

JOINT VENTURES IN INDIA:

Opportunities & Challenges for US
Entrepreneurs

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April 28, 2009

What is common between these two?

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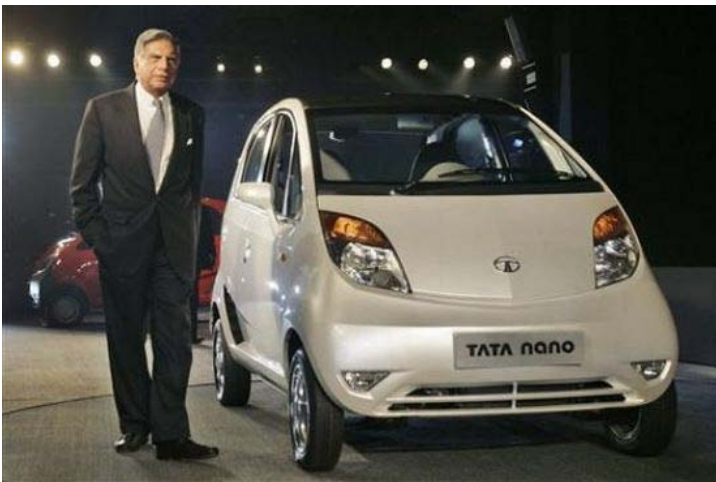
Lexus CD/Audio System
\$2000



Tata Nano (2009)
\$2000

TATA NANO – the new “Volks Wagon”

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NANO Embodies Potential of Innovation and Joint Ventures in India

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- 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

Presentation Overview

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- 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

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- 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

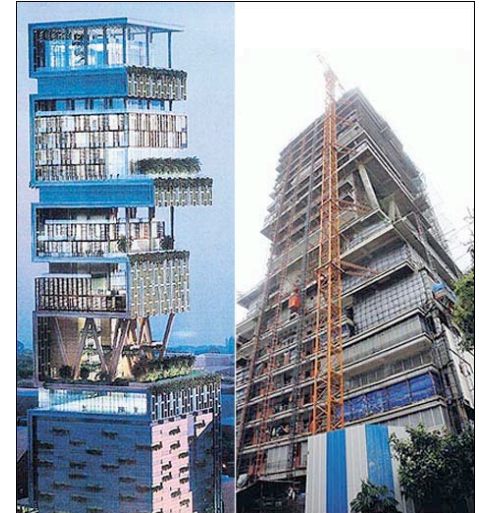
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Infosys – Global IT Services



Reliance: Worlds' Largest Refinery



Ambani's \$2B Residence

- 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)

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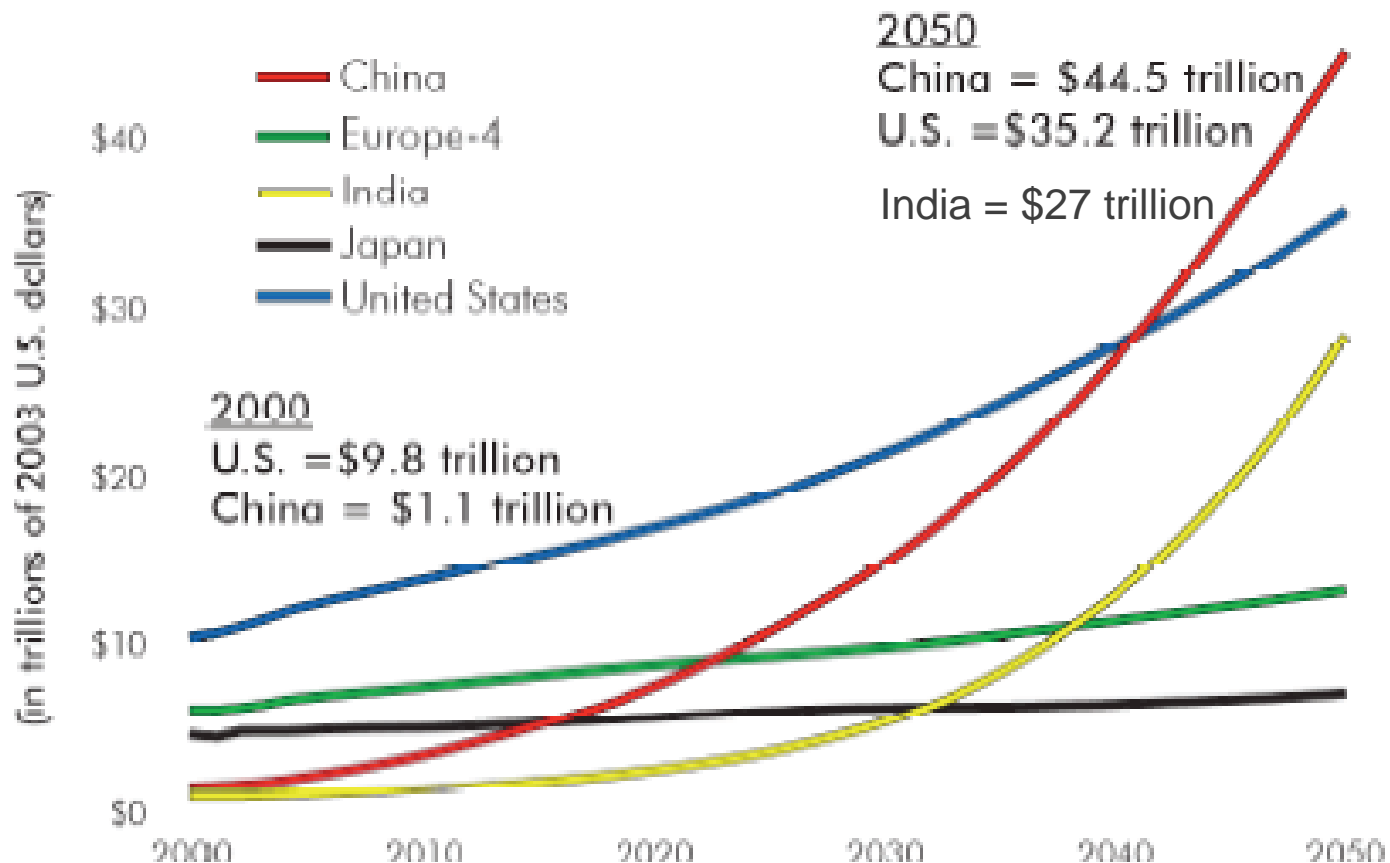
2007	GDP	Using PPP
United States	\$13.8 Trillion	\$13.8 Trillion
China	\$3.2 Trillion	\$7.1 Trillion
India	\$1.2 Trillion	\$3.1 Trillion
World	\$54.3 Trillion	\$65.4 Trillion

In 2050: \$27 trillion (90% US)

2009 estimated India GDP Growth: 5.5%

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Projected GDP in the 21st Century



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

Source: Goldman Sachs



Growth Driven by Domestic Consumption; Not Exports

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THE WALL STREET JOURNAL.

WSJ.com

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

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- 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

Multiple Other Positive Indicators

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- 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

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- 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



Dharavi – Largest Slum in Asia



Taj Hotel – Under Terrorist Attack

Options for Direct Investment in India

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Joint ventures	Go it alone
<ul style="list-style-type: none">• Indian Company• Jointly owned by Indian and Foreign partners.• Public or private equity• Includes company to 'build, operate and transfer' (e.g. Toll Roads, Ports)	<ul style="list-style-type: none">• Wholly owned• Subsidiaries for outsourcing and manufacturing• Branches for Trading

Why a joint venture?

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Joint ventures

- Complimentary strengths to the table
- Sharing of Risk and Capital
- Local Contacts
- Local Distribution Networks
- Local Market knowledge
- Faster time to start
- Navigating the red tape

Go it alone

- Large self sufficient companies with deep pockets
- Maintain control of brand, Control Intellectual Property Rights
- Maintain control of customers
- Create local supply base for a global customer
- BPO activity, Design Offices
- Long gestation acceptable

The NANO Required Multiple Joint Ventures

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- 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

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- 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

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Joint ventures	Go it alone
<ul style="list-style-type: none">• British Telecom + Mahindra• Toyota + Kirloskar• Dana + Spicer• Federal Mogul India• Sona Steering (Japan Co JV)	<ul style="list-style-type: none">• TI, Microsoft, Cisco, Intel et al• GM, Ford, Daimler Chrysler et al• Pfizer, Roche, Glaxo et al• Unilever, P&G et al• LG, Samsung, Sony et al

Joint Ventures – A Little History

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- 1947 - 1967 Nehru's vision – “commanding heights” held by **public sector corporations**; Technology partnerships
- 1967 - 1980 **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.
- 1980 - 1991 “Hindu rate of Growth” and **stagnation**. Software services development and Major JV for cars, Maruti Suzuki
- 1991 - 1999 **Economy liberalization** across all sectors, import duties cut, competition, entry of Global car manufacturers, JV's in telecom, electronics, Tata BP Solar et al

2000 - present: Accelerating Liberalization of Economy

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- 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

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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

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- 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.

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

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

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- 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

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

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Thank You
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