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India’s growth finds fuel in Africa

One robust emerging market is finding the real growth opportunities are not on Wall Street but in the “dark continent".

Indian groups like the Tatas, Kirloskars and Aditya Birlas have been doing business on the African continent for decades, but it is only recently that Indian companies have moved with more purpose into African agriculture, telecommunications, retail, education, infrastructure, fast-moving consumer goods (FMCGs), pharmaceuticals and minerals.

Corporate interest has combined with government strategy in reviving trade and diplomatic ties, and there is a new recipe for enhanced business. Says Vinayak Chatterjee, the chairman of India's leading infrastructure management firm Feedback Ventures: “In recent years there have been four significant investment waves from India into Africa, in the areas of telecoms, agriculture, roads and coal mines. Africa is a long-term game and it is only those Indian companies that have the scale domestically that can succeed there, as you cannot expect returns for the first seven to 10 years.”

Pros and cons

With a population of 1 billion and 40 per cent of those people living in urban areas, Africa’s GDP growth of 4.7 per cent every year in the past decade is twice what it was in the 1980s and 1970s. With Africa benefiting from increases in global commodity prices and natural resources directly accounting for 24 per cent of GDP growth, India’s state-led oil companies and other private-sector players see the time as ripe to enter the African market.

But the positives still don’t make the going entirely smooth for Indian companies. A headstart by Chinese companies, cultural differences, lack of local managerial talent and slow development of the market have created some roadblocks in India’s African journey. China has taken a proactive lead ahead of India in 34 out of the 48 less-developed countries (LDCs) of the world based in Africa. The Indian government now realises the need to offer a counter-Chinese economic diplomacy initiative, and has also woken up to the reality of the African LDCs as a significant voting bloc in its efforts to secure a permanent Security Council seat in the United Nations.

Market déjà vu

In many sectors, Africa today is where the Indian market was a few years back, and Indian companies are finding an advantage in understanding the market and introducing products and technologies that suit local needs. Mahindra & Mahindra is doing this successfully with its SUVs, Tata Motors with its buses, and mobile value-added player Altruist Technologies and software major Infosys with their technology offerings. Rajiv Hiranandani, co-founder and executive director of Altruist-Mobile2Win, says the African telecoms market is quite similar to India "four to five years back".

"It has a number of developing nations, large population, high tele-density and uses basic value-added services. We entered Nigeria in 2010 and are now seeking to expand into Ghana, Uganda, Egypt, Kenya, Tanzania and South Africa. We believe there is a lot of potential especially in social networking products and space." Not surprisingly, Mr Hiranandani believes that by 2013, 35 per cent of the company's international revenues could come from its African operations.

Partnering with local partners is also reflected through acquisitions as an entry strategy and a growth driver for Indian companies. Last year, India's largest private sector mobile firm, Bharti Airtel, acquired Zain Telecom's African operations for US$10.7bn and now has a presence in 16 countries in the continent. Tata Chemicals acquired a 25.1 per cent stake in the ammonia-urea fertiliser complex at Gabon for US$290 million and is likely to invest another US$170m in the second phase. Last month, the Godrej Group acquired a 51 per cent stake in Africa's Darling Group for an undisclosed sum. Adi Godrej, the chairman of the Godrej Group, says the takeover's first phase "will be completed in two to three months and we have the right to acquire 100 per cent in the next three to five years and we are keen to do that. The Darling Group enables us to take our presence in Africa to the next level. Our aspiration is to touch the lives of at least 100 million consumers across Africa in the next five years."

Indian companies are also finding that success comes by working in partnerships with the national and provincial governments. Perhaps this has been best demonstrated by the IT training pioneer NIIT Ltd. In South Africa, NIIT is working with the provincial government in KwaZulu-Natal through an alliance with the Moses Kotane Institute to help students in vocational training and skills development. The company is also helping to find internship opportunities for students back in India. P. Rajendran, co-founder and chief operating officer, NIIT, says a rising Africa "is and will remain an important element" of NIIT's globalisation strategy.

Indian business groups are also increasingly tapping into the new generation of Indian diaspora who have been in Africa for decades to forge closer business ties with local governments. Others like Bharti Airtel are seeking to leverage their presence and goodwill through its non-corporate venture Bharti Foundation by setting up schools for the underprivileged in Africa. Infrastructural development at a variety of levels is a pressing need. Big-ticket greenfield investments are an emerging avenue for growth. State sector oil firm ONGC Videsh has invested about US$2bn in Sudan's oilfields and Tata Steel has set up a massive ferro-chrome factory in South Africa, as well as coal mines in Mozambique.

Not surprisingly, India's leading industry association, the Confederation of Indian Industry, expects Indian investments to top US$25bn in the next five years.

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