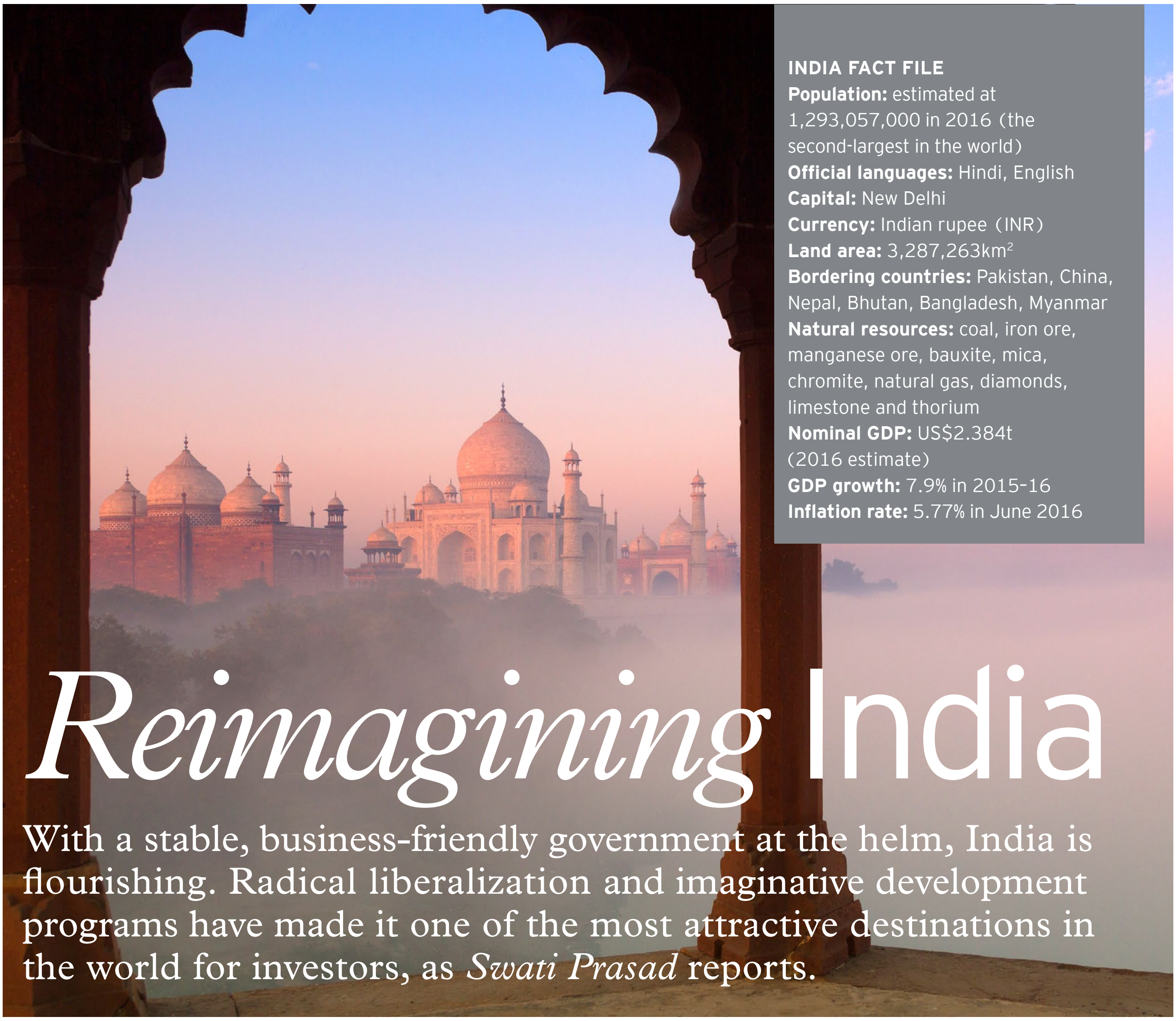

INDIA FACT FILE
Population: estimated at 1,293,057,000 in 2016 (the second-largest in the world)
Official languages: Hindi, English
Capital: New Delhi
Currency: Indian rupee (INR)
Land area: 3,287,263km²
Bordering countries: Pakistan, China, Nepal, Bhutan, Bangladesh, Myanmar
Natural resources: coal, iron ore, manganese ore, bauxite, mica, chromite, natural gas, diamonds, limestone and thorium
Nominal GDP: US$2.384t (2016 estimate)
GDP growth: 7.9% in 2015-16
Inflation rate: 5.77% in June 2016

Reimagining India

With a stable, business-friendly government at the helm, India is flourishing. Radical liberalization and imaginative development programs have made it one of the most attractive destinations in the world for investors, as *Swati Prasad* reports.

"Almost literally the one bright spot in the world is India. India is probably going to grow around 7.5% this year. We think even higher next year."

So said Jim Yong Kim, President of the World Bank, on a visit to India in late June 2016. At a time when economists around the world were preoccupied with the result of the UK referendum on membership of the European Union and its potential effect on the global economy, Kim preferred to highlight India in his media interviews.

He said that Brexit had had a very temporary impact on the Indian stock market. "That resilience tells you something. Had Brexit happened five or six years ago, my guess is that the impact would have been greater," Kim told *The Hindu* newspaper.

It's not hard to understand why Kim is upbeat about India. According to India's Central Statistics Office, the country's economy grew by 7.6% in the fiscal year 2015–16, maintaining its status as the fastest-growing major economy in the world. And in 2015, India replaced China as the top global destination for foreign direct investment (FDI), attracting US$63b of FDI projects.

While much has been written about India's young demographics, its services sector and cost arbitrage, probably the biggest differentiator today is its Government. After 30 years of coalitions, India has a stable government that is perceived as being friendly to businesses. "If you look at the investment climate in the last 20 years, India has never been more hospitable to FDI," says Pulapre Balakrishnan, Professor of Economics at Ashoka University. "Multinationals have flourished here since the reforms, and I think there is no better time to invest in India from the point of view of the policy regime."

Radical liberalization

Under the previous regime, foreign companies had shunned India due to challenges such as policy paralysis, retrospective taxation, slowing economic growth and rising corruption. But immediately after coming to power in May 2014, Prime Minister Narendra Modi began working on changing that perception by traveling overseas and meeting business communities. In the following 25 months, Modi visited 42 countries.

Modi's brand-building exercise has been supplemented by liberalization. In November 2015, the Government opened up several key sectors such as defense, construction, civil aviation and media to FDI and eased norms for businesses such as single-brand retail and private banking. And in June 2016, it again liberalized its FDI regime by easing norms further for a host of important sectors. In defense, civil aviation and pharmaceuticals, for example, 100% FDI is now permitted through the government approval route.

The new norms ensure that multinational corporations will manufacture in India, rather than source goods from overseas. Modi's foreign trips, reforms and programs like Make in India (which seeks to make the country a global manufacturing hub) have begun to pay off. Make in India was launched in September 2014, and FDI inflows jumped 48% between October 2014 and April 2015 compared to the previous 12-month period, according to the EY 2015 *India Attractiveness Survey*.

"There is definitely an improvement in India's business environment," says Saumen Chakraborty, President and CFO of Hyderabad-based pharmaceutical company Dr. Reddy's Laboratories. Besides, opportunities for India to emerge stronger are tremendous, he adds. And Balakrishnan points out that sectors such as finance and insurance offer considerable scope for foreign investment.

Building Brand India

Several factors are working together to improve India's attractiveness. Programs like Make in India and Smart Cities Mission (which seeks to create 100 smart cities across India by 2020) offer foreign investors the opportunity to build India.

Employment generation is a big challenge, considering that over 65% of India's 1.25 billion population is below the age of 35 and nearly 12 million join the workforce each year. Through initiatives like Make in India, Skill India and Startup India, the Government hopes to address this challenge. Says Amitabh Kant, CEO of NITI (National Institution for Transforming India) Aayog: "I believe that India will see a huge number of start-ups in both digital and manufacturing in the years ahead and that India will become a nation of job creators rather than job seekers."

The Government is also working on improving the country's inadequate infrastructure. In April 2016, Road Transport and Highways Minister Nitin Gadkari announced that road construction is at an all-time high of 20km per day, and the Government has set an ambitious target of constructing 41km of national highways every day in 2016–17, up from more than 16km in 2015–16. There are also schemes that seek to revive loss-making power distribution companies and revamp public sector banks.

Overall, there is a perception that the Government is working hard. "In the last two years, we haven't heard of any major scandal," says Chakraborty. Under the previous regime, a number of scandals had rocked the nation and badly damaged the country's image.

With a better business environment, India has inched up in the World Bank's Ease of Doing Business survey, from 142nd out of 183 economies in 2015 to 130th in 2016. Modi hopes to dramatically improve India's ranking and reach the top 50 within three years. The Government also aims to reduce the time taken to register a business from 27 days to just one.

Improving corporate governance

Back in 2009, the Satyam Computer Services scandal (when the company chairman falsified the accounts by US$1.47b) rocked India's corporate world. But that proved to be a turning point for corporate governance in India.

The Companies Act 2013 is bringing about considerable change. It mandates that companies must have at least one woman on the board, a third of which must consist of independent directors, and includes rules pertaining to executive salaries, corporate social responsibility and audit rotation.

"Though it is too early to gauge the real impact of the Companies Act, in my view it's an excellent regulation that has improved corporate governance in India," says Chakraborty. "It has made directors cognizant of the fact that they need to add value."

Moreover, beginning this financial year, India is transitioning from Indian GAAP to Ind AS (Indian Accounting Standards) in a phased manner. The change to Ind AS will bring accounting in India substantially closer to the norms followed by global companies under International Financial Reporting Standards (IFRS).

> "I believe that India will become a nation of job creators rather than job seekers."
>
> **Amitabh Kant, NITI Aayog**

"The international audience will be much more comfortable with Ind AS. Evaluation will be a lot easier," Chakraborty comments.

The Government has also reduced bureaucracy by making policies consistent and transparent, particularly in the area of taxation. "Today, the Government of India has enunciated a clear stand on retrospective taxation, which is that it will not be resorted to," says Balakrishnan. Under the previous Government, some major companies had taken the retrospective tax issue to international arbitration. It was one of the main factors deterring companies from setting up shop in India.

India's Finance Minister, Arun Jaitley, proposed four different schemes to "clean up" past tax issues in the 2016 Union Budget and also proposed a one-time scheme to resolve disputes.

Overcoming hurdles

Given India's complex problems and its huge and diverse population base, there are several challenges that are bound to come in the way of development.

Dispute resolution, for instance, can often take decades. "We need to see improvement in the judicial

system. There is a huge backlog with the judiciary," says Chakraborty.

India's labor regulations are restrictive and complex, and have constrained the growth of the manufacturing sector, while agriculture remains a concern. Even today, 50% of India's workforce rely on agriculture and allied sectors for their livelihood. But the economic contribution of agriculture to India's GDP has been steadily declining since 1950–51, from 53% then to around 13.7% today. Instances of farmer suicides have increased as a result of factors such as a high debt burden and monsoons that don't provide the rain that arable land depends on. Fragmented land holdings, lack of mechanization and poor access to cheap capital have led to low yield. Indeed, the Modi Government has received criticism for not doing much for agriculture.

Another issue is the slow process for adopting new regulations, which is due to the ruling BJP not having a majority; at the time of writing, there were more than two dozen bills pending in the Upper House of Parliament. Take the case of the Goods and Services Tax (GST), which was intended to be introduced at national level by 1 April 2010 and was finally passed on 3 August 2016. The GST reform – among the biggest reforms of the Modi Government – will have an enormous impact on companies in India across indirect taxes, supply chain, technology compliance, accounting and reporting, and change management.

Moreover, infrastructure development and job creation need to gather momentum. India will be the youngest country in the world by 2020, with a median age of 29, according to research by the IRIS Knowledge Foundation. Creating jobs for its youth is a gargantuan task.

Finally, demand continues to be a big bottleneck. But with good monsoons this year and the adoption of the Seventh Pay Commission by the Government – which will cost the treasury US$16.88b in 2016–17 – there should be more money in the hands of farmers and more than 10 million government employees and pensioners. This is bound to increase demand, triggering more positive spinoffs for the economy. Although there are some hurdles still to be overcome, it looks as if India will continue to grow for the foreseeable future. ■

To read *Ready, set, grow: EY's 2015 India attractiveness survey*, go to ey.com/attractiveness.

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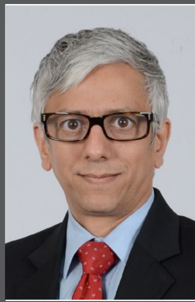
Viewpoint



Boosting investor confidence

Sudhir Soni, Partner in an Indian member firm of Ernst & Young Global

India is going through significant changes insofar as corporate governance is concerned.

First, the Companies Act 2013 has brought about substantial changes in the way companies need to be governed.

Second, financial reporting in India is transitioning toward IFRS-converged standards, known as Ind AS. Beginning 1 April 2016, Indian companies with a net worth of INR5b (US$76m) or more have to follow Ind AS.

The regulator – the Institute of Chartered Accountants of India – is working toward making all other accounting standards more aligned to IFRS. With time, small companies would also come in line with IFRS. The new regulations governing companies and the phased approach to transitioning to Ind AS will ensure that the global community has greater comfort in doing business in India.

In my view, the Companies Act 2013 has been a turning point for corporate governance in India. Since the Satyam fraud, which was a huge blow to corporate governance, there is a lot more awareness among companies and their directors.

The act, which has seen some amendments, takes corporate governance to another level. The new regulation addresses issues such as related party transactions, independent company directors and their appointments, auditor rotation, corporate social responsibility and several other aspects that didn't previously exist in corporate law in India.

Today, companies consider noncompliance among their most significant risks. Companies are giving far greater attention to corporate governance. They understand that good governance is also good business.

In fact, I feel the pendulum may have swung to the other extreme, which may inhibit risk-taking. For instance, whereas the Sarbanes-Oxley Act in the US applies only to listed companies, the Companies Act 2013 applies to all companies – listed and unlisted.

In the meantime, several amendments to the act are pending approval by Parliament. In my view, once these amendments come into force, they will facilitate ease of doing business and promote growth.

Building a better working world

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