German Indian Business Outlook 2021

Survey

Contents

Foreword

Dear Readers

The corona virus continues to greatly influence life all around the globe. While its spread in various industrial nations around the world seems to have been curtailed and vaccination campaigns have picked up speed, the pandemic in India appears, at least at the time of writing this survey in May 2021, to be raging on unabated.

In spite of the bad news there have also been positive developments, such as the aid measures that have been initiated, the rising number of vaccinations, the resumption of negotiations between the EU and India on a free trade agreement and the various measures India has taken to reduce bureaucracy and expand infrastructure.

India remains an exciting country for investors and its potential has so far only been exploited at a rudimentarily level. At the same time, India does pose a number of major challenges for German companies that are economically active in the country. As part of the survey of AHK India members along with KPMG in Germany, we found out from relevant companies what opportunities they see, what challenges they face and whether progress is evident.

Due to favourable demographics and rising incomes in India, the subsequent growth in domestic consumption and potential for higher sales figures are seen as positives for conducting business in India. The greatest challenges for those companies surveyed who operate in India are bureaucracy, currency risks and corruption; all issues that persist in India in spite of continuous efforts at improvement in recent years. Adding to this, of course, are the effects of the pandemic.

In these turbulent times it is remarkable that there are surveyed companies expecting an increase in sales in India in the current financial year 2021. Additionally, many more are optimistic about the future with 76% of companies planning an increase in their workforce by 2025, and 18% by even more than a fifth of current numbers.

We would like to thank the German and Indian companies who participated in the creation of the German-Indian Business Outlook 2021.

It is our sincerest hope that you use the insights, which we have summarised in this survey, as a guide to help your company navigate these troubled times.

Yours sincerely,

Andreas Glunz
Managing Partner International Business
KPMG in Germany

Stefan Halusa
Director General, Indo-German Chamber of Commerce
AHK India

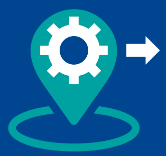
Executive Summary

Clear recovery tendencies and positive sales prospects for 2021 despite COVID-19. Optimism for the next five years.

- 66% of the companies surveyed expect increased sales in 2021–16% anticipate more than 20% growth. At the same time 49% also expect higher profits compared to 2020. This being the case, India should return to pre-crisis levels in 2021. In the medium term optimism is even more pronounced: 89% of surveyed companies forecast higher sales and 71% increased profits by 2025.

The biggest business opportunities are based on the size of the Indian market, increasing domestic consumption and a well-educated young population.

- 84% value the growing domestic demand in India, 81% the high sales potential and 65% the availability of a well-educated workforce. However, it must be noted that although the populations of India and China are both roughly 1.4 billion people, Germany's trade volume with India is just less than 10% of its trade volume with China.

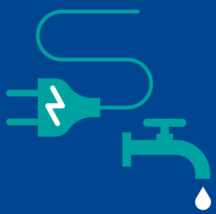


Progress on key location factors.

- 81% see a positive development in infrastructure, 76% in the reliability of their business partners in India and 67% in political stability and democracy.

Bureaucracy, currency risks and corruption remain the greatest challenges.

- 59% of the surveyed companies feel adversely affected by Indian bureaucracy, 43% are affected by currency risks and 38% consider corruption to be one of the three biggest problems for their companies in India.



Focus on sustainability but not yet on the reduction of CO_2 emissions.

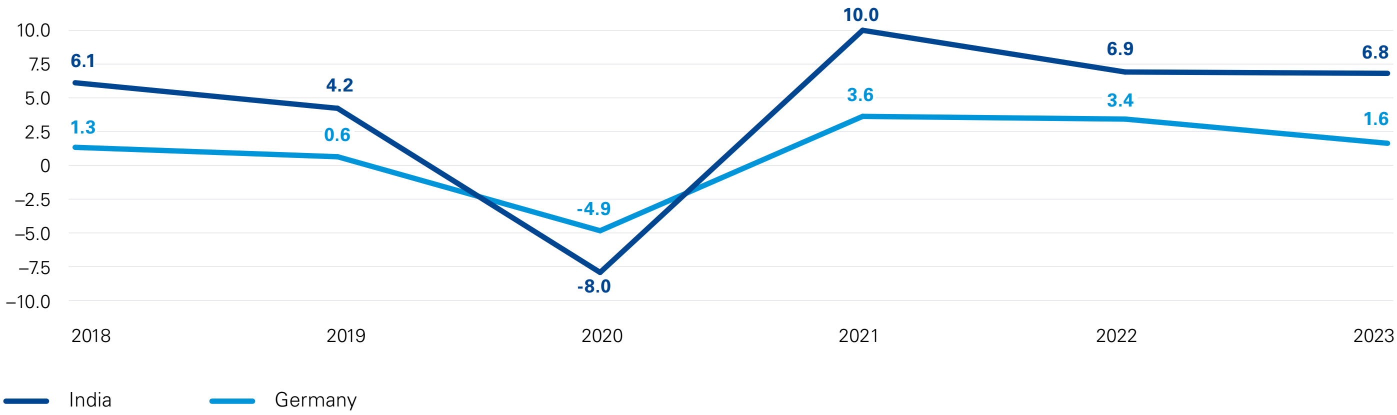
- Only 32% of those surveyed have implemented projects to reduce CO_2 emissions and just 20% are planning to do so in the coming 2 years. Projects implemented with the aim of introducing saving measures mainly concern energy (57%) and water (51%).

01 Germany-India Economic Indicators

India–home to around 1.4 billion people or 18% of the world's population–is at the time of this survey currently experiencing a second strong wave of COVID-19. The daily number of cases exploded between March and May 2021. In mid-May 2021, the country was registering up to 400,000 new cases of infection every day. Cumulatively, the number of infected people has reached more than 29 million with more than 360,000 deaths, according to officially published figures.

India, which accounts for almost 80% of the GDP of the South Asia region, has seen a substantial decline of 8% in its economic output since January 2021. Given the disruption to economic activities across the country from state-imposed measures amid the surge in COVID-19 cases, the forecast for GDP growth for India's budget year 2021-22 (April 1, 2021 to March 31, 2022) has been revised downwards to +10%. Earlier growth forecasts were up to +13% (according to the IMF in April 2021).

Figure 1:
Gross Domestic Product Development (in %)



Source: IMF 2021, KPMG in Germany 2021. The growth figures from 2021 onwards are estimates.

"The Indian economy witnessed a 'V-shaped' recovery from FYQ3 2021. Business confidence improved in many sectors in FYQ4 2021. However, the second wave of COVID-19 hit the nation at an unprecedented pace and scale, which resulted in state-driven lockdowns across the country and made it difficult for businesses to continue beyond a point. The GDP growth forecast of the Indian economy has taken a hit of at least 2-3% points due to this second wave. However, a pick up in the rate of vaccination and the higher capital expenditure announced in the union budget could support a quicker and more sustainable economic recovery."

Mr. Satyakam Arya
Managing Director/CEO, Daimler India Commercial Vehicles Pvt Ltd.

India's combined private and public health spending has been around 3.6% of GDP over the past six years. This is the lowest percentage among the BRIC countries: in 2018 Brazil spent the most with 9.2%, followed by Russia with 5.3% and China with 5.0%. The industrialised nations allocate a far higher proportion of their GDP to health expenditure. In 2019, for example, the proportion spent on health in Germany was 11.9%.

The vast majority of Indian workers are employed in the informal sector and as a result do not have a social net. Neither state aid nor savings can make up for a lack of income. A year after the pandemic, it is estimated that the middle class in India has seen its income fall by a third.

Germany is India's most important trading partner within the European Union and sixth most worldwide, while for Germany, India ranks 23rd in importance. Since the Indian policy of reform was initiated in 1991, the bilateral trade volume has increased significantly between India and Germany. It was worth around EUR 21.2 billion in 2019 (see Figure 2), around 18% more than in the previous year. In the globally difficult year 2020 trade between Germany and India was also affected with bilateral trade volume falling to EUR 19.6 billion (see Figure 2), a decrease of 8.5% compared to 2019.

German exports worth EUR 11 billion exceed India's EUR 9 billion worth of imports.

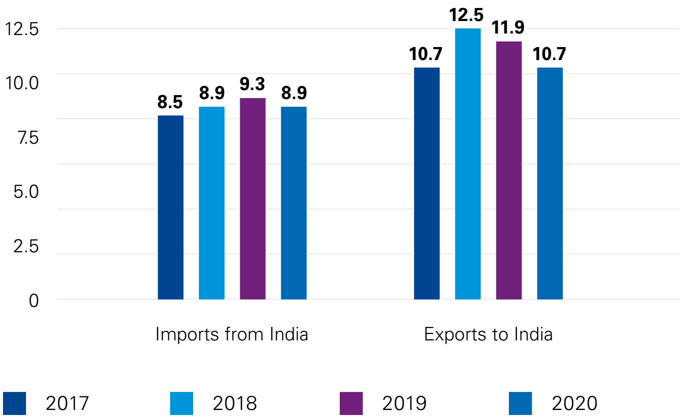
"Crises are often seen as a true test of an individual's character or that of an organisation. Though 2020 was full of unprecedented disruptions and uncertainty, we witnessed a gradual recovery by the end of the year. Following a strong rebound in manufacturing, a steady performance in the agricultural sector and increasing momentum in general economic activity, we continue to remain cautiously optimistic about growth in year 2021."

Mr. Harsha Kadam
CEO, Schaeffler India Limited

German-Indian trade accounts for less than 1% of total German trade volume. Germany's sustained trade surplus of around EUR 1.8 billion (2020) is based on high Indian demand, especially for German capital goods, including machinery, which makes up around a third of total exports to India, and also electrical engineering goods, metals, chemicals, motor vehicles and motor vehicle parts.

The two Asian super powers India and China may have a comparable population in terms of numbers but for many other metrics, however, they differ significantly. This difference is most obvious in last year's trade volume between Germany and these two countries. The value of goods exchanged between Germany and its most important trading partner China in 2020 was more than 10 times as high as that in the Indo-German trade corridor. Looking ahead, India offers German companies an interesting add-on to China, as economic indicators such as average annual income and average age are in the subcontinent's favour.

Figure 2:
Bilateral trade between Germany and India (in EUR Billions)



Source: Destatis 2021.

Figure 3:
India and China in comparison–selected key figures

	India	China
Total population (in Billions, 2019)[1]	**1,366**	**1,398**
Average age of population (in Years, 2020)[2]	**28.4**	**38.4**
Life expectancy at birth (in Years, 2019)[1]	**69.7**	**76.7**
Average annual income (in EUR, 2019)[1]	**1,894**	**9,281**
Trading volume with Germany (in EUR Billions, 2020)[3]	**19.5**	**212.6**
German companies with own set up/subsidiary[4]	**1,800**	**5,200**

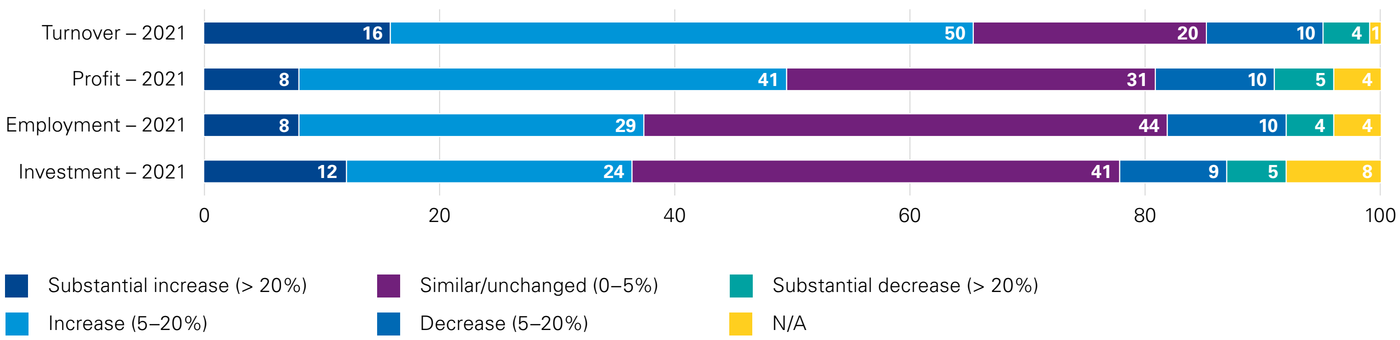
Sources: [1)]World Bank. [2)]Worldmeter. [3)]German Federal Office of Statistics. [4)]AHK India & GTAI.

02 Current Business Situation and Developments

The business forecast for 2021 is rather cautious due to concerns about the ongoing COVID-19 crisis. The majority of surveyed companies expect an increase in sales for the current financial year and slightly higher profits compared to the previous year (66% and 49% respectively). However, the Indian economy was already in a recession in 2020, which hit companies hard before the pandemic had even taken hold. Therefore, relative to the pre-crisis period, sales and profits should increase in 2021 to their original pre-pandemic level.

In terms of investment and recruitment the surveyed companies are more pessimistic with more than half expecting figures to remain unchanged or even decline in the current year. Only 36% are confident that they can increase their investment and 37% that they can increase their staffing numbers in 2021. Many companies are currently struggling simply to keep their business operations going.

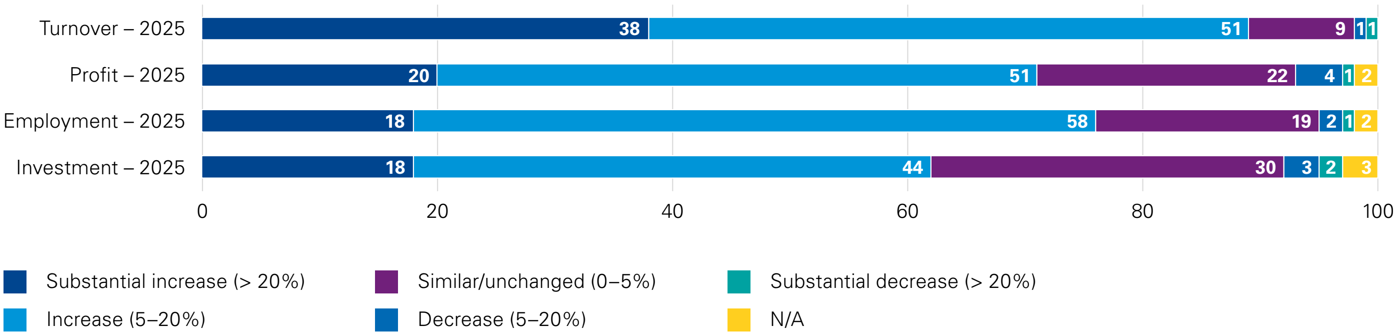
Figure 4:
What expectations does your business have for 2021?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 99).

The situation is assessed as more optimistic for the same key performance indicators through the next five years to 2025. 89% of surveyed companies forecast higher sales and 71% increased profits. 76% of those questioned expect employment figures to rise and a growth in investment (62%).

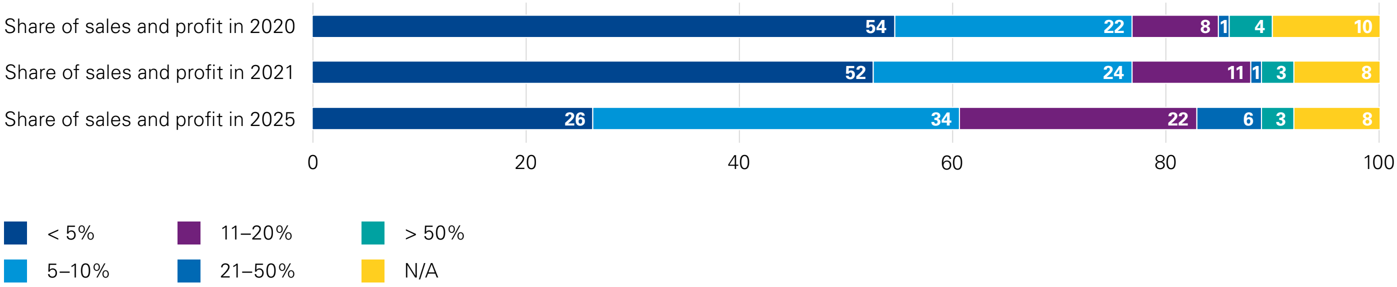
Figure 5:
What expectations does your business have up to 2025?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 96).

In 2020, more than half of Indian subsidiaries of German groups (54%) only contributed less than 5% to the consolidated sales of the overall German group. In 2025, only 26% of those surveyed expect this to be the case. At the same time, the share of sales that the Indian subsidiaries contribute to the consolidated sales of German groups is increasing. By 2025 the majority of those surveyed (56%) predict that between 5% and 20% of group sales and group earnings will be generated in India.

Figure 6:
Contribution of Indian business to overall Group performance



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 96).

03 Opportunities and Challenges

India is one of the biggest and fastest developing economies in the world with a projected growth rate of 10% for 2021. With its enormous market base and its pool of well-educated professionals, India has huge potential and is increasingly becoming an attractive destination for global investors. In addition, the Indian government has made numerous efforts to promote global business cooperation and to facilitate the entry of international investors into its market.

Germany invested more than USD 12 billion in India between 2000 and 2020. The main areas of investment were transportation, electrical equipment, the metal industry, the service sector (especially insurance) and the chemical industry. There are 1,800 German companies with their own set up/ subsidiary in India, including around 600 manufacturing units.

Business opportunities in the Indian market

Approximately 300 million Indians speak English, which is a significant advantage for the country as a business destination. India, unlike Germany and many other EU countries, as well as China, Japan and the USA does not have the problem of an ageing demographic. Indian society is in fact extraordinarily young. The median age is 28 years and 4 months, meaning there are around 700 million Indian nationals above and 700 million below the age of 28. Thus the scope of the ageing disparity between India and other countries will steadily increase in the coming years and decades.

India offers a number of opportunities for German companies. High sales potential and growth in domestic consumption due to favourable demographics and rising incomes are seen as particularly relevant in this regard. These factors are very important for around a third of the companies surveyed and at least somewhat significant for around half. Another advantage of India as a business destination is the availability of a skilled workforce, due to the large number of university graduates. This is seen as a somewhat significant or even very significant benefit by 65% of companies.

Slightly more than half of the respondents rated low production costs due to lower wages, and an attractive investment climate due to government incentives for foreign direct investment, as advantages in India.

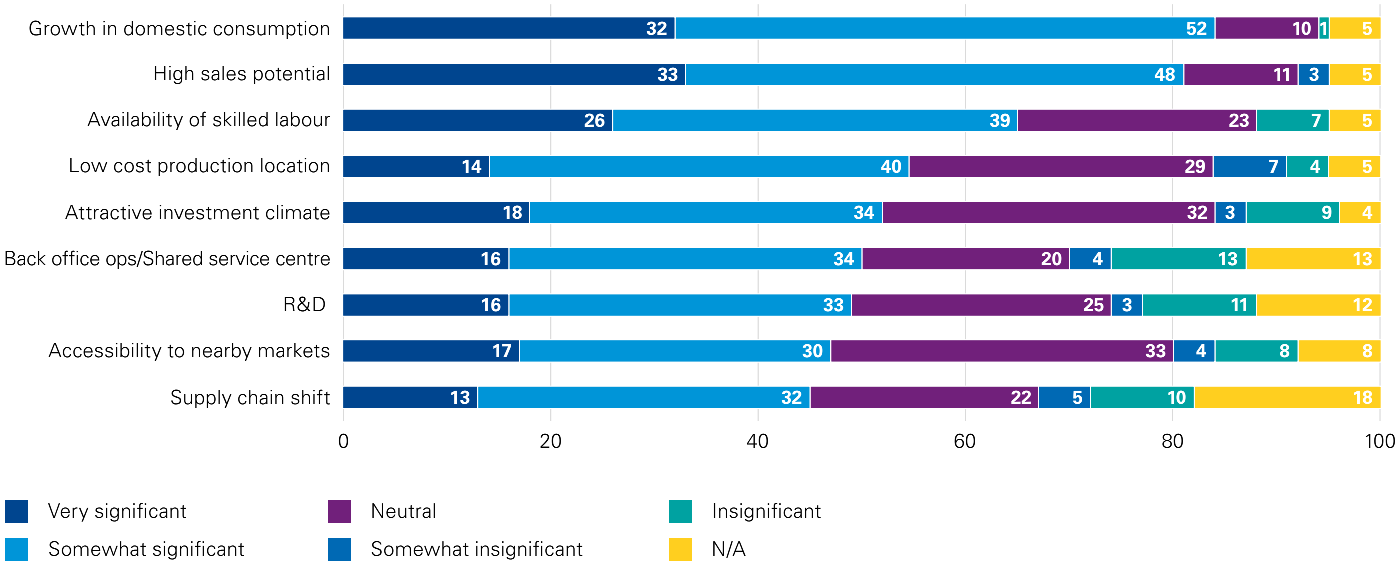
Back office operations and shared service centres for international companies are important economic elements of India's service sector, especially the financial sector, and are viewed as such by half of the respondents (50%).

Other elements such as research and development, access to surrounding markets and relocation of supply chains to India are also seen as business advantages by nearly half of those surveyed.

"The importance of hygiene, health, medical support and the adoption of digital technologies is increasing all the time. This adds to the under-explored high potential of India and those opportunities it offers that the world could benefit from. While one has to be cautiously optimistic for faster recovery from the pandemic situation in India, the worst seems to be over. The manufacturing industries have been back on a growth path for a number of months now. We can only expect an increase in economic growth and the rate of employment in next quarters."

Rashmikant Joshi
Managing Director, Festo India

Figure 7:
Please rate the importance of the following factors to your company's business in India.



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 92).

Challenges for German companies in India

German companies in India are confronted with a number of operational challenges. The biggest problem for many is Indian bureaucracy and its various administrative hurdles. Despite significant improvement in recent years, these issues still persist, especially outside of the main business hubs/centres. 59% of respondents see these elements as a major obstacle.

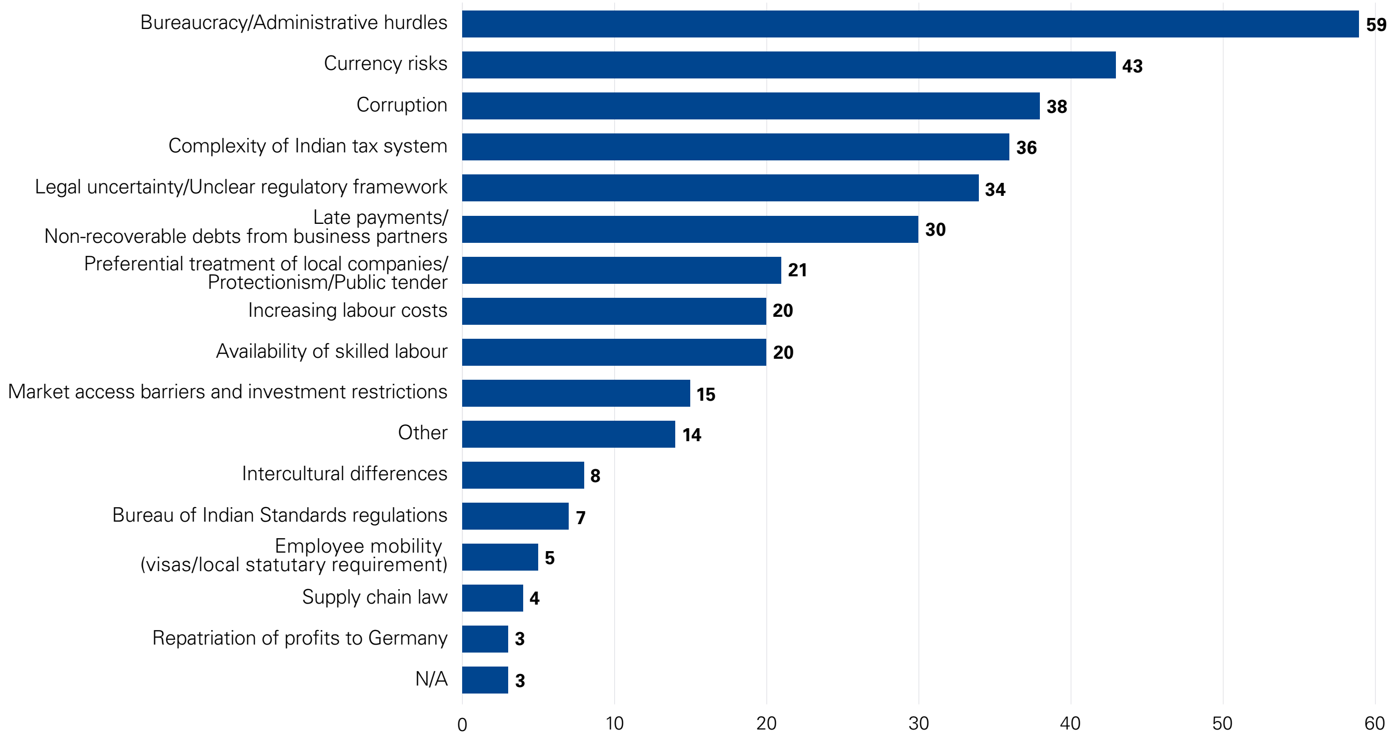
Currency risks are rated as an operational challenge by 43% of the companies surveyed. Corruption is also one of the main obstacles to conducting proper business in India for 38% of the respondents. The complexity of the Indian tax system, legal uncertainty and an unclear regulatory framework, often in connection with a lack of protracted law enforcement, are considered hindrances to the conducting of essential operations by over a third of German companies.

30% of companies see late payments and non-recoverable debts from business partners as a major challenge. Protectionism or a preference for local companies, limited availability of skilled labour and rising personnel costs are each noted by around 20% of the companies as having a negative impact on business operations.

15% of German companies state that barriers to market access and investment restrictions are operational obstacles in India. Intercultural differences, regulations of the Bureau of Indian Standards, insufficient employee mobility, the effects of the so-called supply chain law in Germany and problems with the repatriation of profits to Germany are perceived by under 10% of respondents as an issue.

Figure 8:

Please state the three biggest operational challenges for your company's business in India.



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 92).

"In the current times it is difficult to be positive and optimistic. However, we have to pay attention to the key elements: the discipline and resilience of our people, the robustness and agility of our businesses, and the focus of our Government in making available resources and medicines, plus their think tank to counter the situation. This too will pass, as they say, and as we did in the earlier phase, we can use this time to discover new strengths within our own businesses and be ready to come back stronger when the revival happens. In the meanwhile, take care of our people and stay safe. Focus on the weak and vulnerable and provide them with aid and support. It is only a matter of time before we feel vibrancy and buoyancy."

Mr. P Kaniappan
President, WABCO India Limited, ZF Group

The influence of various factors on business in India

In order to assess the relevance of the featured challenges and opportunities, the surveyed companies were asked, in addition, how important they rate various location factors with regards to India as a business destination.

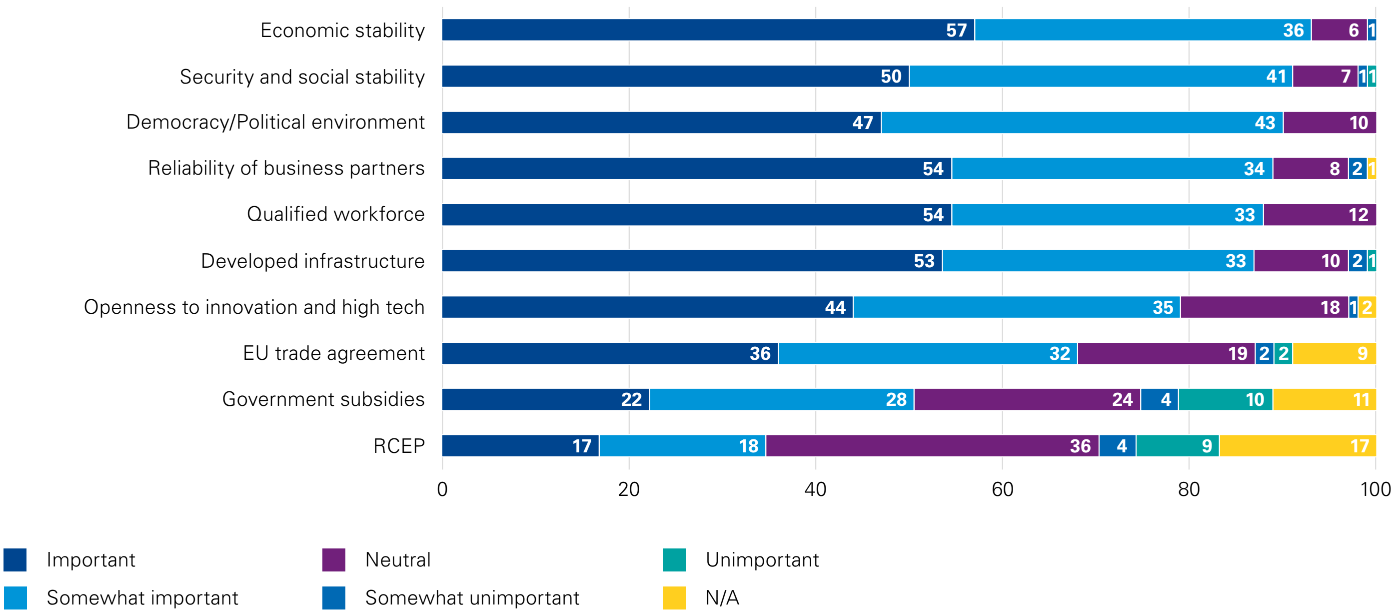
Economic stability is the most important factor from the point of view of respondents. More than nine out of ten (93%) state that economic stability is important or somewhat important for their business. This is followed closely by security and social stability (91%).

Between 87% and 90% of the companies surveyed consider a stable political environment based on democratic principles, the reliability of business partners, a qualified workforce and a well-developed infrastructure as only slightly less meaningful than the previous two factors. 79% of the companies surveyed see openness to innovation and high tech as an important location factor.

The conclusion of a comprehensive trade agreement between India and the EU would be a relevant location factor for their businesses in India for 68% of companies. For half of the respondents (50%) subsidies from the Indian government to foreign investors are an important factor.

The renegotiation or a later entry by India into the "Regional Comprehensive Economic Partnership" (RCEP) free trade agreement that has been in place since 2020 without inclusion of India is from the point of view of the companies surveyed–in contrast to a trade agreement with the EU–not an essential ingredient for their business in India. Only about a third (35%) consider it to be important.

Figure 9:
How important are the following factors with regards to India as a business destination?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 90).

RCEP and India

On November 4, 2019, India decided not to join the 16-nation RCEP trade agreement. There were fears in India that industries in the country would not be able to compete with China and that Chinese goods would flood Indian markets. India's farmers were also concerned that they would not be able to compete on a global scale. On the other hand, some in Indian industry felt that RCEP participation would enable the country to open up a huge market. The pharmaceutical, cotton yarn and service industries, for example, were confident of turning significant profits as a result of signing up to the RCEP.

India's progress on selected location factors

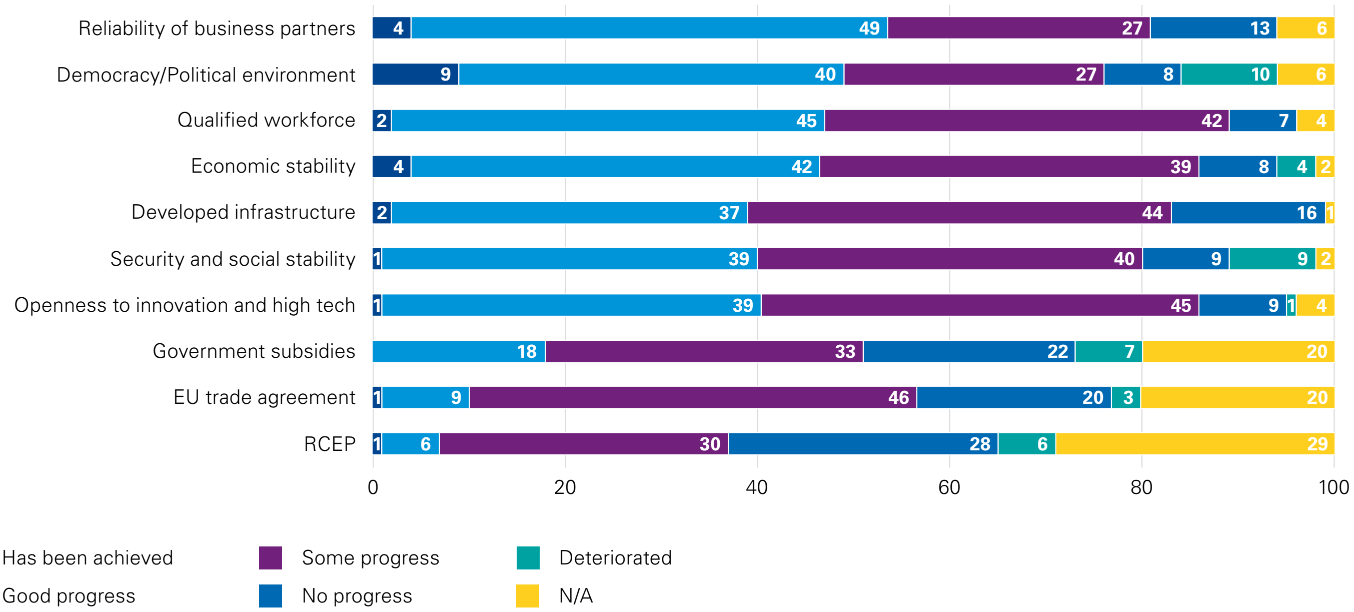
The above-mentioned factors were assessed in terms of recent developments and possible progress. The vast majority of German companies do not consider any of the location factors to have already been fully implemented in India. However, the vast majority each see progress on this front and only a small proportion see regression here.

Companies see the greatest progress in the reliability of their business partners. Almost half of those surveyed (49%) see good progress here, while 27% see at least a small amount of progress.

40% of the companies surveyed consider good progress to have been made on the further development of Indian democracy and the political environment, while 27% perceive a small amount of progress. Some 9% see a stable political environment with democratic principles as already fully realised in India, while 10% actually see regression.

Progress in the area of skilled labour is noted by 45% of companies as comprehensive and good by 42%. The development of economic stability is rated as good by 42% of the participating companies, 39% see some positive developments.

Figure 10:
Has there been recent progress on the following factors?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 89).

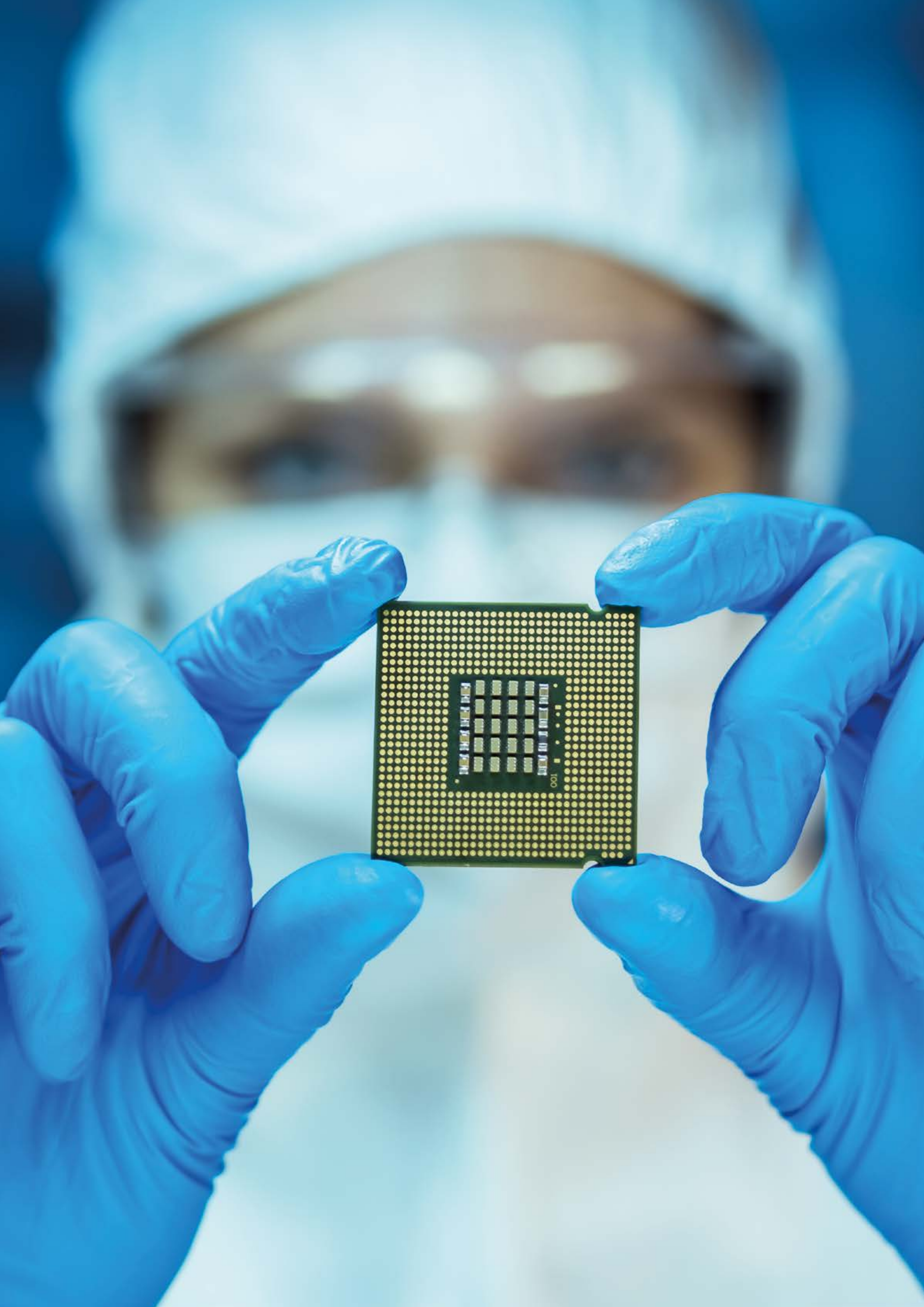
39% of companies see good progress in openness to innovation and high tech, and 45% see some progress, as do 40% in security and stability. However, 9% of those questioned also feel that security and social stability has deteriorated.

In the development of infrastructure, which the Indian government has invested in heavily over recent years, more than a third of the respondents (37%) see good progress and 44% see minor progress. Even if many construction projects are delayed due to the corona pandemic, in the mid to long term India plans to invest billions into modernising and expanding its transport networks, its energy and water supply and its telecommunications infrastructure in order to become internationally competitive. The National Infrastructure Pipeline (NIP) presented by the government in 2019 comprises around 6,500 individual projects. Another example of projects relating to international infrastructure is the connectivity partnership agreed at the beginning of May 2021 between the EU and India. In the agreement both sides reaffirmed their determination to work together to promote stable and sustainable connectivity in India and third countries, as well as other regions including Africa, Central Asia and the Indo-Pacific space.

The participating companies rate the growth of government subsidies as rather insubstantial, although the Indian government has set up various incentives in recent years. 18% see good progress here but a third of those surveyed (33%) rate progress as slow. Most companies don't see much progress either when it comes to potential new trade deals getting off the ground.

"Business continuity planning has become critical with the second wave of the COVID-19 pandemic and we are prioritizing our efforts to safeguard our employees and provide them and all our stakeholders with a safe working environment. We are quite optimistic about the future outlook for 2021–even if it is characterised by an uncertain economic environment–and resilient strategies is the way forward for our team to combat this uncertainty."

Kersi Hilloo
FUCHS LUBRICANTS (INDIA) PVT. LTD

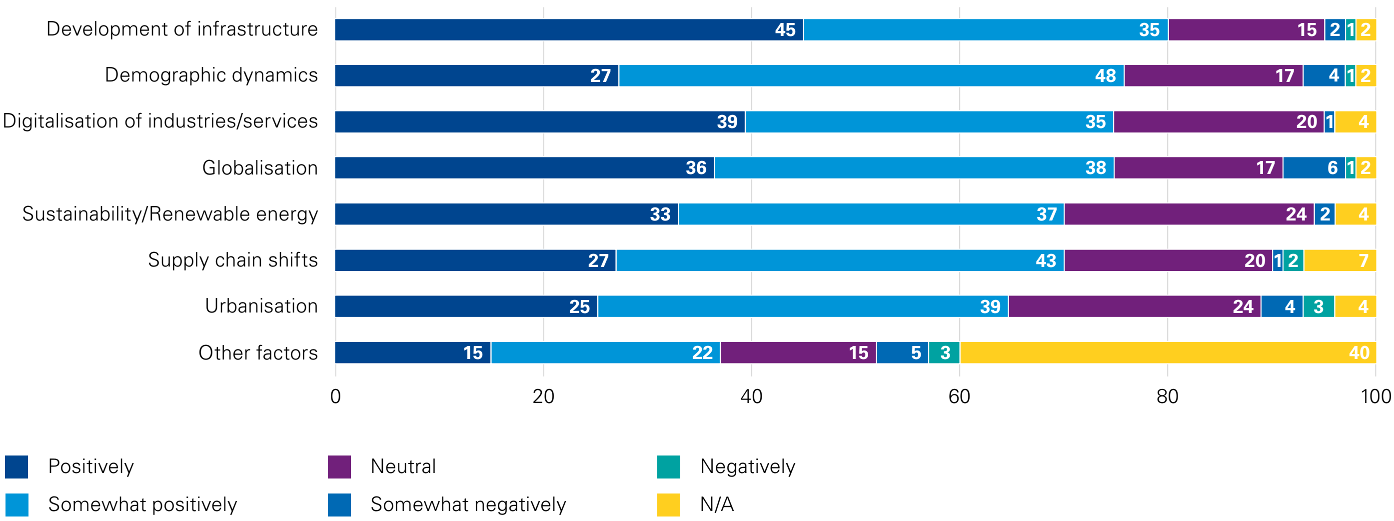


04 Future Expectations and Investment Plans

There are more publicly traded companies in India than in any other country in the world. According to the World Federation of Exchanges (WFE) around 5,000 public companies are listed on the Bombay Stock Exchange (BSE) in Mumbai. India's IT sector is seen as the most important, future-proof industry. In addition, developments are being underpinned by India's legal and economic framework, which itself has improved significantly in recent years. Worth mentioning here are the sales tax reform, a new bankruptcy law and significant investment in the country's infrastructure.

80% of respondents expect positive outcomes for their company as a result of the development of India's infrastructure. An investment package from the Indian government worth EUR 1.3 trillion was only just adopted in July 2020. It is intended to support the modernisation of transport networks, energy and water supplies and the telecommunications infrastructure. In addition, globalisation and digitalisation allow companies to look to their future in India with optimism, as 74% of them state.

Figure 11:
To what degree do you see the following having an impact on your business activities in India?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 89).

"The COVID-19 crisis has certainly impacted T-Systems' core client base, but we are also seeing a rise in opportunities around a higher need for digitalisation across businesses. This has helped us manage the crisis above industry average. We continue to take our customers on their digital journeys with a stronger go-to-market strategy based on a renewed portfolio that focuses on an integrated Cloud and Infrastructure framework. We in India have 2 strategic delivery centres that play an important role in T-Systems' overall growth strategy and we will continue to grow in 2021. In the future, the company will concentrate on the most attractive growth areas in the information technology market. Digitalisation is a top priority for major customers and the market for Cloud Services will continue to see double-digit growth over the planning period. Digital Solutions and Cloud Services are at the core of our offerings from India."

Laszlo Posset
Managing Director, T-Systems ICT India Pvt Ltd.

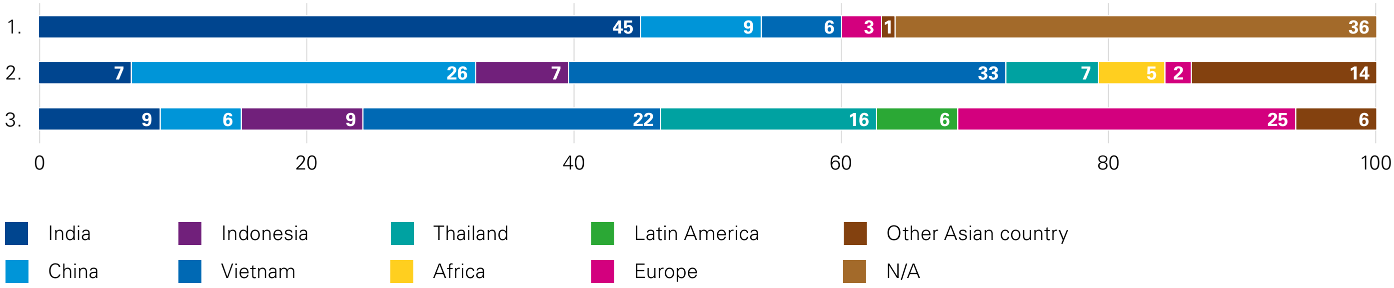
Differing from many European economies, demographic developments in India are boosting confidence among the companies surveyed: 75% expect a positive effect on their business from population growth and a steadily growing middle class in India. By 2025 India will have the largest middle class population, in absolute terms, in the world.

Furthermore, according to 70% of our survey's respondents, changes in the supply chain and in renewable energies will also have a positive impact on their company. The influence of urbanisation, on the other hand, is seen as less positive: 64% of those surveyed expect a stimulating effect on business, but 7% also expect it to deliver negative consequences. The reasons for the latter could be overpopulation in cities in combination with an inadequate infrastructure unable to cope with increased demand, as well as a general lack of space.

The vast majority of the companies surveyed would not remove themselves from the supply chain in India (45%) or relocate their production facilities away from India (36%). China and Vietnam are mentioned as alternatives, which can be attributed to their geographical proximity. These two countries are actually the most attractive alternatives mentioned when choosing a second preferred location. The number that would opt for relocation to other South East Asian countries or Europe, Africa and Latin America is rather negligible.

Figure 12:

If you were to relocate your manufacturing supply chain/sourcing base elsewhere, which three countries would be top of the list?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 87).

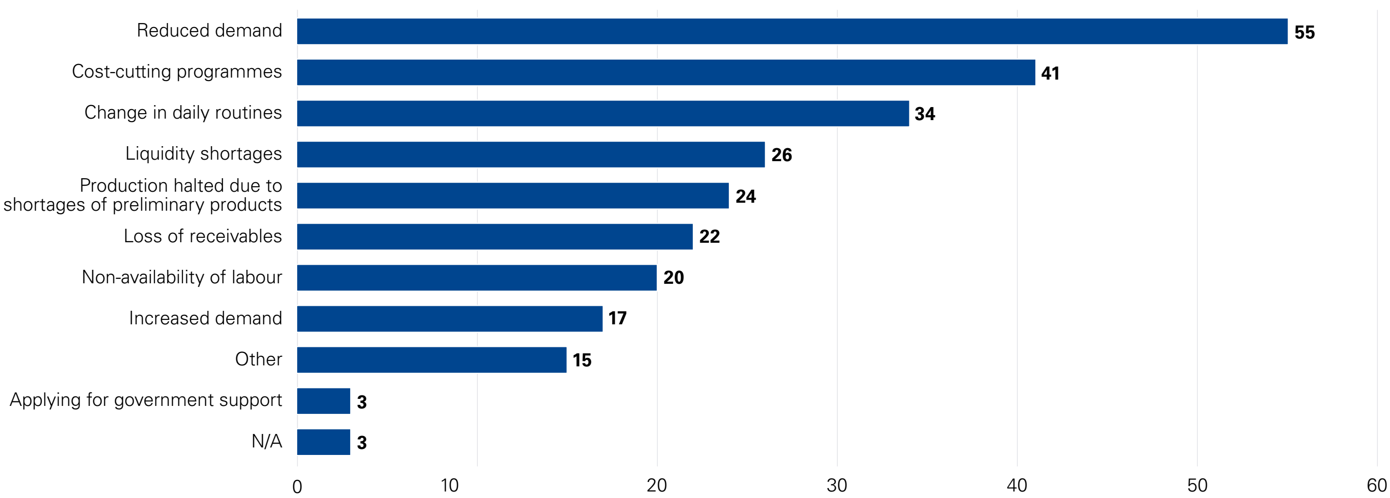
05 Focus on Selected Topics

The impact of the COVID-19 pandemic on business activities

At the time of writing this survey India is in the middle of the second wave of COVID-19 and while many companies have improved their resilience since the pandemic outbreak, the crisis continues to hit the Indian economy hard. Both, economic centres and increasingly rural areas are being adversely affected by growing numbers of infections, but many companies even in less affected regions of India are also struggling with falling demand and unpaid debts. Agricultural businesses, mainly located in rural parts of India, are not as badly affected as companies in the manufacturing industries, such as automotive or mechanical engineering.

More than half (55%) of the companies surveyed stated that they have suffered a decline in demand as a result of the COVID-19 pandemic. Cost-cutting programmes and changed daily routines have also affected numerous companies (41% and 34% of the respondents respectively). Company balance sheets also exhibit evidence of the pandemic: 26% of businesses are struggling with liquidity bottlenecks and 22% are experiencing bad debt. Only 17% of those questioned are facing an increased demand for their products. It is noticeable that only 3% of the companies surveyed have applied for state aid in India itself.

Figure 13:
How has COVID-19 impacted your current business activities in India?



Source: KPMG in Germany and AHK India 2021. Figures in percent (n = 88). More than one answer possible.

"Indian automotive market demand had revived just before the 2nd wave of COVID-19 applied, figuratively speaking, a temporary brake. It is just a matter of time before the 2nd wave ends and with a massive vaccination programme planned by the Government it will minimise or contain the impact in the coming months. If we remove the COVID-19 effect, the consequences of one-time events namely demonetisation, the IL&FS crisis, the introduction of GST creating surplus available CV capacity, increased axle load norms and the introduction of BS6 vehicles in the past 3 years have had an influence and real demand in all segments looks very promising for the next 3 years."

Pradeep GS
Managing Director/VP Sales & Marketing,
JOST India Autocomponent Pvt. Ltd., Jamshedpur

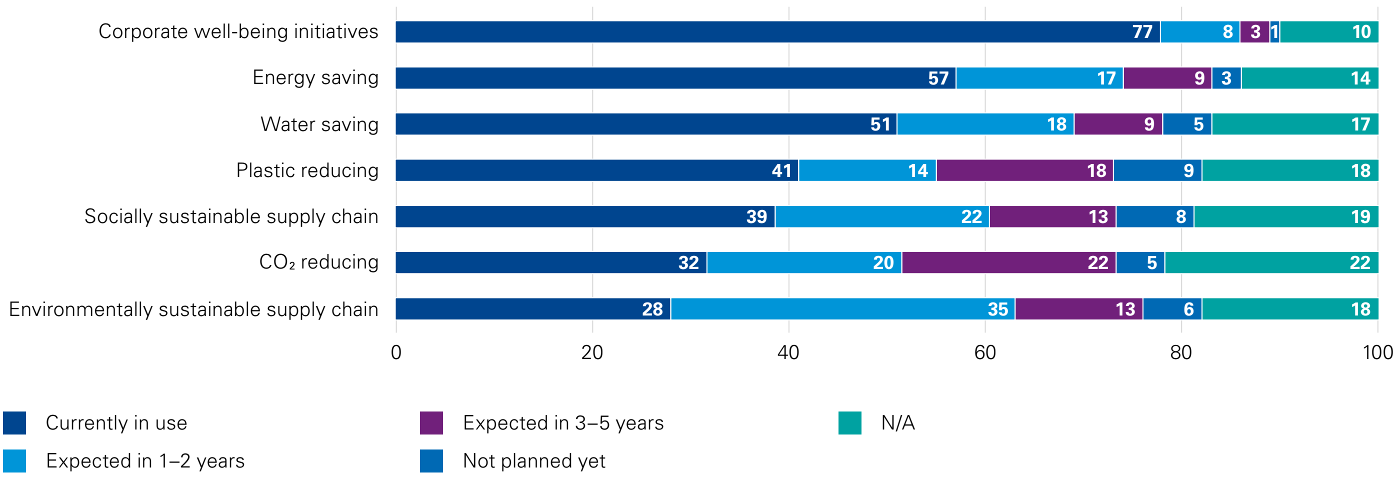
Implementation of environmental projects at Indian companies

With regard to the implementation of Environmental, Social and Governance (ESG) criteria, the companies surveyed are clearly focusing on investing in the well-being of their stakeholders: 77% have already acted here and an additional 8% plan to do so in the next two years. Larger companies strengthened their social responsibility component and are supporting young people from low-income households with scholarships. In addition, Indian companies are attaching increasing importance to fair working conditions and transparent wages.

More than half of the companies surveyed have also taken measures to cut down on energy and water usage respectively, or are planning to over the next 1 to 2 years.

Popular energy-saving measures in India are low energy lamps and solar, as well as efficient processes for saving water. The reduction of CO_2 emissions, on the other hand, is not a priority. Only 32% of the companies surveyed have already completed related projects. Fossil fuels are still shaping energy generation in India. According to the India Energy Outlook 2021 from the International Energy Agency (IEA) coal, oil and natural gas accounted for 75% of national energy consumption in 2020.

Figure 14:
To what extent has your Indian business introduced environment, social and corporate governance projects?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 88).

“India has been adversely impacted because of a massive surge in COVID-19 2nd wave infections as compared to last year. The statewide lockdowns have created disruption to the overall supply chain leading to a heavy impact on the current business outlook. While economists expect a rebound in the latter half of 2021, GPD growth could be marginal; in the range of 7-8% over a low base of 2020. Various initiatives from Government like Aatmanirbhar Bharat, PLI & Labour reforms, Single-window clearances in conjunction with labour cost and technology adoption will play a significant role in reviving the economy and will pave the way for long-term growth.”

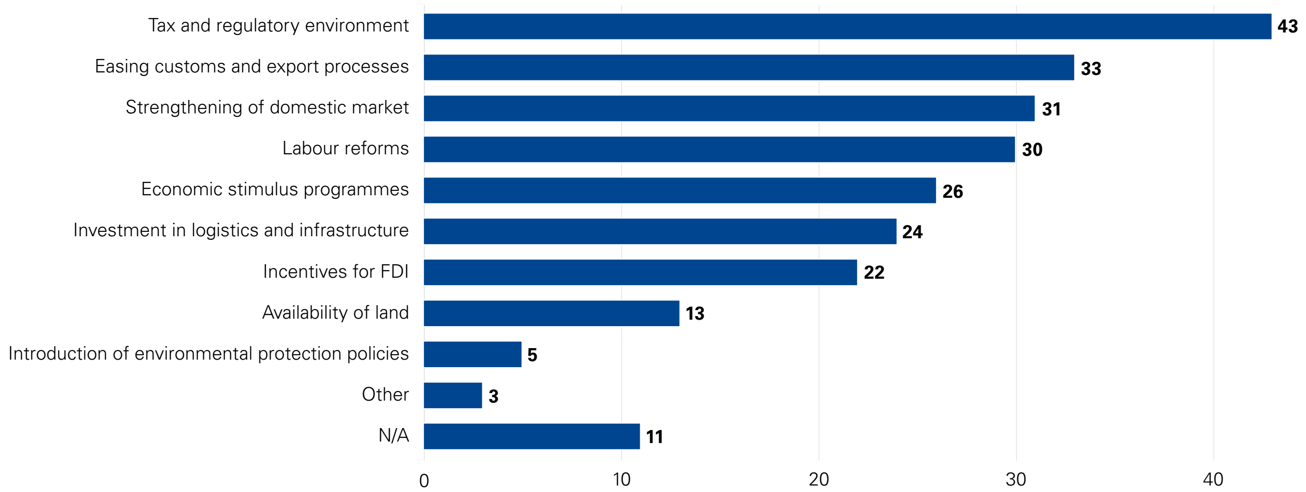
Mr. Soumitra Bhattacharya
MD, Bosch Limited

India’s budget 2021/22

From the point of view of the respondents, India’s tax system and legislative framework are among the most important issues in India’s budget for 2021/22. 43% say this area is one of the three most important for their company. The Indian Ministry of Finance advocates, among other things, tax relief for self-employed entrepreneurs and small partnerships. In addition, changes have been announced in the rules for depreciation on goodwill.

Around a third of the companies also name labour law reforms, strengthening the domestic market and customs law issues as important budgetary issues. However, government measures regarding climate protection do not have a high priority among the companies surveyed with only 5% stating that they are important.

Figure 15:
What are the 3 most important issues for your business with regard to India’s 2021/22 budget?



Source: KPMG in Germany and AHK India 2021. Figures in percent (n = 88). More than one answer possible.

06 Profile of Surveyed Companies

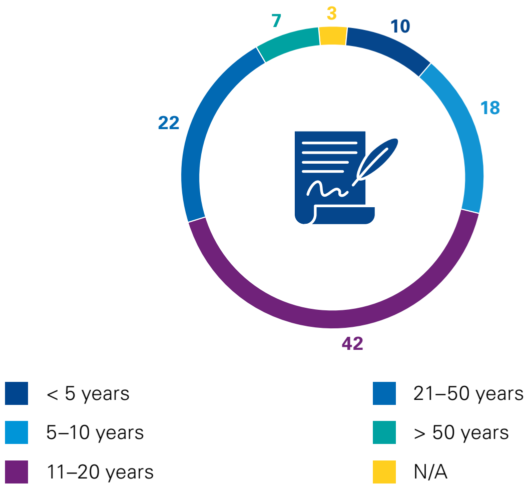
For this survey the Indo-German Chamber of Commerce and KPMG in Germany approached Indian subsidiaries of German groups and German companies with activities in India. A total of 120 companies participated in the survey, which was conducted between February 25 and April 19, 2021. The questions focus on the economic outlook for German companies in India and the challenges and opportunities that exist in business terms.

The majority of the companies examined have been in India for over ten years (71%), with 7% even having a presence in India for more than 50 years. The proportion of companies that have been operating for less than a decade is relatively small at 28%.

Most of the companies surveyed (73%) are a 100% subsidiary of a German parent company. 9% state that they operate as a joint venture in India.

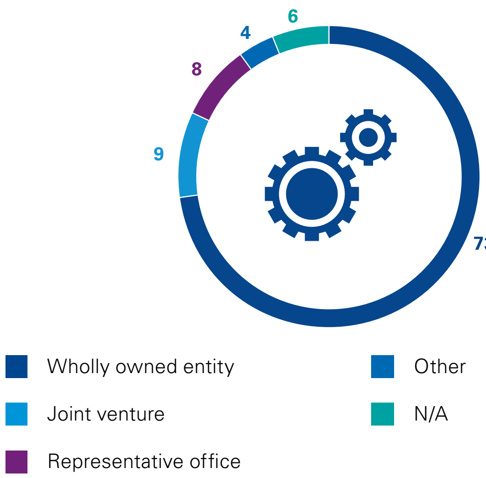
More than three quarters of the companies produce goods for the Indian market (52%) or a third market (26%). After goods, services are the second largest business area according to 36% of the respondents. 17% of the respondents represent sales companies, 16% conduct research and development and 14% are involved in trade.

Figure 16:
How long have you conducted operations in India?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 120).

Figure 17:
What is the legal set-up of your operation in India?

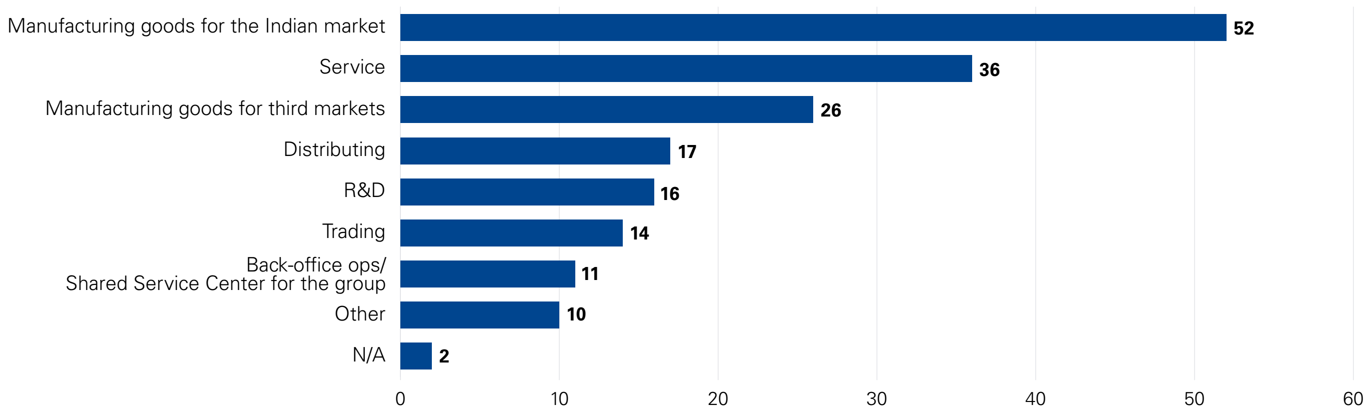


Source: KPMG in Germany and AHK India 2021. Figures in percent (n = 119).

"India is experiencing economic recovery with certain sectors performing above average amidst the deep scars of the pandemic. We continue to remain cautiously optimistic as a Conveying Solutions provider to major industrial sectors like steel, cement and mining because there is a rebound in demand, despite the impact of the second wave of COVID-19."

Smita Pandit Chakraborty
Managing Director, Conveying Solutions Segment,
APAC Continental, Business Area ContiTech

Figure 18:
What is your line of business in India?



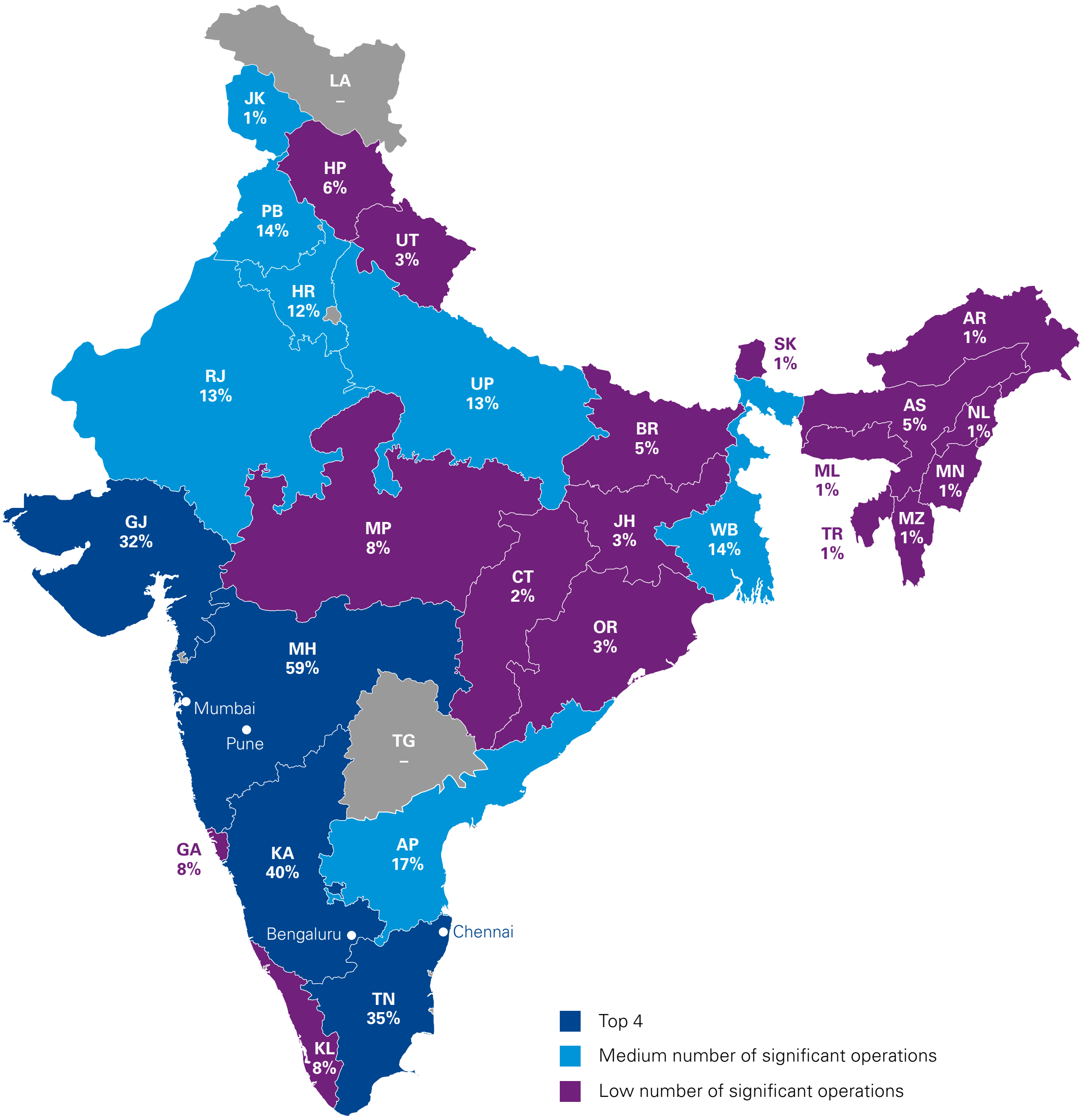
Source: KPMG in Germany and AHK India 2021. Figures in percent (n = 118). More than one answer possible.

The majority of companies (59%) are based in Maharashtra state (MH) that with its economic centres of Mumbai and Pune generally attracts many foreign companies. In second place is the state of Karnataka (KA), where 40% of the companies surveyed are in operation. The city of Bengaluru is located in this state, which as the "Silicon Valley of India" is primarily home to companies from the tech industry.

The states of Tamil Nadu (TN) and Gujarat (GJ) are also worth mentioning: 35% and 32% of the companies respectively have business activities here. The Indian economic centre of Chennai is located in Tamil Nadu. It is best known for its large number of automotive companies and bears the unofficial name "Detroit of India".

Figure 19:

In which Indian state does your organisation have significant operations?



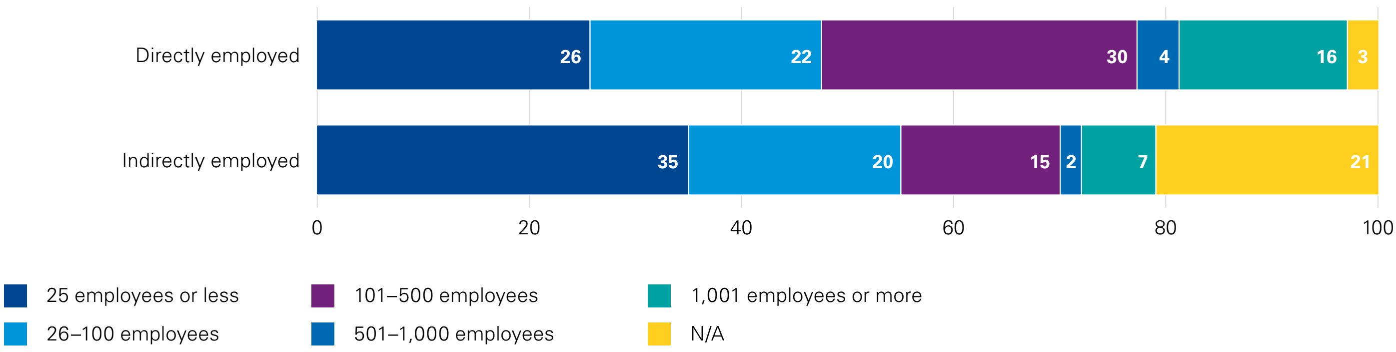
Source: KPMG in Germany and AHK India 2021. Figures in percent (n = 98). More than one answer possible.

More than half (52%) of companies surveyed state that they directly employ between 25 and 500 people. The proportion of relatively small companies with fewer than 25 employees is relatively high at 26%. 16% of companies have over 1,000 employees.

Most companies surveyed (55%) employ less than 100 people indirectly.

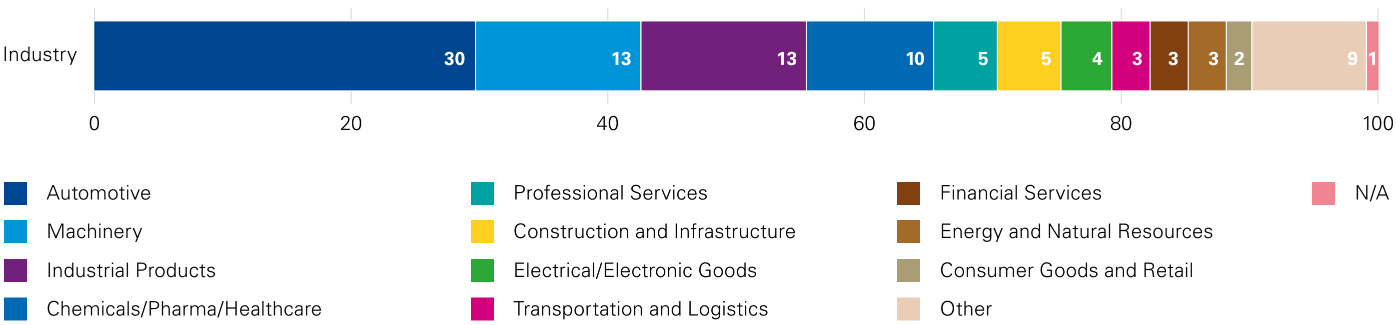
Industrial products including automobiles and machinery are manufactured by more than half of the companies surveyed (56%). This is followed by the manufacture of chemical and pharmaceutical products at 10%, and at 5% each for services and infrastructure projects. The proportion of companies involved in retail, financial services and production of electronic goods is relatively small. The same applies to the energy and transport sectors.

Figure 20:
What is the number of people (a) directly employed and (b) indirectly employed as sub-contractors, agents and exclusive suppliers by your organisation in India?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 106).

Figure 21:
The largest part of your Indian operations is in which industry?



Source: KPMG in Germany and AHK India 2021. Deviations from 100 percent due to rounding differences. Figures in percent (n = 105).

07 About Us

AHK India

AHK India or the Indo-German Chamber of Commerce was incorporated in 1956. Today, it has over 4,500 members making it both the largest Chamber of Commerce in India and the largest AHK worldwide. We have built up a strong local presence with our head office in Mumbai and branch offices in Delhi, Bangalore, Kolkata, Chennai and Pune, as well as a liaison office in Düsseldorf.

As the primary contact for Indian and German companies who want to start and grow their business in the other country, we exist to improve bilateral economic relations between the two economic giants. As a highly regarded and respected institution in India and Germany–with our qualified team and our innumerable contacts and connections familiar with the particularities and regulatory environment of the respective markets–the Indo-German Chamber of Commerce has played a major role in advancing corporate and cultural understanding between India and Germany for over 65 years.

indien.ahk.de

KPMG

KPMG is an organisation of independent member firms with around 220,000 employees in 147 countries and territories. KPMG in Germany is one of the leading auditing, tax and advisory firms in Germany with 12,600 employees at 26 locations. Our services include Audit, Tax, Consulting and Deal Advisory. Legal services in Germany are also provided by KPMG Law Rechtsanwaltsgesellschaft mbH.

KPMG in Germany has established Country Practices for business corridors between Germany and other key industries or regions, which are staffed by country experts familiar with the particularities and regulatory environment of their respective markets. Our Country Practice experts work regularly in these countries and advise German, international and multinational companies on country- and corridor-related matters on a daily basis.

www.kpmg.de

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