Global Footprints of Indian Companies-A Must for Accelerating GDP Growth

Indian Economy has always endeavoured to aim high and achieve farther beyond. There are a number of avenues to materialize India's target of transforming itself into a three trillion USD economy within the span of next four years; the achievement of which can help facilitate productivity, employment and access to social rights within the country. Further, a comparative analysis of India with respect GDP, PCI, Market Capitalization and National Debt, shows how India can improve in these dimensions besides National Debt. India has immense potential to capture a big growth opportunity and change the course for generations to come. Read on…

CA. Ketan Mehta

The author is a member of the Institute. He can be reached at kkm7780@gmail.com and eboard@icai.in

Ambitious GDP target of US$5 trillion by 2024! I strongly believe we have potential to achieve even higher - maybe even 10 Trillion or more GDP size by 2030 or earlier - *as the Lord Buddha saying goes "believe in yourself and no one & nothing can stop you".* While many experts & analysts have written on *"what"* should be done to achieve GDP target , In this article, I would be rather focusing on the *"how" part, i.e., the execution piece* as to how India can drive itself to achieve a US$ 10 Trillion GDP Mark.

Let's first be clear about the motivation behind increasing our GDP, i.e., size of economy. India is today's 5th largest economy with GDP of $2.94 trillion, but per capita income is just much lower with millions of people, around 3% of population) still below extreme poverty. The key reason we need to drive for higher GDP growth, $10 trillion or even more, is to drive productivity, employment and finally improving per capita income at least 5 times thus empowering our citizens to achieve their basic rights to education, health and good quality of living.

When we compare to USA & China1:

a) India's GDP is 1/10th of USA & 1/7th of China

b) India's per capita income (i.e income per citizen) is just $2k, 1/30th of the USA & 1/5th of Chinese citizens.

c) India's Market Capitalisation i.e., valuation of all our Companies listed on Indian Stock Exchange) is 83% of GDP against USA 176%.

d) India's National Debt is the most conservative at 67% of GDP against USA 116% of GDP

Key inference we can draw from the table below is there is a direct correlation between Market Capitalisation and GDP. The bigger the size of corporations in a country, the larger the GDP. So, we need to analyse what we have to do differently to produce large '*Market Capitalisation*' corporations.

Table 1 : GDP Size, Market Capitalisation & National Debt Comparatives

Country	GDP	Population	Per Capita Income	Equity Market Capitalisation	National debt	Market capitalisation as % of GDP	Debt as % of GDP
	USD in Trillion	*No's in Million/ Billion*	*USD*	USD in Trillion	USD in Trillion	*%*	*%*
	A	*B*	*C=A/B*	*D*	*E*	*F=D/A*	*G=E/A*
USA	21.4 Tn	328 Mn	65, 244	37.7 Tn	24.9 Tn	176%	116%
China	14.4 Tn	1,435 bn	10,034	11.7 Tn	5.5 Tn	81%	38%
India	2.7 Tn	1,366 bn	1,985	2.2 Tn	1.8 Tn	83%	67%

To answer that question, we need to ask ourselves : What does India lack and why are we not able to produce 'at least' 3 Global companies such as Apple, Microsoft and Google? The market capitalization of each of these 3 companies cumulative is USD $4 trillion higher than the market capitalisation of the entire Indian Stock Market US$2.2 trillion despite being a country having an abundance of land, a country with the best demographic (Labour) in the world (young population) & best human capital. So, What does India need to do differently in order to be able to produce at least 3 Global Companies with >$1 trillion Market capitalisation in the next 10 years?

In the table below, you will notice that while India has listed companies higher than USA & China , not a single company with US$1 Trillion Market Capitalisation ? What is stopping us to reach the $1 trillion milestone ?

One key reason for this is that Indian Companies despite best management, corporate culture and highest governance model are not able to become global companies, i.e., companies whose consumers are spread across across the globe say more than 75+ countries in the world ? We need to create our own 'Global' brands to create large Market Capitalisation, resulting in higher GDP for the economy (as per co-relation shown in Table 1 above) - let's move forward and analyze this further - Why are we not able to achieve this milestone ? (despite all challenges)

Table 2 : Equity Market Capitalisation

Country	Equity Market Capitalisation	Number of Listed Companies on Stock Exchange	Companies with >$1 Trillion Market Cap
US	37.7 Tn	3,300 (Nasdaq)	8
China	11.7 Tn	3,584	2
India	2.27 Tn	5.065	NIL

[1]*Source of factual data: https://www.statista.com/statistics/531619/national-debt-of-india/*

In order to answer that question let's rewind and go "back to basics' - We all know that ***land, labour and capital*** are the three main ingredients of business. The article primarily focuses on the 'capital' element as so much has already been written and said about 'land and labour' reforms).

One easy & favorite argument of 'all experts generally is that we should increase our investment in 'research & development' multiple fold to promote **"innovation"** , that's a fair argument and definitely lots to be done in this area so that as a country we should be able to produce at least one innovative product. (US $1.4 trillion Market cap of a single company, representing 52% of India's GDP). However, it is important for a country to focus on 'execution' piece as well as to how can we make our 'policies' and 'processes' efficient to enable execution of those innovative products.

So, let's focus in this section 'what best can we do' in terms of execution, within the current opportunities we have on hand in automobile, pharma, chemical, cement, FMCG, banking industry & last but not the least the new fab - digital money.

Land

Land is a natural resource and one of the main ingredients to start a business but as we know "Land" is a scarce resource as well, i.e., a country cannot produce or increase the amount of land they have even if they want to. Fortunately, India has an abundant and huge 'land bank' which is rich in mineral resources as well. So from capability point of view we have a big advantage here over other countries.

However, the key question is: How do we make our land policies efficient and industrially friendly in order to make the best use of it? I think we all agree that we need drastic land reforms. Listed below are ways we can make our use and efficiency of land even better:

- digitisation of land records
- trading of land in dematerialisation form
- categorising land into a) Industrial b) Agricultural and c) Railway land (relevant for India).

The aim of simplifying this is to make sure land availability for industry is available in the most easiest & transparent way and we make our land more productive whether in the field of 'agriculture' or extraction of 'mineral' resources. Government should define top 3 measurable KPIs (Key Performance Indicators-Measurement of success)) - and then ensure, all policies are designed & implemented to achieve those KPIs. These KPIs should be published on monthly basis

Labour

India is the 2nd most populated country in the world. So, again like land, labour is abundant in supply in comparison to other countries and the best part is our demography – we are a young nation with 40% of the population < 35 years. So, this resource as well we have in plenty - so now the question here is; How can we make our labour laws more efficient & competitive globally? How can we make our 'labour' more skillful. In this competitive world, can we afford to have laws that do not promote meritocracy and promote socialism? There are various other ways to promote socialism, but let's not be over protective about our labour especially when it makes our products 'expensive' & 'uncompetitive' than in the international market while competing with global peers. Our labour laws should promote industry growth and not cripple them. Here, as well, the Government should define Top 3 measurable KPIs and publish them on monthly basis.

Funds / Capital (Equity and Debt)

I would say currently for India, in comparison to 'land' and 'labour' , 'access to capital' is a major hurdle for our entrepreneurs to become 'global' companies. Indian entrepreneurs have somehow managed to overcome challenges in 'Land' and 'Labour', despite all negatives vs global peers. However, it is the 'shortage' of Capital which I would say causes more than 50% of enterprises to shut down their operations.

Lets evaluate where we stand on the 'debt' matrix vs. our global peers Corporate debt size - 51% of GDP vs 163% in China

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a) Rate of Interest i.e cost of funds - 8% to 10% vs sub 3% in USA/China

b) Most importantly, our default rate is also highest at 40% vs 6% in USA/24% in China

Table 3 : Corporate Debt as % of GDP & Default %. India default rate is 40%

(All figs in USD)

Country	Corporate Debt	Average Interest Rates	GDP	Corporate Debt as % of GDP	Default %
US	17.2 Tn	~2% to3%	21.4 Tn	80%	6%*
China	23.5 Tn	~Nil to 1%	14.4 Tn	163%	24%*
India	1.4 Tn	~8% to 10%	2.7 Tn	51%	40%

**Source : S&P Capital IQ : Mckinsey Global Institute analysis*

IMF data ranks India 33 among 137 nations with a bad NPA ratio in descending order. Of the 32 countries with worse ratios, 16 are in Africa. *Agree, we have a big problem here. Hence, we should look at expanding our corporate debt considerably at 'interest rates' competitive to our global peers.*

*So, what are the **five (5) "Big Changes"** we need to* execute *to rebuild confidence in Indian Corporates and ensure abundance 'Funds' inflows for Indian Companies, to enable them to achieve their full potential and am sure by doing so few 'star companies' who dream to become 'Global' companies will born with US $1 Tn Market cap.*

1. Change in Attitude

We need to do a in-depth study on options available to entrepreneurs to raise funds for their businesses - whether 'capital' or 'debt'. The policies, processes, rules & laws related to raising capital or granting debts needs suitable reforms. –We all know one basic tenant of any business to grow is 'ability to take risks", whereas Indian entrepreneurs are constantly afraid of 'failure' rather than focusing on 'growth'.

The fear with which a small or mid-size entrepreneur lives with today are:

How do I raise capital or debt for growing my business? Where will I get additional funds, even if I grow? - What is the motivation for me to grow when I cannot have access to additional capital or loan.

What will happen if my business fails due to external factors? How will I repay my loan?

How will I arrange for collateral to raise debt?

The Indian Banking system and Government of India has a major role to play in order to be able to provide following support to corporates into becoming Global Companies:

a) Step 1 : a structural way of access to Capital or debt viz equity, granting or extinguishing debts, even if it means taking 'risk',

b) Step 2 : Nurturing companies to become successful at home turf , and

c) Step3 : Last but not the least, giving them required support to go 'Global'.

At macro level, India is at a strong short term debt cycle, compare to its global peers where interest rates are significantly lower -near to zero!. We have a unique opportunity to expand our corporate debt effectively to increase productivity by reducing interest rates. Hence, Monetary policy support is need of the hour.

2. Change in Processes *"Ways of doing things"*

As mentioned earlier, we should review end to end existing policies & processes related to all the 'sources' of funds for all sizes of corporates (Small, Medium & Large enterprises) whether it is about raising 'Capital or debt'. Corporates should have ease of access to these 'sources of funds'

where there is reward for good performance & *financial* penalty for 'default'. I have picked in this article as an example one of the key source "Corporate debts" issuance by banks.

Similar, exercise can be done for other sources of funds as well.

The *mantra* is *let's play a game , let's take a risk , let's play '1 million to 1 billion' corporate innings* ! Table 4 : Below table depicts how the banking system can play a critical role in 'corporate life' journey of an enterprise from a $1mn to $1bn marathon!

	Evaluation & Monitoring Process CORPORATE 'LIFE CYCLE' TILL IT GOES GLOBAL				
Investment /Debt Size	**<US $1m** >>>>>>>>	**<US$10m** >>>>>>	**<US $100m** >>>>	**<US $500m** >>>	**>US $1bn**
Pre-clearance of 'Project' Business Case-	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Mentoring & Monitoring 'Project' Performance vs Targets - a Independent agency	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Project start & end date to be defined	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Collateral Guarantee	No	No	No	No	Yes
Loan Repayment Moratorium	2 Years	2 Years	2 Years	1 Year	NA
Tax Moratorium (Direct, Indirect & Employment related taxes including ESI,PF)	2 Years	2 Years	2 Years	1 Year	NA
Rate of Interest (Globally Competitive)	NIL for first 5 years	NIL for first 5 years	NIL for first 5 years	Benchmark to US/	Benchmark to US/
Credit Rating to be awarded to each Corporation , Promoters, Pre-clearance agency & Mentoring agency	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Mandatory Training & Skill Development Program for Promoters/Employees	Yes	Yes	Yes	Yes	Yes

All of the above steps need to be incorporated in our "Corporate debts" approval cycle to ensure we reduce our 'default' rates significantly and at the same time expand our Corporate debt size from 51% to at least 100% of GDP by March 2022 and at the same time improve our default rate/NPAs to same levels as USA, Australia at <5%.

3. Change in "belief" "Mentoring & Coaching"

a. *Skill Set Development :* Investment needs to me made in improving

i. Skill development program for existing WorkForce - Promoters should be obliged to conduct a mandatory number of hours "Skill Development" program for its workers/ employees.

ii. Skill Development for Future Needs: Education system should link up future needs of the country. A road map should be laid down for the next 10 years of TOP 10 Jobs needed in the country to support Industry/ Corporations.

iii. Quality of basic Education. Significant Investment needs to be made in this area to get us ready for decades to come

b. Training Program (Entrepreneurs): Leadership skill development program to be conducted across the Corporate Life growth journey (as indicated in Table 3 above) for Entrepreneurs. A mandatory number of training 'hours' annually should be imparted to Entrepreneurs by astute institutes Viz IIMs, IITs, AIIMs etc.

4. Change in "Scale": "Access to Global Platforms"

a. International Exposure to Entrepreneurs: Entrepreneurs should be made aware of Global Environment and relevant news & development related to their industry should be shared formally. Cost benchmarking exercise should be carried out for their products with their Global peers and Entrepreneurs should be challenged to produce 'best quality' products at Global Competitive prices. There should be healthy interaction & co-operation between CII/relevant bodies & Entrepreneurs.

b. Training and Support for acquisition of Foreign Companies - Entrepreneurs should be given confidence and support to acquire foreign companies to increase global footprint.

5. Change in "Strategy" : FDI - Foreign Ownership

a. FDI Strategy : we shall have to make some tough *choices/decisions - 'short term sacrifice for long term gains'* i.e., our Foreign Direct Investment (FDI) policy needs to be relooked to ensure that we encourage Indian entrepreneurs to raise funds internally within India instead of looking outward for funds for expansion. Acquisition of Indian companies by foreign companies may sometimes curb our growth globally as explained below.

Over the last decade we saw the emergence of quite a few successful Indian corporates which captured the attention of Global Corporate. These are successful companies which should be promoted to go global by providing adequate funding through Indian sources. However, foreign investment is encouraged. The underlying objective of which may be to ensure that this Companies do not go global and compete with them at International stage (this is a highly debatable topic though !) and the biggest factor hindering our companies to go global and enhance their Market Capitalisation.

b. Cost of Capital : Cost of Capital/debt in India is quite high compared to global peers - to be Globally competitive RBI shall have to review the "interest rates" for corporate debts for 'foreign acquisitions' and 'exporters'. There is no way India can compete with Global peers when the Cost of Capital is 3 to 4 times higher than their Global partners.

The above 'Changes' shall go a long way in enhancing confidence of Indian businesses (small, medium & large) enabling them to grow their business multiple fold times, and contribute to nation building by driving GDP growth. True testimony of success shall be to convert "Indian companies" to be at least 3 large corporates of US$1 trillion+ size & 25 large corporates of US $ 0.5bn+ Market Capitalisation in next 10 years - *can we ? Yes, we can*. India has the potential to capture a big growth opportunity in this decade and change the course for generations to come. As Warren Buffet saying goes "*Someone's sitting in the shade today because someone planted a tree a long time ago.*"