German Investors in India

German Investors optimistic about India’s Upward Growth Trend in the Forthcoming Years

- The German companies expect a strong growth above 5%, for the Indian GDP in FY 2019 – 20.
- Steady trend of strong growth foreseen for India’s medium-term growth.
- Improvements in revenues and profit generation expected.
- Capacity utilisation rate stable and moderate increase in investment activities anticipated.
- Moderately favourable outlook regarding India’s current policy environment, its investment climate and their impact on business seen amongst German investors.
- Lack of skilled people, bureaucracy identified as the biggest obstacles for business in India.

Summary

German companies in India continue to see promising developments in the Indian business environment, and their approach towards growth and investments remains reasonably positive. On account of India performing well on international and domestic fronts, growth in FY 2019 – 20 is expected to continue its upward trend, and medium-term growth is anticipated to increase at a stable rate. With its policy changes directed towards driving growth, India seems to have reinforced its position as a relatively secure investment destination among emerging markets, in a somewhat volatile global economic environment. This is the outcome of the latest edition of the Indo-German Chamber of Commerce (IGCC) Business Monitor, a representative survey of German investors in India.

For the current financial year, FY 2019 – 20, nearly 50% of the survey respondents expect the growth rate of India’s GDP to exceed 5%. These responses also concur with the projections made by the Reserve Bank of India and international institutions such as the World Bank and International Monetary Fund. The stated pattern can also be observed in the respondents’ outlook for India’s medium-term growth: more than 60% of the survey respondents expect a GDP growth rate of more than 5%.

With respect to revenue and profit, in the previous financial year, FY 2018 – 19, German companies assessed their performance as moderate. More than 75% reported a revenue increase. 50% of the respondents reported an increase of more than 10% in revenue, a little more than 26% reported a marginal increase in revenue of up to 10% and close to 35% reported a stable profit.
In comparison to the actual turnover of the previous financial year, FY 2018–19, the majority of managers expect a modest increase in both, revenue and profit, for the financial year 2019–20. An increase of up to 10% in revenues is anticipated by 44% of the companies. Nearly 40% of the surveyed companies expect revenues to grow by even more than 10%, while 13.24% expect no change in their revenue. Over 60% of the companies anticipate a rise in profit and close to 33% of companies expect their profit situation to remain more or less the same.

In this year’s survey, managers were cautious in their approach towards hiring people in great numbers and adopted a modest outlook towards salary hikes. Almost half of the surveyed companies plan to have a stable headcount, whereas more than one-third expect the headcount to increase by 10% or less and over 17% expect to increase their headcount by over 10%. Increasing the strength and productivity of their existing workforce through relevant training and development, and increasing salaries in order to retain employees seems to be the top priority of German managers: Nearly 50% of those surveyed, plan to increase average salaries by 5 - 10% and more than one-third respondents are looking at salary increases of more than 10%.

While stabilising their foothold in the market and acclimatising to the improving Indian policy environment, German investors plan to remain steady with their investment activities in India. Over the medium term, more than half of the German companies will continue to invest in a consistent manner, whereas close to one-third will increase investments moderately and 13% strongly.

In addition, nearly 45% of the managers surveyed view India’s current policy environment and investment climate in India, as a moderately positive influence on their business. Almost 36% of the respondents view these circumstances as very positive for their business.

This is a result of a number of efforts from the government’s end like liberalising FDI norms, improving the ease of doing business, moving towards implementing tax reforms like the Goods and Services Tax, promoting initiatives like Make in India, Skill India, Digital India, Smart Cities and Startup India.

The respondents identified a lack of skilled people, bureaucracy, lack of infrastructure, compliance with technical regulations and corruption as the four main obstacles to doing business in India. Other hindrances to India’s investment climate ranged from tax disputes, increase in import duties, as well as labour unrests.

Survey in Detail

Optimistic expectations for a strong GDP growth rate for the current financial year

In the current financial year, FY 2019–20, about 47% of the respondents expect India’s GDP to grow at a strong rate, exceeding 5%. Nearly 38% of respondents anticipate a moderate growth rate of up to 5%. 12.16% of respondents expect the GDP to remain stagnant, while only 2.70% expect India’s economy to shrink, as shown in Figure 1.

Optimistic expectations for medium-term GDP growth rate (2019–22)

Nearly 62% of the respondents expect India’s average GDP to grow by more than 5%, over the course of the next three years. Almost 35% of the respondents lean towards conservative growth rate expectations, in the range of up to 5%. A little over 4% of the respondents have lower expectations and foresee stagnating growth rates. Whereas none expect the Indian GDP to decrease within the next three years, as seen in Figure 2.
Moderately positive review and expectations for revenue and profit
As seen in Figure 3, almost 21% of the respondents claim that their revenue remained more or less consistent in the previous financial year 2018–19. Exactly half of the respondents revealed that their revenue increased more than 10%, and another 26.47% reported revenue growth of up to 10%. Less than 3% of the companies have witnessed a decrease in revenue.

Moderate increase in companies profit
As per Figure 4, the responses in FY 2018–19 reveal that more than 34.38% of the companies interviewed have stated that their profit has remained more or less steady, whereas more than 34% of the respondents have seen an increase in their profit. One-quarter of the respondents stated their increase in profit to be above 10%, while the remaining group of 6.24% of respondents experienced a decrease in profit. Compared to the percentage of companies that expected a profit increase of more than 10% in FY 2018–19 (44.3%) as per last year’s survey, only 34.38% companies reported an increase of over 10% in profit in FY 2018–19, in this year’s survey.

Moderate profit in companies revenues expected
39.71% of the respondents expect their company revenue to grow by more than 10% in FY 2019–20, while the majority of 44.12% of respondents anticipate an increase of up to 10% in their revenue. 13.24% respondents feel that their company’s revenue will remain more or less unchanged, while a small group of close to 3% thinks that their company revenue might even decrease in the current financial year, as per Figure 5.

Positive outlook in profit expectations for the current financial year
The optimistic profit expectations for FY 2019–20 can be observed in Figure 6. Compared to only about 4.55% of the respondents fearing a decrease in profits in FY 2019–20, 33.33% responded that they expect the profit to remain more or less unchanged. Overwhelming 62% have a positive outlook towards the upcoming year, while a little more than 39.39% of respondents expect an increase in profit of up to 10%, while 22.73% of respondents expect a profit increase of 10% or more.
Moderate growth in headcount
As per Figure 7, in this year’s survey, more than half and a slightly higher percentage of respondents (52.17%) as compared to last year (48.78%) planned on hiring more employees in the upcoming year. 46.38% of respondents plan on maintaining their existing headcount, with only a minuscule of close to 1.45% respondents expecting to decrease their employee base.

Judicious increase in salaries
Almost 50% of the managers surveyed expect salaries at their companies to increase by 5 – 10% in FY 2019 – 20, while around 34.33% anticipate salary increments between 10 – 15%. As per Figure 8, nearly 4% of respondents expecting salaries to increase by 15 – 20% and nearly 12% of the respondents expect salaries to remain constant in FY 2019 – 20.

Optimistic investment outlook
While 55% of respondents plan their companies’ investment activity to continue steadily over the course of the next three years, close to one-third expect to moderately increase investment in India from 2019 – 2022. With around 13% of surveyed managers foreseeing a substantial increase in investments, while 4.35% of managers expect a decrease. German companies, in general, appear to be motivated to expand business in India, as seen in Figure 9.

Good utilisation of current capacity in companies
As per Figure 10, with a little over 40% of the companies surveyed currently achieving a capacity utilization higher than 70%, just 14% companies operating below a capacity utilisation of 50% and a little less than one-third companies operating at a capacity utilization between 50 – 70%, prospects for rising investment rates seem quite positive in the current scenario, and have the potential to get even better.
Positive outlook towards the current investment and policy climate in India

Figure 11 shows that slightly more than 80% of the surveyed managers expect the impact of India’s current policy environment and investment climate to influence their business in a moderately positive (44.78% respondents) to very positive (35.82% respondents) manner. Almost 15% of respondents feel that the current scenario of the reformation in policy and overall investment climate has a neutral impact on their business. It is essential to point out that there is still a share of 4.47% respondents, who feel that the current conditions have a moderately negative impact and limit the scope of operations for German businesses. However, the majority of German companies have a positive outlook towards doing business in India.

Lack of skilled people, bureaucracy and the lack of infrastructure emerge as significant issues for business

As can be seen in Figure 12, the significant concerns of German companies with regard to investments in India, are the lack of skilled people (47.37%), the most complicated and time-consuming bureaucracy (43.86%), the need for an improved infrastructure (38.6%), as well as technical regulations (31.58%). 26.32% of respondents also mention corruption within the country, as one of the barriers faced in India. Other significant areas where improvement is required, are the resolution of tax disputes (12.28%), an increase of import duties (12.28%) and labour unrest (4.17%).

Considerable lack of clarity on compliance procedures and deviation of standards

As seen in Figure 13, the lack of clarity on compliance procedures (71.19%) makes it particularly challenging to adhere to mandatory technical regulations. 35.59% of respondents felt India-specific standards and deviation from international standards were a concern, while 33.9% of respondents felt delayed information or short transition periods posed a problem.

20.34% of the respondents expressed that repeated testing and certification requirements make it challenging to have compliance with mandatory technical regulations in India.

Figure 11

Figure 12

Figure 13
Total number of responses received: 96

Significant support required for company regulatory challenges

Figure 14 illustrates the support, which companies need to address regulatory challenges in India. The significant need for support required is on regular and timely information on new regulation (65.52%), clarification on regulations (56.90%) and more exchange with Indian regulators (41.38%). 8.5% of the participants felt that other factors contributed to a company’s regulatory challenges.

Mixed perceptions on pollution effects on businesses

For the question of whether pollution affects the business in India, one-third of the respondents are neutral. Nearly 29% think that pollution does affect the business, and almost 38% do not think so at all, as seen in Figure 15.

Companies perceive election results affecting business

As seen in Figure 16, almost 41% of the respondents expect that this year’s election will affect their business, whereas 25.76% do not expect an effect on their business. One-third of the respondents are neutral to that question.

About the Survey

The sector-wise distribution of responding companies along with the percentage of respondents belonging to companies in that particular sector are Capital Goods and machine tools (31.43%), Electrical equipment and electronics (15.71%), Auto & auto ancillaries (21.43%), Chemicals & Pharmaceuticals (11.43%), IT services & software (7.14%), Logistics & Transport (5.71%), Wholesale & retail trade (4.29%), Banking, Insurance, Finance (0%), Consulting (10%) and Other services or industries (24.29%).

The direct employee strength-wise distribution of responding companies along with the percentage of respondents belonging to companies with that particular direct employee strength are 1 – 25 employees (36.23%), 25 – 100 (26.09%), 100 – 500 (24.64%), 500 – 1000 (8.70%) and greater than 1000 employees (4.35%).

The indirect employee strength-wise distribution of responding companies along with the percentage of respondents belonging to companies with that particular indirect employee strength was, 1 – 25 employees (29.03%), 25 – 100 (32.26%), 100 – 500 (24.19%), 500 – 1000 (9.68%) and greater than 1000 employees (4.84%).

Total number of responses received: 96
This survey was done before the general elections in India in May 2019. We asked the members only five questions to keep the time consumption at the minimum for answering and to make it easier to compare the survey of last year.

1. 50% of the members told us that they are satisfied with their business in India in the last three years. Interestingly the number of companies saying they were very satisfied came down from 28% last year to 14% this year. This shows a clear signal of consolidation in the Indo-German Business Relations. Keeping the high growth rate of the German Export to India (20%) in 2019 in mind, it is remarkable that the German companies are not more enthusiastic.

2. The judgment of the economic reforms in India is more positive this year. 45% of the participants of the poll see a positive impact on their business, 30% see no impact on their business. If we consider the many reforms introduced by the Modi Government in the last years, the response of the German business community is not overwhelming.

3. When asked what are the most significant problems and roadblocks for your business in India? The Number one problem still remains bureaucracy, as 63% of all German companies complained about this.

<table>
<thead>
<tr>
<th>What are the biggest problems and roadblocks for your business in India?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0% (0)</td>
<td>No obstacles present</td>
</tr>
<tr>
<td>40.00% (14)</td>
<td>Slow payment practice of business partners</td>
</tr>
<tr>
<td>48.57% (17)</td>
<td>Price competition</td>
</tr>
<tr>
<td>20.00% (7)</td>
<td>Intercultural differences</td>
</tr>
<tr>
<td>25.71% (9)</td>
<td>Corruption</td>
</tr>
<tr>
<td>62.86% (22)</td>
<td>Bureaucracy</td>
</tr>
<tr>
<td>11.43% (4)</td>
<td>Shortage of skilled labor</td>
</tr>
<tr>
<td>14.29% (5)</td>
<td>Rising import tariffs</td>
</tr>
<tr>
<td>28.57% (10)</td>
<td>Taxes in India</td>
</tr>
<tr>
<td>25.71% (9)</td>
<td>Other</td>
</tr>
</tbody>
</table>

Total number of responses received: 35
Obviously, the "ease of doing business" activities in India are not fully realised as ground realities for the German companies are quite challenging. The IGCC office in Düsseldorf gets several inquiries related to new forms such as 10f or the tax residence certificate which needs to be filled in for simple export business in India.

Also, fierce price competition is the second biggest challenge (50%) for German companies in India. On one side, Indian companies are making progress and are becoming more competitive while on the other hand, China is in full swing to conquer the Indian market with extremely competitive prices.

A further challenge is that 40% of the German companies complain about the slow payment practice of Indian customers. The complicated tax system in India is a challenge for 30% of the German Companies followed by "corruption" which accounts for 25% of the participants of the survey.

68% of the German companies have a positive outlook for the next five years; that figure is significantly lower than last year. Interestingly 15% see a negative future; last year, no company made a negative forecast. These responses coincide with the results of figure 1 and 3, indicating that some German companies are facing some limiting ground realities in India.

Nevertheless, India is one of the most important emerging markets in the world, and 37% of the German companies plan to start or extend production facilities in India to use this vast market potential. 35% of the participants said they would invest in sales offices, and 15% are keen to start research and development facilities.
YOUR LOCAL CONNECTION TO GLOBAL SUCCESS

THE INDO-GERMAN CHAMBER OF COMMERCE

Key Services
- Individual Business Partner Search
- Market Research
- Trade Fair and Event Management
- Newsletter & Daily Press Linkletter
- DUALpro (Vocational Training)
- Office-in-Office Solutions
- Company Formation in India & Germany
- HR Recruitment + Trainings
- ProRecognition: Recognition of Professional Qualifications in Germany
- Legal Services

Headquartered in Mumbai, with 6 branch offices (New Delhi, Chennai, Kolkata, Bengaluru, Pune and Düsseldorf), 17 Honorary Representatives in tier II and III cities, 18 India Desks in local Chambers of Commerce and Industry (IHKs) in Germany, and 9 India Desks in AHKs abroad, IGCC partners with businesses to provide a network, important insights and a range of business services.

Join our network and benefit from our expertise.

AHK Indien Düsseldorf
Citadellstraße 12,
40213 Düsseldorf, Germany
e-Mail: duesseldorf@indien.ahk.de
Tel.: +49 211 360597

AHK Indien Mumbai
Maker Tower ‘E’, 1st Floor, Cuffe Parade,
Mumbai (Bombay) 400005, India
e-Mail: bombay@indo-german.com
Tel.: +91 22 6665 2121

www.indien.ahk.de