

THE ECONOMY

India is the world's largest democracy & amongst the fastest growing economies. However, over the past few quarters, the Indian economy has experienced a slowdown in growth.

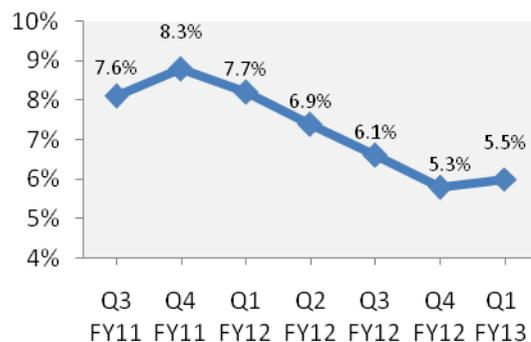


Figure 1 GDP Growth Rate of India

Despite the slowdown, India is still growing 2.5 times as much as the US and more than 5 times as much as the European Union.

GOVERNMENT'S FOCUS ON REFORMS

In order to reverse the slowdown in the growth, the government has decided to pursue aggressive reforms which would revive the investor confidence domestically and globally.

The government has decided to pursue policies to attract higher foreign direct

investment (FDI). It has liberalised policy norms for FDI in the following sectors:

- i. Multi Brand Retail Trading
- ii. Civil Aviation
- iii. Power Exchanges
- iv. Broadcast Services

FDI IN MULTI-BRAND RETAIL

India, a nation of 1.2 billion consumers, is one of the largest retail markets in the world with estimated annual sales of USD 450 bn. The market is highly fragmented and around 90% of it is controlled by tiny family-run shops. It suffers from huge supply chain inefficiencies and lack of infrastructure. The government has decided to allow foreign investment to modernise this sector. The government has approved 51% of FDI in multi-brand retail with the following riders:

- Minimum amount to be brought in, as FDI would be USD 100 million
- At least 50% of total FDI should be invested in 'backend infrastructure' like processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage etc
- At least 30% of the procurement of manufactured/processed products shall be sourced from 'small industries' (less than USD 1 mn)
- Retail sales locations may be set up only in cities with a population of more than

10 lakh as per 2011 Census. Only 53 qualify out of nearly 8000 towns & cities

The liberalisation of foreign investment in multi-brand retail is expected to benefit farmers. The strengthening of back-end infrastructure is expected to significantly reduce the post-harvest losses, especially in cases of perishable commodities. The clause mandating 30% of sourcing from small industries will boost their growth. However, it is the consumers which stand to gain the most from lower of prices due to supply chain efficiencies, and improvement in product quality, and availability of wider range of choices.

FDI IN CIVIL AVIATION

The aviation sector in India has witnessed strong growth in passenger volumes. The total passenger traffic in India has grown at a CAGR of 16% over the last decade. However, the strong growth in traffic hasn't translated into profitability due to high operating cost and intense competition.

The government has approved the proposal permitting foreign airlines to make foreign investment up to 49% in scheduled and non-scheduled air transport services.

Foreign investment is expected to support the industry in difficult growth scenario, hasten the introduction of global best practices, lead

"The world is not kind to those who do not tackle their own problems. I promise you that I will do everything necessary to put our country back on the path of high and inclusive growth"

- Manmohan Singh, Prime Minister, India

to higher service standards, and induction of state-of-the-art technologies, in the air transport sector. The government estimates this industry will be able to absorb over USD 120 bn by 2020.

FDI IN POWER EXCHANGES

Power trading is the purchase of electricity for resale thereof. A power trading exchange provides an organized platform for fair and efficient price discovery, dissemination and risk management for the stakeholders in the power sector.

Power trading exchanges are in a nascent stage of development in India. This sector has huge potential for growth as only about 10% of the power generated (installed capacity of 2,01,637 MW) in India is traded. The government has decided to promote the exchanges by allowing FDI up to 49% [FDI limit - 26% & FII limit - 23%].

FDI IN BROADCASTING SECTOR

India is one the biggest consumer of media in the world and the largest DTH market in terms

of subscribers. The active DTH subscriber base is expected to reach 64 mn by 2015.

The government has reviewed the policy on foreign investment, for companies operating in the broadcasting sector and has liberalised it. Foreign investment in companies in the business of Teleports (setting up up-linking HUBs/Teleports), Direct to Home (DTH) Cable Networks and Mobile TV is allowed upto 74%. This proposal will make the foreign investment policy for the broadcasting sector consistent with that of the telecom sector & thereby attract greater investments into the broadcasting carriage services.

CONCLUDING REMARKS

There have been concerns about delays in clearances for infrastructure projects in India. The government has proposed a nodal agency NIB (National Investment Board) chaired by the PM which would be empowered to give statutory clearances for large infrastructure projects. It is expected to fast track the execution of large projects by providing a single window clearance.

The government has acted strongly and decisively in order to check the declining

growth trend and revive the investor sentiment by unleashing the second generation reforms.

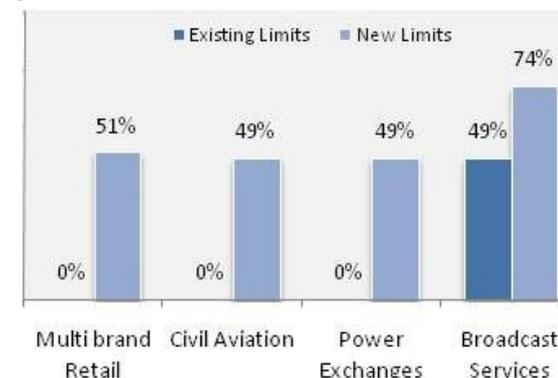


Figure 2 Liberalisation of FDI Limits

The liberalisation of foreign investment norms coupled with other proposed measures like NIB, Goods and Services Tax (GST), new land acquisition bill, liberalisation of pension and insurance sector is expected to put India back on high growth pedestal. The strong reforms agenda set by the government has led to many multinationals corporations expedite their plans to invest in India.

ABOUT INI CONSULTING

INI is a boutique consulting firm which provides strategic advisory and implementation support services to organizations on India Entry, Agri-Consulting and Infrastructure Health Assessment. The services offered transcend various stages of a company's lifecycle right from conceptualization of business plan to operations management. Strong local presence, deep knowledge of market segments, extensive operational experience and strong network makes INI the preferred partner for the clients.