



# *Entrepreneurial India*

An assessment of the Indian entrepreneurs' confidence in their business ecosystem

KPMG IN INDIA

Research support provided by ACNielsen



# Foreword

The booming economy, easy availability of funds and changing socio-economic environment are fostering a new Indian – one who is eager to create his own ‘Infosys, Wipro, TCS, Suzlon or Bharti’, rather than join one. From starting a new enterprise to overseas acquisitions, these are no longer just aspirations but everyday realities. India’s growth story is driven equally- by such entrepreneurs, who have yet to go a long way, as the larger conglomerates, with their much-acclaimed success.

As India continues on an economic boom, we believe that there is a need to assess the Indian ecosystem for its conduciveness to promote and sustain successful entrepreneurial ventures. *Entrepreneurial India* is our maiden study, envisaged to promote a productive dialogue between industry, academia and the government so as to foster entrepreneurial development in India.

This study, jointly conducted by TiE and KPMG, is designed to develop the Indian Entrepreneurial confidence Index and create awareness on issues which are relevant to entrepreneurs. It achieves this by measuring the entrepreneurs’ ‘perception’ of the current status of the key factors required for entrepreneurship development in individual states.

Undoubtedly, there is a strong foundation already in place and the pace of change and growth in the Indian economy is accelerating. Our research suggests that India is on the brink of an explosion in entrepreneurial activity. We are likely to see entrepreneurs, together with the government and academia, drive India’s growth agenda to new heights.

KPMG and TiE are committed to helping create and nurture a favourable entrepreneurial ecosystem, and consider it vital to the ‘Future of India’. We are delighted to acknowledge the enthusiastic participation of entrepreneurs from multiple sectors across India, who have supported this initiative. We intend to make *Entrepreneurial India* an annual exercise, on a much larger scale, and look forward to your continued support in this.

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## Executive summary

A buoyant India today is witness to many successes of new age entrepreneurs across all sectors. The country appears to be moving in the right direction with increased number of Indians being positive of their ecosystems and willing to take the plunge into entrepreneurship. However, the Indian ecosystem has a long way to go to foster the spirit of entrepreneurship across the length and breadth of the country. TiE and KPMG jointly conducted a study to develop the Indian Entrepreneurial Confidence Index. Through this study we aim to create awareness on issues which are relevant to entrepreneurs, explore the approach of individual states to address these issues, advocate the changes necessary, and assist the entrepreneurs to capitalize upon the ecosystem.

Our maiden study is based on a survey of over 300 entrepreneurs across India to evaluate their perception of the ecosystems across Finance, Governance issues; Infrastructure; Local environment and ecosystem; Manpower issues and Regulatory issues in their respective states. Each of these parameters was also assessed for its importance. Further, each sub-parameter within these categories was scored. Subsequently, we arrived at the confidence index for the current status across India, using a weighted average, for all the factors combined. We further evaluated a standard deviation to arrive at a relative variance in the current status across the six factors. Each state was also evaluated in a similar manner and compared to the India average scores to arrive at their position vis-à-vis the national confidence index.

It may be noted that Entrepreneurial India is an assessment of satisfaction levels of entrepreneurs in their respective states and not a comparison between states. Further, the level of participation varied across states and the 300 respondents in the study are not equally distributed across the 10 states. The respondent base is also skewed towards the services sector, which is likely to be advantageous for the service-oriented states in India. Hence, in order to create a more balanced mix, we will make an effort to increase the respondent base from the manufacturing sector, in future editions of this annual study. The findings of this study ought to be treated as a 'general feedback' based on the experience and resultant expectations of entrepreneurs, and **not a** factual conclusion on the condition of the ecosystems in these states.

### India's entrepreneurial confidence Index

Our research shows that Indian entrepreneurs are confident about their ecosystem. On a scale of 5, where 1 reflected an extremely poor state; 3 a moderately acceptable one, and 5 the ideally desired state, entrepreneurs have scored **India at 3.10**.

Infrastructure, closely followed by Manpower, with Finance marginally behind, emerged as the three most important factors considered for fostering entrepreneurial growth. Interestingly, when we compared the current status scores on each of these factors, we found that our respondents have given the highest score to infrastructure followed by Manpower. Although, our respondents also wanted improvement in infrastructure, it seems that they have prospectively acknowledged the government's efforts towards infrastructure development, and were optimistic about its impending transformation.

Our research suggested that the current availability of Manpower is satisfactory. Finance is considered as the third most important factor. However, the scores reflected that it is still not that easily available to Indian entrepreneurs. Despite a surge in venture capitalists and PE players in India, there seems to be a gap in the demand for and supply of funds in the start-up and early-stage ventures, especially in the Tier III cities and rural India. New banking initiatives towards funding start-ups and Small-and-Medium Enterprises (SMEs) were also perceived as deficient, due to several procedural issues and high collateral requirements, and also a primary focus on the manufacturing and IT/ITES sectors.

Local environment and ecosystem, was rated in line with its importance, however, the participants were not aware of many facilities- like incubation centres, mentoring facilities and entrepreneurial education. On Regulation and Governance issues, a majority of our respondents found the procedural formalities as major obstacles in starting and expanding an enterprise. However the scores suggest that these are faring well, on the basis of their current status, when compared to their relative importance.

### State-wise entrepreneurial confidence Index

We further expanded our analysis to arrive at a state-level confidence index. According to the scores garnered by each state, Kerala, Uttar Pradesh (UP), Maharashtra and Tamil Nadu (TN) lead the pack with scores higher than the national average, while Andhra Pradesh (AP), Delhi, West Bengal (WB), Rajasthan, Karnataka and Gujarat have been rated below the national average.

The state level scores are a reflection of the perception of entrepreneurs of various parameters in their respective states. The survey did not attempt to seek the views of entrepreneurs on each of the 10 states, but was restricted to their home state only. Hence, this study is not a comparison of the various ecosystems. It may be further noted that the perception of respondents depends on their experience in their respective state and accordingly influences their expectations from their ecosystem. The perception also varies according to the stage of an ecosystem. Entrepreneurs in a mature ecosystem have higher expectations, which might lead to low scores on some parameters, and vice versa.



This is evident from the fact that Gujarat, the traditional hub of entrepreneurial activity in India, has received a lower score, probably due to higher expectations of its entrepreneurs to improve the ecosystem to the next level. While Kerala, which is only now focusing on developing its services sector, has minimal additional expectations from its entrepreneurial community.

“God’s own country” - Kerala seems to be truly blessed! The confidence score of 3.80 positions Kerala much above the national average. In addition, a lower standard deviation also suggests that the state is moving in the right direction of development, as it scores equally well on all parameters.

UP is close on the heels of Kerala and has a score of 3.39. The respondent base however, in UP primarily consisted of NOIDA and Ghaziabad and is therefore not reflective of the reality in UP’s heartland. While Delhi, another mature ecosystem, has scored low (3.01), due to the high expectation levels of entrepreneurs. The UP score could also be attributed to the ‘NCR-effect’, where a large chunk of development is moving from Delhi to the National Capital Region (NCR), and thereby into the neighboring states.

The standard deviation scores were calculated to assess the variance between the parameters. A high standard deviation (greater than 0.25) implies that the states were perceived to be good on few parameters while not so good on others. Tamil Nadu and West Bengal reflected the highest standard deviation of 0.48 and 0.44, respectively.

The low score on Finance suggests that TN is perceived as not being able to provide sufficient funding opportunities in the state. West Bengal on the other hand, has scored low on parameters such as Finance, Local environment, Governance and Regulatory issues

We arrived at a four-quadrant perception matrix, based on the current status scores and the corresponding standard deviation to present each of the surveyed states, depicting the direction in which they are moving, and are perceived as being more favourable.



### Sector-wise Entrepreneurial Confidence Index

A sector-wise analysis of the scores revealed that entrepreneurs in the manufacturing sector appear to be more confident (3.32) of the availability and support from their ecosystem, as compared to entrepreneurs in the services sector, where the score of 3.09 is lower than the national average. This could also be due to higher expectations from within the Services sector.

### Stage-wise Entrepreneurial Confidence Index

As a part of our research, we also analysed the perception levels of entrepreneurs across the various stages of the entrepreneurial lifecycle, viz. Start-ups, Early-stage and Growth-stage companies.

The survey results are in line with the challenges across these stages, where Start-ups with a score of 3.34 and Growth-stage with a score of 3.24 were above the national average while Early-stage, which is considered to be the most challenging stage, has scored a 2.92.

These scores have presented the current status of Indian ecosystem to foster entrepreneurial development in India. The Indian entrepreneur today is optimistic, willing to take risks and is prepared to accept failure. However, as the research suggests, there is a need to further advance the country's entrepreneurial growth. The participants of *Entrepreneurial India* recommended a range of initiatives which the entrepreneurs themselves, as well as the governments and academia can undertake to enable this growth. To produce successful business builders in India, it is imperative to create a more conducive ecosystem.



# Introduction

Entrepreneur is a loanword from French - that refers to a person who undertakes and operates a new business venture, and assumes some accountability for its inherent risks. Being in business or being an entrepreneur, is about taking risks and confronting challenges while creating wealth and furthering innovation and economic growth.

“Entrepreneurship is about seeing things the way they are and then trying to make them the way you think they should be”

- Rohit Agarwal, techTribe

Entrepreneurship and wealth creation are ancient, recurring and related themes in Indian mercantile history. Historical evidence suggests that goods, ideas, and religious concepts 'made-in-India' have been exported across the globe, since the people of the subcontinent built their first cities in the Indus Valley in the third millennium B.C. Chandragupta Maurya's minister, Kautilya (Chanakya), wrote in the Arthashastra: "The king shall ever be active and discharge his duties; the root of wealth is activity and of evil its reverse" [i.e lack of activity]. In ancient India, wealth creation was a reverent act, an instrument for building influence, and even considered worthy of worship.

Yet, universal entrepreneurship in India is a very recent theme. Till not so very long ago, entrepreneurship was primarily the preserve of mercantile castes and classes, which most old industrial families seemed to represent. This is fast changing in the young, confident and dynamic India that we see today- i.e. the next generation of Indian entrepreneurs or the 'GenNext'. They are leading this transformation, and are not, as a general rule, from traditional business families or communities.

Never before in our history, have so many entrepreneurs in India become as successful and generated so much wealth, as in the past decade. Further, this number is growing every year. According to recent news reports, the aggregate net worth of the four richest Indians (all entrepreneurs) stands at USD 180 billion, more than double their net worth last year.

“Entrepreneurship means independent thinking and the ability to do what you think is right”

- Mohammed Zaheer Hussain,  
Truemen Consultants

Entrepreneurship and entrepreneurial companies in particular, are not only the lifeblood of a market economy but also offer tremendous opportunities for wealth creation. The ability to take the existing resources and recombine them in new innovative ways to create products and services that add value to the economy-generates wealth and jobs, and stimulates economic growth. Creating and sharing wealth, enables entrepreneurs to accomplish what the Indian government has aimed to do since Independence, things like transforming education and rural India, while bringing about a revolution to build the new India.

Recently, Dr. Manmohan Singh, the Hon. Prime Minister of India, said: “No force in the world can stop an idea whose time has come.” This statement holds much truth in the Indian scenario. India’s tryst with destiny and opportunity to take its rightful global place is here and now. Entrepreneurial ventures are transforming India, by unlocking value at the middle and bottom of pyramid, and helping to bridge the rural-urban divide.

As Indian entrepreneurial ventures continue to play a major role in driving India’s growth story, it is critical to assess the conduciveness of the business ecosystem in India. We need to estimate, whether or not we have an ecosystem that nurtures the spirit of enterprise. It is important to create an environment that inculcates a spirit of challenge and risk-taking, and the ability to face failure as well. Employability and empowerment through entrepreneurship, is a pragmatic path ahead for India. Creating a support structure that allows entrepreneurs to stay in the game, therefore, is important. For example, serial entrepreneurs can thrive only where there is a very conducive ecosystem for the setting up, selling-off, and closing down of enterprises.

*Entrepreneurial India* is our endeavour to identify opportunities and explore the myriad ways in which the nation can improve the eco-system for entrepreneurship in the country. Accordingly, this report assesses the Indian business ecosystem based on the perception of its entrepreneurs, for its conduciveness and highlights the challenges entrepreneurial ventures face across their lifecycle, in the manufacturing and services sectors, in 10 Indian states.

In order to understand the present level of entrepreneurial confidence across the country, we surveyed over 300 entrepreneurs to ascertain their optimism and trust in their respective ecosystems. Also, our survey respondents have recommended the key initiatives, which they themselves, together with the government and academia, can and need to undertake, to transform the Indian entrepreneurial experience.





# The Assessment

Economists across the globe have considered Entrepreneurship (or Enterprise) as the fourth factor of production, along with land, labour and capital; to produce goods and services. *Entrepreneurial India* attempts to assess the favourability of the ecosystem— consisting of these factors and their enablers— to foster entrepreneurial growth in the country.

For the purpose of this research, we organised the four factors given above as Finance, Governance issues, Infrastructure, Local environment and ecosystem, Manpower issues and Regulatory issues. To enable a better understanding, and garner insights into the impact each one of these have on the growth of entrepreneurship, these factors have been further sub-categorized as given in the table below.

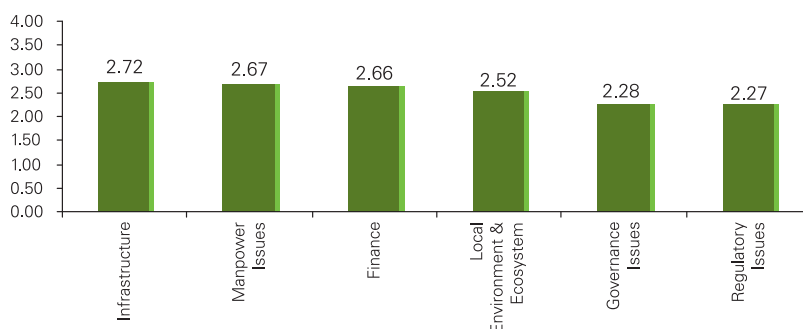
**Table 1: Parameters of Assessment and their Sub-parameters**

Parameter	Finance	Governance Issues	Infrastructure	Local Environment and Ecosystem	Manpower Issues	Regulatory and Compliance Issues
Sub-parameters	Availability and access to finance	Bureaucracy / corruption	Road networks	Support organisation like incubation centre	Availability of skilled manpower	Labour regulations
	Availability of banks and institutional lenders as a source of funds	Fiscal policy	Railways	Entrepreneurial education	Cost of manpower	Ease of regulatory and legal procedures for setting up an enterprise
	Availability of Venture Capital (VC) / Private Equity (PE) as a source of funds	Tax administration	National connectivity	Mentoring facilities	Security of manpower / crime rates	Availability of information for setting up an enterprise
	Availability of angel investors as a source of seed funds	Information on intellectual property rights	International connectivity	Law and order	Activities of trade unions	Municipal regulations and charges
			Availability of power			
			Power costs			
			Availability of water			
			Telecommunication services			
			Availability of IT infrastructure			

### What is the relative importance of these factors?

We asked our respondents across India for the relative importance of these parameters for the growth of entrepreneurship. The survey participants rated the importance of these factors on scale of 1-3, with 1 being the least relevant and 3 being extremely relevant.

#### Importance Score: Pan-India



As expected, Infrastructure emerged as the most important factor, for the promotion of entrepreneurship, closely followed by Manpower issues and Finance



### Current Status Assessment – Nation-wide

Next, we asked our respondents to rate the current status of each of these factors, at the level of sub-parameters, in their respective states. The respondents rated the factors on a scale of 1-5, where 1 reflected an extremely poor state; 3 a moderately acceptable one; and 5 was the ideally desired state. Subsequently, we arrived at the confidence index for the current status across India, using a weighted average, for all the factors combined. The standard deviation shows the relative variance in the current status across the six factors. A low standard deviation (< 0.25) would show greater uniformity in the current status, across all parameters, and vice versa.

Importance Ranking (Pan-India)	Parameter	Current Status Score (Pan-India)	Current Status Ranking (Pan-India)
1	Infrastructure	3.36	1
2	Manpower Issues	3.09	2
6	Regulatory Issues	3.05	3
4	Local Environment & Ecosystem	2.95	4
3	Finance	2.94	5
5	Governance Issues	2.93	6
	Weighted Average	3.10	
	Standard Deviation	0.16	

The current status ranking implies a disconnect between what is important (relative importance) and what is offered to an entrepreneur (current status). While infrastructure was the most critical factor according to both the relative importance and current status rating, the scores of other factors were not in line with their relative importance.

As opposed to the usual complaints one hears from entrepreneurs about poor infrastructure, it received the highest score on its current status. Although, our respondents also wanted improvement in infrastructure, they acknowledged the government's efforts towards infrastructure development and were optimistic about its impending transformation. The results of the survey suggested therefore, that the strong commitment shown by the government towards improving infrastructure across India, is being acknowledged.

Our research suggests that the current availability of Manpower, which is the second most important factor, is satisfactory, which is against the general perception of huge shortages of skilled manpower driving up salary costs. However, our respondents felt that for an early-stage company, talented manpower is even more of a challenge, due to attractive opportunities offered by established firms.



Marginally behind Manpower, Finance is considered as the third most important factor; however, the scores reflected that it is still not that easily available to Indian entrepreneurs. Our respondents, agreed that there is a surge in venture capitalists and PE players in India. According to the Quarterly India Venture Capital Report, venture capitalists invested more than USD 777 million in 57 deals for entrepreneurial companies in India, during the first three quarters of 2007. This was nearly five times the USD 158 million invested during the first nine months of 2006 and more than double the annual investment record of USD 320 million set in 2005. However, there is a huge gap in the demand for and supply of funds for start-up and early-stage ventures.

New banking initiatives towards funding start-ups and Small-and-Medium Enterprises (SMEs) were also perceived as deficient, due to several procedural issues and high collateral requirements. Further, our survey participants also felt that the availability and access to funding is restricted to larger cities and large-deal sizes. Moreover, they also felt that there was very little or no focus on Tier III cities and rural areas where, on the contrary, the demand is perceived to be the highest. The ticket size in such deals is also much smaller.

Local environment and ecosystem, was rated in line with its importance, however, the participants were not aware of many facilities- like incubation centres, mentoring facilities and entrepreneurial education. More than 25 such facilities are present across businesses schools, engineering colleges and private centres, which provide an initial platform for starting and growing a business. Unfortunately, these facilities are not being utilised to their full potential due to the lack of awareness about their existence, amongst many a budding entrepreneur. As suggested in our research, these facilities play an important role in fostering entrepreneurship and our respondents were keen on knowing more about the availability of such facilities. On Regulation and Governance issues, a majority of our respondents found the procedural formalities as major obstacles in starting and expanding an enterprise.

However the scores suggest that these are faring well, on the basis of their current status, when compared to their relative importance. Almost all our respondents felt that there was a need to simplify procedures and enable faster processing of requests and checks at all levels. On the other hand, one respondent commented that such complicated procedures also serve as entry barriers and thereby reduce competition! Though by and large, our respondents have seen some improvement in a few states, a lot more needs to be done.

Further, while there were genuine complaints about the inordinate delays in, for example, completing the registration formalities for opening up a new company; recent experiences like the case of a company in Delhi (Corporate Professional eSolutions Pvt.Ltd., Source: The Economic Times, August 2, 2006) completing its registration formalities in an hour's time, have also appeared. This shows that there is a certain degree of change in the administrative machinery, although this is not that well known nor that wide-spread. This could also be due to the lack of an open culture for sharing information, and access to sound professional advice.

## Current Status Assessment – State-wise

The responses from the *Entrepreneurial India* research were further bifurcated as per the states surveyed, to arrive at a state-wise score on the current status for each of the parameters. Subsequently, their weighted averages and standard deviation, were compared with the nation-wide scores to assess how conducive each state is perceived to be for entrepreneurship.

### State-wise confidence index

Parameter	Kerala	UP	Maharashtra	Tamil Nadu	Pan-India	AP	Delhi	West Bengal	Rajasthan	Karnataka	Gujarat
Infrastructure	3.81	3.29	3.51	3.59	3.36	3.23	3.34	3.37	3.43	2.99	3.05
Manpower Issues	3.74	3.65	3.27	3.41	3.09	3.25	2.99	3.30	2.71	2.82	2.07
Finance	3.76	3.19	3.31	2.43	2.94	2.82	2.94	2.30	2.77	2.87	2.55
Local Environment & Ecosystem	3.95	3.49	3.12	2.54	2.95	2.71	2.65	2.45	2.42	2.88	3.01
Governance Issues	3.78	3.44	2.85	3.24	2.93	2.65	2.72	2.77	2.44	2.46	3.01
Regulatory Issues	3.75	3.18	3.08	3.31	3.05	3.05	2.97	2.93	2.65	2.74	2.81
<b>Weighted Average</b>	<b>3.80</b>	<b>3.39</b>	<b>3.28</b>	<b>3.13</b>	<b>3.10</b>	<b>3.02</b>	<b>3.01</b>	<b>2.94</b>	<b>2.85</b>	<b>2.85</b>	<b>2.70</b>
<b>Standard Deviation</b>	<b>0.08</b>	<b>0.18</b>	<b>0.23</b>	<b>0.48</b>	<b>0.16</b>	<b>0.26</b>	<b>0.24</b>	<b>0.44</b>	<b>0.37</b>	<b>0.18</b>	<b>0.38</b>

Kerala, Uttar Pradesh (UP), Maharashtra and Tamil Nadu (TN) have scores higher than the national average, while Andhra Pradesh (AP), Delhi, West Bengal (WB), Rajasthan, Karnataka and Gujarat have been rated below the national average score. This ranking may seem to be contradictory to the popular perception of certain states; however it may be noted that this ranking is based purely on the perception of the respondents. It was also felt that the perception and expectations of the respondents might be conditioned by their experiences, in their respective states, and also their expectations thereof.





### The surprise package

Kerala, followed by UP, emerged as the high scoring state in the entrepreneurs' perception. These two states surpassed the much-acclaimed entrepreneurial states of Gujarat and Delhi, which feature low on the average weighted score, as well as lower than the national average.

Our research suggested that the expectations of entrepreneurs vary according to the maturity levels of their ecosystems. A more evolved ecosystem like Gujarat or Delhi has the challenge of meeting much higher expectations compared to those of a more nascent entrepreneurial ecosystem like Kerala, hence the lower scores for Delhi and Gujarat. As one of our respondents commented 'basic infrastructure' is a blessing in some states, while 'quality infrastructure' in states like Gujarat and Delhi is already a fact, and any deviation from that 'quality' is perceived as negative.

To understand some of these ecosystems, we conducted some further secondary research. We found that there is a boom in the services sector in Kerala. The state seems to be benefiting from a policy regime which is sharply focused on two-three key sectors, like tourism, agri-processing and IT. According to K.C. Zacharia and S. Irudaya Rajan, both economists at the Centre for Development Studies (CDS) at Thiruvananthapuram, unemployment in Kerala declined from 19.1 percent in 2002-03 to 9.4 percent in 2006-07. In absolute terms, they add, the state has generated 5,60,000 new jobs in the last four years. Thiruvananthapuram and, to a lesser extent, Kochi, have emerged as popular destinations for IT companies wishing to set up development centres. The state has also witnessed a construction boom, and a sharp growth in the number of SMEs. There is also evidence that overseas remittances, of which Kerala receives a disproportionately high share, which earlier were primarily meant only for household and sustenance expenses, are now getting increasingly channelized towards setting up enterprises.

According to the Registrar of Companies, as on March 2006, Kerala had a total of 16,905 companies, which is much lower than other leading states, viz. Gujarat (with 45,861) and Delhi (with 1,41,561). However, proactive measures by the state government to give an impetus to the services sector especially in personal finance, real estate, and infrastructure, has enabled Kerala to achieve a uniform level of satisfaction across all parameters (as evidenced by the extremely low standard deviation - 0.08).

The score for UP can be attributed to a respondent base primarily consisting of NOIDA, followed by Ghaziabad. While Delhi has scored low, probably due to the high expectation levels of entrepreneurs, the UP score could also be attributed to the 'NCR-effect', where a large chunk of development is moving from Delhi to the National Capital Region (NCR). The NCR region, benefiting from its proximity to the national capital, impacts the four neighboring states of Rajasthan, UP, Punjab and Haryana. They must be applauded for being able to successfully capitalise on their locational advantage.

Gujarat, popularly considered to be the hub of entrepreneurial activity in India, has scored low in the perception of its entrepreneurs. The state seems to suffer from a 'winner's curse', where a set of higher expectations were belied. This is in contrast to some of the other states, where a lower set of expectations were met with. For example, the state GDP of Gujarat is growing at over 12 percent, but is still seen as something that can grow faster, even though it is significantly above the national average.

Interestingly, according to the Global Entrepreneurship Monitor (GEM) 2007 global report on High Growth Entrepreneurship, countries with low levels of GDP per capita tend to have higher levels of necessity-driven entrepreneurial activity, whereby individuals start new firms in the absence of other viable sources of income. In the high-income economies, it may be that individuals with higher human and social capital are attracted to entrepreneurship because of perceived opportunities for wealth creation. Accordingly, the countries with arguably the "healthiest" entrepreneurial anatomies also have larger margins of error for these countries. Nascent and new entrepreneurs also aspire for rapid growth. Thus, in spite of the size of overall rate of entrepreneurial activity, the expectations of entrepreneurs to grow increase significantly and their contribution to the economy may also be quite significant.

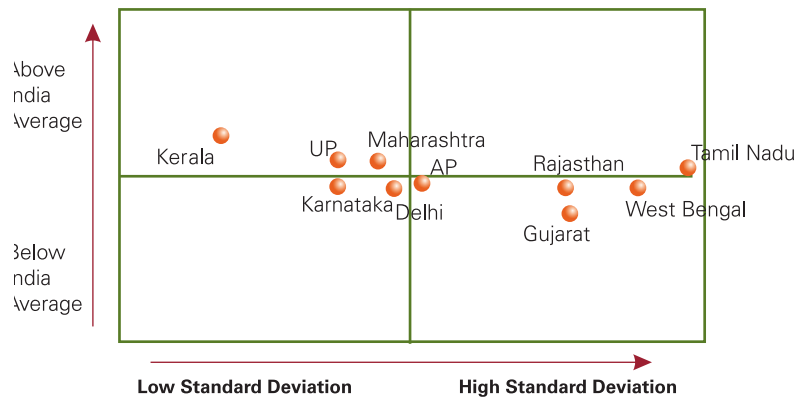
### **The variation gap**

The scores of Tamil Nadu and West Bengal show a high standard deviation. The scores for Tamil Nadu vary from the national average of 2.94 on Finance and 2.95 on local environment and ecosystem, to 2.43 and 2.53 respectively. Tamil Nadu (TN) is known to offer some of the best incentive packages for industries, amongst industrialised states in India. The low score on Finance suggests that TN is perceived as not being able to provide sufficient funding opportunities in the state.

West Bengal on the other hand, has scored low on parameters such as Finance, Local environment, Governance and Regulatory issues but has a high score on infrastructure. This deviation could be attributed to significant variance amongst parameters. The variance could be a result of a disrupted socio-political environment, and a perception of having more militant trade unions.

Based on the above scores we have represented each of the surveyed states on a four-quadrant perception matrix, showing which ones are perceived as being more favourable.

**Perception Matrix**



**Current Status Assessment – Sector-wise**

Our survey respondents were spread across the Manufacturing and Services sectors. This enabled us to analyse the scores according to these sectors and evaluate how the dynamics in these industries affect the perception and experience of entrepreneurs.

**Sector-wise confidence index**

Parameters	Manufacturing	Pan-India	Service
Infrastructure	3.44	3.36	3.36
Manpower Issues	3.29	3.09	3.05
Finance	3.30	2.94	2.92
Local Environment & Ecosystem	3.27	2.95	2.93
Governance Issues	3.17	2.93	2.93
Regulatory Issues	3.20	3.05	3.08
<b>Confidence Index</b>	<b>3.32</b>	<b>3.10</b>	<b>3.09</b>
<b>Standard Deviation</b>	<b>0.09</b>	<b>0.16</b>	<b>0.17</b>

Entrepreneurs in the manufacturing sector appear to be more confident of the availability and support from its ecosystem, as compared to entrepreneurs in the services sector, where the scores are lower than the national average.

The services sector has been the fastest growing sector in the economy, which now accounts for over 50 percent of the country's GDP. In India, the services sector as a whole, contributed as much as 68.6 percent of the overall average growth in Gross Domestic Product (GDP) between the years 2002-03 and 2006-07.

However, it must be noted that the services industry is relatively very young in India. The total body of knowledge and experience, in this sector is therefore lower than the manufacturing sector. Further, as compared to manufacturing, the services sector is extremely dynamic in terms of variety of businesses, gestation period, demand for finance and talent requirements. Hence, expectations from the ecosystem are always likely to be much higher from this sector, which partially explains the lower scores

### Stage-wise confidence index

Parameters	Start-up	Growth-Stage	Pan-India	Early-Stage
Infrastructure	3.66	3.43	3.36	3.18
Manpower Issues	3.30	3.22	3.09	2.88
Finance	3.05	3.16	2.94	2.77
Local Environment & Ecosystem	3.18	3.12	2.95	2.79
Governance Issues	3.28	3.07	2.93	2.74
Regulatory Issues	3.37	3.19	3.05	2.88
<b>Confidence Index</b>	<b>3.34</b>	<b>3.24</b>	<b>3.10</b>	<b>2.92</b>
<b>Standard Deviation</b>	<b>0.21</b>	<b>0.13</b>	<b>0.16</b>	<b>0.16</b>

As a part of our research, we also analysed the perception levels of entrepreneurs across the various stages of the entrepreneurial lifecycle, viz. Start-ups, Early-stage and Growth-stage companies. The survey results are in line with the challenges across these stages.

The high scores for the Start-up entrepreneurial stage, suggest a high level of enthusiasm and optimism which leads to low expectations from the ecosystem, or its acceptance as a *fait accompli*. As an entrepreneur moves to an Early-stage situation, he now requires more support on various parameters, and looks up to the ecosystem. At this stage, survival itself is on the agenda, expectations also rise with respect to finance, talented manpower and ease of procedures. This leads to low scores, as many expectations are not met.

During the growth-stage, the entrepreneur's business is much larger, and the entrepreneur has gained experience, and is conditioned to the demand and supply. Accordingly, the expectations are moderated, which is clearly reflected in the scores.





## The Wishlist

### Unlocking the potential of Indian Entrepreneurship

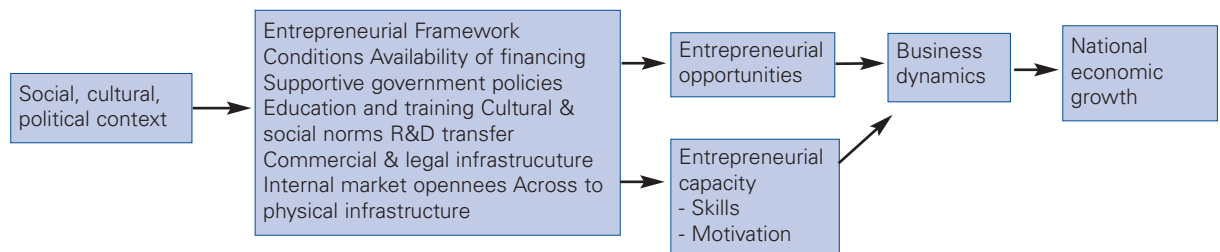
The sheer size of the Indian market is huge, with a working population of 630 million in the country. By 2016, this number will rise to 830 million. Amongst the BRICs countries (Brazil, Russia, India, and China), India has the highest percentage of people in the working class (source: *Goldman Sachs BRICS Report*). As India, which has half its population below twenty-five years of age, starts putting them to work, the consumption-led economic growth is poised to accelerate further.

Our research shows that a very large proportion of this working age population will go into self-employment. The well-travelled, net-savvy Indian is identifying gaps and opportunities, and examining the possibility of converting these opportunities into viable business models. He is more than willing to take risks and is prepared to accept failure as well. State governments across India, are also recognizing the contribution of entrepreneurs and are devising ways to promote it further. Academia too, has started on a journey to support entrepreneurship, by getting involved with incubation activities, business plan competitions, etc.

India can do much more, however, to further advance its entrepreneurial growth. Our survey respondents felt that the surge in entrepreneurial activity is a result of sustained economic growth, and rise in business confidence, driven by multiple sectors providing a plethora of opportunities. There is a need for a focused approach towards driving the growth of entrepreneurial activity and fostering the spirit of entrepreneurship in Indians. The participants of *Entrepreneurial India* recommended a range of initiatives which the entrepreneurs themselves, the governments and the academia can undertake to give a further impetus to this growth.

The 'Global Entrepreneurship Monitor (GEM) Conceptual Model' also suggests that a country must create certain 'General National Framework Conditions' which can generate not only the opportunities for entrepreneurship but also the capacity for entrepreneurship – in particular, the skills and motivation necessary to succeed. Together, the entrepreneurship opportunities, on the one hand, and the skills and motivation on the other, lead to business dynamics that facilitate a process in which new firms are created and older, less efficient firms are destroyed. The overall result for a country is further economic growth.

### The GEM Conceptual Model



Source: Reynolde, Paul D., Michael Hay, William D. Bygrave, S. Michael Camp, and Erko Autio, 2000. *Global Entrepreneurship Monitor: 2000 Executive Report* (Kansas City, Kauffman Center for Entrepreneurial Leadership), p.6.

Hence, to produce successful business builders in India, it is imperative to create the right socio-political environment. They strongly believe that before suggesting corrective paths to the government and academia, entrepreneurs themselves have a strong role to play. To bring about the changes required, our survey participants recommended the following initiatives.

“Entrepreneurs must focus on creating value and not just profit”

- Ravi Narayan, Mentor Partners

### Entrepreneurs can make a difference

**Interact:** Entrepreneurs learn from experience - theirs and that of others. Inspiration is key to fostering entrepreneurship. The entrepreneurial community must create forums, at district, state and national levels, which enable interaction and an exchange of ideas and thoughts. Existing entrepreneurs have a huge body of experience, rich with their pitfalls, successes and mistakes, which can be shared with budding entrepreneurs. As Sandeep Singhal of Nexus India Capital rightly said, “Entrepreneurs need to do their bit of CSR. They need to give back to society in terms of time and engage in spreading awareness about key challenges and ways to overcome them to further foster entrepreneurship in the country.”

“One needs to move from “I will do it” to “I will get it done” to “It will happen””

- Madan Padaki, MeritTrac

**Recognize:** To inspire, role models must be created at the grass-roots level.

Our media is guilty of focusing only on the larger ‘rags-to-riches’ stories.

Entrepreneurs across India felt that recognition leads to motivation which inspires entrepreneurs to perform still better. State and district administrations can create a reward-and-recognition mechanism to acknowledge promising and successful ventures and their creators, and support them in expanding the scope of their activities.

**Support:** *“When you go up, send the lift down for the others”.* Mohan Narayanaswamy of Travel Scope India Pvt. Ltd. said that entrepreneurs not only need motivation, they need access to capital, markets and information. Entrepreneurs must share their resources, fund new ideas and if possible provide a stake in their companies to employees, to promote a greater sense of ownership. Further, start-up or early stage entrepreneurs need to be open to hiring professionals, who join these firms to gain experience, and may even start their own enterprise in the future. Psychological counselling during low phases has also emerged as an important area where peers can support.

**Walk-the-talk:** A large number of our respondents suggested the need to create the right and ethical environment for success. However as Vikram Akula of SKS Microfinance says - *“Act ethically, no shortcuts – be responsible not to promote bribery and corruption which have got India a bad name in business.”* Entrepreneurs before holding the government and regulators responsible for malpractices must ensure governance, transparency and ethics in their respective organisations.

## The role of Government

Our research further probed into the role of government to foster entrepreneurship. A majority of respondents felt that while capital and infrastructure is clearly the need of the hour, regulation has often created barriers to success. For an entrepreneur the important need is stable policies, low taxes, infrastructure availability, an enabling environment where private sector investment is welcome, and an accessible market to sell products and services.





“B-schools should produce potential employers than employees”

- Mahesh Murthy, Seed Fund

**Infrastructure:** Entrepreneurs across India, rate infrastructure as one of the most critical factors for starting and conducting a business. While our respondents recognise the efforts that their respective governments have taken, the need continues to be huge. The survey participants felt that the Government is aware of this. In most budget speeches and policy meetings, infrastructure has been talked about, but not enough has been done. The Indian government will have to seek more investment from the private sector to improve infrastructure. And they have opened it up, it's for the entrepreneurs now to step into that area and start developing it.

**Finance:** Close on the heels of infrastructure, finance is rated as the second most critical factor in our research. There is an availability of multiple funding options with venture capitalists and angel investors willing to ride the India growth wave. A majority of respondents felt the need for a government-run, professionally managed VC programme, emulating the Israel and Singapore government initiatives. While start-ups and early stage companies in urban India have access to a variety of funding options, the government fund can be targeted at budding entrepreneurs in rural India and Tier III cities. Further, together with finance, it is critical to provide access to customers and markets. Entrepreneurs suggest that the state governments can help new enterprises grow by awarding government business to them.

**Regulatory procedures:** Government policies on taxation and regulation of business. play a significant role in either promoting or hampering entrepreneurial efforts. Simplification in regulation and e-governance coupled with faster processes is cited as a key expectation of entrepreneurs.

### **Academia responding to entrepreneurial needs**

The role of academia to foster entrepreneurship was found uncertain by a few entrepreneurs, while a majority were optimistic of their contribution to the growth of entrepreneurship in India. However, a significant majority also felt that entrepreneurship cannot be taught, but academia can become instrumental in creating awareness, providing research and incubation facilities and developing skill sets required.

**Cultivate and provide the right skills:** The expectation from educational institutes is to produce world-class talent. Many entrepreneurs interviewed felt that the Indian education system starting from the primary level, promotes learning by rote, and not questioning or analysing. The approach is theoretical rather than practical, leading to a gap between the business needs and skills. Academia is encouraged to promote a culture of internships at early stages, while moulding young minds to think out of the box.

**Collaborate with industry:** The level of technology and competence in industry has increased, programmes for working professionals in management are on the rise as well. Hence, industry - academia collaboration has become key to address the growing demand for industry-ready professionals.

**Get involved with entrepreneurial ventures:** Business schools and other professional colleges across India are known to compete with each other to invite the best global companies for recruitment. However, many of our respondents felt that they should be encouraging their students to join start-ups and growth-stage entrepreneurial ventures also. Giving visibility to the opportunities in this space will facilitate the flow of skills towards start-up and early-stage companies.



## About the study

*Entrepreneurial India* is a survey based on a qualitative study conducted through personal interviews with a select sample of 30 entrepreneurs across India, and web-based/ telephonic interviews for quantitative data collection over a larger sample of over 300 entrepreneurs across 10 Indian states. ACNielsen, a leading research, insight and consultancy organisation, was commissioned to conduct this independent survey on our behalf, to determine the confidence and expectations of entrepreneurs from their ecosystem. All personal interviews were conducted by KPMG.

The survey was conducted across 10 Indian states namely – Kerala, Karnataka, Uttar Pradesh (UP), Andhra Pradesh (AP), Maharashtra, Gujarat, West Bengal, Rajasthan, Delhi and Tamil Nadu (TN). An attempt was been made to maintain a balanced sample across states; manufacturing and services sector; as well as the stage of the companies. The stages considered were – Start-ups (pre-concept to launch), Early-stage (less than three years of existence) and Growth-stage (more than three years of existence, but not yet come out with an IPO).

Responses have been captured across six broad parameters namely - Finance, Governance Issues, Infrastructure, Local Environment and Ecosystem, Manpower issues and Regulatory Issues. Consequently, each parameter is the summation of a number of sub-parameters which are given on the next page:

Parameters	Finance	Governance Issues	Infrastructure	Local Environment and Ecosystem	Manpower Issues	Regulatory and Compliance Issues	
Sub-parameters	Availability and access to finance	Bureaucracy / corruption	Road networks	Support organisation like incubation centre	Availability of skilled manpower	Labour regulations	
	Availability of banks and institutional lenders as a source of funds	Fiscal policy	Railways	Entrepreneurial education	Cost of manpower	Ease of regulatory and legal procedures for setting up an enterprise	
	Availability of Venture Capital (VC) / Private Equity (PE) as a source of funds	Tax administration	National connectivity	Mentoring facilities	Security of manpower / crime rates	Availability of information for setting up an enterprise	
	Availability of angel investors as a source of seed funds	Information on intellectual property rights	International connectivity	Law and order	Activities of trade unions	Municipal regulations and charges	
			Availability of power				
			Power costs				
			Availability of water				
			Telecommunication services				
			Availability of IT infrastructure				

The respondents were asked to rate the six parameters on a 3-point scale, where 1 implied least relevant, and 3 implied extremely relevant for their success. The averages of these ratings depict the importance of these parameters, which were then calculated at a national level.

The respondents were also asked to rate the sub-parameters on their current status in the state, on a 5-point scale, where one implied extremely poor, and five implied the ideally desired state. The average current status ratings for the sub-parameters, were accordingly aggregated into the parameters, to arrive at the current status rating.

Weights varying from 1 to 6 were assigned according to the importance ratings, wherein a weight of 1 was assigned to the parameter with the lowest rating and a weight of 6 was assigned to the parameter with the highest rating, to clearly bring out the importance of each of the parameters.

Further, weighted average scores were calculated for pan-India, the states, the sectors and the stages, based on these weights. This gave us the Entrepreneurial Confidence Index.

The standard deviation was also calculated, to arrive at the variance of the current status of the parameters. A low standard deviation would show that the performance is consistent across all parameters, while a high standard deviation would show significant variations across parameters. The cut-off between low- and high- standard deviations was fixed at 0.25.

Based on the standard deviations and the weighted averages we have plotted the states on to the four-quadrant perception matrix. The most desirable quadrant being the top-left quadrant where the weighted average score is above the India average, and the variance between factors is the least. On the other hand, the least favourable is the bottom right quadrant where the score is below the India average, and the standard deviation is high.

# Annexures

## Statewise Scores-Sub-parameter Level

	AP	Del	Guj	Kar	Kerala	Mah	Raj	TN	UP	WB	PAN India
<b>Infrastructure</b>											
Availability of IT infrastructure	3.76	3.78	2.85	3.33	4.11	3.58	3.25	3.94	3.76	3.55	3.61
Availability of Power	3.29	2.78	3.09	2.73	4.18	3.51	3.50	3.62	3.35	3.36	3.27
Availability of Water	2.95	2.89	3.15	2.88	4.25	3.72	2.92	3.06	3.88	3.91	3.33
International connectivity	3.52	4.04	2.76	3.35	3.00	3.79	2.58	3.88	1.82	2.73	3.40
National connectivity	3.38	3.65	2.97	3.45	2.89	3.75	4.17	3.85	2.65	3.73	3.44
Power costs	2.95	2.72	3.21	2.63	4.25	3.26	2.75	3.03	3.71	3.45	3.15
Railways	3.19	3.39	2.97	2.75	3.89	3.04	3.92	3.62	3.29	3.27	3.24
Road networks	2.38	2.78	3.24	2.48	3.39	2.91	3.67	3.32	3.59	2.64	2.95
Telecommunication services	3.62	4.02	3.24	3.35	4.29	4.04	4.08	4.00	3.59	3.73	3.79
<b>Manpower Issues</b>											
Activities of Trade Unions	3.19	3.43	2.12	2.73	3.71	3.26	2.58	3.74	3.59	3.00	3.18
Availability of skilled manpower	3.19	2.83	1.97	3.08	3.57	3.47	2.17	3.09	3.76	2.82	3.06
Cost of Manpower	3.19	2.78	1.97	2.55	3.71	3.21	2.83	3.06	4.00	3.73	2.99
Security of manpower/crime rates	3.43	2.93	2.24	2.93	3.96	3.15	3.25	3.76	3.24	3.64	3.17
<b>Finance</b>											
Availability & Access to finance	3.10	3.04	2.62	2.80	3.54	3.45	3.42	2.62	3.76	2.36	3.05
Availability of Angel investors as a source of funds	2.43	2.63	2.35	2.73	3.89	3.00	1.83	2.24	2.12	2.00	2.68
Availability of Banks & Institutional Lenders as a source of funds	2.90	3.07	2.71	2.98	3.61	3.55	3.50	2.65	3.71	2.73	3.12
Availability of Venture capital / Private Equity as a source of funds	2.86	3.02	2.53	2.98	4.00	3.23	2.33	2.21	3.18	2.09	2.95
<b>Local Environment &amp; Ecosystem</b>											
Entrepreneurial Education	2.90	2.43	3.12	2.78	4.00	3.17	2.08	2.18	3.59	2.18	2.92
Law & Order	2.62	2.67	3.15	2.85	4.07	3.43	3.33	3.68	3.24	3.09	3.20
Mentoring Facilities	2.81	2.89	2.97	2.98	4.04	2.91	2.00	2.09	3.71	2.45	2.95
Support organisation like incubation centre	2.52	2.61	2.82	2.90	3.68	2.96	2.25	2.24	3.41	2.09	2.82
<b>Governance Issues</b>											
Bureaucracy / corruption	2.14	2.37	3.09	2.03	3.57	2.57	2.33	3.26	3.71	2.45	2.73
Fiscal Policy	3.00	3.07	3.03	2.55	3.75	3.06	2.67	3.88	3.06	3.09	3.15
Information on Intellectual property rights	2.62	2.72	2.88	2.58	4.07	2.79	2.00	2.26	3.47	2.64	2.84
Tax Administration	2.86	2.74	3.06	2.70	3.71	3.00	2.75	3.56	3.53	2.91	3.07
<b>Regulatory &amp; compliance Issues</b>											
Labour regulations	3.52	3.24	2.03	2.63	3.71	3.25	2.67	3.62	3.24	2.91	3.11
Ease of regulatory & legal procedures for setting up an enterprise	2.67	3.07	3.03	2.80	3.61	3.21	2.75	3.00	2.94	2.91	3.05
Availability of information for setting up an enterprise	3.00	2.67	3.09	2.78	3.82	3.17	2.50	2.94	2.88	2.64	3.01
Municipal regulations & charges	3.00	2.91	3.09	2.75	3.86	2.68	2.67	3.68	3.65	3.27	3.12

**Major entrepreneurship incubation**

Sr. No	Incubation Centers
1	Centre for innovation, incubation and entrepreneurship (CIIE) IIM Ahmedabad
2	Society for innovation and Entrepreneurship (SINE) IIT, Mumbai
3	TBI on Embedded Systems and VLSI Design- Bits Pilani
4	TBI for composites- Bangalore
5	Centre for Biotechnology- Anna University, Chennai
6	MITCON Biotechnology centre- Pune
7	National Design Business Incubator- NID, Ahmedabad
8	Vellore Institute of Technology- Vellore
9	National Institute of Technology- Calicut
10	J.S.S Mahavidyapeetha- Noida
11	ICRISAT- Patancheru, Andhra Pradesh
12	Kongu Engineering College IIT Madras
13	Advance Materials Technology Incubator- Hyderabad
14	Centre for Entrepreneurship- S.P. Jain, Mumbai
15	CybizCall (International) Limited- Gurgaon
16	Euro Incubator- Bangalore
17	Technology Business Incubator- IIT- Delhi
18	Indiabizstart, Mumbai
19	Indiaco (P) Limited- Pune

Sr. No	Incubation Centers
20	LRAMP- IIT, Chennai
21	Life science incubator- Hyderabad
22	Maharashtra Centre for Entrepreneurial Development-Aurangabad
23	NirmaLabs- Nirma University, Ahmedabad
24	Punchline Business Centre- Haryana
25	Rural Innovations Network- Chennai
26	SJCE- STEP Technology Business incubator
27	STPI-Hyderabad, Jaipur, Noida and Pune.
28	FICCI- New Delhi
29	NSIC- Rajkot
30	CDC- Bangalore
31	Ekta Incubation Centre
32	The Nadathur S Raghavan Centre for Entrepreneurial Learning(NSRCEL)- IIM Bangalore
33	Sidbi Innovation and Incubation Centre- IIT, Kanpur
34	Innovation and Incubation centre- IIM, Lucknow
35	Incubators Network- Hyderabad
36	SPIC- Chandigarh
37	NSTEDB- New Delhi



# About TiE

The Indus Entrepreneurs (TiE) is one of the world's largest not-for-profit network of entrepreneurs and professionals, dedicated to the advancement of entrepreneurship.

TiE helps budding entrepreneurs by way of advice, guidance and assistance from successful & experienced entrepreneurs and professionals through programme that cover education, inspiration, mentoring and networking.

In India, TiE delivers its single-minded focus on the mission of fostering entrepreneurship and wealth creation, through a triple A- programme viz;

## **Advocacy**

- e.g. advocating the role/cause of entrepreneurs at both macro & micro levels to facilitate a conducive ecosystem for entrepreneurship

## **Awareness**

- through education and sharing insights into the entrepreneurial mindset

## **Assistance**

- through active mentoring with other experienced entrepreneurs and support system like VCs, and service providers

Our greatest strength is our network with 48 chapters across 11 countries (13 in India) and an eclectic mix of 15,000+ members worldwide spanning the entrepreneurial ecosystem – successful & experienced as well as budding entrepreneurs, venture capital firms, angel investors, incubation centers, service providers, etc. TiE offers a rich resource pool to an entrepreneur.

We make continuous efforts to interconnect this network in a way that allows us to deliver real value to all our constituents.

## About KPMG in India

KPMG is the global network of professional services firms of KPMG International. Our member firms provide audit, tax and advisory services through industry focused, talented professionals who deliver value for the benefit of their clients and communities. With nearly 113,000 people worldwide, KPMG member firms provide services in 148 countries.

The member firms of KPMG International in India were established in September 1993. As members of a cohesive business unit, they respond to a client service environment by leveraging the resources of a global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. We provide services to over 2,000 international and national clients, in India. KPMG has offices in India in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune. The firms in India have access to more than 2500 Indian and expatriate professionals, many of whom are internationally trained. We strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

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