

# Focus on: India

## International Business Report 2010 – Country focus series

### The recovery

With the worst of the global recession behind it and Government action which helped to put a floor under the economy, growth in India is slowly accelerating. Downside risks loom as prices rise sharply owing to the fiscal stimulus and supply constraints, and the Reserve Bank has started raising interest rates as inflation remains stubbornly high.

The key indicators<sup>1</sup> are highlighted below:

- the economy expanded by six per cent in the three months to December, down from 7.9 per cent in the previous quarter
- industrial production, which expanded by just 2.6 per cent in 2008-2009, posted a 16.7 percentage point increase in January
- in the three months to December, exports rose by 2.9 per cent (six per cent year-on-year) whilst imports climbed by 10.8 per cent (1.2 per cent year-on-year)
- the rising price of food, fuel and manufactured goods saw the wholesale price index-based inflation soar to a 16-month high of 9.89 per cent in February.

### Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on India, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in India are slightly more optimistic as regards the outlook for the economy over the next 12 months this year, and three-quarters expect to see an upturn in the global economy by the end of 2010. Business expectations for revenue and profitability are even more optimistic than last year, but cost of finance remains a major constraint on potential expansion.



<sup>1</sup> source: International Monetary Fund, The Economist and Experian.

## Looking ahead

Growth is expected to return to 2008 levels this year – output is forecasted to expand by seven to nine per cent – whilst the longer-term picture remains very positive. There are a number of factors supportive of growth, with the catch-up potential for the economy, in a period of rapid globalisation, particularly strong. The underdeveloped trade sector, alongside low income levels and labour costs, as well as India’s competitive edge in tradable services will be key sectors.

Although the current government is finding reform momentum difficult to sustain, a reversal is still unlikely given that the rewards of gradual reform, in the form of higher income growth, have become apparent. The bigger challenge is expected to be in ensuring that employment growth spreads beyond the major centres if the spoils of higher growth are to be widely shared.

India also enjoys favourable demographics, especially compared with China. The growth in working-age population is likely to slow but only very gradually over the next decade, still remaining at above 1.5 per cent per annum even by the end of the forecast horizon. However, creaking infrastructure is a major impediment to achieving ‘China-style’ growth and a significant risk to the country’s long-term prospects.

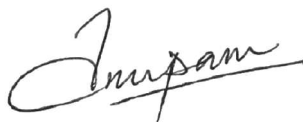
As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for PHBs

India compared to the Asia Pacific average	2008 India	2009 India	2010 India	2010 Asia Pacific
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	+95%	+83%	+84%	+33%
<b>Change in employment levels</b>				
Balance of PHBs expecting an increase over those expecting a reduction	+74%	+28%	+47%	+33%
<b>Constraints on expansion</b>				
Cost of finance	34%	30%	27%	33%
Regulations/red tape	36%	22%	25%	29%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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# International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in India are slightly more optimistic about prospects for 2010; their optimism/pessimism balance<sup>2</sup> has risen by one percentage point from +83 per cent in 2009 to +84 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

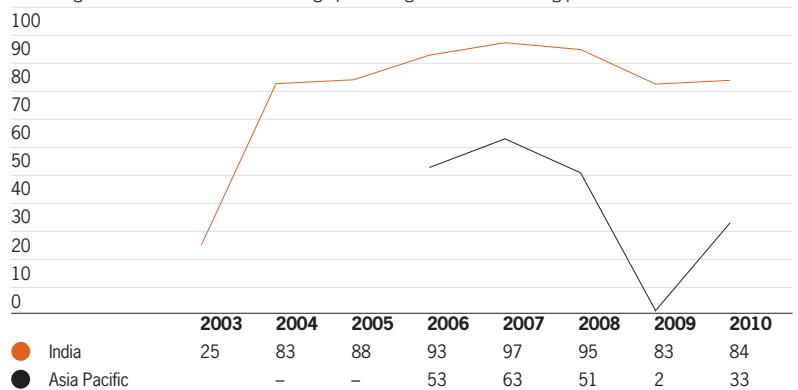
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

## Optimism/pessimism

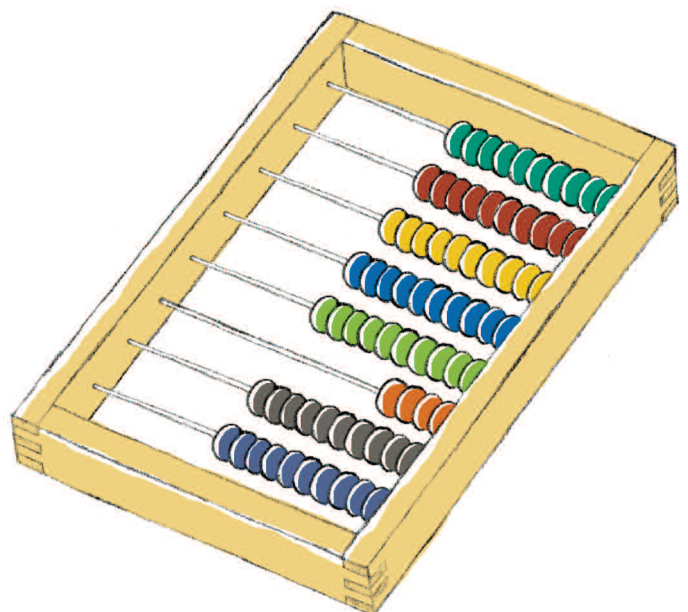
- businesses in India are slightly more optimistic about their economy this year (+84 per cent) compared with 2009 (+83 per cent)
- this is more than double the Asia Pacific<sup>3</sup> average of 33 per cent
- optimism amongst businesses in the Asia Pacific region has risen by 31 percentage points this year, from just +2 per cent in 2009 to +33 per cent.

**Figure 2: Outlook for the economy over the next 12 months: 2003-2010**

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



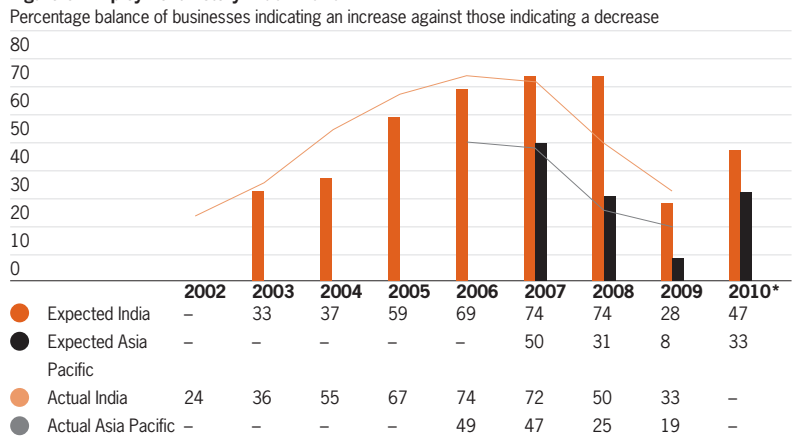
<sup>2</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

<sup>3</sup> 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

- a balance of +47 per cent of businesses in India expect employment to grow in 2010, compared with +33 per cent of businesses across the Asia Pacific region
- this continues the trend observed in previous years of businesses in India being more optimistic about employment expectations than the average across the Asia Pacific region
- actual employment growth reported by businesses in India for 2009 (+33 per cent) was higher than expected 12 months previously (+28 per cent).

**Figure 3: Employment history: 2002-2010**

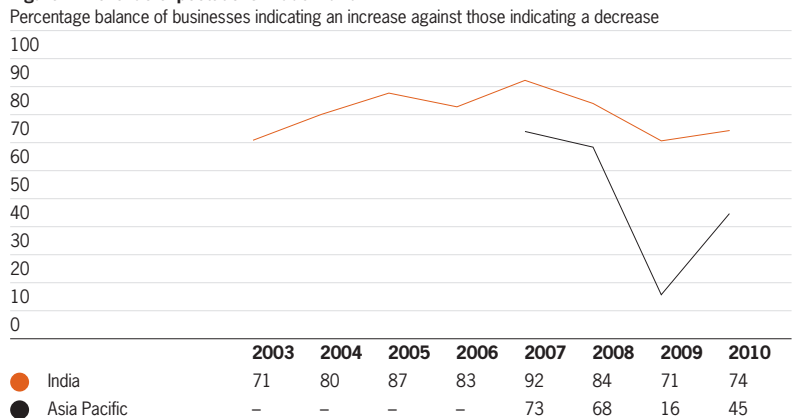


\*actual 2010 data will be documented in IBR 2011  
Source: Grant Thornton IBR 2010

### Revenue expectations

- expectations for revenue prospects have risen three percentage points to +74 per cent this year, from +71 per cent in 2009
- this is considerably more optimistic than the Asia Pacific average of 45 per cent
- the Asia Pacific average has also risen by 29 percentage points from +16 per cent last year to +45 per cent this year.

**Figure 4: Revenue expectations: 2003-2010**

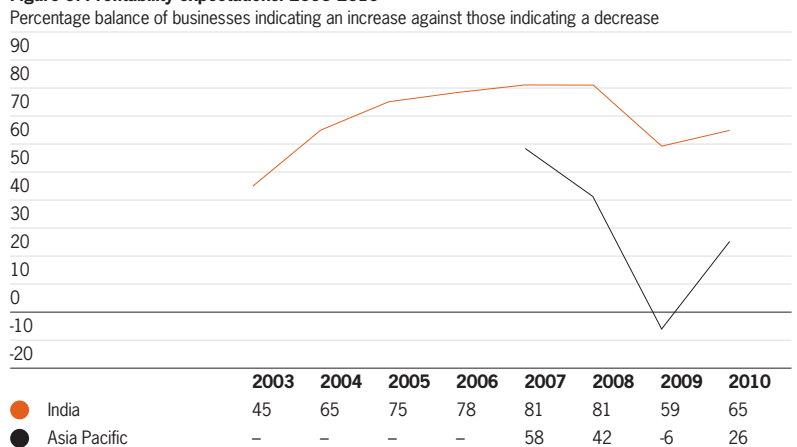


Source: Grant Thornton IBR 2010

### Profitability expectations

- the balance of businesses expecting to increase profits in India has also risen this year by six percentage points to 65 per cent in 2010 (+59 per cent in 2009)
- again this is considerably higher than the Asia Pacific average (+26 per cent)
- the Asia Pacific average has risen by 32 percentage points to +26 per cent.

**Figure 5: Profitability expectations: 2003-2010**



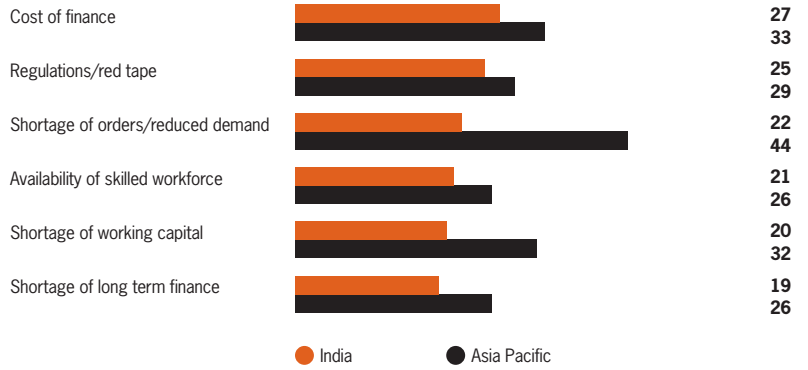
Source: Grant Thornton IBR 2010

### Constraints

- cost of finance (27 per cent) is cited as the most pressing constraint on expansion by businesses in India this year, below the Asia Pacific average (33 per cent)
- a shortage of orders/reduced demand is cited as the greatest constraint by businesses in the Asia Pacific region as a whole, at 44 per cent compared to just 22 per cent in India
- all of the constraints are of lesser concern for businesses in India, compared to the Asia Pacific average.

**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



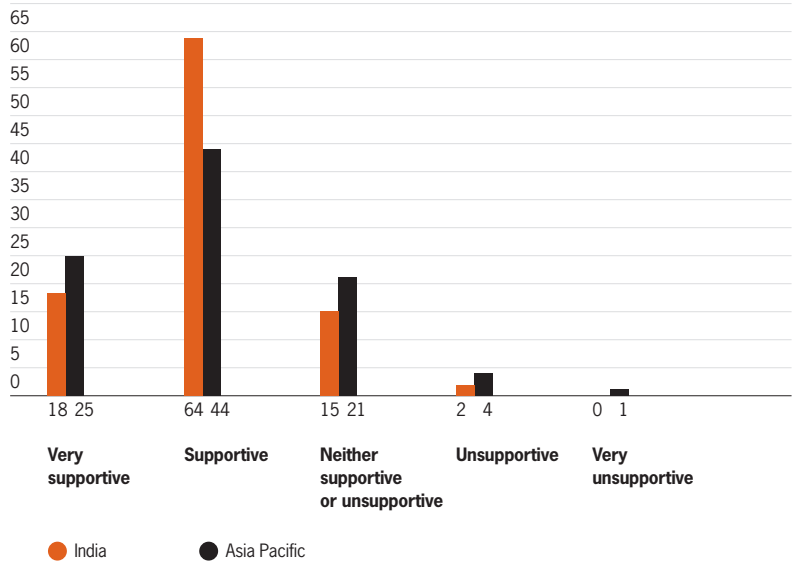
Source: Grant Thornton IBR 2010

### Support of lender

- the majority of businesses in India are happy with the level of support provided by lenders; 82 per cent class lenders as supportive or very supportive towards their business
- this compares with just 69 per cent of businesses in the Asia Pacific region as a whole
- only two per cent of businesses in India believe that lenders are unsupportive or very unsupportive of their business, compared to five per cent across the Asia Pacific region.

**Figure 7: Level of support provided by lenders**

Percentage of businesses



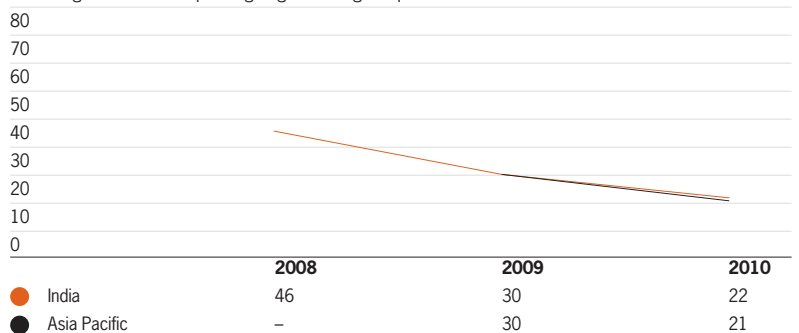
Source: Grant Thornton IBR 2010

### Mergers & acquisitions

- the proportion of businesses in India planning to grow through acquisition this year has fallen, from 30 per cent in 2009 to 22 per cent; this follows a fall of 16 per cent observed the previous year
- the Asia Pacific average also dropped this year, from 30 per cent in 2009 to 21 per cent.

**Figure 8: Plans to grow through acquisition in the next three years**

Percentage of businesses planning to grow through acquisition



Source: Grant Thornton IBR 2010

### Financial sector changes

- one-third of businesses in India believe increased bank lending to priority sectors will have the most positive impact on business
- one-quarter cited micro finance related reforms, whilst one-fifth cited increased freedom of credit rating agencies in public domain and bankruptcy/insolvency reforms
- just six per cent cited none of these changes.

**Figure 9: Changes in the financial sector that will have the most positive impact on business**  
Percentage of businesses

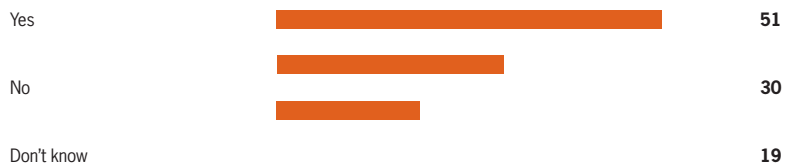


Source: Grant Thornton IBR 2010

### Stock exchange for small businesses

- the majority of businesses in India (51 per cent) believe that India should develop a stock exchange for small companies
- one-third disagree with this
- and 19 per cent are undecided.

**Figure 10: Do you believe India should develop a stock exchange for small companies (eg LSE's AIM) to increase liquidity, transparency and trading convenience?**  
Percentage of businesses



The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In India 350 PHBs were surveyed across all industry sectors. These businesses ranged from small to large in size with total turnover of between US\$12.5 million and US\$250 million.

To find out more about IBR and to obtain copies of reports and summaries visit: [www.internationalbusinessreport.com](http://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	Japan
Armeria	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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