JOINT VENTURES IN INDIA:
Opportunities & Challenges for US Entrepreneurs

Vibhay Sinha
What is common between these two?

Lexus CD/Audio System
$2000

Tata Nano (2009)
$2000
TATA NANO – the new “Volks Wagon”
NANO Embodies Potential of Innovation and Joint Ventures in India

- The NANO paradigm change in car design
- smaller, lighter, cheaper
- 61 mpg, low emissions
- Euro V compliant, Electric versions coming

- TATA Industries $63B
- TATA motors
- Tata Auto Components

- Demonstrates Managerial, Design, Manufacturing Capabilities
- Enabled through 14 Joint Ventures by Tata Auto Components
  - Daimler Benz collaboration with Tata Motors since 50’s
India opportunity is immense including for Entrepreneurs and small firms
- Attractive domestic market and a base for global exports or outsourcing

Joint Ventures are a preferred route for entrepreneurs and small firms
- Complex environment can be managed

Joint Ventures in India require the right partners, right markets, right location
About Me: Vibhay Sinha

- Consultant helping entrepreneurs & firms develop an India strategy
- CEO of joint ventures of Fortune 500 firms in India for over 25 years
  - Managing Director of joint ventures of Arvin Meritor, Dana Corp., Johnson Controls, Federal Mogul, Furukawa (Japan), Nara Machinery (Japan); Executive Vice President of Hindustan Motors;
- Automotive, battery and engineering sectors
- Started at Ford Motor Company in Dearborn, MI
- Startups:
  - moved to India to launch a new joint venture of Purolator Inc, NJ, building auto components
- Turnarounds:
  - Standard Batteries (now Exide Industries), Perfect Circle Victor and Kilburn Engineering.
- M.S. in Mechanical Engineering from Northwestern University, IL
- Live in Menlo Park, CA
India is an emerging economic giant

- Fastest growing Mobile market in the world (400 million subscribers, growth 15 million per month)
- Suzlon, Wind Energy, 4th largest company worldwide
- Several of the World’s richest men Premji (Wipro), LN Mittal (Arcillor), Murthy (Infosys), S. Mittal (Telecom), K.P. Singh (Real estate)
# 4th Largest Economy PPP (22% of US)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Using PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td><strong>United States</strong></td>
<td>$13.8 Trillion</td>
</tr>
<tr>
<td></td>
<td><strong>China</strong></td>
<td>$3.2 Trillion</td>
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<tr>
<td></td>
<td><strong>India</strong></td>
<td>$1.2 Trillion</td>
</tr>
<tr>
<td></td>
<td><strong>World</strong></td>
<td>$54.3 Trillion</td>
</tr>
</tbody>
</table>

Source: World Bank database 9/10/08; PPP 10/17/08
In 2050: $27 trillion (90% US)

2009 estimated India GDP Growth: 5.5%

Projected GDP in the 21st Century

2050
- China = $44.5 trillion
- U.S. = $35.2 trillion
- India = $27 trillion

2000
- U.S. = $9.8 trillion
- China = $1.1 trillion

Europe-4 = France, Germany, Italy, and the United Kingdom

Source: Goldman Sachs
Growth Driven by Domestic Consumption; Not Exports

THE WALL STREET JOURNAL.

APRIL 10, 2009

India Defies Slump, Powered by Growth in Poor Rural States

By PETER WONACOTT

DEV KULI VILLAGE, India -- This country's path out of the global economic turmoil may start here, among a community of outcastes who dine on rats.

In Bihar, India's poorest and least literate major state, the Mushahar are the poorest and...
Unique and Favorable Demographics

- 1.3 Billion people, Median age 25 Years*

- Middle class of 300 M with high caliber managers, engineers and scientists at lower cost; world-class IITs

- Human Capital is strong; entrepreneurship culture emerging

* Source: CIA fact book
Multiple Other Positive Indicators

- Stable Financial System
  - Banks and Financial Institutions impacted only marginally
  - Venture capital increasingly available

- WTO membership, Intellectual Property Rights (IPR)
  - Support for High tech opportunities
  - Technology base of 50 years

- Stable democracy, Independent Judiciary and Press
  - Sikh Prime Minister, Catholic Leader in 80% Hindu country
  - Largest Elections in the world (714 million voters)
Major Challenges Remain

• Bureaucracy, legal delays and corruption
• Restrictive labor laws - exit issues
• Poor infrastructure – roads, ports, power
• Rising salaries & low retention (salaries +7.5% in ‘09)
• Credit Markets weakened in 2009
## Options for Direct Investment in India

<table>
<thead>
<tr>
<th>Joint ventures</th>
<th>Go it alone</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Indian Company</td>
<td>• Wholly owned</td>
</tr>
<tr>
<td>• Jointly owned by Indian and Foreign partners.</td>
<td>• Subsidiaries for outsourcing and manufacturing</td>
</tr>
<tr>
<td>• Public or private equity</td>
<td>• Branches for Trading</td>
</tr>
<tr>
<td>• Includes company to ‘build, operate and transfer’ (e.g. Toll Roads, Ports)</td>
<td></td>
</tr>
<tr>
<td>Joint ventures</td>
<td>Go it alone</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Complimentary strengths to the table</td>
<td>• Large self sufficient companies with deep pockets</td>
</tr>
<tr>
<td>• Sharing of Risk and Capital</td>
<td>• Maintain control of brand, Control Intellectual Property Rights</td>
</tr>
<tr>
<td>• Local Contacts</td>
<td>• Maintain control of customers</td>
</tr>
<tr>
<td>• Local Distribution Networks</td>
<td>• Create local supply base for a global customer</td>
</tr>
<tr>
<td>• Local Market knowledge</td>
<td>• BPO activity, Design Offices</td>
</tr>
<tr>
<td>• Faster time to start</td>
<td>• Long gestation acceptable</td>
</tr>
<tr>
<td>• Navigating the red tape</td>
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</table>
The NANO Required Multiple Joint Ventures

- Partners (14 Joint Ventures) brought:
  - Technology – Designs & Manufacturing techniques + Capital to retain degree of control + Brand name + Systems & Controls

- Tata Motors brought:
  - Capital + Management skills + Distribution network + Service network

- 50:50 equity in many cases
  - Daimler Benz; Johnson Controls, Yuasa, Visteon, local JV’s of Arvin Meritor, Federal Mogul, etc.
Global Competitors Following Nano’s Lead

- World’s Cheapest Mass Production Car
  - $2000 vs. $1000 scooter

- Toyota, Hyundai, Nissan-Peugeot, GM, Suzuki

- India base for ‘World’ small car and auto components
## Some Other Examples

<table>
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<tr>
<th>Joint ventures</th>
<th>Go it alone</th>
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<tbody>
<tr>
<td>• British Telecom + Mahindra</td>
<td>• TI, Microsoft, Cisco, Intel et al</td>
</tr>
<tr>
<td>• Toyota + Kirloskar</td>
<td>• GM, Ford, Daimler Chrysler et al</td>
</tr>
<tr>
<td>• Dana + Spicer</td>
<td>• Pfizer, Roche, Glaxo et al</td>
</tr>
<tr>
<td>• Federal Mogul India</td>
<td>• Unilever, P&amp;G et al</td>
</tr>
<tr>
<td>• Sona Steering (Japan Co JV)</td>
<td>• LG, Samsung, Sony et al</td>
</tr>
<tr>
<td>Period</td>
<td>Description</td>
</tr>
<tr>
<td>-------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
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<tr>
<td>1947 - 1967</td>
<td>Nehru’s vision – “commanding heights” held by public sector corporations; Technology partnerships</td>
</tr>
<tr>
<td>1967 - 1980</td>
<td>License Raj, controlled economy, restricted capacities. Banks nationalizations. FERA (Foreign Exchange Regulation Act) restricting foreign ownership to 40% leading. Some firms exited (Coca Cola, IBM) and some distributed shares to public.</td>
</tr>
<tr>
<td>1980 - 1991</td>
<td>“Hindu rate of Growth” and stagnation. Software services development and Major JV for cars, Maruti Suzuki</td>
</tr>
<tr>
<td>1991 - 1999</td>
<td>Economy liberalization across all sectors, import duties cut, competition, entry of Global car manufacturers, JV’s in telecom, electronics, Tata BP Solar et al</td>
</tr>
</tbody>
</table>
100% foreign ownership of Indian firms in most sectors
- Federal Mogul acquired Goetze India; Mahle acquired Purolator et al

Indian firms acquiring firms overseas
- Tetley Tea, Jaguar, Range Rover, Corus Steel,

Convertible Capital Accounts
- $200+ Billion in US$ reserves

Technology base of 50 years
- Large pool of trained scientists, engineers and managers at lower costs
India Strategy: Getting the Joint Venture Done Right

1. the right partner
2. the right Technology
3. the right Market Segments
4. the Location
5. the right Employee Retention approach
6. tackling the obstacles - red tape, corruption, poor infrastructure, labor laws
India Strategy:
Pick the Right Partner

- Selection – compatibility, vision for expansion, trust and negotiation at top levels
- Partner agreements, investment, trade mark, transfer pricing, rights of first refusal for buy back of shares, dividend policy
- Capital Structure: Preferred ownership of >50% must for IPR protection e.g. drug industry, minimum 26% equity, separate company Vs ownership in an existing company (Example)?

  Best strategy for long term: 48% Public and rest split equally

- Caution: Possible conflicts with local partners (Xerox-Modi, Danone-Brittania, Honda - TVS, et al)

FOR ENTREPRENEURS AND SMALL FIRMS
• Similar size Company or form a Company with an executive.
• Funding up to 52% jointly with partner and balance funds from state government loans, private equity. Prefer Joint Ventures Vs wholly owned.
India Strategy:
Transfer of Technology

- Where possible, latest technology
- Low cost of transfer can be built in
- Innovation in India itself

FOR ENTREPRENEURS AND SMALL FIRMS
- Utilize existing technology base and human capital for R&D, managerial and manufacturing
India Strategy:

Markets To Target

- Prefer local market as base but not always
- Infrastructure and suppliers to infrastructure industries, Roads, Power (Hydel and Nuclear in particular, Ports/Airports
- Pharma, biotech, sensors, software products, EV’s
- Solar and Wind Energy. Renewable energy is the rising sun. Strong US and India government support.

FOR ENTREPRENEURS AND SMALL FIRMS
- High tech industries e.g. involving software products, sensors, solar, EV’s, renewable energy, service industry, supply sources for infrastructure and power industries, clinical trials
- Target domestic market for sustainability and limiting risks. Outsourcing in addition
India Strategy:
Location is also key

- Tier 2 cities vs. Tier 1 cities
- Incentives from state and federal governments
- Special Economic Zones, Export promotion zones
- Preferred states: Maharashtra, Gujerat, Tamilnadu, Karnataka, Uttarakhand, Andhra Pradesh and some others

FOR ENTREPRENEURS AND SMALL FIRMS
- Locate in Tier 2 Cities of preferred states
India Strategy:
Employee Retention is critical

- Competitive salaries, stock options, work environment, self development, training, career path
- 2/3 years employment in the US or other locations
- Balance of sexes

FOR ENTREPRENEURS AND SMALL FIRMS
- Limit employment where possible to less than 100 for flexibility of exit. Use contract personnel or services
Recap

- India opportunity is immense including for Entrepreneurs and small firms
  - Attractive domestic market and a base for global exports or outsourcing

- Joint Ventures are a preferred route for entrepreneurs and small firms
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- Joint Ventures in India require the right partners, right markets, right location
Thank You

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