Europe India Chamber of Commerce

Newsletter

Issue: 42 Volume: 4 **August 2011**

Indian firms top world sales growth

Indian companies' sales growth has soared past the rest of the world in the past five years, posting annual average rises of 27 per cent compared to just 5 per cent for firms in developed countries, an Ernst and Young survey found. Indian sales growth was also far higher than the average of 16 per cent for the developing world as a whole, according to the 2006-2010 study which compared the performance of 150 companies in rapid-growth markets with 80 leading US and European firms. "Some of these gains (in developing countries) are due to the exceptional growth of their domestic economies. Others have benefited from rising raw materials prices, particularly mining and oil and gas companies," Ernst & Young said in a statement. "Developed market companies suffered more from the financial crisis than those from rapid-growth markets. Except for a knock against exports, the economic downturn was experienced as a distant concern in the rapid-growth markets. After India, Brazilian companies saw the next fastest growth of with a 22% rise on a compounded annual average basis, followed by Russia and China with 17% each. Malaysian, Polish, Indonesian and South African firms also enjoyed double-digit sales growth, the study showed. Companies from the developing world also enjoyed better operating margins, posting an average of 24% compared with 18% for the developed market companies. Ernst & Young said that while lower labour costs and lighter regulation were partly behind the better margin performance, it added: "Margins are also increasingly being driven by the fact that many of these companies are now world-class operations that command real intellectual property." Moreover, the study found that 31% of the world's top 1000 companies by market capitalisation now come from the rapid-growth markets.

India’s airplane market to touch $150 billion by 2030

India's commercial airplane market will reach $150 billion over the next 20 years as a burgeoning middle class is expected to drive demand in India, a study by Boeing said. Indian carriers have orders worth $40 billion in the pipeline, as an economy growing at nearly 9% is spurring business travel and the middle class, long accustomed to traveling by rail, is now increasingly opting for air. India, the second-fastest growing major economy in the world, is likely to maintain strong growth, boosting both air travel and air cargo markets, Boeing India said in a statement. India's passenger traffic is seen growing at 8.1% annually over the long term, compared with a global growth of 5.1%, Boeing said. With a population of 1.2 billion, India has only 300 aircrafts. By contrast, China, which is poised for dramatic growth, has 1,400 large jets for 1.3 billion people. India's largest private carrier Jet Airways, state-run Air India and low-cost carrier SpiceJet have over $12 billion worth of orders, with more in the pipeline. Demand for new aircrafts in India "is driven by growth in developing and emerging cities, demand from low-cost carriers and the need to replace an ageing fleet," Boeing said. Connectivity remains inadequate through much of India, and airport infrastructure is non-existent in many smaller cities. However, ambitious expansion plans are under way, which once completed will boost air traffic in smaller cities. Asian budget airlines placed a record $42 billion in plane orders during the Paris Airshow in June, signalling their high expectations for travel in the world's fastest growing market and also triggering worries some may not survive. Of that, Indian airlines walked away with a $23 billion gamble that air will finally conquer rail despite a formidable list of obstacle, with unlisted carrier IndiGo finalising an order for 180 jets, and GoAir placing an order for 72 Airbus jets. India is likely to buy as many as 1,320 new airplanes by 2030, out of a global estimate of 33,500 new airplanes during the period, Boeing said. Last year, Boeing had predicted 30,900 commercial plane sales globally worth $3.6 trillion over the 20 years up to 2029.

India Inc M&A, PE deals touch $32 bn in H1

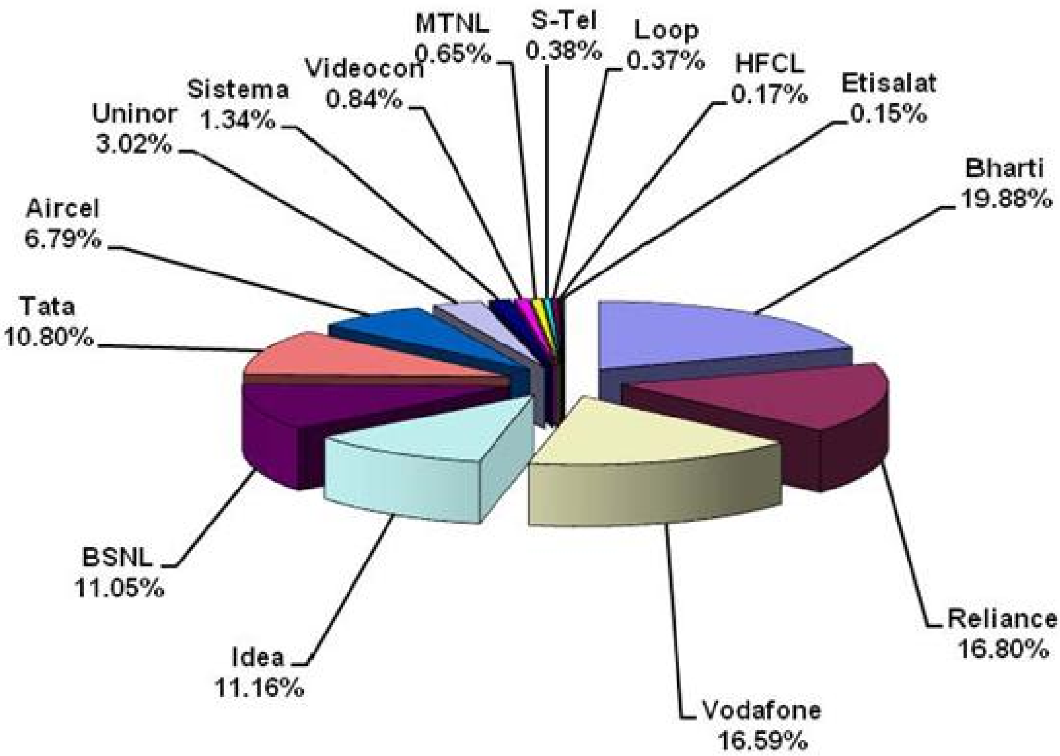
The value of India Inc's merger and acquisition (M&A) and private equity (PE) transactions in the first half of this year touched nearly $32 billion, says a report by global consultancy firm Grant Thornton. "There has been a significant level of activity in M&A and PE transactions during the first half of 2011," Grant Thornton said, adding that PE investments witnessed a substantial upsurge in comparison to the previous year. While the M&A deal value so far this year is 7% lower in comparison to the same period last year, PE investments have risen by over 70%. The first six months of this year saw M&A deals worth $26,743 million, while in the corresponding period last year, the deal value amounted to $28,892 million. A notable trend in M&A in 2011 has been the shift from outbound deals to inbound deals. "Several inbound deals have happened at premium valuations showing that Indian businesses have become attractive investment opportunities for global corporates," the statement said. The total value of outbound deals, wherein Indian companies acquired businesses outside India, stood at $5,893 million, while the total value of inbound deals (foreign companies or their subsidiaries acquiring Indian businesses) was a whopping $17,442 million. There were five deals valued at over a billion dollars each transacted during the period, four of which were inbound, Grant Thornton said. In the January-June period, the total value of PE deals amounted to $5,089 million, up 70% from last year, when the figure stood at $2,950 million. The other key sectors in the PE sphere so far this year include automotive, manufacturing, banking & financial services and power and energy, the report said.

M&A deals that create value increased despite recession

While recessions are often considered periods where value is destroyed and growth slowed, a study of merger and acquisitions (M&A) that were conducted at the height of the financial crisis indicates otherwise. According to data released recently by KPMG International, deals conducted across this time period were 15 per cent more likely to create value than those conducted in the pre-recessionary boom-years. The survey also found that the primary driver behind the M&A activity was growth. Almost half of all respondents (48 per cent) cited increased market share as one of their primary deal drivers, with 35 per cent pointing to geographic growth strategies and 27 per cent citing a desire to expand into new growth sectors. The survey, “A New Dawn: Good Deals in Challenging Times”, shows that the proportion of value-creating deals rose from 27 per cent in 2005-2006 to 31 per cent in this most recent survey period. A majority of the deals in this research were reported to be domestic in nature, but the report also notes a greater emphasis – particularly in Europe – towards cross-border activity and investments into emerging markets. However, deals conducted in the emerging markets are not guaranteed to create value. In ASPAC, for example, the survey shows that deals were just as likely to create value as they were to destroy it. And while the proportion of revenue-enhancing deals in the ASPAC region tripled over the previous two survey periods (from 12 per cent in 2003-2005 to 36 per cent in 2005-2007), this survey finds that growth had slowed dramatically in the most recent period, rising just four per cent. Indeed, the influence of culture on the success of a cross-border deal, which is already well-documented and widely understood by business executives, will require renewed attention. The survey shows that due diligence on HR-related matters continued to be a low priority for acquirers in the period under study. Only 38 per cent of respondents reported conducting HR-related due diligence, with the majority of those focusing their activity on defining terms and conditions versus the somewhat softer – yet arguably more important – activities of managing culture and communications. Another significant trend identified through this research is the rising strength of corporate acquirers and the diminished activity of public equity (PE). Fewer PE houses were active in the market over this period, leading to softer prices and improved chances of completing deals at prices that allow value to be created. Interestingly, the survey also shows that corporations managed to reduce the proportion of poor deals they did, while an increasing number of PE houses thought their deals actually destroyed value. Given the uncertain economic climate, corporations know that they are under particularly close scrutiny and have to work harder to persuade stakeholders that there is real value to be had from what they are buying. But since the recession effectively reduced the level of competition for acquisitions and put prices under pressure, corporations have been able to be more selective in choosing their targets and the prices they are willing to pay. The survey also found that – despite the importance placed by most acquirers on achieving synergies - nearly half of all respondents to this survey said they spent little or no time investigating the potential synergies of the deal, and a further 34 per cent spent only a reasonable amount of time on this task.

India telephone user base swells to 874.68 million as of May

The total number of telephone subscribers in India rose 1.53 per cent to 874.68 million as on May 31 2011, compared with 861.48 million recorded during June last year. The country's overall tele-density (number of telephone connections per 100 people) rose 73.11 as of end May, from 72.08 recorded in April, according to data released by the Telecom Regulatory Authority of India (TRAI). The share of urban subscriber has marginally declined to 66.38 per cent from 66.56 per cent, whereas share of rural subscribers has marginally rose to 33.62 per cent from 33.44 per cent. During the reporting month, subscription in urban areas grew to 580.62 million, as against 573.36 million in April 2011, while rural subscription rose to 294.07 million from 288.12 million. The growth of rural subscription of 2.06 per cent was higher than urban subscription of 1.27 per cent. The overall urban tele-density increased to 161.37 (from 159.63), while rural tele-density rose to 35.15 (from 34.47). The country's total wireless subscriber base rose to 840.28 million as on end-May, posting a 1.61 per cent rise from 826.93 million recorded in April 2011. The share of urban subscribers has decreased marginally to 66.02 per cent from 66.20 per cent while the share of rural subscribers has increased marginally to 33.98 per cent from 33.80 per cent. The overall wireless tele-density in India stood at 70.23. Wireless subscription in urban areas rose to 554.75 million as on May 31 from 547.42 million in April, while rural subscription rose to 285.53 million (from 279.51 million) during the same period. Growth in rural subscription at 2.15 per cent was higher than the 1.34 per cent of urban subscription, while urban wireless tele-density rose to 154.18 (from 152.41) and rural tele-density rose to 34.13 (from 33.44), TRAI data showed. Private operators hold 88.30 per cent of the wireless market share whereas the state-owned BSNL and MTNL hold only 11.70 per cent market share.



Out of the total 840.28 million subscribers, 588.13 million subscribers were active subscribers on the date of peak visitor location register (VLR) for May 2011. The total active VLR number excludes BSNL's CDMA service, as the public sector firm has not provided the figures. BSNL has a total CDMA subscriber base of 5.37 million. The proportion of VLR subscribers is about 69.99 per cent of the total wireless subscriber base reported by the service providers. Circle-wise, Jammu & Kashmir has the highest proportion of VLR subscribers with 80.97 per cent followed by Assam (77.43 per cent) and Maharashtra (75.11 per cent). Mumbai has the lowest proportion with 55.35 per cent. Operator-wise, Idea Cellular leads the tally with 92.33 per cent followed by Bharti Airtel with 89.10 per cent , while MTNL was at the bottom of the pyramid with 34.39 per cent. As on May-end, about 105.70 lakh subscribers had submitted requests to service providers for porting their mobile number. Out of these requests around 6.32 lakh were from Haryana, wherein MNP was implemented from 25 November 2010. In rest of the country, in MNP Zone-I (northern and western India) the maximum number of requests were received in Gujarat (10.53 lakh) followed by Rajasthan (8.25 lakh). In MNP Zone-II (southern and eastern India) maximum number of requests were from Karnataka (7.95 lakh) followed by Tamil Nadu Service (7.74 lakh). Wireline subscriber base declined to 34.40 million in May 2011 from from 34.55 million in April 2011. The share of urban subscriber rose to 75.19 per cent from 75.08 per cent, whereas share of rural subscribers has declined to 24.81 per cent from 24.92 per cent. The overall wireline tele-density in India declined to 2.88 with urban and rural tele-density being 7.19 and 1.02, respectively. BSNL and MTNL, two PSU operators hold 82.29 per cent of the wireline market share. The country's total broadband subscriber base rose to 12.12 million in May, a 0.92 per cent 12.01 million in April, TRAI data showed.

UK Bribery Act comes into force

The UK Bribery Act 2010 came into force on 1 July 2011. Commercial organisations will now be at risk of the corporate offence of failure to prevent bribery, and will need to have "adequate procedures" designed to prevent bribery, which, under the Act, will afford a defence. Organisations should note that the Act has extra-territorial reach in that any UK citizen or company can be liable under the Act for their business practices abroad. Non-UK companies will potentially be affected if they have a UK office or operation, even if the offences complained of are not approved or financed by the UK branch or subsidiary. As a result, and given that many multinational companies have bases in the UK, the Act is expected to have significant implications for how international companies with a UK connection do business in the future. Indian companies with offices in the UK and British companies operating in India will be covered by the new act that seeks to prosecute companies and individuals who not only offer or receive bribes but also fail to prevent bribery. The Act overhauls existing British laws dating back to 1889 and creates offences in the UK or abroad that carry prison terms of up to 10 years and unlimited fines. Failure to prevent bribery has also been made an offence under the act. In recent years, many Indian companies have opened offices in London and elsewhere in the UK, while many British companies have expanded their operations in India to tap India's growing economy. The official guidance on the new act says: "Bribery undermines democracy and the rule of law and poses very serious threats to sustained economic progress in developing and emerging economies and to the proper operation of free markets more generally." It adds: "The Bribery Act 2010 is intended to respond to these threats and to the extremely broad range of ways that bribery can be committed. "It does this by providing robust offences, enhanced sentencing powers for the courts (raising the maximum sentence for bribery committed by an individual from 7 to 10 years imprisonment) and wide jurisdictional powers." Lawyers are reportedly being consulted by Indian companies with operations in the UK on the act's implications for them. Official sources believe the new legislation will help cement Britain's position as a leader in the fight against business and corporate corruption. The Act specifically creates a "standalone offence of bribery of a foreign public official". According to the act, an offence is committed where a person offers, promises or gives a financial or other advantage to a foreign public official with the intention of influencing the official in the performance of his or her official functions. The person offering, promising or giving the advantage must also intend to obtain or retain business or an advantage in the conduct of business by doing so. However, the offence is not committed where the official is permitted or required by the applicable written law to be influenced by the advantage, the official guidance says. Bona fide hospitality and promotional, or other business expenditure which seeks to improve the image of a commercial organisation, better to present products and services, or establish cordial relations, is recognised as an established and important part of doing business and it is not the intention of the act to criminalise such behaviour. "The Government does not intend for the Act to prohibit reasonable and proportionate hospitality and promotional or other similar business expenditure intended for these purposes."It is, however, clear that hospitality and promotional or other similar business expenditure can be employed as bribes," the guidance says. Companies prosecuted under the act must show they have "adequate procedures" in place to stop bribes. Such procedures may include providing anti-bribery training to staff, carrying out risk assessments for the markets being operated in, or carrying out due diligence on the people being dealt with. However, a survey released in June 2011 by the consultants KPMG found that 71 per cent of companies believed there are some places in the world where business cannot be done without engaging in bribery and corruption.

Poland takes over EU Council Presidency

1st July 2011 marked the start of Poland's chairmanship of the Council of the European Union. Poland took over the Presidency from Hungary which has presided over the EU for the past six months. The Polish Presidency got under way amid serious economic and social challenges facing the European

Union, and Poland's programme and plan of activities will focus on its response to those challenges. Poland's objectives already enjoy the support of many European countries and community institutions. The goals to be pursued over the next six months are efforts to deepen the integration of the EU market in order to lead to swifter economic growth. Efforts will also be made to further enlarge the EU and strengthen cooperation with neighbours, guaranteeing greater stability in this region of the world, both in the south and the east. Another goal is the strengthening of Europe's energy, food and military security. Also during Poland's Presidency, the extremely important discussion on the new EU budget for 2014-2020 will get under way. The taking over the Presidency also saw the European Parliament and European Commission opening offices in Wroclaw, Poland. European Parliament President Jerzy Buzek and European Commission Vice-President Viviane Reding opened the 'Europa House' – the EU's regional representation office – on the first day of Poland's European Union presidency. The office will play a key role in building contacts between the local authorities, journalists and citizens in Poland's south-west regions. Poland is now part of a group of the six most populated EU Member States that have one or more regional representations on their territories. The Commission's representations and the Parliament's information offices – along with the Europe Direct Network – deal directly with citizens. They also provide first-hand information to the EU institutions about political, economic and social developments in the Member States. The office will work closely with the Parliament, the Commission headquarters and the other EU institutions. Wroclaw, the capital of Lower Silesia, is the fourth largest city in Poland with a population of over 630,000, almost one fifth of which are students. With its multicultural history, Wroclaw is often called "the city of meetings" and will play an important role during the Polish Presidency. The Commission has representations in every EU Member States capital city. In countries with populations over 25 million (France, Germany, Italy, Spain and the UK) the representation in the capital is also supported by one or more regional representations. These are located in: Barcelona, Belfast, Bonn, Cardiff, Edinburgh, Marseille, Milan, Munich and now Wroclaw. It is common practice to co-host the offices of the Commission and the Parliament in the same building, as is the case in Europa House.

"New Deal" to boost competitiveness in EU countries

Shifting policy making and spending in cross-border areas such as energy and transport from national to EU level would improve investment returns and cut costs by generating economies of scale. It would also give an urgently-needed boost to EU competitiveness, says the final report from Parliament's Special Committee on the Financial, Economic and Social Crisis, approved on 6 July. Youth unemployment, social cohesion, the sovereign debt crisis and slowing growth are among the issues addressed by the non-legislative resolution, passed by the Parliament with 434 votes in favour, 128 against and 33 abstentions. The resolution analyses the reasons for the current economic and financial crises, suggests ways to avoid economic crises in the future and presents a long term vision for Europe. The Special Committee was set up in 2009 to analyse the reasons for the current crises and propose measures to ensure a long-term sustainable growth. Now that its resolution has been passed, it will be dissolved. A European "New Deal" should foster innovation, job creation and R&D investment, so as to give an urgently-needed boost to European competitiveness and ensure sustainable, green growth, says the report. The EU must either deepen its integration or risk drifting apart and falling into an era of populism and nationalism, says the resolution. In particular, MEPs urge stronger co-operation in cross-border policy areas such as energy, transport and foreign policy, where EU added value can be high. This shift in policy making towards the European level would, in the long term, need to be accompanied by an increase in the EU budget "to a sufficient size". Such a change would be tax neutral for citizens: it would come about through increased EU "own resources" and savings for national governments as a result of shifting activities to European level. The report urges closer co-ordination of national tax policies, a common corporate tax base, a European Treasury and changing the European Stability Mechanism into a European Debt Agency. It asks the Commission to look into a system of Eurobonds to reduce sovereign debt and stimulate fiscal discipline. MEPs also say the Bretton Woods institutions and other economic governance bodies, including the G20, should be incorporated in the UN system. The International Monetary Fund should also be reformed, so as to enhance its transparence and accountability and render it more democratic, while strengthening its role in the economic and financial surveillance of its members, it adds. The resolution argued that revenue from a financial transaction tax could help fund the Millennium Development Goals and meet climate change commitments.

Green Paper on promoting the tastes of Europe

The European Commission on 14 July launched a debate on the future of promotion and information schemes for EU agricultural products. With the publication of a Green Paper on these issues, the Commission is looking at how to shape a more targeted and more ambitious strategy for the future, which will make clearer to consumers – both in the EU and beyond - the quality, traditions and added-value of European agricultural and food products. Current EU agri-food information and promotion rules were drawn up in the 1980s. They have been adapted over the years, notably with the increase in the number of quality labels. The EU budget spent on promotion under Council Regulation (EC) No 3/2008 amounted to €50.6m in 2007, €53.2m in 2008, €47.4m in 2009, and €47.4 in 2010. The current system sees most programmes targeted at the EU market (71% of programmes, 74% in value) and around 8% are multi-country programmes. Between 2006 and 2010, 190 programmes were approved, mostly 3-year schemes, worth a total of €259.4 million from the EU budget. Also, under the strict rules that apply, some 59% of applications were rejected over the 2006-2010 period. Presenting the Green Paper in Brussels, EU Commissioner for Agriculture & Rural Development Dacian Ciolo stated: "To protect the health of our consumers farmers in Europe face stricter rules on food safety, environmental conditions, and animal welfare than their competitors elsewhere in the world. The European agriculture industry needs an ambitious and effective promotion policy which highlights the added-value of the sector. It is also important for European jobs and growth that the EU agri-food sector can improve its position on traditional and emerging markets. We therefore need to consider how best to adapt our schemes to support this goal." The paper raises a series of multi-faceted questions and invites all stakeholders - consumers, producers, distributors and official authorities - to give their comments and suggestions by September 30, 2011. On the basis of these responses, the Commission will draft a Communication for publication next year, which should then lead to legislative proposals. The Green Paper is divided into four sections - the European added-value of this policy; objectives and measures to use on the internal EU market, including on local and regional markets; objectives and measures to use on world markets; and broader questions on the content and management of the policy. The various questions raised, 16 in all, contain different aspects and suggestions, aimed at stimulating responses. For example, they ask about the specific needs for information and promotion, both on the EU market and the external market, and what priorities should be set. There is also a question about multi-country programmes, and what can be done to encourage programmes with a greater European dimension.

Climate Action: Reducing CO2 emissions from cars through eco-innovation

The automotive industry will have a greater incentive to invest in new technologies that reduce CO_2 emissions from new cars, under legislation adopted by the European Commission on 25 July 2011.The Regulation enables motor manufacturers to receive CO_2 emission credits if they fit new cars with approved "eco-innovations" which reduce emissions. The credits will help the industry meet the European target of limiting CO_2 emissions from new cars to an average of 130 grams/km by 2015. Eco-innovations will count for up to 7 g CO_2/km towards the target. Under the Regulation, a technology can qualify as an eco-innovation if it is new to the market, contributes to significant CO_2 savings and is not otherwise taken into account in determining the level of CO_2 emissions from vehicles. The technology should also aim at improving vehicle propulsion or the energy consumption of devices that are mandatory, without compromising vehicle safety. This means, for instance, that solar panels converting sunlight into electric energy could potentially qualify as an eco-innovation but an energy-efficient in-car music system would not. The Commission will assess applications submitted by car manufacturers and component suppliers and adopt decisions approving generic eco-innovations. The actual CO_2 savings from the eco-innovations for each specific car will be certified as part of the vehicle type approval procedure. EU legislation requires that by 2015, CO_2 emissions from all new cars registered in the EU should not exceed 130 grams/km, around one-fifth below 2007 levels. The target will be gradually phased in: in 2012 65% of each manufacturer's newly registered cars must comply, rising to 75% in 2013, 80% in 2014 and 100% by 2015. Manufacturers whose fleet average exceeds the limit from 2012 will have to pay a penalty for each car registered. The Commission will develop detailed technical guidelines on how companies should prepare applications to have their eco-innovations recognised.
