

INVESTMENT ISSUES SURROUNDING EUROPE AND INDIA

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INDIA EVOLVING

India Evolving ~ The Change Catalyst

Change from the days before the 1991 reforms

- ❑ PLENTY OF CAPITAL. Financial markets have diversified, now cater to corporate needs. All well managed
- ❑ Companies can attract PORTFOLIO MANAGEMENT. At least the bigger companies can raise capital abroad
- ❑ AVAILABILITY OF LATEST EQUIPMENT. It is now easily available from imports and domestic production
- ❑ Cos can import TECHNICIANS: Technologists can be easily brought in from abroad
- ❑ PURSUING MARKETS ACROSS THE WORLD : They are setting up subsidiaries in potential markets

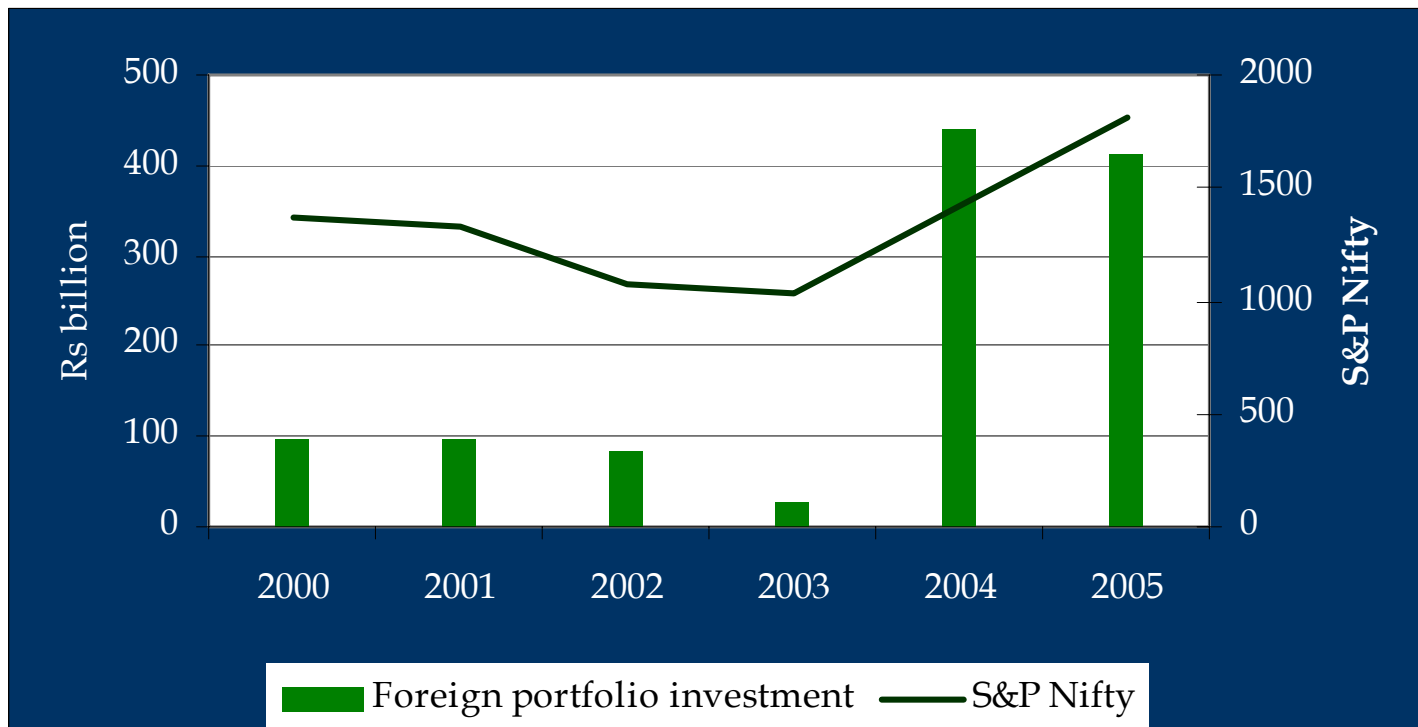
India Evolving ~ Corporate Outlook

Easy availability of funds has changed corporate behaviour in a number of ways

- ❑ A boom in the stock market
- ❑ Influx of foreign portfolio investment
- ❑ A rise in mergers and acquisitions
- ❑ A rise in acquisitions abroad
- ❑ A decline in joint ventures

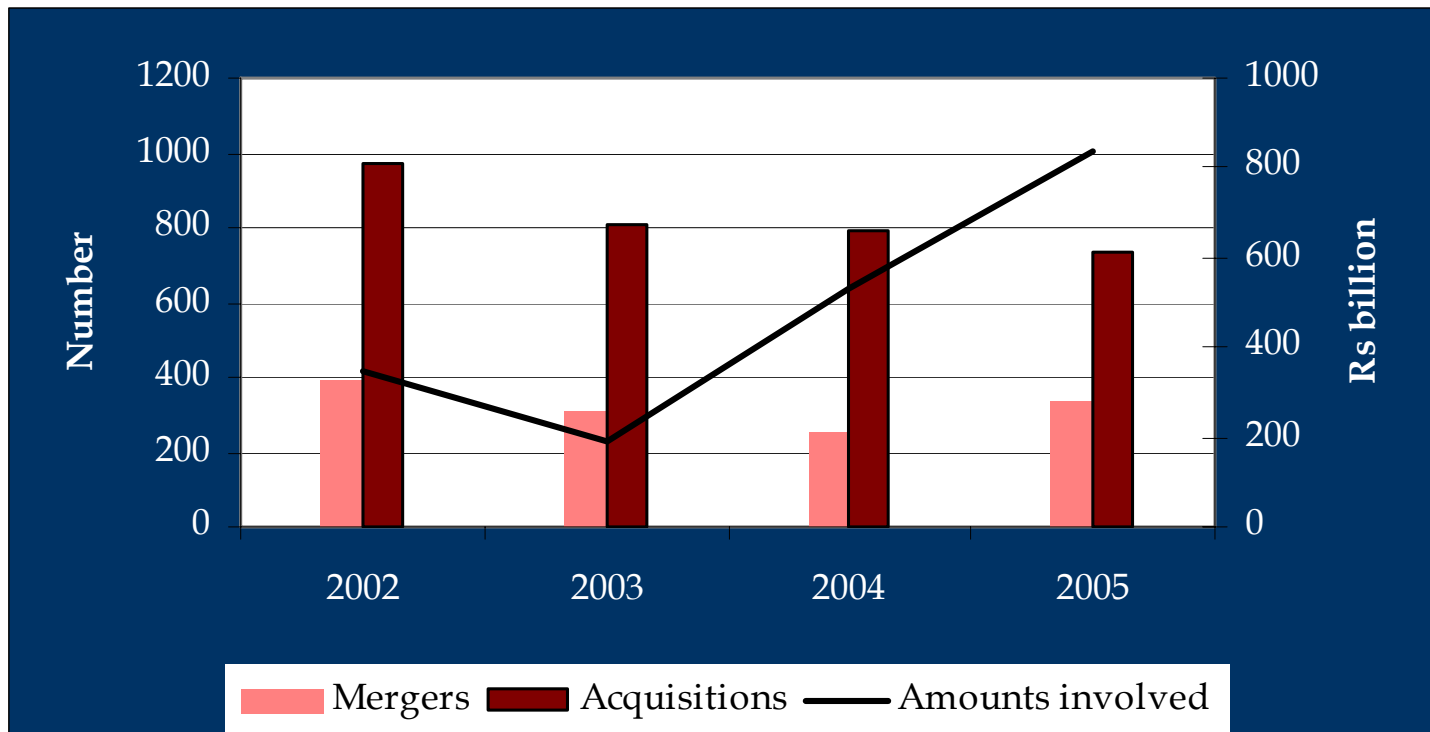
India Evolving ~ Portfolio Investment

Liquidity has caused a stock market boom, and attracted portfolio investment from abroad



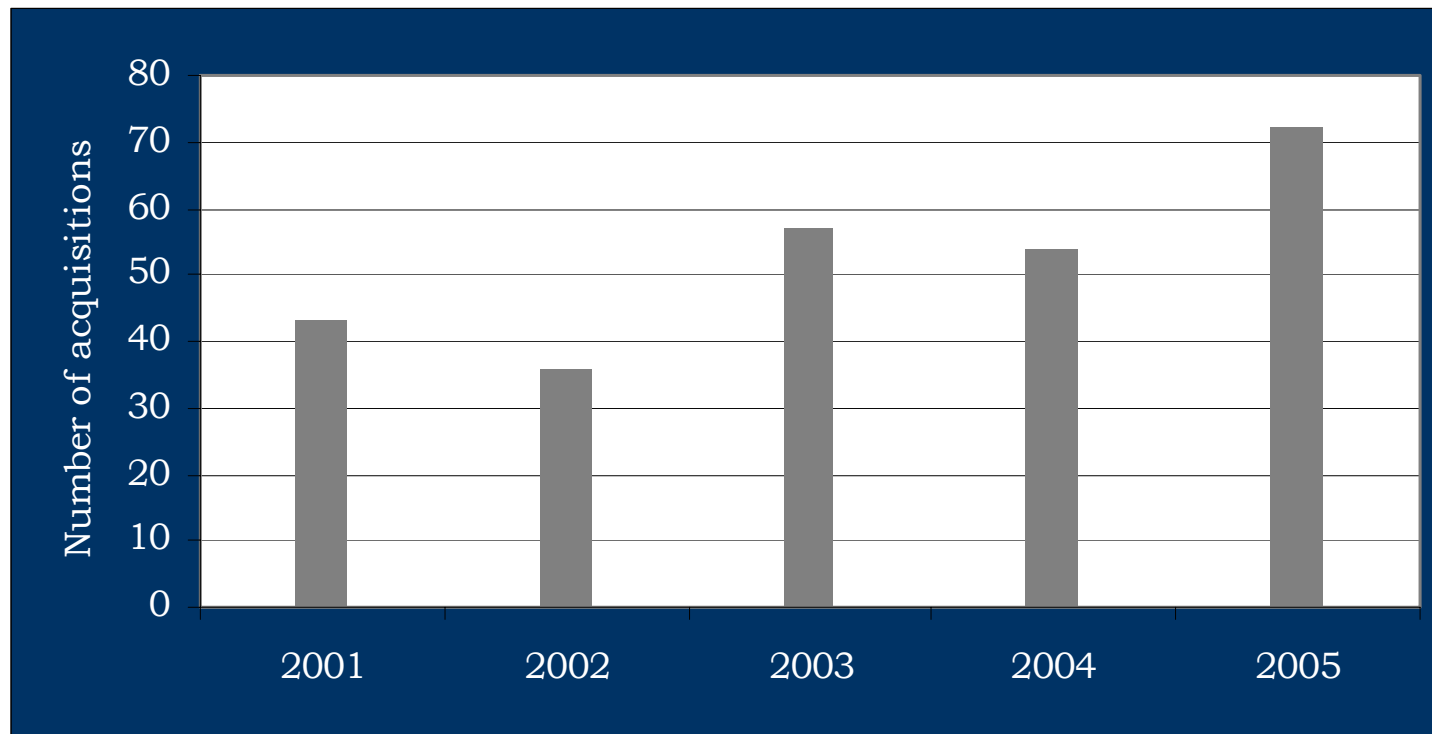
India Evolving ~ Mergers & Acquisitions

The sums involved in mergers and acquisitions have skyrocketed



India Evolving ~ Outbound Investments

Indian companies have been buying businesses abroad



India Evolving ~ Outbound Investments

The largest number of acquisitions are in

- ❑ Information technology: Firms invest their huge profits in market acquisitions
- ❑ Drugs: Indian firms are particularly cheap producers of pharmaceuticals
- ❑ Auto ancillaries: Companies access technology through acquisitions
- ❑ Steel: Indian companies are integrating vertically across borders
- ❑ Auto and engineering: Firms are looking for markets

India Evolving ~ Outbound Investments *(Europe)*

- ❑ Ranbaxy bought RPG Aventis in December 2003
- ❑ Sona Koyo Steering Systems bought Fuji Autotech in October 2004
- ❑ Subex Systems bought Fraud Management Group from Alcatel in July 2004
- ❑ Videocon bought Thomson's colour picture tube business in January 2005
- ❑ Mahindra & Mahindra acquired 90% stake in Schoneweiss & Co. GmbH, a German forgings company
- ❑ Ranbaxy acquired Terapia generic, a Cluj-Napoca based pharmaceutical producer for 324 million USD (267 million Euro)

India Evolving ~ Inbound Investments – An Overview

Inflows			
S.No	Country	USD Million	%
1	Mauritius	17,987.25	41.45
2	U.S.A.	5,746.64	12.62
3	U.K.	3,835.37	8.75
4	Netherlands	2,623.23	5.99
5	Japan	2,191.06	4.88
6	Germany	1,667.51	3.65
7	Singapore	1,594.67	3.65
8	France	864.18	1.94
9	South Korea	822.67	1.71
10	Switzerland	687.67	1.51

Amount of Inflows since August 1991 to February 2007

India Evolving ~ Inbound Investments

Where directed

At the same time, India is emerging as a market in which international companies have to have a presence

- ❑ Most obvious for information technology: all major international companies have set up operations in India
- ❑ Increasingly true of mass markets: cement, steel, cars, two-wheelers etc
- ❑ It will become true of more goods and services as the Indian market grows
- ❑ Meanwhile, India remains the world's largest source of cheap, educated manpower

India Evolving ~ Inbound Investments – Industries out of bounds

- ❑ Lotteries, gambling and betting
- ❑ Atomic energy
(but India likely to buy half a dozen nuclear plants in the near future)
- ❑ Retail shops
(but foreign companies can open single-brand shops)
- ❑ Real Estate
- ❑ Agriculture

India Evolving ~ Inbound Investments – Permission from existing Joint Venture Partner

If you had a joint venture or technology agreement before, and if the joint venture company is still alive

- before you can set up a business to compete with that company in India, you would need the consent of your old partner or of the Government

[Press Note 1 of 2005 series]

India Evolving ~ Inbound Investments

Government Permission

In some industries you need government permission

- ❑ Finance and insurance
- ❑ Media
- ❑ Communications
- ❑ Energy
- ❑ Mining
- ❑ Transport
- ❑ Arms and military supplied
- ❑ Explosives and hazardous chemicals

India Evolving ~ Inbound Investments

Few industries reserved for small firms

If you want to take an equity stake over 24% you will need government permission

The rest of the field is open

INVESTMENT STRATEGY

Investment Strategy why India ?

It has become easier now

- ❑ There is a growing market in companies
- ❑ There are thousands of firms in many industries
- ❑ Family-owned enterprises often run into management crises, look for saviors
- ❑ The market for skilled personnel is at last getting organized
- ❑ State governments compete to attract enterprises

Investment Strategy Subsidiary?

Going alone makes more sense now

- ❑ Government interference in industry has declined, so a partner is not necessary as intermediary
- ❑ The market for skilled personnel has become organized, so it is possible to recruit management
- ❑ It is also now possible to buy running companies

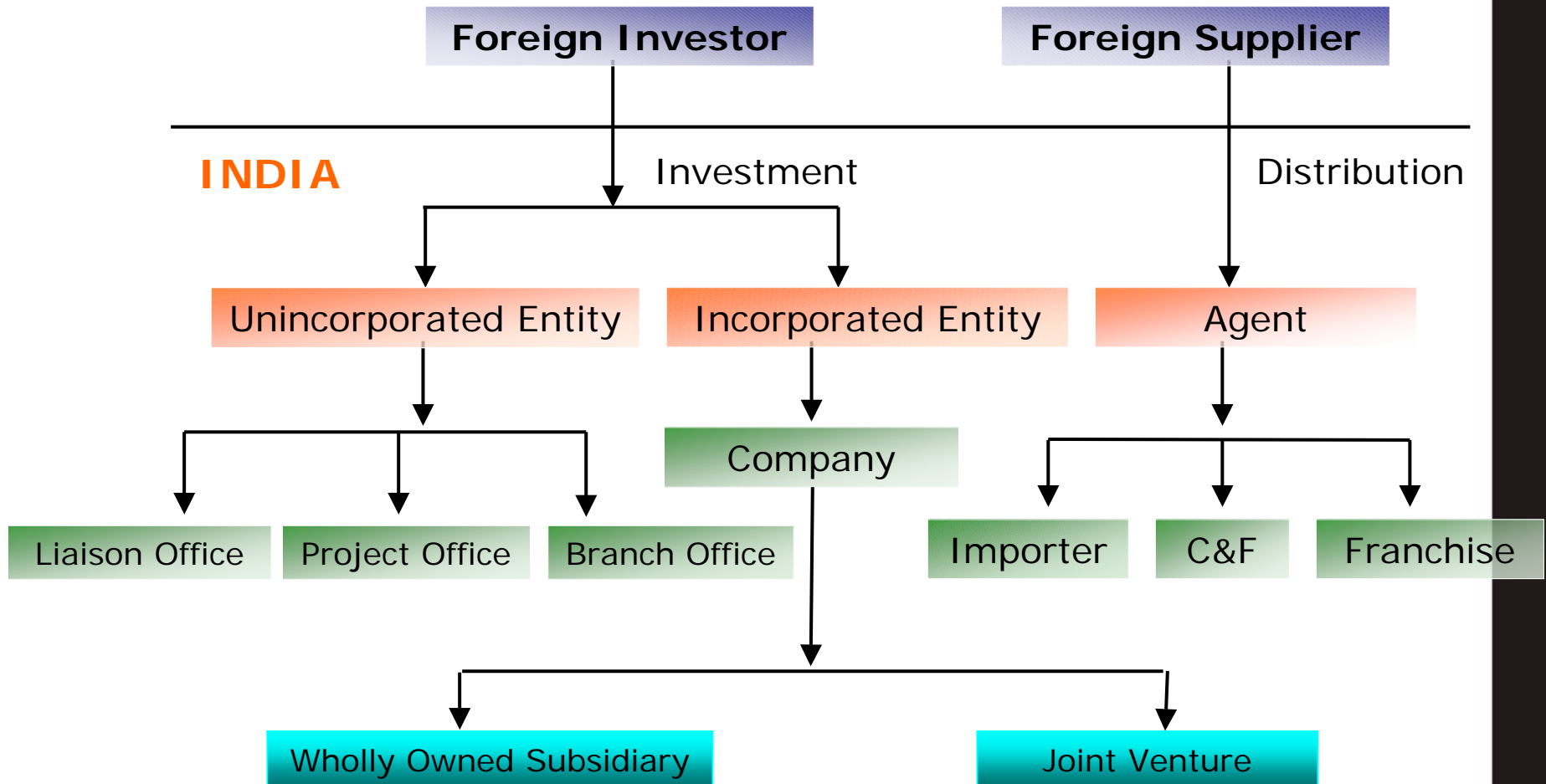
Investment Strategy or Joint Venture?

If you still prefer joint ventures

- ❑ The top 100 Indian firms have more choice today and are more difficult to attract
- ❑ But there are thousands of smaller companies, mostly family-managed, which are still available
- ❑ But put in place a management structure which gives you an effective voice

Investment Strategy

Inbound Investments – Entry Options



Investment Strategy

Inbound Investments – Entry Options (Unincorporated Entity)

Liaison Office

Companies exploring business opportunities in India

Branch Office

Research & development Companies

Project Office

Companies involved in one time turnkey or installation projects

Investment Strategy

Inbound Investments – Entry Options

Forms of Corporate

	Public	Private
Minimum Capital (approx.)	EURO 8,600	EURO 1,700
Members– Minimum Maximum	7	2
	NA	50
Minimum Directors	3	2
Listing on stock exchange	Permissible	Not permissible
Reporting requirements	High	Low

Investment Strategy Key Policy Issues

- ❑ Analysis of **Sectoral Caps** - Investment Allowed Under Automatic or Approval Route
- ❑ **Negative List** - Gambling & Betting, Lottery business, Atomic Energy, Retail trading (except 'Single Brand' product retailing)
- ❑ **Press Note 1 of 2005** - Special Approval on Investment when existing collaboration with an Indian partner

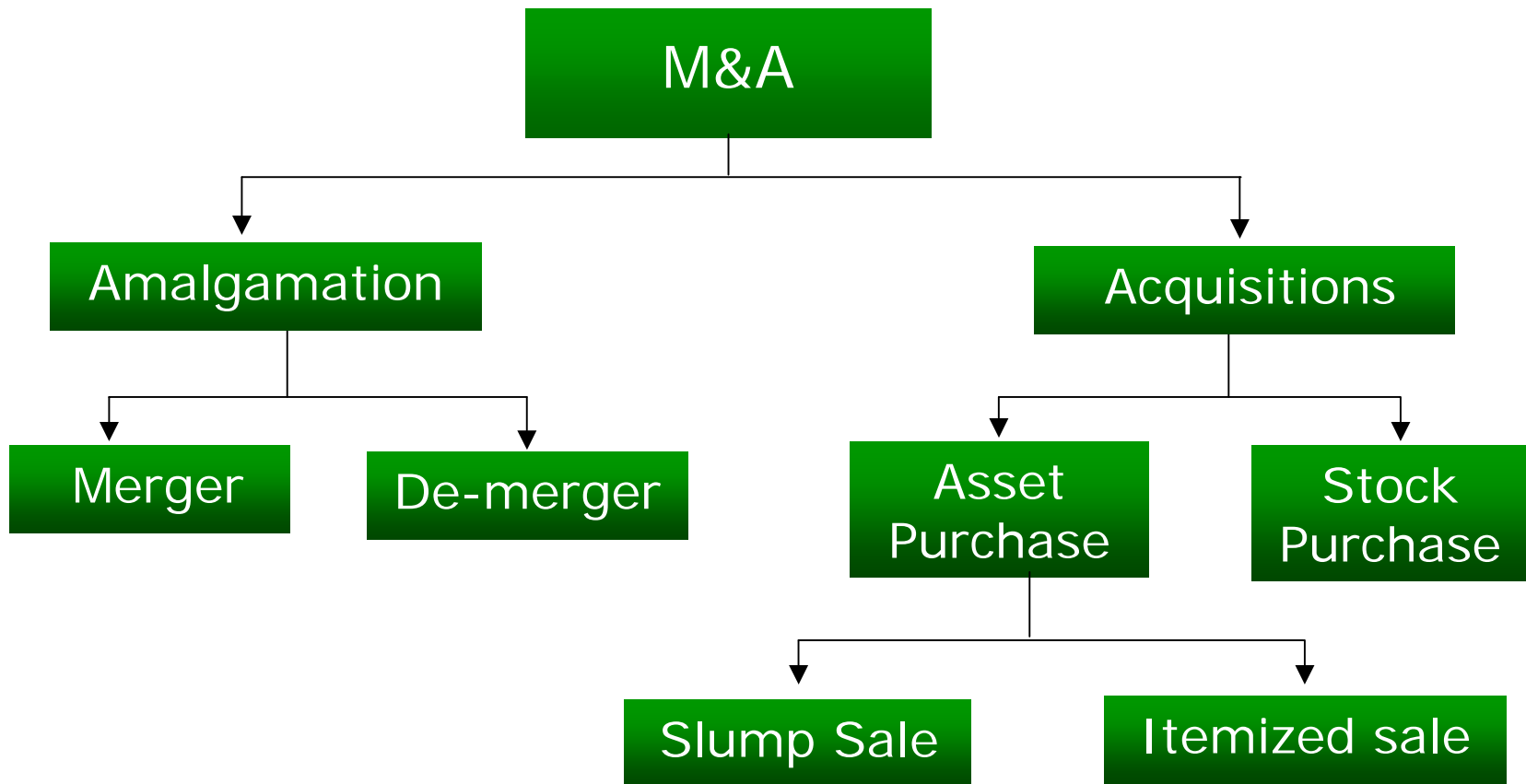
THE M&A STORY

Mergers & Acquisitions – Why the rush?

Key indicators for increase in mergers and acquisitions in India

- ❑ Indian growth story: Indian GDP at 9%
- ❑ Availability of low cost funds to finance acquisitions
- ❑ Tax benefits available
- ❑ Sound exit strategies available in light of big market capitalization
- ❑ Mindset transformation: Indian corporates reaping the benefits of globalization.
- ❑ Relaxed FDI norms

The M&A Story ~ Modes



The M&A Story ~ Key Issues

- ❑ Investment by foreign investor subject to sectoral caps
- ❑ Applicability of Press Note 1
- ❑ Compliance with regulations issued by Securities & Exchange Board of India ('SEBI') in case of listed company
- ❑ Transaction by way of de-merger / slump sale / acquisition of shares or assets
- ❑ Transfer price as per guidelines issued by Reserve Bank of India

The M&A Story ~ Takeover Codes

To acquire substantial shareholding in a listed Indian company, guidelines issued by Securities & Exchange Board of India

- When acquiring **more than 5%** to disclose his shareholding or voting rights to the company & the stock exchange.
- When acquiring **15% or more** to make public announcement
- Acquirers, holding **55% percent but less than 75%** shares or voting rights, can acquire **additional shares or voting rights** only by making a public offer.

The M&A Story ~

Understanding your Indian partner

- ❑ Indian partner looks at a business horizon of 3-5 years to measure the returns on investment
- ❑ The Indian partner will aim for faster turnaround in negotiations, basically, a 'top-down' management approach
- ❑ You should discuss in detail management control issues viz. appointment to the board of directors and chairman of board, appointment of CEO, MD and CFO, issues arising from future change of control, non-compete, etc.

INDIAN REGULATORY ENVIRONMENT

Indian Regulatory Environment

Intellectual Property Rights (IPR)

- ❑ India – a member of World Trade Organisation (WTO)
- ❑ India – a signatory to Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement
- ❑ Amended the laws to strengthen IP protection
- ❑ Principal IP laws :
 - Patent Law
 - Design Law
 - Trademarks Law
 - Copyright Law
 - Geographical Indications Law
- ❑ Rights and Remedies available for IP protection :
 - Civil remedies
 - Injunctive Relief
 - Criminal remedies

Indian Regulatory Environment ~

IPR cases and concrete steps

- Infringement of **trade mark** for using deceptively similar word '**VOLWO**' and '**VOLVO**'
- Permanent injunction was granted for using the **trademark** "Yahoo" for trading tobacco products
- Infringement of copyright – **Publishing** of head-notes, short-notes, editorial notes and copy edited judgments from a journal.
- Re-mixing of music **disallowed** unless permitted by original artist.
- Counterfeit markets **regularly raided** to identify and destroy pirated software, books, etc
- Customs Duty **systematically reduced** to make grey market an unviable option

Indian Regulatory Environment

Labour Law - Key Issues

1	Restriction on hours worked by employees	48 hours per week maximum
2	Number of Indian employees which triggers employer obligation to provide employees state insurance	10
3	Number of Indian employees which triggers employer obligation under provident fund scheme, bonus act	20
4	Number of years of continuous service which makes an employee eligible for gratuity	5 years
5	Minimum bonus to be paid to an employee drawing a basic wage of Rs 3,500 or less	8.33%
6	Prohibited age of employing young children in factories	14 years
7	In case of retrenchment of closure, number of employees which triggers employer obligation to seek prior government approval	100
8	On retrenchment / lay off / closure	Compensation is payable to employee

Indian Regulatory Environment

Tax System in India

- ❑ **Federal Taxes**
 - ❑ Income Tax
 - ❑ Customs Duty
 - ❑ Excise Duty
 - ❑ Service Tax
 - ❑ Wealth Tax
- ❑ **State Level Taxes**
 - ❑ Sales Tax, VAT, Lease and Works Contract Tax
 - ❑ Profession Tax
- ❑ **District/ Municipality Level Taxes**
 - ❑ Entry Tax/ Octroi

Indian Regulatory Environment

Income Tax

- ❑ Tax Levied on Basis of Residential Status
- ❑ Indian Incorporated Companies Taxed on Worldwide Income
- ❑ Rates of Tax (%) – Maximum Marginal Rate

Tax Payee	Resident	Non Resident
Corporate	33.99	42.23
Individual	33.99	33.99

- ❑ Tax of 10% on Royalties and Fee for Technical Services

Indian Regulatory Environment

Corporate Tax

- ❑ Relief from Double Taxation through Tax Treaties
- ❑ Tax Holiday for New Units in Backward Area
- ❑ Deemed Profit Provisions Available to Foreign Companies (Specific Industries) – To Avoid Maintenance of Detailed Expense Records
- ❑ 5 years Holiday in a Block of first 10 years for units in Special Economic Zone ('SEZ')
- ❑ Advance Rulings on Transactions Possible

Indian Regulatory Environment

Other Significant Taxes

- ❑ **Excise Duty**
 - ▶ On manufacture of goods. Peak rate at 16%
 - ▶ Basic duty + additional excise duty + special excise duty
 - ▶ Credit allowed of duty paid to limit the cascading effect of duty
- ❑ **Customs Duty**
 - ▶ On the import of goods into India. Peak rate at 10%
 - ▶ Basic duty + Additional custom duty
 - ▶ Duty drawback on goods re-exported. Significant concessions
- ❑ **Sales Tax** - On sale of movable goods. Rates vary for different states. Substituted by Value Added Tax ('VAT') effective April 2005
- ❑ **Service Tax** - Levied at 12% on identified taxable services
- ❑ **Research & Development Cess**- On import of technology into India at 5% on payments

THANK YOU