

How Singapore is turning into India Inc's gateway to the world

Companies are raising global money, setting up headquarters, resolving disputes and using Singapore as an outpost to manage global operations.

By: Arijit Barman, ET Bureau



Companies are raising global money, setting up headquarters and holding companies, resolving disputes and using Singapore as an outpost to manage global operations. Professionals and wealthy individuals are choosing to live and store their family wealth there too. ET explores why everyone loves the city state.

Hidden behind JSW Steel's sensational \$500 million international bond debut in November is a new narrative of a fast changing dynamic in global geopolitics, business, power, influence and money. Over 171 global investors queued up during the three road shows in Singapore, Hong Kong and London, oversubscribing the issue 3.5 times. "But 68% of our investors are from Asia," says Seshagiri Rao, Sajjan Jindal's most trusted lieutenant and Joint MD and Group CFO JSW Steel. "We chose to list in Singapore instead of the usual Luxemburg. For Indian corporates like us, Singapore is becoming far more relevant."

Heamant Luthra of Mahindra couldn't agree more. Around the same time last month, he was on a red eye flight from Mumbai to Singapore and after landing at the Changi Airport the next morning, headed straight for day-long, back-to-back meetings and presentations with at least 15 marque foreign institutional investors, fund managers, pension and sovereign wealth funds all of whom wanted a firsthand peek into Mahindra CIE, from the company's chairman. A cocktail and a dinner later, Luthra was airborne again the same evening only to return to the headquarters for a brain storming session with his group chairman, the very next day. "All the investors, PE funds and investment bankers who matter are in Singapore," quips Luthra.

Incidentally, Mahindra himself has been on Singapore's Economic Development Board since 2011. The board's vision is to make the city the most sought after investment and trade destination in the region.

Smart businesses in the beginning of the 19th century set sail for London. The 20th century saw the rise of New York City. And at the beginning of the 21st century, you will find a way to the southernmost tip of the Malay Peninsular - to the city state of Singapore. Such a historic shift has also coincided with the commensurate rise of Asia as the fastest growing economic bloc with thriving new global finance centers like Hong Kong, Shanghai and Singapore.

India's favourite global suburb

But why are companies choosing Singapore over Hong Kong? The latter has been the premier outpost to London for many decades now.

Hong Kong is too Chinese for comfort, many Indian CEOs confess in private. Singapore - with its 3.5 lakh Indian diaspora (9.1% of the population) -- is far more socio-culturally accepting

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(Tamil is one of the national languages) and geographically closer. And with 199 flights a week from India, it's easier and cheaper to fly to Singapore from anywhere in the country than it is to Imphal.

More importantly, today it is Singapore and not Shanghai that is setting the standard for ease of doing business, regulatory transparency, legal and financial stability, openness, business integrity and cosmopolitanism. It has risen at the cost of traditional hubs London and New York which were forced to undergo a punishing process of deleverage and regulatory reform following the 2008 Lehman collapse.

"We have stability, security and we are neutral. We know we cannot prosper without them. Hong Kong has trouble on all these fronts," Masagos Zulkifi, Senior Minister of State at Singapore's Ministry of Foreign Affairs puts it succinctly.

Global capital is increasingly making Singapore its new home. Despite no natural resources of its own, Singapore is now the largest commodity hub in the world, Asia's largest foreign exchange market and its 2nd largest wealth and asset management center with \$1.4 trillion assets under management, as per the Boston Consulting Group. Together Singapore and Hong Kong (\$2.2 trillion) are poised to overtake global leader Switzerland (\$3.7 trillion) by 2015, adds BCG.

Not surprisingly, Singapore is emerging as the single most important gateway to the world for Indian multinationals.

"Historically, India Inc has always been in love with London and still continues to be so, but increasingly Singapore is becoming the preferred international outpost," says Neeraj Swaroop, CEO, Standard Chartered Bank, Singapore. "If Hong Kong is the gateway to China and North Asia, then Singapore is the conduit for South East Asia and ASEAN."

Singapore is now a popular place to raise international funding and a strategic place to create regional treasury hubs. Some also leverage its operational convenience to set up a base or regional headquarters. For India, a coal, iron ore, food grain and oil guzzling nation, Singapore is also a natural destination for commodity trading and for logistics and transportation. Business aside, wealthy Indian business families are also exploring setting up their family offices there to capitalise on the benign tax rates and zero capital controls. A few business families are even keen to have their Gen Next move and settle in Singapore and manage family business or investments from there.

There are close to 6000 Indian companies registered in Singapore, of which 2000 are active, says George Abraham, CEO of Singapore Indian Chamber of Commerce & Industry. "All necessary registrations and licenses come through a single window within 7 days. It's a single window clearance and agencies like EDB acts as key facilitators to navigate the different government departments."

The ease of doing business helps. But more than that, the enthusiasm about Singapore flows from the 9-year old Comprehensive Economic Cooperation Agreement (CECA) safeguarding investments and the definitive Double Taxation Avoidance (DTA) treaty. These have far more clarity than the one with Mauritius.

With CECA in place since 2005, Indian accumulative FDI in Singapore has now crossed \$25 billion, growing at 381%. Even China doesn't invest in Singapore as much as India does. From the billionaires of India Inc -- Reliance, Jindals, Adani and Birlas -- to the new generation

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entrepreneurs behind GMR, GVK or even HCL Technologies, Singapore has wooed them all. (See Graphic: India Inc's Singapore Sling).

INDIA INC'S SINGAPORE SLING

MAHINDRA

Hub for Tech Mahindra, financial services & aerospace business



HEMANT LUTHRA
CHAIRMAN,
MAHINDRA CIE

"It may not be a big manufacturing hub for our auto or tractors business, but it is an important window into Asia for aerospace, IT or financial services verticals"

TATA

Current footprint: 15 group cos. employing over 3300 employees & managing over \$7.5 billion of investments

International HQs for Tata Communications, Tata Power & Tata Chemicals

Regional (APAC) HQs for TCS to oversee operations of 12 countries

Tata Steel's 1st cross border acquisition NatSteel, Corus acquisition routed via Singapore entity

Tata-SIA JV Vistara to take off in Jan 2015

TML Holdings houses all international businesses of Tata Motors. Including JLR



KV RAO
RESIDENT DIRECTOR -ASEAN, TATA SONS

"We feel at home here. There is also a certain positive image of doing business out of Singapore"

ADANI

Group's international shipping, coal trading, oil and gas & the ambitious Australian mining operations are all housed in Singapore arm Adani Global Singapore

Adani Global, 100% subsidiary of Adani Enterprises, the holding company.

Adani Global Singapore revenues: \$4.5 bn



ARUPROY
CEO, ADANI GLOBAL

"We came to Singapore when hardly anybody was diving for it"

Hubbing out

But nobody has leveraged Singapore as much as the Tatas. In fact, the group's globalization odyssey began here way back in 1970 when Singapore was known more for being a shipping village. Tata Precision Industries opened its first international engineering plant outside Indian shores at the invitation of the then Singapore PM Lee Kuan Yew who was desperately seeking industrialization. Today the group operations - with 15 group companies, employing over 3300 employees and managing over \$7.5 billion of investments - are sprawling. "We feel at home here. There is also a certain positive image of doing business out of Singapore," says KV Rao, Resident Director -ASEAN, Tata Sons.

PUNJ LLOYD

Acquired Singapore's Sembawang Engineers & Constructors in 2006 to diversify into urban transportation & infrastructure from the traditional oil and gas specialisation



ATUL PUNJ chairman

"Don't let its size fool you. The potential order book of just the land transport department is expected to be \$40 billion"

ADITYA BIRLA

Trans-national bulk commodity trading business Swiss Singapore clocked \$3 billion in revenue in fiscal 2010-11 moving 12.8 million tonnes of goods

RELIANCE

Hub for crude, finished petroleum products

Since November, begun crude and fuel trading in Singapore, leasing storage facilities to blend diesel and gasoline to supply to South East Asia and Australia

BHARTI

Singtel is a strategic partner in Bharti Airtel and owns nearly 32%; Zain, Bangladesh business acquisitions routed via Singapore

THE TECH BUNCH

HCL Tech, Infosys, Wipro, TCS, Cognizant have large centres. HCL has moved its global R&D centre for enterprise mobility solutions

JSW

Recently opened coal trading division recently to handle group's 20 million tonne captive requirement

GMR & GVK

Indonesian & Australian operations are routed via Singapore; GMR sold its 800 MW Island Power project in Jurong in 2013

BALLARPUR INDUSTRIES

Planning to list international arm in SGX; sourcing hub for paper business

MERCATOR

Moved offshore, dry cargo and international coal businesses to a wholly owned Singapore incorporated arm

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Some like Tata Communications, Tata Power and Tata Chemicals manage their expansive global footprint from their International Headquarters (IHQs) in Singapore while some like TCS have their regional HQs manning the ASEAN operations that over straddle 12 countries. Even joint ventures Tata NYK and Tata Power's shipping subsidiary Trust Energy Resources, enjoy the status of being Approved International Shipping Companies for using Singapore as their strategic node. The high profile return to aviation, after numerous aborted attempts, is again taken wings with Vistara, a partnership with Singapore Airlines, and is also expected to take off early next year.

Even the Adanis have hubbed out of Singapore for years now and manage their entire international shipping, coal trading, oil and gas and the ambitious Australian mining operations through the \$4.5 billion Adani Global Singapore, a 100% subsidiary of group holding company Adani Enterprises. "We came to Singapore when hardly anybody was diving for it. We are an Indian MNC that today compete with global players sitting out of here," says Arup Roy, its CEO, a former senior banker from Standard Chartered.

Some like Punj Lloyd have parked themselves through acquisitions. In 2006, right after India opened up overseas investments, it snapped up Sembawang Engineers & Constructors to diversify exposure into urban transportation and infrastructure from the tradition oil and gas specialization. "Don't let its size fool you. The potential order book of just the land transport department is expected to be a massive \$40 billion. Singapore's investments in water recycling is also the highest in the world," explains Atul Punj, the company's chairman.

Almost all Indian IT companies with scale including HCL Tech, Infosys, Wipro, TCS, Tech Mahindra and Cognizant have made deep inroads into Singapore, catering to clients in sectors as diverse as finance, infrastructure management and healthcare with technologies as varied as enterprise mobility, cloud and analytics. TCS has pumped in \$6 million to set up the ICity Lab with Singapore Management University for smart solutions for intelligent Asian cities and HCL has moved its global R&D center for enterprise mobility solutions.

Exploiting its position as the world's largest bunkering and busiest trans-shipment port with straddling sea lanes to and from commodity guzzling China and India, Singapore has attracted trading firms from across the world, including India. Commodity derivatives are the fastest growing business in SGX, the Singapore exchange. The action has moved away from Hong Kong where the focus is predominantly on base metals.

So like Adani and Tatas, even Aditya Birla Group has its trans-national bulk commodity trading business Swiss Singapore incorporated since 1978, dabbling in timber to sulphur, agro products to iron and steel, coal and petrochemicals. It clocked \$3 billion in revenue in fiscal 2010-11, moving 12.8 million tonnes of goods. Since this November, Reliance, India's largest refiner, has also begun crude and fuel trading in Singapore, leasing storage facilities to blend diesel and gasoline to supply to South East Asia and Australia. Singapore's is Asia's biggest oil-trading center.

JSW Group too has opened their coal trading division recently to handle their 20 million tonne captive requirement and for MRF or for Ballarpur Industries, using Singapore as a hub for rubber and pulp sourcing from nearby Malaysian plantations becomes an obvious choice. Within a week of placing an order, cargo from Singapore can reach Chennai. "There is no comparison when it comes to port and cargo handling efficiencies. At our ports, discharging and paperwork can drag for weeks," says HK Mittal, Executive Chairman of Mercator, one India's largest shipping companies. "Big cargo or crude vessels also cannot enter ports like Mumbai because of the lack of draft, forcing them to go to Singapore or even Sri Lanka to offload." Like many in the sector,

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Mercator has also moved its offshore, dry cargo and international coal businesses to a wholly owned Singapore incorporated arm.



Treaty benefits

Just like the one with India, Singapore has similar comprehensive agreements with over 90 countries. So, Indian firms find it easy to route complex cross border acquisitions through a Singapore entity that doubles up as an international holding company. From Corus to JLR; from Zain and Hancock Coal, almost all headline grabbing global Indian M&As have a strong Singapore connect.

"The tax efficiencies ultimately are to do with saving capital gains tax of any transfer or sale of shares. While both Singapore and Mauritius have zero capital gains tax, the clarity that the Singapore-India DTA provides on ensuring that a sale of share in Singapore/offshore does not trigger a tax in India is a key factor," explains Gautam Narasimhan, Partner at the Singapore office of Allen & Ovary, a leading global law firm. "Further Singapore does offer the resources to act a genuine hub for investments in Asia and APAC-factors that are unavailable in Mauritius."

Take Bharti's example: It invested in a Singapore SPV which in turn invested in Bharti Airtel International Netherlands BV. This Dutch entity was used to acquire 100% of Zain Africa for \$10.7 billion, enabling Sunil Mittal to expand to 15 African markets. The advantages of such structuring are a handful. The Singapore and the Dutch entities raised the lion's share of leverage, leaving the Indian parent's balance sheet unencumbered. Bharti Airtel offered corporate guarantees though. Netherlands has bilateral investment and tax avoidance pacts with several African countries where Zain operates, which makes the investments safe and makes repatriation of profits easier.

The scent of the Singapore dollars

With 120 foreign commercial and 39 merchant banks, Singapore has a vibrant debt market. For Indian debt issuers - Vedanta to ICICI Bank, Indian Oil, Bharti to RIL --- it is clearly the premier go-to destination. Indian companies have so far raised almost \$60 billion in just bonds listed on the SGX. To put it in perspective, nearly 80% of listed international bonds from India are listed in Singapore. Currently, 141 active bond issues with an issuance amount of \$47.8 billion are outstanding in SGX. Last year, even Singapore dollar bonds gained traction with 4 Tata Group companies raising over a billion dollars.

The zero withholding tax on instruments like bonds coupled with access to wider market participants makes all the difference. "The India desks dealing with Indian transactions of many global and regional banks are in Singapore. A large pool of investors who look at such transactions and subscribe to Indian corporate or PSU debt and are familiar with them are also here," says Krishna Suryanarayanan, MD, Structured Finance, ING Bank NV. "So for Indian companies, structuring, marketing and syndicating debt facilities are increasingly driven out of here."

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Spotting the trend, even local bank DBS opened its Indian desk in Singapore in the last quarter of 2013, much like several of its US and European peers. Not to be left behind, today nine Indian banks also operate out of the country. "India is the 3rd largest issuer in SGX-listed bonds but there is still enough and more room. We have just scratched the surface so far," says Anil Kishora, CEO & Country Head of SBI in Singapore.

However, compared to debt, equity raising by India Inc in Singapore has been muted with only 5 listings on the SGX so far. But with the exchange opening its rep office in Mumbai, the first among the foreign exchanges to have a presence on the ground, it hopes to leverage the next round of growth to crank up momentum especially for business trust and REIT listings of Indian toll road, renewable energy and real estate companies - an option that players like L&T IDPL and IL&FS Energy - have explored in recent past. "Usually, it takes a bit longer for government reforms to reach infrastructure sector, but I expect investments to start flowing in the short to medium term, which could drive some of these projects to consider listing in Singapore as business trusts," says Amit Sinha, MD- Institutional Banking Group, DBS Bank, who also oversees the bank's India Desk in Singapore.

Lower listing fees compared to US, specialized investor base for healthcare, realty, commodities, maritime, minerals, oil and gas and renewable energy, more flexible compliance norms coupled with a thriving wealth management hub act as catalysts to divert traffic to the Singapore exchange. "We are leaders in the bond markets and strong on derivatives on the back of our alliances with NSE and BSE and hope to see more cross listings of such products. But with unlisted companies getting to list overseas through depository receipts and a revival in the capex cycle in India, we hope to see more traction for equity and yield listings through REITs and Business Trusts. The pipeline is building well," says Neena Prasad, SGX's Chief Representative, India Office.

Singapore is also favourite outpost for Asian or global capital that is seeking opportunities in the region. There are 81 FII from Singapore which are registered with SEBI. Major foreign institutional investors that invest into India -- Aberdeen, Eastsprings (formerly Prudential), GIC or First State -- have mostly chosen the island city state as their base and not Hong Kong, Asia's biggest equities and IPO listings center. As per back of the envelope calculations by market participants, just among themselves, they handle over \$15 billion of Indian assets under management. "Today there is more money in the hands of the Singapore fund managers investing into India than Indian MF industry," says Samir Arora, Founder, Helios Capital Management.

Uncertainty over the sanctity of the Mauritius tax treaty and the recent fear over GAAR has also improved Singapore's fortunes. Singapore replaced Mauritius as the top source of FDI into India, accounting for a quarter of the total inflows in 2013-14. Singapore also accounted for the 4th largest chunk of assets under custody of FIIs investing in both Indian debt and equities. As on October 2014, AUC from Singapore has increased 43% since December 2012 to Rs 2.55 lakh crore. The appetite for Indian debt papers have especially gone up. "Earlier Cyprus was extensively used for debt inflows into India due to the combination of low with-holding tax and zero capital gains tax. However, since the 2008 financial crisis, investors have been uneasy about the situation in Cyprus. Singapore, with a low withholding tax under the treaty with India (15%) and zero capital gains tax offers a compelling alternative," feels Deutsche's Vishwanathan.

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Where the money bags love to work, live...and play

Like FII and hedge funds, PE industry is also zooming in on Singapore. The \$2 billion India focused Everstone Capital has set up a 15-member strong base in Singapore to explore a deal corridor between India and South East Asia. "For all the PE firms who opened their 1st Asia office in Hong Kong in early 2000, India became their 2nd beach head. But with rising opportunities emerging out of Thailand, Malaysia, and Indonesia, a separate Singapore center becomes critical," says L Brooks Entwistle, former India and South East Asia head of Goldman Sachs, and currently Partner & Group CEO, Everstone Capital Asia.

Global firms like Blackstone and KKR have also opened their offices here in recent years. Singapore government's investment arms Temasek and GIC are also the biggest investors in Indian public and private markets, with the former alone investing over \$4 billion in direct investments.

If such pools of liquidity are available for corporates, why not for their promoters? Singapore may have less number of billionaires compared to its more affluent neighbor Hong Kong but has enough wealth still, drawn in by low tax rates, a deep reservoir of private banking talent, credible trust laws that aid inheritance planning and regulatory governance that lends credibility that rivals Switzerland and other traditional centers that were the default jurisdictions for the high net worth individuals from around the world and even India. As a private banker puts it, with the global spotlight on Swiss and Dubai banks, Singapore has positioned itself as the Switzerland of Asia but without the black money. Anecdotal data from private bankers suggest quantum of wealth held by NRIs in Singapore alone could be upwards of \$30 billion.

Overseas Indians based in Middle East or ASEAN also parked their wealth with managers in Singapore. "There is a huge rise in NRI desks in private banks here to service the growing needs of the diaspora. Wealthy Indian are just like their global peers. They have multi-residencies and citizenship, their kids are studying overseas, so are their assets," quips Jay Jhaveri, of Wealth X, a research company. "Money chases opportunity and it is all here in Asia." There are close to a dozen Indian family offices that have also mushroomed in Singapore as well to manage investments of individual ultra-high net worth families which could range from marina facing villas on Sentosa Island that could touch S\$15 million each or listed bonds or even Indian art, jewelry and angel start-up opportunities. "People of Indian Origin are typically hungry for yield. This yield is either derived through fixed income portfolios or through rental yield on real estate holdings. These two asset classes are the most favoured. A typical UHNI portfolio would be attributed to the two asset classes easily between 50% to even 70%. The focus on international equities is low and often the attraction even towards equities is through structured products which payout a yield usually through a sale of Put Options at some predetermined strike levels of the stock price," says Mandeep Nalwa, Chief Executive, Taurus Wealth Advisor, a fee based, multi-family office that manages over a billion dollars of assets.

It's not just about taxes, opportunity or easy immigration but is also a lifestyle choice. Singapore is greener compared to Dubai and cheaper to live in than Hong Kong. "Dubai is a mistress you will never be able to marry. No foreigner can ever be its citizen, but the road to assimilation is clear in Singapore," quips a former banker now based in Singapore. Outside of India and US, Singapore has the highest number of graduates from its premier institutes. The alumni network of IITs, IIMs or IIFT in Singapore boasts of over 1000 members who have made Singapore their home.

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"Capital is actually following talent," says Entiwistle. "Singapore is the magnet for people who are really long on Asia. It's a great place to have permanent roots. From school for kids, place to stay, connectivity, this is the best global city to work, live and play."

Pay levels for Singapore's C-Suites outstrip those of Japan and exceeds those of Hong Kong by 14% at senior executive level to 34% for top management, shows the latest remuneration report from global HR consultants Tower Watson. It is also the only city outside of Europe and North America that is ranked among the top five least risky city in the world to recruit, employ and redeploy talent, according to Aon Hewitt. "The city's business plan is always getting re-defined just like a corporate. With the growth in the financial services, R&D based industries and its evolution as a regional hub, migration of top talent has only compounded and that's reflected in the compensations. Singapore Inc is always fresh and relevant," says Vinay Menon, London office head of Positive Moves Consulting, a cross border executive search firm.

"Singapore is the best 'Indian' city to live in," adds Chakrabarty, before summing it all up neatly. "You get hot piping dosas in at least 5 places in Singapore, but I cannot think of a vegetarian joint in Hong Kong's central business district...and if you are feeling low, you can go to your neighbourhood temple and pray, if you are so inclined."