

German- Indian Business Outlook 2023



Foreword

Dear readers,

In 2022, bilateral trade between Germany and India increased significantly for the second year in a row, reaching a record high of EUR 30 billion. In addition, in 2021, some 2,000 German companies invested EUR 20.5 billion in India. This makes Germany the seventh-largest foreign direct investor in India. All of this is good news, but given that German companies have invested EUR 95.7 billion in China, there is still huge untapped potential.

German industry is diversifying and regionalising its global footprint across the entire value chain in an effort to become less dependent on a single country as a supplier, production location and sales market. India is considered an important cornerstone of this strategy for several reasons.

In 2023, India overtook China as the most populous country in the world, and its population will continue to grow. In addition, the Indian economy is continuously showing high growth rates.

In the course of conducting our survey, we identified several positive factors that favour India over other locations in the region. These include, above all, a stable democracy, the availability of a large English-speaking workforce at relatively low cost and the steady economic growth that has been achieved in India and is expected to continue in the future.

We also noted that India's role is changing: Manufacturing in India for the local market, as well as for other countries and regions, will grow in importance over the next five years. India is also increasingly being chosen by German companies as an R&D location.

However, investors in India also face major challenges: first and foremost, bureaucracy, corruption and a complex regulatory environment.

Mounting geopolitical tensions and the possibility of a new pandemic pose the greatest exogenous risks in the eyes of business leaders. However, these risks will diminish over the next five years, only to be replaced by the threat of global warming and cyber attacks.

The German Supply Chain Due Diligence Act also exerts pressure on German companies operating in India.

On the whole, 2023 will be a successful year for German companies in India, with revenues and profits expected to grow sharply. And the outlook for the coming years is even better. Thus, it is not surprising that German companies are planning to increase their investments in India going forward.

We would like to thank the German and Indian companies that contributed to the German-Indian Business Outlook 2023.

We sincerely hope that the insights we share with you in this summary will help you successfully guide your business during these challenging times.

Yours sincerely,



Andreas Glunz
Managing Partner
International Business,
KPMG in Germany



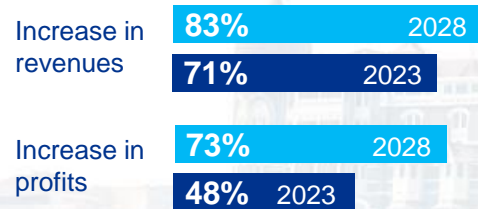
Stefan Halusa
Director General,
Indo-German Chamber of Commerce

Executive summary (1/2)

Growing revenues and profits expected

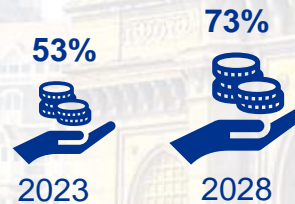


German companies in India overwhelmingly expect their revenues and profits to increase in 2023. Companies expect even further and stronger growth over the next five years, with revenues expected to soar by 83% and profits expected to climb by 73%.



India increasingly considered as an investment destination

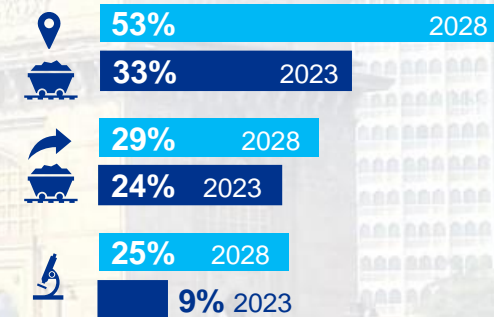
More than half of the companies surveyed (53%) plan to expand their investments in India in 2023 compared to only 36% in 2021. That number is expected to climb to 73% within the next five years.



Companies' footprint in India changes



India's importance as a production location for the local market will increase by 20%-points to 53% in 2028, its relevance as a production location for exports to other countries/regions by 5%-points to 29%, and as an R&D location by 16%-points to 25%.



“German companies are diversifying and regionalising their operations throughout the world. They increasingly view India as being a cornerstone of their global de-risking strategies and as another attractive investment destination for production and R&D. It is evident that the business trend for German companies in India is overwhelmingly positive. However, the challenges and risks in the Indian market should not be underestimated.”

Andreas Glunz

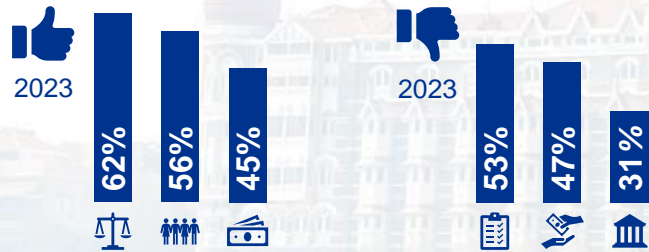
Executive summary (2/2)



Strong location advantages, but also significant challenges

The three most highly-rated location factors cited by German companies are India's political stability (62%), availability of employees (56%) and relatively low labour costs (45%).

Bureaucratic hurdles (53%), high levels of corruption (47%) and the regulatory environment (31%) pose the biggest challenges for German companies in India.



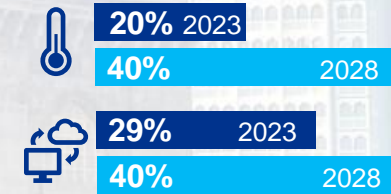
India's advantages in Asia

The availability of well-educated English-speaking specialists (53%), consistently high rates of economic growth (53%) and the growing population and availability of young workers (47%) represent India's top three advantages.



Risks for future development

Geopolitical tensions (42%) and new pandemics (36%) are perceived as being the biggest exogenous risks in 2023. However, these risks will diminish over the next five years, to be replaced by the threat of global warming (+20%-points) and cyber attacks (+11%-points).



“India provides a unique combination of market size, market potential and talent pool for German companies. Bureaucratic and regulatory hurdles remain to be the biggest concern. The successful conclusion of the trade and investment agreements between India and the EU would be the game changer that companies are waiting for.”

Stefan Halusa

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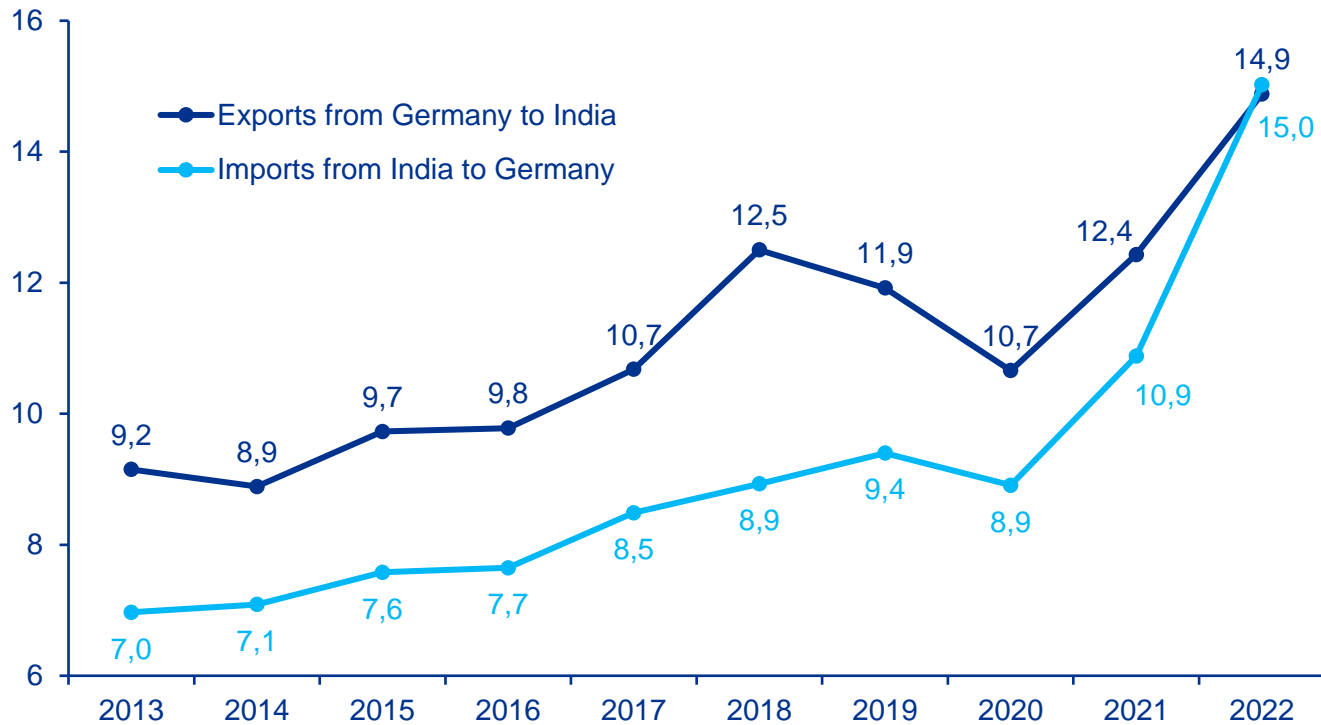


Macroeconomic overview

An aerial photograph of a modern city skyline, likely Singapore, featuring numerous skyscrapers and a mix of urban development. The sky is bright blue with scattered white clouds. The text 'Macroeconomic overview' is overlaid in a large, bold, blue font on the left side of the image.

Foreign trade grows substantially

Foreign trade (in EUR billion)

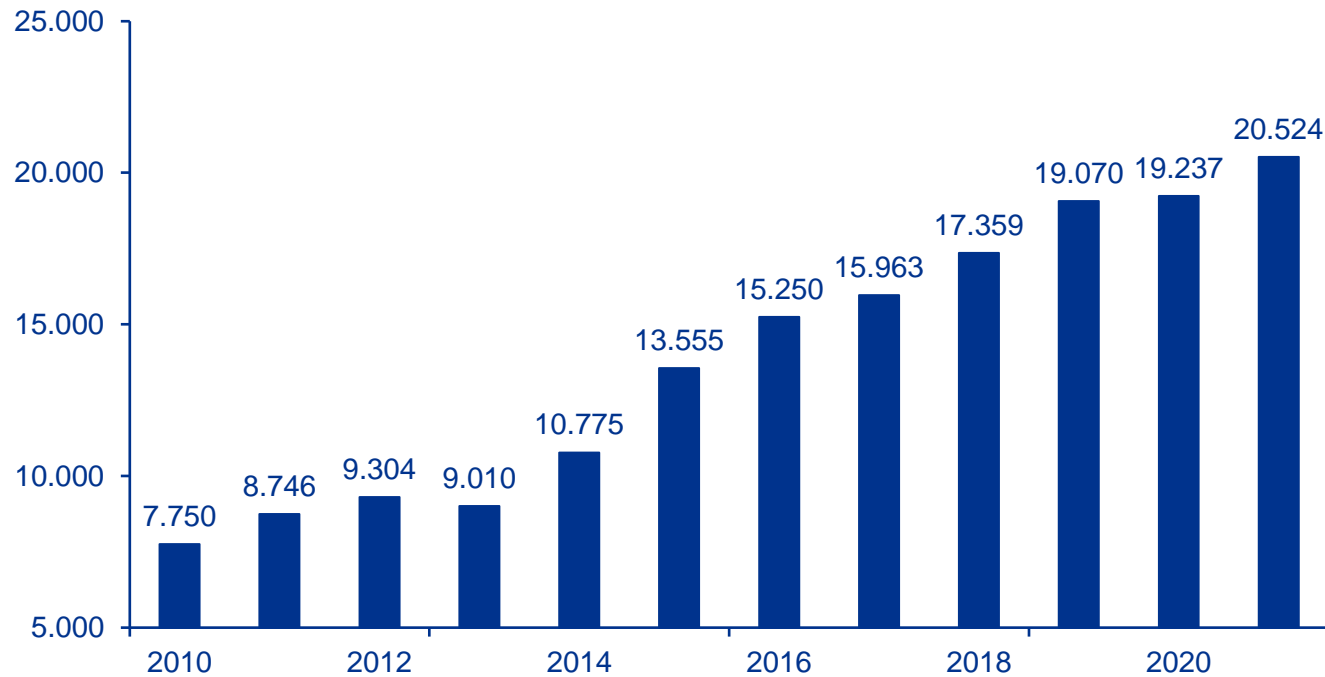


Source: Federal Statistical Office (Destatis), GTAI

- Bilateral trade between Germany and India grew significantly for the second year in a row in 2022 (+28% y-o-y), reaching an all-time high
- This took place against the backdrop of a volatile global economy, in which India's economy has held up well so far
- In the ranking of Germany's most important trading partners, India's importance increased slightly: in 2022, the subcontinent ranked 22nd (2021: 23rd) as a sales market for German goods and 24th (2021: 26th) as a procurement market
- In 2022, Germany recorded a trade deficit with India for the first time (EUR 140 million)

Investment in India is growing

Direct and indirect investment stocks of German companies in India (netted^(a); in EUR million)



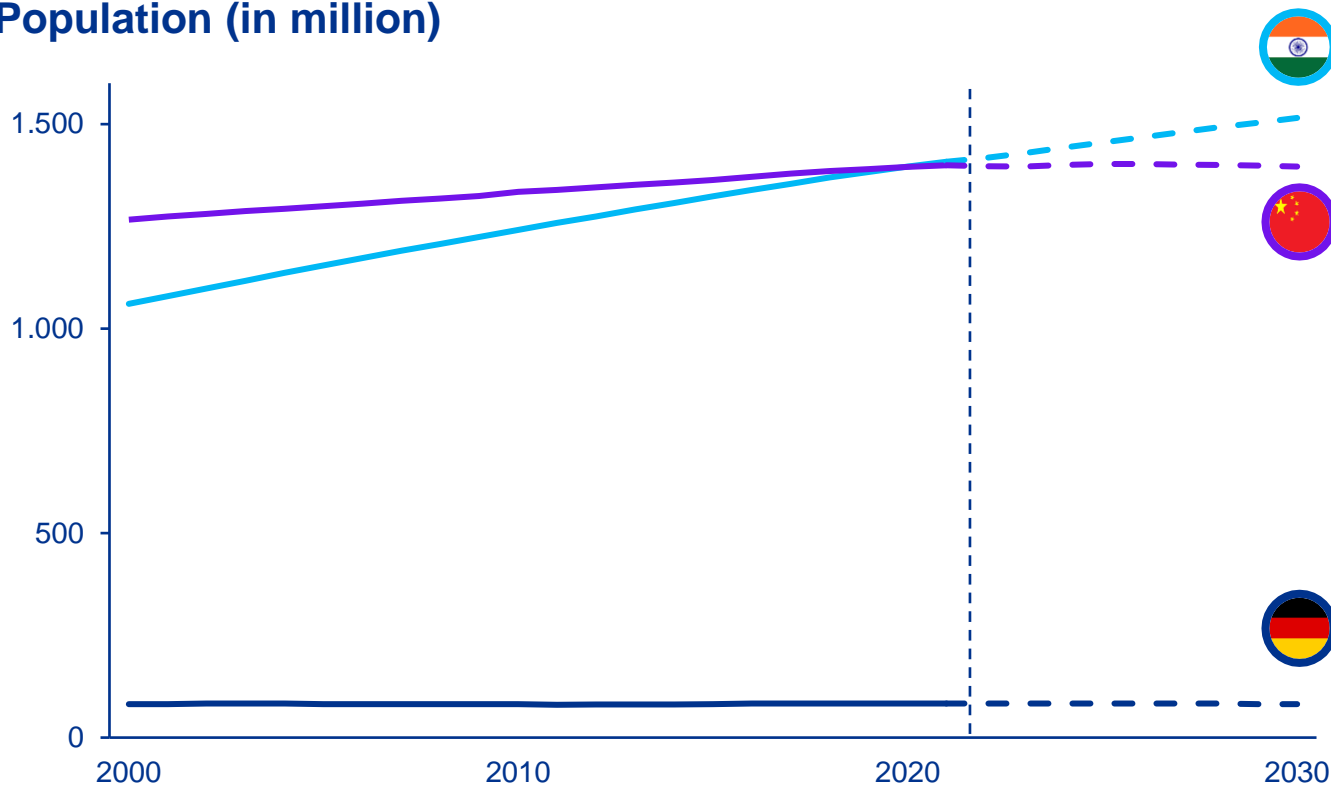
Notes: (a) receivables-payables
most recent figures available for 2021 only

Source: Deutsche Bundesbank, AHK India

- Investment from Germany to India rose in 2021
- Germany is the 7th largest foreign direct investor in India
- In 2021, more than 2,000 German companies were present in India, especially in the automotive, machinery and chemical sectors

India is the most populous country in the world

Population (in million)



Source: Federal Statistical Office (Destatis), United Nations, UN Population, China National Bureau of Statistics, EIU calculations

- In April 2023, India officially surpassed China as the most populous nation on Earth
- While the country's young population is often seen as an asset, India struggles with high youth unemployment rates due to infrastructure deficits, skills shortages, and a lack of jobs and other basic indicators of human resource development
- China and Germany, on the other hand, are struggling with ageing societies and declining populations, and therefore with intensifying labour and skills shortages in the long term

India is fifth largest economy



U.S.



China



Japan



Germany



India



GDP 2022
(in USD billion)

25,464

18,100

4,233

4,075

3,386



GDP per capita
2022 (in USD)

76,348

12,814

33,281

48,527

2,301



Population 2022
(in millions)

333

1,412

124

84

1,407



Unemployment
rate 2022

3.6%

4.2%

2.6%

6.8%

8.1%



Debt to GDP
2022

121.7%

77.1%

261.3%

66.5%

83.0%

- In 2022, India overtook the UK in terms of size to become the fifth biggest economy in the world
- GDP per capita, however, remains low compared to the other developed nations
- In April 2023, India surpassed China to become the world's most populous country
- Germany and India both have a jobless rate greater 5% whilst Japan, China and the U.S. are all seeing rates below 5%
- In terms of public debt as a percentage of GDP, India ranks in the middle

Source: IMF, U.S. Census Bureau, CNN, Federal Statistical Office (Destatis), India Times, Bureau of Labor Statistics

Ranking of Germany and India in comparison (1/3)



ESG index

14

145



Ease of doing business

22

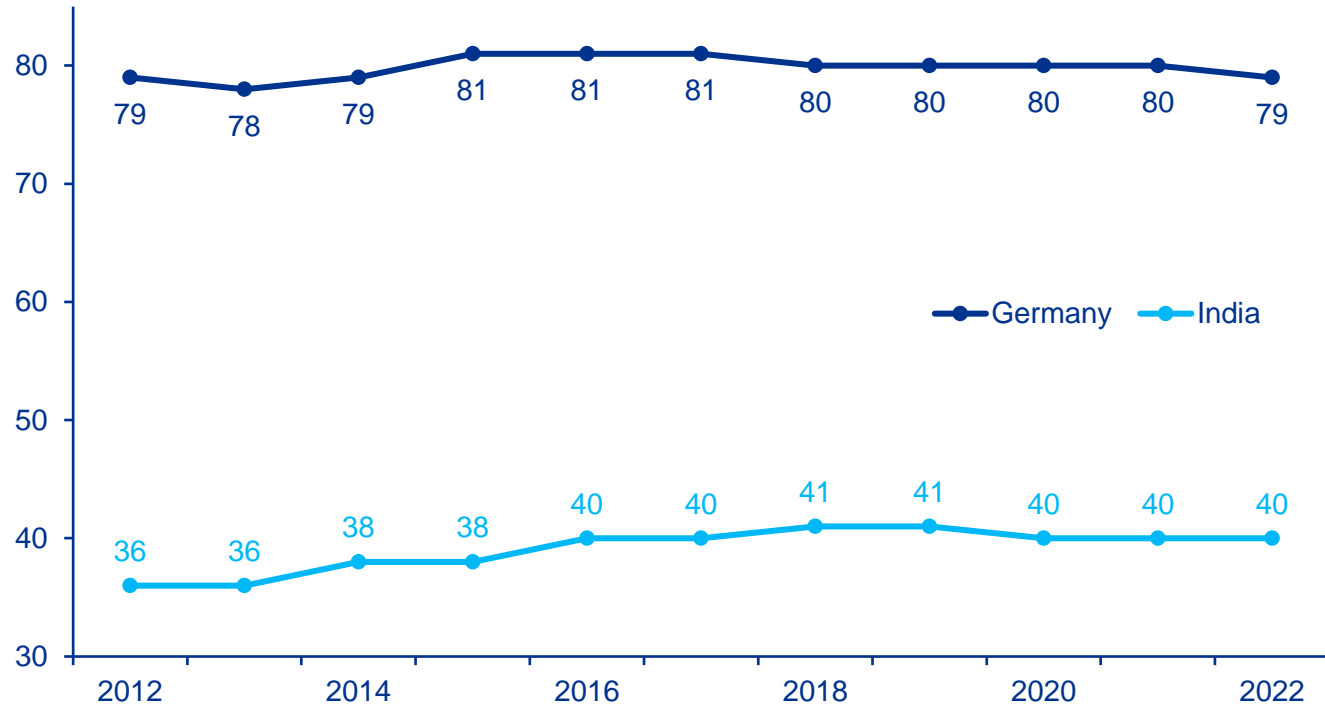
63

- In 2022, Germany ranked 14th and India 145th out of 183 economies in the Global Risk Profile's ESG index. The index encompasses three sub-indexes (environment, human rights and health & safety) based on 65 variables to measure ESG risk exposure
- In 2020, Germany ranked 22nd and India 63rd out of 190 economies in the World Bank's Ease of Doing Business score
- India is one of the top 10 improvers in the Ease of Doing Business score for the 3rd time in a row, having climbed 67 spots in 3 years. This is due to the fact that the government of India launched a programme of regulatory reforms in 2014 aimed at making it easier to do business in India

Source: World Bank (2020), Make In India

Ranking of Germany and India in comparison (2/3)

Corruption Perception Index (CPI) score (0=lowest/100=best performance)



Source: Transparency International

- In 2022, Germany ranked 9th and India 85th out of 180 economies in Transparency International's Corruption Perception Index
- Germany, with its low level of everyday corruption, ranks relatively well compared to its international peers. However, recent headlines such as the mask or cum/ex scandals have weakened confidence in the integrity of politics and business
- Globally, the average CPI score remains unchanged at 43. India's score is thus slightly below average and has improved only marginally over time

Ranking of Germany and India in comparison (3/3)

KPIs in respect of renewable energies



Energy use per capita (2021, in kWh)



42,101



6,992

Share of renewable energies in electricity generation (2022)



46%



19%

Electric vehicle charging points (January 2023)



80,541



5,254

Number of wind turbines (end of 2022, in megawatts)



66,315



42,633

- In 2021, per capita energy consumption in Germany was six times higher than in India
- The share of renewable energies to the volume of electricity generated and fed into the grid is greater in Germany (46%) than in India (19%)
- In 2021, India ranked 4th globally in renewable power capacity, Germany ranked 5th
- As of January 2023, India had 5,254 public electric vehicle charging stations, to cater to a total of 2.1 million EVs, compared to Germany with 80,541 stations for 1.0 million EVs
- Both countries are far ahead in terms of installed wind power capacity in a global comparison, with Germany in third place and India in fourth

Source: Our World in Data, Federal Statistical Office (Destatis), Reuters, The Global Economy, CEA, Bundesnetzagentur, Ministry of New and Renewable Energy, The Hindu Business Line, Indian Wind Power

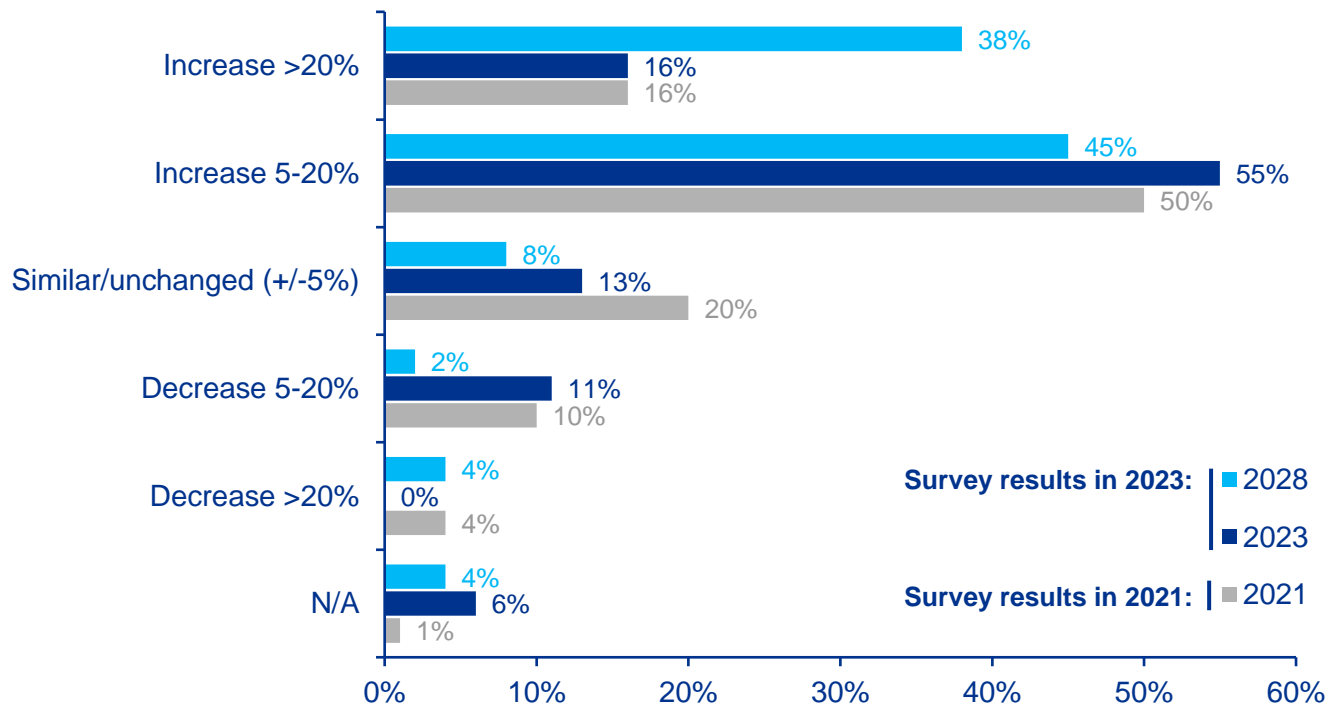
A low-angle photograph of a modern skyscraper with a glass and concrete facade. The building's windows reflect the sky and surrounding structures. The text is overlaid on the left side of the image.

01

**Business
development
and outlook**

Revenues in India grow sharply

Development of revenues in India

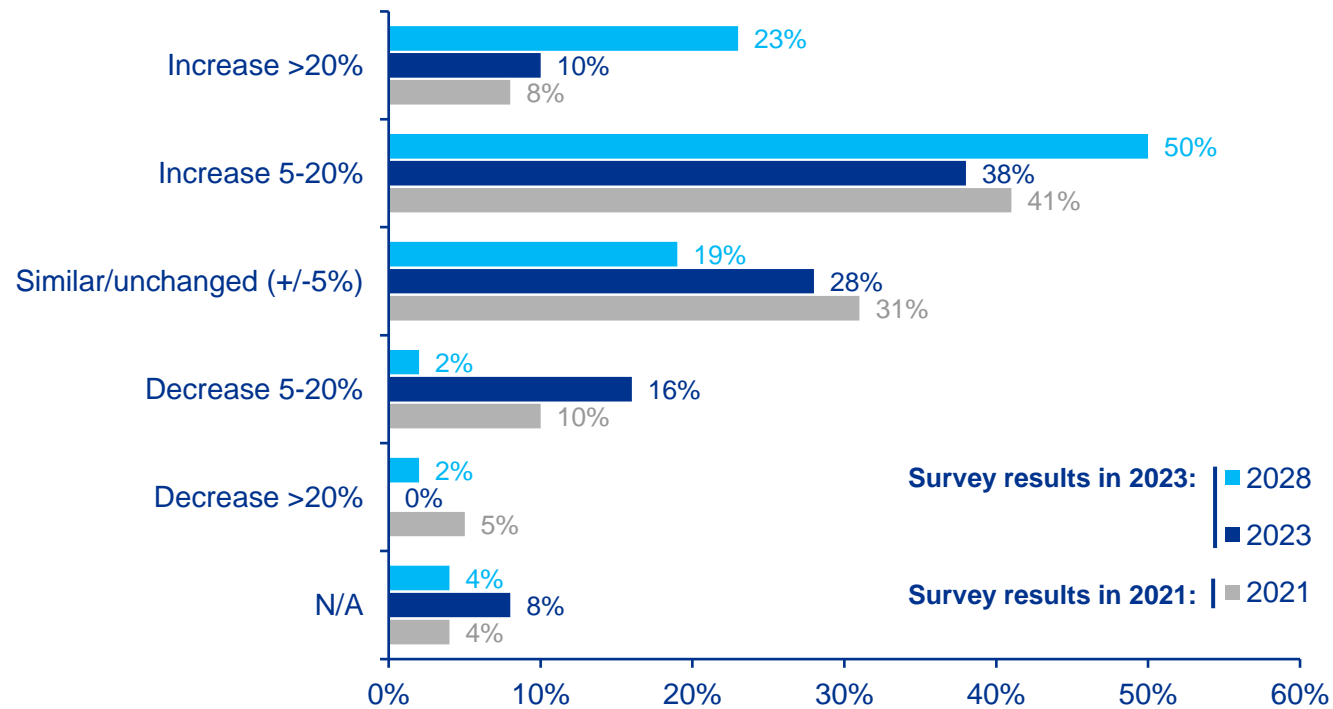


- 71% of the companies surveyed expect their revenues to increase in 2023, 5%-points more than in 2021
- Only 11% expect their revenues to decline
- Over the next five years, the outlook is even more positive: 83% of the companies surveyed expect an increase in revenues, more than one third of the companies (38%) even expect to increase their revenues by more than 20%
- A decline over the next five years is only expected by 6% of the companies surveyed

Source: KPMG in Germany and AHK India, 2023 (n=55); 2021 (n=99); rounding differences possible

Profits expected to improve strongly over time

Development of profits in India

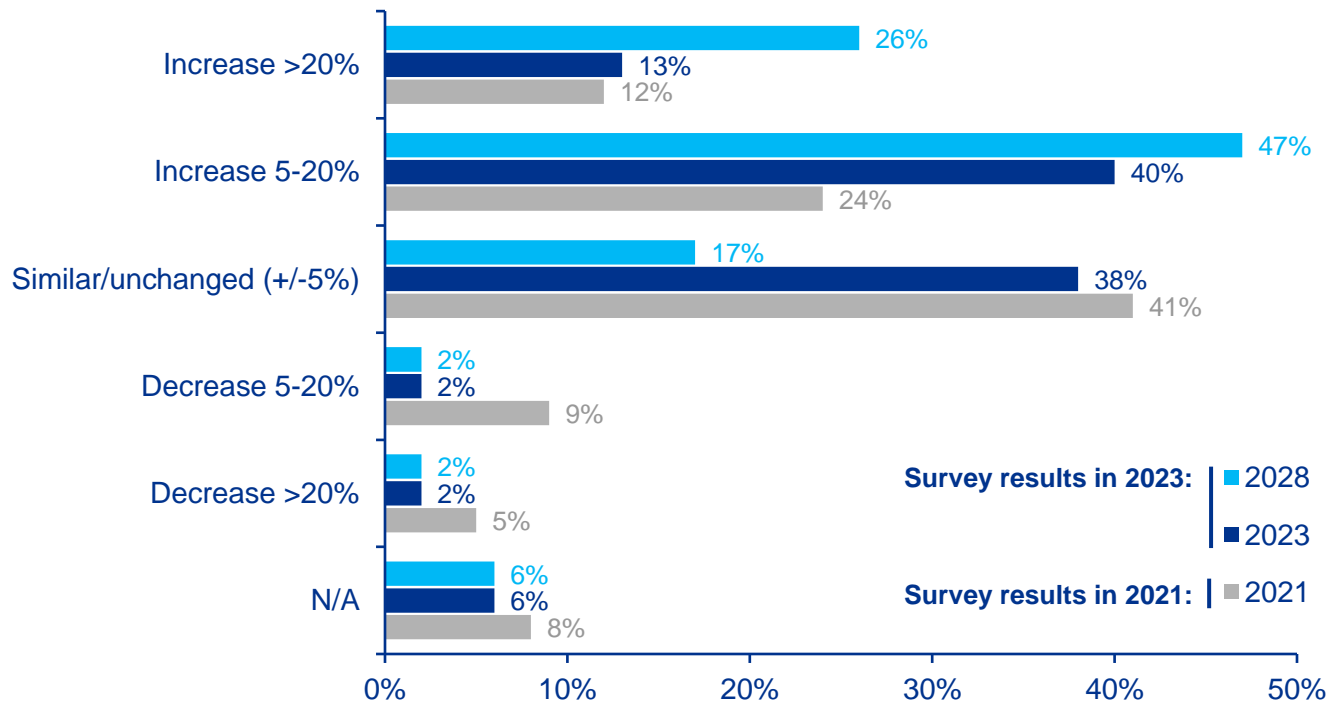


- The companies surveyed are also optimistic about the future in terms of profit. Almost half of the companies (48%) expect to increase their profits by at least 5% this year
- Over a five-year period, the percentage of companies expecting a very strong increase in their profits more than doubled from 10% to 23%
- Only 4% of respondents expect their profits to decline over a five-year period, while 16% expect this in 2023

Source: KPMG in Germany and AHK India, 2023 (n=50); 2021 (n=99); rounding differences possible

Growing investments in India expected

Development of investment activities in India



Source: KPMG in Germany and AHK India, 2023 (n=55); 2021 (n=99); rounding differences possible

- For the current year, more than half of the companies surveyed (53%) plan to expand their investments in India and almost three-quarters (73%) plan to do so in the next five years
- Only 4% of the companies survey expect investments in India to decrease in 2023 or in the next five years
- Compared to 2021, German companies want to invest significantly more in India. Whereas two years ago 36% wanted to increase their investments, this year the figure is already 53%. Over a period of five years, the share has more than doubled from 36% to 73%
- The results confirm India’s emerging role as an attractive investment location for German companies

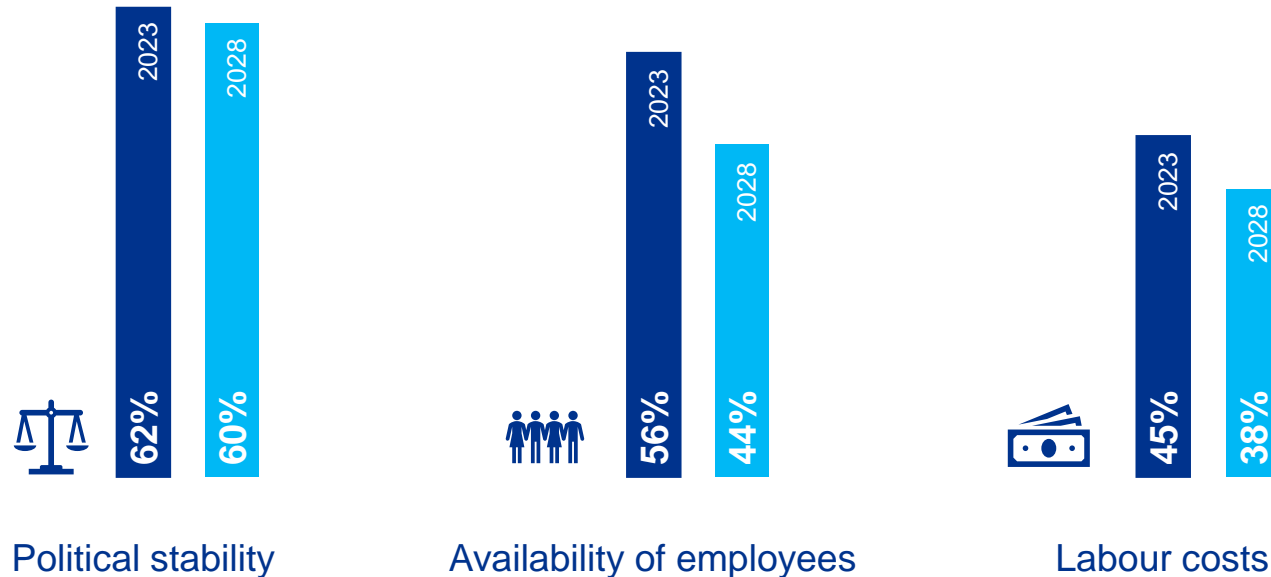
02

Location factors



Political stability and availability of employees at low cost is highly valued

Assessment of 3 most positive location factors of India over time

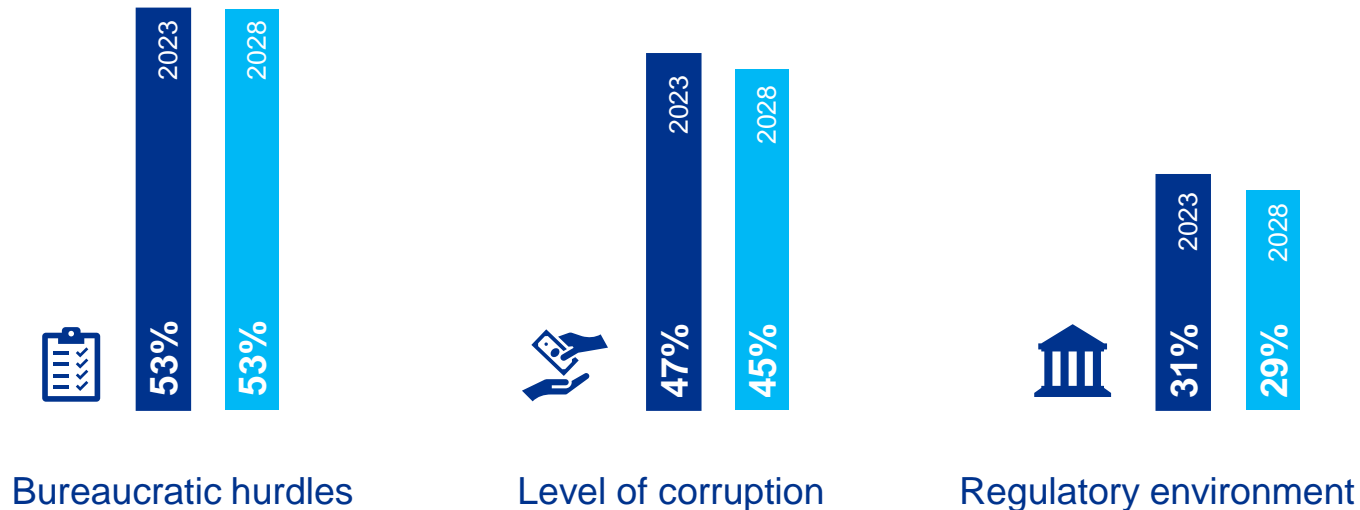


- The most important location factor for German companies is India's political stability. 62% value this most today, 60% expect this to still be the case in five years. Narendra Modi, who has been prime minister since 2014, is pushing the expansion of trade relations with his foreign policy, which benefits German companies
- The high availability of qualified personnel and comparatively low labour costs also make India an attractive place to do business for German companies
- In terms of population, India is a very young country (average age: 27.6 years) and thus boasts a large workforce. IT specialists are of particular interest to German companies

Source: KPMG in Germany and AHK India, 2023; (n=55); rounding differences possible

Bureaucratic hurdles and level of corruption level pose the greatest challenges

Assessment of 3 most negative location factors of India over time

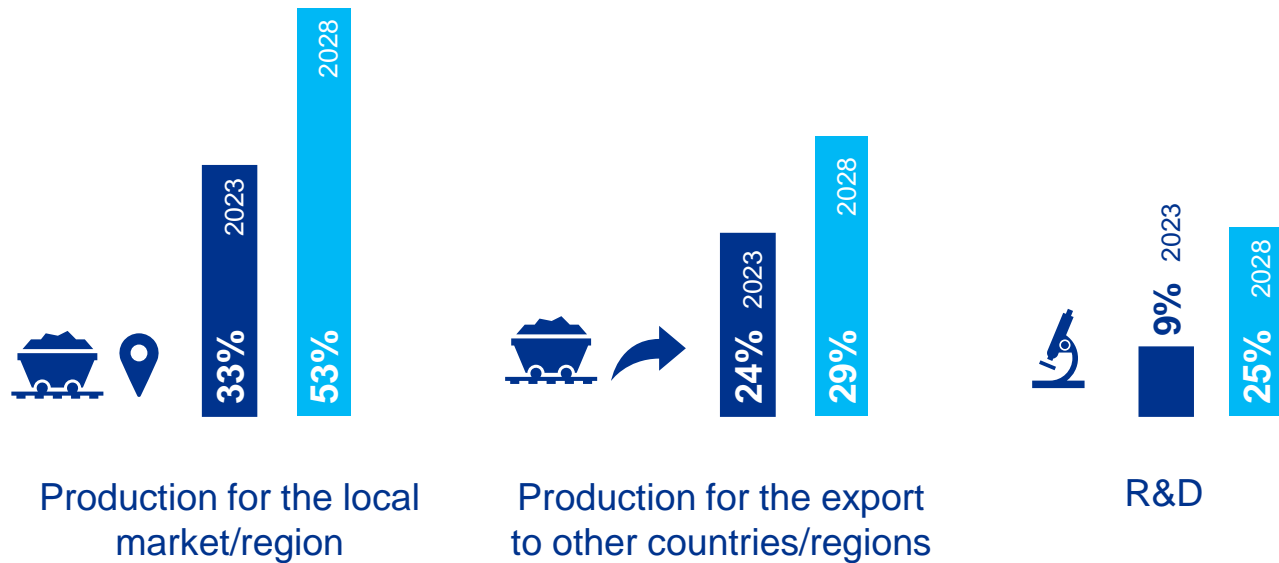


- More than half of the companies surveyed (53%) cite bureaucratic hurdles (e.g., protectionist measures, procurement rules that limit competition and Indian-specific standards that are not in line with international standards) as the most negative factors for India as a place to do business, both currently and five years from now
- The high levels of corruption, which are also reflected in India's low corruption index score (see p. 12), is perceived by almost every other company (47%) as a negative factor for India as a place to do business location
- India's complex and protectionist regulatory environment is also seen as a critical location factor by about one-third of the companies (31%)

Source: KPMG in Germany and AHK India, 2023; (n=55); rounding differences possible

Growing importance of India as a production and R&D location

Role of India for German companies over time



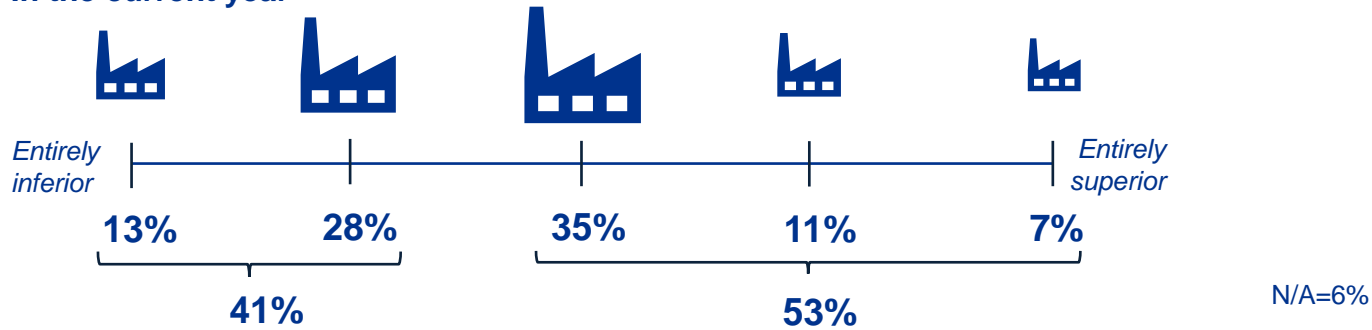
- For 53% of the companies surveyed, production in India for the local market will be the most important factor in five years' time (2028; +20%-points)
- India is already also used today by around a quarter of the respondents (24%) as a production location for exports to other countries and regions. In the next five years, this trend will increase further by 5%-points to 29%
- The importance of R&D will also grow significantly in the future (+16%-points). While only one in ten companies sees this as being very relevant at this year, a quarter of the respondents expect R&D in India to be very important for their business in the next five years

Source: KPMG in Germany and AHK India, 2023; (n=54); rounding differences possible

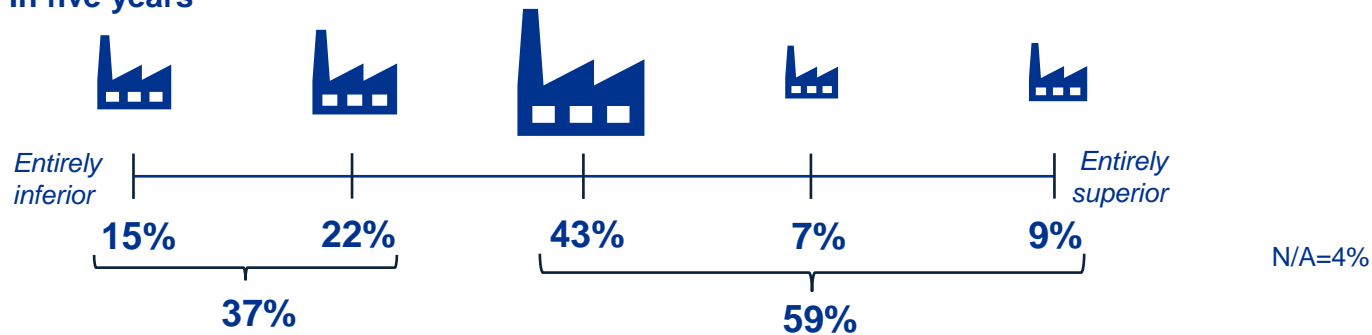
Local competitors not expected to make up ground

Local competitors in own industry

In the current year



In five years

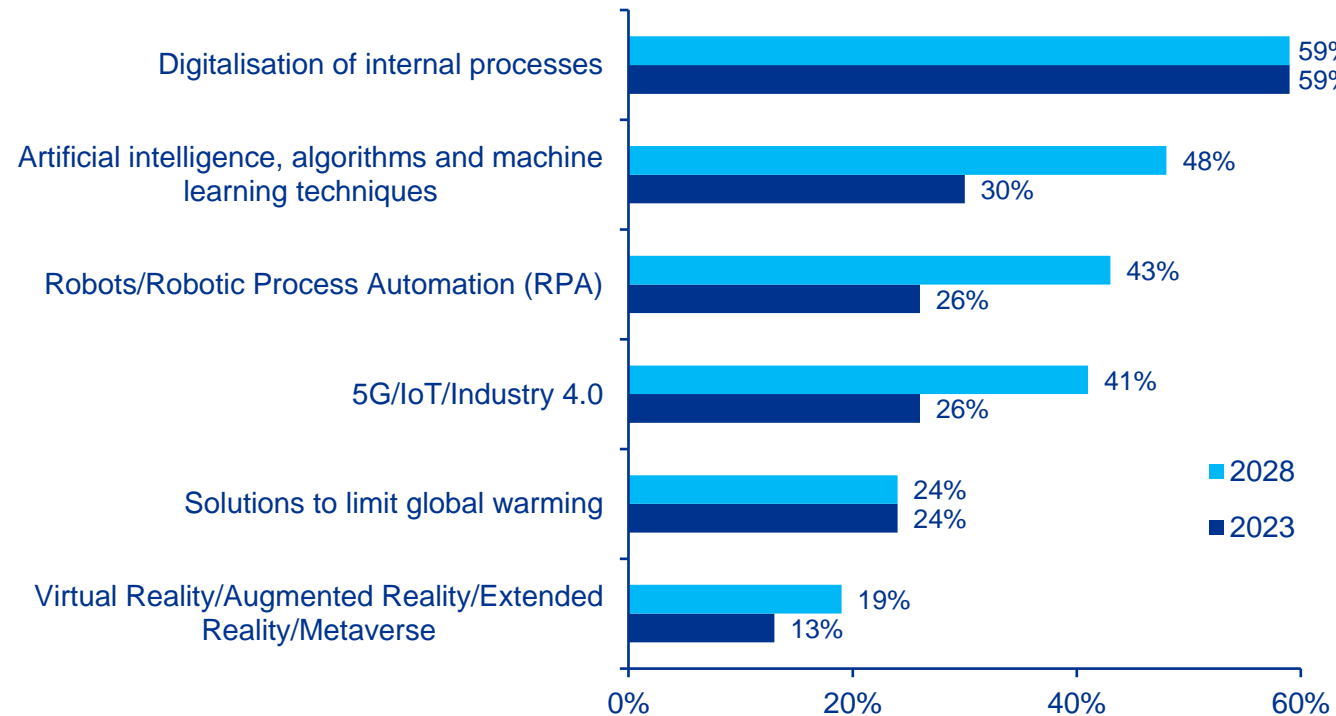


- 53% companies surveyed feel local competitors in their own industry in India to be equally good or better than their own company, while 41% consider them to be average
- The expectations for the next five years were also interesting - 59% companies surveyed expect Indian competitors to be better positioned than their own company in five years' time, while 37% of the companies surveyed still expect German companies to be better than Indian competitors
- The results show that respondents doubt that Indian industry is catching up competitively speaking to German companies

Source: KPMG in Germany and AHK India, 2023; (n=54); rounding differences possible

Artificial intelligence holds greatest growth potential for technology investments

Investment field “Future-oriented technologies”



Source: KPMG in Germany and AHK India, 2023; (n=54); rounding differences possible

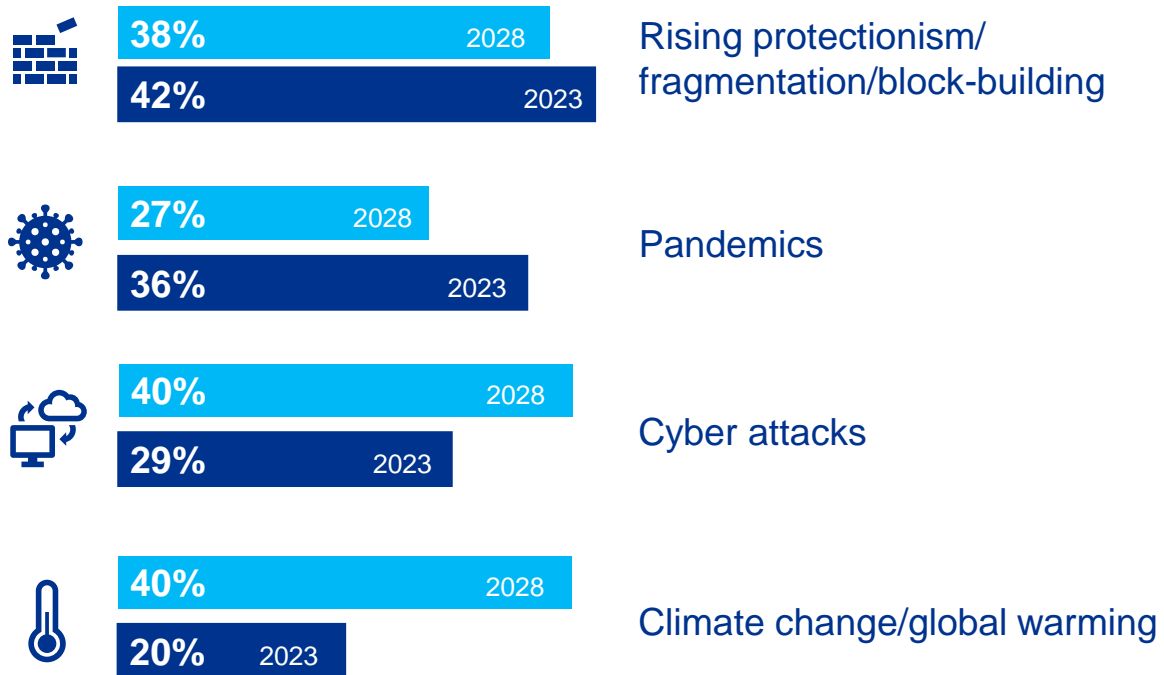
- More than half of the companies surveyed (59%) consider the digitalisation of internal processes to be the most important technology field to invest in India in the future, both now and in five years
- Artificial intelligence, algorithms and machine learning are clearly gaining in importance. For almost a third of the companies surveyed (30%), these advancements already represent an important future technology; almost half (48%) believe these technologies will be a valuable future investment in five years' time
- Strong growth rates within the next five years are also expected for investments in RPA (+17%-points) and 5G/IoT/ Industry 4.0 (+15%-points)

03 Risks



Climate change and cyber attacks are the biggest risks of the future

Biggest exogenous risks for businesses

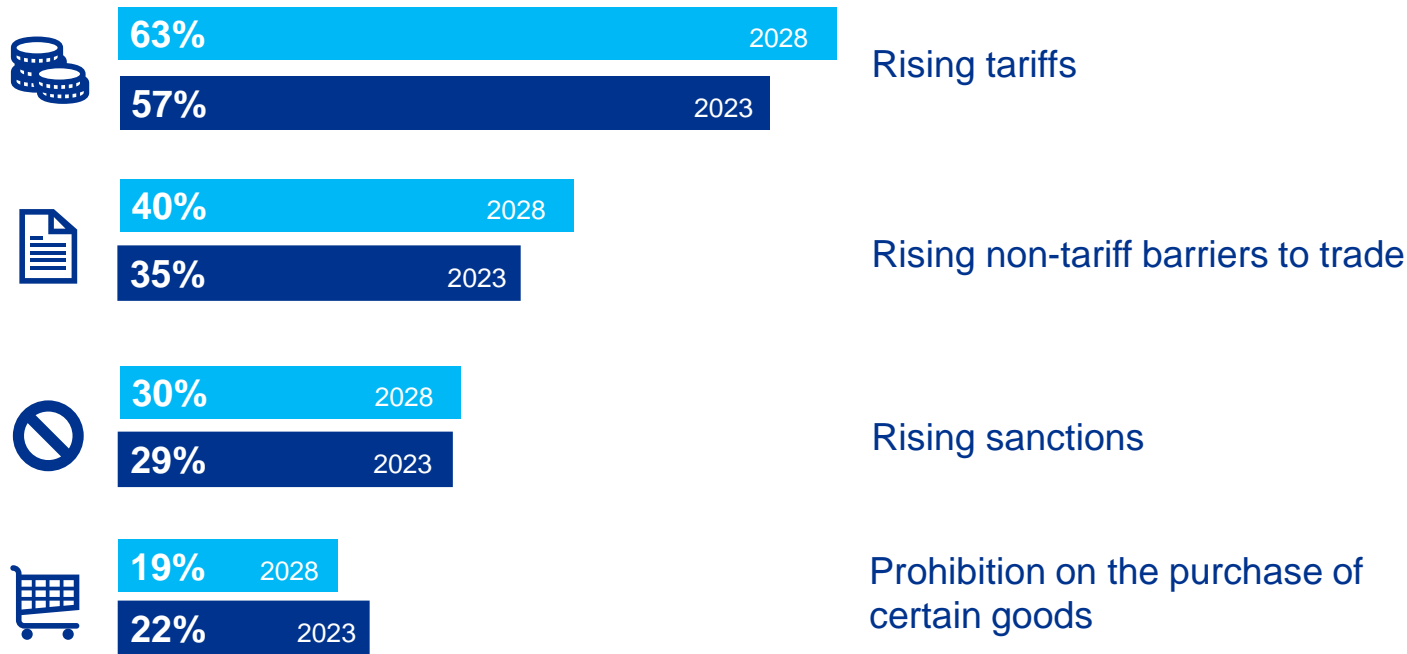


Source: KPMG in Germany and AHK India, 2023; (n=55); rounding differences possible

- Respondents consider rising protectionism, fragmentation and block-building (42%) as well as the possibility of new pandemics (36%) as being the biggest exogenous risks in 2023. However, both risks are likely to become less critical over the next five years
- On the other hand, the risks that will gain the most in significance over the next five years are the effects of climate change (+20%-points to 40%) and cyber attacks (+11%-points to 40%). These will then represent the greatest exogenous risks

Decoupling-related trade restrictions adversely impact companies

Most adverse decoupling measures



- By far the most adverse decoupling measure on companies today (57%) are rising tariffs
- Around one in three companies also perceive rising non-tariff barriers (35%) and rising sanctions (29%) as adversely impacting their business
- It is particularly striking that the companies surveyed expect three out of four measures to worsen over the next five years (+6%-points, +5%-points and +1%-point, respectively), reflecting the ongoing trend of decoupling

Source: KPMG in Germany and AHK India, 2023; (n=55); rounding differences possible

04 Spotlight on selected topics



India offers various advantages as a place to do business



Top 3 advantages of India as a business location in Asia



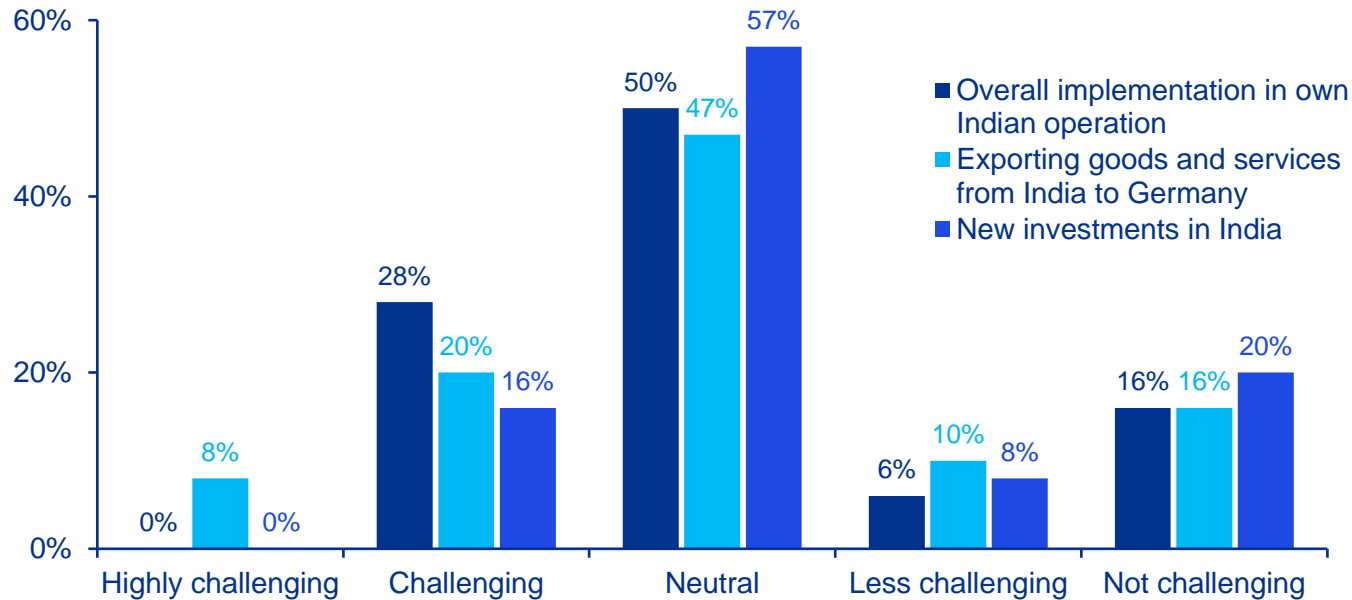
- More than half of the companies surveyed (53%) perceive the availability of well-educated, English-speaking specialists as India's main advantage
- Equally significant is India's consistently high economic growth. The Indian economy grew by 7.2% in 2022
- India's growing population and the associated higher availability of young workers also represent another important advantage for almost half of the companies surveyed (47%)

Source: KPMG in Germany and AHK India, 2023; (n=51); rounding differences possible

Challenges posed by the German Supply Chain Due Diligence Act



Degree of challenge of German Supply Chain Due Diligence Act (LkSG)^(a)



- The impact of the German Supply Chain Due Diligence Act is currently perceived as being predominantly neutral by the companies surveyed
- Nevertheless, more than a quarter of the companies (28%) find exporting from India to Germany and complying with the law in their own Indian operations as challenging or even highly challenging
- For 16% of the companies, the German Supply Chain Due Diligence Act also poses a challenge to future investments in India
- On the other hand, almost as many companies believe the Act poses no or only few challenges (22% to 28%)

Note: (a) From 1 January 2023 onwards, the German Supply Chain Due Diligence Act (LkSG) requires companies to perform appropriate due diligence to monitor the protection of human rights and the environment in their direct supply chains. As such, it is also applicable for goods produced or processed in India and subsequently imported to Germany/the EU from India. Whereas the German LkSG concerns only direct suppliers, the scope of application of the Draft EU Directive goes significantly beyond that and also comprises indirect suppliers along the entire supply chain.

Source: KPMG in Germany and AHK India, 2023; (n=51); rounding differences possible

Relevance of India for German companies operating in India



Status of company's operations in India with parent company's global revenue and profit



N/A= 10%

Source: KPMG in Germany and AHK India, 2023; (n=51); rounding differences possible

- For almost half of the companies surveyed (49%), India is one of the top 5 markets
- For roughly one-fifth of the respondents (19%), the country even has the highest priority
- For only just under a third of the companies surveyed (31%), India plays a limited role in their business activities



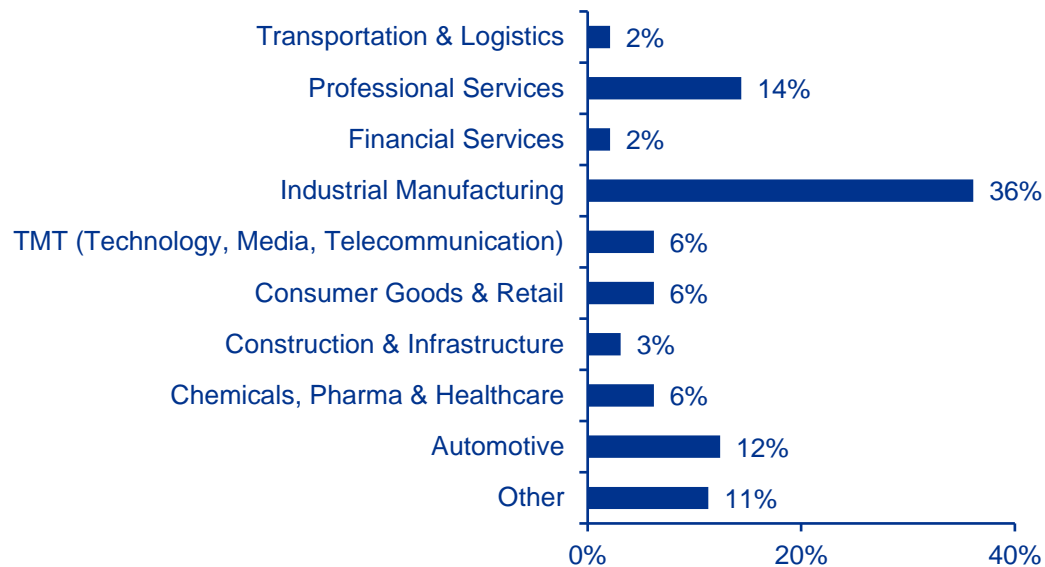
05 Profile of the companies surveyed

Profile of the companies surveyed

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 99 companies participated in the survey, which was conducted between 17 April 2023 and 29 May 2023.

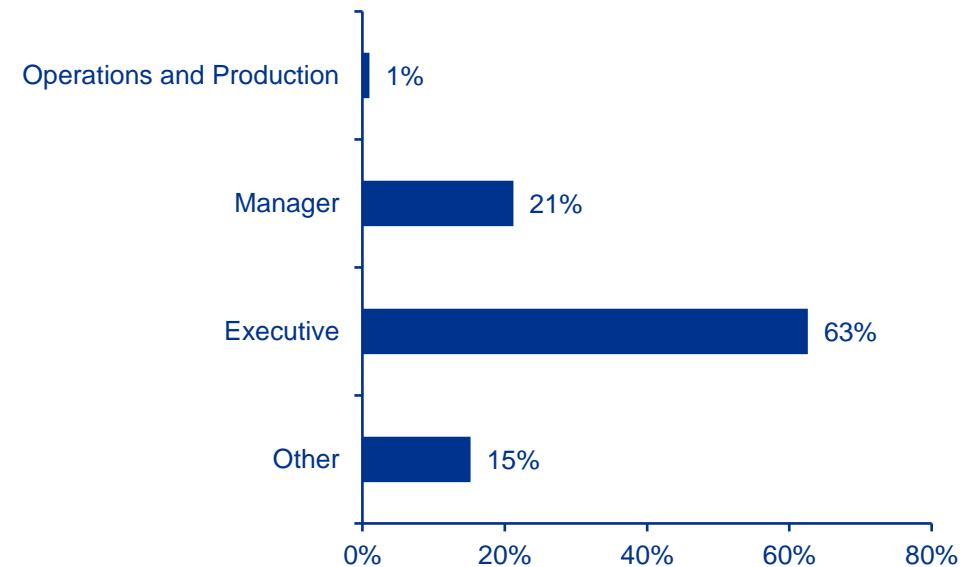
The questions focussed on the economic outlook for German companies in India and the challenges and opportunities for their businesses. The comparative figures stem from the survey that was undertaken between February and April 2021 in which 120 companies participated.

Breakdown by sector of the companies surveyed



Source: KPMG in Germany and AHK India, 2023; (n=97); rounding differences possible

Role in company



Source: KPMG in Germany and AHK India, 2023; (n=99); rounding differences possible

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, our role is to foster 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.

www.indien.ahk.de

KPMG

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KPMG in Germany has set up Country Practices for all relevant business corridors between Germany and other countries/regions. All Country Practices are staffed by country experts who know the special characteristics and the regulatory environment of these markets, regularly work in these countries and provide German and global multinational companies with advice on their country/corridor-related questions on a daily basis.

www.kpmg.de

Contacts

KPMG in Germany

Andreas Glunz

Managing Partner
International Business
aglunz@kpmg.com
+49 211 475-7127

Ergün Kis

Partner, Audit,
Head of Country Practice India
ekis@kpmg.com
+49 211 475-8184

Indo-German Chamber of Commerce

Stefan Halusa

Director General
stefan.halusa@indo-german.com
+91 22 666 521 22

Anne Kriekhaus

Events/Projects
kriekhaus@indien.ahk.de
+49 211 360-597



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