Survey on "Are Winds of Change Bringing Good Tidings for Indian Companies Doing Business in Europe"

A FICCI Survey

September 2017

Introduction

For the last nine years, ever since 2008 global economic recession, Indian companies doing business in Europe are redefining their operational philosophy to cope up with number of challenges these economies are springing for them. From rising public debt, increased unemployment to reduced consumption and drop in disposable incomes, number of factors has directly impacted the bottom lines of Indian companies.

Despite a gradual slowdown in India-Europe trade and economic relations, the region still remains India's largest trading partner. Hence, FICCI has been regularly evaluating the unfolding economic scenario in the Europe and its expected impact on business prospects of Indian industry in the region.

For the last number of years, FICCI has been undertaking the exercise to gauge the business sentiments of Indian industry doing business with or investing in European countries.

Most encouragingly, after exuding muted optimism for the last three-four years, Indian companies are most optimistic today than they ever were in the last nine years. This is notwithstanding Brexit which has resulted in operational hurdles for Indian companies while staying invested in Continent Europe. This is indicative of the fact that they have successfully been able to re-position and or re-align their operational capabilities in one of the most demanding and organized markets in the world. Number of companies surveyed, not only indicated that despite the slowdown, they have been able to grow and create a niche for their products there. More so, there has been a marked rise in number of companies who have successfully been able to reduce their losses while doing business in the region.

The current economic situation, though resulting in number of procedural and regulatory obstacles for Indian companies to expand and or do business in the continent, is still providing needed returns on the investments made.

With a firm focus on seeking high-end technologies, going in for green-field and brown-field investments to widen their operational base in Europe so as not only to deepen their business foot-print in the region, Indian companies are aggressively making their Europe operations as "Launch-Pad" for reaching out to newer markets in Africa, Latin America, even Central Europe and beyond. While converting challenges into realized opportunities, Corporate India has steadily moved towards building globally competitive enterprises while tapping into the economic depth of European economies. Healthy performance at home, the desire to venture abroad coupled with liberal policies on outward investments, served as a catalyst to establish a footprint globally and expedited the process of Indian companies entering foreign markets through the acquisition route.

Despite the global economic headwinds, Indian entrepreneurial zeal is looking towards transforming adverse economic situation to its advantage. This has resulted in ever increasing interactions and joint ventures with the European companies. SMEs sector in India has also played a pivotal role in forging new business alliances with European companies. It has been done to get needed technologies and operational expertise to become globally competitive.

The skill upgrades and development has only added due momentum to the growing synergies between Indian and European enterprises.

In this backdrop, after many years, Indian companies are making earnest efforts to strengthen and broad-base their current level of businesses by furthering their footprint across the region. At the same time, they continue to seek a more pliant policy framework from respective European economies to ease the process of doing business there while seeking easy movement of human resources to finish the existing projects and or undertaking the new ones in the coming times. Brexit is also not seen as a major factor that could adversely impact Indian companies' long-term business plans for Continent Europe.

The ongoing negotiations to sign an equitable and balanced FTA between India and the EU are also closely monitored by Indian industry. The issue of visas and movement of professionals in the EU still remains one of the most contentious concern areas for Indian companies. The survey has sought to effectively gauge the Indian industry's sentiments on all the pertinent issues mentioned.

EU as a preferred business partner:

EU clearly represents a large consumer base (close to 500 million potential consumers) if the entire bloc of 28 countries is considered to be a single market. It's economic, trade and investment policies generally welcome foreign investment traditionally viewing it as a means to promote employment and capital formation

Other attractions of EU include well developed capital markets, political and social stability, established and transparent legal systems to name a few.

The recently announced Investment Facilitation Mechanism (IFM) between EU and India in the backdrop of GoI decision not to renew bilateral investment treaties between India and several European, is being viewed with muted caution by Indian companies.

Before the onset of the global economic slowdown, investments in the EU has been largely a result of companies in high growth markets like India to combine their competitive advantages with the latest technological strengths of companies in the EU and the availability of high quality manpower.

Summary of Survey Findings

- With number of major European economies namely Germany and France apart from Greece, Spain and Italy, showing signs of economic consolidation and growth in recent months, Indian companies have overwhelmingly expressed optimism that the worst is over for them while engaging the region commercially.
- From 2015 when 75% of Indian companies surveyed had responded that the ongoing crisis had resulted in their business prospects in the region being adversely impacted, this year 25% of the surveyed companies expressed concerns about their business prospects taking a hit due to current economic scenario in Europe.
- Over 65% of companies surveyed noted that even when the markets were slow in registering increased domestic demand, they have been able to register growth in their product(s) category.
- Most significantly 61% of the surveyed companies who reported increase in their business prospects, their losses have come down from 20% in 2015 to less than5% this year. 18% respondents reported an increase of 2-5% in their businesses.
- Half of the surveyed companies expected the current economic situation would improve in the coming 1-2 years time.
- Encouragingly, 30% respondents expressed optimism that the economic situation in the European Union would begin to look up in a year's time. Even some of those companies who have seen their margins decline in the last two years, have shown optimism about the future business prospects for their product category in next one year's time.
- To keep their balance sheets stable, over 57% of the Indian companies surveyed have already begun to diversify their markets within and outside Europe. This is in stark contrast to 2015 survey as over 40% of these companies have initiated efforts to make inroads into Central and East European markets. 60% of these companies are primarily focusing on greener pastures in African countries, Middle East, South Asia and even in North America.
- Over 20% respondents have pointed out that during the current economic turmoil, rather than facilitating foreign investments and businesses, the respective European Governments have made its processes more stringent in obtaining and renewing long-term visas, work permits, family and dependent visas and overall ease of doing business in the region. Of these, there was unanimity that getting a business visa remained the most worrying issue for them to effectively engage the European economies.
- 10% of the respondents suggested that Indian government could favorably look at providing subsidies and lower duties for promoting India-EU trade.

Conclusion:

- In the short to medium term, according to Indian businesses, the economic outlook is moderate to stable for them to actively assess new business prospects and the investment plans of Indian companies doing business in the region.

- The light at the end of the tunnel is shining bright, according to Indian companies. Number of surveyed companies has indicated that they have been able to strengthen their European operations and would like to build upon the gains in coming years.
- As the survey indicates, despite the number of policy and regulatory impediments, India's outbound investments in the EU may see smaller deals but the activity will continue. Numbers of Indian companies are viewing the current economic crisis as an opportunity to enhance their investments.
- To maximize their benefits and to alleviate their business prospects in European markets, Indian manufacturers are aggressively pursuing new business plans. This includes increased imports of high-end machinery and technology from Europe due to highly competitive prices being offered by European exporters. This could have long-term spin-offs for Indian industry in terms of added capacities and reduced capital expenditures.

- As the economic fundamentals for Indian companies to stay invested in the country(s) of their business interest are sound, they are willing to stay put and not leave their European businesses for better avenues in other parts of the globe just as yet.

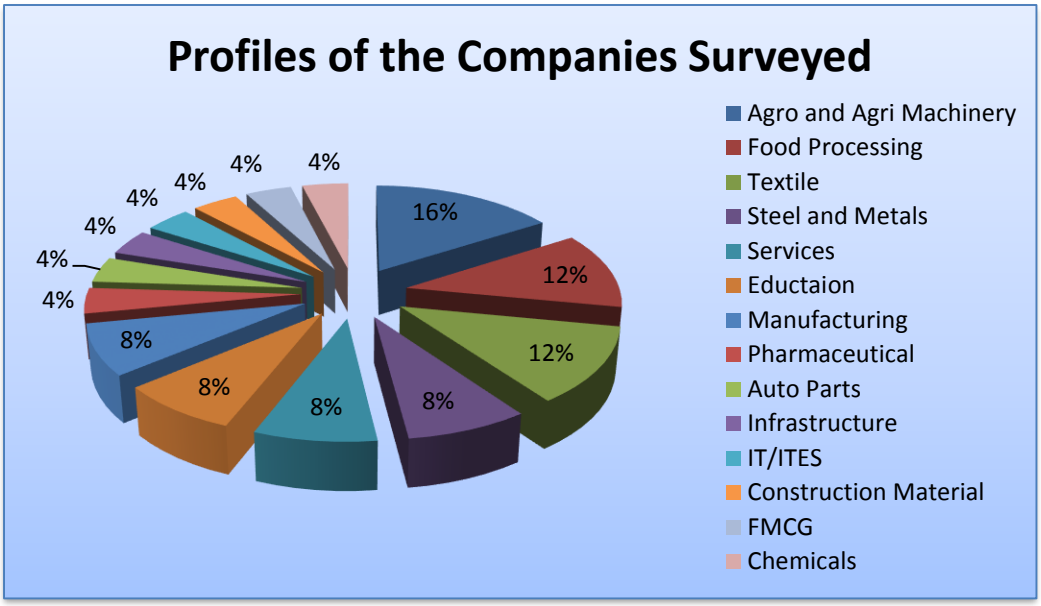
FICCI's Survey:

Indian companies doing business in Europe, of late, have been reporting gradual upswing in their business prospects in the last two years. FICCI has been regularly monitoring the situation by gauging the business sentiments and the future direction(s) of Indian companies' business plans to derive maximum benefit from the emerging economic trends.

As part of its ongoing efforts, FICCI conducted a survey amongst Indian companies doing business and or have invested in Europe in the past to assess whether the worst in terms of gloomy European economic scenario having direct bearings on Indian companies' bottom lines was over or not. The survey questionnaire covered the following:

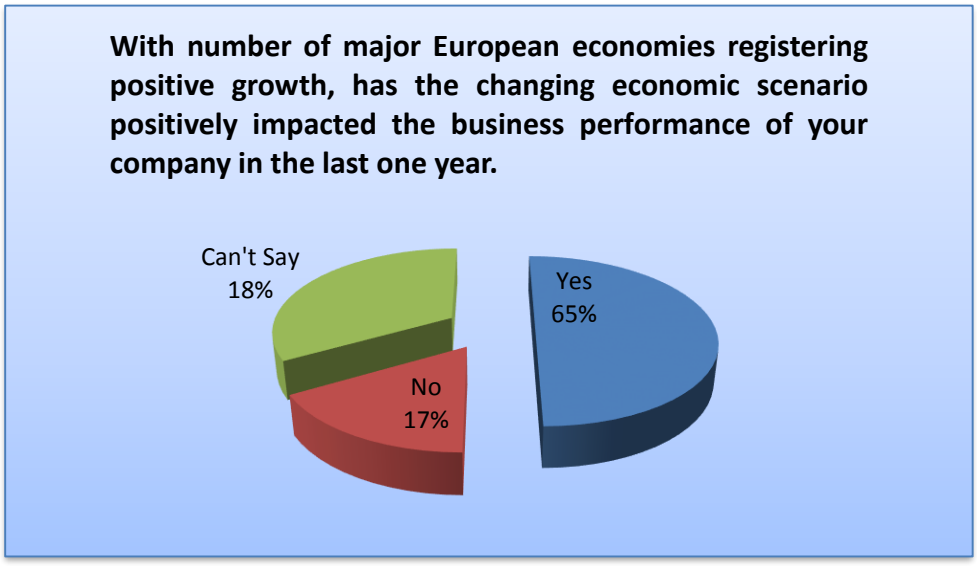
- Based on the business performance of Indian companies surveyed, did they think with number of major European economies registering positive growth, had positively impacted the business performance of your company in the last one year.
- If the answer was "No", then according to them, how long would it take for Euro Zone to "Turn Positive" and emerge out of the current economic slowdown.
- Did the surveyed companies were of the view that the economic slowdown in Europe has already bottomed out (reached its lowest point)?
- If "Yes", what has been the percentage increase/decline in terms of business generated/prospects for them in the last one year.
- Are Indian companies actively looking for newer markets within Europe, say in Central and Eastern European region
- In the backdrop of evolving economic and business dynamics, what did Indian companies think whether the ongoing negotiations for signing India-EU Free Trade Agreement would be finalized in immediate future.
- According to them, will a comprehensive FTA be beneficial for their business prospects in the EU?
- According to the surveyed companies, will the recently announced Investment Facilitation Mechanism (IFM) between EU and India would contribute in increasing EU investments in India. And or the recent GoI decision to re-negotiate bilateral investment treaties would act as a spanner in slowing down new EU investments into the country.
- In the current scenario, respondents were asked to rate the issues related to obtaining and renewing Long term Visa, Work Permits, Family and Dependents Visa, Registration, and ease and speed of obtaining Short-term Business Visa for Indian companies employees for doing business in major economies in the EU on a scale of 1 to 4, where 1 is the lowest and 4 is the highest?
- Last but not the least, respondents were asked about the impact of Britain eventually leaving the EU on their business prospects in the country and in rest of the Europe

a. Profiles of the companies surveyed



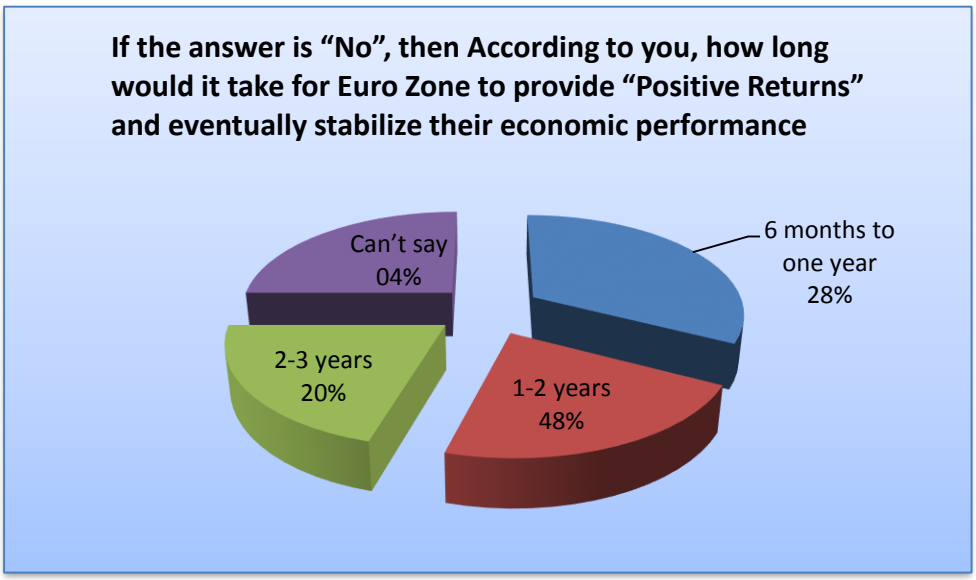
The survey was targeted at companies from different sectors which have already invested or doing business in Europe. This was being done to receive responses from cross-section of sectors that hold maximum potential to up India's business engagements with Europe

b. Responses from Indian industry to queries raised



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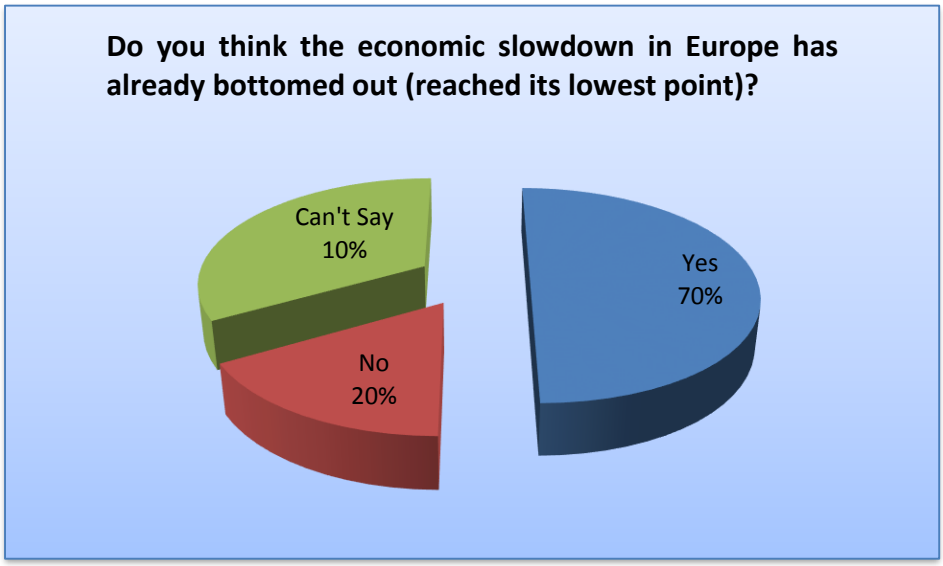
Around 65% of the companies surveyed expressed optimism and indicated that their business prospects have improved in the last one year. This is in sharp contrast to last two years responses when there was near unanimity in respondents that it would take over two years before European economic scenario could witness a turnaround



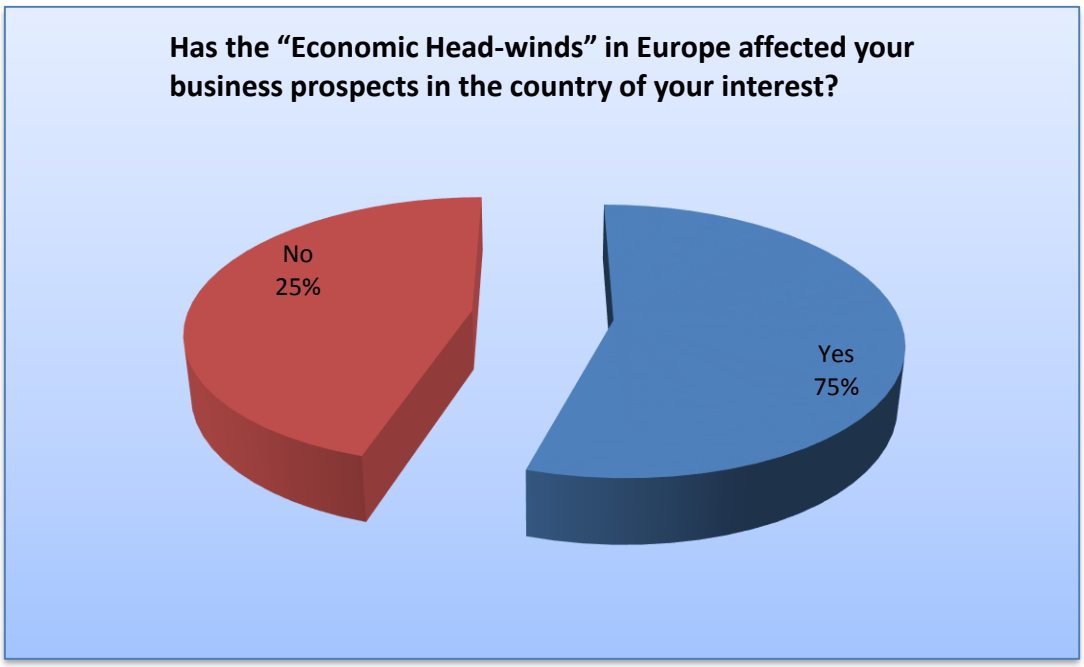
Around 20% of the surveyed companies expected that Europe won’t be out of woods before 2019-20. Encouragingly, more than 48% respondents have expressed optimism that situation will improve within next one-two years’ time based on their business performance and the gradual improvement shown by number of European economies.



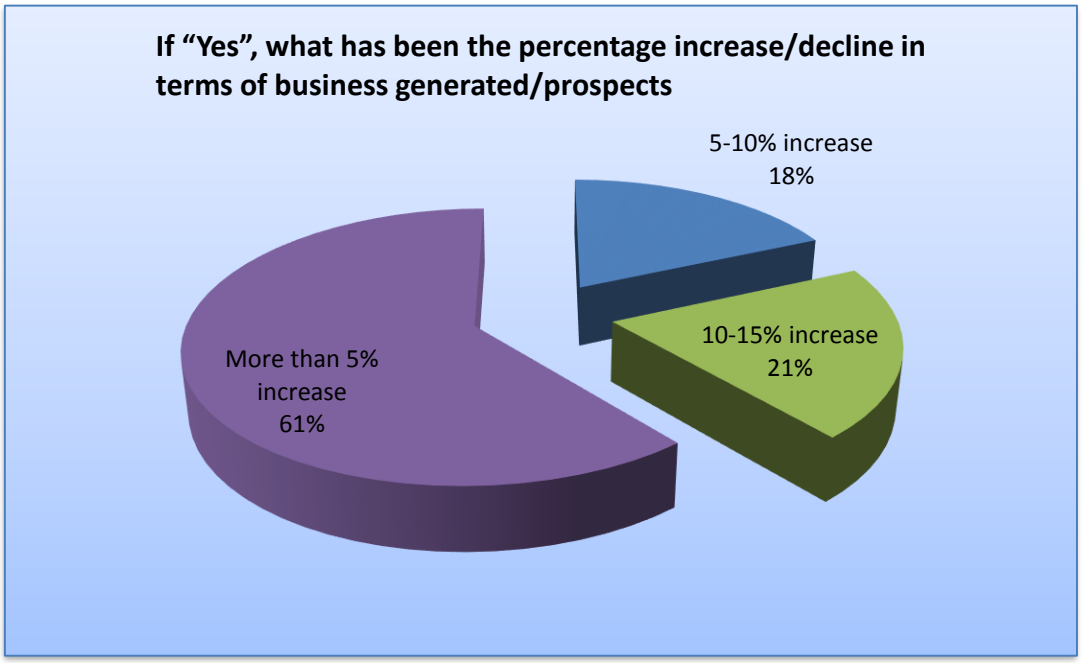
There is overwhelming positive response from respondents about their business prospects in the coming six months to one year with over 65% respondents expressing a positive outlook



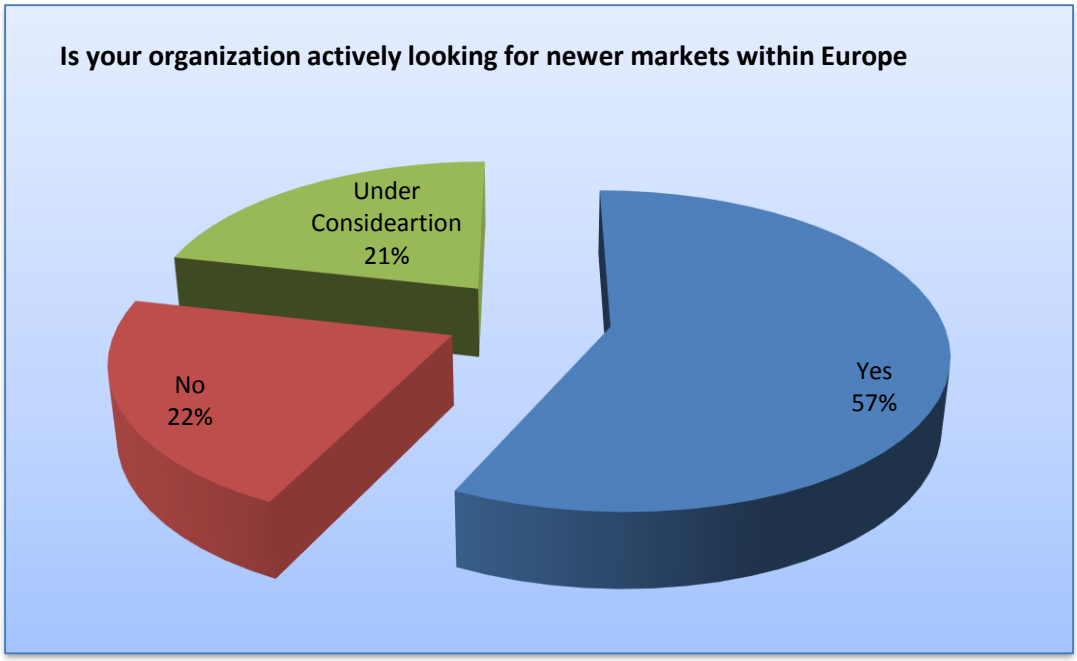
70% of the respondents were of the view that the economic downturn in Europe has already bottomed out. This is in sharp contrast to over 75 respondents in 2015 who had indicated that their business prospects were continually being negatively impacted



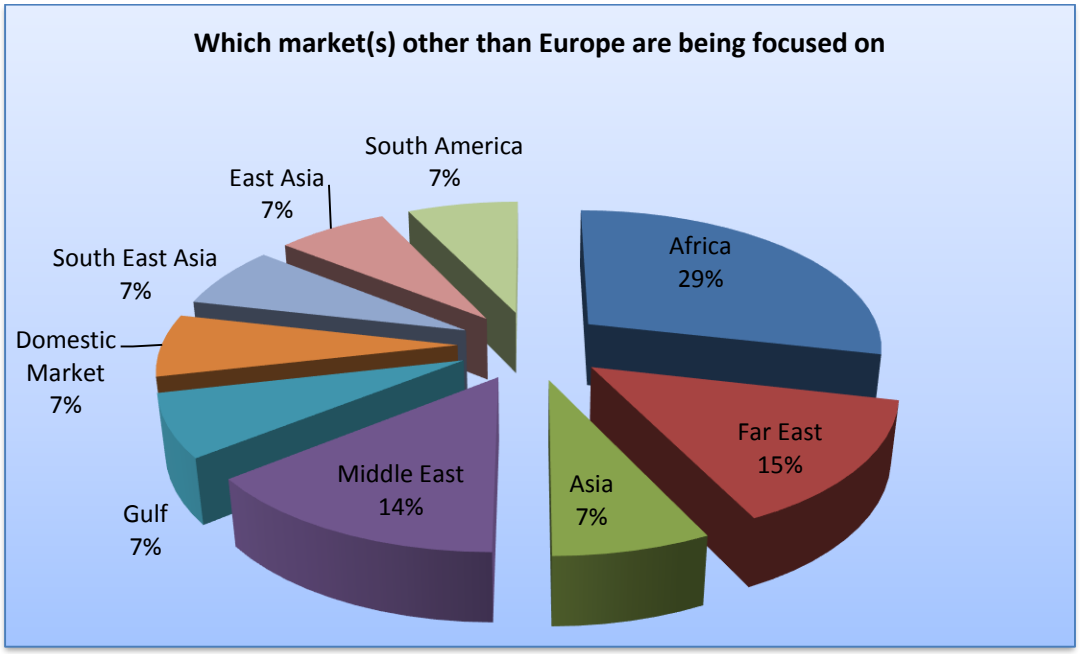
Around 75% of the companies surveyed noted that even when the markets were slow in registering an increase in domestic demand, they have been able to register growth in their product(s) category.



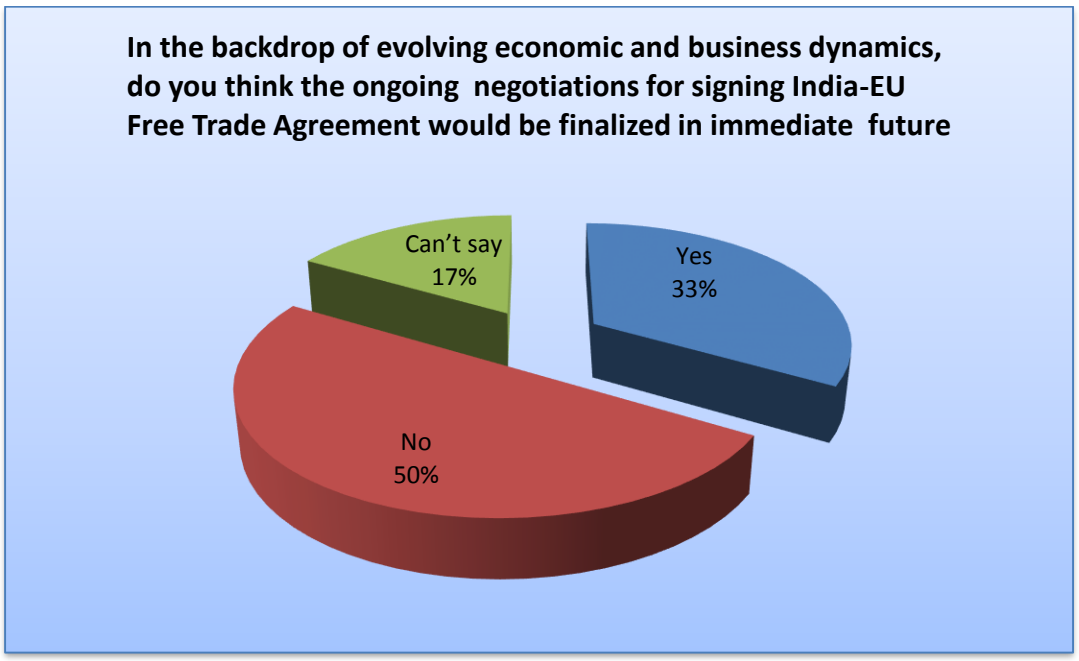
Over 60% of the surveyed companies who reported an increase of over 5% increase in their business prospects. Impressive increase of 10-15% growth was quoted by 21% respondents.



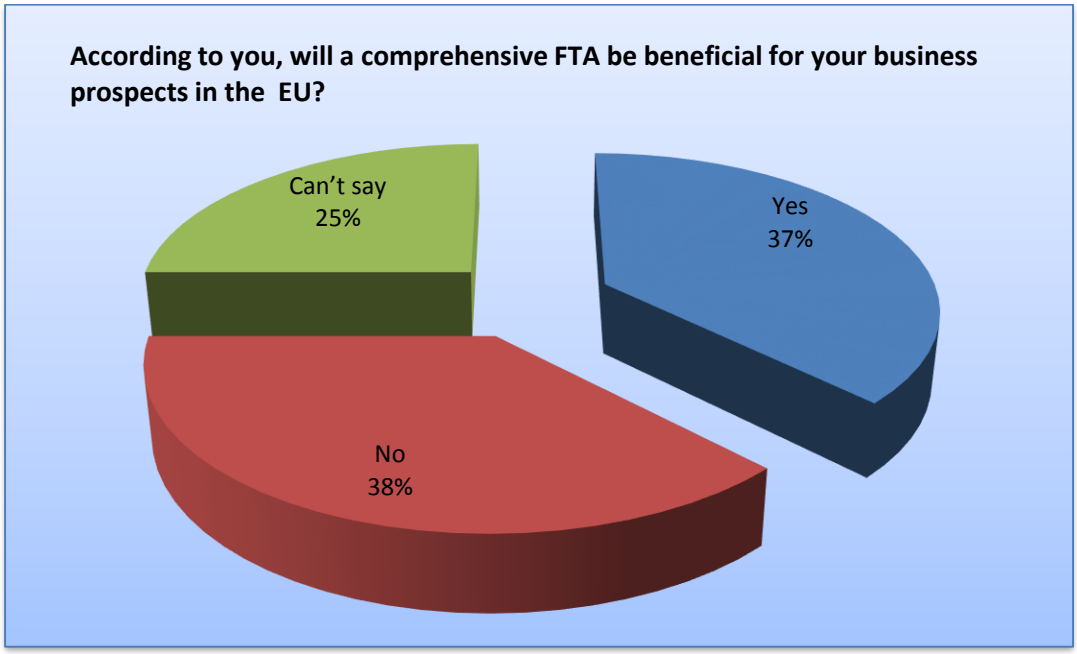
Over 57% of the Indian companies surveyed have already begun to diversify their markets within Europe. Central and Eastern European economies, being supported by conducive business, legal and taxation structures, is attracting increasing number of Indian companies to set-up their businesses there.



Companies have initiated efforts to make inroads into greener pastures in African countries, Middle East, South Asia and even in North America.



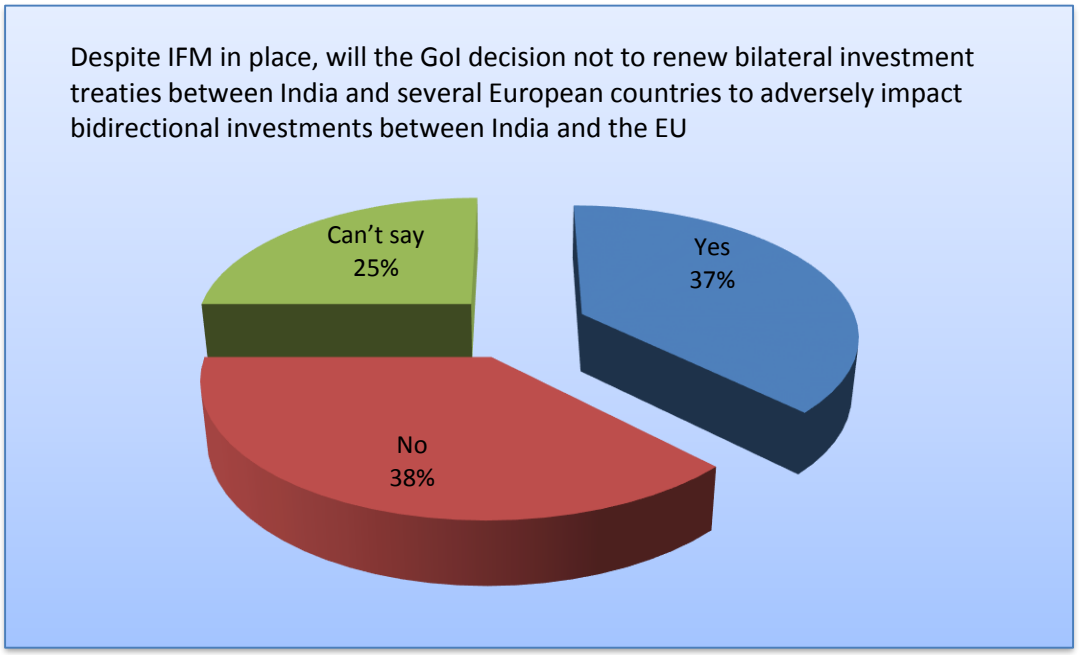
With number of contentious issues still to be addressed by both India and EU while finalizing the FTA, 50% of the companies surveyed indicated that signing of the agreement would take longer than expected.

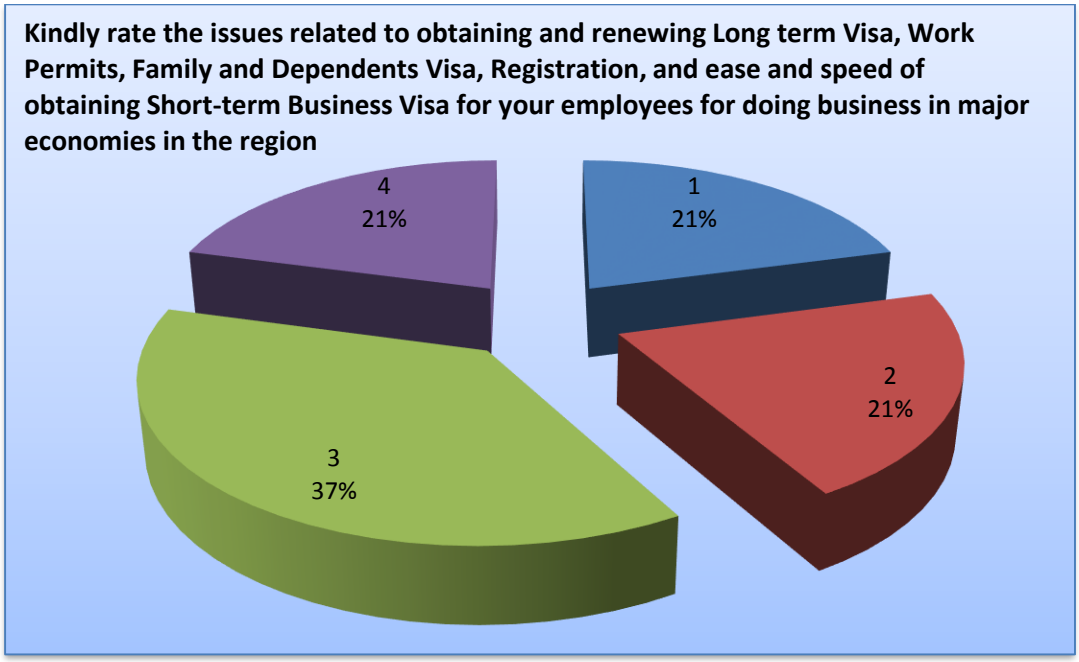


Since number of Indian companies has been able to overcome operational and business challenges to realize improved business prospects for themselves without an FTA in place, only 37% of respondents indicated that such an agreement would indeed support the cause of bi-directional trade and economic relations between India and the EU.

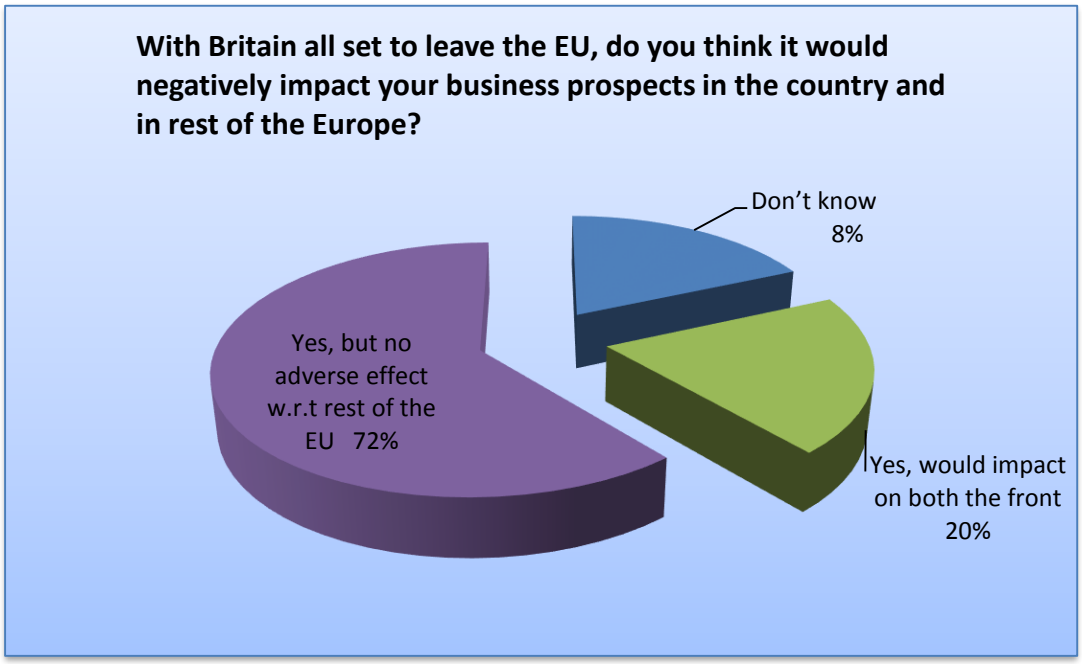


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Over 20% respondents have pointed out that during the current economic turmoil, rather than facilitating foreign investments and businesses, the respective European Governments have made its processes more stringent in obtaining and renewing long-term visas, work permits, family and dependent visas and overall ease of doing business in the region.



There is overwhelming unanimity with 72% respondents expressing least concerns overs Brexit adversely impacting their business prospects vis-à-vis rest of Europe. However, some of the respondents have noted that it was imperative for the UK to bring in structural and procedural reforms to retain the country's business friendly image.