Needed: Strengthen Indian Businesses

CONSUMER CONNECT INITIATIVE

Over the past few years, a persistent buzz has intensified among Indian corporations. The Union government seems to be projecting the country as a great destination for foreign investors. There's a lot of talk about FDI (foreign direct investment), and several initiatives have been floated to facilitate overseas investments in our economy.

That's not necessarily a bad thing. But Indian companies which have spent generations building the foundations of the nation feel side-lined and not encouraged by the government from investing further in the country. Factors such as favourable tax rates in western as well as other Asian countries, and the hazards of doing business in India are also pushing many Indian companies to invest overseas rather than in their own country.

How this grievance can be addressed was the focus of a panel discussion among a group of leaders at a pre-Budget session in Chennai, conducted by PwC India - an initiative supported by The Economic Times. Dr G.S.K. Velu, Founder CMD of Trivitron Healthcare, set the ball rolling when he pointed out that foreign businesses have no obligation to invest in India. And with the US and UK incentivising local operations, India cannot depend only on FDI for investments. Pointing to China, Velu said: "Domestic manufacturers with domestic ownership are given first preference in purchases of the government. We talk a lot about Make in India, but there isn't any talk about 'buy in India'." Apart from China, countries such as Mexico, Turkey and Malaysia all welcome foreign investment, but also offer significant incentives for domestic investments.

With concurrence amongst the panellists on the views expressed by Velu, there were suggestions aplenty for the government to redress the situation. "There is no investment being made by Indian companies in India," said S.G. Prabhakaran, Chairman, XS Real Properties, who felt that to change the situation, exemptions must be removed. "Make a level playing field for large and mid-sized companies. This is where corporate tax plays a role."

While corporate tax rates in India fell from 34 per cent to 30 per cent last year, they are still uncompetitive compared to other economies such as China, Indonesia and even the US and UK, where the rate is around 20 per cent. Prabhakaran also felt that small companies with profit before tax of less than Rs 1 crore should be levied lower corporate tax rates than larger enterprises - currently it is the opposite - because they are the ones that can create the millions of jobs India needs.

Standing (L to R): Alokesh Bhattacharya (Moderator), Kaushik Palicha, Ganesh Raju K, T. Chitty Babu, Shashank Jain **Sitting (L to R):** G.S.K. Velu, Shuba Kumar, Pramad Jandhyala, S.G. Prabhakaran

Kaushik Palicha, Director, Ram Charan group, felt the government's focus should be more on making it easy for businesses to operate in India instead of giving incentives. "Incentive to me is a word that comes loaded with giving out money," he said, giving the example of how the Canadian government provided a single window for his company to set up operations there. "We should do this rather than just incentivise, which leads to inefficiencies both within the business and outside."

Palicha's views were seconded by T. Chitty Babu, Chairman and CEO, Akshaya Homes. While appreciating the moves to streamline the real estate sector through initiatives such as the Land Acquisition Act and RERA, he pointed out that companies still needed an astounding 58 approvals from 58 windows before launching a project. A single window mechanism would drastically reduce the time taken to develop property and the cost for the consumer. "Single-window clearance is against the will of the people who are into the practice of corruption," he said. "So, it's going to be a challenge for the government to implement."

Another facet to the discussion was added by Ganesh Raju K, Partner- Private and Entrepreneurial Services, PwC India, who emphasised that instead of looking at the government for support all the time, Indian companies needed to change their mindset towards innovation and R&D first. Raju also added that without money coming into innovation in a big way, Indian companies won't ever be able to compete with their counterparts in the US, the UK or Israel.

Shashank Jain, Partner- Deals, PwC India, said, "we need to figure out a way to encourage entrepreneurs by providing easy access to capital, not free capital but easy access".

That all FDI is not bad was a point made by Shuba Kumar, Director, Natesan Synchrocones. When large auto OEMs come into the market, they create demand, which trickles down the chain. But the government needs to create a level playing field. "Incentives are given heavily. States compete with each other in giving subsidised land, electricity, guaranteed power," she said. "We should remove subsidies for FDI and move that money into the economy for other things." She also pointed out that the offset obligations in defence and aerospace have not really brought real technology into the country. Why? "Many contracts with the OEMs abroad have core technology still being imported," said Kumar. "Even though we have capabilities to make these things in India, contractual obligations prevent purchases from Indian organisations."

It was also felt that the government could help Indian companies looking to expand their operations overseas. "The government can help business gain access to credit overseas," said Pramad Jandhyala, Co-Founder & Director, LatentView Analytics. "That is necessary, especially for knowledge-intensive services businesses like ours. It is very hard for us to get access to capital abroad initially."

Practically all the panellists felt that the Budget this year would be a pragmatic one, with a small dose of populism injected to sweeten the hardships following demonetisation and GST.

Chitty Babu felt that while RERA has helped organise the real estate sector and eliminated the flyby-night operators, the regulation would increase the cost of property by almost 30 per cent in the short term, a view seconded by Prabhakaran. That's because the fear of RERA has forced a slowdown in project launches, keeling the market balance from supply to demand. The government's digital push - symbolised popularly by demonetisation - needs to be continued despite the short-term pains. As Jandhyala so aptly put it: "There will be some collateral damage in the process, but you need to do that to make India resilient and ready for the 21st Century."

ACTION POINTS FOR BUDGET 2018

- **Infrastructure** Increase spend on innovation, education, and healthcare to drive growth
- **Ease of Doing Business** Single-window clearances to make it easier to carry out business operations in India
- **Competitive Tax Rates** Reduce corporate tax rates to encourage Indian companies to invest and expand in India
- **Preferential Procurement** Priority to be given to domestic manufacturers and SMEs in government procurement
- **Access to Capital** Easier and low cost capital for smaller companies looking to expand global

Top Recommendations for BUDGET 2018

In the West, almost 15% of family office funds is invested in start-ups; in India, it's less than 1%. Entrepreneurs who have made money are not investing in innovation and R&D

Ganesh Raju K
Partner- Private and Entrepreneurial Services, PwC India

Smaller domestic companies have the advantage of local knowledge, awareness, etc. We need to figure out a way to encourage them by providing easy access to capital, not free capital but easy access to it

Shashank Jain
Partner - Deals, PwC India

In China, domestic manufacturers get first preference in government purchases. In India, companies are reluctant to invest because they don't get any incentives for government purchases

Dr. G.S.K. Velu, Founder Chairman & Managing Director, Trivitron Healthcare

We have enough laws; intervention at the government level, from approvals to execution to delivery is a big challenge for domestic players

T. Chitty Babu,
Chairman & CEO, Akshaya Homes

We need a roadmap that shows where the government wants policy to go. Industry can figure out how to meet those timelines. That's the top priority for investment

Shuba Kumar,
Director, Natesan Synchrocones

Government needs to look at Indian companies. Remove exemptions. Make a level playing field for large and mid-size companies. Corporate tax will play a role here

S.G. Prabhakaran,
Chairman, XS Real Properties

If jobs are a big priority, it makes sense to support MSMEs on the basis of jobs being created and innovation, besides deduction in taxes

Pramad Jandhyala,
Co-Founder & Director, LatentView Analytics

Government should provide a single window to work with rather than incentivizing, which leads to inefficiencies. Make it easy for us (Indian companies) and we can scale up

Kaushik Palicha,
Director, Ram Charan