FROST & SULLIVAN

Investment Promotion Scenario, India, 2017

A Frost & Sullivan Perspective

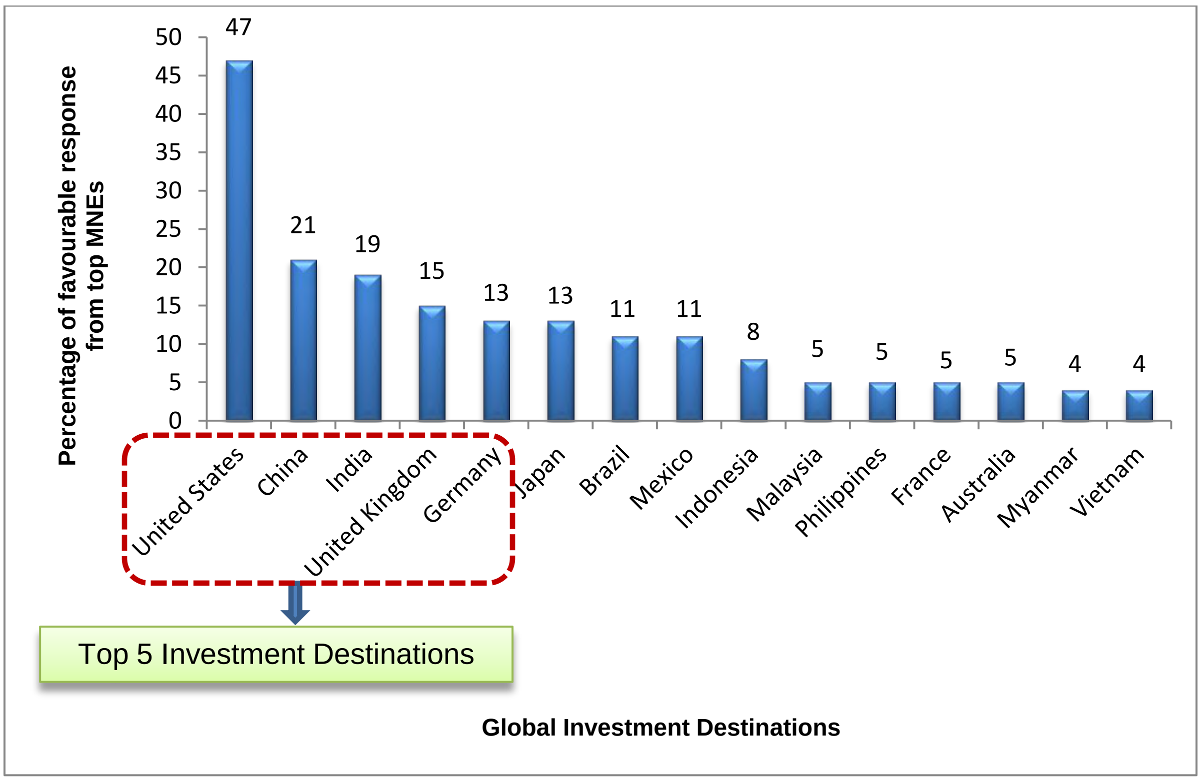
February 2018

Global Foreign Direct Investment Inflows

The Current Scenario - 2017

Foreign direct investment (FDI) inflows declined globally by approximately 10–15 per cent in 2016, owing to the vulnerability of the world economy and the persistent fragility of aggregate demand. Moreover, stagnant growth in commodity exporting countries, the lack of effective policies to restrict tax inversion deals and a downtrend in the profits of Multinational Enterprises (MNEs) also contributed to the slump in FDI inflows. Global FDI flows regained some growth in 2017 and are expected to post a strong recovery in 2018 at US$1.8 trillion.

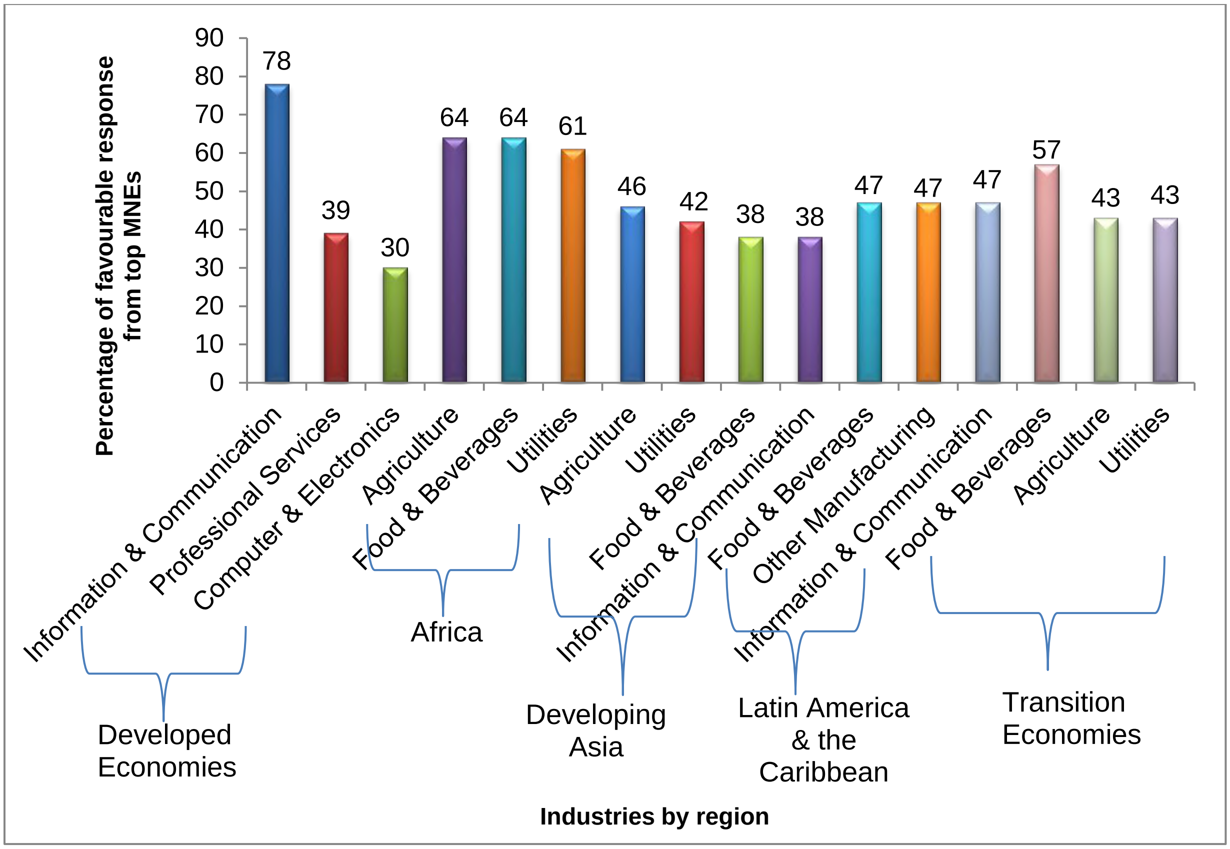
Global Investment Promotion Scenario: Top Prospective Investment Destinations, 2016–2018



Source: United Nations Conference on Trade and Development (UNCTAD) Business Survey based on Responses of Top Multi National Executives (MNEs), 2016 & Frost & Sullivan Analysis

FDI Prospects by Industry

Most promising industries for attracting FDI in their own economy, Global, 2016-2018



Source: UNCTAD Business Survey based on Responses of Top MNEs, 2016 & Frost & Sullivan Analysis

Intense Competition in the World of Investment Promotion

Globally, there currently are over 190 national level and over 5000 regional and city level Investment Promotion Agencies (IPAs) that seek to boost investments. Confronted by the on-going slump in global FDI, IPAs are struggling to make much progress due to their traditional approach.
From a business / industry perspective, the IPAs' limited understanding of the industry domain is their major drawback, whereas, the IPAs believe that limited budgets and fierce competition are the biggest factors adversely affecting their effectiveness.

India's Changing Investment Landscape

The huge leap forward in the start-up movement in recent years is largely attributable to the changing investment landscape in the Indian start-up ecosystem. 8 of every 10 venture capital (VC) / private equity (PE) investments made in 2015 came from foreign companies, attracted by the insatiable Indian consumer market created by the mobile / internet revolution. The bullish focus of giant VC companies such as Tiger Global Management and Accel Partners has boosted the confidence of other private equity and hedge funds in the Indian market.

Venture capitalists are continuously seeking opportunities in large markets like India, the second most populous country in the world. 2016 was a year of great momentum for Indian e-commerce companies, with Snapdeal and BigBasket leading the show by raising $200 million and $150 million in funding, respectively. Yet there are some signs of a decline which cannot be ignored, for example, India's largest app-based cab platform, Ola, reportedly raised money at a 40% concession to its preceding valuation of $5 billion in 2017.

Funds received by different industry sector, India, 2016-2017

Name of Company	Raised Amount (US $ Million)	Industry Sector
Ibibo Group	250	Travel
Snapdeal	200	E-Commerce
Hike	175	Messaging
TVS Logistics Services	155	Logistics
BigBasket	150	E-Commerce

Source: Crunchbase Report, 2016-17 & Frost & Sullivan Analysis

Active Investors in India

Some key investors of 2015 and 2016 include:

- U.S. based Tiger Global Management (TGM) that makes early-stage investments in start-ups featured an Indian connection in the top 18 of its 26 global investments. In 2014, it injected $422 million into Indian start-ups, including Flipkart.
- DST Global led by Russian entrepreneur Yuri Milner invested around $352 million.
- Japanese telecom company Softbank invested $282 million.
- Other prominent VC firms including Nexus Venture Partners and Kaalari Capital invested $73 million and $45 million, respectively, in a wide portfolio of Indian start-ups.
- In the first half of 2015, Sequoia Capital injected approximately $200 million into Indian start-ups.

- Another leading global VC giant, Accel Partners made a cumulative investment of $50 million in its portfolio of internet-based companies including Flipkart, Myntra, Commonfloor, BookMyShow, Babyoye, Probe, and Zansaar.

The Way Forward

To regain their foothold, IPAs need to be innovative and adopt differentiated strategies to transform themselves into next-gen IPAs. Some strategies are outlined below:

- **Customization** – Every investor is different. So IPAs should be careful while designing pitches and incentive structures.
- **Target Start-ups / Fastest Growing Companies** – IPAs should ideally look beyond the Fortune 500 or Forbes 2000 companies**.** Start-ups seeking international expansion or companies with high growth prospects from emerging economies should ideally be the new target companies.
- **Leverage Social Media** – Social media enables greater outreach and enhanced access to a target audience. So social media platforms like LinkedIn, Facebook, Twitter, and YouTube should be fully leveraged.
- **Utilizing Mobile App Platforms** – IPAs must possess a mobile app. Mobile apps are particularly relevant given the time constraints of top executives who conduct a fair amount of work on their smartphones.
- **Thought Leadership** – Companies seek IPAs that have comprehensive knowledge of disruptive changes happening across industries and that can effectively guide them on ways to benefit from these emerging trends.
- **Intra Collaboration** - IPAs can collaborate amongst themselves and also with private sector organizations to showcase a stronger value proposition, by combining their complementary advantages at a lower cost.
- **Showcasing Brand Ambassadors** – IPAs can also use social media tools to showcase short videos of CEOs talking about why a particular location was chosen as a preferred investment destination and their experience so far. In this way, it will be easier for IPAs to promote a particular location and also earn credibility.
- **Charge for Value Added Services (VAS)** – Everything cannot be free. So charging fees for VAS such as providing linkages with local suppliers / customers and manpower related services will be acceptable to the industry. This will also improve the overall quality of the services offered by the IPAs.
- **Monitoring and Evaluation with External Communication** – Any investment campaign becomes more robust only when Key Performance Indicator (KPI) performance dashboards and investment value forecasts are incorporated into it. Inclusion of these parameters allows IPAs to communicate more effectively with relevant government departments, NGOs, the media and citizens.
- **Relationship Building** – New investment is also likely to come from existing investors. So, IPAs should typically be careful in managing their existing client base and periodically interacting with the top management to discuss growth strategy and future goals.

Frost & Sullivan's Holistic Approach and Solution

Knowledge-as-a-Service offering by Frost & Sullivan will enable the current IPAs to become next-gen IPAs as it provides a holistic approach and solution to the evolving investment scenario and this will enable strategic decision making.

Knowledge-as-a-Service

Vertical and Customer Intelligence

- Customer dashboards
- Quarterly sector roll-ups
- Industry trends research
- Target company deep-dives

Country Insights

- Country specific analysis, with regional focus
- Socio-economic developments / demographic analysis / regulatory frameworks

Marketing and Planning Support

- Horizontal and vertical sub-models creation
- Market sizing data library
- Segmentation models
- Revenue reporting / budgeting / forecasting

Economic Research

- Macro / microeconomic trends
- Developing econometric models
- Forecasting macro / micro variables
- Demand and consumption patterns

On-going Industry Tracking

- Continuous analysis and synthesis of emerging trends in multiple industries
- Live tracking of disruptive trends in target sectors / geographies

Data Analytics

- Interactive marketing dashboards
- Digital marketing strategy
- Data-driven decision making support

Channel and Partner Management

- Partner eco-system analysis
- Evaluation of existing channel framework
- Benchmarking and prioritisation models
- Analysing industry best practices

Business Strategy Support

- Supporting strategy team with key market insights
- Exploring opportunities in new product lines or new geographies

Source: Frost & Sullivan Analysis

Frost & Sullivan's Unique Value Proposition to support the IPAs

Continuous Support

On-demand analysts provide crucial flexibility

Access to a Wealth of Information

Paid subscription to multiple third party databases

Broad Industry Expertise

Covering 12 industries across 64 sub-sectors through GPS subscriptions

Robust Research Methodology

Frost & Sullivan integrates 7 critical research perspectives

Global Footprint

Over 2,000 analysts in 50+ offices around the world