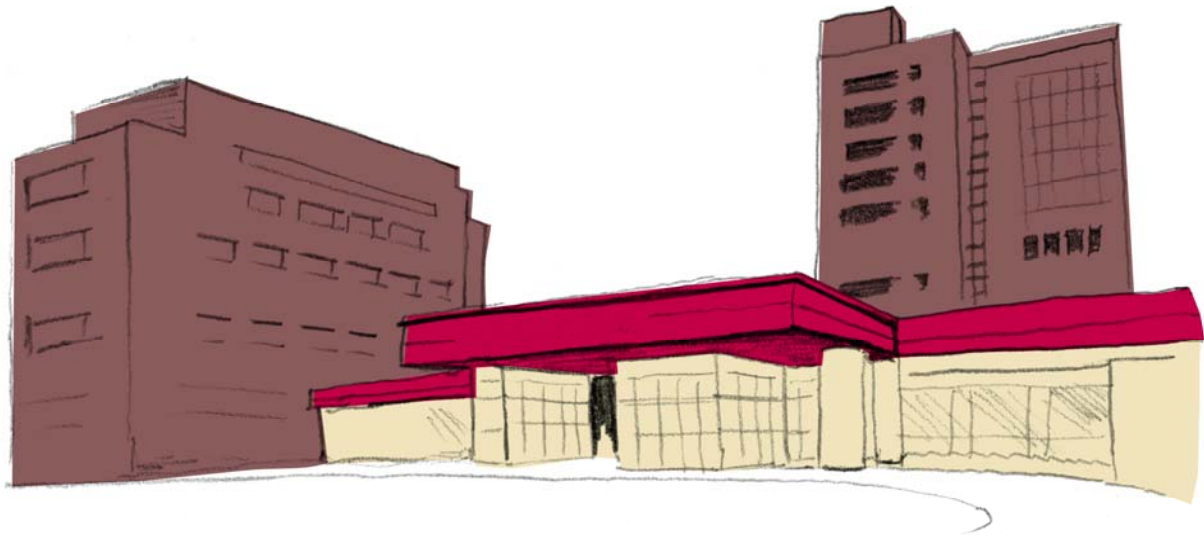


SMEs have to be: **Smart**
Money
Enterprises



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Contents

1 Foreword	2 Indian economy	6 SME outlook - India
8 Government initiatives	13 Key challenges	15 Going global
17 Sector profiles	39 Financing options	43 About ASSOCHAM
44 About Grant Thornton		

Foreword

There is no doubt that Small and Medium Enterprises ("SME")s play a significant role in an economy. Not only do they provide means for the livelihood of countless number of people but also help in the collective socio-economic development of a nation. Given its size and contribution in the growth story of India, the SME sector is a force to reckon with.

Time and again, SMEs have epitomised India's entrepreneurial spirit and proved that they are in no way less than their global counterparts. Taking the lead with innovation and effort, SMEs in India are striving to give their consumers a value for their money.

Many times their size and financial strength do not get them the desired level of economies and benefits of scale. In addition, SMEs in India have a relatively limited access to finance and capital, Further, along with the issues of availability and accessibility, SMEs bear the brunt of high costs of finance with financial institutions viewing them as relatively risky propositions.

The current global financial situation has posed further challenges to the SME segment. The demand and consumption of commodities is declining with pressures of inflation and economic slowdown. Suppliers and clients have become more cautious on their monetary transactions and the period of credit has reduced considerably.

This situation is prevalent in most countries that have been impacted by the crisis that emanated from the United States. However the emerging economy of India is relatively insulated on account of the robustness of its domestic demand. Consequently, there still lies an opportunity for SMEs in India to consolidate their overall structure while further streamlining their business models, in order to prepare for the brighter days that lie ahead.

D.S. Rawat
Secretary General
ASSOCHAM

Rajesh Jain
National Management
Grant Thornton, India

The Indian economy

The Indian economy has grown at an average rate of over 8% in the three years from 2005-06 and this is a tremendous achievement that is very difficult to maintain. The global slowdown has started showing its impact on the Indian economy with sectors like real estate, technology, travel and tourism bearing the brunt.



The Indian economy has been slowing down since the middle of 2007-08 and the economic pressure due to the ongoing liquidity crunch is expected to continue. Domestic demand will continue to drive growth, although short to mid term gains will only be moderate as a consequence of global recessionary trends.

Impressive growth

Growth - average annual growth rate

- during the 50s, 60s and 70s: 3.5%
- during the 80s: 5.7%
- during 1990-2005: 6.0%
- during 2005-06 (9.4%), 2006-07 (9.6%) and 2007-08 (9.0%)

Salient features of the Indian economy

Unmatched demography

- over 1 billion population: 52% below the age of 25
- median age of India's population would remain 30 years even as late as in 2025
- workforce (15-59 years' age group) in India would grow up by around 324 million by 2050
- today's youth is expected to drive tomorrow's boom

Growth in global working-age population (15-59 years)

	Size of 15-59 years age group in 2007 (in million)	Size of 15-59 years age group in 2050 (in million)	Growth of 15-59 years age group (in million)
India	696	1,020	324
United States	191	225	34
Japan	76	45	(-) 31
Germany	50	36	(-) 14
United Kingdom	36	36	0
France	37	35	(-) 2
China	895	755	(-) 140

Source: The United Nations

Large intellectual capital base

- more than 380 universities and 11,200 colleges
 - about 1,500 research institutions
 - more than three million scientific and technical resources
 - over 1 million graduate engineers
 - 0.4 million doctors
 - currently, India turns out more than 50,000 computer professionals and 0.36 million engineering graduates each year
-

Economic buoyancy

- government sets target of 9% Gross Domestic Product ("GDP") growth during the 11th five-year plan (2007-2012)
 - foreign exchange reserves at US\$274 billion, as at the end of first week of October 2008
 - manufacturing sector to grow at 9.4% in current financial year, lower from 12% in 2006-07
 - export growth at 20.3% in 2007
 - number of telephone connections at 272.88 million as on December 31, 2007
 - tele-density at 23.9%
 - the government has set a target of providing 200 million telephone connections in the rural areas by the end of 2012
 - the rate of growth of per capita income has sharply climbed to 7.2% per annum implying that the average income can virtually double in a decade
 - between April and November 2007, Foreign Direct Investment ("FDI") was recorded at US\$11.14 billion
-

The India advantage

Stable and consistent economic growth, till the global slowdown

SME outlook - India

SMEs play a significant role as one of the growth engines of the Indian economy. In fact, they have been playing a critical role in the socio-economic development of the country while further facilitating the achievement and streamlining the objectives relating to:

- mass employment generation
- low investment
- import substitution
- significant export earnings
- labor intensive mode of production
- capacities to develop appropriate indigenous technology and high contribution to domestic production

SMEs have the potential to further leverage on the post-reform global integration and liberalisation.

Key statistics

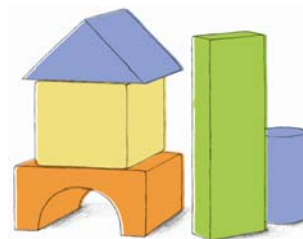
- approximately 13 million SMEs in India, producing about 8,000 products
 - 41 million people employed (largest direct and indirect employer)
 - comprises of 40% of the total industrial output and 40% of all export
 - contribution to GDP: 8-9%
-

Market leaders

- A small town in the vicinity of Delhi, Panipat, accounts for 75% of the total blanket production in India
 - famous for its knitted garments, Tirupur, near Coimbatore contributes 80% of the country's cotton hosiery exports
 - the city of Taj Mahal, Agra, has more than 6,000 SMEs to its credit, which together manufacture about 0.15 million pairs of shoes in a single day, valued at about Indian National Rupee ("INR")58 million, and exports to the tune of INR2.7 billion per annum
 - as much as 95% of the country's woolen knitwear is produced in Ludhiana, a city in the state of Punjab. It also enjoys the distinction of producing 85% of the total number of sewing machines manufactured in India
-

Major contributions from the SMEs to the Indian economy

A number of SME are market leaders in their product line



Government initiatives

An overview

- SMEs span across India in various clusters and about 350 such clusters exist in India, at present
- in totality they contribute about 60% of India's export
- some of them are so big that they produce upto 70% to 80% of the total volume of that particular product produced in India



Some of the key initiatives undertaken by the Government include

- implementation of the Micro, Small & Medium Enterprises Development ("MSMED") Act 2006
- identifying existing and potential clusters
- providing strategic information such as benchmarking or trends
- boosting to investing in technology and infrastructure
- filling in investment gaps with FDI
- linking firms to training programs from local universities and centers
- fostering networking service centers and associations

The aim of further streamlining policies pertaining to SME is to encourage inter-industry and inter-sectoral relationship, which lead to focused cluster growth and would enhance inter-dependence.

Updated vital facts of the MSMED Act

- it classifies industries based on the investment in plant & machinery, and not on turnover or employment, as is the case elsewhere
- it defines the Indian SME segment at par with the existing concept of SMEs worldwide
- as per its definition, an SME is an entity engaged in the production of goods and services involving investment from INR1 million to INR100 million in plant and machinery

The following illustrates a typical investment size of an SME involved in manufacturing and services as delineated in the MSMED Act.

Type	Manufacturing	Service
	INR	INR
Micro	< 2.5 million	< 1 million
Small	2.5 – 50 million	1-20 million
Medium	50-100 million	20-25 million

SIDBI initiative

The Small Industries Development Bank of India ("SIDBI"), which is the main financial institute for the SME sector, plays a pivotal role.

It is:

- responsible for the development of venture capital financing in the country to support the risk capital requirements of the sector
- investing in several venture capital funds for onward investments in the SME sector

Some key funds, the SIDBI has invested in:

- India leverage fund
- India advantage fund
- India development fund

It also takes the position of being the largest venture capital player in the country

SMERA

With a view to further streamline the process of SME financing, a dedicated rating agency called SME Rating Agency of India ("SMERA") was launched by the SIDBI in association with a number of leading public and private sector banks of India, in 2005.

The organisation provides independent third-party assessment of the overall condition of an SME. The rating consists of two parts: a composite appraisal/condition indicator and a size indicator.

According to the National Association of Software and Service Companies ("NASSCOM"), SMEs operating in the technology segment contribute significantly to the total revenues of the sector. Recognising its significance, a special SME forum has been created to support and promote these SMEs. The forum serves as a platform to address key challenges facing the industry and conducting discussions for tapping growth opportunities.

The National Small Industries Corporation Ltd ("NSIC") aims and works towards bolstering the growth of SMEs and its allied industries. The NSIC has been contributing since the last four decades, and has demonstrated its strengths within as well outside the country by promoting Indian SMEs. This organisation also professes upgrading of technology and introducing quality control measures in the systems implemented in SMEs.

To enable SMEs gain competitive advantage, the NSIC has a comprehensive charter of activities to meet challenges amidst the scenario of growth and competition.

Initiatives by the
NASSCOM

Initiatives by the
NSIC

SME Exchange

In view of the growing number of SMEs, the Securities and Exchange Board of India ("SEBI") is set to give its clearance for the formation of the SME Securities Exchange. This would establish an entity for SMEs to register their scripts on an exchange, at a relatively low cost.

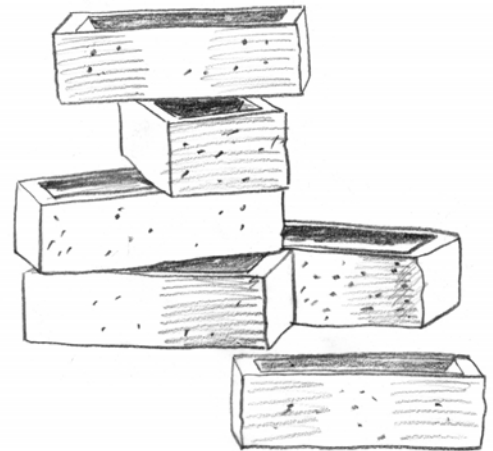
Furthermore, it provides SMEs the foundation and ability to raise capital from an alternate platform; addressing the issue of dependence on banks and financial institutions, at the same time.



Key challenges

While the global economy reels under the pressures of recessionary trends, the SME segment is also likely to be affected by the phenomenon.

SME will need to align their offerings with the prevailing market conditions and in the process they will need to adapt more efficient businesses practices.



Key challenges

- identifying a niche in verticals such as healthcare, education, transportation, utilities, e-governance, technology including Global Information Systems ("GIS"), embedded software and web services
 - making clear, strategic choices to secure alliances with systems integrators and building distinctive customer acquisition and retention skills
 - ensuring a robust business continuity infrastructure and global delivery network
 - building strong teams to establish credibility and differentiation
 - creating greater inroads into the domestic market, as it will act as a test bed for innovation and new service lines and help in rapid accumulation of value-added skills
 - impact of World Trade Organisation ("WTO") norms
 - competition from China, Eastern Europe and other low cost geographies
 - protection of Intellectual Property Rights ("IPR")
 - entry of global players as preferred suppliers of large Original Equipment Manufacturers ("OEM")
 - ensuring funding for growth, including mid-term and long-term finance from banks
 - ability to attract and retain talent
 - keep on innovating to sustain growth
-

Going global

The Indian SMEs have begun to make their mark in the international arena.

There has been a clear shift in the mindset of Indian firms displaying an increasing interest in global joint ventures, alliances, and mergers and acquisitions. Hereinafter Indian SMEs are making their forays into the global markets.

Global exposure

- buoyant local markets with liquidity
 - easier access to global financial markets
 - lack of resources no longer a significant constraint
 - increased global acceptance of the “Made in India” brand, especially in the services sector
 - conducive regulatory environment
-



Sector profiles

Key sectors

Auto components

Food Processing Industry ("FPI")

Healthcare

Information Technology and
Information Technology Enables
Services ("IT/ITeS")

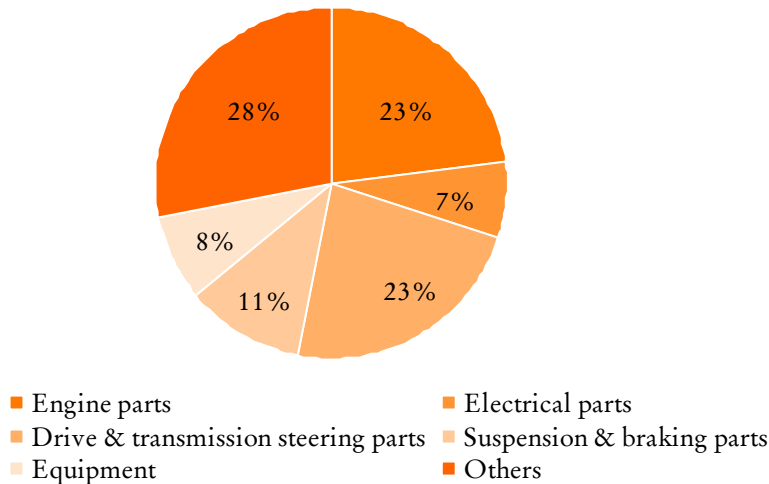
Plastics

Outlook

The Indian manufacturing sector has to its credit the growth which it receives from the auto component industry, which is from the SME sector. The growth of the this sector in-turn has given thrust and stability to SMEs, by making them self reliant and giving them opportunity to spread their wings overseas.

Industry structure

Being an extensive and fragmented industry, the Indian auto components industry is expected to stand at about INR810 billion in 2007-08. The department of heavy industries, Government of India, points out that there are about 400 large firms in the organised sector who cater mostly to the OEMs, which accounts for about 77% of value added in the organised sector. Further to it, the unorganized sector has about 10,000 firms who operate in various tier circles, they usually cater to tier one and tier two suppliers in the lower end technology products and also serve the replacement market.



Investment from Foreign Institutional Investors ("FII")

The key advantage India has to its credit is its cost advantage. Some of the major examples of foreign investments coming into (or those which are in the process of coming into) India in this segment include:

Daimler	joint venture will invest INR49.5 billion in 5 years to manufacture light and medium CVs initially, and heavy-duty vehicles by 2012
IFCI Venture Capital Funds Ltd.	is launching a private equity fund in association with German consultancy UBF-B worth INR6,525 million focused entirely on domestic automotive components industry
Palfinger AG	the Austrian hydraulic lifting, loading and handling systems manufacturer, has joined hands with Western Auto LLC, Dubai, the vehicle dealership arm of ETA Star group, have invested INR76.5 million to set a base in India
Robert Bosch	auto parts maker of Germany will invest INR9,063 million in its Indian subsidiaries over the next 2 years
Fiat	is setting up a group purchasing office in India as part of its strategy to cut costs by buying more components from low-cost centers such as India and China
Chrysler	is setting up a local sourcing unit in Chennai and is expected to start sourcing for its global plant by 2009

Quality control

India stands strong and takes pride on quality control in the auto sector. Essentially on account of motivation from the export markets and the increasing demands from OEMs, quality awareness of Indian companies has increased over the last decade. Notably, 9 Indian auto component manufacturers have got the prestigious DEMING (this prize is Japan's national quality award for industry) award:

Certification	No. of Companies
Japan Quality Medal Winner	1
JIPM (Japan Institute of Plant Management) Awards	4
DEMING Prize	9 (7 since 2003)
OHSAS 18001 (Occupational Health and Safety Management System)	47
ISO 14001 (International Organization for Standardization)	154
QS 9000 (Quality Standard)	81
TS 16949	342
ISO 9000	524

Key factors:

- proven product development capabilities:
 - more than 125 fortune 500 (including large auto companies) have their Research and Development ("R&D") centers in India
 - companies can leverage India's acknowledge leadership in the technology industry
 - stable economic policies:
 - continuity in economic reforms and policies related to investments;
 - large and growing domestic demand:
 - demand growth of 14% Compounded Annual Growth Rate ("CAGR") makes India one of the fastest growing markets
 - availability of manpower:
 - 0.36 million engineering graduates every year
 - 7 million people join the workforce every year
 - proximity to markets:
 - others Asian economics
 - emerging markets like Africa
 - shipments to Europe cheaper than those from Brazil and Thailand
-

Export promotion is one of the key initiatives of the Indian government. It gives thrusts to exports of engineering goods which include auto parts. A few of the recent initiatives include:

- duty on raw materials has been reduced from 10% to 5-7.5%
- infrastructure project – setting up of the National Automotive Testing and R&D center
- the Automotive Mission Plan ("AMP") - finalization of the AMP 2006-2016 for making India a preferred destination for design and manufacture of automobile and automotive components
- the United Nations Industrial Development Corporation ("UNIDO") and the Indian government are discussing to establish training packages for auto component manufacturing companies, which will assist them to augment their skills in productivity and quality control measures

India is emerging as a key player in the Food Processing Industry ("FPI"), valued at INR337 billion. India contributes 1.7% of the world trade in this sector currently. This is estimated to touch approximately 3% by 2012. The FPI serves as a pivotal link between the agriculture and other industrial sectors of the economy:

FDI – inflows in FPI stood at INR58.5 billion from the period starting 1991 to 2007, which is 2.43% of total FDI inflow in value terms

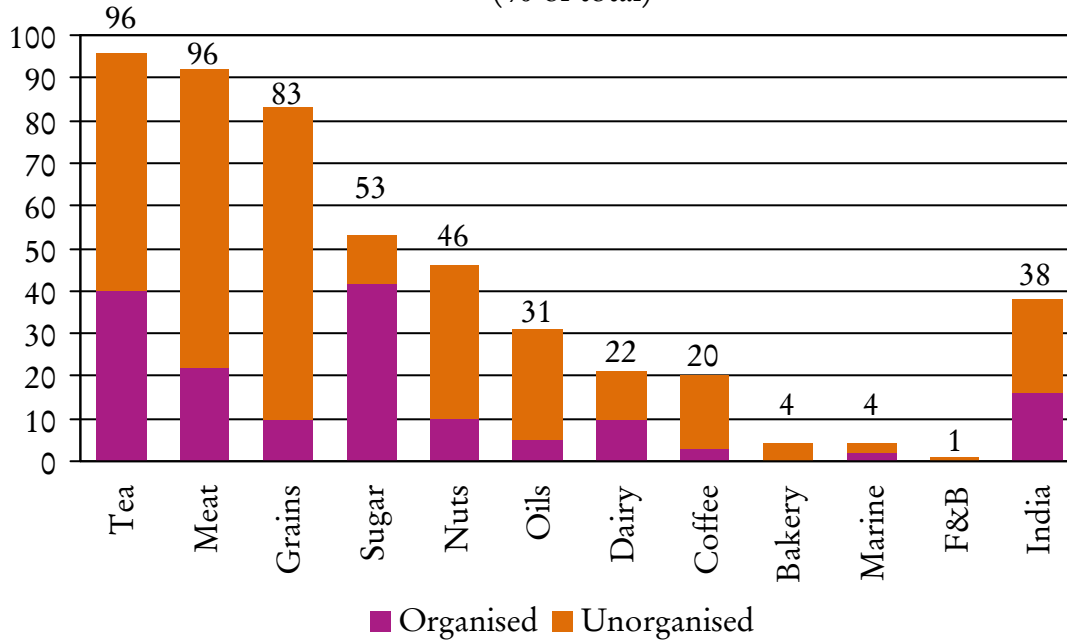
Employment – FPI provides direct employment to about 13 million people and indirect employment to 35 million people in India

Growth – at present the Indian food industry stands at over INR9,000 billion and is slated to grow to about INR13,950 billion by 2015

Some key developments and concerns:

- INR100 billion is expected to be contributed by the Indian government
 - INR1,000 billion has been envisaged in the eleventh plan of which INR450 billion is expected to come from the private sector and financial institutions
 - storage facilities – loss on account of poor storage facilities leads to about 37% of annual food production, which is worth an immense INR400 billion
-

Level of food processing (% of total)



Source: Planning commission

As illustrated above there are a large number of enterprises both in organised and unorganised sectors in various segments of FPI. The organised sector contributes about 15% to the dairy segment and 48% to fruits and vegetables. A number of multinationals have entered India to capture this opportunity, and this in-turn bring up opportunities for its ancillaries which are in the SME segment.

Industry structure (Contd.)

With increasing levels of competition innovative practices have evolved within the industry, giving rise to implementation of quality standards and competitive pricing, which in-turn has lead to better quality products and gives global acceptability to the Indian industry in this segment.

SMEs in FPI

SMEs in the unorganized segment, captures 75% market share of FPI. Their key operations areas are niche markets in the Indian ethnic food segment (mostly local brands), interestingly these players have the capacity to supply to large players as well and do so under contract manufacturing.

Key sectors

Segment wise comparison				
Segment	Size (in INR billion)	Projected growth	Penetration	Organized players
Dairy	1179	15%	37%	55%
Fruits and vegetables	35.5	20%	10%	48%
Meat and poultry	27	6-10%	5%	-
Fisheries	539	20%	12%	-
Packaged foods	90	8%	3%	80%
Beverages	6.75	27%	-	77%

Source: IBEF

Key growth drivers in the FPI segment:

- cost advantage, availability of cheaper workforce
- suitable climate conditions
- large and diverse raw material base
- India itself serves as a huge market for food products
- the fact that food products in India are the single largest component of household consumption expenditure, this in itself illustrates the sheer size and opportunity this sector offers

Growth drivers

Growth drivers (Contd.)

Advantage India

- second largest producer of vegetables and third largest producer of fruits in the world
- ranks second only to Japan in inland fish production. India produces about 6.57 MMT fish every year
- exports of spices expected to touch INR450 billion by 2017. Of the world's total annual spice trade of 850,000 MT, India accounts for 44% in quantity and 36% in value at present

Source: IBEF

Government initiatives

Support of the Government to FPI

- the National Policy aims to increase the level of food processing from 2% to 10% in 2010 and to 25% in 2025
- increased level of institutional credit by banks and financial institutions
- full repatriation of profits and capital is allowed
- automatic approvals for foreign investment up to 100%, except in few cases, and also technology transfer
- the government has decided to give a boost to research and development in this sector with its decision to set-up the National Institute for Food Technology and Management in collaboration with the Cornell University of the US
- zero import duty on capital goods and raw material for 100% export-oriented units. Custom duty on packaging machines reduced. Central excise duty on meat, poultry and fish reduced to 8%
- income tax rebate allowed (100% of profits for 5 years and 25% of profits for the next 5 years) for new industries in fruits and vegetables besides institutional and credit support

Source: IBEF

The healthcare sector in India has grown tremendously in the last few years and is poised for continued growth. The improving level of life expectancy coupled with rising levels of income and the burgeoning middle class, now having increasing access to health insurance. This has propelled the Indian healthcare industry as a forerunner in the growth story of India. The GDP share of this sector is projected to reach as much as 8% by 2012, employing about 9 million people in the country.

The Indian healthcare sector which entails retail pharmaceutical, healthcare services, medical and diagnostic equipment and supplies stands at about INR1,405 billion.

Reform oriented policies

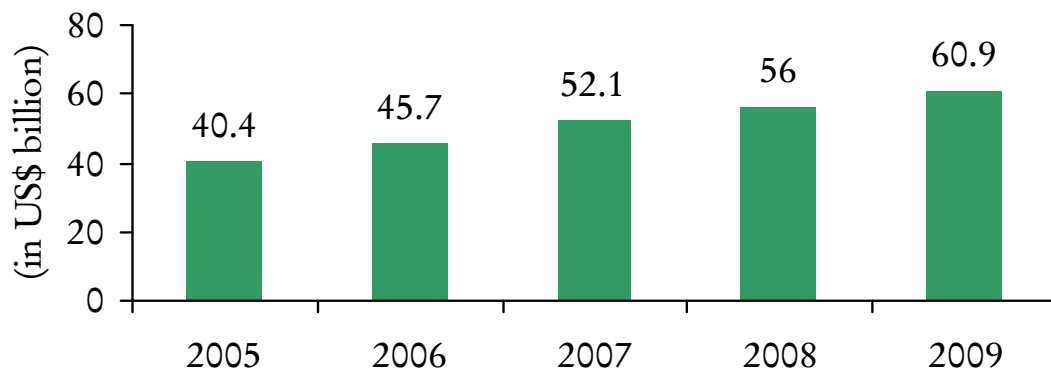
Subject to approval by the Foreign Investment Promotion Board (“FIPB”), FDI up to 100% is allowed for setting up hospitals and healthcare centers in India. Similarly, FDI limit in the health insurance industry has been raised from 26% to 51%. However, much needs to be done on the front of improving basic industrial infrastructure.

With regard to its contribution in the economic and social development of India, the healthcare sector has been recognized as one of the priority sectors in the eleventh 5-year plan. Due recognition has also been given to the role of private sector in expanding the reach of quality healthcare in India.

Moreover, to promote the development of healthcare infrastructure, a 5-year tax holiday has been extended to hospitals in Tier II and Tier III cities.

Revenues from the healthcare sector account for 5.2% of the GDP, making it the third largest growth sector in India - the other prominent growth sectors being trade and tourism, financing, insurance and business services.

Healthcare spending in India



Source: US Census Bureau

Pharmaceuticals industry outlook

The INR360 billion Indian pharmaceuticals industry registered a growth of about 10% in July '08 – the highest in the past 3 months, as per ORG-MARG report. The performance is mainly attributed to rise in demand for drugs used in the treatment of chronic ailments such as diabetes and cardiovascular disorders.

Interestingly, this growth rate is higher than that estimated for the developed economy such as Germany (+5% p.a.) and the rest of the world (+6%). With this India's share in world pharmaceutical sales will reach 2%. The Indian pharmaceutical industry would continue to witness a high growth rate from lifestyle diseases. Industry reports corroborate the fact that this segment of cardiovascular, anti-diabetics and ophthalmology is estimated to register a growth rate as high as 20%.

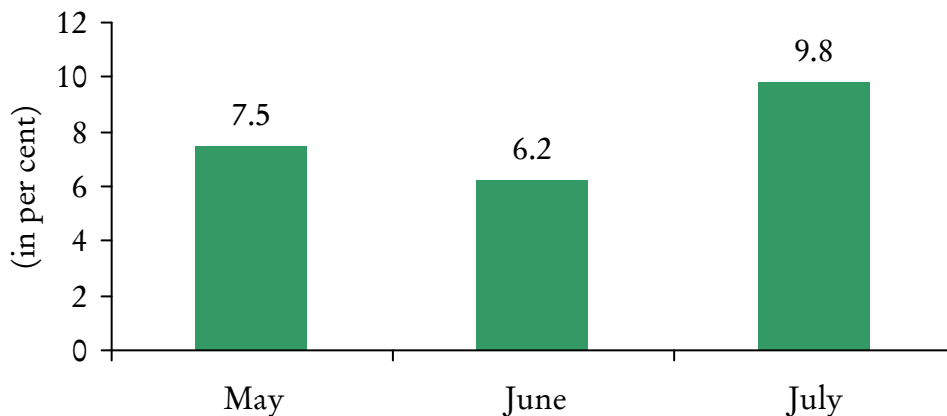
The sector has once again attracted global attention with Daiichi Sankyo's acquisition of Ranbaxy Laboratories. Daiichi is Japan's third largest pharmaceuticals company; Ranbaxy, on the other hand, is an Indian multinational company with very strong presence in the US and European markets.

Some key advantages
in the healthcare sector

Cost advantage – India's advantage of its large talent pool of highly skilled scientists who come at a fraction of the cost compared to their counterpart in the west, gives India a distinct edge

Process engineering – India has a highly competitive domestic market and lack of pricing power, which forces Indian companies to regularly work on the molecule even after a product is launched, resulting in gains in the form of improved yields and/or more cost effective manufacturing processes

Lower filing costs – generic filings require complex technical and legal documentation, which takes about 8 quarters. The cost of filing Drug Master File ("DMFs") and Abbreviated New Drug Application ("ANDAs") is at least 50% to 60% lower for Indian companies as compared to their U.S. or European counterparts



Source: ORG-MARG (2008)

Growth in the
pharmaceutical
industry

Key facts

Highly regulated	the industry faces price regulation, quality regulation and patent regulation
Research oriented	the industry has the advantage of being research based which enables it to invent novel drug delivery system (NDDS), leading to ascertain new molecules, and work on innovative production processes
Limited consumer choice	the key decision maker are doctors & medical representatives who play a vital role, and not the consumer
Infrastructure	the sector is dependent on infrastructure – direct consumer for this are the hospitals, medical practitioners and ancillary industries
Sectors	currently 10,000 manufacturing units, is the count of the Indian pharma industry as given by the Organisation of Pharmaceutical Producers of India, of which the organised sector accounts of 5% of the industry with about 300 players, while a huge 95% is under the unorganised sector. The key is that a large number of these players in the unorganised segment are SMEs and they collectively contribute 35% of the industry's turnover

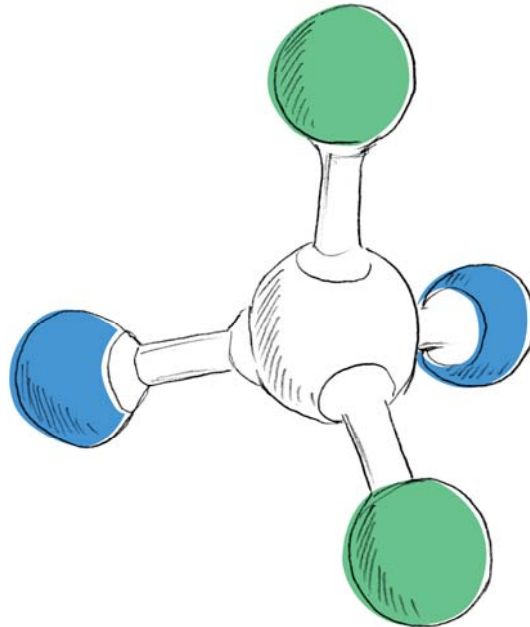
Opportunities in healthcare

The Indian government has undertaken key approaches which entail marketing, promotion, infrastructure creation and other strategic initiatives. Opportunities for this industry are:

- research and development for new clinical trails, molecule research, etc., optimum utilization of skilled scientific manpower and making the most of low costs
- assisting medical research and medical insurance services through joint ventures
- corporate health care clinics for providing high quality basic services in consultation, diagnostics, minor surgeries etc.
- consulting in hospital
- for the purpose of treating patients in remote areas, telemedicine systems have been initiated through satellite connections
- trade promotion in medical equipment and products, including warehousing, selling and servicing the latest medical electronics equipment, diagnostic kits, reagents and consumables

Biotech sector is one of the fastest growing sectors in India, with a growth rate of more than 30% for the past 3 years. The total biotech market in the country is expected to reach the size of INR225 billion in 2010 from INR65 billion in 2005.

Encouraged by the success of Indian generic drugs, a host of Indian companies are foraying into biogenerics and biosimilars market, in order to leverage the opportunities existing in the sector, across the world.

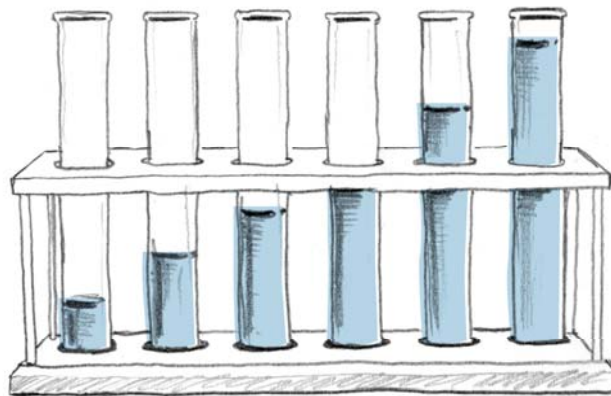


Key advantages in the biotechnology sector

- leveraging on skilled manpower, cost-effective technologies and raw material, India's biotech sector is showing the potential to generate 1 million jobs by 2010
 - biotech sector in India is well-recognized for low cost fermentation technology and generic biologicals
 - firms in India could produce generic versions of a large number of biopharmaceuticals being launched in the international market
-

Biotechnology – financing

Owing to the impressive growth numbers and potential, the biotechnology sector in India has been enjoying increasing levels of interest from government and investors from across the world. However, bottlenecks such as, low-quality and infrastructure lead to glitches in the financing of start-ups. However, with sustained focus and policy support, venture capital, debt funding, corporate funding, etc. becomes available.



Led by IT/ITeS the technology sector spearheads the Indian economy. From a relatively meager INR6 billion in terms of revenues in 1991-92, the industry has grown to achieve over INR28.16 billion in 2008-09. Since 1991, the average annual growth rate for Indian software exports itself, has been over 50%.

Besides its commercial success, the industry has played an instrumental role in creating a positive outlook towards India in the global market, with several Indian IT companies being amongst the most respected companies of the world today. The significant growth of the Indian technology industry, that includes IT/ITeS, Business Process Outsourcing ("BPO"), Engineering Services and R&D, Software Products and Hardware, has had a multiplier effect on the Indian economy.

According to the reports from the Indian Ministry of Information Technology, the proportion of revenues in the IT-BPO sector, to the national GDP has grown from 1.2% in 1998-99 to 5.5% in 2007-08.



Current trends

According to industry reports, nearly 65% to 70% of the IT and ITeS firms in the country are SMEs, which contribute a staggering 35% of the total software exports from India. Interestingly, the growth in software exports slowed down to 27% in 2007-08, from 38% of 2006-07, however the domestic sales picked up and achieved the growth rate of 34% in 2007-08 while in 2006-07 it was at 27%.

The technology SMEs in India have found their niche in the segments of hardware components, chip-level designing, remote infrastructure management, global positioning systems, software for e-learning, enterprise management, accounting, etc.

The Indian IT industry revenue in FY08 was INR2,880 billion with IT exports amounting to approximately INR1,800 billion. The market share of the Indian IT Industry is slightly lower than 10% of the global revenues. The industry currently employs greater than 10 million people.

Growth in exports has slowed down to 27% in 2007-08 as compared to 38% in 2006-07, however the trends have reversed in domestic sales which have grown by 34% in 2007-08 as compared to 25% growth in the previous year. This trend could largely be attributed to the demand in domestic outsourcing. Excluding BPO growth, the sector has grown on the back of domestic personal computers and electronics sales, remote infrastructure management etc.



Segment wise outlook of the IT/ITeS industry - India

INR billion	2007	2008	2009*	2010*	2011*	2012*	CAGR 07-12
Hardware & others related	489.4	574.1	668.3	767.3	865.5	965.6	14.60%
IT services	209.2	253.3	305.2	366.9	438.3	519.7	20.00%
Packaged software	81.8	100.8	123.2	148.7	177.9	211.3	20.90%
ITeS	119.7	73.6	234.3	297.6	348.2	400.4	27.30%
IT/ITeS market	900.1	1,101.8	1,331.0	1,580.5	1,829.9	2,097.0	18.40%
IT/ITeS exports revenue	1,565.9	1,861.4	2,181.1	2,500.9	2,846.7	3,202.8	15.40%
India IT/ITeS industry size	2,466.1	2,963.2	3,512.1	4,081.4	4,676.6	5,299.8	16.50%

Source: IDC India Limited (*estimate)

Owing to its double digit growth and profitability, India's IT and ITeS sector have been enjoying undeterred attention over the past 2 decades. Global slow-down in key sectors such as Banking, Financial Services and Insurance ("BFSI") which has traditionally been the largest vertical in the Indian IT/ITeS exports pie, has impacted the Indian IT/ITeS Industry.

In the mergers & acquisitions segment, the focus of the domestic IT/ITeS companies continues to be on the U.S. with close to 75% of value of deals in H1 of FY2008 concentrated in U.S. companies.

Funding

Challenges

Besides the challenges of global economic slowdown, talent crunch, fluctuating rupee-dollar equation, the Indian SMEs face low availability of finance.

Unlike manufacturing sector, SMEs operating in the technology sector do not have to make heavy investments in fixed assets such as plant and machinery, and mostly require capital for R&D, manpower and other intangible assets. This is why, these SMEs have less to offer as tangible security against loan.

Also, most of the Non Banking Financial Companies (“NBFC”) and micro-finance institutions focus on sectors other than the information technology, it becomes further difficult to avail funds to sustain growth and expand. Consequently, most of the SMEs, looking for finance, scout for venture capital and private equity, which although is not too easily available.

Key government initiatives

In view of promoting SMEs in the technology sector, the Department of Information Technology (“DIT”) has suggested a host of measures, such as provision of tax depreciation and credits for investments made towards developing Intellectual Property (“IP”).

To attract and retain talent in the technology SMEs, the DIT has also suggested deductions of up to 20% on total taxable income to the professionals working in the technology SMEs for the period of 2 years.

The plastics industry in India is pegged at INR297 billion currently. The industry is projected to grow at the rate of 20% CAGR in the next 5 years. India is projected to become the third largest consumer of polymers in the world, after U.S. and China, by 2010. The domestic consumption is expected to rise by almost 200% and reach nearly 12.5 million Metric Tonne ("MT").

The figures corroborate the fast-paced growth that the industry has been enjoying. Also, there has been a continuous increase in the per-capita consumption of plastic in India. Regular developments in manufacturing technology, plant and machinery, skill sets and cost effective production has enabled Indian plastics industry to compete with its global counterparts.

Notably, plastics are intensively used in packaging, infrastructure, agriculture, consumer goods, health care, conservation of resources among others.

The potential of the domestic market has motivated entrepreneurs to gain technical expertise, achieve high-quality standards and build capacities in various aspects of the industry. Substantial development has been noticed in the plastic machinery sector coupled with matching developments in the petrochemical sector. Developments at both these ends bolster the plastic processing sector and have facilitated the plastic processors to build capacities to service both the domestic market as well as the overseas markets.

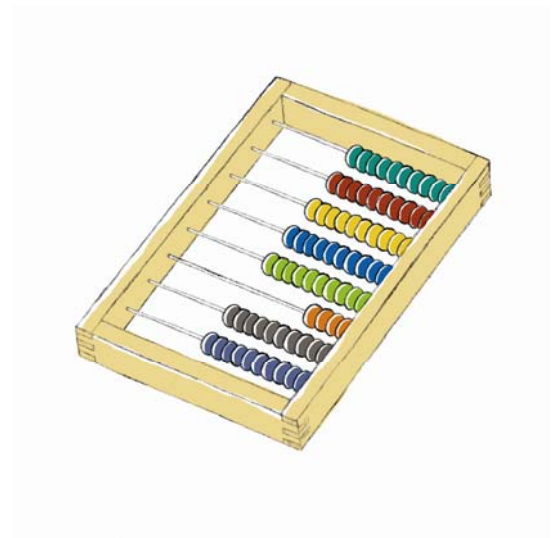
Growth drivers

Opportunities for plastics producers in India include near-term rapid growth in the nation's internal consumption of plastic products. The Indian middle class is 300 million and rising, and the annual GDP growth rate is 8%.

According to industry reports, growth in the plastics industry in India is expected to clock double-digit rate within 5 years.

Also, the Indian reinforced plastic industry is expected to grow at the rate of around 25% in the next 5 years. SMEs have opportunities in transport, infrastructure, wind energy and oil and gas segments.

Furthermore, the Indian composite industry enjoys a robust manufacturing base equipped with considerable expertise in design and development.



Key initiatives

The Government of India has expressed its support for the plastics industry time and again, and a task force on petrochemicals has also been formed to facilitate the following objectives:

- development of high-quality petrochemical products at globally competitive prices
- promote use of eco-friendly processes and technologies
- innovation of newer applications and products with focus on sustainable development

The thrust areas mainly comprise of:

- advanced farming through plasticulture
- infrastructure development through cost effective plastics products
- efficient and better performing plastics for automobiles and consumer durables
- packaging for processed foods and consumer non-durables
- innovative products for telecommunications and information technology services sector

On the backdrop of global financial crisis, the domestic plastic industry is reeling under the pressures of spiraling input cost and slowing economic activity. However, reforms in the business environment encouraged with steps such as low import duty, rationalisation of taxes and levies have been supporting the sector.

The industry, nevertheless, faces challenges in terms of capital cost, feedstock prices, local taxes and tariffs. On the other hand, the import duty on polymers and plastics products in India is one of the lowest in world despite the fact that producers here do not enjoy any competitive advantages or subsidies on raw-material, capital cost, energy or other conversion cost. India with no significant advantage in feedstock cost, energy cost or cost of capital levies 5% import duty on polymers.

Key challenges

Financing options

Routes of finance for SMEs

Type	Start up	Growth	Global
Brief	is ready with the business plan and the product/service is either developed or under development	is already running the business with stable financial base and wants to expand the business	is enjoying success in the domestic markets and looking for global expansion

Sources of finance

Commercial banks and financial institutions	for start-ups, provision of unsecured loans is available only up to a certain extent loan against security/ collateral are available, all terms and conditions required to be fulfilled	as per the nature of requirement, finance is provided: Purchases: Letters of Credit ("LoC") Sales: Bill discounting and factoring The provision of loans is available for purchase of fixed assets, against security	project financing facility: Provision of term loans structured to finance the project over a tenure Syndicated Loans: Structured loans provided by the financial institution/s participating in the expansion process, to co-share the risk elements
Private Equity/ Angel Investment	start-ups with a high-potential business plan can claim for private equity investments, venture capitalists with appetite for entrepreneurial risks and belief in a business idea usually invest	SME businesses with a successful track record may attract private equity Usually, the investor buys stake in the business	depending on the size and nature of expansion, routes of finance are ascertained joint ventures are preferred to ensure organised expansion

On the basis of products and services

- direct finance
- bill finance
- refinance
- international finance
- micro finance
- government subsidy schemes

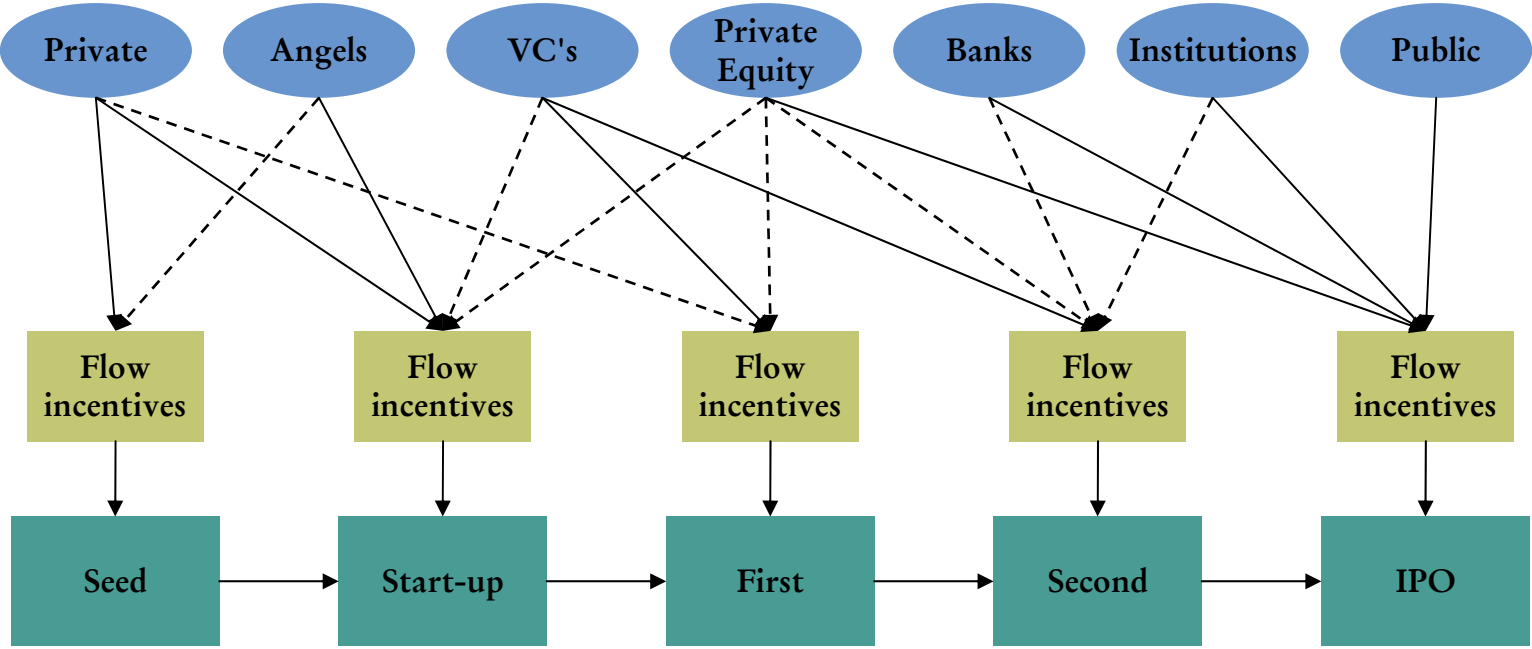
On the basis of category

- institutional investors
- investors
- new entrepreneurs
- existing customers
- women entrepreneurs
- micro finance institutions

In order to facilitate quick financing, the bank has developed a Credit Appraisal and Rating Tool (“CART”) and Risk Assessment Model (“RAM”) to gauge the financial strength and buoyancy of an SME.



Flow and options of financing for SMEs



- Primary
- - - - - Secondary
- Agent

Need to balance benefits and risks

Markets in the last few years are increasingly getting integrated and the world has become one open global competitive market. The internationalisation of business in India is evident in the increase in exports from India, global sourcing by companies and increasing share of External Commercial Borrowings ("ECBs") in the debt financing by companies are all examples of this trend. SMEs are significant participants in this trend and this is corroborated by the fact that the contribution from SMEs is around 40% to total exports and the fact that ECBs which until recently were availed only by large corporates are now availed by SMEs as well.

All the above factors expose such companies to foreign exchange risk and managing this has become the new challenge to SMEs. The factors affecting one economy have ripple effects across other markets and consequently hedging foreign exchange exposures has become an indispensable activity and is fast becoming an order of the day.

Large corporates like Infosys, TCS, Wipro, etc. are actively hedging their forex exposures and now SMEs have also started to embrace forex risk management by entering into derivative positions.

Given this scenario, corporates have to ensure that right risk management policies and monitoring mechanisms are put in place and would be well advised to avoid complex instruments like exotics and structured derivatives.

The use of hedge-effective derivatives using plain vanilla instruments should be encouraged while complex instruments that have no correlation to the underlying business should be avoided. For instance, plain vanilla forwards should be encouraged as against leveraged options, and hedges of foreign currency debt be used rather than cross-currency derivatives. Such instruments are simple to understand, monitor and administer, and would aid the management to focus on the core business and protect against currency volatility and financial risks.

THE KNOWLEDGE CHAMBER

Evolution of Value Creator ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. It has witnessed upswings as well as upheaval of Indian Economy and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country. ASSOCHAM derives its strength from the following Promoter Chambers: Bombay Chamber of Commerce and Industry, Mumbai Cochin Chamber of Commerce and Industry, Cochin Indian Merchants' of Commerce, Mumbai The Madras Chamber of Commerce and Industry, Chennai PHD Chamber of Commerce and Industry, New Delhi.

VISION

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrier less technology driven global market and help them upscale, align and emerge as formidable player in respective business segment.

MISSION

As representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic industrial and social development. We believe education, health, agriculture and environment to be the critical success factors.

GOALS

To ensure that the voice and concerns of ASSOCHAM are taken note of by policy makers and legislators. To be proactive on policy initiatives that are in consonance with our mission. To strengthen the network of relationships of national and international levels/forums. To develop a learning organization, sensitive to the development needs and concerns of its members. To broad-base membership. Knowledge sets the pace for growth by exceeding the expectation, and blends the wisdom of the old with the needs of the present.

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About Grant Thornton

Grant Thornton India

Grant Thornton India is a member firm within Grant Thornton International. The Firm in India was established in 1935 & it is one of the oldest and most reputed accountancy firms in India. Grant Thornton India is also the leading firm in India advising business owners and entrepreneurs with international ambitions.

Grant Thornton India lays special focus on Privately Held Businesses. The firm is equipped with significant experience that has enabled it to provide a wide range of services to numerous entrepreneurs, to run their businesses successfully.

Service offerings

Market	Entrepreneurial services	Domestic capital markets	International business expansion
Services offered	<ul style="list-style-type: none">• strategy• planning• controls• compliance• tax minimisation• family creed• exit	<ul style="list-style-type: none">• going public• corporate governance• compliance• raising finance – debt or equity	<ul style="list-style-type: none">• research• location• set up• ongoing compliance
Offering	<ul style="list-style-type: none">• a cohesive team that can work as part of your business	<ul style="list-style-type: none">• helping Indian companies access public or private capital	<ul style="list-style-type: none">• helping Indian business owners achieve their global ambitions

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