Focus on: India

International Business Report 2012 – Economy focus series

The economy

The Indian economy is continuing to experience solid growth, albeit at a slower pace, as a result of a marked slowdown in construction and agriculture. Exports remain strong, but consumption has dropped as a result of elevated prices, high interest rates and lower government spending.

Inflation continues to be a major concern such that the Reserve Bank of India (RBI) has raised interest rates 13 times in the past 19 months. The high borrowing costs now enforced by the RBI have already had an impact on economic activity and the bank faces challenging times ahead as they decide whether to address the inflationary pressures at the expense of potential growth, or risk the economy overheating.

The key indicators[1] are highlighted below:

- the economy grew by 6.9% in the three months to September, its slowest pace since 2009
- private consumption, which accounts for 60% of GDP, expanded by 6.7% in Q3 from 12 months previously, down from 8.5% in Q2
- manufacturing slowed to 2.7% growth in Q3, down from 7.2% in the previous period, although construction (4.3%) and agriculture (3.2%) performed better
- merchandise exports rose by 36.4% year on year to US$24.8bn in September, narrowing the trade deficit to US$9.8bn.

The business perspective

The Grant Thornton International Business Report (IBR) surveys the views of 11,500 businesses in 40 economies around the world. This report focuses on the experiences of businesses in India and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that PHBs in India are less optimistic about their economy over the next 12 months than in 2010. Despite this business expectations for revenue and expectations for profitability have both risen and look to be returning to pre-recession levels. A lack of skilled workers, the cost of finance and bureaucracy remain major constraints on growth prospects on business growth prospects.

[1] Source: International Monetary Fund, The Economist and Experian.

The outlook

Combined with a global slowdown, high inflation and slow growth in the construction and agricultural sectors in India, have seen growth forecasts revised down to 7.6% for the fiscal year 2011/12. Over the medium term however growth is still expected to remain robust, given the underdeveloped trade sector, low income levels and labour costs, accelerating to 8.3% per annum up until 2016/17. This should ensure that India's competitive edge in tradable services remains strong.

Consumer spending is set to grow over the longer term due to wage increases and bonuses. The government has also placed a greater emphasis on growth in private consumption and investment demand to drive and sustain the recovery in growth. The current account deficit is expected to narrow to 2.1% of GDP by 2016, down from 3.6% in 2011, with merchandise exports (17.3%) forecast to grow faster than imports (16%).

Job creation is forecast to grow in 2011 and then stabilise. Over the longer term employment growth should average close to 2% per annum, as India continues to benefit from the migration of service sector jobs from the developed world to the emerging world

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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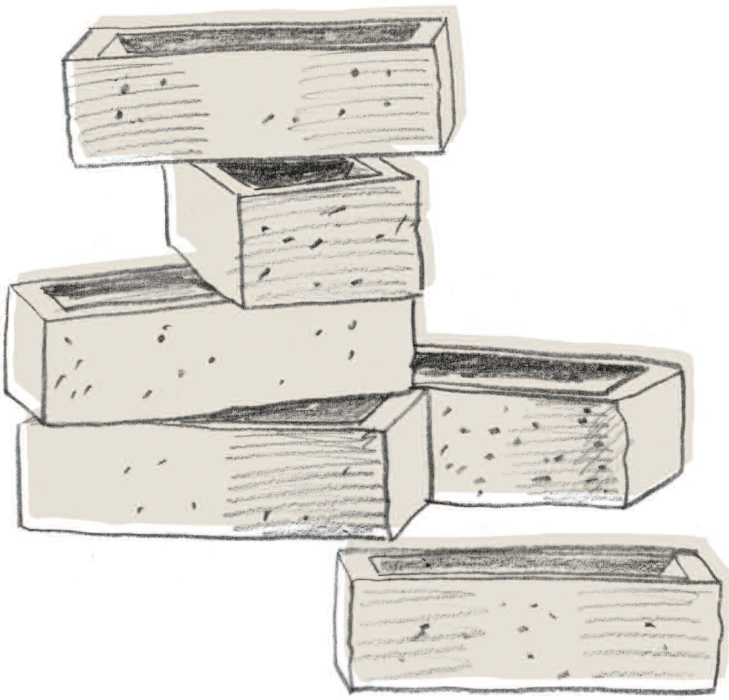
Figure 1: Key indicators for PHBs

India compared to the Asia Pacific average	2009 India	2010 India	2011 India	2011 Asia Pacific excluding Japan
Outlook for the economy over the next 12 months				
Net optimism	83%	84%	59%	23%
Change in employment levels				
Net hiring expectations	28%	47%	70%	43%
Constraints on expansion				
A lack of availability of a skilled workforce	27%	21%	51%	38%
Cost of finance	30%	27%	49%	32%
Regulations/red tape	22%	25%	47%	32%

Source: Grant Thornton IBR 2011



International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped again in the fourth quarter. Businesses sentiment in India remained stable at 58%, well above the global average of 0%.

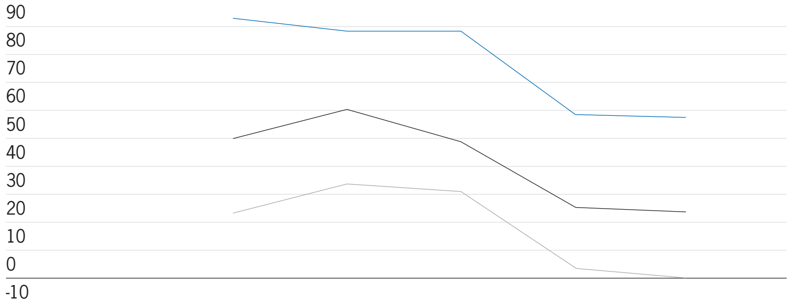
The sovereign debt crisis is weighing heavily on businesses confidence in Europe; business optimism across the European Union dropped to -17% in Q4. However confidence in the BRIC economies ticked upwards to 34%.

Year-on-year optimism amongst businesses has declined slightly from net 22% in 2010, to net 16% across 2011.

Optimism/pessimism

- businesses optimism in India stayed fairly consistent in Q4 at 58%
- however businesses remains much more optimistic compared with the Asia-Pacific[3] and global averages
- globally, business sentiment dropped to 0% in Q4, down from 3% in Q3.

Figure 2: Outlook for the economy over the next 12 months: 2010 to 2011
Net percentage of businesses indicating optimism less those indicating pessimism



	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011
India	93	88	88	59	58
Asia-Pacific (excl. Japan)	50	60	49	25	23
Global	23	34	31	3	0

Source: Grant Thornton IBR 2011

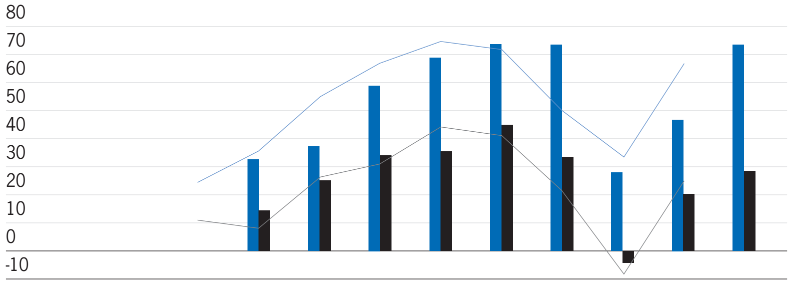
[2] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.
[3] for the purposes of IBR, the term 'Asia-Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Employment

- net 70% of businesses in India expect to increase staff levels in 2011, compared with 28% globally
- businesses in India have consistently been more positive in this regard than peers globally since 2002
- actual employment growth reported by businesses in India for 2010 (67%) was significantly higher than expected 12 months previously (47%).

Figure 3: Employment history: 2002-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Exp. India	–	33	37	59	69	74	74	28	47	70
Exp. Global	–	14	25	34	35	45	33	-4	20	28
Act. India	24	36	55	67	74	72	50	33	67	–
Act. Global	11	8	26	31	44	41	21	-8	25	–

*actual 2011 data will be documented in IBR 2012

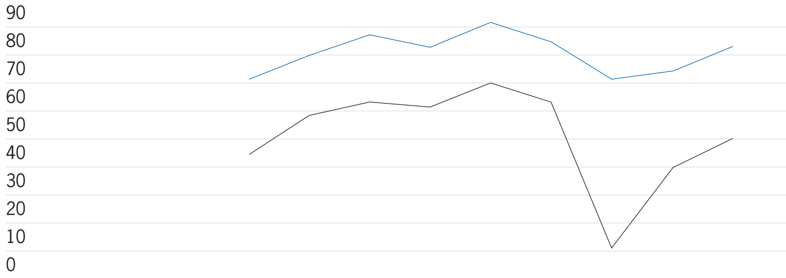
Source: Grant Thornton IBR 2011

Revenue expectations

- expectations for increasing revenue have risen by nine percentage points in India across the year, up to 83% this year, level with the 2008 result
- prospects are considerably higher compared with the global average (50%).

Figure 4: Revenue expectations: 2003-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



	2003	2004	2005	2006	2007	2008	2009	2010	2011
India	71	80	87	83	92	84	71	74	83
Global	44	58	63	61	70	63	11	40	50

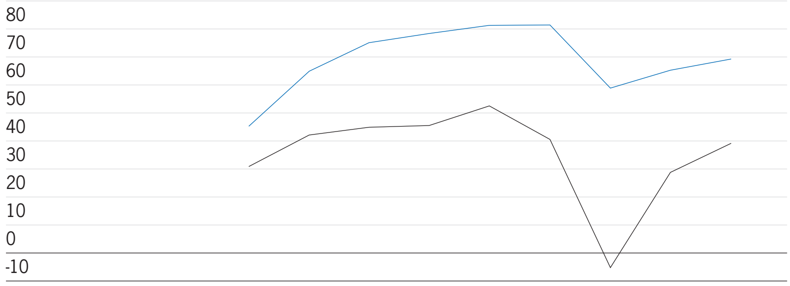
Source: Grant Thornton IBR 2011

Profitability expectations

- across the year net 69% of businesses in India expect to see profits rise, compared with 65% in 2010
- this represents a 10% rise since 2009, but remains below pre-recession levels
- globally net 39% of businesses expect to raise profits in 2012, up from 29% in 2010.

Figure 5: Profitability expectations: 2003-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



	2003	2004	2005	2006	2007	2008	2009	2010	2011
India	45	65	75	78	81	81	59	65	69
Global	31	42	45	46	52	41	-5	29	39

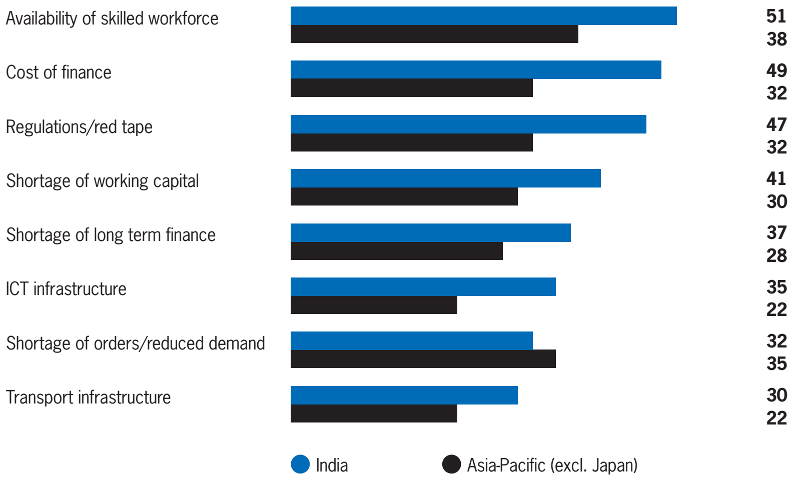
Source: Grant Thornton IBR 2011

Constraints

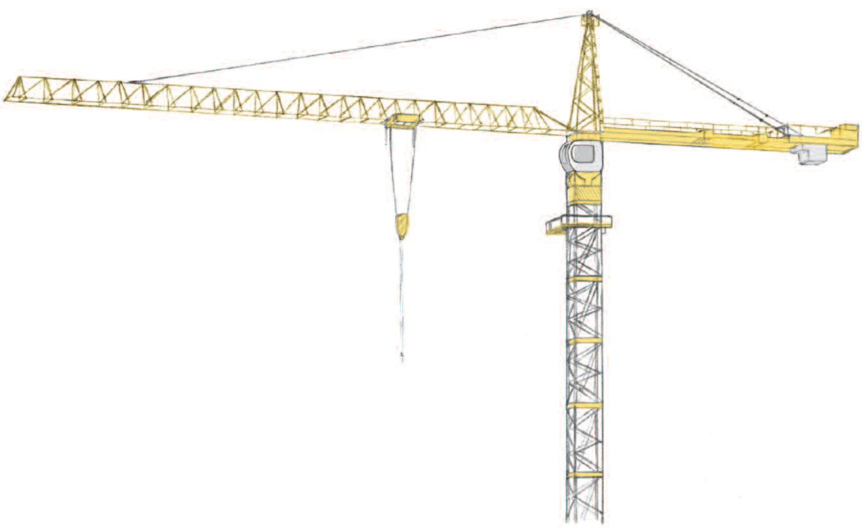
- a lack of skilled workers is a major growth constraint for 51% of Indian businesses, well above the APAC (excl. Japan) average of 38%
- the cost of finance (49%) and regulations/red tape (47%) are both much more significant constraints on Indian businesses compared with peers throughput the region.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



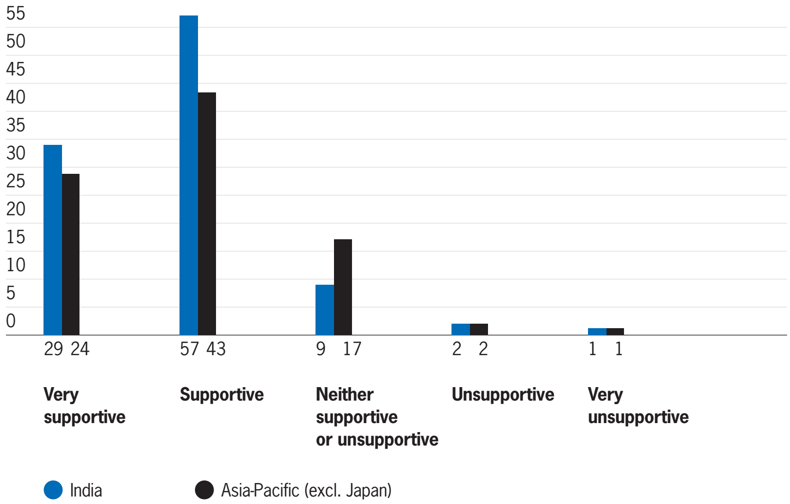
Source: Grant Thornton IBR 2011



Support of lender

- the majority of businesses in India are happy with the level of support provided by lenders; 86% class lenders as supportive of their business
- this compares with just 67% of businesses in the APAC (excl. Japan) region as a whole
- just 3% of businesses in India believe that lenders are unsupportive of their business.

Figure 7: Level of support provided by lenders
Percentage of businesses

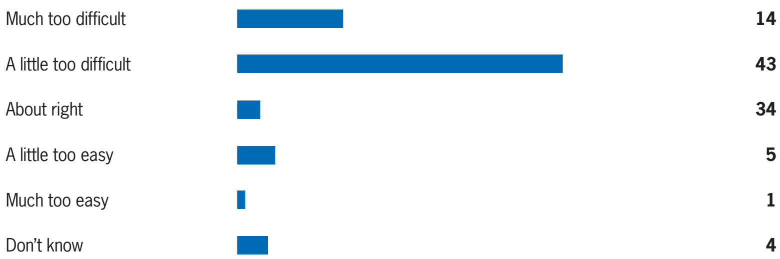


Source: Grant Thornton IBR 2011

Interaction with Government

- more than half the businesses surveyed sometimes or often interact with the government (59%)
- however, more than half of businesses in India believe that it is too difficult to deal with government (57%), with 14% stating that it is much too difficult.

Figure 8: How difficult or easy would you say it is to deal with the government?
Percentage of businesses that do plan to grow through acquisition



Source: Grant Thornton IBR 2011

Prioritising government reforms

- businesses in India are split as to the areas in which government should prioritise reforms
- government processes rank most highly (30%), but opinion is divided on policy & legal, governance and corruption, people and technology reform (all are around 16%)
- businesses are on the whole satisfied with technology – some 80% felt that the level of technology used by government was either average or above average.

Figure 9: In which of the following areas area would you like to see your government prioritise reforms?
Percentage of businesses

Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 2,800 senior executives in privately-held and listed businesses all over the world. Launched in 1992 in nine European countries the report now surveys more than 11,500 businesses leaders in 40 economies on an annual basis providing insights on the economic and commercial issues affecting companies globally.

In India 400 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total revenue of between 50 and 1,000crs. Data for this report were drawn from interviews conducted between January and December 2011.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Peru
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Georgia	Switzerland
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Arab Emirates
Ireland	United Kingdom
Italy	United States
Japan	Vietnam

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