

RESOURCE PAPER - 28



INDO-JAPAN CHAMBER OF COMMERCE & INDUSTRY

India Market Entry Strategy

by
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PREFACE

Dear Readers,

IJCCI acts as a catalyst between the Japanese and the Indian business. This issue ‘India Market Entry Strategy’ aims at providing an update on select key sectors of industry, is inviting attention of readers to new and potential areas for Japan-India cooperation. It would be our pleasure to provide detailed information on any specific area of cooperation on request to our interested Japanese counterparts. Do feel free to get in touch with IJCCI.

Mr. Sunil Rallan, a major contributor to this Resource Paper, a Developer of Special Economic Zone, is the Chairman and Managing Director of **J. Matadee Free Trade Zone P Ltd.**, India's First Notified Free Trade and Warehousing Zone established in 2008 in Sriperumbudur (located on Chennai-Bangalore Industrial Corridor), providing world class warehousing and infrastructure services to global companies.

We hope the readers would find the Resource Paper informative.

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Suguna Ramamoorthy
Secretary General

India Market Entry Strategy

Introduction

Japanese companies have had their presence in India for over sixty years. Some of the largest Japanese manufacturing companies like the Suzuki, Yamaha, Panasonic, Sony etc. have been in India for over three decades and have established turnkey projects with manufacturing facility and with the entire supply chain and distribution network. Automotive, heavy engineering, white goods and appliances are areas where Japanese companies have dominated the Indian market.

The Japanese economy is largely comprised of family owned SME Businesses with cutting edge technology. Majority of the SME Companies have the ability to invest US\$1 Mn - 2 Mn can benefit themselves largely and also contribute to the Indian growth story. There is a great deal of opportunity for SMEs of Japan and India to work together. In recent years the Japanese SMEs have shown a lot of interest in the Indian market and therefore a brief update on India and the State of Tamilnadu is presented for the benefit of our Japanese counterparts.

Competitive Advantage of India

India is a Land of Opportunity - vibrant democratic setup, a broad legal framework with an independent judicial system. Presence of a vast network of banks, financial institutions and a well-organized capital market. Aggressively growing consumer market, abundant availability of skilled human resources, supportive infrastructure and an investor-friendly federal government with several initiatives to attract foreign investments in diverse sectors. Several bilateral, regional and multilateral trade agreements in place provides easy market in global trade such as FTAs, RCEP, CEPC etc., allowing market access at concessional tariffs. Products made in India have a large advantage when exported to global markets due to the support of the Government of India and market access at Concessional-Zero Tariff Rates. Besides all these, there is a strong legal framework that covers copyright violation and IP law in great detail.

Some of the key growth sectors of interest to Japanese companies

- **Automobile manufacturing:** The Indian auto industry became the 4th largest in the world with sales increasing 9.5 per cent year-on-year to 4.02 million units (excluding two wheelers) in 2017. It was the 7th largest manufacturer of commercial vehicles in 2018.

Market Size

Overall domestic automobile sales increased at 6.71 per cent compound annual growth rate (CAGR) between FY 2013-2019 with 26.27 million vehicles getting sold in FY 2019. Domestic automobile production increased at 6.96 per cent CAGR between FY 2013-2019 with 30.92 million vehicles manufactured in the

country in FY 2019. In FY 2019, year-on-year growth in domestic sales among all the categories was recorded in commercial vehicles at 17.55 per cent followed by 10.27 per cent year-on-year growth in the sales of three-wheelers. Premium motorbike sales in India crossed one million units in FY2018. During January-September 2018, BMW registered a growth of 11 per cent year-on-year in its sales in India at 7,915 units. Mercedes Benz ranked first in sales satisfaction in the luxury vehicles segment, according to JD Power 2018.

- **Auto Components:** The Indian auto-component industry has experienced healthy growth over the last few years. The auto-component industry of India has expanded by 18.3 per cent to reach at a level of US\$ 51.2 billion in FY 2017-18. The auto-component industry accounts for 2.3 per cent of India's Gross Domestic Product (GDP) and employs as many as 1.5 million people, each, directly and indirectly.

Market Size

The Indian auto-component industry can be broadly classified into the organised and unorganised sectors. Organised sector caters to the Original Equipment Manufacturers (OEMs) and consists of high-value precision instruments while the unorganised sector comprises low-valued products and caters mostly to the aftermarket category. The total value of India's automotive exports stood at US\$ 13.5 billion in 2017-18 as compared US\$ 10.9 billion in the year 2016-17. This has been driven by strong growth in the domestic market and increasing globalisation (including exports) of several Indian suppliers.

Currently the Indian auto industry is facing a declining trend. With new regulations of safety and emission, the cost of

ownership has shot up by 10-12% in the last three years. Also the global economic slowdown in its own way is contributing to the downtrend. However it is believed that once the economic growth picks up the auto industry will have flourishing days again.

- **Consumer Durables:** Indian consumer durable market is broadly classified into urban and rural markets, and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively a large affluent class and a small economically disadvantaged class. Global corporations view India as one of the key markets from where future growth is likely to emerge. The growth in India's consumer market would be primarily driven by a favourable population composition and increasing disposable incomes. Per capita GDP of India is expected to reach US\$ 3,273.85 in 2023 from US\$ 1,983 in 2012. The maximum consumer spending is likely to occur in food, housing, consumer durables, and transport and communication sectors.

Market Size

The growing purchasing power and the rising influence of the social media have enabled Indian consumers to splurge on good things. Import of electronic goods reached US\$ 53 billion in FY 2018. Indian appliance and consumer electronics (ACE) market reached Rs 2.05 trillion (US\$ 31.48 billion) in 2017. India is one of the largest growing electronics market in the world. Indian electronics market is expected to grow at 41 per cent CAGR between 2017-20 to reach US\$ 400 billion. As of FY 2018, washing machine, refrigerator and air conditioner

market in India were estimated around Rs 7,000 crore (US\$ 1.09 billion), Rs 19,500 crore (US\$ 3.03 billion) and Rs 20,000 crore (US\$ 3.1 billion), respectively. India's smartphone market in 2018 grew by 14.5 per cent with a shipment of 142.3 million units. India is expected to have 829 million smartphone users by 2022.

- **Renewable Energy:** The Indian renewable energy sector is the fourth most attractive renewable energy market in the world. As of October 2018, India ranked 5th in installed renewable energy capacity. According to 2018 Climatescope Report, India ranked second among the emerging economies in clean energy. Installed renewable power generation capacity has increased at a fast pace over the past few years, posting a CAGR of 19.78 per cent between FY 2014-2018. The focus of the Government of India has shifted to clean energy after it ratified the Paris Agreement. With the increased support of government and improved economics, the sector has become attractive from investors perspective. As India looks to meet its energy demand on its own, which is expected to reach 15,820 TWh by 2040, renewable energy is set to play an important role.

Market Size

As of April 2019, total renewable power installed capacity (excluding large hydro) in the country stood at 78.35 GW. Off-grid renewable power capacity has also increased. As of October 2018, generation capacities for Waste to Energy, Biomass Gasifiers, SPV systems stood at 175.28 MWeq, 163.37 MWeq and 767.51 MWeq, respectively. With a potential capacity of 363

gigawatts (GW) and with policies focused on the renewable energy sector, Northern India is expected to become the hub for renewable energy in India.

- **Construction Industry** will remain buoyant due to increased demand from real estate and infrastructure projects. Indian Real Estate sector is expected to reach a market size of by \$1 Tn by 2030. It's contribution to the country's GDP is expected to be approximately 13%. India's construction industry is expected to grow at an annual average of 6.6% between 2019 and 2028. The share of urban population is expected to be 50% of the total population by 2050. Present levels of urban infrastructure are inadequate to meet the demands of the existing urban population. There is need for re-generation of urban areas in existing cities and the creation of new, inclusive smart cities to meet the demands of increasing population and migration from rural to urban areas. Future cities of India will require smart real estate and urban infrastructure. To provide quality urban services on a sustainable basis in Indian cities, the need of the hour is that urban local bodies (ULBs) enter into partnership agreements with foreign players, either through joint ventures, private sector partners or through other models. Investments valued at \$965.5 Mn will be required by the infrastructure sector by 2040.

Reasons to invest in Construction Projects : 'Make in India'

100% FDI through the automatic route is permitted in the following construction (development) projects- FDI Limit for

real estate projects within Special Economic Zones (SEZs) raised to 100%. FDI limit for industrial parks under the automatic entry route is 100 per cent.

Development of townships: Construction of residential/commercial premises; Construction of roads or bridges; Construction of hotels, resorts; Construction of hospitals, educational institutions; Construction of recreational facilities and Construction of city and regional level infrastructure.

- **Food Processing Industry** Food processing has become an integral part of the food supply chain in the global economy. Despite being one of the largest producers of agricultural and food products in the world, India ranks fairly low in the global food processing value chains. At present, India's agricultural exports predominantly consist of raw materials, which are then processed in other countries. Improving the supply chain gaps is perhaps the biggest challenge faced by this industry. While at an aggregate level, India's cold storage capacity is at the required levels, the reality is that 60% of these cold storages are located in just four states-Uttar Pradesh, Punjab, West Bengal and Gujarat. Building necessary infrastructure and providing the state of the art technology for food processing has huge potential. Also export of processed food has enormous potential. 100% FDI in food processing has been allowed by the Government of India to enhance cold-chain capacity, logistics infrastructure, marketing commodities, farmer training and skill development to workforce.

Ease of doing business in India: India under Modi 2.0 is an attractive investment destination. Several Japanese white goods manufacturers have seen in the last decade YoY growth rates in excess of 20% . The Government of India is paying adequate attention in improving the infrastructure, conducive to international investors. Also, the various state governments are vying with one another in providing attractive incentive package with the required infrastructural facilities.

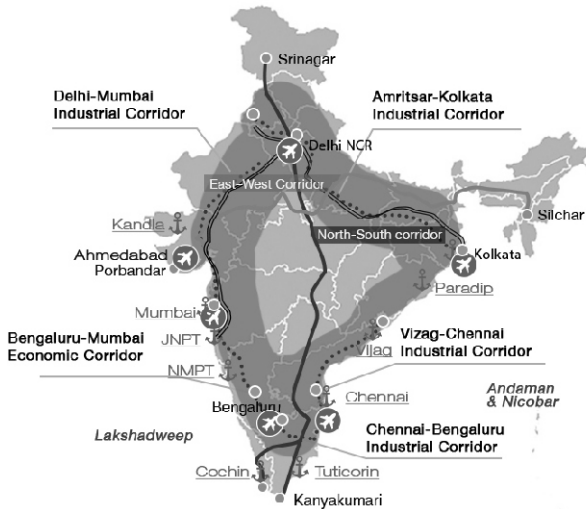
Special Economic Zones: Japanese companies can set up their units in Special Economic Zones (SEZ) . All the Capital Costs for the Infrastructure, the capital goods and the entire imported supply chain can be brought into the units in the SEZ without any tariffs. Manufacturing for exports can be done very efficiently with the designated duty free enclave, treated as a territory outside the customs territory of India for the purpose of authorised operations in the SEZ. Tariffs are applicable when the products are sold in the domestic market.

Free Trade and Warehousing Zones: The Japanese companies are encouraged to set up their businesses inside a Free Trade and Warehousing Zone (FTWZ) . This is a Special Economic Zone for trading companies and units desirous of doing assembly of CKD (completely knocked down) and SKD (semi knocked down) kits for Exports. The Japanese Company doesn't require an Indian entity to carry out these operations . An existing unit in the FTWZ can provide this as a service activity to the Japanese clients. The policy facilitates businesses to store, display and even demonstrate their products within the FTWZ. Temporary removal of goods for trade shows is permissible provided the

goods are brought back to the zone. Tariffs and Taxes are payable only when the products are sold and leaves the FTWZ to enter the domestic market. Just in Time Deliveries can be done to the customers. Inside the Zone the components brought in SKD or CKD condition can be assembled for exports to global markets. These products can be labelled as 'made-in-India', subject to the value addition norms of the importing destinations. Critical spare parts can be stored in the zone for minimizing down time of product supplied to the domestic markets. The products in the zone can be warehoused in the account of the foreign company . This means only the products are in India but for all purposes it is treated as if the goods are still in the owners country. This policy enables very quick entry into the India domestic market and an equally quick and hassle free exit from India.

Industrial Parks: The Foreign Companies can set up manufacturing units within these Industrial Parks which are designed and operated as Gated Industrial Communities. Land can be purchased on long lease which may extend up to 99 years on a one-time upfront payment. The unit can be built to their exact specifics and product requirements.

Industrial Corridors: The Government of India is developing 5 major Industrial Corridors in the country, viz, Delhi- Mumbai Industrial Corridor (DMIC), Chennai Bengaluru Industrial Corridor (CBIC), Bengaluru-Mumbai Economic Corridor (BMEC) , Amritsar-Kolkata Industrial Corridor (AKIC) and East Coast Economic Corridor (ECEC).A brief picture of a couple of recent projects taken up by the Government of India - DMIC and CBIC:



Delhi-Mumbai Industrial Corridor (DMIC) conceived to be developed as a Model Industrial Corridor of international standards with emphasis on expanding the manufacturing and services base - a 'Global Manufacturing and Trading Hub', with 49% equity of Government of India, 26% equity of the JBIC and the remaining by government financial institutions, with an estimated US \$ 100 billion and the project to be carried out in a phased manner. The project spans the States of Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra along the Western Dedicated Freight Corridor (DFC) of the railways. Initially, 8 nodes/cities in the six DMIC states have been taken up for development. SPVs have been constituted in Five DMIC projects. Four DMIC projects are ready to be launched - Ahmedabad-Dholera Special Investment Region in Gujarat ; Shendra-Bidkin Industrial Park in Maharashtra ; Integrated Industrial Township Project in Greater Noida, Uttar Pradesh and Integrated Industrial Township Project in Vikram Udyogpuri in Ujjain, Madhya Pradesh.



Prospective Growth Areas for setting up new Units in Southern India

Chennai Bangalore Industrial Corridor (CBIC) High growth Area which has a large number of Special Economic Zones, Free Trade and Warehousing Zone and Industrial Parks . The CBIC project is being done with the assistance from the Japan International Cooperation Agency (JICA), will be developed in collaboration with the governments of four southern states Tamilnadu, Karnataka, Kerala and Andhrapradesh. The industrial corridor, as part of the national industrial corridor, will be extended through Coimbatore (Tamilnadu) to Kochi (Kerala). Among the two Integrated Manufacturing Cluster (IMC) that will be developed as part of the Coimbatore - Kochi industrial corridor, one will be in Palakkad (Kerala) while the other will be in Salem (Tamilnadu). Tamil Nadu - Kerala's Integrated Manufacturing Cluster will be coming up in the 100 kilometre

stretch on either side of Kochi-Salem National Highway. The IMC will be focussing on sectors like electronics, food processing, agro-industries, IT and traditional industries. The Special Purpose Vehicle (SPV), jointly set up by the state government and the Centre will be in charge and control of the IMC.

- **Development of Defence Industrial Corridor** only recently private sector was allowed to enter the defence production. There is a big opportunity in the defence sector for foreign investors. India is the third largest armed force in the world with an annual budget of about US\$ 38 billion and 40% of this is used for capital acquisition; produces domestically 45% to 50% of its defence products and the rest are imported. India's defence exports were US\$0.66 billion in 2017–2018 and US\$1.47 billion in 2018–2019. In the next 7-8 years, India would be investing more than US\$ 130 billion in modernization of armed forces. It is time to explore new opportunities in Aerospace and Defence equipments.

Tamilnadu is gaining momentum in terms of connectivity and infrastructure, has today become an important destination for foreign investors.

- **Advantage Tamil Nadu:** Nissan, Mitsubishi, Yamaha, Bridgestone, Hitachi, Komatsu, Panasonic, Toshiba, Mitsui, Marubeni, Fujitsu, Sumitomo, Mizuho, NEC Corporation, MUFG are some of the Japanese companies successfully operating in Tamilnadu. Among the 12 major ports in India, the State of Tamilnadu has 4 major ports - Chennai, Kamarajar (Ennore), Adani and VOC (Thoothukudi). Chennai and Kamarajar Ports serve as auto

export hubs. In terms of manpower resource, an annual turn-out of more than one million graduates (Engineering, Arts & Science), Diploma Holders and ITI workers are churned out from the State. Besides all these, attractive Incentive packages, a Single Window Facilitation service & composite approval on a fast-track mode within 30 days make Tamilnadu a definitely preferred destination for investment.

Soft Infrastructure: More than 40,000 expats living in Chennai

- Several Japanese Restaurants
- Peaceful living conditions
- High quality housing for expats (beach side Houses in South Chennai)
- Many International Schools
- Excellent healthcare facilities
- Well-developed entertainment facilities
- Modern shopping malls etc.

Some of the industrial parks / SEZ with good infrastructure facilities located in Tamilnadu:

- Ascendas One hub Industrial Township near Chennai
- Sumitomo-Mahindra industrial park near Chennai
- Sojitz Japanese industrial park near Chennai
- SIPCOT Industrial park (Vallam-Vadagal)
- SIPCOT Electronic hardware SEZ in Sriperumpudur
- SIPCOT Vendors industrial park in Hosur near Bangalore

- GMR Industrial park near Hosur
- SIPCOT and private Industrial parks / SEZ
- Chennai Free Trade Zone Near Thandalam
- AMRL SEZ etc.

Chennai Kanyakumari Industrial Corridor passes through the industrial clusters and Tamil Nadu ranks 'Number One' in most of these exports items.

- Coimbatore : popularly known as the Manchester of the East. Several large cotton yarn spinning mills are established here . This cluster has several factories for light engineering such as textile machinery, and engineering products.
- Tirupur : one of the largest clusters for knitwear in India with several large manufacturing units . The production is mainly exported to several leading global knitwear brands .
- Erode and Karur : clusters are famous in the international market for their large scale manufacture and exports of home furnishing.
- Ambur and Ranipet : clusters are focused on the manufacture and export of leather and leather products.
- Chennai-Bangalore Indl. Corridor: automobile and electronics manufacturing factories along with their extensive supply chains are concentrated in this region.

Tamil Nadu Economy: According to Economic Development Index 2018 Tamil Nadu Ranks 2nd largest economy in India in

PPP terms, US \$605.26 billion ; 32nd largest in PPP terms and bigger than Vietnam, Belgium, Sweden, Norway, Finland, Denmark, New Zealand ; GSDP growth rate at constant prices 7.94% GSDP (FY 2016-17); 8.03% expected growth, US\$ 207.8 billion (CAGR) and FY 2017-18 it ranks 9th globally in production of renewable energy (power surplus state > 15000 Mega Units).

Tamil Nadu has the highest number of factories located in India 37,220, second Maharashtra with 27,010 factories and third Gujarat with 25,966 factories. In terms of Invested Capital and also in the total industrial output, Tamilnadu ranks third, after Gujarat and Maharashtra.

Tamil Nadu - fastest growing export hub for manufactured products: The total exports of manufactured goods from Tamil Nadu is US \$ 29.53 billion (2017- 18) and one of top three exporting states; adding software exports of US \$ 16.93 billion. Total exports exceeds US \$ 46.46 billion. Tamil Nadu has large presence of export-driven industries like textiles & garments, leather goods, automobiles & auto components, electronic hardware, software & BPO. Tamil Nadu is the First in terms of number operational & exporting SEZs (38 SEZs as on 30th June 2018, exported Rs.88848 crores (2017-18) constituting 15.3% of India's SEZ exports. Tamil Nadu ranked Second in terms of 100% EoUs 425 units as on date. Tamil Nadu is the third largest software exporter - US \$ 16.93 billion (2017-18). Also the largest exporter of leather products. The State accounts for 1/3rd of India's automobiles and auto parts exports.

- **Tamilnadu Aerospace and Defence Industrial Policy 2019:** The State is keen to establish a hub for production of

aerospace and defence equipments, has come up with several attractive incentives for small, medium and large companies. The government is desirous of working with global companies. Auto giants in the State are keen to forge cooperation with global companies. There are more than 120 aerospace components manufacturing companies and more than 700 suppliers operating in the Tamil Nadu. Some key upcoming projects of the Tamil Nadu government are :

Development of Chennai Aerospace Park at Sriperumbudur to help build end-to-end ecosystem with a focus on aerospace and defence cluster; the Park is being set up in 250 acres in 1st phase, expandable to 500 acres in the next phase; to house at least 50 aerospace / defence companies forming a strong base for supporting large Original Equipment Manufacturers; to house Aircraft MRO (Maintenance Repair Overhauling) complex in Chennai , provide Advanced Computing and Design Engineering Centre (ACDEC) and a multi-floor manufacturing complex in Chennai Aerospace and Defence Park.

Conclusion

While exploiting opportunities in the existing sectors, it is time the Japanese investors explore new areas for cooperation.





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