Market Entry Strategy in India

Rome, March 6th 2015
Executive Summary

India has become a very compelling investment case that has promising prospects

- Economic growth is driven by the increasing consumer spending power of the Indian population. The coming years India will become one of the largest consumer markets in the world;

- India is also an attractive destination for Foreign Direct Investment (FDI) due to its first-class outsource destinations, which offer cheap, skilled labor pools. Moreover, the Indian government focuses on implementing investor-friendly policies, which enhances the attractiveness of the Indian market.

Numerous multinationals have already entered the Indian market successfully. Formulating an inclusive market entry strategy can help you to become successful in the Indian market, whether you are looking to invest in production facilities or to target the consumer or b2b market

- India has a large infrastructure that is continuously expanding. Furthermore, due to its central location companies can easily reach Middle-Eastern, African and South-Asian countries as well;

- India’s demographics make it an interesting market with remarkable future chances. Due to its relatively young population (median age is 26.7 years) it has a large consumer market potential. This is further strengthened by the still expanding middle class.

As a result of further liberalisation of the Indian market, it has become more easy for investors to enter. However, due to country-specific complexities of doing business in India, it remains a challenging business environment

- It is important to be aware of sector-specific initiatives and regulations, legal entity types, the business registration process, local tax structure and cross-cultural issues when devising an entry strategy.

KPMG has a large footprint in India and its professionals have experience in helping foreign companies and investors do enter or grow in the Indian market

- KPMG has 11 offices on strategic locations in India, including the top destinations for outsourcing and employing over 4800 staff;

- As a result of our presence in both Italy and India and our resulting local and international knowledge and experience, we are perfectly equipped to meet all your audit, consulting, and tax needs.
Why India?

Market entry strategies

Investment environment and regulation

Case study

How KPMG can help
Why India?
India is a compelling investment case, as a result of the size of the population and the current relatively low GDP per capita

- 431 million Indians have been elevated from poverty since 1985.
- ~467 million Size of the Indian workforce – the second largest in the world.
- 30% India’s share of the addition to the global work force between now to 2020.
- 1/4th of the world’s population of under 25 year olds live in India.
- 450x Increase in the cell phone subscriber base from <2 million in 2000 to 865 million presently.
- $301 billion Cumulative FDI amount from April 2000 to July 2013, excluding c. $200 billion of FDI equity inflows (April 2000-July 2013).
**Why India?**

India remains the world's third most attractive destination for investment by multinationals during 2013-15...

<table>
<thead>
<tr>
<th>Domestic market: favorable demographics</th>
<th>Huge workforce and outsourcing support</th>
<th>Geographical advantage in terms of resources and location</th>
<th>Continuously improving Infrastructure support</th>
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<tbody>
<tr>
<td>Around 17% of the world population resides in India with an average median age of 26.7 years supporting a fairly young nation</td>
<td>India emerges as one of the most attractive destinations for outsourcing services supported by huge workforce</td>
<td>Resources - To remain in the radar of foreign investors, India offers a rich bank of mineral resources supported by low cost of production</td>
<td>India extends a huge infrastructure support covering:</td>
</tr>
<tr>
<td>India holds a huge middle class population which is expected to touch 1 billion by 2039</td>
<td>Around 65% of Indian population is in the working age group of 15 to 64 years. Approx 250 mn Indians will join the workforce by 2030</td>
<td>Location - Foreign companies strategize to utilize India as a springboard to access some of the regional South Asian, Middle East and even African markets</td>
<td>Second largest road network in the world (3.34 mn KM)</td>
</tr>
<tr>
<td>As per National Sample Survey Organisation (NSSO) India is witnessing a drastic decrease in Below Poverty Line (BPL) population supporting a favorable demographics</td>
<td>India’s labor force has a strong knowledge base with a significant English-speaking population and high level of tertiary education supporting a diverse talent pool across industries</td>
<td></td>
<td>Asia’s largest and world’s second largest rail network (63,028 KM)</td>
</tr>
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</table>

![Note: (1) SEZ are Special Economic Zones are geographical region that are designed to export goods and provide employment. SEZs may be exempt from federal laws regarding taxes, quotas, Foreign Direct Investment (FDI) bans, labour laws and other restrictive laws in order to make the goods manufactured in the SEZ at a globally competitive price](https://example.com)

Source: Invest India, IBF, A.T. Kearney's Global Services Location Index, CIA
Why India?
… as is illustrated by increased FDI

FDI Inflows (US$ billion)

Most attractive characteristics of the Indian market

The high potential of the domestic market 50%
Cost competitiveness 45%
Access to a highly qualified workforce 25%
The demand-driven growth model 23%
The high productivity 15%
A leading location for manufacturing facilities 13%
Support for innovation 12%
The political stability 8%
Can’t say 4%

Source: Department of Industrial Policy & Promotion, Government of India, Ernst & Young 2012 India attractiveness survey, (Total respondents: 506; three possible answers)
Why India?
A growing middle class, further growth in FDI and a strong ICT footprint are expected to drive further economic growth...

**Economic Growth in India**

India’s GDP growth is the 10th largest in the world and is likely to remain high for the next five years

- India has a predicted average growth rate of 7.7% per annum till 2017;
- Its GDP for 2013 is valued at US$ 1.9 trillion at current prices;
- When adjusted for Purchasing Power Parity (PPP) India’s GDP will rank 3rd globally in 2014.

**Major drivers for Indian economic growth covers**

- Developments in the Indian consumer market, consumer spending has doubled in India over the past years and is expected to continue to grow in the coming years;
- Favorable regulations for attracting foreign investments, increasing openness to promote international trade;
- High development of software, information technology and other business services.

**Consequently India is an attractive market for FDI**

- One of the main reasons for current foreign investors is the huge potential of the domestic market;
- But the high quality of the work force also makes it an attractive destination for outsourcing.


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Consumer spending in India grew from US$ 549 billion to US$ 1,060 billion between 2006 and 2011, putting India on the path to becoming one of the world’s largest consumer markets by 2025.

India’s consumption is expected to rise 7.3% annually over the next 20 years.

By 2040, nine out of every ten Indians will belong to ‘the global middle class group’ with daily expenditures ranging between US$ 10 and US$ 100 per person in today’s purchasing power parity terms.

Share of Global Middle Class Consumption 2000-2050

Source: Wolfensohn Center for Development
Why India?
India offers attractive and proven outsource destinations

Outsourcing destinations in India are scattered across the country
- 10 Indian cities qualify among the top 50 of outsourcing destinations globally, of which 6 Indian cities even rank among top 10

The top outsourcing destinations

- Chandigarh
- Delhi NCR
- Jaipur
- Bangalore
- Chennai
- Hyderabd
- Kolkata
- Pune
- Mumbai
- Coimbatore

The high number of higher education students ensures a large talent pool
- With 33,000 plus colleges and 650 plus universities, India enrolled ~26 million higher education students in the year 2011-12
- With English being the official language, India offers an attractive potential work force

Large labour force keeps labour costs low and competitive
- Huge labour supply offers opportunities for labour intensive industries
- Low labour costs in comparison to other emerging economies such as China and Brazil

Indian government supports investor-friendly policy reform
- Indian Government’s investor friendly policy is constantly evolving to make India the most preferred destination for foreign investors
- Recently announced investor friendly schemes include the further opening up of FDI in the retail sector, the introduction of the Qualified Foreign Investor (QFI) scheme that enables foreign investments in mutual funds, and the enhancement of Financial Institutional Investors (FII)’ access across various debt security categories

The wide infrastructure network is improving continuously, supported by government investments
- India offers one of the world’s largest infrastructure networks in terms of roads, rail and ports, among others
- A US$ 1 trillion investment plan that is rolled out in the next 5 years is targeted at current infrastructure deficiencies
- A large industrial corridor will be created to connect Mumbai and Delhi. This multi decade plan also entails the development of 6 new cities

Outsourcing can form a first access to the large domestic market
- India accounts for c.8% of the global outsourcing market, the FDI is successfully implemented through outsourcing
- Companies that enter India through outsourcing can gain access to the growing and maturing domestic (consumer) market

Source: Tholons, 2013 top 100 outsourcing destination ranking, Asia Briefing, KPMG analysis
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**Market entry strategies**

The keys to market entry success in Indian market are diverse

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<td>1</td>
<td>Ability to understand the diverse market and strategies towards specific regions and income groups (target segment)</td>
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<tr>
<td>2</td>
<td>Indianisation of offerings - Molding the offerings according to the target group can help gaining early acceptance</td>
</tr>
<tr>
<td>3</td>
<td>Integration of informal sector into the core business model followed by gaining access to relevant networks</td>
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<tr>
<td>4</td>
<td>Consistency and reliability in approaching the market, and patience to realize results</td>
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<tr>
<td>5</td>
<td>Patience to understand and obtain mandatory licenses and approvals, crucial for business operations</td>
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<tr>
<td>6</td>
<td>Outsourcing services and manufacturing emerges as some of the leading route to market for FDI investments</td>
</tr>
</tbody>
</table>
Market entry strategies
Formulating a strategy

Can your Company compete in India?

- Market & competition assessment
- Legal & regulatory assessment
- Customer assessment
- Entry barrier assessment

It is important to understand the client’s industry and think carefully about how you can compete with established local companies.

Will your Company business model work in India?

- More and more, companies are realizing that adapting their model is vital to success in foreign markets. Simply transplanting an existing business model to another country has led to problems for a number of organizations.

- Choice of local business partners and hiring people who understand the market and culture is also important (Partner selection & analysis)

How can India complement your Company overall strategy?

- It is important to consider how investment in India will impact other areas of the business, including the company’s finances, management, supply chain, etc.

- It is critically important to assess the risks as well as the anticipated benefits.

What is the best way for your Company to enter India?

- An important step is to determine which method of investment will work best.

- Should it be greenfield (setting up a new company in India), acquiring a business in India or a joint venture with a Indian company?
**Market entry strategies**

**Foreign investments taking place in several different industries**

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**Large consumer market**

- **Etihad Airways and Air Asia** entered the Indian market through JV’s with different partners.

- In 2013, Indian government approved IKEA’s proposal to invest around $1.95 billion in the country to open 25 stores.

- Forever 21 and Richemont have plans to open retail stores in India with a planned investment of US$ 50 million and US$ 25 million respectively.

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**Manufacturing hub**

- IBM and STMicroelectronics are in advanced stages of discussions with Indian government for an investment of over $9 billion.

- Mondelez International announced its plans to invest ~$180 million to set up the company’s largest confectionary manufacturing plant in India.

- Japanese car maker, Honda Cars India Limited (HCIL) announced an investment of $455 million and five new models in the next three years.

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Notes: 1. Currency converted through Oanda.com using historical conversion rate

Source: The Economic Times
Market entry strategies

Investors should note that there are large differences between the regions that should be taken into account when designing an entry strategy.

Northern Region
- Key cities and sectors:
  - Delhi-NCR; The Delhi-Jaipur-Agra - golden triangle II: Commerce and manufacturing hub;
  - Kanpur: Japanese Investment Corridor-leather and textile machinery.
- Balanced relationship between heavy and light industries
- Successfully attracted many Fortune 500 firms

Western Region
- Key cities and sectors:
  - Mumbai-Pune corridor and Nasik: Engineering;
  - Surat: Textiles and gemstones;
  - Ahmedabad-Baroda-Ankleshwar: Refineries, petrochemicals, pharmaceuticals, chemicals and fertilizers.
- High Government incentives
- Emerging software and other high-tech industries
- Mix of cities with diverse economic and social hierarchies

Southern Region
- Key cities and sectors:
  - Chennai-Sriperumbudur: Automotive and heavy engineering
  - Coimbatore: Engineering and textiles
  - Salem: Steel, food processing, poultry
  - Bangalore-Hosur: IT
  - Hyderabad: Agriculture, Pharmaceuticals and IT
  - Vishakhapatnam-Kakinada: Petroleum, chemical and petrochemical
- Developed IT outsourcing industry

Eastern Region
- Key cities and sectors:
  - Kolkata: Heavy engineering and IT
  - Jamshedpur: Automotives
  - Chhattisgarh: Power, steel and iron ore
- Low-cost human resources
- Rich natural resources
- Comparatively low land price
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**Investment environment and regulation**

**Several government initiatives to attract FDI exist**

- Liberal and transparent FDI policy. Several attempts to ease the rules and regulations related to foreign investment in the industry

- New schemes and initiatives including Qualified Foreign Investor (QFI) scheme to attract foreign investment

- Conducive policy environment for foreign enterprises to invest and to stimulate growth of their business in India

- Guidance provided to different investors in terms of infrastructure availability, market structure etc.

*Source: Ministry of External Affairs, Press Information Bureau, Invest India, IBEF*
### Permitted industries/sectors
- Industries/sectors that are permitted for foreign direct investments with applicable laws/regulations, securities and other conditions.
- Examples include:
  - Agriculture and animal husbandry
  - Tea plantation
  - Coal and lignite
  - Petroleum and natural gas

### Newly Encouraged industries/sectors
To encourage foreign investments, Indian government recently liberalised various sectors by raising FDI limits (including 100% FDI provision).
- Examples include:
  - Single brand retail
  - Aviation
  - Defense
  - Telecommunications
  - Insurance
  - Petroleum and refining

### Prohibited industries/sectors
- In order to protect the interests of the nation and national security, some of the sectors/industries are “prohibited” from foreign investments.
- Examples include:
  - Atomic energy
  - Lottery, gambling, betting
  - Chit funds
  - Manufacture of cigars and cigarettes

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**KPMG can help you understand how your business fits in India’s development.**

**Source:** Reserve Bank of India, Ministry of Commerce and Industry
Investment environment and regulation

Government has defined “encouraged” industries/sectors for foreign direct investment

Key strategic industries earmarked for development through targeted policies and supportive initiatives

- Infrastructure
- Renewable Energy
- Food processing
- Telecommunication
- Manufacturing, including electronic system design
- Service sector including IT
- Leisure and Tourism

Source: Invest India, IBEF
The Indian government intends to alter its policies in order to attract higher levels of FDI. This will lead to significant improvements in the coming years for policies on foreign investment.

### Investment environment and regulation

**Investors should be aware of sector specific regulations and requirements for FDI.**

<table>
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<tr>
<th>Particulars</th>
<th>Key change</th>
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<tr>
<td>Multi Brand Retail Trading¹</td>
<td>51% FDI permitted under Government approval route subject to certain conditions, such as:</td>
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<td></td>
<td>(a) minimum investment of $100 million to be infused by the foreign investor</td>
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<tr>
<td></td>
<td>(b) at least 50% of the foreign investment to be invested in back-end infrastructure within three years of induction of FDI etc</td>
</tr>
<tr>
<td>Single Brand Retail Trading¹</td>
<td>100% FDI permitted under Government approval route with relaxation of conditions relating to ownership of brands and mandatory local sourcing.</td>
</tr>
<tr>
<td>Civil Aviation</td>
<td>49% FDI permitted under Government approval route subject to certain conditions such as substantial ownership and effective control is vested in Indian nationals.</td>
</tr>
<tr>
<td>Broadcasting sector</td>
<td>Up to 49% FDI is permitted under automatic route; Between 49% and 74% permitted under approval route for activities relating to teleports (setting up up-linking HUBs); Direct to Home; cable network and mobile TV.</td>
</tr>
<tr>
<td>Power Trading Exchanges (PTE)</td>
<td>Foreign investments in registered power exchanges (that trade in electricity) of 49% (FDI limit of 26% and FII limit of 23%) are now permitted subject to certain conditions.</td>
</tr>
<tr>
<td>Pension</td>
<td>49% FDI approved by the Indian cabinet.</td>
</tr>
<tr>
<td>Insurance</td>
<td>49% FDI approved by the Indian cabinet.</td>
</tr>
</tbody>
</table>

**Notes:** 1. Retail trading, in any form, by means of e-commerce, would not be permissible for companies with FDI, engaged in the activity of multi brand and single-brand retail trading.
India offers a wide variety of legal entities, each with specific characteristics:

**Non-corporate entity**

- **Liaison Office (LO)**
  - A liaison or a representative office can be opened in India subject to approval by Reserve Bank of India.
  - LO can undertake liaison activities on its company’s behalf.

- **Branch Office (BO)**
  - Foreign companies can conduct their business in India through its branch office which can be opened after obtaining a specific approval from Reserve Bank of India.

- **Project Office (PO)**
  - If a foreign company is engaged by an Indian company to execute a project in India, it may set up a project office without obtaining approval from Reserve Bank of India subject to prescribed reporting compliances.

**Corporate entity**

- **Wholly owned subsidiary**
  - Foreign companies can set up wholly owned subsidiary companies in India in the form of private companies subject to FDI guidelines.

- **Joint Venture with Indian partner**
  - Foreign companies can set up JVs with Indian partners. There are no separate laws for JVs in India and laws governing domestic companies apply equally to JVs.

- **Foreign Institutional Investors (FIIs)**
  - FIIs can invest in India in financial markets such as pension funds, mutual funds, investment trusts and asset management companies or their power of attorney holders.

Source: Reserve Bank of India, Invest India
Investment environment and regulation

M&A offers a swift way of obtaining a direct position, but ....

A possible benefit of merging with (or taking over) a local company is that the target company may already have an established customer and supplier base coupled with local expertise, which supports a successful transition into the domestic market.

For merger and acquisition moves into India, much of the emphasis will be on performing due diligence on the company to be merged with or taken over.

Important considerations include complete understanding of target business in terms of market share, product offerings, competitor landscape and financial information.

A greenfield investment involves setting up an entirely new entity in India.

Key considerations include the scope and model of the planned business, as well as finding a location, associated government intervention followed by access to the right talent, materials and infrastructure.

Some issues must be considered regardless of the entry method, such site location, regulatory issues and cultural issues. The level of challenge may differ depending on the route.

What is the most appropriate route to address the Indian market?
Investment environment and regulation...foreign investors need to be alert for arising complexities during acquisition processes

- Two sets of books
- Off-the-book transactions / liabilities
- Internal / external audit report not fully reliable
- Weak internal controls / susceptibility to promoter overrides
- Weak MIS

- Supplier / customer relationships on non-commercial terms
- Informal arrangements
- Funds deployed in non-core activities/related companies

- Aggressive tax management (planning vs. avoidance)
- Tax litigation - final resolution time consuming
- Tax benefits/ incentives not continuing into post-transaction period

- Complex group structures – difficult to unwind, ‘hidden’ owners especially other factions of the family
- ‘Associated companies’ may need to be consolidated - may entail more liabilities
- Minority interests may have disproportionate power

- Decision making concentrated with owners
- Regulatory violations; for instance labour/environmental non-compliance

- Significant differences between Indian GAAP and IFRS
- Consolidated financial statements not available
- Long outstanding receivables
- Lack of regular reconciliation processes
- Improper transaction cut-offs
- Transactions with no / inadequate support

Weak corporate governance and systems
- Lack of familiarity with due diligence process
- Lack of formal planning / budgeting

Unsophisticated seller
- Changes to cross-border tax treaties
- New Direct Tax Code Bill, Companies Bill, Competition regulations re M&A

Changing legislation
- GAAP and other financial matters

Complex ownership issues
- Related party transactions
- Tax exposure
- Organization culture

Weak MIS

- Two sets of books
- Off-the-book transactions / liabilities
- Internal / external audit report not fully reliable
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Investment environment and regulation
In India, under the constitution, taxes can be levied by Central and the State Governments, and by the local government bodies.

**Principal taxes**
- Corporate Income Tax
- Individual Income Tax
- Custom Duties
- Central Excise Duty
- Service Tax

**State levies**
- State Excise Duties
- Value-Added Tax
- Sales Tax
- Stamp Duties

**Other taxes**
- Octroi Duties
- Water Tax
- Property Tax
- Minimum Alternate Tax (MAT)
- Dividend Distribution Tax
- Securities Transaction Tax

**Transfer pricings**
To ensure fair and equitable proportion of profits and tax arising from cross border transactions (between related entities) are duly received in India.

**Custom duties**
There are currently no relevant custom duties.

Source: KPMG report “Investing In India”
Investment environment and regulation
Therefore it is important to gain an understanding of your tax structure in India

- Understanding whether the acquisition, control, merger etc. would require prior approval of the Competition Commission or would fall under the specified exemptions
- Assess impact on timelines
- Overseas transactions with impact on competition also covered

Various regulatory beamers beyond complicated tax structure

- Understanding the FDI Regulations
- Seeking necessary RBI\(^1\)/ FIPB\(^2\) approvals
- Complying with prescribed guidelines

- Compliance with SEBI\(^3\) takeover code, Securities Contracts Regulation Act
- Stock exchange compliances in case of High Court Scheme viz. obtaining approval, issuing notices, etc.

- Understanding state specific stamp duty laws
- Planning levies/registration charges
- Adjudication proceedings etc.

- Long / Short term Capital gains tax implications
- Helping maximise depreciation benefit
- Carry forward of losses
- Tax neutrality of restructuring and continuity of fiscal benefits

- Planning scheme of arrangements u/s 391 – 394 of the Companies Act
- Securing approvals of Regional Director/ ROC/ Official liquidator
- Complying with prescribed procedures, resolution, filings etc.

- Sales Tax / VAT applicability on business transfer, mergers / demergers
- Service tax regulations

Notes: (1) RBI: Reserve Bank of India (2) FIPB: Foreign Investment Promotion Board (3) SEBI: Securities and Exchange Board of India
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How KPMG can help
Case Study
Developing and Executing an India Market Entry Strategy – Industrial markets

KPMG helped develop a market entry strategy for a large Korean conglomerate in the Indian transformer industry

Client situation

- A Korean based conglomerate was planning to enter the Indian transformer market and mandated
- The client required listing of key players in the transformer industry and a brief profile of these to enable them to shortlist players. Based on an initial shortlist, further research into the product profile, customer mix and key financials of the potential targets were required to identify strategic fit

Our approach

- A detailed listing of players in the industry based on discussions with industry association
- Developing a framework to evaluate the players in the industry based on understanding of the acquisition objectives
- Preparing a shortlist of candidates meeting clients' requirements
- Profiling of potential target by way of focused research and limited primary interviews

Results

- KPMG SCI prepared a list of players operating in the market based on interaction with industry associations and thereafter, short listed potential targets based on criteria like turnover, product portfolio, customer base, market capitalization etc. to arrive at a list of 10-12 players who meet the client’s acquisition objectives
- In line with the client’s requirement, we identified the players in the industry, based on product, customer, financial, technological parameters as agreed with the client
- Developed detailed profile of the short listed candidates to enable the client to decide on the potential targets and proceed with negotiations

Our engagement

- KPMG SCI was mandated to assist the client in short listing and profiling players in the industry which meet their acquisition objective
KPMG developed and executed an entry strategy into the Indian market for a global hard goods retailer

Client situation

- A global retail player was considering to enter the Indian retail space

Our approach

- Our approach was based on a mix of secondary and primary research. Primary research involved interviews with over a dozen industry experts, and visits / interviews with over 30 retailers
- As part of the assessment of the home and consumer durables market, KPMG conducted a detailed analysis of the following areas and functions:
  - Overview of the hard goods sector including regulatory scenario
  - Mapping of competitive scenario
  - Profiling competitor footprint and growth strategies
  - Short listing of target locations based on a detailed analysis of macroeconomic variables, infrastructure and retailer footprint etc.
- As part of the business plan, KPMG analyzed key revenue, cost, and other key business drivers

Results

- Clear understanding for the client of doing business in India including details such as consumer finance, warehousing, advertising, typical store formats, regulations, partnerships etc.
- Based on the filtering listing criteria, a list of locations that the client could consider to commence operations
Case Study
Developing and Executing an India Market Entry Strategy - Automotive

KPMG designed an entry strategy into the specialty vehicle market in India for a diversified automotive component supplier

**Client situation**
- Our client, a diversified automotive component supplier in the global auto component manufacturing and supply chain was considering entry into the specialty vehicle market in India

**Our engagement**
- KPMG SCI was appointed by the company to conduct an assessment of the specialty vehicle market in India
- The objective was to shortlist market segments that are attractive to capture from a market share perspective

**Our approach**
- Based on industry discussions and other sources of data following analysis was structured:
- Individual market segments were evaluated based on the following factors:
  - Market Attractiveness
  - Competitive environment
  - Opportunity for differentiation
  - Regulatory Attractiveness
- Based on the above the segments were ranked in the following order:
  - Core focus sectors
  - Opportunistic
  - Less attractive

**Results**
- An overall assessment, market size and estimated market demand for the specialty vehicle market in India
- A detailed analysis and report on the various specialty vehicle market segments
Case Study
Developing and Executing an India Market Entry Strategy - Food

KPMG assisted a European dairy products manufacturer in formulating India entry strategy

**Client situation**
- A leading European dairy products manufacturer with current operations in India only had access to products available through a single import channel and product distribution was confined to high end gourmet / modern retail stores

**Our engagement**
- KPMG was mandated to assist the client by preparing:
  - A detailed assessment of the current industry landscape
  - To understand consumer buying behaviour for their product offering
  - A comprehensive business plan

**Our approach**
- In depth secondary research along with detailed primary interviews with industry participants were undertaken
- Report findings included market assessment for multiple product categories
- Detailed qualitative and quantitative research was conducted across 5 cities to ascertain consumer behaviour
- Detailed business model was prepared and shared (covering volume growth and pricing, capital expenditure requirements, EBITDA calculations etc.)

**Results**
- Focus on key critical success factors and challenges helped client in formulating various options for Indian entry including key criteria for JV partnerships
- Understanding of consumer interaction with their product category and overall feedback on the product / packaging
- Detailed view of estimated revenue, expense and earning potential from Indian entry
Case Study
India Market Expansion

Developed a strategy and business plan for proposed funding in India

Client situation
- A leading premium apparel brand was planning to raise funds from PE players and mandated KPMG to assist management in developing a detailed financial plan and information memorandum
- KPMG assisted the client in developing a growth strategy and converting it into detailed financial model highlighting the capital requirement, working capital and inventory movement

Our approach
- A detailed analysis of the existing apparel market landscape in India and likely trends and opportunities
- Analysis of the past performance of the retailer to assess their strength and weakness, including store analysis, product category analysis, channel analysis
- Assessed current state of operations and identified the key action areas to achieve growth. Analyzed their sales and marketing team structure and capability, IT systems, production capacity, marketing spend
- Developing a detailed financial plan capturing impact of planned initiatives
- Likely initial investment, project IRR and BE analysis

Client benefits
- Detailed understanding of the current apparel market and competitive positioning of the client
- Identification of potential areas of improvement in the state of operations of the client
- Identification of the key focus areas to achieve the growth plans
Case Study
Developing and Executing an India Expansion Strategy - Retail

Assistance with the expansion strategy of a large Indian conglomerate in the retail stores business.

Client situation
- The client runs a chain of round the clock convenience stores in India and was looking to expand the footprint of its stores. Franchising was identified as one of the key pillars in the future expansion strategy.
- Client required KPMG’s assistance to develop an understanding of the franchisee operating models and best practices in franchising in the food and grocery space.

Our approach
- We developed a comprehensive global convenience stores landscape including critical success factors and best practices in the industry.
- Compiled relevant case studies in the convenience store format to identify relevant franchisee models in the convenience store format and evaluate applicability in the Indian context.
- Finally, assisted in the development of a specific franchisee model for the client based on the above and success of other brands in implementing these operating models.

Client benefits
- We provided key insights to the client regarding the successful franchisee models of F&G retailers in the developing markets such as Indonesia, Thailand etc. This helped the client in laying the foundation for developing a relevant franchisee model.
- Client used our overall framework for possible franchisee operating model, franchisee evaluation criterion and developed an overall execution roadmap.
Case Study
Developing and Executing an India Market Entry Strategy - Industrial

Market assessment and expansion of Indian aluminum packaging market for an international packaging company for a prospective greenfield investment.

Client situation
- Client, an international aluminum packaging player, was evaluating investing in an upcoming greenfield extruded aluminum packaging plant near Delhi in India.
- Client required KPMG’s assistance in conducting a market assessment, demand analysis and opportunity assessment of the India market.

Our approach
- We conducted the demand analysis of aluminum packaging products in India for various industries such as beverages, personal care etc.
- We analyzed the growth outlook for aluminum packaging products through growth in the end user industries and imports substitution.
- Mapped the competitive intensity in the aluminum packaging market through analysis of the existing domestic players and imports dynamics.
- Finally, conducted the value chain analysis through availability of raw material and evaluation of the location of the under construction greenfield manufacturing facility.

Client benefits
- Our findings and analysis provided key insights of the packaging market in India and hence, helped the client in assessing the profitability of its prospective greenfield investment.
Contents

Our understanding of [client]

Why India?

Market entry strategies

Investment environment and regulation

Case study

How KPMG can help
How KPMG can help
KPMG is present in all strategic and important locations in India

There are several direct links between KPMG Italy and KPMG India

- There are both audit and tax contacts with KPMG locations in Delhi and Mumbai
- Over 4800 people work at KPMG India, including a large number of expatriates

Source: KPMG map
## How KPMG can help

### KPMG’s Strategy Services Group

**KPMG Strategy Services Group**

- Strategy Services Group (SSG) provides clients with strategic, commercial and operational advisory services around market entry, growth, investments and M&A decisions
- SSG in India has 65 professionals with a strong sectoral focus
- SSG has advised some of the largest international and Indian corporate groups in market assessment, entry strategy and operational strategy development
- SSG focus sectors include:
  - Agriculture Products and Commodities
  - Packaged food products
  - Consumer and Retail
  - Logistics and Supply Chain
  - Industrial Products
  - Healthcare
  - Telecom
  - Power

### Strategy Services Group Offerings

#### Market and Competition Assessment and Due Diligence

- Detailed analysis of market including market sizing and micro market assessment
- Competition assessment
- Commercial due diligence
- Regulatory Policy
- Identification of key micro and macro trends impacting business

#### Strategy Development

- Strategy formulation
- Operational strategy
- Business plan preparation and due diligence assistance
- HR strategy
- Identification of potential JV and acquisition targets

#### Operational strategy and post deal support

- Focus on delivering value addition through improvements in operational areas including human resources.
- Assess and benchmark key operational and cost indicators
- Cost/investment associated with realization of the business synergies
How KPMG can help
High Growth Markets considerations

Financial Risk Management
- Achieve and maintain regulatory approval
- Risk management reporting
- Development risk management framework for financial risk
- Ensuring ongoing regulatory compliance
- Treasury and Derivates Risk Management
- Scenario planning and stress testing
- Crisis response framework including BCM
- Enterprise Risk Management framework for financial and non-financial risk

Forensic & Integrity
- Gaps in AB&C policies, procedures, and controls
- Risk of noncompliance with bribery and corruption laws
- Fraud risks
- Risk project failure
- Process improvement opportunities

People & Change
- Identification and management of talented employees
- Strategic workforce planning
- Creation of sustainable high performance cultures

Mergers & Acquisitions
- Definition and evaluation of investment opportunities
- Local regulations
- Acceleration growth within defined strategy
- Optimal shareholder structuring

Transaction Services
- Evaluating the size, nature and structure of the market
- Valuation of intangibles
- Identification of the objectives, commercial principles and scope of joint activity
- Final settlement of the purchase price
- Failure of effective transaction from JV agreement to real implementation

Valuations & Modelling
- Evaluations of investment propositions
- Alignment of buyer and seller value expectations
- Management of regulatory valuation requirements
- Investment structuring
- Protection in the event of a dispute (within the valuations context)

Strategy & Operations
- Optimization of the Global Supply Chain
- Creating value from acquisitions
- Alignment operating model
- Driving out cost savings

IT
- (green field/ upgraded) Industrial Control System Security
- Security Awareness
- IT security
- Cyber defense / resilience IT and Industrial Control

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How KPMG can help
KPMG Services

Financial Risk Management
- Banking / insurance license support
- Risk reporting services

Forensic & Integrity
- Anti-Bribery and Corruption Compliance and Risk Management

Strategy & Operations
- Market entry strategy formulation
- Post deal support
- Integration/separation
- Day 1 preparation

People & Change
- Talent Management

Transaction Services
- Market and competitive environment studies

Valuations & Modelling
- Strategic options modelling
- Business plan modelling and forecasting
- Strategic / transaction valuation services (utilising both home country and high growth country resources – the KPMG valuations network)

Mergers & Acquisitions
- Finding investment and partnership opportunities (acquisition targets, joint venture partners)
- Approaching targets, valuation and negotiation advice
- Transaction structuring
- Local KPMG offices with local relationships and knowledge
How KPMG can help
KPMG is a trusted national, provincial and municipal gov’t advisor

Selected entities (Ministries, Business associations, etc) across central and state government have worked with KPMG as a strategic partner to undertake key initiatives related to different initiatives and development plans

- **Study on project schedule and cost overruns** – The KPMG in India – PMI study 2012, initiated on the request of MoSPI, highlights the major reasons for schedule and cost overruns across major sector’s infrastructure projects

- **Bridging the urban housing shortage in India** – The report is a joint effort of NAREDCO¹ and KPMG in India. It discusses at length the rising trend of urbanisation in India and the looming urban housing shortage

- **All study and no skill?** – The paper ‘All study and no skill? – skilling in schools’ outlines the vocational education scenario in schools in India and the challenges faced in integrating it with the formal school curriculum

- **The Indian cloud revolution** – The KPMG-CII report emphasises the importance of Cloud to India and its impact on critical sectors such as Healthcare and Education. The report also provides the roadmap for the Government of India to enable a Cloud revolution as a user as well as the enabler of the Cloud for India

Notes: 1. NAREDCO-National Real Estate Development Council
Source: KPMG India

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How KPMG can help
Staying connected – sample publications

- Accounting and Auditing Update March 2014
- Study on project schedule and cost overruns
- India Fraud Survey 2012
- All study and no skill?
- IT Matters - as long as business gets value
- Non-linear models - Driving the next phase of growth for the Indian IT Industry
- Re-aligning the compass: Location strategy for Global In-house Centers
- Six converging technology trends
- The Indian Cloud Revolution
- Managing Currency and Commodity Risk
- Bring your own device - driving the consumerization of IT
- IT - a strategic driver to facilitate reforms 2.0
- Big data opportunities in the Indian IT-BPO market
- Growing role of PE firms in India’s BPO sector
- India-Africa IT corridor: The next growth frontier
- In the interval... But ready for the next act
Thank you.

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