Aspire

Solutions for Indian business owners

Winter 2010

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Foreword

Operating a business is not the same as it was a few years ago. Competition is global and intensely fierce, and the unpredictability of environmental and organisational variables deeply impacts business performance. Even a business operating only in the domestic market is not insulated from changes in the global economic environment. This was evident during the recent global financial meltdown and the debt crisis in Dubai and Greece.

In such an environment, concentration of resources in a specific geography can impact a business in a serious manner. Diversification, as a strategy, becomes the key to sustenance and growth. A host of business owners prefer to leverage on a particular region – may be because of familiar business environment, level of comfort, existing network and the like. However, this approach often results in strategic myopia wherein a business owner does not want to come out of his comfort zone, and adopts a reactive approach.

Diversification can help formulate a proactive strategy of value creation. There are greater chances of becoming a market leader than being a follower. At the same time, diversification can act as a hedge against unexpected events.

Today's global Indian traverses continents and looks beyond borders – be it the prestigious real estate destination such as Central London, offshore jurisdictions like Jersey or emerging markets in Africa. It is time to focus on international entrepreneurship that goes beyond geographic borders and enhances business performance.

With these thoughts in mind, the first edition of this newsletter "Aspire" revolves around the theme of geographical diversification, which is also a subject of keen interest to Indian business owners with global ambitions.

I hope you will find this newsletter insightful and look forward to receiving your views and feedback.

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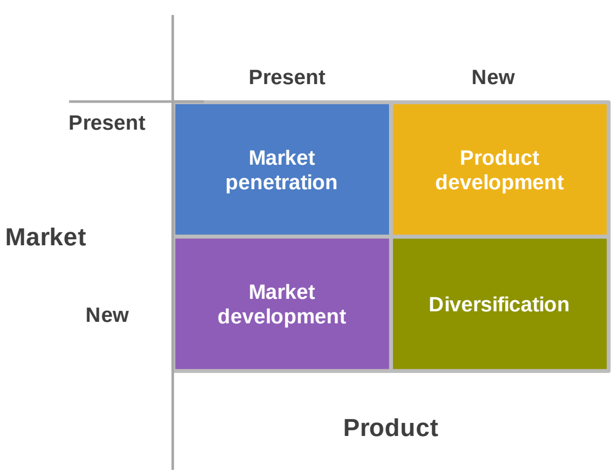
Diversification as a long-term corporate strategy

The recent growth of Indian business houses such as Jaypee Group, Adani Group and Indiabulls seems to suggest that Indian business owners see merit in diversified businesses. However, diversification is one of the most complex decisions a company can confront today: Should we diversify? How do we analyse the risks and rewards?

Often, management is preoccupied with the challenges of the current business and is unable to fully leverage the opportunities presented by diversification. Diversification, as a corporate strategy, becomes more complex as it goes in and out of fashion in periodic intervals, almost cyclically.

The Ansoff matrix below describes the two types of diversification, i.e., product and geographical. Product diversification involves expansion of product mix in related, unrelated or linked products, depending on synergies, technical know-how, expertise and availability of resources.

The Ansoff matrix



Geographical diversification involves reaching out to new geographies and markets with the same or similar product. In today's context, geographical diversification is equally relevant for managing wealth, selecting company structures and optimising tax jurisdictions.

Business decisions often involve uncertainty and the process of diversification is no different. However, careful analysis and good advice help assess the benefits likely from diversification.

As a first step, it is vital for a company to identify its unique and sustainable competitive strengths. Thereafter, it should consider how these strengths can be applied on an international platform. Eventually, the management should aim to make the diversification process symbiotic, i.e., leverage the home-based capabilities on an international platform and bring back enhanced capabilities to the home country.

This cycle of aligning domestic and international resources and capabilities help optimise the benefits of diversification as a relevant strategy in today's environment. It may be defensive—to raise guard against market contractions—or aggressive, for gaining positions in new territories. The focus, however, shall be to devise it as a coherent plan, enabling a company to navigate successfully through the ups and downs of business cycles.

Diversifying real estate assets: Central London

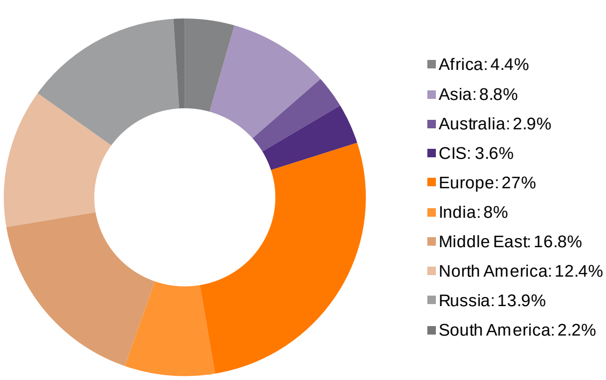
Despite the recent economic meltdown, London remains one of the most popular locations for property investment in Europe. With the number of High Net-worth Individuals (HNIs) in India continuing to grow at a tremendous pace, the trends in overseas property investments are expected to gain more ground. London, in this case, is likely to be a preferred investment destination for Indian HNIs.

In a freewheeling discussion, Eirini Nousia, an experienced property consultant based out of London, shared her insights on the market. Here are the excerpts:

What is the average size of transactions in upscale London localities? Do you observe any significant trends as far as property transactions from overseas buyers are concerned?

First of all, it is important to note that around two-thirds of the transactions taking place in Prime London are by international investors (this number is lower when we look at London as a whole), but Prime London is very much considered an "international pocket" for HNI investors, and hence, is quite immune to the global economic situation.

Prime London GBP2m+ real estate buyers, split by broad world regions and countries, excluding UK buyers, 12 months to June 2010



Source: Knight Frank

"The real estate industry in the UK is well-regulated and a buyer can expect a streamlined process."

Eirini Nousia

I think that the most popular price segment is £1m-£3m. However, the availability of property within this range is limited and a buyer may have to wait for a long period. The availability of property is slightly better in the £2m-£5m range.

Which are the most popular locations?

The most popular locations in terms of boroughs are the City of Westminster and The Royal Borough of Kensington and Chelsea. More specifically, the most popular areas with international investors are:

- on the very high end: Belgravia, Knightsbridge, Mayfair and South Kensington, and
- on the mid to high end: Kensington, Marylebone, St John's Wood

What is the average time taken to complete a deal?

Finding the right property takes most of the time. Once the property is identified the entire process can take between one and three months at the most to complete, with one to two months being the most common. One should not expect to find a good property in less than six months.

Table 1: Stamp duty land tax (SDLT)

Budget 2010 announces a two-year SDLT relief for first-time buyers for residential property purchases up to £250,000

Rate	Residential		Non-residential	
	2009-10	2010-11	2009-10	2010-11
	Total value of consideration			
Zero	£0-£125,000*	£0-£125,000*	£0-£150,000	£0-£150,000
1%	£125,000 - £250,000**	£125,000 - £250,000***	£150,000 - £250,000	£150,000 - £250,000
3%	£250,000 - £500,000	£250,000 - £500,000	£250,000 - £500,000	£250,000 - £500,000
4%	£500,000	£500,000	£500,000	£500,000

The Emergency Budget of June 2010 added a new rate of 5% for transactions in residential property exceeding £1 million, effective April 2011

*Starting residential threshold in 2,000 disadvantaged areas is £150,000

**SDLT holiday for residential transactions up to £175,000 applied until 31 December 2009

***First-time buyers can claim relief from SDLT on residential transactions up to £250,000 between 25 March 2010 and 25 March 2012

What are the annual costs in maintaining residential real estate in London?

If the property is rented, the owner of the property is responsible for:

- service charges (if it is a leasehold property), which vary depending on the size of the property and the type of the building and ground rent; this is usually minimal and only applies to leasehold properties
- income tax is the net of any expenses, including loan interest; the levels each year are determined by the Inland Revenue
- management fees is usually charged at 5% (plus VAT) of the rental income and letting fee is usually charged at 10% (plus VAT) of the rental income
- accountant's fee for filing of the income tax forms

If the property is not rented, the owner of the property is responsible for:

- service charges (if it is a leasehold property) which vary depending on the size of the property and the type of the building and ground rent (this is usually minimal and only applies to leasehold properties)
- income tax may be deemed payable depending on the time the owner spends in the property
- management fee, if the owner wishes somebody to look after the property; this is usually calculated at around 5% (plus VAT) of the potential rental income
- council tax, which depends on the size of the property and borough location
- utility bills such as power, gas and water

Freehold properties normally do not attract levies of service charges and ground rent.

What is the level of transparency in the property markets of the UK?

In the UK, most professionals involved in the property market are regulated. Therefore, there is a fair level of transparency at all stages of the transaction. The process is streamlined so that the transaction can be completed quickly, with minimal complications and limited participation of the purchaser. The updated data is made available on public domains and this helps in making an informed decision.

How can Grant Thornton help?

- introducing you to specialist estate agents
- creating appropriate offhsore/onshore structures to buy property
- helping with borrowings against the property
- evaluating efficient options for tax and stamp duty structures
- creating appropriate trust structures

Creating wealth overseas

The Liberalised Remittance Scheme ('the Scheme') issued by the Reserve Bank of India (RBI) has received tremendous response over the years, with remittances in 2008-09 increasing by over 80% from the year before. This section reviews the Scheme and its potential benefits for a global Indian.

The Scheme is available to all Indian resident individuals. Under the Scheme, resident individuals (including minors) may remit amounts up to US$200,000 per financial year for any permitted capital and current account transaction, or a combination of both. In other words, a family of six can remit up to US$1.2 million in a financial year.

The Scheme permits resident individuals to acquire and hold immovable property, shares (listed or otherwise), debt instruments or any other assets outside India, without prior approval of the RBI. Resident individuals can also open, maintain and hold foreign currency accounts with banks outside India. The Scheme can also be used for remittance of funds for acquisition of stock options under an Employee Stock Option Plan (ESOP).

An individual can retain and reinvest the income earned on investments made under the Scheme. Currently, residents are not required to repatriate the funds or income generated from investments made under the Scheme. The annual remittance threshold permitted by the Scheme is in addition to the following:

- facilities available for private travel, business travel, studies, medical treatment, etc, in Schedule-III of Foreign Exchange Management (Current Account Transactions) Rules, 2000 ('the Rules')
- acquisition of ESOPs linked to American Depostory Receipts or Global Depository Receipts (i.e., US$50,000 in a block of five calendar years)
- acquisition of qualification shares (i.e., US$ 20,000 or 1% of the paid up capital of an overseas company, whichever is lower)

However, the Scheme is not available for:

- remittance from India for margin or margin calls to overseas exchanges/overseas counterparty
- remittances made directly or indirectly to Bhutan, Nepal, Mauritius or Pakistan
- remittance to countries identified by the Financial Action Task Force (FATF) as non-cooperative countries or as notified by the RBI
- remittances for the purposes prohibited under Schedule-I or items restricted under Schedule-II of the Rules

Further, gift and donation remittances have to be made under the Scheme, since no separate scheme exists for such transactions.

Based on RBI data, Indians remitted US$808 million overseas in 2008-09, a significant jump from US$440 million in 2007-08. (see table 1.1)

LRS can be effectively used to create legitimate structures at offshore jurisdictions such as Jersey, part of Channel Islands, the British archipelago in the English Channel.

Table 1.1 Outward remittances under the Liberalised Remittance Scheme for resident Individuals (in US$ million)					
Purpose	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
1. Deposit	9.1	23.2	19.7	24.0	30.4
2. Purchase of immovable property	0.5	1.9	8.5	39.5	55.9
3. Investment in equity/debt	—	—	20.7	144.7	151.4
4. Gift	—	—	7.4	70.3	133.0
5. Donations	—	—	0.1	1.6	1.4
6. Others	—	—	16.4	160.4	436.0
Total (1 to 6)	**9.6**	**25.0**	**72.8**	**440.5**	**808.1**

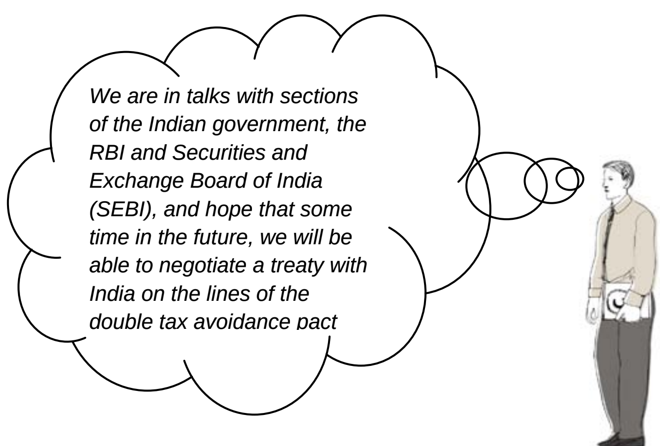
Source: RBI

Jersey – The investment hub

The channel island of Jersey is now inviting Indian HNIs and businesses. The finance sector is Jersey's core industry and is regulated by the Jersey Financial Services Commission, entirely funded by license holders. The interests of the finance industry, both domestic and international, are represented by Jersey Finance Limited, a non-profit making organisation, two-thirds funded by the Economic Development Department and one-third funded by its membership of financial service providers.

Jersey is an ideal place for businesses to invest, grow and prosper. Being an island community with 800 years of independence, it enjoys a reputation of economic success, excellent public services and favourable tax regime. The country has a strong pro-business climate, which encourages innovation and entrepreneurship. Jersey's parliament is one of the world's oldest legislatures and provides the island's economy with legislation ensuring stability and international competitiveness to attract global corporate and personal investments.

Source: Jersey Finance Limited



Wayne Gallichan
Director, Jersey Enterprise

Advantages of Jersey as a financial centre

- neutral tax regime
- Jersey's Companies Law is commonly regarded as being among the most up-to-date and flexible in the world. Modeled on English corporate law and recently updated to provide more flexible dividends, share issue, capital reduction and financial assistance regimes
- highly regarded, independently endorsed regulatory framework
- political and economic stability
- effective court system with a very responsive dispute resolution mechanism
- international recognition with proven track record in European listings
- Jersey companies are well known and understood by investors in London, New York and other major finance centres
- strong entrepreneurial track record and host location for private, trust and corporate investments
- track-record in attracting high net worth residents
- no Value Added Tax (VAT) charges resulting in substantial reduction in listing fees of the London nomad to any AIM listing
- quick incorporation
- no minimum share capital or number of investors
- high number of professional advisers, which helps create significant competition and drive down costs
- efficient communication systems and sophisticated business support services infrastructure
- convenient GMT time zone, which covers India close of business and US opening of business

Taxation benefits

The overall tax burden in Jersey is among the lowest of all the European economies. Jersey remains the lowest taxed small economy in Europe with:

- zero rate of corporate tax, with effect from January 2009
- no capital gains tax
- no inheritance tax
- no VAT/ CTT/ Withholding tax
- low personal taxation
- zero % income tax
- income is taxed at source but no tax in Jersey, provided beneficial owner is not a Jersey resident
- no taxes applying to fees or charges for professional services
- generous tax allowances
- flexibility and tax neutrality for pooled investments

The island's government has indicated a strong commitment to maintaining the attractiveness of the Jersey tax regime as part of its overall economic strategy.

Jersey presents excellent opportunities for high net worth private clients such as estate and succession planning through Trust structures, Foundations or Limited Partnerships, setting up Private Trust Companies and seeking expert asset management capability.

Jersey companies can be used as listed vehicles or holding companies for Indian businesses by establishing a company outside India as listed vehicle or holding company for non-Indian assets.

Source: Jersey Finance Limited

Grant Thornton can assist in your plans to expand in offshore jurisdictions with the following:

- opening an overseas bank account
- creating a global holding structure
- helping you find a suitable personal financial advisor
- fulfilling regulatory norms
- developing trust and offshore structures

The intricacies of entering a new geography can be addressed with a detailed analysis of associated risks and expected returns.

The challenge is to find the right fit between entrepreneurial strategic posture and international diversification strategy. And there is no "one size fits all" approach that works in this case.

Engaging experienced advisors can help level off risks, gain competitive advantage and make informed decisions, while you endeavour to extend your geographical footprint.

Vinamra Shastri
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Head, Strategic Services

Africa: the rising star

With more than 30% of the world's mineral and mining resources, Africa is poised for rapid economic development. The collective GDP of Africa's 50-plus economies was US$1.6 trillion in 2008, with real GDP growth at around 5% every year from 2000 through 2008.

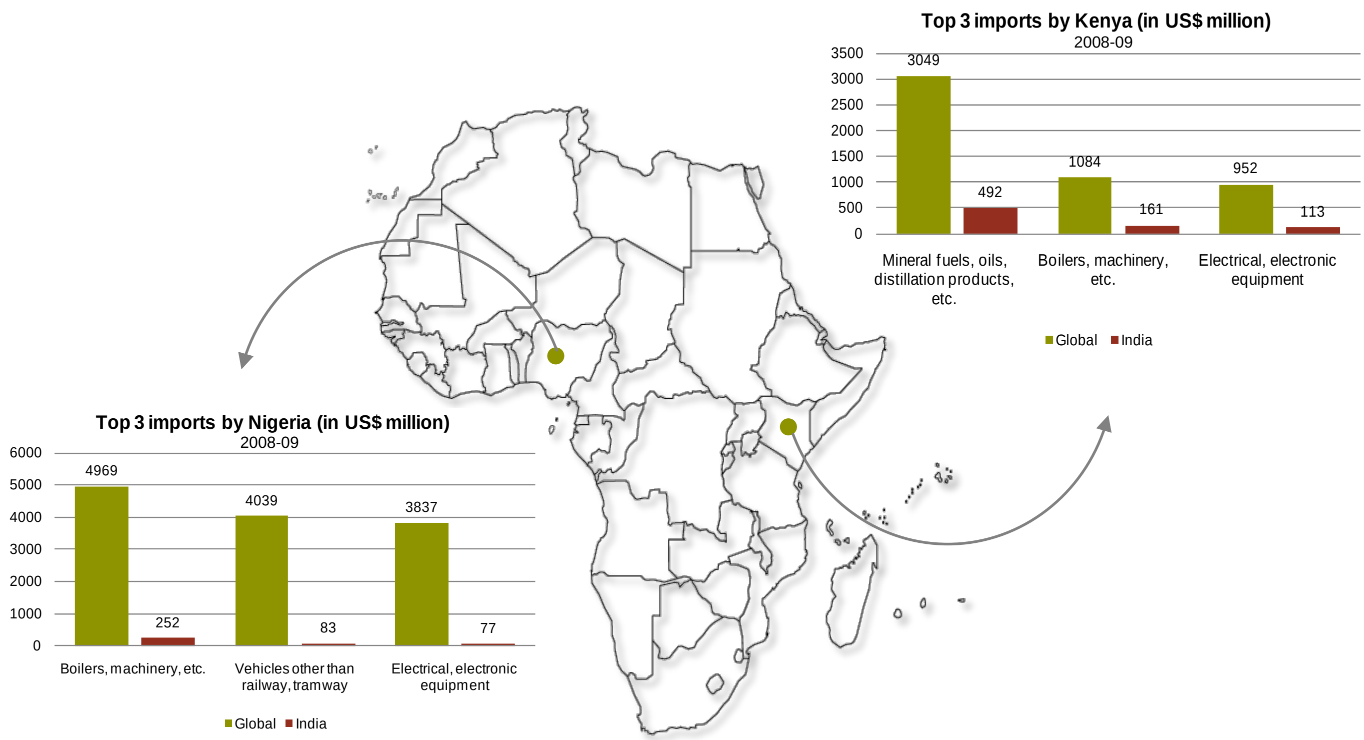
The African region has been of interest to Indian businesses for the last decade and companies such as Essar, Reliance, Tata and Mahindra are active in the region. The most recent large Indian player to enter the African market will be the Bharti group with the Airtel-Zain tie-up. The deal is expected to encourage many Indian corporate houses to follow the trail.

The ongoing economic reforms and increasing political stability is making Africa one of the most attractive business destinations of the world. The continent received foreign investment of US$60 billion in 2008 – a significant increase from US$20 billion registered in 2001.

Africa's sound economic fundamentals are strongly supported by its advantage in terms of availability of natural resources. It has 12% of the world's farming land and possesses massive oil reserves. The ever rising demand for oil, natural gas, minerals and food products place Africa on the forefront of the world's economic growth engine.

Africa's domestic markets, on the other hand, offer a potential market with positive demographic changes. Considering this as an indicator, Africa's top 18 cities will have a combined spending power of staggering US$1.3 trillion, in the next 20 years, as per a study conducted by the United Nations. Owing to such positive economic indicators, a large number of corporate houses have already established or are in the process of setting up their operations in Africa. Banking, telecommunications, energy and food processing are amongst the focus industries. Kenya and Nigeria are amongst the prefered business destinations in the region.

The concerns on the front of external debt have also been easing out. Africa's level of external indebtedness was registered at 20% in 2006 from 70% in mid 1990s, as per Coronation Fund Managers and this indicates the improving economic scenario in the region.



Source: United Nations

Success story: Globalisation strategy for a leading manufacturer of alcohol in India

In early 2009, Grant Thornton India was engaged to assist a domestic alcohol company in expanding to new markets. Although the Company had a strong and successful presence in the Indian market, it was facing challenges in expanding its base into international markets.

The Company had previously attempted to export its products but found it difficult to comprehensively analyse the growth drivers in multiple geographies. Further, the Company was facing roadblocks on identifying suitable local alliances that could provide a soft landing and help in establishing a distribution channel. Grant Thornton India began the project by analysing the core strengths and competitive advantages of the Company.

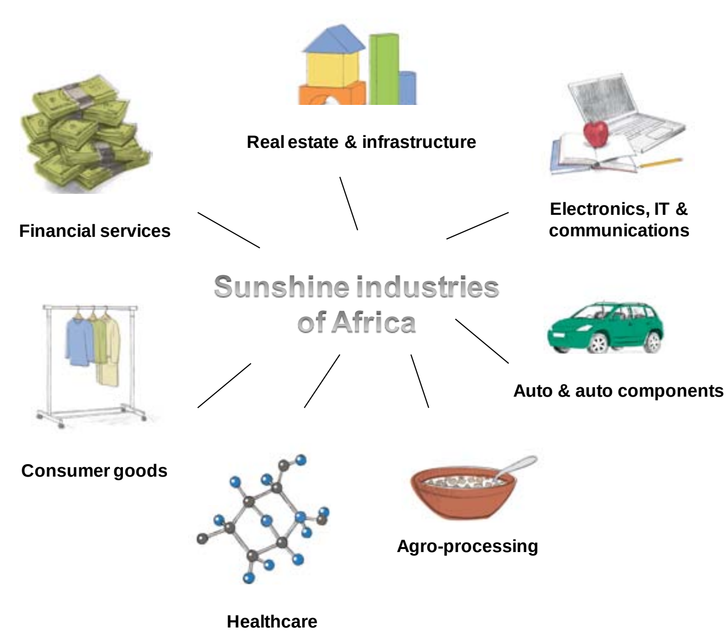
After assessment of their internal strengths, Grant Thornton India conducted a detailed evaluation of the target markets, identifying the best selling products and then matching those with the various markets in different countries.

Once a high potential target country was identified, Grant Thornton leveraged its local member firm offices in Africa to prepare a list of suitable local partners, who would be ideal for creating strategic alliances. With close assistance and guidance from Grant Thornton, the Company met with the individual partners and signed alliance agreements to commence exports.

Over the last 18 months, the Company has expanded its business into 14 countries of Africa, Europe and South East Asia.

How can Grant Thornton help?

- a cohesive global organisation providing best-in-class, responsive service, wherever you choose to go
- offices in key destinations providing access to local knowledge
- successful completion of numerous diversification projects into Africa, Europe, Asia Pacific and Americas
- end-to-end delivery of solutions in India and the overseas destination



About Grant Thornton

About Grant Thornton International

Grant Thornton International is one of the world's leading organisations of independently owned and managed accounting and consulting firms. These firms provide assurance, tax and advisory services to privately held businesses and public interest entities.

Clients of member and correspondent firms can access the knowledge and experience of more than 2,400 partners in over 100 countries and consistently receive a distinctive, high quality and personalised service wherever they choose to do business.

About Grant Thornton India

Grant Thornton, India is a member firm within Grant Thornton International Ltd. The firm is one of the oldest and most prestigious accountancy firms in the country. Today, it has grown to be one of the largest accountancy and advisory firms in India with nearly 1,000 professional staff in New Delhi, Bengaluru, Chandigarh, Chennai, Gurgaon, Hyderabad, Mumbai and Pune, and affiliate arrangements in most of the major towns and cities across the country.

The firm's mission is to be the advisers of choice to Indian businesses who have global ambitions- raise global capital, expand into global markets, adopt global standards or acquire global businesses. The firm specialises in providing compliance and advisory services to growth oriented, entrepreneurial companies and adopts best in class international tools, methodologies and independence/ risk management standards for all its services.

Personal attention, undivided focus, deep knowledge and committed service

As the leader of an entrepreneurial business, you need advisers who listen and who take the time to ask and answer the difficult questions. That's how Grant Thornton has built its success—by helping companies like yours achieve, grow, compete and meet the growing forces of globalisation head on.

Understanding your business, learning from your history and including partners who work directly with you throughout the assignment: these commitments are standard for Grant Thornton.

Moreover, the international insight, global reach and across-the-board depth of service gained from working with companies like yours around the world truly sets Grant Thornton member firms apart.

You will get objective, decisive advice that's tailored to your unique needs. You didn't build your business on average ideas and conventional solutions, and it's not how Grant Thornton member firms conduct theirs.

And you will appreciate dealing with individuals who are friendly but forthright, and who speak out strongly and consistently on issues that affect your business and your industry.

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