



Impact of US investments in India



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US-India economic and strategic relations have taken a quantum leap over the last few years. This was highlighted by President Obama's successful visit to India in November 2010 and the landmark Indo-US Civil Nuclear agreement.

Growing US investments in India are propelling forward the growth trajectory, with many US companies having established a significant presence in the country. US companies are also pioneering a solution-oriented approach for Indian enterprises, the Central and state governments, and most importantly, consumers. Indian IT companies are already providing cost-effective but quality services to the US companies, giving the latter a competitive edge. This has established India as a leading offshoring destination on the global map.

As the Indian economy continues to move forward, the need for better infrastructure and enhanced security is imperative. India's massive infrastructure plans and soaring defense spending present a huge opportunity for US corporations to tap, given their financial muscle and technological prowess.

The report, Impact of US investments in India, a joint initiative of Ernst & Young and AMCHAM, is an endeavor to briefly gauge the positive impact made by US corporations operating in diverse sectors in India. Furthermore, it also tries to assess the impact of US-India collaborations in potential sectors.

Rajiv Memani
Country Managing Partner
Ernst & Young



Executive note



President Obama's historic visit to India has provided a dynamic momentum and focus to the US-India alliance. Several US companies have established themselves in India, making noteworthy contributions to India's economic growth and progress. India continues to remain a strategic partner for the US and AMCHAM is confident that US investments coupled with high technology supplies will lead to India finding its rightful place in the comity of nations. This publication is an attempt to briefly assess the positive and far reaching impact made by American companies operating in India.

Ajay Singha
Executive Director
American Chamber of Commerce in India



US companies have invested in almost every sector open to foreign investment in India. They have brought some of the best business practices, latest technologies, innovative concepts and most importantly, generated thousands of jobs in India. US corporations have made significant investments to set up manufacturing bases, building talent, establishing sales and distribution channels, and strengthening brand presence in India. Furthermore, the US has been the primary catalyst in building India's offshoring services capability. On the social front, US corporations are actively supporting community projects, healthcare initiatives, education projects, and environmental awareness campaigns. Many companies have teamed up with local non-governmental organizations including, Hope Foundation and Smile Foundation, to address social issues.

With global dynamics changing quickly, bilateral cooperation between India and the US has increased significantly over the last couple of decades. After the onset of the liberalization process in 1991, US corporations were among the first to tap the opportunity as they entered the Indian market and forged strategic partnerships with Indian companies. With its emergence as an economic powerhouse, India is now in the "priority markets" list of US investors since they are lured by ample and diverse business prospects available in India. Between April 2000 and January 2011, investments from the US accounted for around 7% of all FDI inflows into India,¹ with sectors such as information technology,



industrial goods, retail and consumer products, and financial services, emerging to the fore. Key drivers for such substantial investments are the cost differentials, large talent pool and production efficiencies offered by India.

In 2005, a new chapter in bilateral relations unfolded with talks between former US President George W. Bush and the Indian Prime Minister Manmohan Singh that took shape in the form of Indo-US Civil Nuclear agreement. This chapter of strategic and economic cooperation was taken to the next level by the US President Barack Obama's recent visit to India, wherein trade transactions exceeding US\$14.9 billion were signed.² This has lent a new dimension to the accelerating Indo-US economic activity.

The report is aimed to briefly analyze the impact of US investments on India across key sectors including:

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1. "India FDI Fact Sheet - January 2011," *Department of Industrial Policy & Promotion website*, http://dipp.nic.in/fdi_statistics/india_FDI_January2011.pdf, accessed on 18 April 2011.
 2. "U.S. - India: the fact sheets," *White House Press Releases And Documents*, 8 November 2010, via Dow Jones Factiva, © 2010 Federal Information & News Dispatch, Inc.

Banking and financial services

A leading US financial major is present in India since 1902, and runs its banking operations through a separate division, which has 43 branches across India and more than US\$11.5 billion in deposits (as of 2009-10).

The company introduced debit cards in India and a special account for salaried people called Suvridha (meaning convenience). The banking division has an 11% market share in credit cards but its share in spends is more than 20%. The company also pioneered in making India its global software development, software maintenance and BPO hub. It established a captive unit for IT-enabled solutions, supported by latest technology and strong infrastructure for volume-intensive processing and the customer care needs of company's customers across the globe. This concept has been copied by many foreign banks in India.

The company employs more than 10,000 people, including 4,613 employees in its banking division.



The US has been the center of financial innovation and has brought some innovative financial products and services as well as practices to the Indian shores. Liberalization of foreign exchange regulations saw an influx of significant pools of credit from US banks, which played an instrumental role in the growth of Indian manufacturing. Also, US banks, with their aggressive marketing approach and better customer service, have helped in making the Indian banking system more efficient and competitive. American financial majors were among the first to use technology for banking (internet and mobile) and payments (credit and debit cards) in India; and today, virtually every bank in India offers these services.

Major US financial giants have gained a foothold in the Indian market and as regulations allow, these and many US companies will look to deepen their reach and enhance their services portfolio in India. The entry of US players in the insurance and asset management sectors has resulted in innovative products and services (such as fund of funds and systematic investment plans), wider distribution network (in tier-II and tier-III cities) and enhanced risk management.

Information technology



The US has been the core of inventions and innovations in information and communication technologies such as the internet, mobile phone and most recently, social networking. The US has leveraged India's large English-speaking population for cost benefits and has been the growth engine for India's present day offshoring capabilities. Furthermore, several companies based in various geographies have imitated US companies to outsource their IT and other back-office operations. This has led to sprawling IT businesses in India and also lent the nickname "Silicon Valley of India" to the city of Bengaluru. Currently, more than 60% of the revenues of premier Indian IT companies are generated from the US and the Indian IT sector employs approximately two million people.

A US-based IT giant has been operating in India since 1951 and subsequently decided to conduct business as an offshore entity as well as a joint venture (JV) with a leading Indian business house.

The company has been instrumental in developing India as a global sourcing base for BPO operations since it acquired a large Indian BPO outfit in 2004. The company has been among the leading collaborators with academic institutions for imparting IT-related curriculum to students as well as simulating and analyzing innovative processes. Furthermore, the company has set up several research labs and technology centers in India by making sizeable investments to cater to its customers worldwide. The company has also set up an IT Center in Mumbai in association with a school for blind to provide IT education to visually challenged people. In 2010, it became the first IT company to have received the prestigious Golden Peacock Award in the corporate social responsibility space.

The company has implemented biometrics-enabled crew management system to automate day-to-day management of trains for Indian Railways and has developed automated hospital and claims management solution for a health insurance company in India. The company has also worked with the Indian National Center for ocean information services to develop an early warning system for tsunami-generated earthquakes.

The company employs more than 100,000 people in India (approximately 25% of its global workforce) and derived revenues of more than US\$2 billion from India in 2009-10.

Over the years, the relationship between US companies and Indian IT firms has evolved from providing low-level technical support and fixing software bugs to optimizing financial transactions for banks, streamlining parts management for engineering companies, and developing advanced technologies. A key driver for this has been the substantial skill base in India, given the number of engineers India produces every year. This was sensed by US companies quickly and many of them have setup operations in India on a large scale. Their interests span end-to-end solutions to customers from hardware to software, services and consulting. They have also established extensive R&D capabilities in India by collaborating with leading academic institutions and today, India is their software and technology development hub. Increasingly, US IT companies are targeting kiosk owners, small businesses and rural users for general purpose handheld devices that can be adopted by retail, security, healthcare, logistics and other segments in India.

Some of the US IT companies are among the leading private sector employers in India and also the most sought after companies to work for. Several US IT companies are supporting innovative Indian IT start-ups by way of venture capital and so far, they have invested substantial amount of capital. US technologies, for example, enterprise IT software, IP phones, etc., have revolutionized the way we work in offices. Recently, US IT companies have made inroads in the cloud computing arena in India.

Retail and consumer products



US brands in aerated drinks (colas), fast moving consumer goods (FMCGs) and quick service restaurants (QSRs) have become an integral part of the Indian lifestyle as they have transformed the spending habits of Indians. Further, many of these US brands have figured in the most trusted brands as well as best places to work in India. The US cola majors have invested more than US\$2 billion in India and directly and indirectly generated more than 325,000 jobs across their value chain. Their supply chains have become models for other companies to emulate.

US QSRs have not only customized their offerings in their vast menus for the Indian market, but also pioneered concepts such as home delivery and cold chains. They have changed the dynamics of the eating-out market in India. US FMCGs too have brought many innovative products in personal and oral care (variety of toothpastes and toothbrushes), male grooming (shaving products) and packaged snacks. US companies have also emerged as great corporate citizens since they have initiated several programs such as contract farming and irrigation projects for farmers, education initiatives for underprivileged children, oral hygiene awareness programs, among many others projects.

A leading US-based food and beverages company is present in India since 1989 and is a major player in soft drinks, packaged snacks and juices.

The company has partnered with Indian farmers in three ways: contract farming (contracting them for their produce), potato farming (providing them with quality seeds) and citrus development (an alternative to reduce farmers' dependence on water-intensive crops). The company transfers agricultural best practices and technology and procures the produce at a pre-agreed price, securing the supplies. Also, the company has provided the farmers with high yielding potato seeds and has, so far, partnered with more than 11,000 farmers working across different states of India for the supply of chip-grade potatoes. Such initiatives have enhanced farmer's incomes and helped them in de-risking their produce. The company also offsets the water consumed in its manufacturing process through water replenishment projects. Apart from this, the company has several health awareness programs for kids and waste management initiatives across the country.

The company provides direct and indirect employment to 150,000 people including suppliers and distributors and has invested more than US\$1 billion in India.

Engineering and capital goods

A US automobile major has been present in India since 1993, and presently, is engaged in the passenger car segment. The company rolled out its first car in 1996 in a JV with an Indian automobile company. Later in 1998, it increased its stake in the JV from 50% to 92%.

The company's product portfolio had mid-size cars, sedans and sports utility vehicles until it launched its first small car in India in 2010, to tap the burgeoning Indian small car market. Its small car has garnered a significant market share in this segment and it has won accolades and awards from the Indian auto fraternity. The company has announced its plans to export this small car to Mexico, North Africa, the Caribbean and the Middle East, reiterating India's position as an export hub for automobiles. Earlier in 2009, the company invested US\$500 million at its Chennai facility, to ramp up its car production to 200,000 units annually, and established a new engine unit with a capacity of 250,000 units per year.

The company employs close to 2,000 people in India and has an annual turnover of around US\$600 million. In FY11, its market share increased to 4.8% from 2.3% in FY10, since it sold more than 95,000 cars during the year.



US companies have played a critical role in the development of India's manufacturing capabilities across its engineering and capital goods sectors. They have capitalized on the country's low manufacturing costs; quality engineering talent; low R&D, design and labor costs, and the facility of local sourcing of ancillaries. This has led to the establishment of several small and medium businesses located around the manufacturing facilities of US companies and created numerous jobs.

Furthermore, India has become a favored destination for design and manufacturing among US original equipment manufacturers (OEMs). Innovative machinery and equipment from US OEMs for diverse sectors, including construction, power, agriculture, automotives and mining, have made industrial processes more effective and efficient. The US automobile and auto component companies have established a significant presence in India, with manufacturing facilities as well as R&D centers across the country. US automotive companies have introduced advanced engines, components and related technologies.

Pharmaceuticals and health care



US companies dominate the Indian medical technology sector with a market share of approximately 80% and have been instrumental in the sector's development in India. Many health care and pharmaceutical companies have made India their R&D hub and have made significant investments in developing research facilities and talent. Currently, US companies have churned out many indigenous cost-effective devices, drugs, vaccines, equipment and technology, benefiting the poor and rural population across India.

Many of the top-selling pharmaceutical brands in India are from US pharmaceutical companies. Further, they are among the forerunners in terms of academic collaboration such as providing professional training and improving medical education capabilities; and providing health literacy and creating disease awareness. They have also established partnerships with various hospitals across India to initiate disease management (for heart diseases) and patient assistance programs (for glaucoma and breast cancer). Several US pharmaceutical majors are also forging contract manufacturing partnerships with their Indian counterparts, capitalizing on the latter's low-cost manufacturing and research capabilities, to gain access to sterile injectable drugs, particularly for the US market.

A leading US conglomerate has been present in India for more than a century and is currently into appliances, aviation, lighting, energy and healthcare. The company has developed low-cost diagnostic products such as CT scans, ultrasound, infant-care and ECG (electrocardiogram), specifically for India. It commands a 35% market share in the Indian medical systems market.

Recently, the company, in partnership with Embrace, a social enterprise, had announced to distribute a low-cost infant warmer in rural India, to address risks from hypothermia, a major contributor to death and illness in babies in developing nations. Earlier, the company had developed a mobile ECG device for less than US\$1,000, which meant that patients in rural India could avail of an ECG for about US\$1. The company has also been exploring a pay-per-use model in India for some of its products to make them affordable for low-volume, rural diagnostic centers.

The current employee strength of the company's healthcare unit in India is 2,700 including around 1,200 engineers working at the company's R&D facility, and the company plans to add 1,000 more engineers to its R&D team in India.



Potential sectors
for partnership

Infrastructure



- ▶ A consortium of US and Indian PE firms invested US\$425 million in a Singapore-based company, which has several power projects in India
- ▶ A US-based PE giant has planned to invest up to US\$1 billion in the Indian power sector over the next five years
- ▶ US PE firms, through their NBFCs, have also offered debt finance to Indian power and infrastructure companies

India's infrastructure sector is facing a shortage of investments and financing from the private sector compared to its requirements. Recently, there has been a rising prominence of US private equity (PE) firms targeting India's infrastructure sector. They have poured in huge investments in the infrastructure sectors including power and engineering, procurement and construction firms. US PE firms have also issued debt to infrastructure development companies and raised Indian-infra-focused funds. During 2010, US PE firms made investments worth approximately US\$1.3 billion in the Indian infrastructure sector.³

In order to support India's ambitious infrastructure investment plan laid in Twelfth Five Year Plan, which is envisaged at US\$1 trillion, more such private investments are expected from the US. Besides that, proficiency of US companies in developing debt instruments (such as bonds) could be availed to finance infrastructure projects. Several US companies are also gearing up for significant increases in infrastructure equipment demand by ramping up their manufacturing capabilities in India.

3. Source: VCCEdge and Ernst & Young research

Defense, aerospace and homeland security

A leading US aerospace and defense company has been a supplier of commercial aeroplanes to Indian airlines since 1960. Recently, in November 2010, the company and the IAF reached preliminary agreement on the purchase of ten military transport aircraft in a deal valued at approximately US\$4.1 billion. In January 2009, the Government of India signed a US\$2.1 billion contract with the company to purchase eight aircraft for the Indian Navy, making it the biggest-ever Indian defense deal with the US. The company has made a pitch for its fighter jets in the aforesaid MMRCA project.



India's growing internal as well as external security concerns have made it imperative for the Government of India (GoI) to step up procurement of best-in-class weaponry and advanced systems. Under India's current Defense Offset Policy, US companies can help bolster the capabilities of Indian companies, rapidly expand the defense technology base and improve their competitiveness with their wealth of experience, superior know-how and cutting edge technology. The US has already lifted restrictions on key Indian companies, paving the way for transfer of technology.

The combined Indian market in defense, aerospace and homeland security sectors is projected to grow to US\$100 billion in the next five to six years with India becoming one of the top 10 defense markets globally. Business opportunities for the US companies are galore since they could be key suppliers of advanced fighter jets, modern surveillance technologies, unmanned aerial and ground vehicles, sophisticated guns and missiles, etc. US aerospace companies are already gunning for the US\$10.8 billion project to supply 126 medium multi-role combat aircraft (MMRCA) to the Indian Air Force (IAF), which is touted as India's single largest defense deal ever.

Education



- ▶ Top-ranking US B-schools are founding academic partners of a leading Indian B-school
- ▶ On the vocational front, a US university has decided to set up three centers of excellence in Chennai to carry out high-end research activities and churn out sector-specific talents
- ▶ For research programs, a US university has shown interest in partnering with an Indian innovation university, which is a research-oriented campus, on agriculture, bio-sciences and biotechnology

The GoI has underscored the need to improve learning infrastructure, overhaul the examination system, and bring the best faculty in teaching and research. India produces one of the largest number of engineers, science and technology graduates annually. Partnership with US could bring a research orientation to Indian universities as well as help integrate vocational courses in higher education. US universities have indicated huge interest in setting up campuses and research centers in India. Several premier Indian B-schools have collaborated with their US counterparts in terms of student exchange, syllabi, etc. The legislative bill to allow foreign institutions to set up campuses in India and provide independent degrees may soon be a reality.



American Chamber of Commerce in India

Established in 1992, the American Chamber of Commerce in India (AMCHAM India) is an association of American business organizations operating in the country. AMCHAM India has around 500 members, spread all over the nation.

The Chamber enjoys a close relationship with the U.S. Embassy in India, which supports its objectives and helps in fulfilling them. The incumbent U.S. Ambassador to India is the Honorary President of AMCHAM. Heads of the Economic & Commercial sections of the US Embassy are both ex-officio members of the National Executive Board.





Mission

AMCHAM's principle objectives are to:

- a) Promote activities that encourage and stimulate investment by US companies in the country.
- b) Support the business operations of its members.
- c) Encourage bilateral trade between India and the US.

These primary objectives are fulfilled by:

- ▶ Providing a forum for U.S.-based business organizations in India to discuss and identify common issues, economic and commercial interests in India and the US.
- ▶ Instituting Sectoral Committees which implement the primary objectives of their respective sectors.
- ▶ Reviewing policies and procedures in various sectors that affect the members as well as influence the growth of foreign direct investment in India.

Affiliations

AMCHAM is affiliated to :

- ▶ Chamber of Commerce of USA in Washington, D.C.
- ▶ Asia Pacific Council of American Chambers of Commerce (APCAC).
- ▶ AMCHAM's in other countries.

Regional chapters

AMCHAM's National Secretariat is based in New Delhi with six Regional Chapters in Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai.

Management

AMCHAM is managed by a professional secretariat which works under the supervision of an annually elected National Executive Board.





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Our offices

Ahmedabad

2nd floor, Shivalik Ishaan
Near CN Vidhyalaya
Ambawadi
Ahmedabad – 380 015
Tel: + 91 79 6608 3800
Fax: + 91 79 6608 3900

Bengaluru

"UB City", Canberra Block
12th & 13th floor
No.24 Vittal Mallya Road
Bengaluru – 560 001
Tel: + 91 80 4027 5000
+ 91 80 6727 5000
Fax: + 91 80 2210 6000 (12th floor)
Fax: + 91 80 2224 0695 (13th floor)

Chennai

TPL House, 2nd floor
No. 3 Cenotaph Road
Teynampet
Chennai – 600 018
Tel: + 91 44 6632 8400
Fax: + 91 44 2431 1450

Gurgaon

Golf View Corporate Tower B
Near DLF Golf Course
Sector 42
Gurgaon – 122002
Tel: + 91 124 464 4000
Fax: + 91 124 464 4050

Hyderabad

205, 2nd floor
Ashoka Bhoopal Chambers
Sardar Patel Road
Secunderabad – 500 003
Tel: + 91 40 6627 4000
Fax: + 91 40 2789 8851

The Oval Office

18, iLabs Centre
Madhapur
Hyderabad – 500081
Tel: + 91 40 6736 2000
Fax: + 91 40 6736 2200

Kolkata

22 Camac Street
Block 'C', 3rd floor
Kolkata – 700 016
Tel: + 91 33 6615 3400
Fax: + 91 33 2281 7750

Mumbai

6th floor & 18th floor, Express Towers
Nariman Point
Mumbai – 400 021
Tel: + 91 22 6657 9200 (6th floor)
Fax: + 91 22 2287 6401
Tel: + 91 22 6665 5000 (18th floor)
Fax: + 91 22 2282 6000

The Ruby

29 Senapati Bapat Marg,
Dadar (W)
Mumbai – 400028
Tel: +91 022 61920000
Fax: +91 022 61921000

5th floor, Block B-2
Nirlon Knowledge Park
Off Western Express Highway
Goregaon (E)
Mumbai – 400 063
Tel: + 91 22 6749 8000
Fax: + 91 22 6749 8200

New Delhi

6th floor, HT House
18-20 Kasturba Gandhi Marg
New Delhi – 110 001
Tel: + 91 11 4363 3000
Fax: + 91 11 4363 3200

Pune

C-401, 4th floor
Panchshil Tech Park
Yerwada (Near Don Bosco School)
Pune – 411 006
Tel: + 91 20 6603 6000
Fax: + 91 20 6601 5900

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