PRIMUS PARTNERS

TRADE AND INVESTMENT BULLETIN

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The increasing need for a central Foreign Direct Investment Quality Framework

The massive behavioral change experienced by the vast population of the country with huge shifts in how services are experienced even before the pandemic struck is not just an amazing story of transformation at epic historical scales but also reflects on the Governments' willingness and belief that there is a greater need for downstream indicator integration for large scale social reforms.

Amidst the noise of a sharp economic recovery with the pandemic hopefully waning off, the market bull run and increasing traction of investors enquiring for scaling or diversifying their subcontinent production plans, the clock seems to be turning towards somewhat cautious euphoria that if managed carefully could do wonders to the economic indicators. There is the recent announcement of neighboring tax heavens bailed from the FATF grey lists that are expected to churn the wheels of Foreign Investment Portfolios making headways into the bullish market.

Also, there is phenomenal attention meeting the multilateral global social goals like never before that would essay the narrative of **'Ease of Living'** and access to **'Quality Social Infrastructure**' over the next decades which will put the lid on mere capitalist indicators.

India has attracted **FDI** at record levels even during the COVID-19 pandemic with total inflows amounting to $81.72 billion in 2020/21, 10% higher than the previous financial year which shows the confidence of the investors in India's short- and long-term growth prospects. Utilities, particularly **energy infrastructure, financial services, and healthcare** were other highly ranked sectors that are expected to rake in the big attention**.** Ironically, the attention to these sectors has found further thrust especially when the pandemic's second wave was ravaging the country.

The global business community, therefore, sees a golden opportunity by filling the dire gaps that exist in these sectors which otherwise should have been on the top of the social reforms agenda. Yes, these will be a big boost to the services, but there is also a greater concern on the cost of such services with Private Players waiting to capitalize on the imminent huge untapped market opportunity.

This, therefore, brings us to a crucial point if there is a need to find a structure to answering **'Which Investments'** Vs. **'How much Investment'.** Of course, what we do not want is for the international investor community to be put off since they already have a complex journey ahead while choosing to invest in the country. **The intention is to bring greater visibility for understanding how these investments impact the social indicators of the country.** For example, designing a framework that allows the investment to be scored based on how it is helping the country attain goals such as empowering the cause of women employment, direct jobs created amongst the underprivileged, utilized floor ratio area, carbon footprints, value chain contribution and the list goes on.

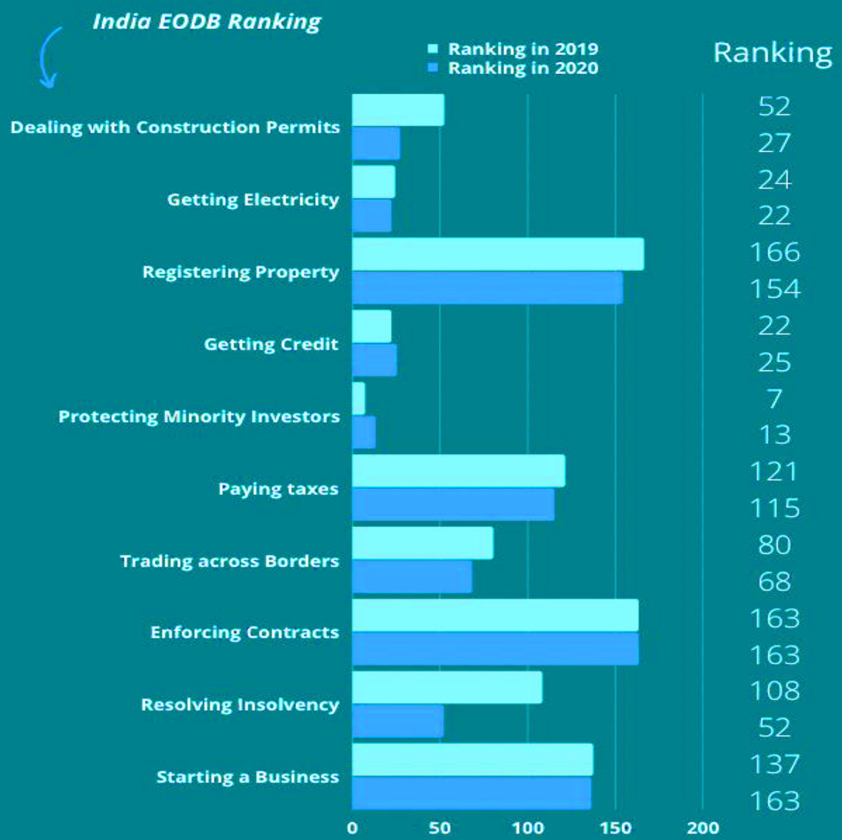
The RBI has the FIRMS portal where any FDI Investor is to fill a form with transactional details of their investments and company information, however, DPIIT, which is the champion ministry facilitating the grounding of these investments is dependent on the data been received from RBI which greatly limits the information to the mere transaction only. This, therefore, is a starting point for the lack of quality information available on any such investments in the country. **Is there therefore a greater need to work on a common system that gives greater visibility on how these investments will behave over time in meeting the social goals and the very reason why we need these investments in the first place?** With the digital transformation of services and centralized integration of the databases, imagine the real data gold mine that we are sitting on. **Now imagine the cadence effect that would follow if at all this had to be piloted in the close future. Your inquisitiveness is as good as ours.**

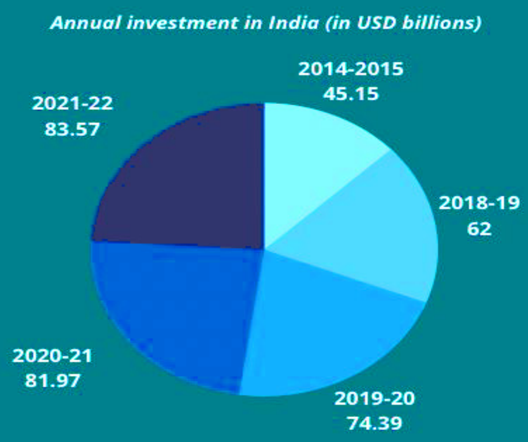
DOES EODB NECESSARILY MEAN MORE INVESTMENTS?

Ease of Doing Business is viewed as a strategic tool to enhance the business ecosystem and translate into increased investments at national and subnational level. It is commonly perceived that complying to the Ease of Doing Business (EoDB) guidelines can augment the flow of the FDI and encourage the expansion of existing firms.

However, the reality is different. State like **Tamil Nadu** have demonstrated that the rankings alone are not sufficient to attract investments. As per the State Investment Potential Index 2018, Tamil Nadu ranked 2nd (moved up from the 6th position in 2018) in terms of attracting big ticket investments. During the same year the State ranked 15th on the EoDB index

It is applaudable how the reforms at the sub national level have been streamlined and more transparency was promoted among various departments by leveraging the EoDB recommendations. The digitalization did spur an ease of applying and availing approvals within the time bound manner.
This aided the investors with **eased application approval processes** and contributed towards **decreased project gestation timelines**.
For the initial years, the EoDB index and guidelines assisted the sub national governments in assessing and evaluating the procedures and processes to identify the hurdles and inter dependencies. The tool was of a greater benefit in streamlining their processes to enhance efficiency and effectiveness.
However, over the years, it was realized that the index is guiding the state theoretically, and thus a need was felt to focus on implementation of the recommendations and reforms. The Framework was evolved to capture the ground level investor perception to gauge the on-ground situation. However, it still is not able to contribute directly to the FDI inflow.





Industry driven infrastructure and ease the regulatory hurdles be tramlining processes. It holds **an indirect impact towards triggering investments and can be used as a tool to navigate and ease the regulatory landscape of the country.**

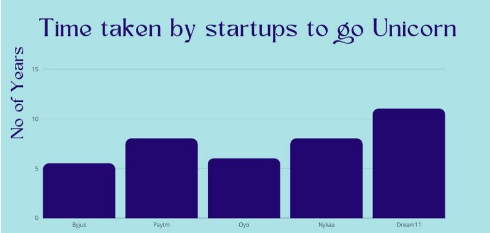
BUILDING THE INDIAN STARTUP ECOSYSTEM BEYOND VALUATIONS

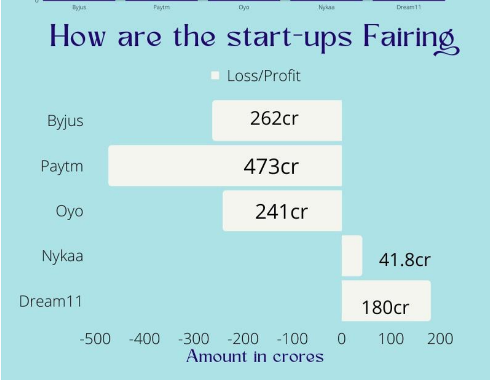
"If Opportunity doesn't knock, build a door" - Milton Berley

Start-ups are the strongest manifestation of entrepreneurship and innovation which plays a significant role in the economic growth of the country. It has witnessed the growth of start-ups at a faster average growth rate than many developed countries such as US, UK etc. Due to remarkable confluence of changes in the funding and regulatory matters, positive business environment along with progressive initiatives and policies by the Government over the past two decades. India recently completed the milestone of 100 unicorns which are collectively valued at approximately $332.7 billion out of which only 25 of these coveted unicorns are profitable, according to start-up tracker Tracxn.

Therefore, rising from a nascent stage to become a unicorn, commanding billion-dollar valuations does not guarantee the success of a start-up. This is mainly because these valuations are speculative and backed in a particular time period, which is heavily dependent upon the external market conditions, economy etc., along with the trust shown by the deep-pocket investors from the private equity promising success & returns in the future, irrespective of their profitability. A major question here arises, is becoming **"UNICORN", the prime objective of every start-up or an outcome of its growth?** Global precedents show that becoming unicorn is not a pre-requisite for success or profitability of a start-up.

For instance, Uber Technologies Inc., world's most valuable internet start-up in May 2019, which listed its shares in the US would not have slid by nearly 8% by the end of trading. It was one of the most highly anticipated IPOs in recent years. Soon, it turned out to be a bitter disappointment for the pioneering transportation start-up. Therefore, becoming a Unicorn is just a milestone, and not accomplishment for any start-up.





UNICORNS

Byju's is valued at 21 billion $ in 2022 and it is a edtech company and it took 5.6 years to reach the unicorn status

Oyo is a room rental service .It took and it took 5.5 years to reach the unicorn status.

Sorting

Paytm is a paymennts processor company and it took 8 years to reach unicorn status.

Nykaa is a beauty products company and it took 7years to reach unicorn status

Dream11 is a Fantasy cricket and football game company and it took 11 years to reach unicorn status.

It is pertinent to note that with the start-up ecosystem further proliferating into the country, balance of growth and profitability are the twin need for sustainability of this ecosystem as it is not easy for investors to keep funding losses if it is perpetual. In the past, many start-ups have been valued on price over vision which faced a lot of downturns in the real world where companies are valued on free cash flow. Instead, companies should focus on calibrated approach to growth comprising of research & innovation, upgradation of skills, technological advancements which leads to job creation and growth in the country. This will increase the focus of start-ups on value rather than valuations, helping in achieve the goal of self-reliance in the country.

EXPERT SPEAKS

The path for India to lead the world.

Mr. Poul V. Jensen

MANAGING DIRECTOR,
EUROPEAN BUSINESS AND TECHNOLOGY CENTRE (EBTC)

As Managing Director of EBTC, the European Business and Technology Centre, Mr. Jensen supports the creation of eco-systems and platforms for Indo-European business, technology and innovation collaboration in dynamic sectors such as Mobility, Transport, Logistics, Water, Energy, ICT and Environment.

Prior to EBTC, from 2005-2010, Mr. Jensen was MD of the Indian subsidiary of a German logistics and supply chain consultancy, advising both international and Indian investors and operators in a variety of sectors. He also advised Government of India on logistics and port development.
Mr. Jensen holds a bachelor's degree in International Trade from the Copenhagen Business School, Denmark, and a master's degree in Business Administration from Bayes Business School, London (former Cass Business School).

1. Question: What are the top 3-5 areas where you see India leading the world in this decade?

Answer: The areas where I see India making significant strides in the coming years are logistics, digitisation, and mobility, as well as decentralised solutions within many sectors.

Currently, the costs of the logistics sector are around 14% of GDP, standing as an obstacle to India's domestic manufacturing and export potential on the one hand, as well as its strategic position as a bridge between East and West, on the other.

The National Logistics Policy expected later this year may catalyse standardisation across the sector, which is important to attract significant foreign investments. The decision to classify the logistics segment under the ambit of the infrastructure sector has opened the route to more attractive financing and investments.

As an example, the development of the Delhi-Mumbai Industrial Corridor (DMIC) is set to provide a boost to not only the manufacturing but also the warehousing & supply chain sectors.

At the same time, the Indian government's focus on digitisation, in logistics, as well as via the e-Governance portal, the Digital India drive and the Start-up India Initiative, have been pivotal in advancing the digital transformation in India.

SMEs form the backbone of both the European and Indian economies, and it is crucial to

provide a mechanism for their greater adoption, today. As consumers increasingly move towards e-commerce, it is crucial for all businesses, especially SMEs, to understand, adopt and integrate digital solutions. Digitisation of inventory management, enterprise resource management, customer relations management, big data analysis, digital payment systems, and more, helps efficiently identify and target potential clients.

I believe that India, with the world's soon to be largest population, will be pioneering new mobility concepts. India has shown a significant appetite towards championing sustainable urban-mobility solutions, driven by the SMART Cities Mission and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT).

The government's FAME-II scheme fostering electric mobility in India, its strategic focus on the National Hydrogen Mission to propel sustainable mobility, as well as its implementation of incentives for the development of Sustainable Aviation Fuel (SAF), are set to develop the sector in India, contemporarily and holistically.

2. Question: India has significant achievements in R&D across sectors but there is still a lot more to be done. What according to you are the top 3-5 interventions that can help in exponentially increasing the efficiencies of the R&D ecosystem in India?

Answer: R&D spending in India continues to be lower compared to European economies. India's gross domestic expenditure on R&D (GERD) in 2021 was estimated at 0.66% of GDP[1], significantly lower than the 2.32% of GDP seen in the European Union in 2020[2].

As much as two-thirds of R&D investments in India originate from the public sector[3], whereas almost the same figure is contributed by the private sector in Europe[4].

In recent years, there has been a distinct trend of increasing foreign investments in the Indian R&D sector. Earlier, such investments were mainly towards cost arbitrage, i.e., back-end and administrative spending, now, there has been an increasing movement towards investments in innovation and technology.

In CY 2021, India attracted a six-fold increase of USD 343.64 million in FDI inflows in the R&D sector from the previous year[5], with European enterprises playing a significant role.

Indeed, European companies, such as, ABB[6] and Philips[7], have been dramatically increasing their R&D investments in India. The intention here is not just to leverage significantly lower costs of business and a highly skilled workforce but also to invest in R&D specific to India, a large and diverse market.

The number of IP patents in India rose five-fold between FY 2014-15 to FY 2021-22. Increasingly, IP is being seen less as a burden and more as an asset.

The protection of IP rights is one of the most significant factors for foreign businesses considering the Indian market. As the implementation partner in India of the

the India IP SME Helpdesk, funded by the European Commission, EBTC is working towards bridging the gap between European and Indian enterprises in the field of IP, thereby facilitating and enhancing bilateral investments in innovations, technologies and R&D.

In my opinion, India can take two giant leaps in improving the R&D ecosystem. One, would be to focus on demand-driven R&D that serve
to focus on demand-driven R&D that serve business goals and purposes. The other would be to outline clear pathways and unified strategies for ease-of-access and ease-of-doing business among innovators.

3. Question: SDG is a primary topic for governments across the globe. How is EBTC working with India towards meeting the 2030 goals?

Answer: Look, EBTC was born out of SDG 17 if you will - “Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development” - EBTC is such a “mean of implementation”. As facilitators of bilateral and multi-lateral co-operation in the Europe-India Business Corridor, we are all about sustainability and we are all about compliance, collaboration and communication. EBTC dovetails the recent developments such as, EU Green Deal, EU Raw Materials Initiative, European Investment Bank’s membership of CDRI, the EU Connectivity Strategy, the Global Gateway, and more. And with India’s commitment to net zero and ratification with the Paris Agreement, the EU-India Partnerships across a variety of sectors, form a fertile ground for sustainable growth in-line with the UN SDGs.

We are always keen on keeping both regions reaping the benefits of each other’s capacities and progress through various strategic programmes that support sustainability-focused companies, particularly SMEs.

Sustainability being the common theme of all things EBTC, our transport, aviation and sports clusters are working towards implementing demand-driven projects and mandates that further not only the economies of both regions, but also ensure that there is a sustainable footprint to business and progress.

FDI OR FPI.
WHAT IS MAKING THE INDIA STORY TICK?

Foreign private capital can unlock developmental goals for the country and aid significantly the economic and social growth. It is required for economies to strengthen and build stronger infrastructure, create sustainable social development, upskill workforce and trigger economic growth.

Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) are similar in terms of flow of foreign capital, however, the impact created by the two mechanisms varies. The **RBI** differentiate the two instruments basis the percentage the post issue paid up equity capital. India has witnessed a total FDI inflow of USD 847 Bn and USD 225 Bn over the last 12 years.

While FDI is a most common route preferred by the companies to make a stable investment in foreign geographies, FPI is also an important source of funding. FPIs are important for Indian Economy to create a ready capital pool for firms to invest in larger projects. FPIs if channelized effectively hold a key to fund larger Infrastructure project and meet the infrastructure requirements of the country.

The FDI mode of foreign investment have shown growth trends. India has attracted the attention of international firms in this area and the increased FDI trends is a testimony to this cause. While FDIs directly contributes to the economic growth of an economy, FPIs can further trigger development across key national priorities such as Infrastructure by creating a ready capital pool.

FDI on the other hand continued to increase in 2020 and 2019 amounting to USD 74 Bn and USD 62 Bn respectively.

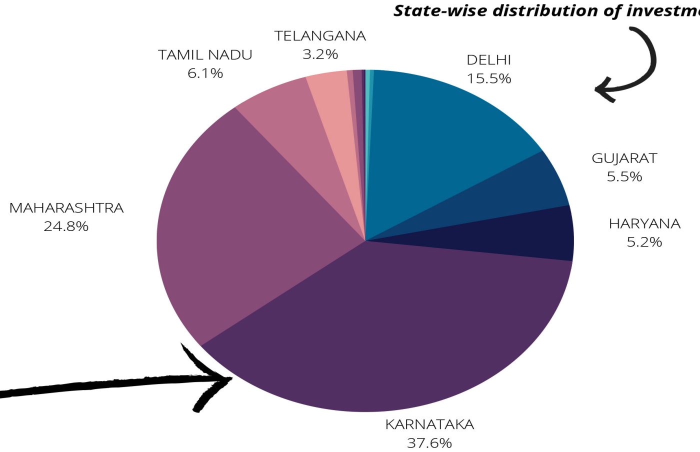
Data highlights that for FY 2021, **Foreign Portfolio Investors** pumped in USD 6279 Mn (Rs 50,089 crore) in India. The investment, however, is much less and recorded a negative growth as compared to net inflows 2020 and 2019.

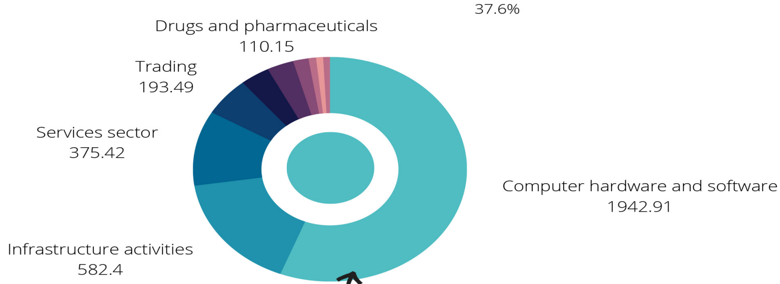
The FPI sell-off is being attributed to **the tightening of monetary policy by the US Fed which has been on a rate hiking spree to control inflation**. FPI flows will remain volatile in the emerging markets on account of rising geo-political risk, rising inflation, tightening of monetary policy by central banks, among others.

DISTRIBUTION OF FDI AND FPI INFLOWS.

- **India gets the highest annual FDI inflow of USD 83.57 billion**
- **India rapidly emerges as a preferred investment destination; FDI inflows have increased 20-fold in last 20 years.**
- **FDI equity inflows in Manufacturing rise by 76%**
- **FDI inflows rise by 23% post-Covid**
- **Karnataka emerges as the top FDI equity inflow recipient state in India**
- **Top FDI equity inflows from Singapore (27%) followed by U.S.A (18%)**
- **Computer Software and Hardware becomes the top recipient sector of FDI Equity inflow with a share of around 25%**

State-wise distribution of investments





Sector-wise distribution of investments
(in billion Indian rupees)

About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'. 'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc.), and with varied specialization (engineers, lawyers, tax professionals, management, etc.).

PASSION
for providing solutions to help clients achieve their goals

RESPECT
For all and alternate viewpoints

INTEGRITY
of thoughts and actions

MASTERY
of our chosen subject to drive innovative and insightful solutions

US
Representing the Primus collective, where each individual matters

STEWARDSHIP
for building a better tomorrow

CHANDIGARH
2nd Floor, Netsmartz, Plot No. 10
Rajiv Gandhi Chandigarh Technology Park,
Chandigarh – 160019

BENGALURU
91 Springboard
Business Hub 175 &
176, Bannerghatta Rd,
Dollars Colony,
Bengaluru – 560076

DELHI
Rear Block, Upper Ground Floor, ALPS Building,
56 Janpath,
New Delhi – 110001

KOLKATA
Siddhartha Apartments
4th Floor
188/2, Block J, New Alipore
Kolkata - 700053

MUMBAI
601, 6th floor,
Raheja Centre,
Nariman Point,
Mumbai – 400021

Primus Partners India @partners_primus

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