

Latin America: India's Next Frontier

Despite the global crisis last year, many Indian companies boosted their Latin America investments.

BY JOACHIM BAMRUD

While India is seeing strong economic growth, an increasing number of Indian companies are now looking at Latin America as the "next frontier."

"We are very upbeat about Latin America and view it as the next frontier of growth," says Harshul. Asnani, head of Latin America and US West operations for BPO company TechMahindra.

The rapid growth in IT and network spending, increased mobile/broadband penetration and large scale consolidation in the telecoms sector in Latin America offers "vast potential" for a specialized telecom-focused systems integrator like Tech Mahindra, he says.

Omar Momin, vice president of strategy and M&A at Godrej Industries, also sees strong Latin America potential. "There are tremendous opportunities in Latin America that fit in with our strategic objectives," he says. "These emerging markets have characteristics and consumer demographics similar to India with significant middle of the pyramid populations. They also hold tremendous potential in terms of growth in the coming decade and give the Godrej Group an opportunity to serve the needs of Latin American consumers better."

"Indian companies continued their investment and joint ventures in the region despite the downturn last year," says R. Viswanathan, India's ambassador to Argentina, Uruguay and Paraguay and his country's top Latin America expert. "More IT companies have been entering and expanding their presence for near shore outsourcing operations and make use of the linguistic skills in Spanish and other European languages."

He also points to plans by Shree Renuka Sugars Ltd to acquire a majority of Brazil's Equipav S.A. Acucar e Alcool in a deal announced last year. Originally the purchase price was \$329 million, but Economic Times reports the Indian company was able to reduce that to \$249 million.

Meanwhile, Godrej Consumer Products Ltd acquired Argentinean hair care company Argencos earlier this month and Issue Group, a market leader in hair-color in Argentina, Peru, Uruguay and Paraguay, in May. Combined Argencos and Issue had sales of 165 million Argentine pesos (US\$45 million) last year. "We hope to grow this business by over 20 percent across Latin America," Momin says.

Through the Issue and Arcencos groups, Godrej currently employs 550 people in Latin America. Godrej plans to boost investments in Latin America, including acquisitions. "We are looking at significant investments in creating a strong business in Brazil and leveraging the reach of the Issue Group in ...Uruguay, Paraguay, Chile and Peru," Momin says. "We will continue to look at opportunities in Latin America that fit with our strategic objectives."

Meanwhile, lighting products manufacturer Havells Sylvania is also looking at expanding. "We are open to new proposals and are looking at both organic and inorganic growth in Latin America [along the] lines ...Havells in India has aggressively grown from year to year," says Kapil Gulati, the Costa Rica-based general manager and director of the Americas for Havells Sylvania. "We plan to initiate assembly operations in a few countries." Havells currently operates manufacturing plants in Colombia and Costa Rica that employ 400 and 200 people, respectively. In the past three years, Havells has invested \$3.8 million and \$1 million in Colombia and Costa Rica, respectively.

Last year, Havells posted Latin America sales of \$160 million. "We plan to grow it to \$300 million in the next three years," Gulati says. Tech Mahindra, which is partly owned by US-based AT&T, is also looking at expanding Latin America operations. "Tech Mahindra is looking at Latin America as a centerpiece of our Americas strategy and has aggressive growth plans in the region," Asnani says. The company sees Latin America both as a market and as a base for serving international customers. It was recently chosen as a preferred solutions partner for a large telecom company Asnani did not identify. Meanwhile, through Mahindra Satyam (the company it acquired last year), it already has a presence in Brazil.

"Latin America [also] offers [the] right blend of [a] skilled resource pool and a relatively low cost base that will allow Tech Mahindra to serve not only the local communications industry in the region, but also global customers in North America and Europe." TechMahindra currently employs 80 people in Latin America, but expects that number to grow rapidly in the coming quarters, Asnani says. "We want Latin America to be a self sustained unit with its own sales, presales, delivery and back office support," he says.

BEST POTENTIAL

Brazil, Mexico, Argentina, Colombia, Chile and Peru offer the best potential for Indian companies, Viswanathan says. "As the manufacturing sector in these countries strive to be globally competitive and revive and expand production by cutting cost of production and increasing capacity, it is logical they import more inputs from India," he says. In terms of sectors, he predicts that Indian investment will grow in IT, agribusiness, mining and petroleum in the coming years.

India's exports to Latin America decreased to \$5.5 billion dollars last year from \$7.5 billion in 2008, while imports from Latin America declined marginally to \$9.2 billion from \$9.7 billion dollars, according to India's Embassy in Argentina. "That was expected, after the global crisis and local import restrictions by the governments which wanted to protect domestic industries and minimize outflow of foreign exchange," says R. Viswanathan says.

While most markets saw declines in trade with India, two - Brazil and Colombia - actually managed to sell more to Indian consumers. Brazil's exports to India jumped from \$1.1 billion in 2008 to \$3.4 billion last year. However, India's export to Brazil fell from \$3.6 billion to \$2.2 billion. Colombia's exports jumped from \$16 million in 2008 to \$449 million last year, while Indian exports to Colombia fell from \$529 to \$504 million.

India's exports to Mexico fell from \$1.4 billion in 2008 to \$1.1 billion last year, while Mexican exports to India declined from \$1.6 billion to \$1.1 billion.

India's other top trade partners in Latin America - Argentina, Chile, Venezuela and Peru - also posted declines in both exports and imports.

CHALLENGES

However, despite the opportunities, Indian companies acknowledge that Latin America also presents challenges. "In the Latin American market, language, local taxation and laws are potential challenges," Asnani says. "However, we are mitigating these by means of hiring local employees, expanding our existing delivery center in Sao Paulo and also actively considering mergers and acquisitions in the region."

Latin America is characterized by risks and opportunities very similar to other emerging economies, Monin argues. "It is a new geography for the Godrej Group and hence we will need to invest significant time and effort over the next few years in understanding the markets and preferences of our consumers in these markets," he says. "Balancing volatility and currency risk with the potential for growth is one of the most important challenges in any emerging market; and we hope to carefully manage that balance even in Latin America over the next decade."

OUTLOOK

Trade is expected to grow again this year, as a result of Latin America's recovery. "Growth should resume this year since the Latin American markets which suffered contraction last year are set on a 4 percent growth this year," Viswanathan says. "The region's exports and imports will be more than last year and India will get a better share of this in this year."

While the European crisis could impact Latin American growth, it may also spur Indian companies to shift their focus away from Europe to new markets like Latin America, he adds.

"One of the reasons why India's trade with Latin America is below potential is the inadequate attention Indian business have paid to this region in the past," Viswanathan says. "Now this is changing. The crisis in developed markets has forced the Indian business to look at new markets more seriously. The Indians, who had seen the boom and bust of Latin American markets in the past are now realizing the change of the market and mindset in Latin America. They are impressed by the strength and resilience of Latin American markets which have withstood the U.S. crisis and are marching ahead despite the gloom in Europe."

India's imports of minerals, edible oil and petroleum crude will keep increasing this year and the coming years corresponding to the need for these inputs for the high growth of India, he adds. Havells expects 2010 to be a good year. "In my view by end 2010 we should see recovery to near 2008 levels, eliminating the depths of 2009," Gulati says. "We target to grow 15 to 20 percent this year." In Mexico alone Havells posted a 31 percent increase during the first four months. "We continue to be bullish about Latin American potential," he says.

Momin shares that optimism. "We are very optimistic on the outlook for our business in hair colors over the next year across Latin America," he says.