



Kingdom of the Netherlands



Monitoring India's business climate

[Dutch entrepreneurs see improvements - more work to be done]



India Business Monitor 2015

The India Business Monitor (IBM) is an initiative of the Netherlands Embassy in New Delhi, the Netherlands India Chambers of Commerce & Trade and ING with the support of the Netherlands Enterprise Agency (RVO.nl) and the Dutch Trade and Investment Board Working Group India.

The IBM looks into the experiences of Dutch companies active in, or trading with, India. It looks into what their main drivers are for going to India, and indicates how they are faring/meeting their objectives. Of special interest this time is whether entrepreneurs have seen positive change as a result of the new administration and its business-friendly policies. It also covers the expectations that entrepreneurs have in terms of future profitability and growth, as well as their policy outlook. It contains advices of entrepreneurs to the Indian government on how to support business, and an indication of the amount of support entrepreneurs received from different sources. 116 respondents completed the survey, most of them with an impressive number of years of international experience. We are grateful for their contribution.

Summary & conclusions

- The majority of our respondents experienced positive changes as a result of the Modi administration. Respondents see the most progress in reduction of bureaucracy, functioning of government, foreign direct investment rules and regulations and business ethics. Particularly respondents active in information & communication and agriculture, forestry and fishing experienced positive changes.
- The most important drivers for doing business in India are the size and potential of the market. Availability of skilled labour at relatively low cost is also crucial, particularly in the business services sectors, while the low cost of labour appears to be less important in other sectors.
- The large majority of those surveyed report profitable activities in India, with respondents in the creative industry, information & communication, wholesale and retail sectors reporting particularly profitable activities, while more traditional sectors such as agriculture and manufacturing show weaker performance. Small companies generally do a bit less well than mid-sized and large companies.
- Respondents were helped the most by fellow entrepreneurs with the development of their business in India. The diplomatic network of the Netherlands in India also played an important role.
- Going forward, most of our entrepreneurs expect an increase in turnover and profit in their India activities in 2015/2016. About half of respondents expect to increase its workforce as a result of this increase.
- A large majority would advise Dutch companies to become active in India, quoting size and growth of the market, availability of skilled labour at relatively low cost, and an improving business environment, but cautioning that one needs a long-term view and patience. 65% expect further positive change from the Modi administration.

- It should be noted, however, that part of the perceived improvement came in terms of more confidence and improved sentiment. This improved sentiment and confidence at some point will have to translate into concrete improvement of fundamentals, on which it is based. Similarly, the expectation of further positive change will have to materialise.
- Things that the Modi government can do to positively impact respondents' business in or with India: reduce red tape and corruption further, improve the tax system and infrastructure. Simplification of the visa process would be welcome, particularly for small companies.

Positive effects of Modi government reported

Since the Modi government came to power in May 2014, have you noticed changes to the business environment as you experience it?

- More than half (55%) replied yes
- Practically all of the perceived changes were positive
- Particularly respondents active in the information & communication and agriculture, forestry and fishing perceived positive changes
- In information & communication, reduction in bureaucracy was mentioned most
- In agriculture, half of respondents mentioned improvements in the functioning of government



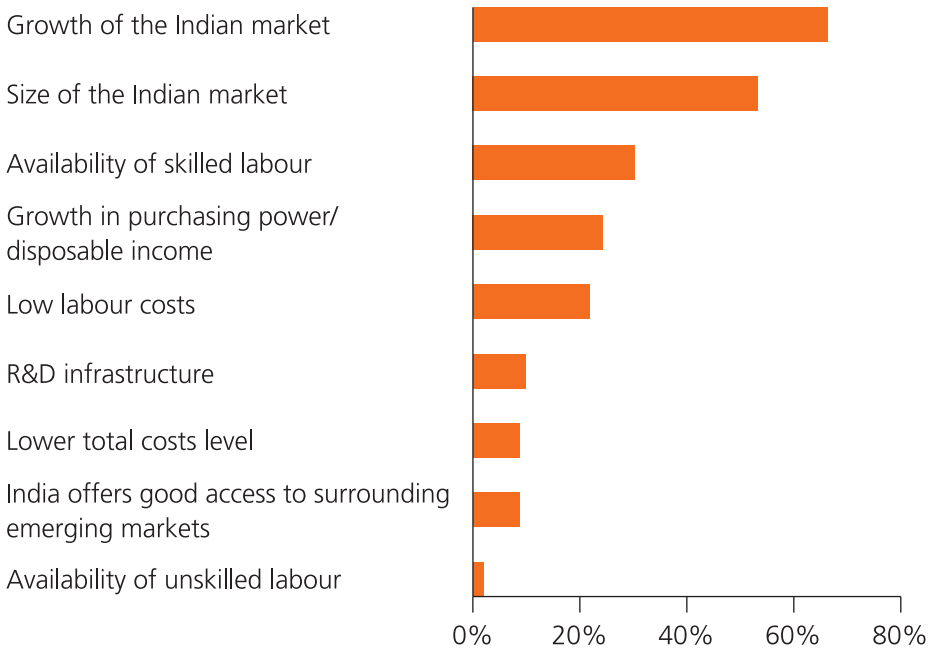
Ranking of perceived positive changes

Ranking "in which areas did you experience this change?"	
1	Bureaucracy/red tape (licences, starting up) 43%
2	Functioning of government/government 41%
3	Business ethics 37%
4	Infrastructure (road, energy, water, etc) 35%
5	Foreign direct investment rules & regulations 33%
6	Taxes and tax system 29%

% of respondents perceiving a change. Only changes that were perceived by the large majority as positive are ranked

- In the free field ("other, namely...") many respondents mentioned perceiving a more positive mind set towards outlook, FDI, and business climate
- 65% of respondents expect a further positive change from the Modi administration in 2015/2016, 10% of which even "very positive"

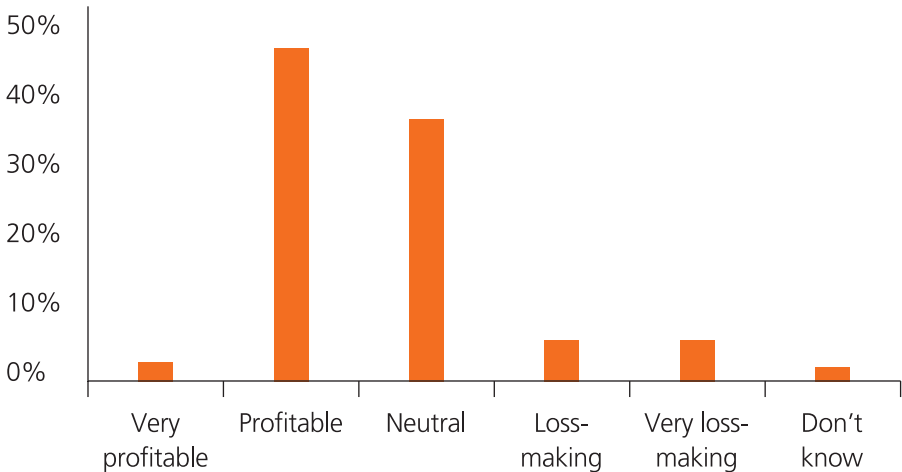
Most important drivers growth and size of market



- Most important drivers are the growth and size of the market, followed by the availability of skilled labour at low costs
- Drivers do not differ significantly for different-sized companies
- Availability of skilled labour at low cost is an important driver in business services
- R&D infrastructure is an important driver in agriculture and professional and scientific services

Activities in India largely profitable

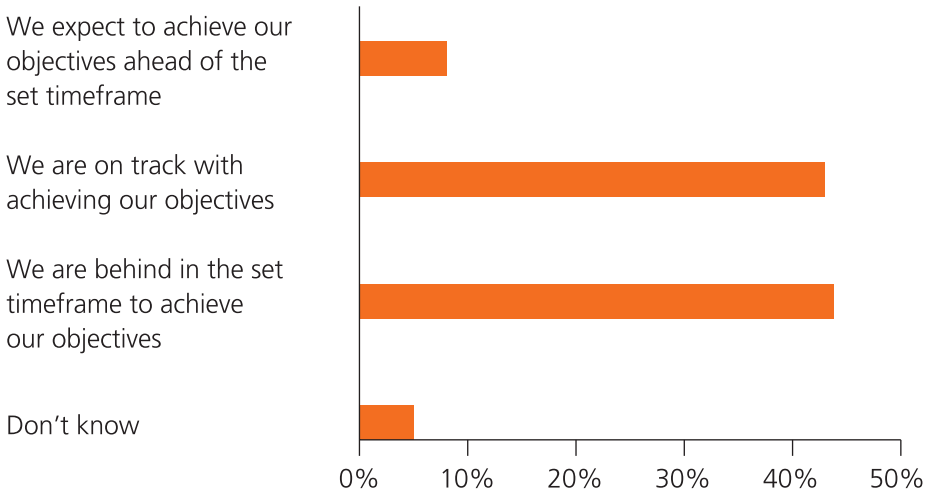
How would you rate the profitability of your activities with or in India?



- Overall, 50% considers their activities profitable and 12% lossmaking
- Picture is less positive for SMEs: 31% profitable, 22% lossmaking, while mid-corporates and large companies mostly profitable
- In terms of sectors, information & communication (65%) wholesale and retail (53%), and creative industry (54%) particularly profitable
- Weaker profitability in agriculture (28% profitable) and manufacturing (30% profitable, 27% lossmaking)

Long-term business objectives generally met

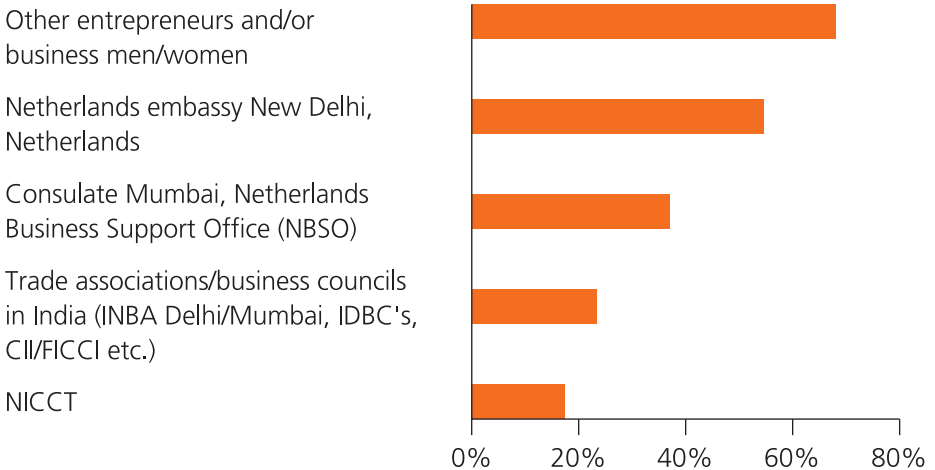
To what extent are you on track with achieving your long-term business objectives of your India-related activities?



- 51% on track or ahead of time frame, 44% behind
- SMEs perform slightly less with 38% on track or ahead
- Mid-sized corps do best, with 71% either on track or ahead
- Respondents active in professional and scientific services (73% on track or ahead), the creative industry (69%), and information & communication (61%) do better than average
- Manufacturing does somewhat worse (45% on track or ahead)

Respondents helped most by fellow entrepreneurs and Dutch diplomatic network

Who helped you the most with developing your business in India?

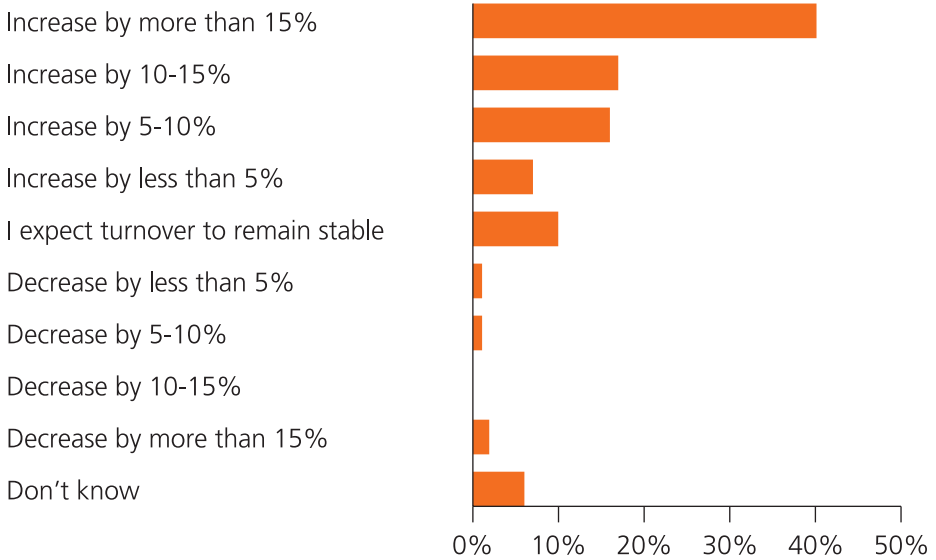


Multiple options possible

- Respondents were helped most by fellow entrepreneurs/business men/women (36%)
- The Dutch diplomatic network also played an important role
- More than 20% of respondents received no help from outside their organisation at all

Most respondents expect increased turnover

To what extent do you expect a change in turnover (in/with India) in 2015/2016?

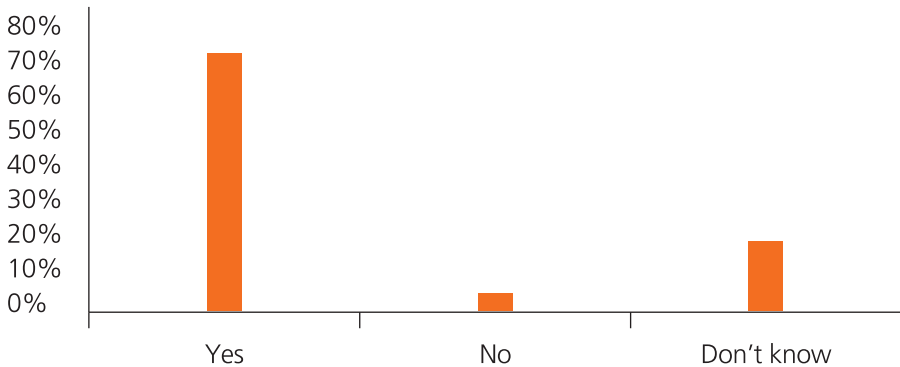


- An increase in turnover is expected by 78% of respondents, with the majority even expecting turnover to increase by more than 15%
- Only 9% expects a decrease
- Particularly respondents in business services expect increased turnover
- Most of the increases in turnover are expected to be accompanied by increases in net profit
- 47% of respondents expect an increase in 2015/2016 in the number of employees in India or related to the India activities
- Most of the expected increase in employment takes place in mid and larger companies, particularly in information & communication, the creative industry, and professional and scientific services



Most would give positive advice to companies contemplating business with/in India

Would you advise Dutch companies to start doing business with or in India?



- The 75% that said “yes” quoted as reasons:
 - Size and growth of market
 - Availability of skilled labour at low costs
 - Improving business environment

But:

- Many cautioned that one needs a long-term view and time to select and cultivate the right partners

Modi government should continue to combat red tape and corruption

What are the first things the Modi government should do to positively impact your business in or with India?

- 1 Reduce red tape
- 2 Reduce corruption
- 3 Make tax system easier and fairer
- 4 Improve infrastructure
- 5 Make getting visa easier
- 6 Reduce import duties/trade regulation
- 7 Stimulate FDI, provide financial incentives, subsidies
- 8 Allow more free movement of capital across borders

Advises to the Modi government are quite clear:

- Around half of the free-format answers concerned reducing red tape, reducing corruption, and improving the tax system
- In all of these three areas respondents have already seen positive change (see page 5) but clearly they would like to see more
- Improvement of infrastructure in a broad sense would also be welcome...
- ...as would simplification of the visa process, as well as reduction of import duties and trade regulation

Dutch entrepreneurs' advice to Modi government

"Reduce the amount of import & tax regulations"

"Easier visa application process: makes it more attractive for first timers to go to India"

"Open up the Indian debt market to foreign investors"

"Introduce harmonised goods and services tax"

"Reduce administrative barriers"

"Easy working permit"

"Reduce administrative complexity"

"Reduce import tariffs"

"Less of red tapism & faster decision making process"

"Allow parent company financing directly"

"Eradicate corruption"

"Free money transfer"

"One-window clearance for all projects"

"Open up FDI rules more"

"Make visa requirements much more simple"

"Tackle corruption at all levels"

"Allow easy transfer of company profits"

"Reduce custom duty on key raw materials"

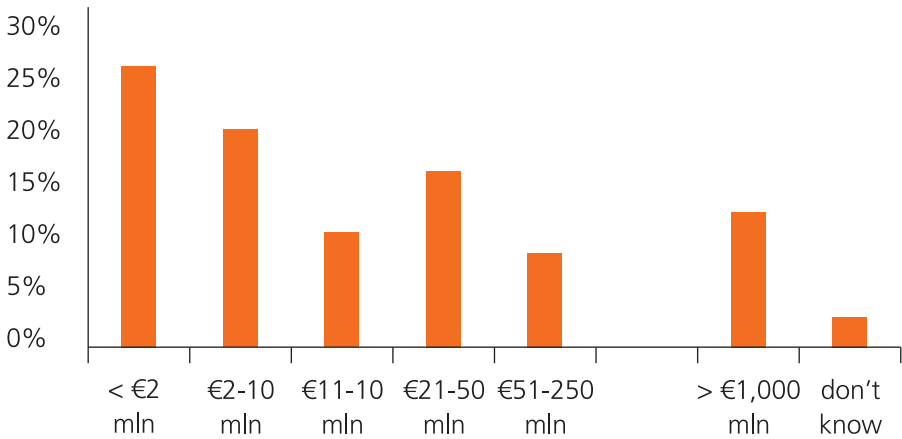
"Encourage internet banking and online communication"

"Incentives for joint-ventures"

"Simplified and transparent tax rules, especially on export trade"

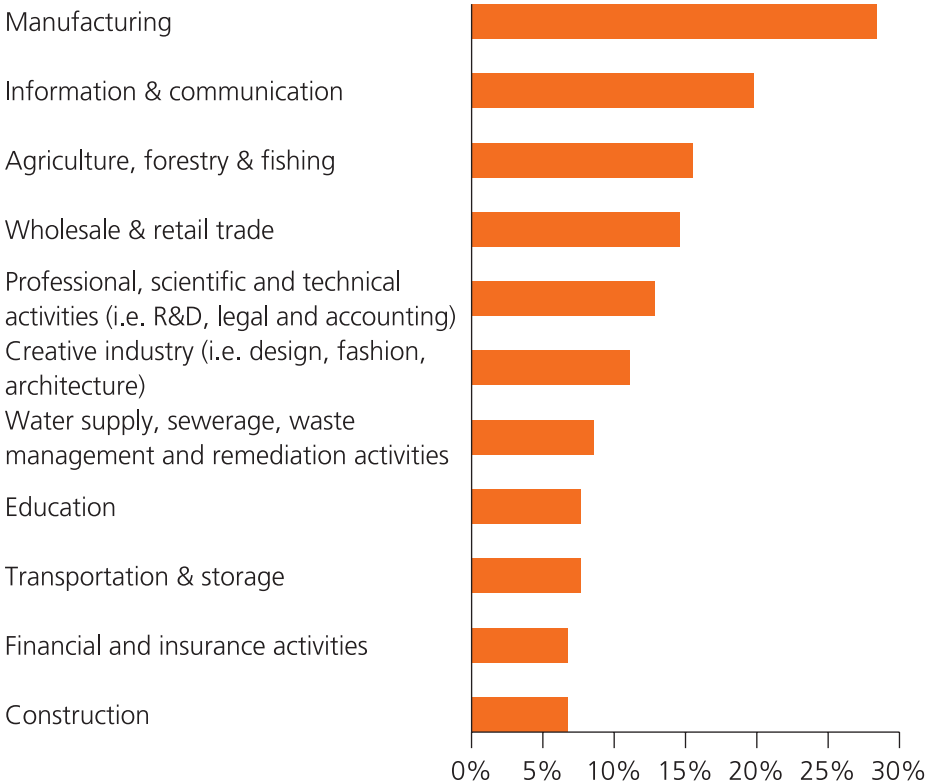
Respondents' profile: generally SME, active in manufacturing and information & communication

% of respondents by size of the Dutch company



- 116 respondents completed the survey. About a third of the respondents trades with India, while an additional third works for a Dutch subsidiary in India, based in the Netherlands. The last third is based in India, working either for a Dutch subsidiary or for their own company
- 59% belongs to SME (turnover ≤ €20 million)
- 26% belongs to mid corporate (turnover €20 till €250 million)
- 13% belongs to large corporates (turnover > €250 million)

In which sectors are you active in India?

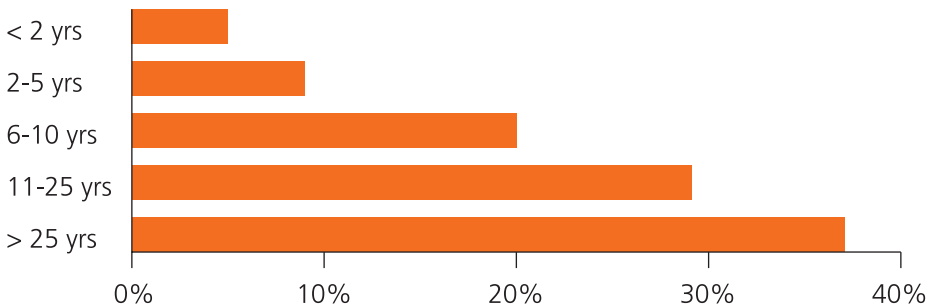


Many respondents chose more than one sector

- In 2013 the 2nd most important sector was agriculture (now 3rd with 16% of respondents)

Repondents' profile: substantial international experience

For how many years has the (mother) company based in the Netherlands been internationally active?



- Most (28%) of the respondents are active in manufacturing, followed by information & communication (20%)
- In 2013 the 2nd most important sector was agriculture (now 3rd with 16% of respondents)
- Respondents typically have many years of international experience

Areas of activity	In % of total
Western Europe	91%
Asia (excl. India and China)	62%
Eastern Europe (excl. Russia)	53%
Russia	34%
China	46%
North America	48%
Africa	38%
South America (excl. Brazil)	40%
Brazil	37%

- Most have substantial international experience and are generally active in other emerging markets besides India

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