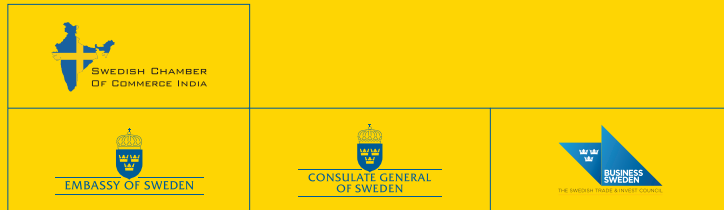


SWEDEN MAKES BUSINESS IN INDIA



BUSINESS
CLIMATE
SURVEY
2014/15



A WORD



H.E Mr Harald Sandberg
Ambassador
of Sweden to India



Fredrika Ornbrant
Consul General
of Sweden to India



Mr Kandarp Singh
Chairman of Swedish
Chamber of Commerce India



Anna Liberg
Trade Commissioner
of Sweden to India

The Swedish business community in India is here to stay.

Through an innovative, sustainable and long-term perspective, Swedish companies have made their footprint known in India and we have no doubt the community will continue to do so in the years to come. Especially if the new initiatives undertaken in India to provide a stable and predictable business environment will become a reality and further promote "making business in India".

With that in mind, we are delighted to release to you the result of the 7th Business Climate Survey conducted amongst the Swedish companies established in India. We hope you will find the report useful.

To all of you who took the time and participated in the survey and contributed - a big thank you. We are proud to say that the report is based on the voices of 110 Swedish companies in India, which represents more than 80% of the business community at the time of the survey.



THE CUMULATIVE FOREIGN DIRECT INVESTMENTS FROM SWEDEN TO INDIA UNTIL 2013 WERE **USD 2.15 BILLIONS**.

IN 2013 ALONE, THE FOREIGN DIRECT INVESTMENTS FROM SWEDEN TO INDIA WERE **USD 350 MILLIONS**.

COMPARED TO 2012 THIS IS AN INCREASE OF **16%**.

2007

85

SWEDISH COMPANIES IN INDIA

2015

153

HE Mrs. Banashri Bose Harrison, Ambassador from India to Sweden and Latvia, and HE Mr. Harald Sandberg, Ambassador from Sweden to India, at the Business Climate Survey Launch in Stockholm February 2015

SWEDEN AND INDIA BUSINESS RELATIONS

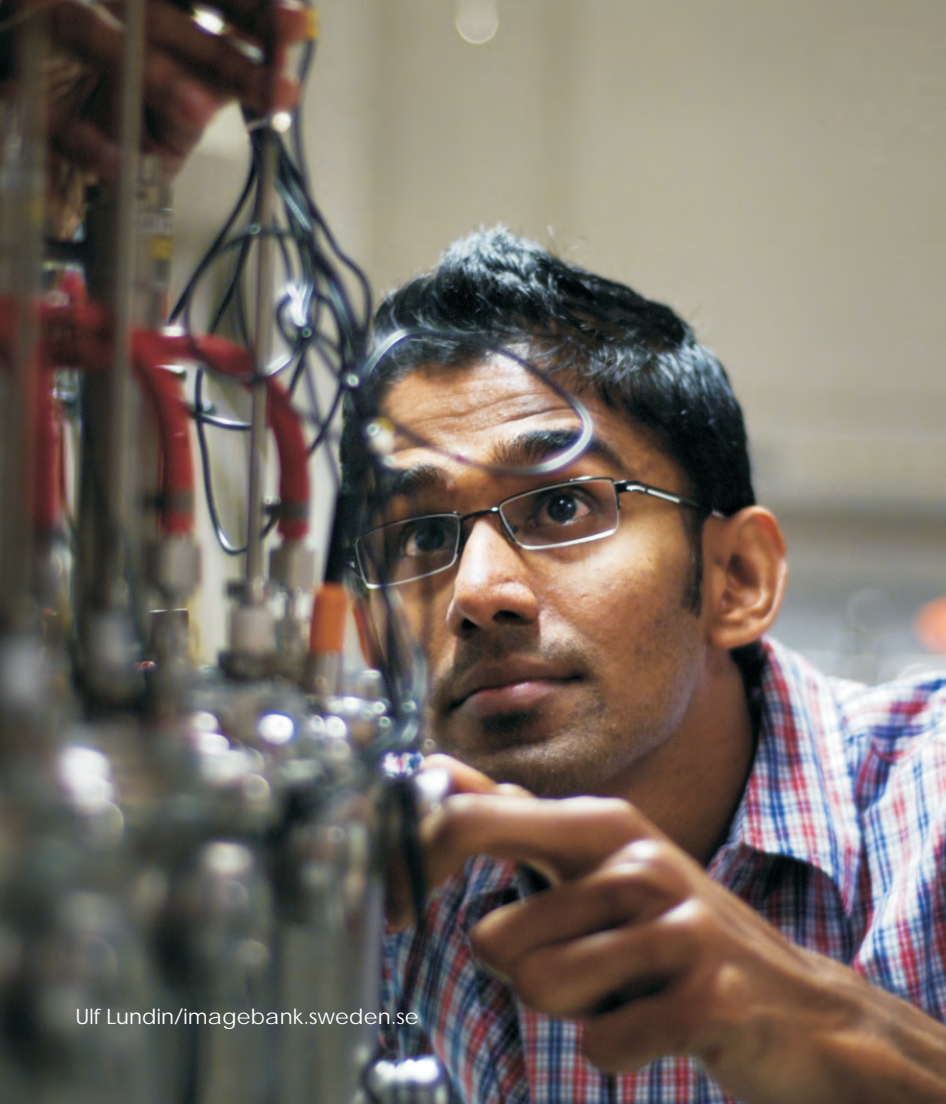
Sweden and India have longstanding business relations with the first wave of Swedish companies arriving to India in the beginning of the 20th century. Companies such as Ericsson, SKF, Swedish Match and ASEA (later ABB) were amongst the first to come.

The second wave came after independence in 1947, when the Prime Minister of India, Jawaharlal Nehru allotted a large area of land in Pune, Maharashtra for industrial development and companies such as Alfa Laval, Tetra Pak, Sandvik and Atlas Copco were established.

In the 1980-90's, a third wave of companies; Volvo, Perstorp, IKEA and H&M started manufacturing and sourcing in India. In the 2000's, Volvo Cars and Scania established subsidiaries in India and since then it has been a steady influx of companies from Sweden entering India.

Exports of goods from Sweden to India are mainly machinery (45%) and electrical transformers (17%). Rawmaterials and fuel (mainly paper and pulp but also iron ore), chemicals, iron and steel and paper products are other significant export goods.

12 new companies were established in India during 2014, **12** more are right now in pipeline



42% of the companies in the survey are manufacturing in India

1 out of 3 produce both for the domestic and export markets

SWEDEN MAKES IN INDIA

Swedish companies are present in almost all business sectors in India. Engineering Products, IT/Telecom, Retail/Sourcing of consumer goods and Automotive/Heavy Vehicles are the main ones.

Upcoming and growing sectors are Life Science/Health Care, Environmental Technology/Sustainability, Waste Management and Energy.

The size and potential of the Indian market along with the GDP growth are naturally the main reasons why companies are setting up business in India. Other key factors contributing to opportunities for the companies short term are infrastructure improvements and revised government policies.

Closeness to market and low production costs are strong incentives for companies to also set up manufacturing and product development locally.

BUSINESS SECTORS

BUSINESS SECTORS	
Engineering products	31%
IT/Telecom	13%
Retail/Sourcing of consumer goods	10%
Service/Consulting	10%
Automotive/Heavy Vehicles	9%
Life Science/Healthcare	7%
Shipping/Transportation	5%
Environmental Technology	4%
Defense/Security	4%
Packaging	3%
Banking/Finance	2%
Other	3%

110 (83%) Swedish companies based in India participated in the Business Climate Survey 2014/15. This is a significant increase compared to 2013, when 69 (44%) responded.



We rise/Ashish Ailawadi

“YOU CAN NOT CROSS
THE SEA MERELY BY
STANDING AND
STARING AT THE
WATER.”

Rabindranath Tagore
Renowned Indian poet and philosopher
Nobel Laureate, Literature 1913

EXECUTIVE SUMMARY

A MAJOR SHIFT IN PERCEPTION FROM 2013 – A MAJORITY OF SWEDISH COMPANIES ASSESS THE BUSINESS AND INVESTMENT CLIMATE IN INDIA AS MORE FAVORABLE

TO TRANSLATE THE POSITIVE OUTLOOK INTO REALITY WILL REQUIRE ADDRESSING LONGSTANDING CHALLENGES

CAPTURING THE VIEWS OF 110 SWEDISH COMPANIES ESTABLISHED IN INDIA



INVESTMENT CLIMATE

The companies are very positive about the future investment climate the coming three years, with 90% responding that they perceive it will be favorable. 1 out of 3 are very positive and the optimism is also reflected in the investment plans of the companies. 8 out of 10 indicate they will increase their investments the coming three years. In the 2012 and 2013 studies, a significant amount (1 out of 4) of companies thought the future investment climate to be less favorable, while in 2014 only 2% perceived it as less conducive.

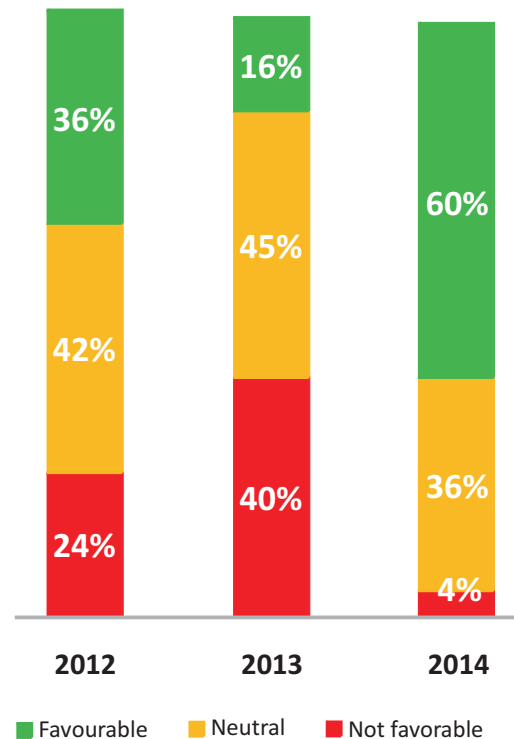
The positivism can be traced to several sources. External factors contributing to the shift in outlook are a stabilized currency, high GDP growth and strong indications from Government of India that reforms promoting business development are underway along with infrastructure improvements.

9 OUT OF 10

Companies in the survey believe that the investment climate in India the coming three years will be favorable

In 2013, 1 out of 2 companies and in 2012 only 1 out of 4 thought the investment climate to be conducive for business.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN INDIA?



Scale 1-10 where 10 is very favorable and 1 not at all. Answers between 7-10 are considered favorable

BUSINESS OUTLOOK

BUSINESS CLIMATE

The shift in the companies' perception of the business climate in India compared to earlier years is notable. 60% of the respondents perceive the current business climate as favorable, and over 80% consider it to be positive. The share of companies being satisfied doing business in India has increased over the year (67% 2014 compared to 57% in 2013).

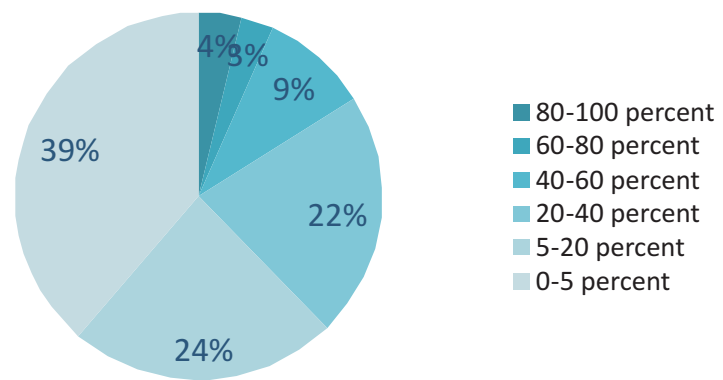
Companies across all sectors consider the business climate to be favorable. Most positive are companies within the sectors of Engineering Products and IT/Telecom, while companies in Retail/Sourcing of consumer goods and Automotive/Heavy Vehicles are a bit more apprehensive.

67% of the companies are overall satisfied with doing business in India as compared with 57% in 2013. This time, companies are also more satisfied in general than the earlier year.

58%

Of the companies report that their market share has increased during the last year.

SWEDISH COMPANIES' ESTIMATED SHARE OF THE MARKET IN THEIR SECTOR



MARKET SHARE AND COMPETITIVE ADVANTAGES

India is an emerging market with great potential and this is apparent in the study as many companies assess that their market share has increased compared with last year. The increase for the majority of the companies is up to 15%, but for one tenth of the companies, their market share has increased with 50% or more.

Companies within the business Retail/Sourcing of consumer goods (73%), Life Science/Healthcare (71%) and Engineering Products (66%) report that they are growing in terms of market share.

Compared to 2013, when 1 out of 2 companies reported they saw no change in market share, there has been an upswing in growth, at par with figures from 2012.

PRODUCT QUALITY/ TECHNOLOGY AND BRAND RECOGNITION

Swedish companies perceive their product's quality and innovative technology to be their competitive advantage, along with strong brand recognition. The latter is especially important for B2C companies, in sectors such as Automotive/Heavy Vehicles, Life Science/Healthcare and Retail/Sourcing of consumer goods



1 out of 3

Companies forecast a substantial increase in revenue of more than 20%

Fruit of your labor/Santoshi Seth

OPERATING MARGIN AND REVENUE FORECAST

There is also a positive growth tendency with regards to the operating margin. 41% of the companies report increased operating margin compared with 2013, while 38% say it remains the same. Only 1 out of 5 report a decrease in their margins. The corresponding number for 2012 and 2013 is 2 out of 5. Contributing factors on a macro level are stabilization of the Indian Rupee and low global oil prices amongst others.

There are differences between sectors also here. More companies in Automotive/Heavy Vehicles and IT/Telecom report increasing operating margins, while Life Science/Healthcare see a flat development since last year.

With regards to Revenue Forecast, 73% report an increase compared with 58% in 2013 and it is at par with 2012, when 70% indicated an increase.

Revenue is growing especially for companies in the Life Science/Healthcare sector, where 85% of the companies report an increase. IT/Telecom and Engineering Products are following suit with 82%, while companies in the sectors of Automotive/Heavy Vehicles (67%) and Retail/Sourcing of consumer goods (54%) forecasted less increase.

80% of the companies think that the competitive cost advantage is the same as 2013. and with regards to operating expenses, 85% anticipate these have increased but the majority, 6 out of 10, predict a modest increase of 5-15%.

RESPONSIBILITY

1 out of 3 fall under the new CSR Law, Section 25 of the Companies' Act, which states that companies of a certain stature should invest 2% in CSR. But the law is not the driving factor, Swedish companies see sustainability and CSR as incorporated in their business models. The main areas the companies are investing their CSR funds are

EDUCATION
HEALTH
ENVIRONMENT

3 out of 4
companies invested during 2014

8 out of 10
plan to increase investments the coming three years

SWEDISH COMPANIES INVEST

It can be said that Swedish companies have a longterm perspective on doing business in India. Despite an apprehensive outlook in 2013, the majority of the Swedish companies have invested and increased their investments during 2014 and thereby continued to enlarge their footprint in India.

1 out of 2 indicate they have increased investments in 2014 with up to 20% compared with the year before.

1 out of 4 increased with 20-50% and the remaining forth with more than 50%.

61% invested in marketing and sales to continue their growth path.

46% developed already existing or started manufacturing units in India during the year.

44% invested in product development, which follows on localization of manufacturing.

29% invested in Research & Development

Other areas of investment are services, sustainability & CSR, skills development and expansion into new states.

The survey shows that companies in all business sectors intend to increase their investments the coming three years, especially companies in IT/Telecom (92%), Automotive (89%) and Life Science/Healthcare (86%).

PRESENCE

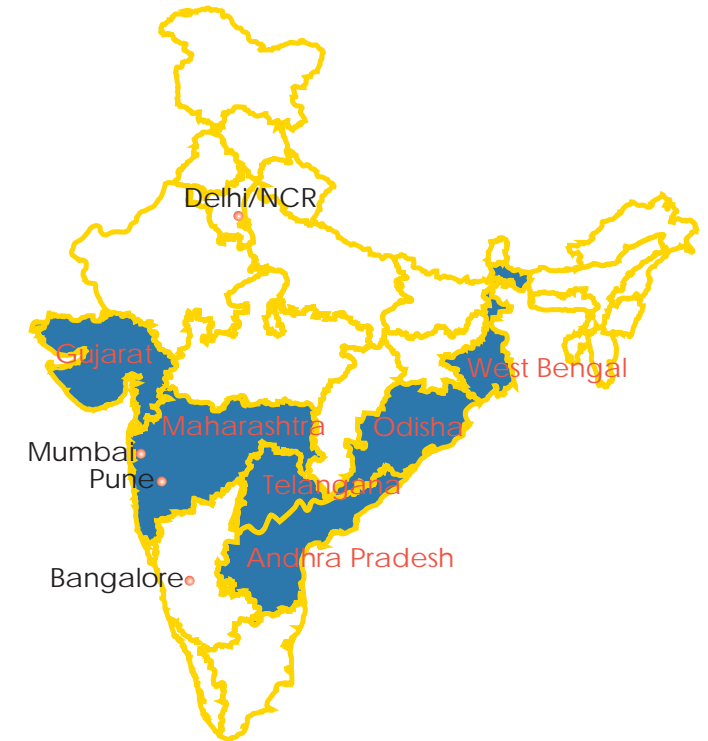


SWEDISH COMPANIES EXPAND AND EMPLOY

The Swedish business community are already present in all states of India, but when it comes to head office location, the hubs are still Delhi/NCR (32%), Mumbai (18%), Bangalore (18%) and Pune (13%).

The survey reveals that within the coming three years, 55% of the companies are planning to expand their operations into states they are not present in today - Odisha, Gujarat, Maharashtra, West Bengal and AP/Telangana are states that the companies are naming in particular.

Across India, Swedish companies create jobs. The community employ almost 150,000 people directly and they estimate that at least another 600,000 jobs are created indirectly through sub-suppliers etc. It is likely to be more.



7 out of 10 companies plan to increase their workforce with 5% or more in the coming year.



Steel Alive/Abhijit Chakraborty

BUSINESS CHALLENGES

WORK FORCE

64% of the companies believe that the availability of workforce in India is good, especially when it comes to white collar employees. Overall the companies consider the level of knowledge of English, general and post-graduate education to be good. Areas that the community perceive as poor or below average are particularly work/life balance and general health.

BLUE COLLAR

On the specific question what the company's most important challenge is with blue collar workforce; 30% pointed out that lack of right skills is the main problem, along with retention and increasing salaries.

WHITE COLLAR

For white collar workers the main challenge highlighted by the Swedish companies is rapidly increasing salaries. 1 out of 3 rank this as the top one issue.

To find people with the right skill set is also seen as problematic. 1 out of 5 companies consider this as the number one issue.

This issue is also reflected in the perception of what the cost disadvantages are. Almost 7 out of 10 see increasing salaries impacting their operations significantly. High level of inflation and increase of expenses are also considered as major obstacles and risks by the companies.

1 out of 4 companies invested in skills development and training in 2014



TIME CONSUMING

The companies in the survey think that *obtaining licenses and government approvals along with clearing goods through customs area* to a large extent slow down business establishment and impact companies' operations negatively.

OBSTACLES AND DISADVANTAGES

Overall the perception of the business and investment climate has improved since the last survey. Nevertheless, there are challenges that the Swedish business community considers to be crucial to be addressed for the potential to become reality.

Three factors are in particular mentioned in the survey:

BUREAUCRACY AND CORRUPTION are considered to be very problematic with almost 70% of the companies ranking these as top 3 issues. Half of the companies also consider relations with Government and authorities to be a major competitive disadvantage.

1 out of 4 companies indicate that their senior leadership spends substantial time to deal with public authorities.

TAX REGULATIONS AND TAXATION RATES are perceived as road blocks for doing business. Especially companies within Retail/Sourcing of consumer goods and Automotive/Heavy Vehicles are highlighting this. Delays in implementation of the Goods and Service Tax and retrospective taxation are issues companies express concern about.

IMPORT REGULATIONS, RESTRICTIONS AND CUSTOMS DUTY impact companies especially in the Life Science/Healthcare and Automotive/Heavy Vehicles sectors. In fact, 60% of the companies consider cost structure/pricing to be a competitive disadvantage as regulations, inverted duty structure and trade barriers contribute to a non-leveled playing field and additional cost of operations.



Both small and medium sized companies rate cost structuring/pricing as the main competitive disadvantage along with relations with government and authorities.

SME companies face challenges in similar areas as the large companies. Entering India, setting up business and running it can be seen as a daunting task. This is also shown in the survey, where the majority of SME companies consider **BUREAUCRACY** as a key challenge to do business in India.

TAX REGULATIONS is otherwise the main issue for small companies, while **IMPORT REGULATIONS, PROCEDURES AND CUSTOMS DUTY** are areas that medium sized companies find most problematic.

When it comes to challenges with workforce, there is no difference in terms of size of company. To find skilled employees, both white and blue collar, along with increasing salaries and retention are the key challenges for all.

BUSINESS CHALLENGES

IN FOCUS: SME

BUSINESS OUTLOOK

Following the EU definition of a SME company, 25% of the companies participating in the survey can be classified as SMEs. The question to ask is if the sentiment is different in this group of small and medium sized businesses compared with the large companies, often MNCs?

On an average, the SMEs consider the current business climate as favorable as the large companies do. It should be specifically noted that medium sized companies (50-250 employees globally and < EURO 50 M turnover) are the most positive of all. 71% of the companies in this group consider the climate as favorable.

The perception of the investment climate the coming three years amongst the SMEs is more apprehensive. Though there is not a major difference; 8 out of 10 consider the investment climate favorable, compared with more than 9 out of 10 for the large companies.

Medium sized companies have increased their market share more than both large and small companies (64% compared with the average of 58%) while 1 out of 2 small companies report the same.

Product quality (50%), management and recognition as a Swedish brand (both 38%) are key competitive advantages to small firms, while medium sized companies see brand recognition (57%) and product quality (43%) as the key ones.



Björn Leijon

Members of the Board of Directors of SCCI deliberating on doing business in India at the Business Climate Survey Launch in Stockholm, February 2015

We would like to give a special thanks to NEPA for their effort, skills and guidance to execute this survey. NEPA has been the partner of BCS since 2011.

POWERED BY **nepa**

The Business Climate Survey (BCS) is conducted annually by the Swedish Chamber of Commerce India, in partnership with Embassy of Sweden in New Delhi, Consulate General in Mumbai and Business Sweden. This is the 7th Survey conducted.

THE PURPOSE OF THE SURVEY IS TO:

- Assess the business confidence of Swedish companies in India, such as opportunities and challenges

- Serve as an input to discussions and engagement with the Government of India, state governments and other stakeholders

- Give valuable input to Swedish companies considering doing business with and in India

Download the executive summary and the full report from www.swedishchamber.in/Publications

PATRONS OF SCCI

The Swedish Chamber of Commerce India (SCCI) is an independent, non-profit networking organization with the mission to enable, promote and encourage Swedish companies to drive long-term, sustainable business in India.

The SCCI community consists of Swedish companies from all sectors and stages of establishment in India and we provide our members with unique opportunities for knowledge sharing and exchange of experiences in doing business in India.

The Chamber continuously works with promoting the value proposition of Sweden to further strengthen the identity and joint interests of the Swedish business community in India.

Together we break new grounds in areas of societal, environmental and business interest.