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INDIA to 2020

Planning business development in a "Bolly World"

A STRATEGIC ADVISORY SERVICE FROM T-A-C

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Planning business development in a "Bolly World"

**Medium-term scenarios and strategic consequences
A strategic advisory service proposed by TAC**

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A strategic advisory service proposed by TAC

Rationale:

- ✓ The emergence of a world economic powerhouse registering a strong growth and rapid transformation
- ✓ Persistence of significant economic, social and political risks
- ✓ Strategic issues related to relations with partners in India, the localisation and the form of operations

Results:

- ✓ Short-term risk assessment and cyclical analysis of India;
- ✓ Medium-term scenarios for India, with major economic variables and macro-risk factors;
- ✓ Implication for the customers' strategic issues and challenges

Concrete outputs:

- ✓ Research document describing India's medium-term development prospects, risk factors and risk mitigation strategies
- ✓ 3 to 5 meetings of a dedicated Steering Committee to review, refine and adjust the scenario construction and interpretation, as well as the strategic consequences for the customers
- ✓ A presentation / discussion meeting with each customer on the basis of one or two half-day meeting at the customers offices, to share the findings and build a common approach and understanding of the country and the related strategic consequences for the company.

Price and schedule:

- ✓ 20,000 euros
- ✓ Final results available 4 months after the start of the research



1. BACKGROUND AND OBJECTIVES

India has posted impressive economic performances over the past 25 years and is the 2nd largest population in the world.

The country has posted impressive economic performances brought about by the liberalisation process that gathered pace two decades ago and the gradual opening to international trade, financial and cultural flows. The pace of economic growth increased from the 3.7% “Hindu rate of growth” of the 50s and the 60s, to a remarkable 5.9% over 1980-2005 and 7.9% in the past three years. Progress on the social front has been at least as impressive: the poverty ratio has declined from more than 50% of this world 2nd largest population in the 50s to 26% in recent years, infant mortality has halved, GDP per capita, expressed in purchasing power parity, has increased from USD 433 in 1975 to about USD 3,400 in 2005, while the UNDP’s HDI¹ rose from 0.4 to 0.6.

As globalisation has advanced, India has the potential of a global player.

A large and rapidly expanding middle-class, a stable political system, an increasing geopolitical importance and the emergence of world-class companies are undeniable features of a country that has the potential of a “global player”, able to follow the roaring success of the other and inseparable emerging giant: China.

Simultaneously, India is entering a period of significant economic and political changes.

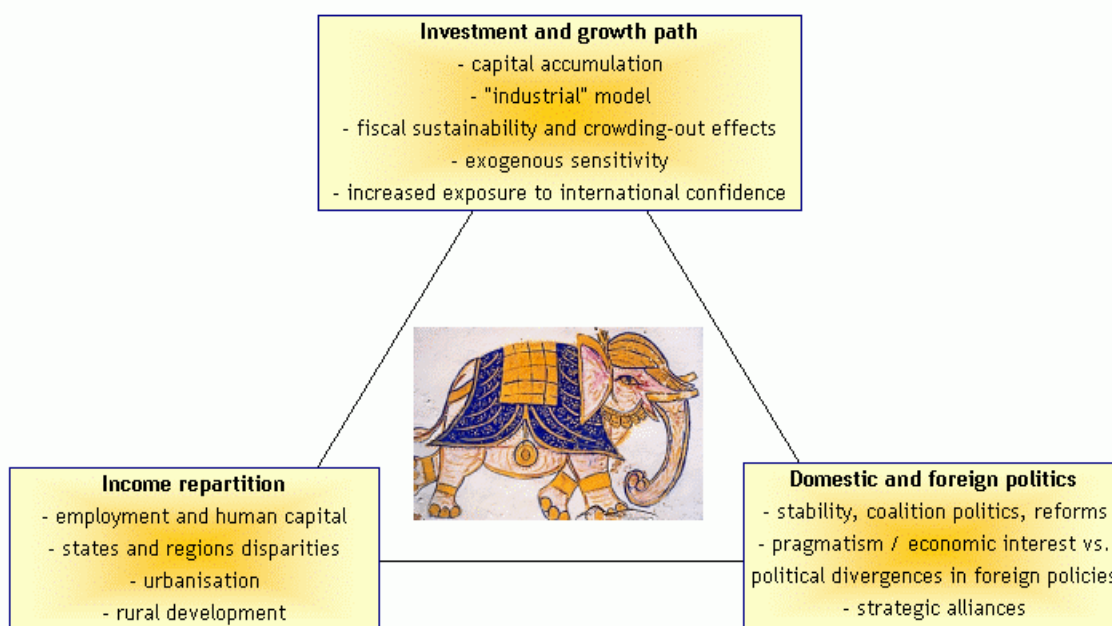
The ability to register sustained high economic growth with limited external account imbalances and growing foreign currency reserves has been a highly positive development of the last few years. The persistence of too large fiscal deficits, huge infrastructure and social issues, and poor industrial efficiency in many manufacturing industries, are key factors able to derail the recent economic successes. In parallel, the political environment of “coalition politics” makes broad economic coordination and the pace to which reforms are applied more difficult. Lastly, India’s foreign policy will become of increasing importance; its relations with Pakistan, the US and China will have to mix economic interests with global geopolitical ambitions. The challenge for the authorities is now to foster a sustainable, high and widespread development process, all this in a stable geo- and socio- background.

It is this specific combination of recent successes, huge potential and daunting challenges that suggests the image of the “Bolly World”, a fantastically appealing but maybe unreal and unachievable “movie designed in Bollywood”, the Mumbai counterpart of Hollywood, where India takes a centre stage; imbalances and problems are solved by magic and illusory successes, the euphoria keeps going on... until the end of the movie when the grim reality of persistent poverty, sectarian conflicts, inability to meet the infrastructure challenges, comes with a revenge. This combination therefore warrants a thorough and in-depth look into plausible medium-term scenarios for India, from the political, social and international relations issues down to macroeconomic performances and risks and, more importantly, to specific industry consequences and their effects on companies’ “optimal” strategies in India.

¹ Human Development Index (HDI): a global measure of development including economic as well as health and education variables, ranking from 0 (worst) to 1 (best).

The following chart provides a simplified representation of the main issues that will determine the nature of India's road to 2020.

Main issues facing India's medium-term development



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We believe therefore that the moment is particularly opportune for international companies to deepen their strategic thinking about their future relations with India.

This strategic thinking has to integrate the many different facets of the risk, opportunities and challenges that this period will entail. TAC has been monitoring the Indian economy for the past 15 years, both through its regular country risk service, and through in-depth studies, both for multilateral organizations and private customers. TAC has also developed a wide network of contacts within academic "India's specialists" as well as domestic observers residing in India. Last but not least, TAC has a successful track-record in developing multi-customer studies, from the organisation of steering committees, to scenario building, and to the formulation of operational conclusions from such scenarios.

2. METHODOLOGY AND EXPECTED RESULTS

TAC has a long experience and a strong track record in the development of prospective scenarios for developing countries that can be directly integrated into the corporates' specific strategic challenges and visions.

The strategic advisory service proposed by TAC includes the following components:

- The construction of medium- to long-term scenarios (15 years) for macroeconomic variables, based on the identification of *key assumptions*, be they domestic or international, social, political or economic, and the *construction of a comprehensive simulation tool* ensuring a strict endogenous coherence of each scenario. The number of described scenarios is determined in the course of the study, according to the number of "key assumptions", but is usually between 2 and a maximum of 4.
- The discussion, critical review and stress testing of such scenarios in a dedicated Steering Committee allowing the customers to discuss their existing experience and current prospects for business development and challenges in India. The Steering Committee gathers TAC's economists involved in the advisory service and macroeconomic analysis, the customers' representatives (therefore enabling exchanges of views between large corporations involved in India, knowing that TAC will not include competing companies operating in a similar industry in the advisory services proposed here), and a couple of outside experts, specialists of India and able to qualify and precise some aspects of the scenarios. At this stage, Mr Chaudhuri has accepted to be a member of the Steering Committee and he will be joined by 2 or 3 other India specialists.
- The identification of the major "anchor points" within the scenarios (the economic indicators that do not register very significant changes when moving from one scenario to another), and of the major "risk areas", where, conversely, a passage from one scenario to another induces a very large change in the expected economic result. This is a key component of the methodology, as it expresses our disbelief for any meaningful probability estimation in medium-term scenario construction, and conversely our deep conviction (and experience) that such an identification of *anchor points* and *risk areas* is extremely powerful in defining possible strategies.
- The analysis and discussion of the strategic consequences, for the customers, of such anchor points and risk areas, again in the form of meetings of the Steering Committee. This part of the service will therefore enable customers to have a very clear and direct link between the macro picture and their own issues and challenges regarding their operations in India.

TAC uses many different tools and instruments to develop such medium-term scenario-linked strategic analyses, but they always include a mix between quantitative instruments and qualitative inputs. Quantitative tools include standard and developed macro-econometric modelling, but also specific instruments designed to answer country-specific issues (e.g. banking model, geographic distribution of income model, behavioural models of companies). The qualitative inputs include a thorough review of existing research and literature (think-tanks, academic institutions, specialized institutions, investment banks), and a large set of meetings and interviews with both international and local experts, with whom TAC has most often long-term relationships. Some of these experts will be specifically called upon in the form of exchanges of views and discussions that will be organised with the customers of the research.

TAC has a unique ability to combine quantitative and qualitative tools, desk research and on-the-ground investigation, macroeconomic and industry / financial approaches. Moreover, the



research is made in close cooperation with the customer², including regular briefings and presentations, to ensure that the output is consistent with the customer's expectations.

3. WAYS AND MEANS

Research Team

As far as in-house resources are concerned, TAC is mobilizing a strong team of economists to be able to deliver the expected results in due time. The team will include four persons, all of whom have a significant knowledge of, and exposure to, the Indian market and economy:

Thierry Apoteker (Managing Director of TAC) as the director of research and overall coordinator;

Sylvain Barthélémy (Senior Economist, Head of Quantitative Research at TAC), in charge of all the quantitative aspects of the study (macro-modelling, links between macro and industry, supply conditions...);

Morgane Lohéziec (Senior Economist), in charge of the qualitative and industry analysis;

Isabelle Legrand (Economist), in charge of database management and econometric modelling.

To this core team will be associated 3-4 outside experts for the meetings of the Steering Committee, all of whom command an in-depth knowledge of India. At least one outside expert will be an Indian economist, and at least one of the experts will be a socio/political expert.

Price structure and payments

The subscription price to this strategic advisory service is 20,000 €, and final results would be available 4 months after the start of the research.

The subscription price covers the research itself (TAC's economists, databases, external consultants), all travel costs (meetings in Europe, missions in India), the organisation of three to five Steering Committees (location in Paris to be determined later, on the basis of breakfast meetings), and dedicated presentations to each individual customer.

A 50% down-payment would be due at the signing of the contract, and the 50% balance at the end of the study, when the customer is satisfied with the Final Report and presentation.

4. CONFIDENTIALITY

The study is strictly confidential, and no information obtained on the customers' activities, on the customers' strategy or any private information obtained by TAC through this assignment by the customers, can be used or distributed in any forms by TAC to any other party. This confidentiality rule would be supported by a specific Statement of Confidentiality to be signed TAC's managing director, and which constitutes an integral part of the research contract.

Conversely, the macroeconomic analysis and risk assessment on India, notably the elements derived from TAC's previous experience or current instruments as well as the quantitative tools

² From our past experience, the customers are usually the General Management, or the Strategic Planning, International Affairs, or Financial Departments.

and models designed in the course of the research, are not covered by this Rule of Confidentiality, and remain TAC's sole intellectual property.

5. NEXT STEPS

It is already envisaged to deepen the analysis and strategic advisory service by completing the previous research with a second step, fully confidential and exclusively dedicated to each customer. This second step is the integration of such macro perspectives in the very precise strategic framework of the customer, based on the following:

- The unfolding of the macroeconomic scenarios on the customer's industry, with a triple focus on *demand* (volume, variability, differences by major regions, type of products), *supply* (corporate structure, capacity expansion, shift in supply form, competitiveness), and *operating conditions* (regulation, costs, availability of skilled labour...). The different aspects of supply-side analysis will also be linked to macro-financial factors (ability to fund investment, cost of capital) that will be derived from the broad macroeconomic scenarios. The resulting impact of the demand-supply analysis on *prices, investment and competition* will be estimated.
- The utilization of the results for recommendations in terms of detailed strategic options, covering and integrating the macro factors (overall risks, including country risk, exchange rate or cyclical risks), and the results of the industry analysis and prospects for the next 15 years (notably price / competition, financial strengths and weaknesses of large players, financing requirements and sources of finance).
- The presentation, discussion and refinement of the strategic recommendations to the customer's management.

This step of the service could go as far as identifying potential targets, preliminary valuation exercises, screening of partners, etc. If needed, this step of the service would use TAC's associate consulting company based in India (Ace Global Ltd), which has a long track record on accompanying foreign investors in the implementation of their strategy in India.

The subscription prices for this second step of the strategic service is set at 45,000 € (all-inclusive) and it would require about 15-20 weeks work (spread over six months), including at least two missions in India.

For more information...

To have more information and discuss the modalities of this service as well as TAC references and know-how, please contact us:

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