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Italian Multinationals in India: Trends and Challenges

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About this presentation

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3. The 3I Database

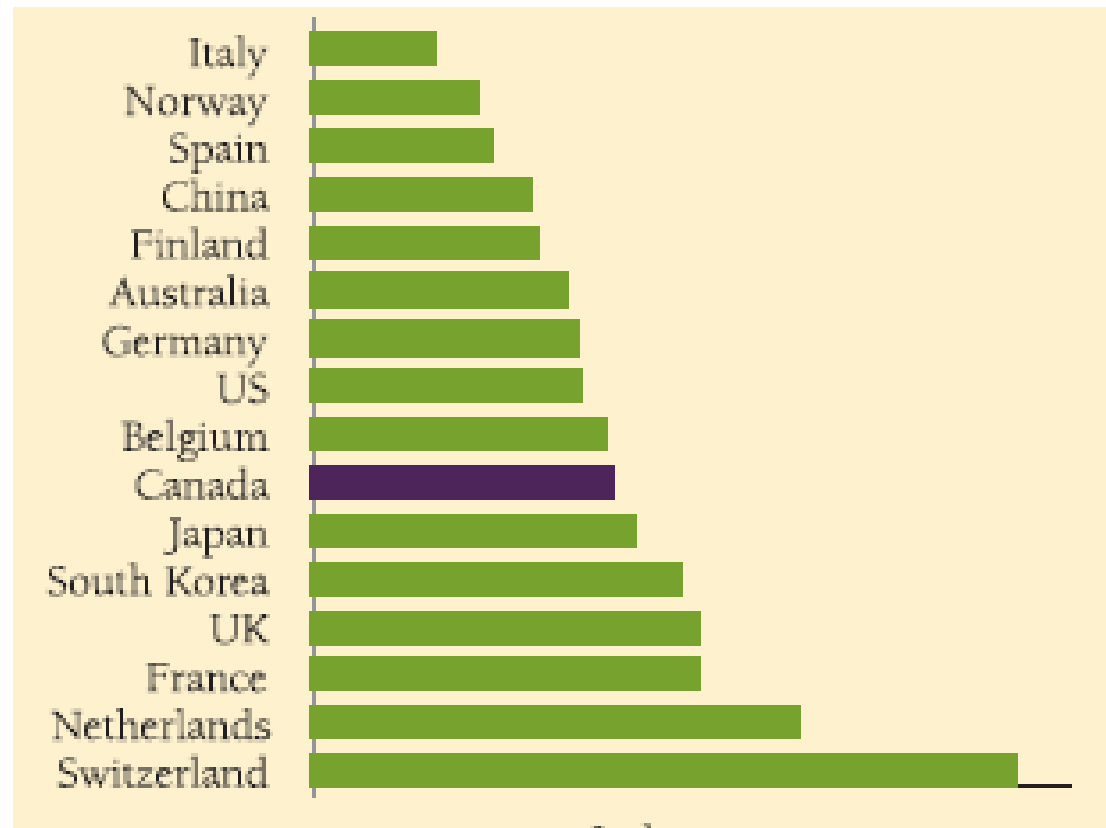
4. Italian Multinationals in India

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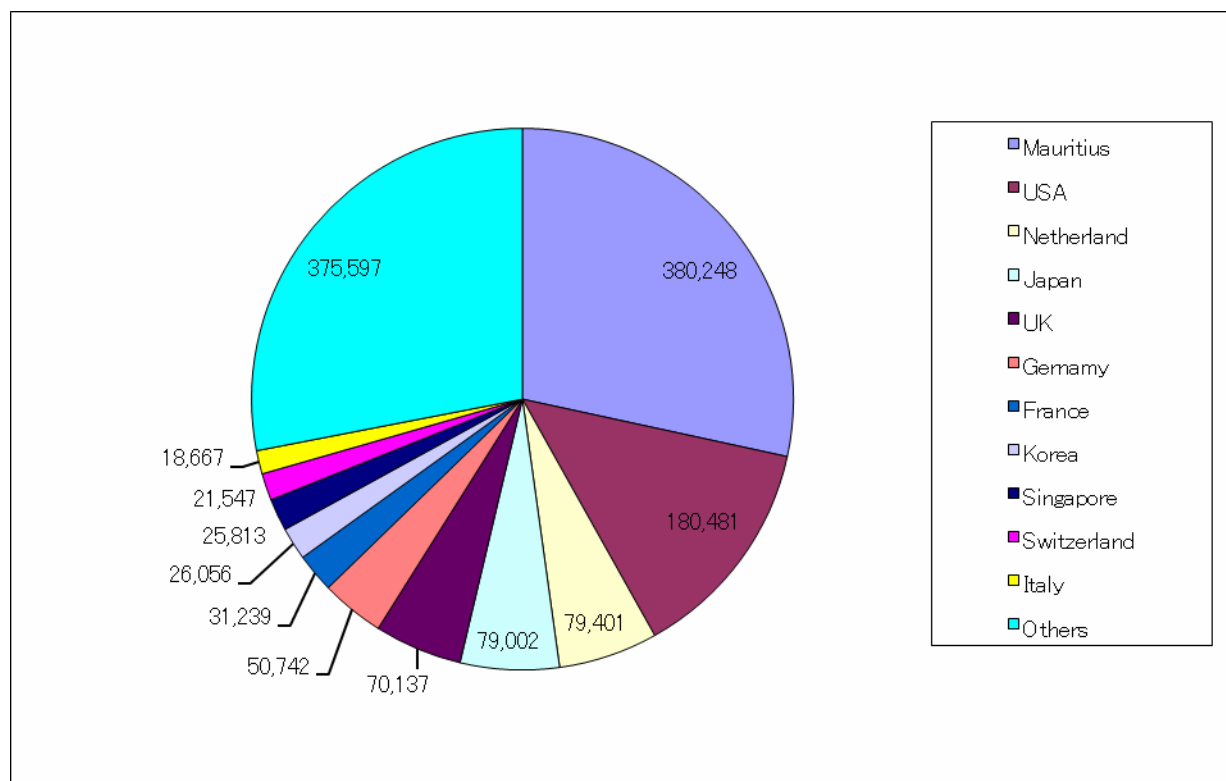
Number of Companies on *Fortune Global 500* (Scaled by Size of Economy)



Source: Foreign Affairs and International Trade Canada (2007), *Canada's State of Trade*

Cumulative FDI in India

Rs million (Aug. 1991 to Dec. 2004)



Source: JETRO using Ministry of Commerce and Industry data

Indian inward FDI data

(1991-2004 3rd Q)

- Italian technical and financial collaboration projects
 - 1,011 over 26,585 → 3.80%
- Sectoral composition
 - Transport = 57%
 - Agrofood = 9%
 - Metals = 8%
- Financial engagements
 - US\$1.31 billion over US\$67.15 billion → 1.95%
- Financial committments
 - US\$553 million → 1.21%
- Technology transfers
 - 482 agreements → 6.14%
 - Italy is India's 5th largest partner

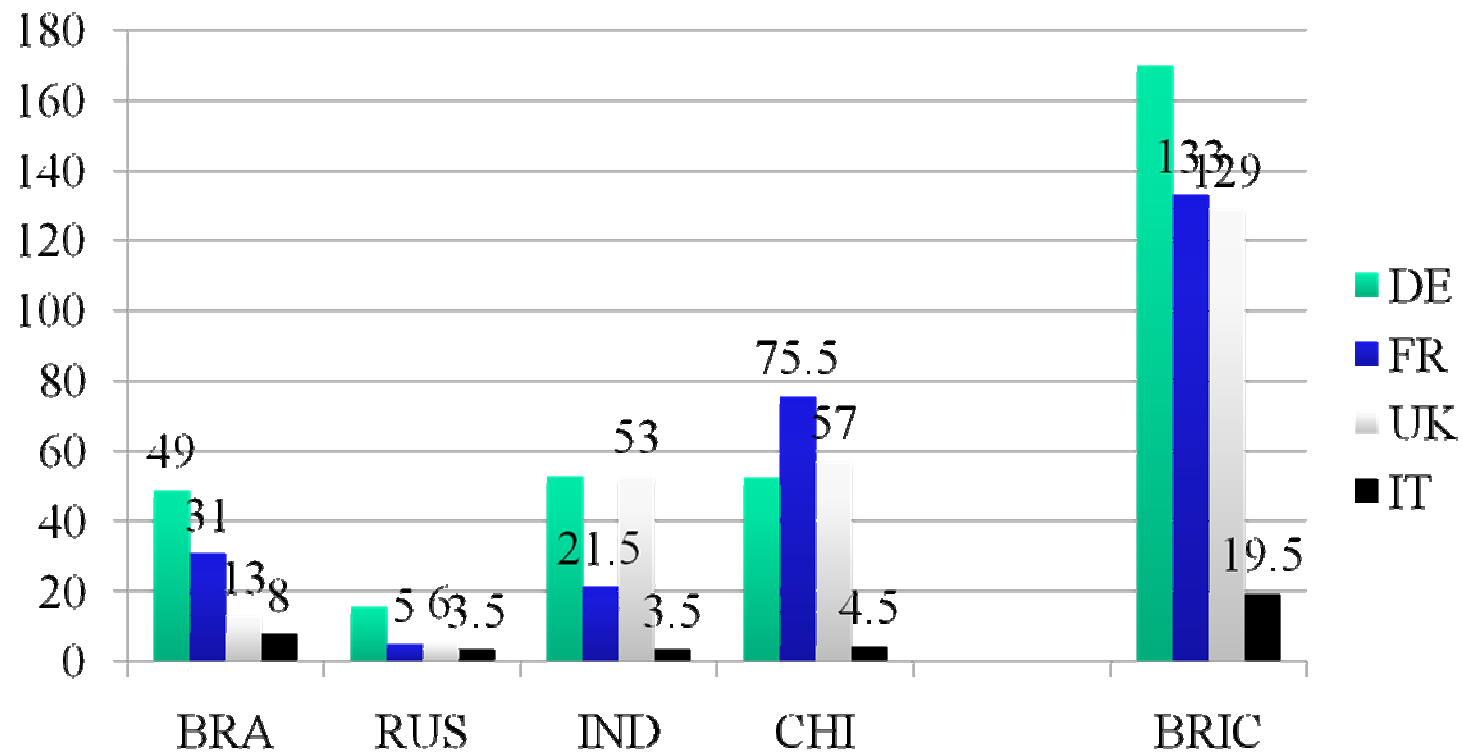
FDI stock (major EU countries)

€million, end-2004

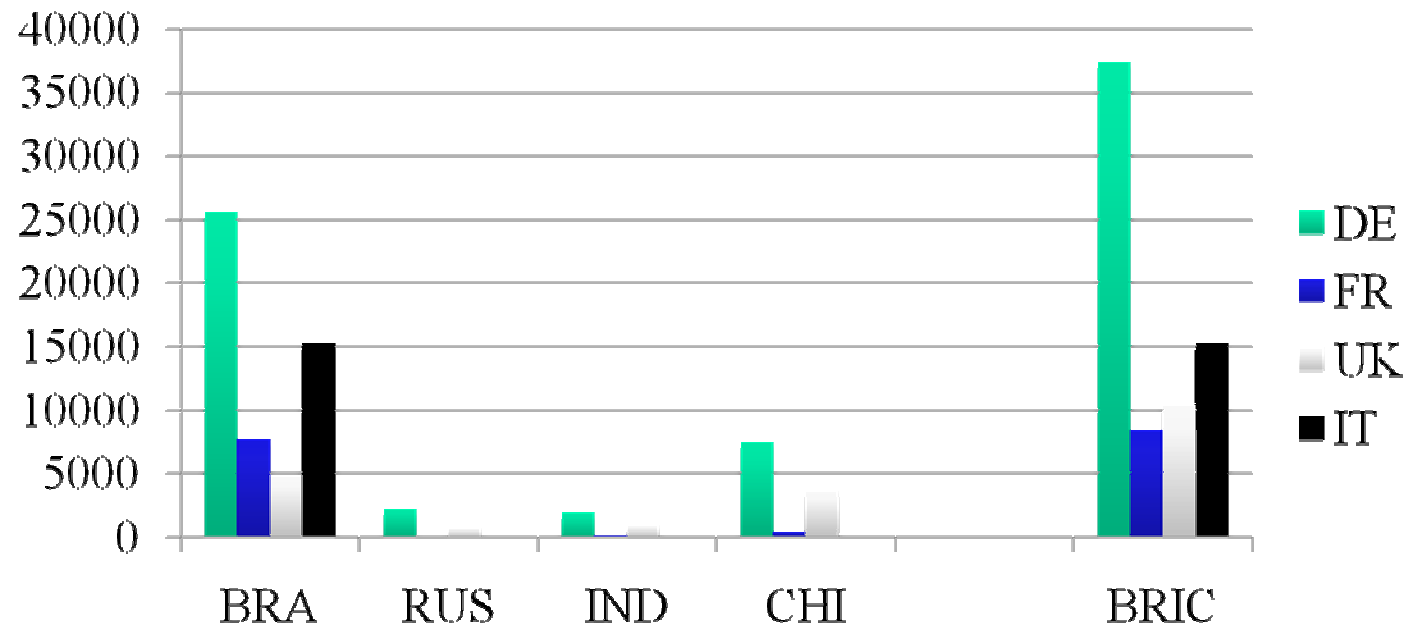
	EU-25	DE	FR	IT	NL	GB	SE
BR	70768	5000	5882	3003	6188	5563	1066
RU	20983	3735	1726	252	5152	2308	1617
IN	9713	1917	589	383	920	2386	333
CN	21278	8195	2124	641	1344	2669	1072
HK	85559	3117	1508	495	3025	27182	97
CN+HK	106837	11312	3632	1136	4369	29851	1169
BRICs	208301	21964	11829	4774	16629	40108	4185
BRICs %	10.17	9.43	4.86	9.26	9.43	9.51	7.79
IN %	0.47	0.82	0.24	0.74	0.52	0.57	0.62

Source: Eurostat

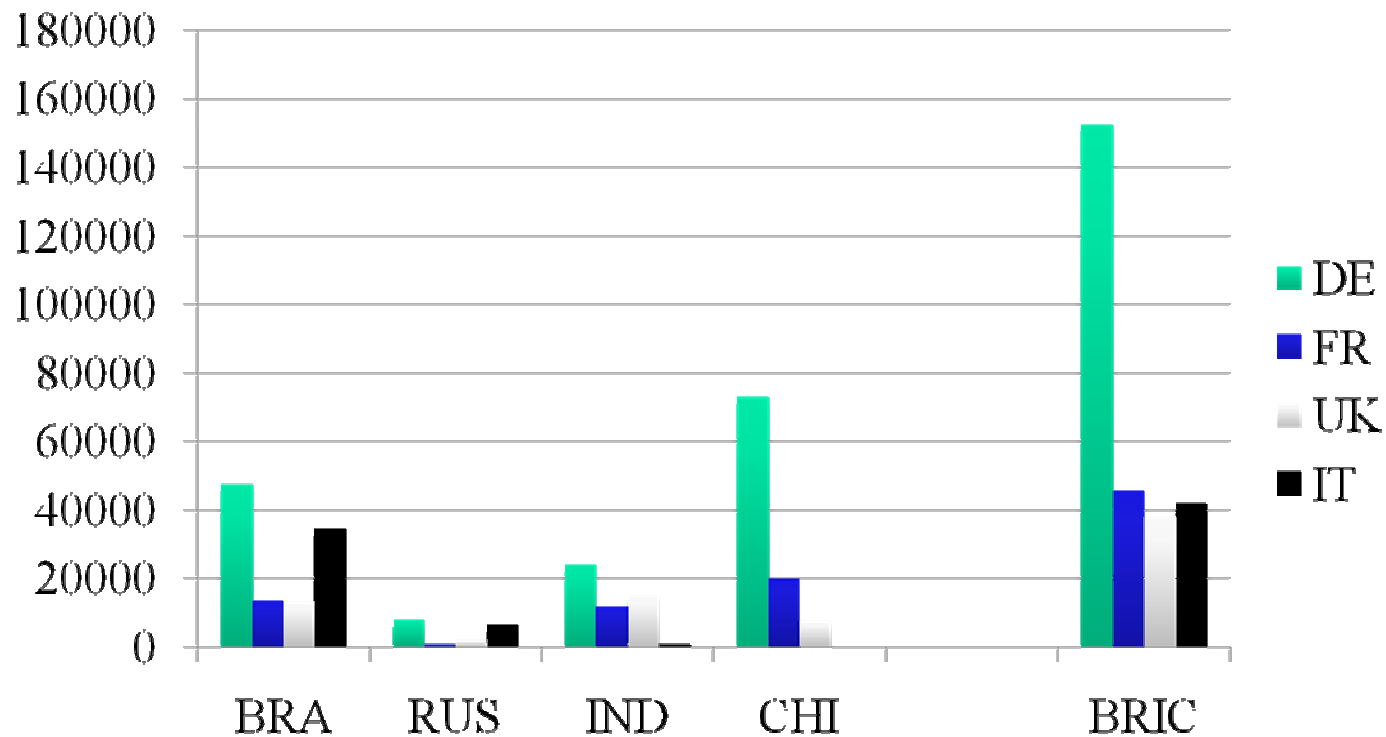
EU MNCs' plants in the BRICs



EU MNCs' sales in the BRICs



EU MNCs' jobs in the BRICs



EU banks in the BRIC countries

number of branches/sub-branches/representative offices, end-2006

	UK	FR	GE	IT
BR	1501	17	13	4
RU	1	7	19	108
IN	118	4	18	9
CN	77	5	27	20
CN & HK	n.a.	32	15	13
<i>BRICs</i>	1697	33	77	141
<i>BRICs %</i>	n.a.	3.50	8.04	53.41
Total	n.a.	944	958	264

Sources: ABI, Bundesbank, CECEI, HSBC, Standard Chartered, RBS, Barclays

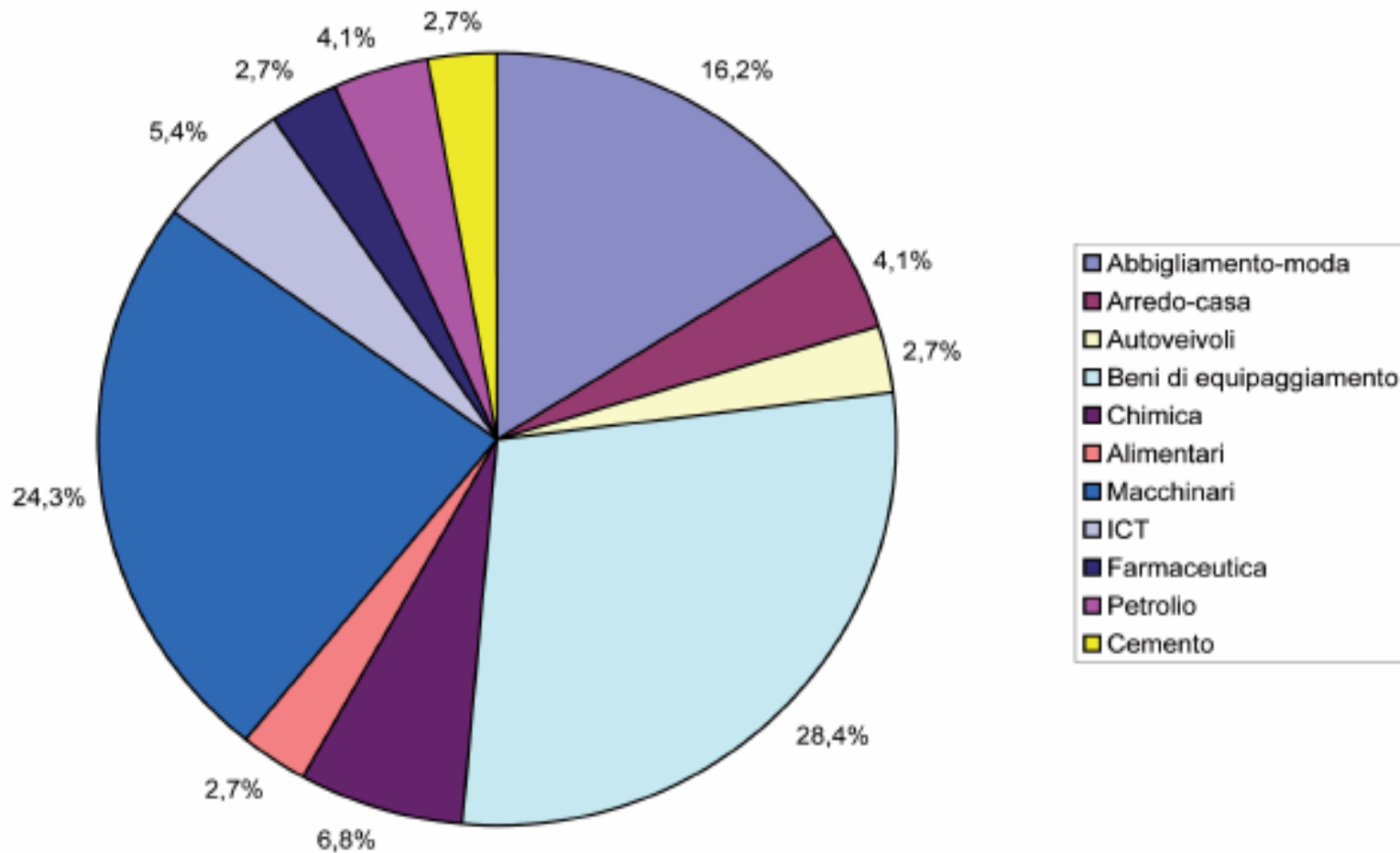


- Allianz
 - 2001: incorporation of 50:50 JV with Bajaj Auto
 - 2007: Bajaj Allianz Life Insurance is 3rd-largest private Life Insurer in India
 - March 2007: new JV to distribute consumer financial products
- Axa
 - August 2005: signed an agreement with Bharti to set up special life insurance JV (26% AXA)
 - August 2006: inauguration of the first branch in Hyderabad
 - March 2007: new general insurance business JV
- Generali
 - May 2006: signed an agreement with Pantaloon Retail to set up JV (74% Future)
 - September 2007: received clearance today from regulatory authority

III = Italian Investors in Italy

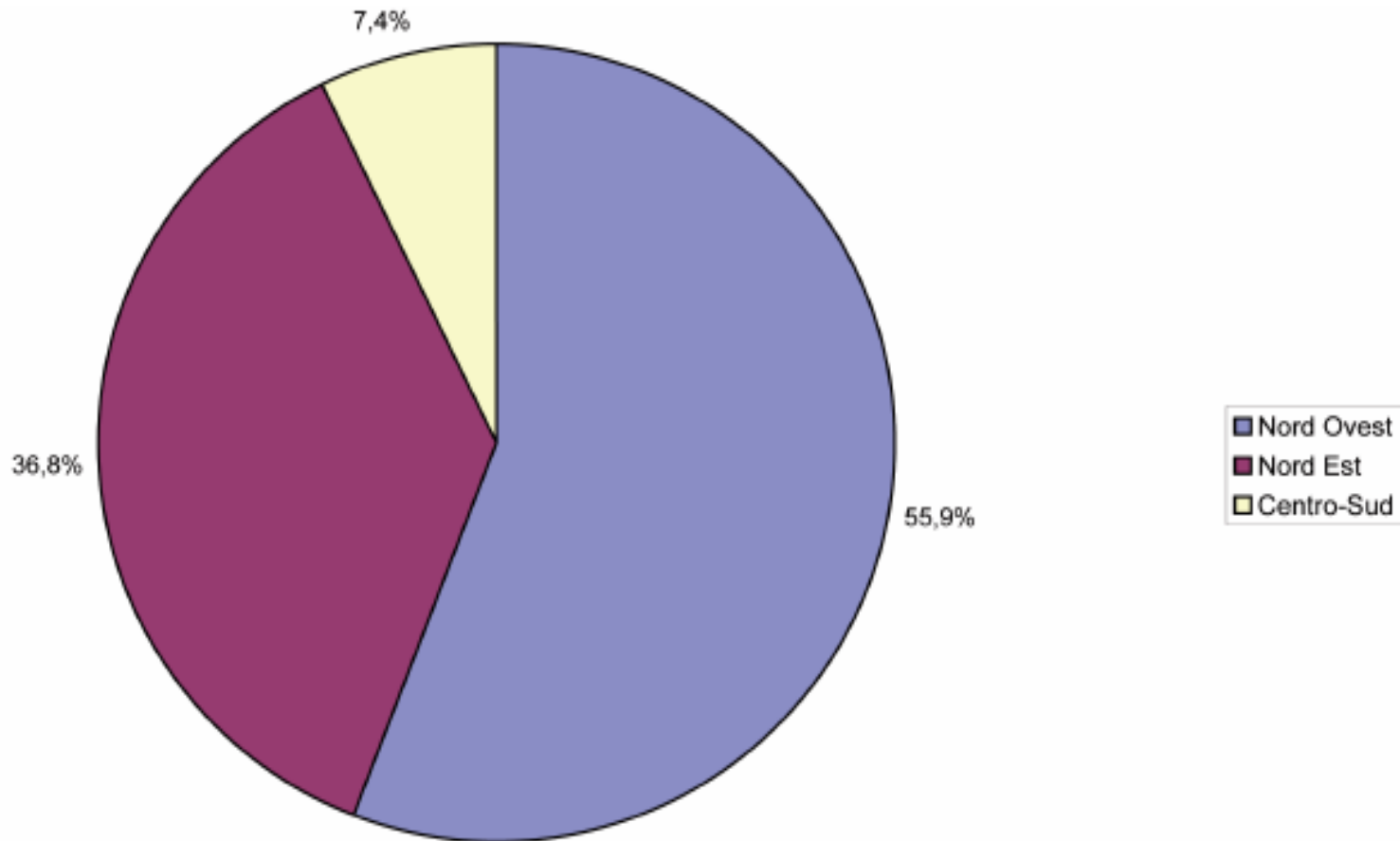
- New database built on the basis of ICE listings, supplemented with press and other sources
- 68 firms and 73 productive units
- Italian average capital share = 71% (62 affiliates)
- Average age > 7 years (55 affiliates)

III by sector



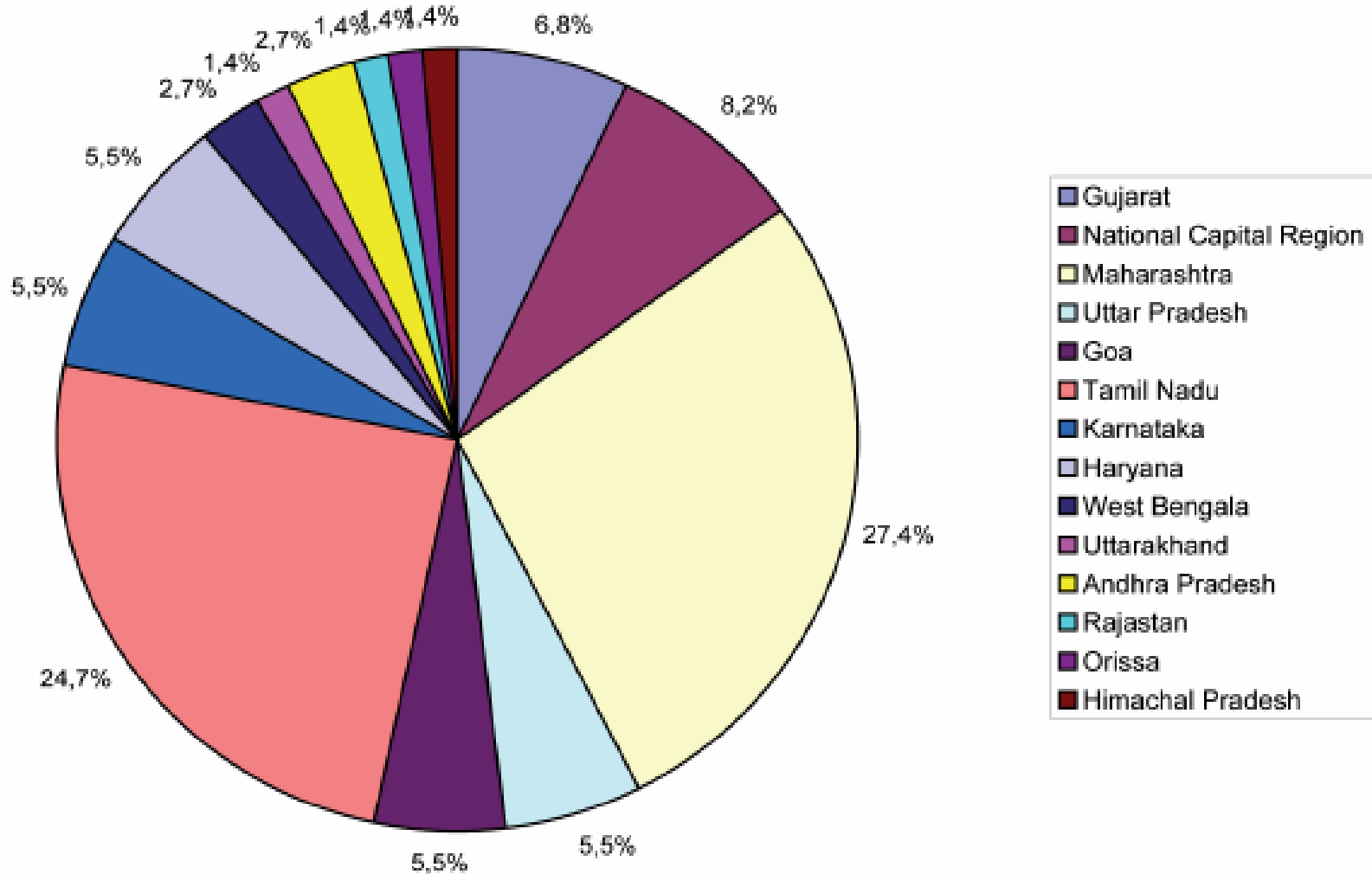
Source: Goldstein (2007)

III by Italian region



Source: Goldstein (2007)

III by Indian state



Source: Goldstein (2007)

Out-of-the-sample

- Lavazza (Barista and Fresh & Honest for Rs 480 crore; will invest Rs 105 crore in the next 24 months) in June.
- Caipo Automazione Industriale (JV with Coimbatore's Lakshmi Ring Travellers to manufacture slub yarn machinery) in July.
- Prysmian (majority in a Newco, encompassing all Nicco cables and energy systems operations, FY06 turnover > €55m) in July.
- Diesel (51:49 JV with Arvind Mills) on 1 September.
- Benetton (5-year strategic partnership with Tata/Trent, 3 existing Sisley stores and 20-30 stores in the 8 Metros) on 18 September.
- Bialetti (€1.8m 70% JV with the Gangar family to produce and market cookware) on 21 September.

Motivation

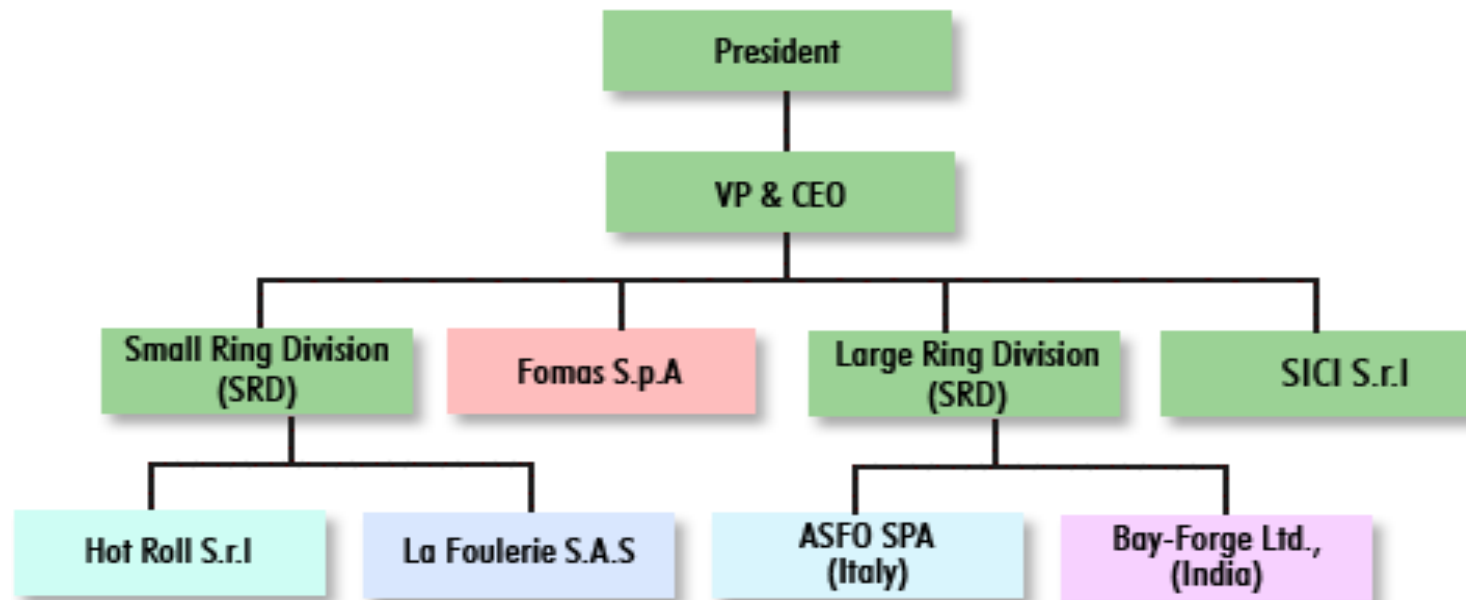
- Mostly market-seeking
 - Fiat, Italcementi, Finmeccanica (Ansaldo Energia) among the large groups
 - Perfetti, Fomas, Guala etc in the Mittelstand
- Some efficiency-seeking
 - STM, Indena, Guala (an interesting case)
- Very few resource-seeking
 - ENI/Agip
 - Henraux

The Tata-Fiat relationship

- new joint manufacturing plant at Ranjangaon will go on-stream in 2008
- MoU with Iveco to explore opportunities for cooperation in engineering, manufacturing, sourcing and distribution of products, aggregates and components of commercial vehicles across markets.
- licensing agreement to build a Tata pick-up vehicle for sale in the Latin American market.

Perfetti Van Melle (PVM) India

- the confectionery major set up shop in 1994
- has invested Rs 600 crore over the last decade
- Turnover doubled in the last two years to Rs 400 crore (car = 36% against 4% for the Rs 1,600-crore confectionery market)
- two manufacturing plants — at Manesar (Haryana) and one near Chennai – and the first plant of PVM India in Bangladesh
- second only to the Italian parent in terms of sales volume
- India is the only Cofitos (its coffee-flavoured toffee) producing operation across the globe and exports to several countries
- Issues:
 - Ban on use of non-sugar-based sweeteners in confectionery
 - infrastructure



Employees : 900
Turnover 250 €/m

Operational Companies

Fomas – Lombardia: Forging
Hot Roll – Piemonte: Ring Rolling
Asfo – Veneto: Ring Rolling
Bay-forge - India: Forging and Rolling
La Foulurie -France: Forging and Rolling

Fomas in India

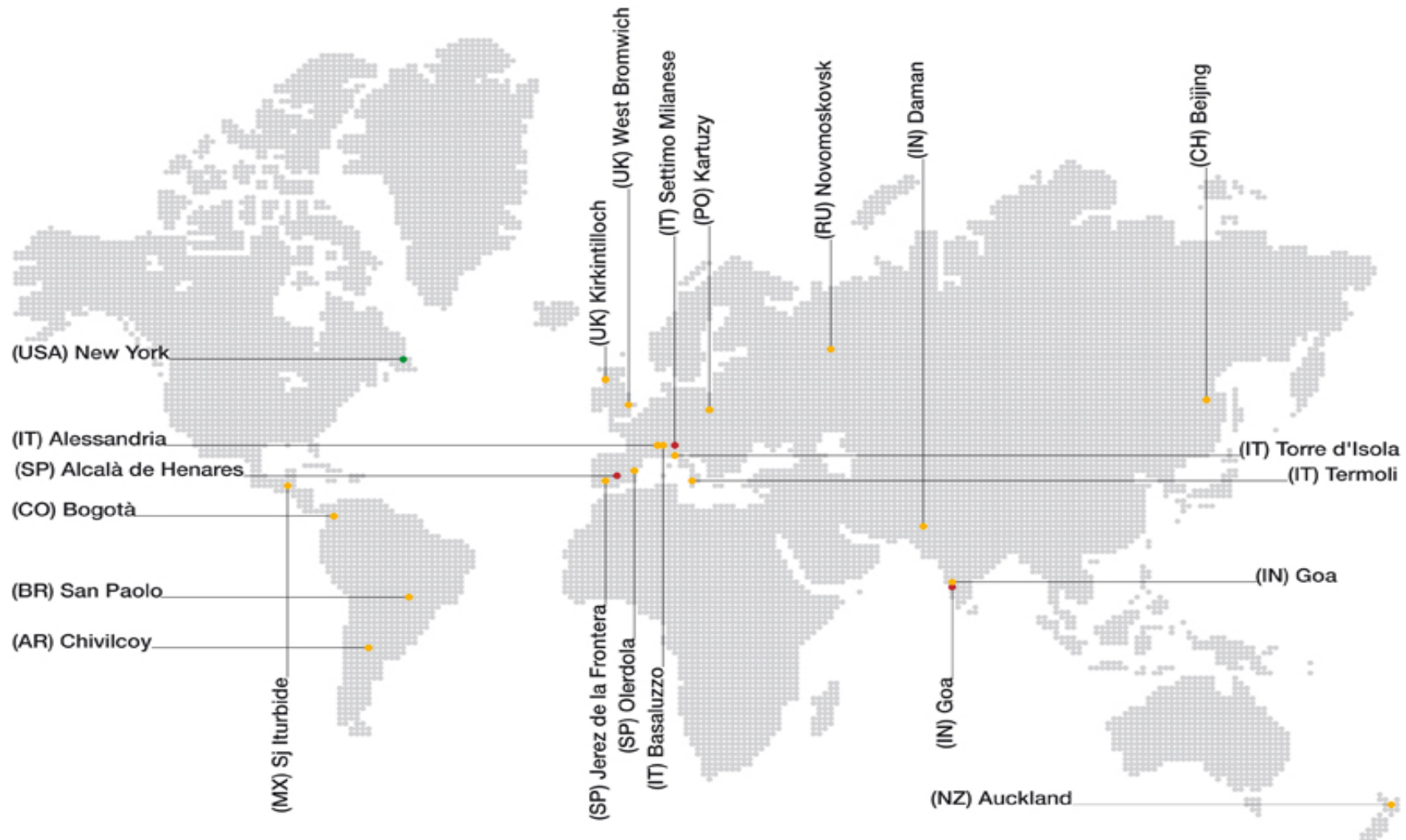
- Kanchipuram district (Madras Export Processing Zone, also Ford, Hyundai, Saint Gobain), set up in 1996
- FY05 turnover of Rs 50 crore against Rs 30 crore previous year
- Rs 80-crore project for manufacturing steel rings for ISRO → 3,500-tonne hydraulic press → equipment idle after finishing all ISRO → cannot be used to make conventional forgings such as auto components → diversification into the wind energy sector
- estimates to achieve a turnover of Rs 100 crore in 2006
- Issues:
 - Choosing the right partner (first bad, past Chairman was Jagdish Narain Sapru, former chairman of Indian Tobacco Company ITC)
 - infrastructure

Guala



- 23 plants and 2,100 employees in 13 countries in 4 continents
- 2006 Turnover = €264 million (+6.3%)
- capitalization = €349 million (2007 Q3)
- 65 per cent of the world market for tamper evident non-refillable closures for the liquor industry.

Guala worldwide



● Closures Plants ● PET Plants ● Sales Office

Guala in India

Pre-liberalization → Market is dominated by unbottled Indian Made Foreign Whisky

- poor packaging
- no closures
- counterfeit

Market liberalization → JV allowed, imported beverages can be bottled in India, higher prices result in consumers being more attentive

Partner search (not UB in order not to exclude competitors, ITC packaging unit not interested, other partners scared by product too innovative for a risky market)

Wholly-owned subsidiary Guala Closures (India) in Goa for specialty caps → growing demand → capacity trebled at Goa and another unit started at Daman in 2000



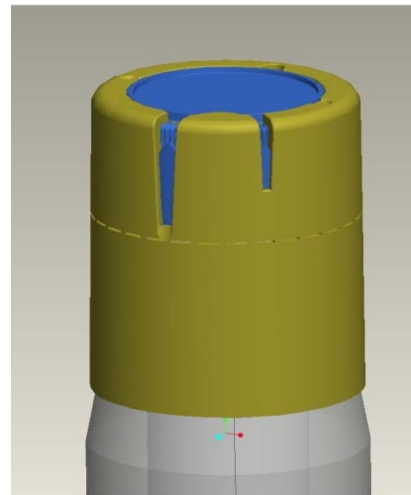
Daman 2000

Goa 1996



Nip Cap project

- Indian size whisky bottles (180ml) = huge market opportunity
- Special closures needed → NipCap
- Two years to gain consumers' confidence
- From two production lines in February 2006 (11m pieces/m) to five lines in February 2007 (65m pieces/m)





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PROTECTION”**

Mr. Giovanni, Chairman - Guala Closures



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Summing up ...India in the eyes of Italian investors and the OECD

- In its first-ever *Economic Survey of India*, the OECD highlights four policy priorities:
 - improving the business environment;
 - infrastructure;
 - public finances; and
 - labor market reform
- When comparing India and China, Italian MNCs refer to “uncertainties” and weak infrastructure
- Labour less of an issue
- Language is a plus for India