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October 2014 | A BUSINESS & FINANCE MONTHLY | Rs. 100

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'MAKE IN INDIA'
India's Next Big Leap

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Patu Keswani
Chairman & Managing Director

On How He Built
Lemon Tree into
India's
3rd Largest Hotel Chain

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EDITORIAL

'Brand Exclusivity'

E-Commerce's New Bandwagon!

When Motorola Mobility, the mobile phone pioneer, which was acquired by Google in 2011 but who later sold it to Chinese PC giant Lenovo for $2.90bn in January this year, planned to re-enter India after a hiatus of two years or so, it chose India's top e-retailer Flipkart.com to be its exclusive channel partner. And the rest is history. Its Moto G (16 GB version), priced at Rs 13,999, was sold out within just first 15 minutes of the launch! The massive surge in traffic forced the e-tailing site put up a display with the message saying, "Thank you for the smashing response. We're sorry, we're out of stock right now. We'll be back with more by noon". Later the Bangalore-headquartered e-commerce giant said, "We are seeing numbers that have been unheard of in Indian e-commerce," claiming, "We firmly believe that nobody but Flipkart.com could have pulled off numbers at this scale in Indian e-commerce."

The subsequent launches of the US-based handset maker's other models such as Moto E and Moto X have received equally overwhelming responses on Flipkart, which remains Motorola's exclusive seller in India. New records in online sales in India were created when Xiomi, in exclusive partnership with Flipkart, sold its Mi3 series phones in August this year. The third batch of 15,000 Xiaomi Mi3 phones, of which Flipkart is an exclusive seller, had been lapped up in all of two seconds. In fact, of late, a number of e-commerce companies from Flipkart to Snapdeal, India's largest online market place, Jabong to Amazon amongst others have been making a beeline to global brands (domestic ones not excluded though) to become their exclusive sales partners. Welcome to the online world of brand exclusivity.

And such tie-ups have been helping to rewrite new models of success in the e-commerce arena in India. For example, Flipkart is said to have sold over one million (1.6mn, to be precise) handsets of Moto series of smartphones in a little over six months since launching the 'G' series in February. Besides, it also sold close to 75,000 handsets of Mi3 from Xiomi, whose success has made it a subject of case studies at several b-schools. Interestingly, both Xiaomi and Motorola –co-incidentally from China – have followed the online-only sales model to script never-before-heard success stories. While other online retailers have been slow to latch onto the 'BE' bandwagon, there is hardly any doubt about the model's immense potential, provided, of course, the product is backed by superior quality and that it meets or betters potential consumers' aspirations. Amazon, the world's largest online retailer, for example, notched up exclusive selling rights for Microsoft's interactive entertainment products in India, including the latest version of its gaming console, Xbox One.

However, one e-commerce player which seems to be racing ahead of rivals is Snapdeal.com. India's largest online retailing portal, in terms of number of registered sellers, has inked BE partnerships with a host of sellers including Mahindra & Mahindra, India's top SUV maker, to sell the latter's new Scorpio model unveiled on September 25, Tatas, who also happen to be a strategic investor in the portal, for showcasing Croma's products. Snapdeal is also reportedly in talks with Alibaba.com, which is fresh from successfully launching the world's largest IPO, for its India entry. There are also reports that brick-and-mortar retailers such as Mumbai-based electronics retail chain Vijay Sales, The Mobile Store (India's largest retailing chain of smartphones), Univercell and celebrity chef Sanjeev Kapoor (to promote his gourmet brand WonderChef). It seem the BE is the new recipe for companies looking for an online presence. Whatever it be, it's ultimately the consumer who is going to benefit. Long live e-commerce!

Editorial Director

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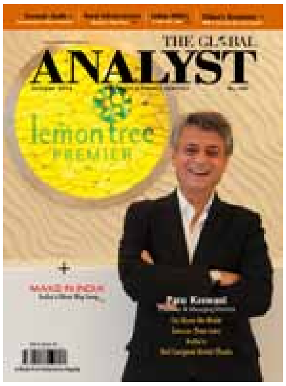

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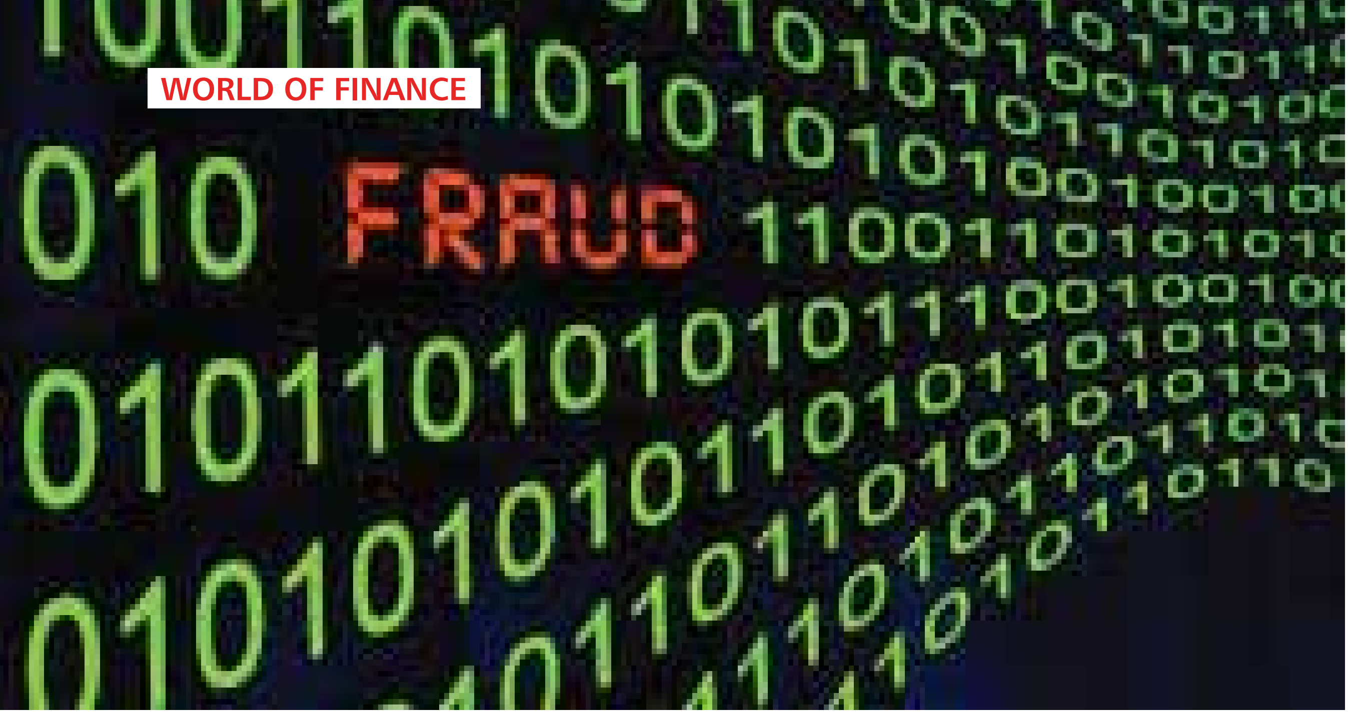

Forensic Audit
Accountancy's Next Frontier!

Amid rising cases of debt restructuring and growing fears over deteriorating asset quality, corporates are rushing to hire forensic accounting experts.

Last November, the news that India's banking sector regulator ordered a forensic audit of the books of state-owned United Bank of India hit the headlines. The unprecedented move came amid a sharp spurt in the Kolkata-headquartered bank's non-performing assets, which rose alarmingly to Rs 8,546 crore in the December quarter of FY 2013-14 from less than Rs 3,000 crore reported barely two quarters ago! In a bizarre incident, the bank even blamed the 'inherent deficiencies' in Finacle, the core banking solution software provided by its vendor Infosys, for wrongly identifying quality of assets in certain categories. In a statement the bank said that the software has inherent deficiencies to correctly identify NPA in certain categories of borrowers like KCC, restructured account, overdraft account continuously overdrawn for more than 90 days, ECGC covered account, etc. "The generation of NPA through system in September and December 2013 has given rise to a large number of standard accounts shown as NPA and NPA account shown as performing assets," it claimed. However, Infosys retorted, saying, there were 'no inherent deficiencies.' A sharp rise in NPAs resulted into a loss of Rs 1,238 crore during the December quarter which industry experts felt was abnormal for a bank with a balance sheet size of a little over Rs 1.75 lakh crore. During its AGM in June last year, the then UBI chairperson Archana Bhargava told shareholders that it has decided to stop fresh exposure in steel, power, airlines, textiles and real estate. Apart from NPA, high cost bulk deposits too have been of concern to the bank. A bank official said besides NPA, the bulk deposit is another area of concern. "During her tenure (Bhargava), we took lot of bulk deposits when others were reducing exposure on this. At one point of time, it was Rs 24,000 crore. Now the efforts are on to reduce that," a report in The Times of India had said quoting an unnamed official of the bank. Since then the central bank has ordered forensic audit of five public sector banks with latest being another Kolkata-based PSB, UCO Bank, where the regulator has ordered a limited forensic audit after complaints were filed with regards to some accounts which have turned non-performing. The gross non-performing assets


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(NPAs) of UCO bank stood at Rs 6,346.32 crore or 4.31 per cent of its total advances at the end of June 2014.

The apex bank has been tightening the noose around the banking sector as concerns over bad assets grow. "Continuous vigilance and intelligence gathering are two items on which we are concentrating," said R Gandhi, Deputy Governor, RBI. "One has to go behind the fraud and their modus operandi to find out what are the loopholes...which need to be corrected. For that, forensic audits may be done," he reckoned. The regulator has instructed lenders, stressing the importance of information sharing, especially in face of rising bad assets, which touched a high of 4.1 per cent in March 2014, rising from 3.7 per cent a year ago.

With the banking sector continuing to grapple with deteriorating asset quality and with a rise in cases of financial frauds (such as the NSEL's multi-crore scam), forensic accounting experts have been in great demand, of late, as from banks to big corporates are lining up to engage the services of firms specializing in forensic audit, which refers to an examination and evaluation of a firm's or individual's financial information for use as evidence in court.

According to Investopedia.com, forensic (meaning suitable for use in a court of law) audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims. A forensic expert needs to possess qualities of an investigator, auditor and attorney - all rolled into one! According to a report, "Forensic audit is emerging as a big-ticket business for accounting firms." It adds, "Two developments are responsible: One, some high-profile frauds in the limelight over recent months. Two, changes in the approach of regulators, allied to provisions in the new Companies Act, which put more accountability on both independent directors and auditors."

No surprise, why big accounting firms such as Deloitte and E&Y are strengthening their forensic audit teams. Ernst & Young (EY), for instance, has very aggressive plans on this. It already has one of the largest teams for this, of 450 people; it plans to add 150 in 2014-15, reports the business daily. Leading providers of training in forensic audit include The Institute of Chartered Accountants of India (ICAI), which runs a short-term course Certificate Course on Forensic Accounting and Fraud Detection, the Association of Chartered Certified Accountants (ACCA), and India-forensic, which leads the forensic accounting certification market with 7 certification programs including the Certified Forensic Accounting Professional (CFAP).

While forensic audit might be a new concept in India, in the west its history goes back as far as 1920s when it helped nail mobster Alphonse Capone, infamously known as Al Capone or Scarface. However, proving racketeering charges against Scarface was appearing to be an uphill task for the FBI and the IRS investigating the case as there was simply no evidence for a conviction.

Even getting a witness was becoming a big challenge as anyone who tried to go against him was either paid off by Capone, or "silenced" permanently by his gang. However, Agent Frank J Wilson and his team, who were assigned the task of proving tax evasion charges against Capone, tirelessly worked on searching through reams of files and record books in an effort to somehow establish that.

It is said that after reviewing approximately two million documents and files, Wilson & Co tracked down witnesses, and traced bank deposits in order to obtain the evidence required for a conviction. According to an account from Forensic Science Central (FSC), Eddie O'Hare, who ran Capone's racing tracks and acted as his attorney, worked behind Capone's back to help Wilson and his team find this evidence.

Al Capone was found guilty in October 1931, and was sentenced to eleven years in prison plus thousands in fines, thus receiving the harshest penalty given to a taxpayer. The forensic investigation yielded the much-needed break in the case. This very famous case, says FSC, led to the boasting phrase... "Only an accountant (or, shall we say, a forensic accountant) could catch Al Capone".

TEAM TGA

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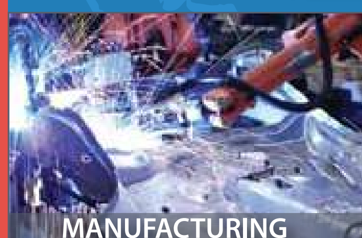
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WORLD OF FINANCE

Ratings Blues

CRISIL downgrades Venus Remedies

Venus Remedies which ranks amongst the top 10 leading manufacturers of injectables in the world, had in May 2009 defaulted on the repayment of its foreign currency convertible bonds (FCCBs) amounting to $12mn, it had raised in 2006-07. This had enraged its foreign investors, the US-based hedge funds DE Shaw and Citadel Investment Group, so much so that they even filed a winding-up petition against the drug major; it was the first time that an Indian company was slapped with a winding-up petition.

India's largest credit rating agency CRISIL recently said that it has downgraded credit rating on the bank facilities of pharmaceutical firm Venus Remedies to CRISIL D from CRISIL BB+/Stable/CRISIL A4+. As per CRISIL's definitions, "Instruments with this rating are in default or are expected to be in default soon." The rating agency expects the company to default imminently, if it hasn't already.

The worries over debt are not new as VRL has been grappling with the issue for quite some time. In October 2011, CRISIL had upgraded the home-grown drug maker's ratings on its Rs 78 crore cash credit limit and Rs 77.99 crore term loan facilities to 'BB+/Stable' from 'BB-/Stable', while reaffirming its ratings on the company's letter of credit and bank guarantee facilities at 'A4+', and assigned its 'BB+/Stable/ CRISIL A4+' ratings to the company's other bank facilities, on the basis of the company's track record of timely servicing of debt since April 2010.

"This is a case of wilful default by the company. It has money, but is not willing to pay bondholders. That is why we have filed the winding-up petition," alleged an executive with one of the hedge funds. The foreign investors had earlier refused to convert the dollar-denominated bonds into equities as the market price of the drug company was much below the conversion price of Rs 437. Later in March the two parties entered into an amicable settlement to settle $7mn over the next one and a half years while the rest $5mn had to be rolled over for a period of five years. Interestingly, according to an ET report, CRISIL had in February 2009 assigned a A-rating to Venus Remedies on its debt facilities, citing comfortable financial risk profile marked by healthy size of net worth and strong debt protection indicators. However, it was downgraded to C in May 2009, after the company failed to honor FCCB investors.

The September 15, 2014 rating downgrade reflects delays in repayment of term loan by the company driven by a stretched liquidity, said CRISIL in its report. According to the rating agency, VRL's stretched liquidity is on account of the significant increase in total cost of the large debt-funded capital expenditure over the past one year and high working capital requirements. The company is undertaking capex towards setting up marketing office. The total cost of this capex is estimated to have increased by about Rs.100 to 150 million. In addition to the above company's liquidity has also deteriorated on account of the high working capital requirements reflected by inventory of about 131 days as on March 31, 2014.

The rating also reflects VRL's working-capital-intensive and small scale of operations in the overall formulations market. However, CRISIL added Venus Remedies benefits from its strong presence in the high-value critical care segment.

For arriving at the ratings, CRISIL combined the business and financial risk profiles of VRL and its wholly owned subsidiary, Venus Pharma GmbH (VP), based in Germany. The domestic drug maker which was set up in 1989 provides out-licensing services of common technical documents, and warehousing and logistical support to VRL. The two entities have together been referred to as VRL.

Set up in 1991 by Pawan Chaudhary, a chartered accountant by training, VRL has a presence in both branded and generic formulation pharmaceuticals. It has two plants in India, one in Panchkula (Haryana) and the other in Baddi (Himachal Pradesh), with an aggregate capacity of 0.57 million bottles per day, and one in Germany. VRL is mainly present in the critical care segment, manufacturing parenterals such as cephalosporins, carbapenems, and oncology drugs in lyophilised form; infusions; and small volume parenterals used for treating varied ailments such as bacterial infections and cancer.

The company's net profits (provisional) fell by a third or 33 per cent y-o-y to Rs.10.25 crore during the June quarter of 2014-15, against Rs.15.31 crore in the same quarter a year ago. Its sales too dropped by four and a half per cent to Rs.121.48 crore from Rs.127.21 crore in the same period. Venus Pharma GmbH, the company's Germany based wholly owned subsidiary of pharma recently entered into a distribution-cum-outlicensing agreement with world's third largest generic drug maker, Mylan for marketing its antibiotic, Meropenem, in three European countries. The deal with Mylan will enable Venus Remedies to market meropenem in Denmark, Sweden and Finland for a period of five years.

According to a research by Capitalmind.in, Venus Remedies' Interest Coverage Ratio (Earnings before interest and taxes or EBIT divided by Interest payment) has consistently been on a decline, in fact, it raced down to its lowest level of 2.23 in recent few quarters almost in flurry. "Things do look bad," says the research firm, adding, "at 2.23 they pay 44% of their pre-tax income as interest."

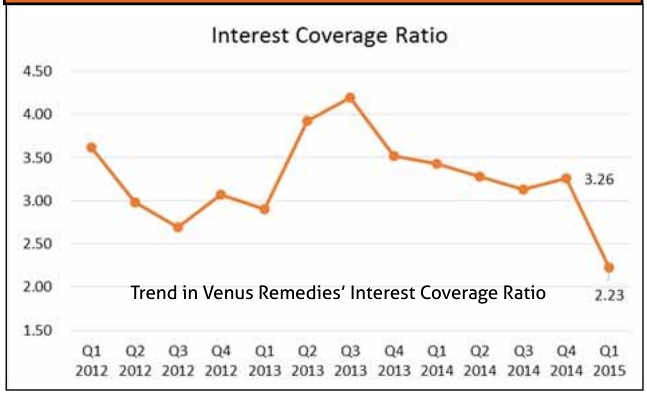
TEAM TGA

FINANCIAL RESULTS

Particulars (Rs cr)	Jun 2014	Jun 2013	% chg
Net Sales	121.48	127.21	-4.5
Other Income	0.1	0.82	-87.8
Total Income	121.58	128.03	-5.04
Total Expenses	91.84	95.6	-3.93
Operating Profit	29.74	32.43	-8.29
Net Profit	10.25	15.31	-33.05
Equity Capital	11.44	11.44	-

Source: Company Reports

Falling ICR - A Bitter Pill?



Source: capitalmind.in

Current Facilities			Previous Facilities		
Facility	Amount (Rs. Mn)	Rating	Facility	Amount (Rs. Mn)	Rating
Bank Guarantee	35	CRISIL D	Bank Guarantee	35	CRISIL A4+
Cash Credit	900	CRISIL D	Cash Credit	900	CRISIL BB+/Stable
Inland/Import Letter of Credit	155	CRISIL D	Inland/Import Letter of Credit	95	CRISIL A4+
Letter of Credit	80	CRISIL D	Inland/Import Letter of Credit	60	CRISIL BB+/Stable
Proposed Long Term Bank Loan Facility	1.2	CRISIL D	Letter of Credit	80	CRISIL A4+
Rupee Term Loan	557.6	CRISIL D	Proposed Long Term Bank Loan Facility	1.2	CRISIL BB+/Stable
Term Loan	921.2	CRISIL D	Rupee Term Loan	557.6	CRISIL BB+/Stable
--	0	--	Term Loan	921.2	CRISIL BB+/Stable
Total	**2650**	--	**Total**	**2650**	--

Source: Crisil

Brewing Success!

An Indian CEO features in Fortune's Most Innovative Women in the Food and Drink World.

Fortune, Food & Wine identify the women who influence the way you eat and think about food.

Avani Davda, CEO, Tata Starbucks

Avani Davda, the CEO of the US coffee retailing giant Starbucks's Indian joint venture with Tata Global Beverage, has been identified among top global women managers who broke new grounds in the food and drink world. The annual rankings, prepared by Fortune, America's leading business publication, and Food & Wine, also owned by the Time Inc., feature the most groundbreaking women in the food and drink world. According to the influential business weekly, while these women business leaders may not all operate at the same scale as the big industry players, such as PepsiCo's Indra Nooyi, 'this group is permanently changing the way we eat and how we think about food. Now that's power in its own right.'

Topping the list is Ertharin Cousin, Executive Director at the United Nations World Food Programme, whose job truly means life or death for millions of people around the globe. As the head of the world's largest humanitarian organization combating hunger, Cousin leads a team that must quickly get aid to those faced with conflict and natural disaster, the Fortune said. WFP reaches 90 million people in 80 countries, such as the 4.25 million people it's targeting in Syria every month. Among other women achievers who make it to the list include Barbara Banke (ranked), Chairperson, Jackson Family Wines, one of the biggest sellers of premium wines in the US, Kellee James, Founder and CEO, Mercaris, a market data service and online trading platform (for organic, non-GMO, and certified agricultural commodities) that is creating a more transparent and efficient market for organic commodities and counts big names like Whole Foods and Organic Valley as its customers, and Ruth Oniang'o, Founder, Rural Outreach Africa, which has raised money to help 30,000 small farmers in Kenya, most of whom are women, and Debra Eschmeyer, Co-founder and VP of External Affairs, FoodCorps, a part of the AmeriCorps network, which has placed teams in 400 low-income schools in 16 states to confront issues like childhood obesity by improving school lunches, planting gardens, and teaching kids about nutrition.

Avani Davda who joined Tatas in 2002 as a Tata Administrative Service Probationer, became the first CEO of Tata Starbucks Ltd, the 50:50 joint venture between Starbucks Coffee Company and Tata Global Beverages Limited, in September 2012, a month before the JV opened its first store at the historic Elphinstone Building, Horniman Circle, Mumbai, marking the beginning of the iconic brand's India journey. Under her stewardship, the joint venture has grown from strength to strength. In less than two years of its operations, the JV boasts of a network of 50 stores across Mumbai, Delhi NCR, Pune, Bengaluru and Chennai. The company reached the landmark with the launch of its first store at Phoenix Market City, Velachery, Chennai, on July 8, 2014.

Avani has 'balanced Starbucks staples like Frappuccinos with local offerings,' reported Fortune. Her team launched an India-sourced and roasted coffee, called India Estates Blend, to mark Starbucks' first anniversary in the country. However, the JV has a long way to go when compared with Startbucks' success in China, where it aims to grow its number of stores to 1500 by 2015 from 1,100 stores, operational currently. Besides, India being primarily a nation of tea drinkers, popularizing coffee drinking poses significant challenges. Further, competition from old rivals like Café Coffee Day and new entrants too pose challenges. India is the seventh largest coffee producer in India and the third largest in Asia. Both India and China remain two key markets for the world's largest coffee retailing company.

India's coffee chain market is worth Rs 1,700 crore in 2013. Currently there are about 3,100 coffee stores in India. The Indian coffee retailing market is characterized by razor thin margins and elusive profits, which has resulted in many coffee chains either shut shop or continue incurring losses. The key players include Gloria Jean's Coffee, Costa Coffee, Barista Lavazza, Coffee Bean & Tea Leaf, etc. India has emerged as the fastest growing market in Starbucks history and according to industry experts about 100 million new coffee drinkers are likely to emerge in the country in the near future. India's coffee retailing industry, estimated at about Rs.1,100 crore, has been growing at a compound annual rate of 25 per cent for the past few years, according to reports.

TEAM TGA

Target 2020!

Japan aims for more women in corporate rank

Japanese Premier has called for boosting the ratio of female managers in the corporate sector to 30 per cent by 2020.

Japanese Prime Minister Shinzo Abe has urged corporate Japan to strive to reach the ambitious goal of increasing the ratio of female workforce to 30 per cent by 2020 from the present 7.5 per cent. The initiative is a part of the new round of reforms unveiled in June this year that aims to unshackle the domestic economy by slashing corporate tax rates – one of the world's highest at up to 36 per cent – and by simplifying regulations. Japan has been facing an ageing population and hence a declining workforce, the factor which many economists suggest is at the root of the deflationary pressure the economy has suffered from for the past 15 years. According to a report in London's The Economist, Japan's population began falling in 2004 and is now ageing faster than any other on the planet. Today, more than one-fifth or 22 per cent of Japanese are already 65 or older! Citing a Japanese report, the newspaper further added that the number of Japanese could fall from 127mn to about 87mn by 2060, of which almost 40 per cent will be 65 or older.

Another report further paints the dismal picture of workforce diversity or gender gap in Japan's workforce. According to a 2014 white paper on gender equality, Japan ranked second from bottom in a comparison of 12 countries in the ratio of women in managerial positions. Female executives' percentage in the total workforce in the private sector was a miniscule 6.9 per cent in 2012, in the public sector the situation was even worse as women managers accounted for just 2.7 per cent of total bureaucrats in management ranks last year. Even in politics, women continue to under-represented. Rigid labor laws discourage working mothers from joining the workforce after the birth of their first child.

By encouraging corporates – in both public as well as private sector - to boost participation of women in their workforce, the government hopes to address the issue of a shrinking labor force to a certain extent. However, persistent efforts would be needed to translate this vision into reality, given Japan's strong male-dominated corporate culture and labor laws which do not favor working mothers. However, the new reform measures now look at addressing these issues.

A number of corporates has come forward to lend their support to the government's plan. Companies which include Shiseido Co., Seven & I Holdings Co. and Sompo Japan Insurance Inc. have said that they are very much on track to reach the goal of having 30 percent women in managerial ranks by 2020. The world's top auto maker Toyota Motor is looking to triple the number of its roughly 100 female managers, while consumer durable maker Hitachi aims to increase the number of women in its management ranks 2.5-fold to 1,000. Meanwhile, Nomura, Japan's largest brokerage firm becomes one of the few domestic corporates to have a female boss. Chie Shimpo is the first female to head a bank in Japan, while Sumitomo Mitsui Banking Corp., Japan's No. 2 lender, promoted Teiko Kudo, a banker in its project finance and structured finance, to executive officer effective April 1. Earlier, Mizuho Bank, Japan's third largest bank, said it would promote Atsumi Arima, 51, the head of Mizuho's advisory division for small and midsize firms, to the executive-officer post.

TEAM TGA

The DiversityInc Top 10

The DiversityInc survey identifies top 50 companies in terms of diversity on the basis of 300-question survey, which is divided into four equally weighted areas: Talent Pipeline (workforce breakdown, recruitment, diameter of existing talent, structures); Equitable Talent Development (employee resource groups, mentoring, philanthropy, movement, fairness); CEO/Leadership Commitment (accountability for results, personal communications, visibility) and Supplier Diversity.

What propelled Novartis to the top rank

Novartis Pharmaceuticals Corporation's, a part of Novartis AG, a Swiss multinational pharmaceutical giant, focused plan to improve human-capital results propelled the company to the No. 1 spot. André Wyss, President at the time Novartis received this recognition, was a constant and strong force within the company for better metrics to assess demographic progress and accountability measures to ensure an inclusive workplace.

The executive leadership team's annual performance-management goals include a 20 per cent weighting toward people-related objectives, which have specific diversity objectives. Wyss continuously communicated the importance of diversity and inclusion to NPC's business goals and was at the forefront of integrating it into all aspects of the business. In the past year, the Diversity & Inclusion department and the Executive Diversity & Inclusion Council implemented a strategic planning process that included an organizational assessment and analysis of both the internal and external landscape. As a result, the company has a new paradigm focused on integrating diversity and inclusion into its processes, including clinical trial and go-to-market strategies, as well as talent management and recruitment. The company also introduced a centralized process to attract, monitor and verify veteran, disability and LGBT talent. In addition, NPC continues to work on building its diversity-training curriculum to meet the needs of a flexible workplace. According to Rhonda Crichlow, Vice President and Head of U.S. Diversity & Inclusion, NPC, "Within NPC, diversity and inclusion are foundational to our culture. We believe that diverse backgrounds and experiences bring value in many ways—by helping us address the needs of patients and customers, enhancing immeasurably our work environment, and enabling all associates to contribute fully, maximize their potential, and ultimately succeed in meeting our business priorities."

1.	Novartis Pharmaceuticals
2.	Sodexo
3.	EY
4.	Kaiser Permanente
5.	PricewaterhouseCoopers
6.	MasterCard Worldwide
7.	Procter & Gamble
8.	Prudential Financial
9.	Johnson & Johnson
10.	AT&T

Company Facts: Novartis

U.S. Headquarters: East Hanover, N.J.

U.S. Employees: 8,104 (NPC is the U.S. affiliate of Novartis AG)

Highlights

- Deep, visible CEO commitment
- Women in top levels more than doubled in last 5 years
- Moved up more than 7 spots in each of last 5 years
- Executive diversity council focused on business goals and metrics

Source: Diversityinc.com

TEAM TGA

"Focusing on the unique needs of our diverse patients and customers is what matters most at Novartis Pharmaceuticals Corporation. That's why we work so hard to create a diverse workforce and harness that power in how we work together—inclusively as one team challenging the obvious, and exploring all possibilities to make a real difference for the people who count on our medicines every day."

- Christi Shaw, U.S. Country Head, President of Novartis Corporation.

The Human Capital Capability Gap Index

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR's relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization's self-rated "readiness" and subtracting its "urgency," normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

The Capability Gap Grid

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

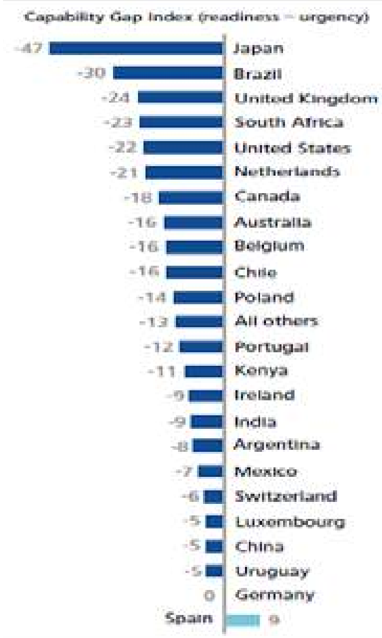
- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
- Capability gaps at the upper right part of the grid are highly urgent, but companies feel more able to perform in these areas (they warrant investment but are lower priority than those at the bottom right).
- Capability gaps on the left side of the grid are areas of lesser importance, and those lower in the grid are areas of less readiness.

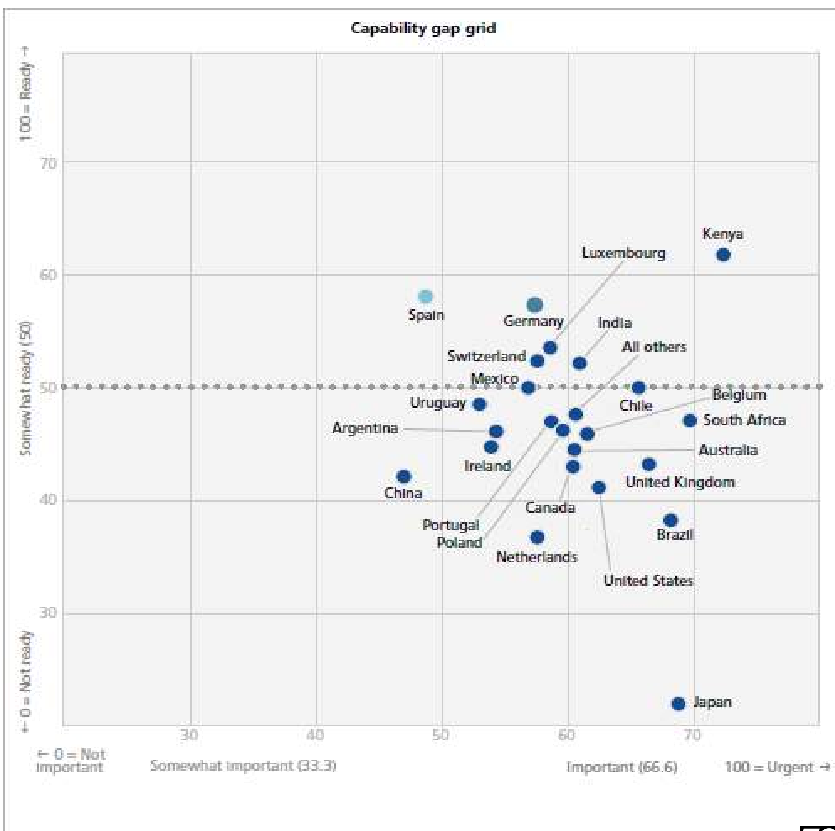
Bottom Line

Given the complexities and continuous disruptions in the global economy, it is no surprise that building global workforce capability emerged as one of the top three challenges in the Deloitte Human Capital Capability Gap global survey. The issue is skills: finding them, accessing them, developing them, and bringing the work to them.

Companies that develop a deep understanding of their capability gaps can then build a global skills supply chain to address critical needs. This supply chain can be filled by tapping into new skills pools in new locations, creating innovative new ways of working that provide access to a broader range of talent, and developing skills throughout the workforce—from the youngest recruits to the most experienced employees.

Urgency vs. readiness: Who is leading, who is lagging?





Source: Deloitte University Press

Ben Cohen and Jerry Greenfield, co-founders of Ben & Jerry's Homemade Holdings, Inc.

Lifelong friends Ben Cohen and Jerry Greenfield took both sustainable profit and social activism into consideration when starting their ice cream business.

"Whoever coined the phrase 'nice guys finish last' obviously never met Ben Cohen and Jerry Greenfield."
– Entrepreneur

In 1978, two school friends Ben Cohen and Jerry Greenfield from New York embarked on an entrepreneurial journey. The duo first wanted to enter the business of making bagels, but lack of funding forced them to change their mind and do something else: making ice creams. Having no prior knowledge of ice cream making, they first decided to enroll for a distance learning program in ice cream making from the Pennsylvania State University so as to equip themselves with the know-how (of ice cream making).

Armed with a fund of $12,000 investment ($4,000 of it borrowed), Ben and Jerry opened their first ice cream scoop shop in a renovated gas station in Burlington, Vermont in 1978. In the beginning they handled everything – while Greenfield took charge of ice cream making, Cohen was responsible for tasting and marketing & sales, besides acting as the truck driver (handling transportation). It was a while before they hired an 'outsider' Fred 'Chico' Lager as their first COO to manage the company's finances, which had been growing steadily, thanks to its growing popularity. The duo's unwavering focus on quality and innovation, and customer satisfaction had led to a huge rise in its fan followings. From those early days, fans would form lines outside of the very first scoop shop for a taste of Ben & Jerry's delicious ice cream – blending fresh Vermont milk, cream and generous portions of their signature add-ins known as "chunks" and "swirls." And the tradition has continued to date. By 1988, ten years after they began, there were more than 80 Ben & Jerry's ice cream scoop shops in 18 states in the US and in a handful of other countries. In 1994, Ben & Jerry's began distribution of ice cream in the UK and soon they entered several other markets of the world.

The tremendous success, however, did not spoil the duo, who went on to redefine corporate philanthropy and offered great lessons in

Ben & Jerry's – Redefining Corporate Citizenship

Ben & Jerry's has always been special: from being the first ice cream company to use Fairtrade certified ingredients to its fun flavour names such as Karamel Sutra, Cherry Garcia, Chunky Monkey, Chocolate Therapy, and Imagine Whirled Peace.

Ben & Jerry's worked with sustainable, Fair Trade certified and organic suppliers; used environmentally friendly packaging; paid premium prices to dairy farmers from Vermont who did not give their cows growth hormones; and created business opportunities for depressed areas and disadvantaged people.

To this day, Ben & Jerry's celebrates the anniversary of that first shop opening with 'Free Cone Day' when ice cream is dished out (at no charge!) at scores of scoop shops across the globe. It is still meant as a sincere and heartfelt "thanks" to Ben & Jerry's fans.

Classic concoctions please the sense of linked prosperity as much as the tummy with flavors such as Chocolate Fudge Brownie, chocolate ice cream with chewy fudgy brownies made by the Greyston Bakery in Yonkers, NY which serves the less fortunate with housing, a job and skills training. It's the manner in which Ben & Jerry's matches its products with its passion for giving back that truly hits the company's sweet spot. *Source: Unilever, Paula Caligiuri/Fastcompany.com*

leadership. The firm also always recognized the fact that it's the employees who're behind the enormous success it enjoyed among customers. And the founders always wanted to return that support. They initiated several measures for the well being of their employees, which included making them entitled to three free pints of ice cream a day, profit-sharing programs, free health club memberships, day-care service and college tuition aid.

According to entrepreneur.com, to help foster a sense of community and further empower their workers, Cohen instituted the practice of having supervisors evaluated by their subordinates and encouraged the free exchange of ideas and opinions. He also established a pay scale in which the highest-paid employee could not earn more than five times the salary of an entry-level worker (that ratio was later adjusted to 7 to 1 in 1990.) These and other worker-focused policies garnered praise from industry experts and prompted other companies to follow suit. However, as the company began to expand, Cohen's hands-on management style had come under criticism from many of his new top executives. Besides, many managers were averse to some of those ideas such as salary caps. It forced the company to reconsider their expansions and focus on consolidating its operations which could help it create a uniform work culture across the organization. It began making efforts at educating new recruits about its various employee-related policies and social programs. Notwithstanding concerns raised by some sections of managers, the company continued with its philanthropic and other policies such as salary caps. It also recognized that expansion is not a bad thing, if supported by actions that help society.

Cohen and Greenberg believed in "Caring Capitalism". Their company redefined the way philanthropy works - going beyond merely setting aside a part of their profit for public good, Ben & Jerry's sourced raw materials from economically depressed regions of the markets of the US and overseas, thereby helping create jobs for the people from the economically weaker sections of the society. For instance, in their quest to initiate innovative ways to improve the quality of life for a broad community, they launched flavors such as Chocolate Fudge Brownie, which contains brownies made by homeless and unemployed workers in Yonkers, New York; Wild Maine Blueberry, made with blueberries harvested by Passamaquoddy Indians; and Rainforest Crunch, for which the company buys Brazil nuts collected in the Amazon rain forest by indigenous peoples, thereby providing an economically viable alternative to deforestation, as per entrepreneur.com. Besides, 60 percent of the profits from that flavor go to environmental groups dedicated to preserving the Amazon rain forest.

In June 1994, Cohen announced his retirement as the company's CEO. "We've never had an experienced CEO," he told in an interview in The New York Times, adding, "and we have reached the point when we need one." Even after his retirement as CEO, Cohen remained active in the company. As its chairman, he concentrated on what he called "the fun stuff," such as searching for new ways to promote worker morale and developing new ice cream flavors. There is an interesting tale about how it found its new CEO. The company held a national contest, 'YO! I'm Your New CEO!'

The contestants had to write a 100-word application explaining why they would be perfect for the CEO position. It received 22,000 applications! The winning entry was a poem submitted by a contestant named Robert Holland who went on to became the CEO of the firm. The second-prize winner received a lifetime supply of ice cream!

The message is that if you want to have a social mission, if you want to integrate social concerns into a business, you can do it and still be as financially successful as anyone else.

In the year 2000, Ben & Jerry's announced that it had agreed to be acquired by Unilever, the Anglo-Dutch consumer products giant, in a deal worth $326 million. Under its new parent, Unilever, Ben & Jerry's has further extended its global reach, while maintaining its social mission and brand integrity. Since 2003 – when the company celebrated its 25th anniversary – Ben and Jerry's has continued its social activism pledge by working on a sustainable Caring Dairy initiative, which aids the needs of farmers and their cows. The company has also converted all of its farms to operating on green energy, and Ben & Jerry's set into motion the trend of using cooperatively-run farmer associations and Fair Trade-certified ingredients for its products.

Source: pinterest.com

On his involvement with the company, and the success of Ben & Jerry's three-part mission statement, Jerry Greenfield once famously said, "We measured our success not just by how much money we made, but by how much we contributed to the community. It was a two-part bottom line."

To quote the Entrepreneur, "Ben & Jerry's has come a long way from 12 flavors and a renovated gas station. With annual sales topping $200 million, the company reigns as the world's second-largest producer of super-premium ice cream, and both of its founders are multi-millionaires. It just goes to show you, good guys don't always finish last."

Greenfield said his unlikely journey as an entrepreneur proves at least one thing: "The message is that if you want to have a social mission, if you want to integrate social concerns into a business, you can do it and still be as financially successful as anyone else." He further adds, "Businesses typically don't stand for anything: They exist to make money and so they don't want to do anything that might, potentially, alienate any of their customers."

TEAM TGA

Key to Success

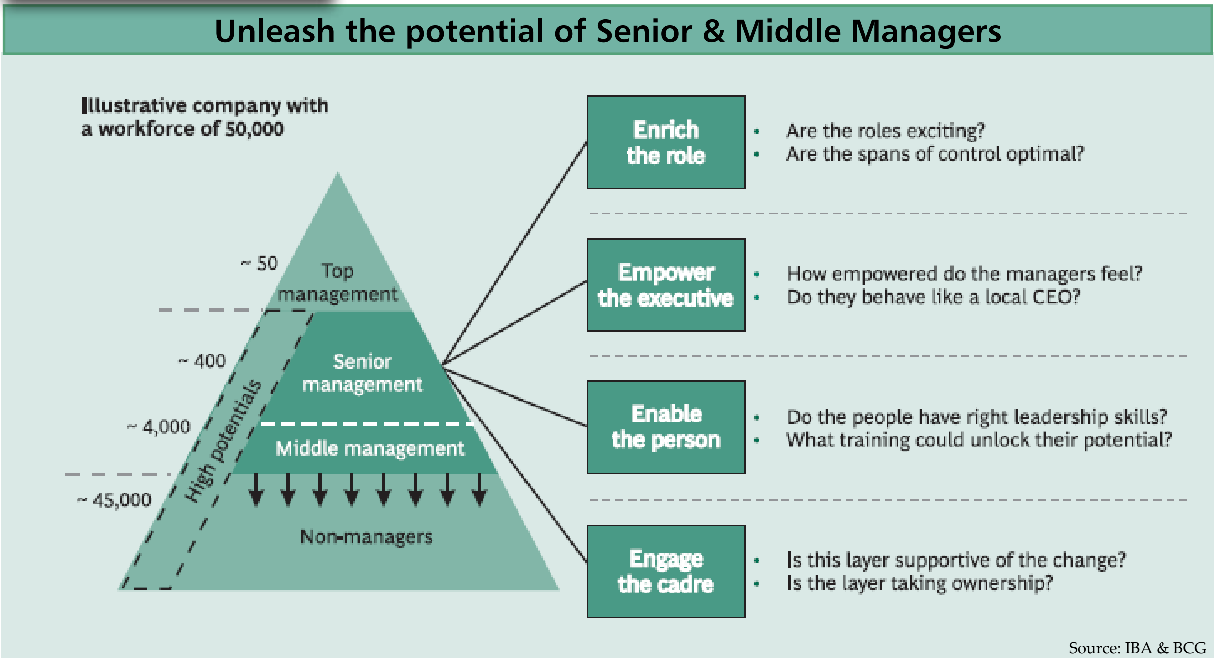
Sooner than later, the RBI, government and public sector organizations will have to come to terms with the reality that their recruitment, training, placement and compensation strategies need a thorough revision, to fall in line with the changing face of the Indian economy, in general, and global banking, in particular.

At the outset, I recollect my views I had summarily expressed in the concluding part of my column in The Global ANALYST (September 2013 issue): "Dr Rajan has raised huge expectations. Can the new RBI Governor help the economy, besieged by a plethora of challenges including a weakening currency, burgeoning deficits, sluggish growth, runaway inflation, rising interest rates, etc., regain momentum? Well, only time can tell."

During the one year that followed, many things have changed. Experts are analyzing and those in responsible positions are taking stock. Watching the events, responding to an article on Dr Rajan published in The Hindu (The man who turned the economic tide, September 5, 2014) I commented asunder: "India was waiting for the kind of leadership Dr Raghuram Rajan and (Narendra) Modi are capable of providing. Both have some common qualities. Both are willing to work for the country's good. Both are good listeners. Both lead from the front. Both are willing to change course, if someone is able to convince that there are better options. In their respective fields, both have the advantage of age. Both are lucky to be at the right place at the right time."

These quotes are intended to comfort myself that India has awaken from the slumber and these two individuals in charge of Indian politics and economy 'together can' lead and help 'WE THE PEOPLE' to move forward.

While expressing this hope about Prime Minister Narendra Modi I am relying on his loud thoughts expressed through the 65 minutes extempore speech from the ramparts of Red Fort and the 'PM's Pathshala' telecast on September 5, 2014 (PM's interaction with students and teachers of India on this Teachers' Day). Dr Raghuram Rajan's media interviews on the occasion of completion of one year as RBI Governor and a communication addressed by him to his colleagues in the first week of September 2014 gave more insight into the RBI Governor's self-assessment and future plans.



Source: IBA & BCG

Banking on HR Management

For India Growth Story to progress the way we want it to, human resources management and development (HRMD) across government and public/private sector organizations is a crucial issue and if attended to in right earnest, will reduce the discomfort levels of leaders and 'CEOs' to a great extent. Sooner than later, the RBI, government and public sector organizations will have to come to terms with the reality that their recruitment, training, placement and compensation strategies need a thorough revision, to fall in line with the changing face of the Indian economy. The fading borders and the immense possibilities for cross-migration of talent across geographies and sectors make this task more relevant and add to the urgency in handling the issue with utmost care.

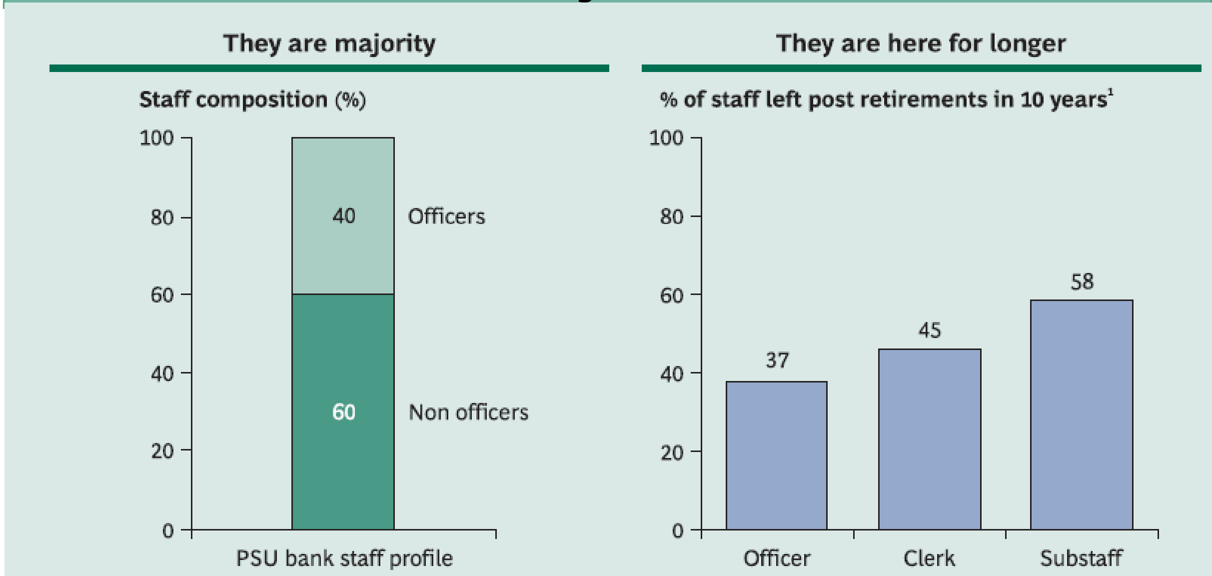
A long-term solution may have to be found for the HR-related problems, including inability to hire experts at market related compensation (this is applicable up to the position of Secretaries/CEOs in government and public sector). There may not be a fit for all remedy, as the issues are as old as the institutions. The policy initiatives may have to take into account the need for and possibility of inter-mobility of executives and managers among comparable organizations. A Banking/Financial Sector Service could be evolved for institutions including those in the private sector and regulatory bodies in the financial sector. Centre should consider coming out with a transparent and convincing guidance for remuneration packages and HR practices in the public sector based on paying capacity/need for skills for different sectors after opportunity being given to main stakeholders to express their views .

Proposal for a five-fold increase in salary of MPs, RBI's objection to some private banks offering fancy salaries to CEOs/top executives, high level executives with better qualifications and track record after long years of experience in the public sector shifting allegiance to private sector or lucky few among them getting accommodated abroad, and some employers researching to find out options to compensate for the lower salary they are forced to pay to their executives because of regulatory restrictions or other compulsions, all these and more made headlines in the recent past.

During a transition from a wholly controlled economy to one exposed to market forces, it takes time for things to stabilize. The move from total control to regulation and regulation to self-regulation under policy guidance is bound to be step by step and slow. The problem arises when government and regulatory authorities refuse to have a holistic approach and take a pedestrian position on serious policy issues relating to prices, costs, wages and income, handling each issue as it surfaces and go for first-aid type solutions. Put differently, as of now authorities start acting only when unhealthy symptoms surface and handle issues on a case to case basis rather than taking a policy approach on all interlinked issues.

Politicians holding public office may have their own reasons for keeping their official remuneration low and this might have resulted in the present low salary of 'employed' politicians. If they want to correct the position, it is up to them. This should not stand in the way of market related improvement in the compensation package of senior government officials, executives of regulatory bodies, public sector undertakings, scientists and profes-

Need to Energize Non-Officers



1One large public sector bank.

Source: IBA & BCG

sionals in different areas where government has a say in deciding remuneration. The inadequacies in compensation packages are showing up in the form of reluctance on the part of competent candidates to accept/stay on in position or even highest level executives keeping an eye on better employment opportunities elsewhere/abroad.

A national policy on prices, wages and income for the country in the context of the open market path now accepted for planning and development is overdue. This cannot be done without creating awareness among all stakeholders about the need for discipline and self-regulation within accepted norms even in an open market dispensation. Absence of such a policy leads to sporadic action when problems of national importance which have a bearing on the entire economy's health crop up. Different ministries, industrial groups, media and those really affected by such off the cuff solutions talk and act differently in such situations.

For historic reasons, number of employees in government and government owned/controlled organizations has been high and their salary structure from top to bottom remains interlinked irrespective of skills, tasks and output. Hierarchies will have to be restructured, excess staff in certain areas redeployed or pruned through appropriate exit mechanisms and recruitment, placement and in house skill development methods overhauled, simultaneously introducing a transparent system of industry/work area specific compensation and career development package. Opportunities will have to be created for in-house skill development.

Address the Inconsistencies

There is an urgent need to bring some correlation between the pay, perks and incentives available in the private sector and the comparable public sector organizations. Time is opportune for a more meaningful nationwide debate on the present inconsistencies in the wage structure across sectors and hierarchies. The cause for several unethical practices including corruption in India can be traced to the anomalous costs, prices, wages and income structure.

When the first Indian President's first month's salary was fixed at a consolidated amount of Rs 10,000/- the underlying thought was a ratio of 1:10 between the lowest and highest remuneration across sectors in the country. At that time, there were not many executives in the private sector also, who were drawing a higher salary than the President. The argument is not that such a ratio should remain static. But, someone should look at the ethical inconsistency in a small Indian company paying two of its 'employees' every year a remuneration of Rs 50 crore or above, when hundreds of executives in public and private sector who do much more work get paid much less than two percent of Rs 50 crore.

With the changing face of India the responsibility of those who handle HRMD issues in government and organizations in public as well as private sectors also increases. Though some positive changes in approach have happened in higher education including IIMs and other management education centres, there has not been any perceptible change in the recruitment and training processes or in opportunities for career progression in government(both at the centre and in states), PSUs, financial institutions and statutory organizations.

Rethinking CTC

The absence of talent in government and public sector is the product of a deliberate neglect of HR related issues by the government. The ageing top level in government and public sector is a serious issue. In the present context when performance of government and institutions in public and private sectors is being watched by the world and judged almost online, HRD at the top across sectors should become a national priority.

As a fire-fighting measure, there is a need for a comprehensive look at the manpower planning and deployment of available expertise among institutions across private and public sectors and related human resources development (HRD) issues which have to be handled without further loss of time. The Government and public sector organizations may have to consider how best the 'Cost to Company'(C to C) principles can be integrated into their existing recruitment, training, placement and career progression policies.

Inter-mobility of executives at higher levels among comparable departments of government and public and private sector organizations should be possible, on transparent norms and strictly based on merits. Changes may have to come first in the recruitment and training procedures for IAS and state civil services and management trainees in public/ private sector undertakings including probationary officers in PSBs. Specialized services like one for Banking/Financial Sector could be evolved for institutions including those in the private sector and all regulatory bodies in the financial sector.

The recent initiative by Reserve Bank of India making some changes in the recruitment process has this background. In the present scenario, the move to go for common-cadre of officers in RBI and making recruitment process more broad-based and professional makes sense. But, the hurry with which the RBI top management is trying to implement the well-intended measures may make its own path slippery.

Till a decade back, RBI used to learn from its own experience and make corrections midway. The present move gives an impression that RBI has not learnt any lesson from the failure of its 'Executive Interns'(2010) experiment, which was introduced by the then Deputy Governor Chakrabarty. In organizations like the Reserve Bank of India the temptation of birds of passage at the top to make experiments as they do not remain to see results has a destabilizing effect.

One option to minimize damage could be to allow the existing staff (within certain age limit and having needed qualification) to migrate to the new cadre after testing their 'fitness' through an appropriate evaluation. Better still would be creating a Financial Sector Service on the pattern of IAS and Tata Administrative Service (accepting the better features of both) which could be common for financial sector regulatory organizations and public sector banks including State Bank of India. Such service should first absorb the existing talent within the organizations and go for further recruitment after two or three years depending on need.

A transparent guidance for remuneration package based on paying capacity/need for skills for different sectors and ensuring social security should come from government without always worrying about what will be the impact on Cabinet Secretary's salary or trade union demands. If the government secretary deserves a higher salary, government should not raise budgetary concerns for not paying it. Instead, merger of some departments and utilizing the surplus manpower for new job opportunities should be a wiser option.

Winning the Race for Attracting Talent

Time is ripe for both private and public sector organizations to have some introspection on their HR practices right from recruitment at the lowest level to selection of CEOs, remuneration packages, training facilities and social security measures for their employees. While organizations in the private sector may have to review the optimum pressure they can put on their executives and managers, government and public sector counterparts may dispassionately examine and modify their remuneration packages to ensure attracting and retaining competitive talent in the present market scenario.

Let us not forget that the civil services, executives and staff of public/private sector undertakings have to supplement the skills of the increasing number of political masters who were not as fortunate to get trained or groomed. The nation is immensely dependent on them for carrying out the development agenda on hand.

Till, perhaps till the early 1990s, employers could depend on a growing population of educated unemployed from which they could hire and fire candidates on their terms. Position has changed with the opening up of the economy and sooner we realize it and act, the better. Dodging real issues could take us back to pre-reform days.

TGA

M G Warrier, Former General Manager, Reserve Bank of India, Mumbai.

India's Next Big Leap

Tatas showed to the world that an Indian manufacturer can make the world's most inexpensive car and also successfully manage world's leading luxury car models like Jaguar and Land Rover. Textile manufacturers in Tirupur and many other industrial clusters in India supply to some of the world's top retailers such as Walmart and Tesco. Mahindras are now among the leading tractor makers in the world's most competitive market – the US. And a host of Indian drug manufacturers are ruling the roost in several markets of the world. These examples are proof enough that Indian manufacturing has indeed come a long way and is now ready to cement its position in the global arena even further.

Nobody can question India's talent after India's successful maiden visit to Mars, said a visibly upbeat Prime Minister while congratulating scientists at the ISRO, India's premier space research organization, on successfully putting satellite Mangalyan into the orbit of MARS. With this India becomes the first country in the world to have achieved such as feat in the very first attempt; the other three successful missions from the US, Russia and Europe took more than once to send unmanned satellites to Mars. What makes this feat all the more special is the fact that India has beaten China, whose Mars Mission is yet to take off, in the race to reach the red planet. So, does the success of the MoM (Mars Orbiter Mission) mean India could achieve another insurmountable task – to beat China to become the preferred destination for global manufacturers?

Dare to Dream

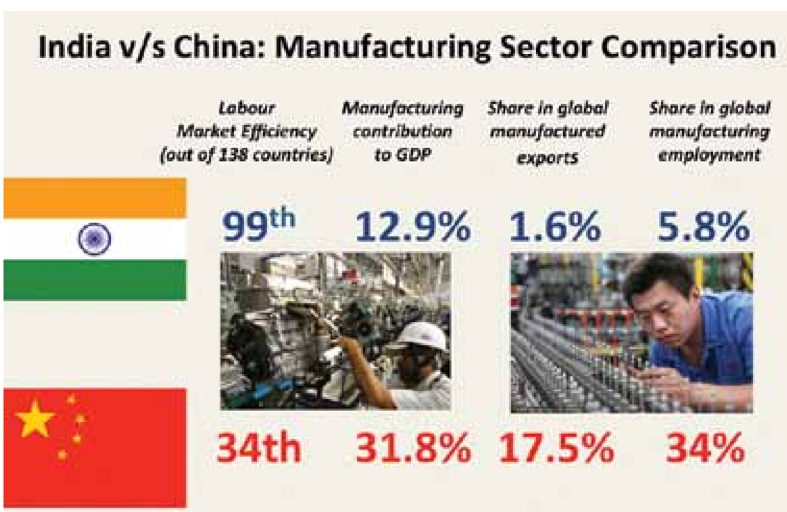
Like India's Mars Mission which faced skepticism when it was planned, India's manufacturing mission too has drawn similar criticism with many questioning India's ability to deal with perennial issues such as low productivity, lackadaisical infrastructure and red tape. These criticisms are, however, not without valid reasons. And numbers vouch for that. Manufacturing sector's share in India's GDP has been shrinking for long with the country is now worst placed than even much smaller nations such as Sri Lanka and Bangladesh! India missed the manufacturing wave which helped many Asian nations lift their economic growth almost miraculously during the 80s and 90s. In fact, it was the manufacturing sector which contributed to the rise of the so-called Asian Tigers comprising of Singapore, Hong Kong,

We will create world-class infrastructure that India badly needs to accelerate growth and meet people's basic needs. We will make our cities and towns habitable, sustainable and smart; and we will make our villages the new engines of economic transformation. "Make in India" is our commitment—and an invitation to all—to turn India into a new global manufacturing hub. We will do what it takes to make it a reality.

-Narendra Modi, Prime Minister, India.

South Korea, and Taiwan, and help them maintain growth rates of 7 per cent and above since the 1960s and achieve stellar successes until the Asian Financial Crisis of 1997 struck them hard. While Singapore and Hong Kong have transformed themselves into the global financial centers, the other two continue to enjoy considerable dominance in the manufacturing arena. But it is the China which has overtaken everyone to emerge as the world's workshop, while India has gained prominence as the global back-office. So, why this new-found thrust on manufacturing, that too at a time when a majority of nations are increasing focus on services sector, especially the information technology? The answer is not far to seek: despite the ever rising dominance of the technology sector in the GDP of many nations, manufacturing sector continues to play an important role in creating jobs for many.

According to 'Unleashing India's Industrial Potential: Building a Globally-Competitive Manufacturing Base,' by Greater Pacific Capital, "Industrialization has historically been one of the biggest drivers of shifts in global geopolitical power starting with the rise of the British Empire after the industrial revolution, followed by the rise of the US in the first half of the twentieth century and the rise of Asia (first Japan and the Asian Tigers and then, much more dramatically, China in the latter half." While India has mesmerized the world with its phenomenal rise in the software sector, it needs to grow its manufacturing might to create jobs and prosperity for millions of its population living below the poverty line. "Services for a country the size of India has not been sufficient to create growth to drive mass prosperity," the paper adds. Can India create the same magic which it did in the global technology arena? The factors are same - - which played a pivotal role in India's emergence as the world's back office – a large talent pool, huge domestic market, huge natural resources, and a pro-reforms government. Surely these give India the advantage to resurrect its manufacturing sector and move ahead.



Source: thepoliticalindian.com

A lot needs to be done

However, the road to becoming a global manufacturing destination is full of obstacles. India, for long, has struggled with poor infrastructure, complex regulations, red-tape, and strong political will which acted as barriers in inviting foreign direct investment in the country. Our infrastructure is in bad shape to say the least. Strengthening infrastructure like roads, ports, airports, broadband, etc., are key to creating robust supply chain capability. The country needs more of Special Economic Zones on the lines of those developed in China. "Developing an industrial model for its cities which leverages the economic potential of slums – the hot bed of industrial activity - would ensure India's cities become highly productive and also plan for urbanization so that they are not subsequently plagued by the type of pollution that is now assaulting the lives of Beijing and Shanghai's citizens," suggests the GPC study. There is also a need for better co-ordination among the center and the states. Further, the government also needs to address the issue of lack of employability skills among our youths. Training them and equipping them with the right kind of skills is key to ensuring supplies of workforce. Simplifying legislations, creating a single window clearance system, tackling corruption are some of the other key pre-requisites to make India the new manufacturing powerhouse.

Low productivity has been another area of concern for India. According to the GPC paper, as mentioned above, despite its higher absolute labor costs, China's effective manufacturing productivity (industrial output per unit of wages) is still 30% higher than India's. Further, despite China's logistics spending being more than 6x India's levels, relative to the country's industrial output, it is almost twice as efficient as India in managing its logistics costs. Other metrics such as the time and cost of exports and imports are also presumably lower in China and other Asian low-cost manufacturing destinations (such as Thailand, Vietnam, Sri Lanka, Bangladesh) which consistently rank much higher than India, the paper points out.

Against this backdrop, the policymakers need to adopt unique strategies so as to create a conducing environment, push for more deregulations, strengthen patent laws, encourage investments in R&D and innovations, and importantly initiate steps at ensuring ease of doing business for investors. While many of the ingredients remain the same which scripted China's meteoric rise in manufacturing, India needs to adopt its own model to emerge as a preferred destination for global manufacturers.

Indian Manufacturing - Key Structural & Policy Barriers

1. **Inflexible Labor Market:** Archaic labor laws discourage hiring resulting in 90% of the work-force being "informal" labor.
2. **Restrictive Market Entry Policies:** Product market barriers in the name of protecting domestic industries have prevented scaling.
3. **Crowding-out by Inefficient Public Sector:** Poorly-run public sector firms dominate several sector crowding-out private players.
4. **Issue with Land Acquisition, Clearances & Approvals:** $250 bn of industrial projects stalled due to issues with land or approvals.
5. **Complex Tax Framework & High Cost of Doing Business:** India ranks in the bottom quartile on several key issues.
6. **Persistent Infrastructure Deficit:** Poor transport infrastructure imposes high logistics and other manufacturing costs.
7. **Low Literacy Levels & Women Participation:** Under-investment in education and skills development resulting in 74% literacy (20% below China) and 30% women's labor force participation.
8. **Low Productivity Levels in Manufacturing:** Even scaled producers' lag production, planning, supply chain management.

Source: Greater Pacific Capital LLP.

Indian Manufacturing - VISION

1. An increase in manufacturing sector growth to 12-14% per annum over the medium term.
2. An increase in the share of manufacturing in the country's Gross Domestic Product from 16% to 25% by 2022.
3. To create 100 million additional jobs by 2022 in manufacturing sector.
4. Creation of appropriate skill sets among rural migrants and the urban poor for inclusive growth.
5. An increase in domestic value addition and technological depth in manufacturing.
6. Enhancing the global competitiveness of the Indian manufacturing sector.
7. Ensuring sustainability of growth, particularly with regard to environment.

Source: makeinindia.com

Achieving Manufacturing Excellence - It's now or never!

To quote the GPC paper, by accelerating industrial reforms and triggering a manufacturing revolution, India could increase its overall GDP growth rate to up to 10% on the strength of industrial reforms in the manufacturing sector alone, and provide over 200 million new manufacturing jobs by 2025. Can India do it to manufacturing what it did to the services sector, in general, and Information Technology, in particular? If it can, it would win a major battle in its efforts to eradicate poverty. It's now or never.

TEAM TGA

GLOBAL ECONOMY

- **The IMF has scaled down the global growth projection for 2014 by 0.3 per cent to 3.4 percent, in the backdrop of a weak first quarter, particularly in the United States, and a less optimistic outlook for several emerging markets. However, it's optimistic of a recovery in the second half. What's your opinion?**

The IMF optimistic view for the second semester is based on the argument that some negative factors, such as the inventory correction in the United States, should have only temporary effects while others should be offset by policies, including in China. However, economic growth in the second half of 2014 is highly dependent on the evolution of the geo-political conflicts in Middle East and Ukraine which may have a negative impact on it. Besides that, in spite of the ECB´s rate cut, the central bank own growth forecast for the euro area in 2014 is of only 0.9%, 0.2 lower than the IMF´s prediction. So, I am not quite sure there are basis to share the IMF´s rather optimistic forecast for the second half of 2014.

- **Many of the emerging as well as EU countries continue to show decline in industrial growth, despite benign rates and softening commodities prices. What are the major causes of an even recovery across the global economy?**

The euro area has not solved its debt crisis. The recipe of internal devaluation for the highly indebted countries is not working and will not work because it entails a very painful and unbearably long process. Austerity is having more relative effects on quantities (GDP, employment) than on prices. On the other hand, low inflation in the rest of Europe is making things even worse. The deceleration in China´s economy together with the slow growth in Europe has negative effects on emerging countries exports and growth.

- **When do you see recovery to gather momentum**

Only when the euro area´s problem is solved via a debt restructuring, this would allow the area to resume growth.

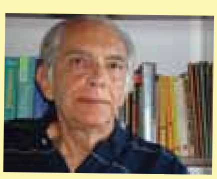
- **Do you think that weak gold prices and crude oil prices which are expected to remain below the psychological mark of $100 per barrel, could help economies, especially emerging market, make sharp recoveries, as reflected in the turnaround of the Indian GDP?**

If weak gold prices and crude oil prices are accompanied by weak prices of other commodities which emerging countries export it won´t be of any help for most emerging market economies.

- **What efforts do the global leaders need to make to help economies stage a comeback to the pre-2008 level?**

They have to understand that to solve the Eurozone debt problem is a precondition to resume global growth.

TGA



- Victor A. Beker, Professor of Economics, University of Belgrano & University of Buenos Aires, Argentina.

INDIAN ECONOMY

How do you view the latest GDP numbers, (first quarter 2015) which came in at 5.7 per cent, after growing at sub-par for the last eight consecutive quarters?

It's a welcome sign and would indicate that the components that constitute the GDP are also showing an uptick. In a situation where Capex by Firms and big ticket investments in Infra were virtually moribund, this event helps to begin to restore investor confidence and reiterates the latent strong fundamentals of the Indian economy. There has been a lagged effect of good monsoons of 2013 also.

- **Do you feel that a turnaround is just around the corner?**

Only when the subsequent few quarters sustain this trend can one be more sanguine. The bountiful monsoons towards the fag end of the current season should help further by generating demand in a variety of sectors starting with automobiles.

- **What factors have helped the economy reverse its slide**

Agriculture growths, with mining sector and manufacturing sector growing in this period (Qr 1 of 2015) have contributed. The increase in exports (evidenced in fall in CAD) and more traction in the auto sector have played their part. Besides the construction sector too is showing distinct signs of a revival.

- **But factors such as a deficient monsoon and food-prices led inflation remain a concern for the average Indian?**

Yes. Starting on a slow note the monsoons have finally been bountiful and agricultural output can be expected to meet projections. However, due to inundation of many areas and disruption of supply chain logistics, food inflation may still continue in the background playing a bit of a spoil sport.

- **How do you see the growth of the industrial sector?**

With a triad of policy decisions from the government, various financial services regulators and corporates, growth is expected to be higher in 2015 taking into account the downstream effects of large scale projects of long duration.

- **What key challenges the government needs to address to sustain the recovery in the economy?**

Monitor closely supply side bottlenecks, the CAD figures, reigning in the fiscal deficit by controlling non plan expenditure and keeping an eye on borrowing costs of the government.

Growth needs to be aligned to job creation which in turn needs to be across sectors and more in the manufacturing sector.

TGA

- Robin Roy, Director - Financial Services , PwC India.

While driving past the busiest Hitec City Main Road in Hyderabad, it is hard not to notice two tall and beautiful buildings, tucked between the pictureseque TCS Deccan Park campus on one side and a slew of giant offices of several MNCs on the other, wowing onlookers with their captivating designs and magnificent structures, which truly reflect Hyderabad's growing stature as a vibrant and growing city as well as its rich cultural heritage. The twin buildings, located side-by-side, also reflect the growing stature and amazing rise of a group on India's hospitality map. They are Lemon Tree Premier hotel and Red Fox Hotel, owned and operated by India's fastest growing hospitality chain, The Lemon Tree Hotel Company.

In a span of just 12 years, The Lemon Tree Hotel Company has emerged as the third largest hotel chain in India by owned rooms. And one man who has single handedly catapulted the group into the hospitality industry's big league is none other than its Chairman and MD, Patanjali Keswani. Keswani, fondly called 'Patu' by many, has been the main driving force behind the hospitality group's phenomenal success. Patu, an IIT Delhi and IIM-C alumnus, began his career with India's Tata Group where he joined as a trainee with the TATA Administrative Service (TAS) in 1983 and worked his way up to becoming the Senior Vice President and Chief Operating Officer of the Tatas-owned Taj Group of Hotels. After serving Tatas for 15 years, Patu moved to AT Kearney where he worked as Director of the global consultancy's India operations. However, Patu knew his true calling was lying somewhere else - hospitality. In 2002, he took the entrepreneurial plunge with the launch of Lemon Tree Hotels and the rest, as many industry veterans say, is history. In a little over a decade, this maverick leader has transformed The Lemon Tree Hotel Company from a single hotel company into a giant group which owns and operates 26 hotels across 15 India cities with 3000 rooms and over 3000 employees.

But it's not just growth that alone drives Patu. In fact, there are several other qualities this young and charismatic leader possesses which make him stand out. A quality that needs special mention is his vision for creating an equal opportunity organization that has seen Lemon Tree emerge as one of the few business enterprises in India which offer employment opportunities to differently abled people or people with disabilities. Today, these employees make up around 10 per cent of the group's 3,000 strong workforce. In 2011, Lemon Tree Hotels won the National Award by the President of India for 'Best Employer of Persons with Disabilities', the next year it won the National Award for 'Role Model in providing a Barrier Free Environment to Persons with Disabilities'. Another unique thing about the hospitality group is its initiative to have a dedicated floor for women guests in most of their hotels, probably another industry first.

Patu Keswani, Chairman & MD,
The Lemon Tree Hotel Company

But Patu is not the one to rely on the past laurels. He has now set his eyes on the next phase of growth for his hospitality empire, which could also see it making its international foray as well. In an exclusive interview with The Global ANALYST, Patu talks about what drives him, the unique positioning of his hotel brands, his growth strategies and his future plans.

Redefining Hospitality
Lemon Tree Hotels

- **At the outset, let's first congratulate you and Lemon Tree Hotels on emerging as India's 3rd largest hotel chain, in terms of owned rooms. How does it feel on having touched such a significant landmark, despite being a new entrant to the industry (the Group is barely over a decade old)?**

It feels great although to quote the poet Robert Frost -"We have miles to go before we sleep…"

- **Lemon Tree Hotels Group has a presence across the value spectrum - from upscale to economy class. What has been the idea behind such a diversification strategy?**

While we were the pioneers in the midmarket space, our attempt is to now reach out to hotel guests from economy to upscale. While Red Fox Hotels are positioned as economy hotels, Lemon Tree Hotels continues to target the midscale business traveler. We have also identified a category of guests who desire a value-for-money alternative to deluxe brands and are attempting to meet this need with our upscale Lemon Tree Premier brand which is positioned as a Lemon Tree 'plus' product-service combination.

- **What distinguishes the Group from the industry peers?**

Apart from being fresh, fun and spirited, what distinguishes Lemon Tree is our geographical diversity, multiple brand offerings in the same city and the speed with which we develop hotels.

their own city. Most staycationers enjoy spending time in the confines of a hotel looking for engagements and activity within the hotels premises. Lemon Tree hotels have been designed with fresh and bright interiors to help such guests unwind. Our hotels offer a 24x7 multi-cuisine coffee shop, a recreation bar, specialty restaurant (in most hotels), a fitness center, a swimming pool and spa (in some hotels), as well as a business center, meeting rooms and state-of-the-art conference halls. To add to this, the humor in our public areas helps lighten the mood and creates a fun and refreshing environment for our guests.

- **With the global economic recovery gaining momentum, and also, with the turnaround in the domestic economy already in place, do you think that it would give the much needed boost to the tourism industry, and hence the hospitality industry, internationally?**

More than the US economy recovering, we are very happy to see the tailwinds of economic recovery here in India primarily because of the positive sentiment that the new government has brought with it. Their perspective and initial focus on the tourism and the hospitality industry is very good news for us.

- **According to some observers, the hospitality industry can expect both the occupancy rates and revenues to grow in higher single digits, beginning with the current fiscal. What is your view?**

In my opinion, the remainder of this year will only see limited occupancy growth with minimal rate increases, but in the next year there will be both occupancy and rate growth.

- **How do you foresee supply additions in the next couple of years? How will this impact industry's profitability?**

We expect 8-9 per cent supply addition, every year over the next 3 years, which is well below the expected growth in demand. This in turn will reduce the supply overhang that exists presently, and will change the demand-supply dynamics in favor of hotels rather than guests over the next 2-4 years.

- **What are your growth plans in the next five years? Are you also looking at acquisitions/takeovers to fuel your Group's growth?**

Over growth plans envisage both green field and brown field projects. Lemon Tree currently owns and operates 26 hotels in 15 cities aggregating 3000 rooms with over 3000 employees. We are currently the 3rd largest hotel chain in India by owned rooms. By 2018, we will own and operate over 8000 rooms in 60 hotels across 30 major cities of India including Ahmedabad, Aurangabad, Bengaluru, Chandigarh, Chennai, Coimbatore, Dehradun, Ghaziabad, Gurgaon, Goa, Hyderabad, Indore, Jaipur, Kolkata, Muhamma (Kerala), Mumbai, New Delhi, Pune, Shimla and Udaipur to name a few.

For full intervew - check from page 30 onwards....