea-

make films that have some universal truths and compelling characters," Mr Lamba says

anyone else, as long as we

Most insiders, however, are more cautious on whether Bollywood can make serious inroads into western markets.

Mr Lamba points out that Bollywood films are in Hindi. Few "foreign" films those not made in English or in an English-speaking have truly country 'crossed over"

Most make it into the art houses but have not beaten

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Country reaches out for talent and money

The diaspora

The prime minister is wooing expatriates, writes James Lamont

Deepak Lalwani is glowing with delight. He has come to a foggy and wintry New Delhi to be recognised for his services to his adopted country, the UK, and to the country of his birth, India.

Originally from Mumbai, Mr Lalwani has been a London-based stockbroker for about 20 years and is married to an Englishwoman. His career in marshalling Indian investments and a recent appointment to the board of the UK-India Business Council has caught the eye of the Delhi-based Non-Resident Indian Institute.

On the sidelines of an annual conference for people of Indian origin hosted by the Indian government, he was given the India International Achievers Award, or Bharat Samman Pravasi Prize

"India didn't always recognise its diaspora," says Mr Lalwani. "There used to be a joke that NRI stood for 'Not required Indian'. That has changed.

His award is part of a wider effort by the Indian government to harness the financial resources and influence of the country's diaspora. The annual get-together, called the Pravasi Bharatiya Diwas and hosted by the Ministry of Overseas Indians, is now in its eighth year and tries to foster loyalty to the home country by championing Mahatma Gandhi's example of the contribution an outsider can make. It also invites people of Indian origin to contribute to an economy that over the past decade has touched yearly GDP growth of 9 per cent.

While some of the participants come with gripes about tax and visa restrictions, the government has bigger ideas. This year, Manmohan Singh, the prime minister, made some of the strongest overtures yet to this global community. He said he was considering extending the vote in the world's largest democracy to non-resident Indians and was taking steps to assist those who lost their jobs abroad with a social safety net, including a Return and Resettlement Fund.

Mr Singh has already set up a prime minister's advisory council of overseas Indians and has struck agreements with foreign governments for the protection of Indian workers, but he also wants human capital and investment.

Mindful of some of the successful foreign-educated young politicians in his own Congress party, Mr Singh also invited high-achieving expatriates to return to help India achieve better governance.

'We seek the active involvement of the overseas Indian communities in accelerating the pace of our economic and social development . . . It is important that we make efforts to connect the second generation of overseas Indians with their ancestral heritage," he said.

Mr Singh observes that Indians abroad are good savers but not good investors in India, where they mainly put money into real estate. Some of his cabinet colleagues want to tip the balance. In the past, the government tapped the diaspora for funding its war effort against Pakistan. Now Kamal Nath, the roads and highways minister, has challenged the finance ministry to launch infrastructure bonds to let emigrés participate in one of the top priorities for the country's sustained growth.

India is one of the world's biggest where they feel more welcome.



Students in the US and future remittance senders?

recipients of remittances, alongside Mexico and China. They totalled \$50bn in the 2007-08 financial year; the global financial crisis has cut them to an estimated \$40bn this year.

While India's largest flows of money come from North America, they had been spurred in recent years by demand for migrant labour in the strengthening economies of oil-exporting Middle Eastern countries. An estimated 4m Indians work in the Gulf, yielding more than \$20bn in remittances

Evidence of the prosperity bought by remittances is visible in some states. Kerala in the south is particularly dependant on remittances from the Middle East, which represents as much as a quarter of its economy, according to research by HSBC, the banking group.

The outflow of labour has been accompanied by an outflow of students to the UK, the US, Singapore and Australia. These English-speaking countries, aware of the needs of India's millions of young people, have actively marketed themselves as education centres offering attractive study packages.

In Australia, this strategy has come unstuck, at least temporarily. A spate of violent attacks on Indians has left what should be a promising bilateral relationship strained. Enrolments have fallen, as Indians begin to move

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