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Choose the right production site in India

Manoj Madacherry | Senior Manager

India always compared poorly to China in costs, quality and support to foreign manufacturers. Today costs of manufacturing are comparable and in some cases even less than China. While China became the focal country for global manufacturing and the focus was on exporting what was produced, India's manufacturing has always been more targeted at the home market.

Historically, companies have invested to produce finished products that meet the local demand and not to export. Now that this home market is growing rapidly, and when combined with improved manufacturing costs, India is far more interesting to many.

Therefore during the last 2-3 years many companies have been developing India as their production hub either specifically for the country or for certain regions. Some early investors who have been successful include: Hyundai, Suzuki (for small cars), Ford India (Small cars and engines for small cars), Timken (bearings), Skoda - all of who now use India as a manufacturing base. The recent spurt in manufacturing activities and related investments, coupled with a boom in real estate prices, has resulted in the price of infrastructure going "through the roof". For example industrial land in Chennai which was available at €35,000 in 2005 went up to an average of around €100,000 in government promoted industrial areas. The price of privately held industrial land has appreciated more as it was driven completely by market demand and sentiments.

The recent development has led the availability and cost of industrial land to become a major bottleneck for companies who plan to invest (see page 2 "Setting-up a Production Line in India | Part 2"). The existing well-developed industrial areas like Chennai and Pune have become overcrowded and other options often have infrastructure and other barriers, creating a demand/supply problem.

Given this scenario, companies are exploring other location options which are either secondary cities like Nagpur or industrial areas slightly far from the metro cities. Places like Satara (near Pune), Madurai (in Tamil Nadu) etc. are becoming attractive investment destinations for both international and Indian companies.

Various state governments in India are planning to develop other industrial areas to meet the growing demand. Maier+Vidorno has identified 25 manufacturing centers that have been studied on the basis of the following salient parameters which are critical in setting up a plant.

- Industrial infrastructure and availability
- Availability of energy/water
- Communication infrastructure
- International connectivity
- Road connectivity to major metros
- Ports infrastructure

The availability of manpower in an area has also been evaluated by considering following factors:

- Availability of manpower
- Number of technical institutions in the area
- Language skills

Also included are the different kind of tax breaks and incentive schemes state governments offer to companies setting up their manufacturing in their state.

The study also takes into account the political environment and bureaucracy prevalent in any particular state. A stable government reflects a stable environment for investment.

Various state governments in India are planning to develop other industrial areas to meet the growing demand.

For the full report, please contact Maier + Vidorno.

The cities and industrial areas in this study are shown in the map:



Cricket Explained | Part 2

Shavikesh Goel | Senior Project Manager

As explained in the last issue, cricket is by far the most popular sport in India and has evolved over the years: first there was only the five-day game, then came the one-day game and today there is also a three-hour game (known as “20:20”). All the formats are still in vogue in India and various tournaments are held in each format – both national and international.



Cricket is played in open fields or stadiums on a “pitch” - a rectangular ground 20.12m (22 yards) long and 3.05m wide. It is bound at either end by the “bowling creases” and on each end are the “wickets” which are three sticks or “stumps” with two “bails” balanced on top. The aim of the batsmen is to defend the wickets and make as many “runs” between the wickets as possible; while the bowler aims to get the batsmen

“out” by hitting the wicket and knocking the wooden bails balanced on top. On getting out, the batsman has to return to the pavilion and the next batsman replaces him. There are other ways of getting the batsman out:

- through a “catch” where a fielder or the “wicket-keeper” catches the ball while it is still in the air after being hit by the batsman,
- being “run-out” where the batsmen “runs” after hitting the ball (similar to baseball) and is not able to reach the “return crease” before a fielder (or the bowler), hits the wicket at either end with the ball,
- “LBW” (Leg Before Wicket) where the ball hits the batsman’s leg, which is blocking the wicket,
- “Stumped” where the wicket-keeper knocks the bails off the stumps after catching a ball that passes by the batsman without touching either the bat or the wicket while the batsman is still outside the “batting crease”,
- “Hit-wicket” where the batsman accidentally hits the wickets with his bat or accidentally trips and falls on the wickets.

There are two key scores in cricket; the number of runs that have been made; and the number of batsmen that have got out. The batsmen tries to get as many “runs” as possible for his team while the other team bowls. Runs can be scored by running between the wickets after hitting the ball or by hitting the ball hard enough to make it go out of the ground either touching the ground (4 runs, also known as a “boundary”) or flying out without touching the ground (6 runs, called a Sixer). The higher scoring team wins the match.

... to be continued

Setting-up a Production Facility in India | Part 2

Shavikesh Goel | Senior Project Manager

In our previous newsletter we shared an overview on setting-up a production facility in India, and highlighted that the search and acquisition of land can be the trickiest part. In this article we look at the process and issues of land search and its acquisition.



The key factors to consider before buying/leasing land in India are:

- Nature of the land – government or private? Industrial or agriculture?

- Ownership and history of the land – single or multiple owners? Clear title? Disputes? Court cases?
- Methods to procure the land - first purchase? Re-sale? Direct ownership or long-term lease?

There are two types of private land in India:

a) industrial land – where the government grants permission to construct industrial units;

b) agricultural land - where the government does not allow any industrial construction. Agricultural land needs to be converted to “non-agriculture” or “industrial” use by the government before any production facility can be developed. The process to do this can take a long time, and there is no guarantee that they will.

You also need the right infrastructure to support a manufacturing facility, and this is an important point in the search for suitable land. Usually, land developed by the government is best since the infrastructure is provided; however, there are not so many such government developed industrial areas; and this makes private land an important alternative. Private land is more available but usually lacks basic amenities and infrastructure. The government has declared some private land as industrial zones to respond to the vast demand for industrial sites; but these often lack sufficient infrastructure and cost more.

Another critical issue is legal ownership. Even though India is almost the size of the European Union, land records and information on land availability is not fully organised. Title ownership and land history have to be clearly identified and

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approved, and this can be a time consuming endeavour. Also actual ownership will differ with the nature of the land. Private land can be bought outright; while government land can only be leased for a maximum of 95 to 99 years. You need to be clear if you are the first "allottee" or are in a re-sale arrangement where the existing leasee will transfer possession of the land via the government.

The land purchase process will be much more streamlined when all the issues above have been clarified. However, it is always advisable to employ a local facilitator to ease the process and minimize the difficulties.

... to be continued



Indian supermarkets

Interview with Mr. Shockalingam | Nilgiris supermarket's manager | Bangalore

Where do you buy your products and how are they delivered?

Mr. Shockalingam: We have a lot of suppliers who come to the supermarket to show us their samples of their products. They give us pamphlets with the facts and figures and pricing; and then we discuss the margins and commissions on the price or the sales volumes. Then we have customers who give feedback to us, which we in turn give to the suppliers.

Some of the producers even organize sampling in the store. This serves two purposes: customer awareness about the new products; and feedback for producers on their products. After that, the suppliers come in every week to check on the stock and take new orders.

So would the supplier check stock levels or would you call them?

Mr. Shockalingam: For most items we usually have very small amounts of stock – maybe 6-12 pieces. The supplier writes down what has been sold and writes a new order that our supervisor will sign off.

Are you organized in any buying association with other shops to get better prices?

Mr. Shockalingam: I have two shops, so I buy for both. Our main company, called Nilgiris, is the brand owner. At the moment they are trying to couple all the franchisees together to get better leverage on the purchase price. But it is not working yet. We are not against it, but it has not kicked off well.

Butter, milk and the dairy products – How do these products reach your shop?

Mr. Shockalingam: Normally, in this field we have a lot of home brand products. They are delivered in the morning when the temperature is still quite low, as they are not delivered in a refrigerated truck. The delivery time is about 1 to 1½ hours. By the time we open the store, all these products are already in the fridge. The proximity of the factory makes this possible. Non-Indian brands have distribution points with refrigeration, but still their products have to be transported in non-refrigerated trucks for up to 4 hours. Although we put ice bags into the trucks there is definitely room for improvement.

Cans/tomato sauces/noodles, you have a lot of local brands here but what about international brands? Which sell well? Which products do you think sell better, European or American?

Mr. Shockalingam: As a store we have a lot of international brands (Pasta from Italy, Olive Oil from Greece). Olive oil, biscuits, cookies and chocolates are fast moving products. Nowadays, here in India, almost everything is available.



Only very special products, like "Kikkoman Sauce", have to be imported. Otherwise, there is not much we do not produce ourselves. Another exception is a product like "Clorox", where people are loyal to the brand they know. Another very important factor for a product to sell well is a good display and variety.

Your shop has branded products on stand-alone shelves. How did you get this branded shelf and do you get money for displaying it this way?

Mr. Shockalingam: Actually, to tell you the truth, for any branded product to be displayed we get money. The ones where we don't are put in this corner. If I have the space available and there is a value in having it, we are happy to put it up.

For more interesting facts about the retail industry see www.fnbnews.com, "Indian Retail-a window of opportunity for International brands"

Register now: M+V-Webinar

Next Webinar (Online Seminars) with focused Information on the Indian Market

15th September 2009 | 14.00 h CET
 "All you need to know about sales in India"
 followed by a Q+A-session Martin Fuchs

Register at: www.mv-group.com/webinars

Indo-German Business Summit

on 13th October 2009 in Berlin

The Indo-German Business summit is an event under the umbrella of the 7th Asia-Pacific Weeks that will discuss how German and Indian companies can cooperate and successfully enter each other's markets in a sustainable manner. As a growing market with great potential, India is increasingly a focus for German companies. On the other side, Germany increasingly raises the interest of investors from India.

The Summit will be opened by His Excellency the Indian Ambassador to Germany Sudhir Vyas. After his common greeting, the Summit will divide with the Indo-German Business Summit's inbound and outbound Seminars: German companies will discuss the opportunities and challenges of the Indian market at the Outbound Seminar; while Indian companies at the same time can discuss possibilities and perspectives on the German market within the inbound seminar.

Seminars will offer information on current investment and acquisition opportunities; basic fiscal and judicial conditions; field reports from enterprises; as well as tips and tricks in cooperation between German and Indian business partners.

The Indo-German Business Summit on October 13th, is organized by Maier + Vidorno, avocados Rechtsanwälte und Mindset India.

For more information concerning registration etc. please see: www.mv-group.com > **upcoming events**

Hear M+V Experts speak:

07. 10. 2009 | Stuttgart

08. 10. 2009 | Cologne

India continues to grow

What German investors need to consider

Speaker: Klaus Maier | CEO Maier + Vidorno GmbH

Opening Speech: Frank Elbe | former German Ambassador in India

13. 10. 2009

Indo-German Business Summit

Berlin Town Hall

Speaker: Klaus Maier | CEO Maier + Vidorno GmbH

Opening Speech: Sudhir Vyas | Indian Ambassador in Germany

13. - 14. 10. 2009

Deutscher Maschinenbau Gipfel | Berlin

17. - 19.11. 2009

Euro India Transportation Systems

Metz | France

Speaker: Klaus Friedrich Meier | Senior Project Manager Maier + Vidorno GmbH

24. - 25. 11. 2009

Global Competence Forum GmbH | Frankfurt

Setting up a sales network in India

Trainer: Thomas Breiting | Project Manager Maier + Vidorno GmbH

For registration, please visit our website.

New Research: Attractive investment destinations in India

Estates For Setting Up Production Facilities in India

Detailed location analysis | infrastructure availability and cost | manpower scenario | government approach | connectivity

Full Report: € 875

Please contact K. F. Meier on info@mv-group.com

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Editor & contact for press and article reprints:
Klaus F. Meier: k.f.meier@mv-group.com

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Head Office: Siegburger Str. 235 · 50679 Köln
Tel. +49-221-8804080 · Fax.+49-221-880408-11 · info@mv-group.com

USA Representative Office: 29 Tioronda Ave. · Beacon · NY 12508
Tel. +1-845-765-0862 · usa@mv-group.com

New Delhi, Office 1: 7th Floor · Vatika Triangle · Block A Sushant Lok Phase-1 · MG Road · Gurgaon 122 002
Tel. +91-124-434 2300 · info@mv-india.com

New Delhi, Office 2: Plot 52 · Udyog Vihar Phase VI
Sector 37 · Gurgaon · 122 001 · Tel.: +91-124-412 1600
info@mv-india.com

Pune: Madhavi Apartments · 2102/5 Vijaynagar Colony
Sadashiv Pet · Off Tilak Road · Pune 411 030
Tel. +91-20-4100 8300 · info@mv-india.com

Bengaluru: 2nd Floor · Sree Datri Nivas Nagawara Circle
Outer Ring Road · Opp. Manyata Softech Park · Bangalore 560092
Tel.: +91 80 4085 4444
info@mv-india.com

Chennai: Old No. 140/2 · New No. 128 Opp Raintree Hotel
St. Mary's Road · Alwarpet · Chennai 600 018
Tel. +91-44-4300 9601 · info@mv-india.com

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IGCC – Indo German Chamber of Commerce

OAV – German-Asia-Pacific Business Association

OSEC – Business Network Switzerland

Sanet – Strategic Alliance Network

UKIBC – UK India Business Council