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## New tax code to boost coffers as India plans attack on poverty

- Geoff Hiscock
- From: **The Australian**
- March 17, 2010 3:37PM



**In the shadow of growth:** While India-watchers are bullish on outlook, they agree that social infrastructure needs rebuilding.

Source: The Australian

**INDIA is on its way to a new golden era of double-digit economic growth on the back of global recovery, better national leadership and a series of tax reforms due to begin next year, according to leading Mumbai businessman Adi Godrej.**

Mr Godrej, chairman of the \$US3 billion (\$3.3bn) Godrej Group, believes that the financial year starting April 2011 will herald the beginning of India's best decade yet, citing estimates from economic experts that a new, more efficient tax code will add between 1.5 per cent and 2 per cent to GDP growth.

A key part of the reform is a goods and services tax. Mr Godrej says the GST should be a win-win outcome: consumption will rise and tax evasion should fall, allowing lower tax rates. As well, the direct tax code will have fewer exemptions.

He says that India also can expect better policy-making from the government led by Prime Minister Manmohan Singh, following its re-election in May 2009.

“The government no longer has to depend on regional parties or the Communist Party for its survival, so its policies can be better,” he told The Australian in Mumbai last week.

Mr Godrej believes that with the global economy firing again after an expected full recovery from the 2008-09 financial crisis, India has a 50-50 chance of lifting its 8 per cent-plus growth outlook for 2010-11 to 10 per cent by 2011-12.

“Put it this way, it is not too hard to get to 10 per cent. The probability of doing better than 10 per cent next year is at least equal to the probability of not doing it.”

Mr Godrej is well placed to tap into the mood of the Indian consumer. His group’s diversified array of products - ranging from consumer goods and durables to animal feed - touch 470 million consumers every day.

“No other Indian-owned company reaches so many people every day,” he says. “In terms of companies headquartered in the developing world, we are in the top five in terms of number of consumers reached.”

Many of those consumers live on or below the poverty line, eking out a precarious existence in rural backblocks or urban slums. “They have no savings and they are paid daily, so they have only a little money each day,” says Mr Godrej. “They can’t afford products with a multi-day usage cost. They need a daily dosage.”

To tap into this large market, Mr Godrej has perfected the art of the micro-package: a sachet of shampoo or hair dye that sells for 10 rupees (24 cents) or a five-rupee bar of soap.

It’s a formula that has worked well in India, and one that Mr Godrej thinks is transferable to the developing world. Indeed, his group already has bought into the African consumer market and is keen to make more acquisitions there or in other emerging economies.

“We think the developing world is a big opportunity for Indian companies. We have the scale to keep costs down,” he says.

Mr Godrej finds that his products sometimes assume new qualities in the hands of ingenious consumers.

“We saw huge sales of our hair colouring product in a town in Maharashtra state,” he recalls. “The sales were way out of proportion to the population of 300,000 to 400,000. We were perplexed by this, so we sent a team to investigate, to see if we could replicate this sales success elsewhere,” he recalls.

“But what we found is that this town hosts a huge cattle fair every so often, and black buffaloes command a better price than the greyer looking ones. The sellers were using our hair dye to give their buffaloes a blacker look.”

Another incident was in Punjab state, a wealthy part of north India. “Sales of our washing machines were going through the roof in some towns. It turns out people were using the washing machines to make the drink lassi (a mixture of yoghurt and water). This was being done on a huge scale.”

Last month, Godrej began test marketing a \$US70 refrigerator in rural parts of two Indian states. The refrigerator has no compressor, but uses what is known as the “Peltier effect” to cool food and drinks. “It can’t make ice, but for rural families the ability to get cool water and keep vegetables fresh is a big advantage,” Mr Godrej says.

Though he is bullish about the economic future, he worries about India's social infrastructure, which he says tends to get neglected in favour of physical infrastructure. He sees the greatest need in health and education, with the biggest failure in the primary schools.

Mr Godrej says that in terms of education and income, India divides itself east and west of a line drawn through the city of Kanpur in Uttar Pradesh state. All of the major metros, with the exception of Kolkata, lie to the west of this line. Most of southern India, including Chennai and Bangalore, is also to the left of the line.

According to Mr Godrej, the west is much better educated than the east, and much richer. Overall, its per capita income is three times that of the east, and generally it has a stronger entrepreneurial tradition.

"We find that our per capita sales in the east are only 10 per cent of what they are in the affluent, well educated state of Punjab, for example. The east, because of cultural heritage, tends to depend more on government largesse. So there is a great opportunity to improve governance in these eastern states, to help them develop," he says.

There has always been a Godrej at the helm of the 113-year-old group, starting with Adi's great-grandfather Ardeshir Godrej, who set up a lockmaking business in 1897.

At age 67, Adi Godrej has stepped back from day to day management of the business, concentrating instead on strategic decisions and family council business. One of his three children, Tanya, Nisa or Pirojsha, all of whom work in different parts of the group, may well take the chair one day, but there are other family contenders - Adi's younger brother, Nadir, cousin Jamshyd, brother-in-law Vijay Crishna, and their children.

What the family has decided is that only non-family professionals will be the CEOs of the various Godrej businesses. "That way, we can attract strong talent to our highest positions," says Mr Godrej. Family members will be involved only at the board level, and in areas such as governance, strategy and major decisions in finance and human resources.

Mr Godrej says his children and their cousins may be impatient for change, but he supports them nonetheless.

"They want to bring changes that are needed for an India that will be very different to the one I've known. India is changing dramatically; older people like me have to recognise this. The average age of the consumer now is 25, and that bodes well for the future."

Along with mentoring his children, Mr Godrej is engaged in a little reverse mentoring as well. "I'll soon be on Twitter," he beams.

*Geoff Hiscock writes on Indian business and is the author of **India's Global Wealth Club** and **India's Store Wars**, both published by John Wiley & Sons.*

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