

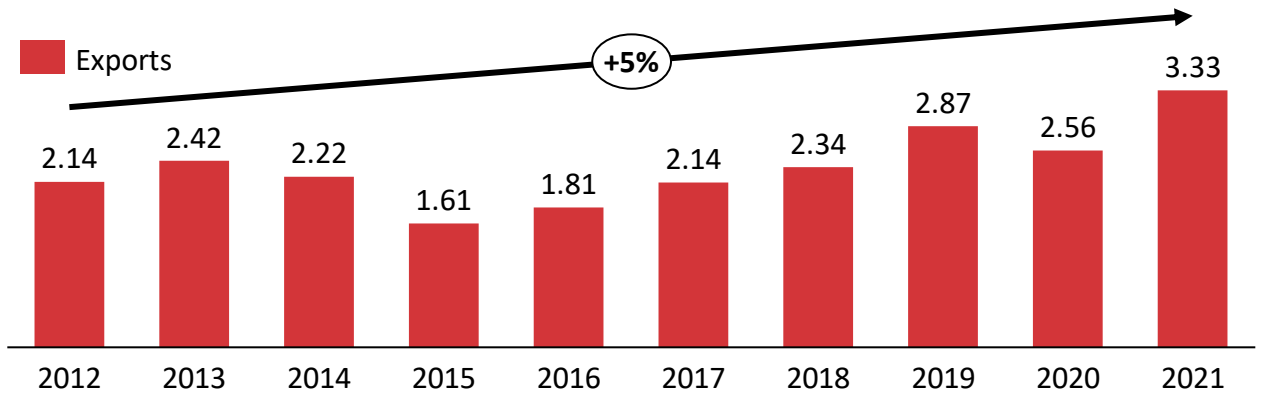
Adding Indian Spices to Russian Vodka – **Opportunities for India**



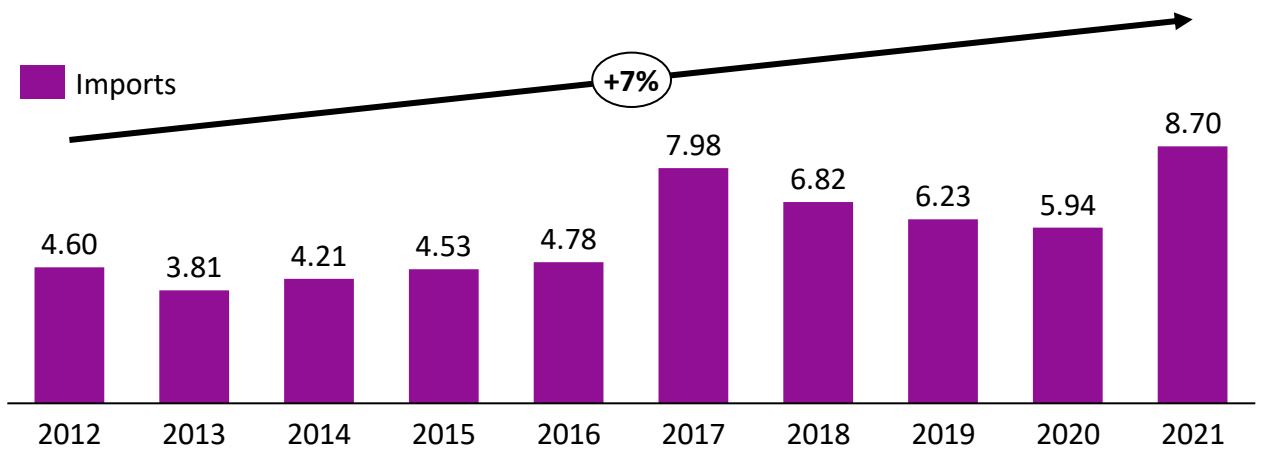
Russia business for Indian companies is a niche opportunity arising out of a special situation

Although Russia had always been a strong ally for India since our Independence, the trade relationship between the two countries has underperformed compared to its potential.

India's Exports to Russia - 2012 to 2021 (All numbers are in USD bn)



India's Imports from Russia - 2012 to 2021 (All numbers are in USD bn)



A significant number of western business entities are leaving Russia over its attack on Ukraine, the result of which was economic sanctions imposed against it by the West (the US and Europe). Seeking to shift its customer base after European companies spurned Russian crude, Moscow offered crude at discounted rates. With the surge in India's imports of Russian oil, Moscow can make use of the rupee balance to import more Indian goods or services and sustain the Rupee-denominated trade to evade the sanctions. The RBI had allowed for the investment of surplus rupee balance in government securities or Indian infrastructure-development projects, but it would be a more desirable option for Russia to import Indian goods and services.

Another proposal has called for the investment of rupees in joint ventures with Indian firms to supply goods and services. A surge in exports would aid in dealing with the deficit and address any potential excess rupee balance with Russia.

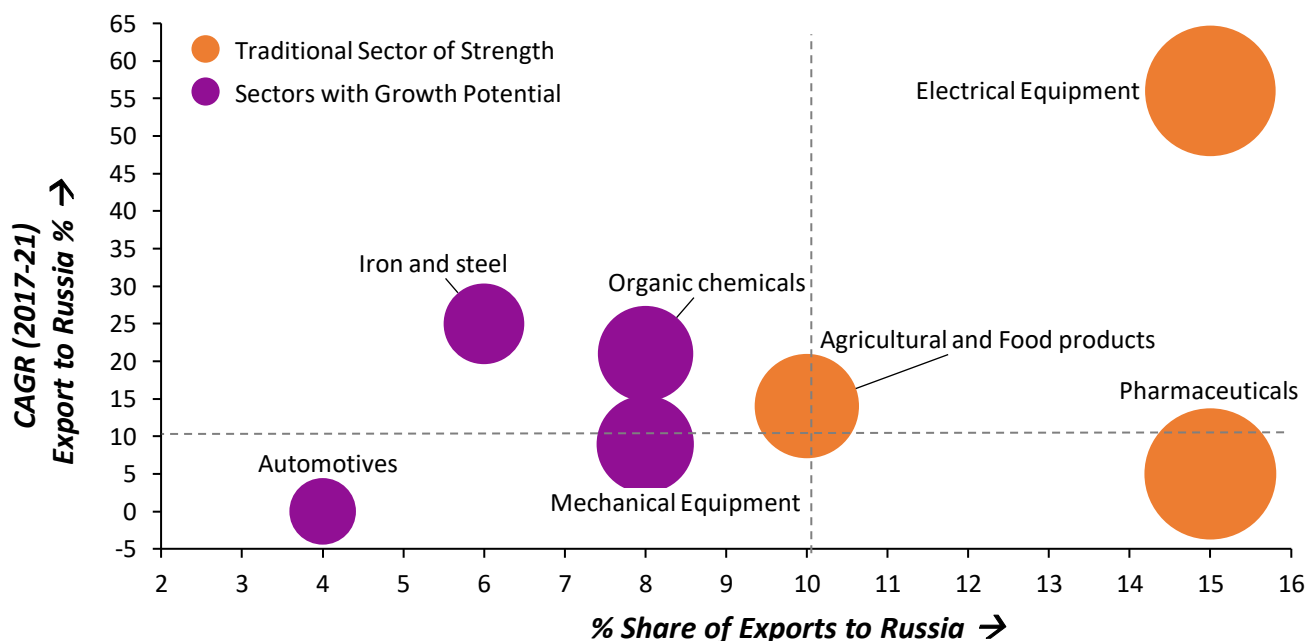
The vacuum created by the exodus of companies has generated opportunities in various sectors and segments

Along with ongoing projects in connectivity, diamond processing, healthcare (pharmaceuticals and medical devices), tourism, railways, metallurgy, civil aviation, shipbuilding, oil refinery and petrochemicals, there are plenty of new opportunities for the Indian business in the Russian market, especially against the backdrop of withdrawal of western organizations. India is also looking at investment in new areas such as coking coal, timber, fertilizers, minerals, and chemicals in addition to agriculture and consumer goods.

Industry associations have confirmed that Russian trading companies are looking at India for sourcing various goods across sectors which have brought a big opportunity for Indian small manufacturers and traders to export. It is an opportunity for them to proactively approach Russian trading houses for assistance in locating suppliers (small manufacturers, distributors, traders) who can meet the Russian requirements. Russian firms are also looking to recruit Indians as the exit of skilled professionals, has created a manpower shortage.

Further, firms from Africa and South-East Asia, which have conventionally been reliant on Russian defence platforms, are now approaching India for MRO services (Maintenance, repair and operations) for their equipment. Several European countries are also looking at sourcing Indian refined products made from Russian crude, which is out of bounds for them. There is a strong potential for India to emerge as a global refinery and petrochemical hub, especially for the European region, as an alternative.

India's Export Basket to Russia – Sectors of Strength



To take advantage of the opportunities – governments and private firms both have an equally important role

Russia urgently needs to diversify from its economic dependence on the EU, and India can be a potential partner. It is time to revive initiatives like the Vladivostok-Chennai Maritime Corridor (VCMC), and the International North South Transport Corridor (INSTC). In addition, an FTA is also being negotiated via the Eurasian EU.

Indo-Russian bilateral trade would be boosted by the operationalization of a Russia-India “Green Corridor” and an Investment Protection Arrangement. However, it would also require significant efforts and large investments which should come from both: Governments and the corporate sector. To facilitate such a shift, Russia needs to create a similar kind of infrastructure as it had built with Europe: Setting up new logistics routes and related infrastructure, simplifying customs procedures and trade agreements, setup of robust settlements infrastructure, providing access to capital debt markets and expediting a trade financing ecosystem.

Solving the payment issues by creating a full-fledged payments settlement ecosystem which is supported by Rupee-Ruble currency swaps, in addition to, new-age digital mechanisms like e-currency and cryptocurrencies is another critical factor to enable Russia’s ‘Turn to the East’.

However, there are some risks which need to be managed and appropriate mitigation plans implemented

Both Russia and India are actively collaborating in exploring workable solutions to work around the sanctions. However, a few unanswered questions about the efficacy and sustainability of the new mechanism remain. Indian governments and banks remain sensitive to sanctions imposed by western countries and would remain wary of the potential threat of secondary sanctions. There is a need to ascertain the Indian banks which would be able to set up Vostro accounts, where larger players might want to restrict operations in order to avoid sanction risks. Other issues would be centered around the real value of the Russian Ruble and ideas like whether there was a place for yuan for trade settlement between Indian and Russian entities.

Looking beyond the multiplier effect of sanctions on the Russian economy, economists and international trade experts have opined that bilateral trade still suffers from unresolved structural issues like tariff and non-tariff barriers, lack of business interest and excessive market regulations in both countries. Until these issues are resolved, bilateral trade shall continue to show symptoms of illness, which will lay a weak foundation for the incorporation of the new mechanism.

Hence, this requires a structured approach to formulate a specific strategy and business plan to address the opportunities

For Indian companies, the opportunity to gain a larger share of the Russian market is appealing despite the threat of a global backlash. As the Ukraine war grinds on and sanctions stiffen around Russia's economy, the stakes have risen for Russian businesses requiring goods and services imports to maintain operations, as well as for large MNCs companies looking to avoid those businesses. It is clear that large Indian conglomerates having exposure to the West will avoid business with Russia. But it is an excellent opportunity for SMEs to export and settle payments via banks unaffected by the Western sanctions regime.

Flows of services and data can play a much bigger role in tying the economic partnership together. Services are growing faster than goods and are creating value far beyond expectations. Given the shifts in value chains, companies need to reevaluate their operating models and strategies. Blurring the distinction between goods and services to explore “as a service” business models might be an excellent strategy.

In addition, Companies need to re-assess their competitive positioning in each part of the value chain. E.g. Some firms have narrowed their focus to R&D and distribution while outsourcing production. Building agile operations can help firms prepare for all types of uncertainties. Prioritizing speed to market and having people proximity (Employees, customers, suppliers) are imperative to address the opportunities of doing business in Russia and succeed.

A few firms from both Russia and India are already ahead of the curve and can serve as role models:

- ✓ Morena, which is one of the first refrigeration companies that appeared on the Russian market, has signed a contract with an Indian compressor equipment manufacturer
- ✓ X5 Group, one of Russia's largest food retailers, has plans to boost the supply of Indian goods
- ✓ Coffee-exporter CCL Products India Ltd. Is reported to have received requests from many European firms affected by the sanctions, to make shipments to Russia on their behalf
- ✓ VA Tech Wabag Ltd., a Chennai-based builder of water and sewage treatment plants secured a Russian order worth 18 million euros (\$19 million) in June
- ✓ Lastly, firms like Berger Paints India Ltd. and Dr. Reddy's Laboratories Ltd., are also observing significant opportunities in Russia as multinational companies pull out. It has the potential to be a key medium-term growth area for them.



How Can We Help ?

Avalon consulting can help you to take advantage of the Russia market opportunity. Our expertise and experience ensure that we provide outcome-based strategic and implementation advice to our clients at every step of their value chain assessment and transformation process.



Market assessment and entry strategy development to succeed in Russia



Performance assessment and improvement of your supply chain



Organizational transformation (Goal setting, strategy development, process diagnostic and re-design, performance management, etc.)



E2E support in partner search, evaluation, selection and negotiation till final contract signing



Strategic due-diligence, and evaluation of operating environment, competitive position, and current strategy



Synergy evaluation of key value drivers, considering downside risks and value chain positions

About Us

Avalon Consulting is an Asia-focused strategy and management consulting firm. We collaborate with our customers to help them devise and implement winning strategies that drive sustainable change. Our focus is on practical and customized solutions which provide an outsized impact on client performance and profitability.

Avalon Consulting is ranked #8: Best Consulting Firms in Asia-Pacific for Strategy Consulting by Vault Rankings. We are the only Indian Consulting firm to feature in the top 10.

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Our Values – The Avalon EDGE

E

ENTREPRENEURSHIP

Enterprising ownership to transform ideas into pragmatic and profitable solutions

D

DEDICATION TO EXCELLENCE

Commitment to premier quality and highest standards in everything we do

G

GREAT VALUE CREATION

Focus on delivering maximum client impact through innovation and collaboration

E

ETHICAL APPROACH

Respect, fairness and transparency in all our interactions

Premchand Chandrasekharan | Partner

premchand.c@consultavalon.com | +91 9841069590

Ayush Patodia | Senior Consultant

ayush.patodia@consultavalon.com | +91 9163064140

MUMBAI

Embassy 247 Park, 13B107, 13th Floor,
Lal Bahadur Shastri Rd, Gandhi Nagar,
Vikhroli West, Mumbai – 400079,
Maharashtra

Phone : +91 73045 29720 / 21

E-mail : mumbai@consultavalon.com

WeWork, Raheja Platinum, Sag Baug Road, off,
Andheri – Kurla Rd, Marol,

Andheri East, Mumbai,

Maharashtra 400059

Phone : +91 73045 29720 / 21

E-mail : mumbai@consultavalon.com

BANGALORE

WeWork, Prestige Atlanta,
80 Feet Main Road, Koramangala 1A Block,
Bengaluru 560034

Phone : +91 9886348187

E-mail : bangalore@consultavalon.com

DELHI

Innov8 Old Fort Saket,
Saket District Centre,
District Mall, Sector 6, Pushp Vihar,
New Delhi -110 017

Phone : +91 74286 24664

E-mail : delhi@consultavalon.com

WeWork, 5th Floor Two Horizon Centre DLF,
DLF Phase 5, Gurugram,
Haryana 122002

Phone : +91 74286 24664

E-mail : delhi@consultavalon.com

SINGAPORE

65 Chulia Street,
#38-02/03 OCBC Centre
Singapore 049 513

Phone : +65 3138 2042

Email : admin@apex-avalon.sg

CHENNAI

Spaces Olympia, Olympia Technology Park,
9th Floor, Citius Block, 1-SIDCO Industrial
Estate, Guindy, Chennai - 600 032,
Tamil Nadu

Phone : +91 7305152869 / +91 7305189261

E-mail : chennai@consultavalon.com



www.consultavalon.com