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Doing Business in India – An Entrepreneur's Perspective[1]

It is an oft-repeated cliché that India is a complex and difficult market. This is not far from the truth. The economic liberalisation measures, initiated 1991, have seen the country make significant progress towards emerging as an important business partner and investment destination in recent times. However, doing business and investing in India continue to remain a challenge. Despite that, there is the potential of finding the proverbial pot of gold at the end of the rainbow if one perseveres and looks at the country as a long-term prospect.

Gopinath Pillai[2]

It would perhaps be too naive to believe or too optimistic to expect a paper of this nature to enhance one's knowledge totally on doing business and investing in India. However, it may be useful in that it provides an important perspective on the nature of the business landscape in India. It also looks at some of the practical challenges of doing business in India and outlines views on several important aspects of advice to potential investors looking at the Indian market.

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1 This paper is an adaptation of a presentation made at a dialogue session at the Institute of Policy Studies, Singapore, on "Doing Business in India" on 14 August 2017.

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The first part of this paper traces the personal experiences of the author and his partners, highlighting some of the issues faced in making inroads into India. The second part examines the reasons why Singaporean companies, apart from the government-linked companies and the Temasek-linked companies, have not invested significantly in India, even though Singapore is the largest investor in India. The foreign direct investments from Singapore to India totalled S$18.4 billion in Financial Year 2015-16.[3]

Strategic Decisions

A business or investment foray into any country requires an intimate understanding of the market and the ability to devise appropriate strategies to capitalise on opportunities as well as minimise the risks. The author's first investment foray into India was a venture, along with three Singaporean partners, to purchase a software company in the 1990s. Owned by British investors, it was losing money and they had decided to sell it.

The first strategic decision was to engage with the Indian management staff, the original minority shareholders, while ensuring that the control remained with the Singaporeans. This was followed by the second strategic decision – the closure of three offices in India that had been established to carry out marketing in three different cities of Europe. Thereafter, the Indian company, with its sole office in New Delhi, became responsible for all marketing efforts. This reduced the cost significantly. The company turned the corner in less than three years. The third strategic decision followed soon when another British company offered to buy the company, provided the management stayed. The management staff negotiated with the potential buyer and received fair employment terms while the investors too got a good deal.

The obvious lesson is that one must not become obsessively attached to one's business and run the risk of failing to see the potential opportunities which it might indeed bring. In India, when a business does well, there is a high chance that it will attract investors and/or business partners, perhaps more so than in most places – it is a fast-growing market with strong internal demand.

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3 "For investments into India, focus on five states: Pillai", *The Business Times*, Andrea Soh, 31 March 2017. https://www.iesingapore.gov.sg/Media-Centre/News/2017/3/For-investments-into-India-focus-on-five-states-Pillai. Accessed on 12 September 2017.

Choices and Judgments

Success does not necessarily breed success. Every business experience in India is different, even in the same sector or industry. A lack of understanding or appreciation of the sector or industry can be disastrous.

Emboldened by the success with the software company, the author and his partners decided to venture into information-technology (IT) training on a big scale and formed a joint venture with a well-known Singaporean IT training company. However, the foray into IT training turned out to be a disaster for a variety of reasons – the most important being the lack of knowledge of the Indian IT market. The assumption that Singapore was way ahead of India in IT training was flawed. The business venture did not turn out well.

Not all businessmen have a 20/20 foresight, that is, the ability to look far ahead and around corners. In India, it is, however, important to comprehend political and economic developments, make entrepreneurial assessments and take calculated risks. Playing very safe can simply be costly. The author and his partners were approached by the promoters of a company to invest in it. Unimpressed, the Singaporean businessmen declined the offer. The company, Infosys, is today a billion-dollar enterprise; the training company set up by the author and his partners is closed.

However, the experience was not a wasted one. It offered an important lesson. In India, things are seldom what they seem to be.

The Luck Factor

All businesses require some degree of luck to succeed. This is perhaps one of the most understated elements of any business or investment venture in India. Even with a chest full of cash, the best strategies, highly-skilled management and detailed business plans, an enterprise can struggle to stay afloat in India.

The success story of the author and his partners in India was not the result of a well-planned strategy – it was something of serendipity. While looking for land to build a warehouse for its newsprint trading business, their Indian trading associate suggested that they build a container freight station which could serve as a warehouse as well as a container yard with facilities for stuffing and de-stuffing containers, an idea that was totally new to the Singaporean businessmen. A study commissioned to a small market research company in Chennai confirmed that it was a good business proposition. However, it pointed out the many hurdles the Singaporeans would have to overcome, which raised concerns for the author and his partners on their ability to undertake such a project. The response from the Indian lady who conducted the assessment was interesting, “You are thinking like a Singaporean. In Singapore, you run to your government when you have a problem. In India, we run away from the government and then solve the problem ourselves.” This is an important point. When in India, Singaporean businessmen and investors must get out of their Singapore skin – they will not succeed if they expect assistance from different agencies in India to help overcome various issues relating to the establishment or operation of a business. Only an ingenious business mind will survive and thrive in India.

The author and his partners decided to proceed with the project, co-opting three other Singapore companies – CWT Limited, a Port of Singapore Authority subsidiary, Parameswara Holdings and Thakral Corporation – and also an Indian partner. The company, Gateway Distriparks Ltd, grew to be a large profitable operation which was listed on the two stock exchanges of India. The company expanded its logistics platform and acquired majority interest in a cold chain operation called Snowman which was started by Mitsubishi Corporation and Nichirei of Japan. The partners managed to turn it around and listed it on the Indian bourses. The initial public offering was oversubscribed 60 times.

On the issue of timing, one major factor contributing to Snowman’s success was that, fortuitously, it was the first company to be listed after Narendra Modi swept to power as India’s Prime Minister in May 2014. This was not anticipated by the partners but the many delays along the way made it happen this way.

Challenges

Doing business and investing in India is never smooth-sailing. One will face various challenges in starting a business or investing in the country. The business path of the author and his partners was no different.

There were three major problems faced during the project's implementation. There were bureaucratic delays, problems related to the acquisition of private land and funding. The state organisation responsible for allocating land took two years to confirm the first piece of land for the author and his partners. As a result of the delay, CWT Limited, which was to provide the management for the investment, withdrew from the project. However, the author and his partners managed to get a credible team, headed by a Singaporean, as the replacement. Herein lies the important lesson of being prepared for the unexpected in India, and being able to respond to it effectively and efficiently. Anything and everything can happen in the business landscape in India.

The second challenge was the purchase of private land, which was mostly classified as agricultural land, for the company's expansion. This entailed a conversion of the land from agricultural to industrial purposes, called "change of land use" (CLU), before anything could be built on it. In order to overcome the challenge, the Singapore businessmen informed their vendors that they would only purchase converted land, albeit at a higher price. This was less cumbersome than having to handle the CLU procedures. This worked wonders as the owners of the land knew how to manage the conversion. The Singapore brand conferred credibility on the Singaporean businessmen in the eyes of the owners, who knew that the former would keep their word and take possession of the land after its conversion.

The third challenge was getting debt-funding. Though the banks do not require a director's guarantee, they charge high interest rates. The Indian Industrial Development Bank, the Singapore venture's first lender, charged 22-per cent interest. Any Singapore business venturing into India needs to be aware of this. Over time, the author and his partners were able to negotiate a lower interest rate – as their business grew they made the banks compete for their business. The rate came down to 18 per cent. Currently, it is about 12 per cent. This shows the degree of flexibility the system in India can offer.

Singapore Investors and India

The second part of the paper looks at the difficulties that investors, especially Singaporeans, routinely face in India. This is so, in spite of the fact that Singapore has the highest brand equity in India.

To start with, most Singaporean investors are unprepared for India. They get a cultural shock when they reach India. The filth on the road, the woman carrying a child with running nose and matted hair knocking on their taxi windows when it stops at a traffic signal, the frequent delays in flights and the large crowds everywhere unsettle them, and they take sanctuary in the hotel which, however, is as good as any you find in Singapore but with a far better service indeed. The Koreans and the Chinese have no problems with such scenes – they take them in their stride. Singaporeans are used to structured situations. For them, India is chaos. There is also a certain degree of cultural incompatibility. Indians underestimate the visual impact of unseemly sights.

Another issue is the lack of entertainment in the evenings which Singaporeans are accustomed to. The Indians will host a good dinner, and the conversation is mainly about politics and cricket, both of which are of little interest to the majority of Singaporeans.

There are other issues as well. Many Singaporeans prefer to avoid India for these reasons, regardless of the potential opportunities it offers. The Japanese fare slightly better because they have decided that India is a market they want to be in. Frankly, there are not many places where one would get a better return on his/her investment than in India.

Advice for Aspiring Investors

The experiences of the author and his partners provide four important lessons for aspiring investors looking at India.

The first is the choice of a suitable business partner in India. This is important. Like in many other countries, business integrity need not necessarily be a priority in India.

Secondly, potential investors should never trust or commission the many people who would approach them with offers of being able to resolve issues dues to their intimate connections with Indian ministers and officialdom. Potential investors will not only be taken on a wild goose chase but will also become embroiled in legal entanglements which would take almost a lifetime to resolve. When the author signs an agreement in India, there is a clear understanding that, if there be issues, the Indian and Singapore sides must resolve them as quickly as possible by agreeing to arbitration preferably in Singapore.

The third piece of advice, which perhaps is the most important, concerns the attitude of potential investors. If they are serious about doing business in India, it is important that they develop empathy for the country and its culture, and make the effort to understand its politics which, most of the time, is volatile. Singaporeans have the tendency to compare India with China, stating that it is much easier to do business in China. This no doubt is true. However, the silver lining in India is that, unlike China where the party secretary or the mayor has the last word, in India, businessmen have several channels to redress their issues – some of these are quite effective.

A final strand of advice is about choosing a proper location for the business. A potential investor knows rather well the industry in which he/she is going to invest. The decision then is to choose the appropriate state for that investment. At the moment, there are four or five states which are worth looking at. These are Andhra Pradesh, Gujarat, Maharashtra, Karnataka and Tamil Nadu. A potential investor must do the necessary field survey before making an inroad into India.

Conclusion

At present, the Bharatiya Janata Party, which governs India and many of the states, is in a strong position and probably will remain in power for another term after the next general election in 2019. This implies a degree of continuity in policies for the next seven years. The government has introduced various measures, including the Goods and Services Tax, which are favourable for businesses. The government is taking the necessary steps to make India a pro-business destination.

On the future of India, the answer to the question lies in the fact that the author, at the ripe old age of 80 years, has just invested in a greenfield project to hopefully establish the largest cold chain operation in India, together with two partners, one who is 83 years old. This investment reflects the confidence of seasoned Singapore businessmen in India being a highly-promising investment destination.

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