



India, a new Asian giant

Executive Briefing organised on April 17, 2007, by Premier Cercle, in conjunction with The Wall Street Europe and sponsored by TAC, BearingPoint and Franklin Law firm.

7h45~8h00

Accueil des participants

8h00~8h25

Introduction

*Bertrand Collomb Président
LAFARGE*

8h25~8h40

Un pays continent

- Une histoire complexe
- Une démocratie unique
- Une puissance nucléaire...
- Contradictions en jeu & défis pour l'avenir

*Rajesh Sharma
Enseignant IEP PARIS / Directeur de Collection « Lettres Indiennes »
ACTES SUD
Editorialiste THE HINDUSTAN TIMES*

8h40~9h20

Un nouveau géant asiatique aux ambitions mondiales

- Les deux socles de la puissance économique indienne : l'industrie et les services
- Les réformes essentielles pour l'avenir: infrastructures, économie rurale, ouverture économique plus appuyée
- Collaboration & Partnerships

*Eric Mookherjee CEO SHĀNTI GESTION
Michel Savoie Managing Director / Responsable Europe de l'Activité
Technology Consulting BEARINGPOINT
Pierre-Jean Bonna Directeur INDO FRENCH CHAMBER OF COMMERCE-
IFCCI*

9h20~10h00

Quelle place pour l'investissement français en Inde

- Les conditions d'investissement et secteurs privilégiés
- Fusions & acquisitions
- Challenges et solutions juridiques

*Bradley Joslove Associé FRANKLIN
KB Iyappa Senior Vice Président-Legal SATYAM COMPUTER*

10h00~10h20

Conclusion

S.E. Monsieur Ranjan Mathai Ambassadeur de l'Inde en France



The meeting, presentations and discussions were very stimulative, and the exchanges of views with keen Indian observers coming from very different quarters provided interesting highlights into the potential development of India but also the complexity and risks involved when trying to create or expand a business for a European company. Combining TAC's research and monitoring of the Indian economy with the key messages heard at this conference, five key points can be highlighted.

1. India is a country of superlatives and one can easily be carried away by such an emphatic phrasing: figures are always gigantic (population, poverty, technological capabilities...), promises are huge (a potential 300 mn middle-class, world-class companies...), challenges are daunting (40% of the population is illiterate, extreme poverty is widespread...). If we add the power of the images that are associated with these figures, and the deep-rooted mental perceptions of the country, this world of superlatives has the capacity to move us extremely rapidly from an absolute pessimism to an ecstatic optimism. Therefore, the potential for disappointments and mistakes is also quite high.
2. A dominant feature of India (perhaps implicitly opposed to the Chinese situation) is the extreme mosaic of fragmented group that is making up the Indian society: so many different languages and writing characters, religions and beliefs, castes and social groups, behaviours and living patterns. This has translated into a laic and federal State with strong affirmative action policies. It is all the more complex and difficult to understand that many facets of this mosaic are in a deep transformation process. The major lines of these changes include a transfer of power from the central government to the States, the rise of regional parties as opposed to the large national parties (BJP, Congress), the growing importance of low-caste population, a transfer from the public to the private sector, a change in generation at the key decision-making levels, both in public and in private activities, and the growing inclusion of women. Needless to say, such a mosaic and deep changes have tremendous consequences on any marketing strategy aiming at the Indian domestic market.
3. Industry representatives and financial analysts insisted on the high technical efficiency of Indian companies or operations. Mr. Collomb indicated that Lafarge's Indian units were among the most efficient within the group. Knowledge and absorption of technology is rather easy, and the range of manufacturing or service activities that can be efficiently carried out in India is quite large from a technological perspective. Conversely, the key difficulty is to translate such technical efficiency into a financial performance, mostly because of administrative, infrastructure and government policy deficiencies. In the cement industry, despite the long-established efficiency, it was only when the government lifted the control on prices that the units were financially profitable. In other examples, frequent cuts in power supplies, or logistic issues are weighing strongly on the overall performances.
4. India is in a midst of a huge corporate transformation and restructuring, offering opportunities but also creating potential competition threats. This transformation is basically the result of the gradual opening of the Indian market to foreign competition (reduction in tariff rates and increased foreign direct investment), the positive financial impact of the past years of high economic growth, and the changes in generation at the helm of the large Indian corporates. Overall, this implies a strategic focus on core



activities while selling the non-core parts of the businesses, a rapid internationalisation of markets and sourcing, and stronger governance modalities.

5. There are quite a number of issues regarding the sustainability of the current upswing in Indian development. The two major items deal with structural and cyclical questions. From a medium-term perspective, the most fundamental issues are related to (1) the infrastructure deficiencies and the possible ways to overcome them, and (2) the character more or less "inclusive" of the Indian economic growth, i.e. the ability to spread the growth of income in order to reduce poverty and reduce medium-term social and political tensions. From a cyclical point of view, symptoms of overheating and speculative bubbles are now visible on the radar screen, while the required policy adjustments might prove difficult to operate given the coalition politics.

As most of our readers are aware, TAC is currently launching a multi-customer study on India, aimed at providing solid foundations for the construction of medium-term operational strategies on the country. The study will be based on the precise identification of the key issues facing the country between now and 2020, and the possible answers to these challenges. From there, we will build long-term scenarios for the key macroeconomic variables (GDP, components of demand, inflation, exchange rate, government finance, imports, interest rates, etc.) using different sets of the "possible answers to key issues" and applying them in a dedicated econometric model ensuring the inner coherence of each scenario. Afterwards, the fundamental idea of our scenario methodology is to identify what we call the "anchor points", i.e. the key variables that are not significantly affected when moving from one scenario to another as opposed to the "risk areas", i.e. variables that really differ massively from one scenario to another. The first items allow to derive conclusions for the "active" definition of the relevant operational strategy, while the latter point toward the risk mitigation policies or instruments to be established. The study also include three to five meetings of a dedicated Steering Committee where TAC economists will present the results of their research so far to the customers, and have these results commented by a group of outside experts on India. Such meetings ensure that the customers do get what they expect from the study, and allow deep and confidential exchanges of views between participants.

We intend to make this research between now and October 2007, and the only restriction that we put is that will not take two companies in the same industry as customers to ensure that there are no competition issues at the Steering Committees and in the design of the study.

For more information you are most welcome to call Thierry Apoteker at +33 (0)2 99 39 31 40, or look at the proposal¹.

¹ For more information about the major study on medium- to long-term scenarios on India, please visit the following webpage: <http://www.tac-financial.com/publ/TAC-Projet%20Inde-1-Oct06.pdf>