



Investing in India 2015

Tax

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01 India profile



Geographic details

Location

The Indian peninsula is separated from mainland Asia by the Himalayas in the north, the Bay of Bengal in the east, the Arabian Sea in the west and the Indian Ocean in the south.

Area

3.28 million square km.

Geographic coordinates

India lies entirely in the northern hemisphere and the mainland extends between latitudes 8° 4' and 37° 6' north and longitudes 68° 7' and 97° 25' east, and measures about 3,214 km from north to south and about 2,933 km from east to west between the extreme longitudes. It has a land frontier of about 15,200 km. The total length of the coastline is approximately 7,516 km.

Capital

New Delhi

Demographic details

Population
(as per 2011 census)

1,210
million approximately⁰¹



Literacy rate

73.0
per cent⁰²

Population
density

382
per square km⁰²



Household

240
million⁰²



Currency unit

INR
Indian rupee

01. 'Census 2011,' Gol

02. 'India in Figures, A Ready Reference, 2011' Central Statistics Office, Gol

Economic details

Economy type

Mixed

GDP at FY11-12 constant prices (FY15 provisional)

USD1,703 billion⁰³

GDP growth rate (CAGR, FY12 to FY15)

6.5 per cent⁰³

National income (FY15 advance estimates, current prices)

USD1,792 billion⁰⁴

Real per capita net national income (FY15 advance estimates, current prices)

USD1,414⁰⁴

Gross fixed capital formation (FY15 advance estimates, current prices)

USD577 billion⁰⁴

Sensex movement

The value of the BSE Sensex has almost tripled to 29,361 from 11,279 during FY06-FY15.⁰⁵

Global rank in FDI inflows, 2013

14⁰⁶

Investment clearing body for foreign direct investment proposals under the approval route:

FIPB for investment less than USD320million and Cabinet Committee on Economic Affairs for investment in excess of USD320 million.⁰⁷

The FDI policy, released in the year 2013 has identified some sectors where FDI is permitted under the automatic route without prior approval of the government or the RBI.⁰⁸ These sectors include agriculture and animal husbandry, mining, greenfield airports and many others. The policy also provides the list of the sectors and the permissible cap under automatic route.

Principal markets for trade⁰⁹

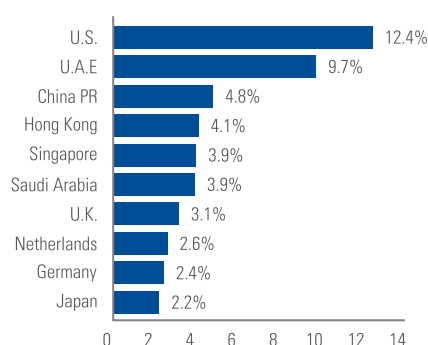
The share of the top 10 countries trading with India was a little over 50 per cent both in FY14 and FY13.

Countries with a high share in export include the U.S., U.A.E., China, Hong Kong and Singapore, while countries with a high share in import include China, Saudi Arabia, U.A.E., U.S. and Switzerland.

Principal commodities for trade⁰⁹

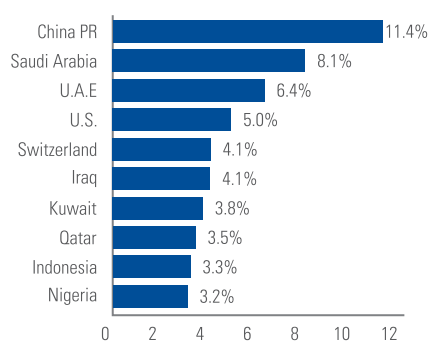
The share of top 10 export commodities from India accounted for more than 60 per cent for both FY14 and FY13. In addition to this, the share of top 10 import commodities remained stable at approximately 80 per cent for FY14 as compared to FY13. Mineral fuel and oils and pearls, precious and semi-precious stones are important trade commodities with high share in both export and import.

Share of top 10 countries in India's exports, FY14



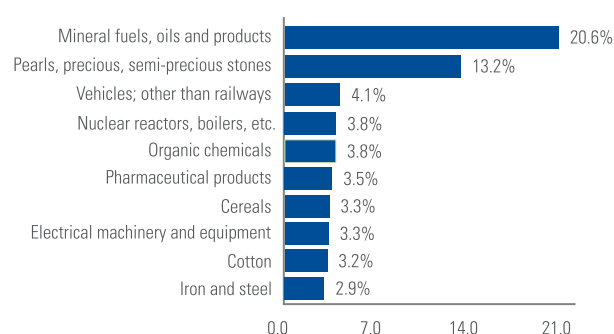
Source: 'Export Import Databank' Ministry of Commerce and Industry, GoI, <http://www.commerce.nic.in/eidb/>, accessed 22 April 2015

Share of top 10 countries in India's imports, FY14



Source: 'Export Import Databank' Ministry of Commerce and Industry, GoI, <http://www.commerce.nic.in/eidb/>, accessed 22 April 2015

Share of top 10 commodities in total exports, FY14



Source: 'Export Import Databank' Ministry of Commerce and Industry, GoI, <http://www.commerce.nic.in/eidb/>, accessed 22 April 2015

03. Volume 2, Economic Survey of India 2014-15, GoI February 2015.

Note: Exchange rate used USD1 = INR62.5908 sourced from RBI

04. 'Press Note on Advance Estimates of National Income 2014-15 and Quarterly Estimates of Gross Domestic Product, for the third quarter 2014-1' Central Statistics Office, GoI, 27 April 2015

05. 'Historical Indices' Bombay Stock Exchange, accessed on 22 April 2015

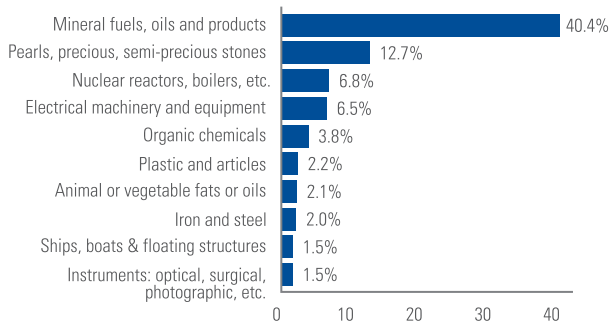
06. World Investment Report 2014, UNCTAD

07. Consolidated FDI policy, http://dipp.nic.in/English/policies/FDI_Circular_2015.pdf, 12 May 2015.

08. Govt clears 100 per cent FDI in defence, telecom, Livemint, 16 July 2013

09. 'Export Import Databank' Ministry of Commerce and Industry, GoI, <http://www.commerce.nic.in/eidb/>, accessed 22 April 2015

Share of top 10 commodities in total imports, FY14



Source: 'Export Import Databank' Ministry of Commerce and Industry, GoI, <http://www.commerce.nic.in/eidb/>, accessed 22 April 2015

Political structure

India has a federal structure comprising of 29 states and seven union territories. The states are: Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Telangana, Tripura, Uttarakhand, Uttar Pradesh and West Bengal. The union territories are: Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep, National Capital Territory of Delhi, and Puducherry.¹⁰

Executive branch¹¹

The President of India is the head of state, while the Prime Minister is the head of the government and runs this office with the support of the council of ministers.

Legislative branch¹¹

The Union Legislature comprises the Lok Sabha (House of the People) and the Rajya Sabha (Council of States), together forming the Houses of Parliament.

Judiciary branch¹¹

The Supreme Court of India is the apex judicial body, followed by High Courts and subordinate courts.

10. <http://india.gov.in/india-glance/states-india>, accessed on 22 April 2015

11. http://dipp.nic.in/English/Publications/FDI_Statistics/2015/india_FDI_January2015.pdf, Fact Sheet on Foreign Direct Investment (FDI) from April, 2000 to January, 2015; Department of Industrial Policy and Promotion accessed on 9 November 2015

Note: Exchange rate used USD1 = INR62.5908 sourced from RBI as on 31 March 2015.



02 Overview of the Indian economy



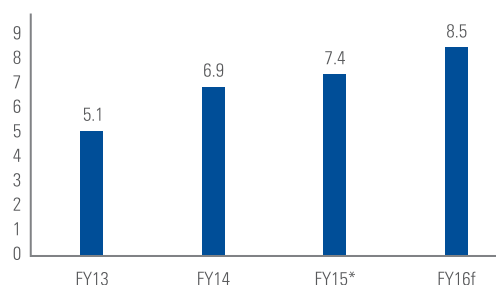
India is among the world's fastest growing economies, having recorded a decadal growth rate of 7.6 per cent during FY05-FY14.⁰¹ It embarked on this high growth trajectory during the tenth five year plan with a growth rate of more than 8 per cent in FY04 and reached a peak of 9.6 per cent in FY07. The growth in the eleventh five year plan also made several headlines for being the highest ever five year plan in India.⁰²

The Indian economy has witnessed momentum; as per the advanced estimates, GDP growth in FY15 is projected to be at 7.4 per cent.⁰² The GoI announced a series of initiatives and policies such as the 'Swachh Bharat Abhiyan' (Clean India campaign), 'Make in India', 'Clean Ganga' campaign, 'Smart Cities' project, and 'Pradhan Mantri Jan Dhan Yojana' (Prime Minister's People Money Scheme) among others to boost economic

growth and investor sentiment in the country.

The economic policy reforms introduced by the government have increased everyone's expectations, especially those of investors, which can be gauged from the improvement in the performance of Sensex, increasing FDI and FII inflows.

GDP growth rate (2011-12 prices) (in per cent)



Source: Economic Survey of India 2015, GoI, February 2015
Note: * denotes provisional estimates and f denotes forecast.

In January 2015, the GoI revised the base year for calculations of national accounts and GDP in India from 2004-05 to 2011-12, which resulted in changes in the GDP growth rate of the country.

01. 'Union Budget 2014-15: Special report' Share Consultants, July 2014

02. Economic Survey of India 2015, GoI, February 2015

03. Volume 2, Economic Survey of India 2014-15, GoI February 2015

04. 'Press Note on Advance Estimates of National Income 2014-15 and Quarterly Estimates of Gross Domestic Product, for the third quarter 2014-15' Central Statistics Office, GoI, 27 April 2015

05. 'Export Import Databank' Ministry of Commerce and Industry, GoI, accessed 22 April 2015

06. 'Weekly Statistical Supplement', https://rbiidocs.rbi.org.in/rdocs/Wss/PDFs/WSS170415FNL_EN01C6EODE83EB4B1B854592E6932E8873.PDF, accessed 27 April 2015

07. FDI statistics, Department of Industrial Policy and Promotion, January 2015

08. <https://www.cdsindia.com/publications/FIIFPIInvstmntFinYrData.aspx>, accessed 27 April 2015

Indian trade and economy at a glance

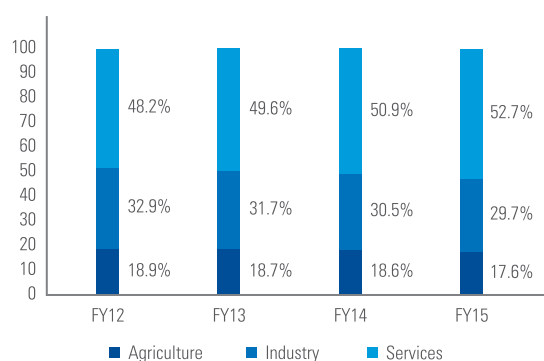
Indicators	Amount
GDP and per capita income	
GDP in FY15 (at constant 2011-12 prices)* #	USD1,703 billion ⁰³
GDP in FY15 (at current market prices)* #	USD2,021 billion ⁰⁴
GDP composition by sector in FY15* (per cent)	Agriculture: 17.6% Industry: 29.7% Services: 52.7%
Per capita income in FY15	USD1,414 ⁰⁶
Trade and foreign exchange reserves	
Exports (FY14)	USD314.4 billion ⁰⁵
Imports (FY14)	USD450.2 billion ⁰⁵
Forex reserves (as on 17 April 2015)	USD318.8 billion ⁰⁶
Foreign investment (FI) inflows	
Cumulative FDI inflows (April 2000-January 2015)	USD361.3 billion ⁰⁷
FDI inflows (April 2014 – January 2015)	USD37.8 billion ⁰⁷
FII inflows (debt and equity) (FY15)	USD45.7 billion ⁰⁸

Note: * implies provisional numbers, # USD1 = INR62.5908 as on 31 March 2015

Increased contribution of the service sector

The GDP of India has been witnessing a shift in favour of the services sector. The contribution of services increased from 48.2 per cent in FY12 to 52.7 per cent in FY15.⁰⁹

Share in gross value added at factor cost at current prices



Source: Economic Survey of India 2015, Gol, February 2015

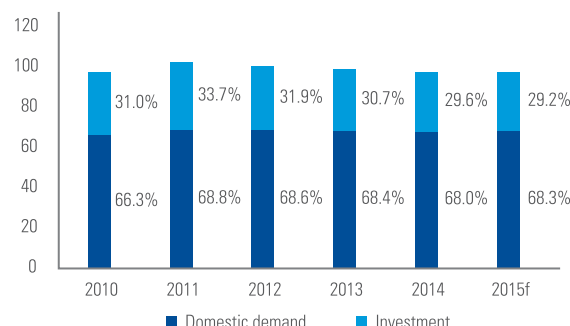
The services sector has also attracted the highest cumulated FDI inflows of USD42 billion, accounting for 17 per cent of total FDI inflows between April 2000 and January 2015.¹⁰ Furthermore, the surge of the service sector has been integral to the paradigm shift with respect to India being perceived as a pioneer in knowledge and technology oriented services in the global community which displaced the agriculture sector, reducing its share from 18.9 per cent in FY12 to 17.6 per cent in FY15.

Strong domestic demand and investment

The Indian economy is primarily a domestic demand driven economy which can be gauged from its high share (private and government consumption expenditure) in the country's GDP.

The share has marginally increased from 66.3 per cent in 2010 to 68.0 per cent in 2014, and continues to remain substantially high. Positively, this has insulated the Indian economy from the global slowdown to some extent. On the other hand, the share of investment has slightly decreased from 31.0 per cent in 2010 to 29.6 per cent in 2014, which could be due to the rebasing exercise undertaken by the government. High share of domestic demand and investment can strengthen the prospects of India's long-term growth.¹¹

Share of domestic demand and investment in GDP



Source: Economic Intelligence Unit, accessed 27 April 2015

Notes to the graph:

- f denotes forecast
- These shares are in GDP at constant prices; the bar total (sum of domestic demand and investment) does not add up to 100 per cent as the contribution of net exports (which is mostly negative) have been excluded. Also, domestic demand has been calculated as the sum total of government and private consumption.

Expanding infrastructure

India's infrastructure has been continually improving as reflected in the following instances:

- The domestic telecom sector is the second largest in the world, after China. The country's wireless and wireline subscriber base stood at 960.6 million and 26.7 million, respectively, as on 28 February 2015.¹²
- The installed electricity capacity stood at 258,701 MW, as on 31 January 2015.¹³
- The capacity of refineries stood at 223.26 MT, as on 31 March 2015.¹⁴
- Many other infrastructure facilities in other sectors such as railways, airways and ports are either being constructed or revamped to support higher capacity.

In order to support infrastructure development in the twelfth five year plan period, the Gol has envisaged an investment of USD1 trillion, and approximately 50 per cent of the investment is expected to be raised from the private sector.¹⁵

Support for infrastructure development

The twelfth five year plan aims at introducing crucial reforms, greater participation of the private sector, expansion of infrastructure, increased urbanisation, higher literacy and enhancement of managerial and labour skills, among others.

The plan caters to objectives of higher employment, better technology, strategic security and competitive advantage in the priority sectors such as textiles, handicrafts, gems and jewellery, IT hardware and electronics, aerospace, telecom, automotive and pharmaceuticals.

The gross budgetary support in the twelfth five year plan is projected to increase to more than double to USD656 billion, from USD350 billion in the eleventh five year plan.¹⁶

09. Economic Survey of India 2015, Gol, February 2015

10. FDI statistics, Department of Industrial Policy and Promotion, January 2015

11. 'Gross capital formation (per cent of GDP)', <http://data.worldbank.org/indicator/NE.GDI.TOTL.ZS>, accessed on 05 November 2015

12. 'Highlights on Telecom Subscription Data as on 28 February 2015' Telecom Regulatory Authority of India, 10 April 2015

13. 'Monthly Review of Power Sector, January 2015' Central Electricity Authority, January 2015

14. 'Snapshot of India's Oil and Gas data', Petroleum Planning and Analysis Cell, March 2015

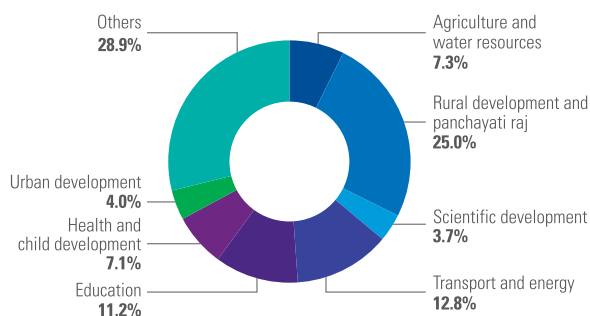
15. 'Chapter 11: Energy, Infrastructure and Communications' Economic Survey 2013-14, Gol

16. 'Draft twelfth five year plan (2012-2017)' Planning Commission, Gol

Government spending in key categories has opened opportunities for foreign investors

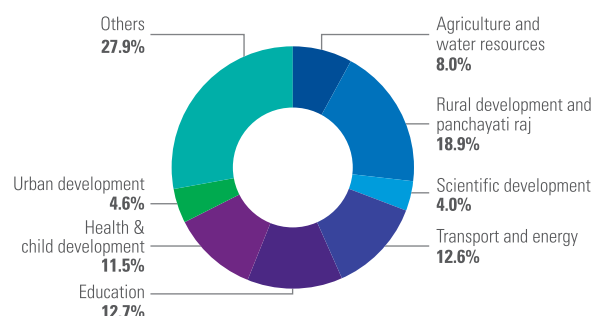
Sector-wise composition of gross budgetary support during the plan periods:

Eleventh five year plan



Source: 'Draft twelfth five year plan (2012 to 2017)' Planning Commission, GoI

Twelfth five year plan



Source: 'Draft twelfth five year plan (2012 to 2017)' Planning Commission, GoI

In order to boost economic growth and overall investor sentiment, the GoI announced several measures during the Union Budget 2015. Some of the measures include removing distinctions between the types of foreign investments

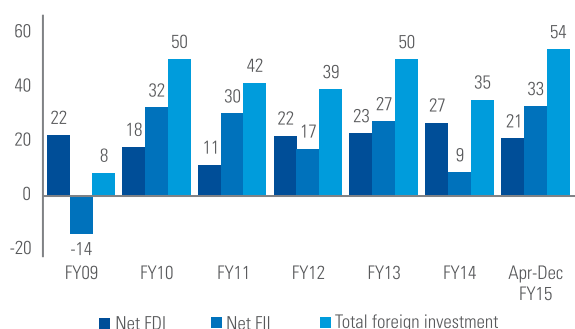
and replacing them with composite caps, allowing foreign investments in Alternate Investment Funds (AIFs) and reduction in corporate tax from 30 per cent to 25 per cent within the next four years.¹⁷

Favourable government initiatives have led to renewed interest in investing in India

Though investment declined in FY09, it was likely to be an impact of the global slowdown. Positively, investment recovered in the following year. In FY14, due to speculations around elections, a slowdown was witnessed on the foreign investment front. However, after the formation of the new government an increase in foreign investment has been witnessed.

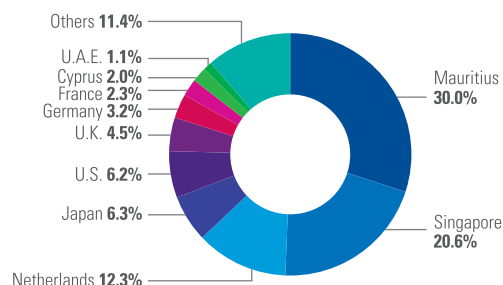
The total FDI inflow into India from April 2000 to January 2015 amounted to USD361.3 billion. In the period of April 2014 to January 2015, Mauritius, Singapore and the Netherlands were the three largest sources of FDI, accounting for a share of 63 per cent of the total inflows.¹⁸

Foreign investment, USD billion



Source: 'Handbook of Statistics' RBI Bulletin, May 2013' RBI; 'Factsheet on FDI' Ministry of Commerce and Industry, GoI; SEBI; 'Emerging Trends in India's Foreign Trade' Exim Bank, 'Union Budget 2015: Eye on more inflows via single FDI, FPI cap,' The Financial Express, 2 March 2015

Share of FDI inflows from top 10 countries, April 2014 to January 2015

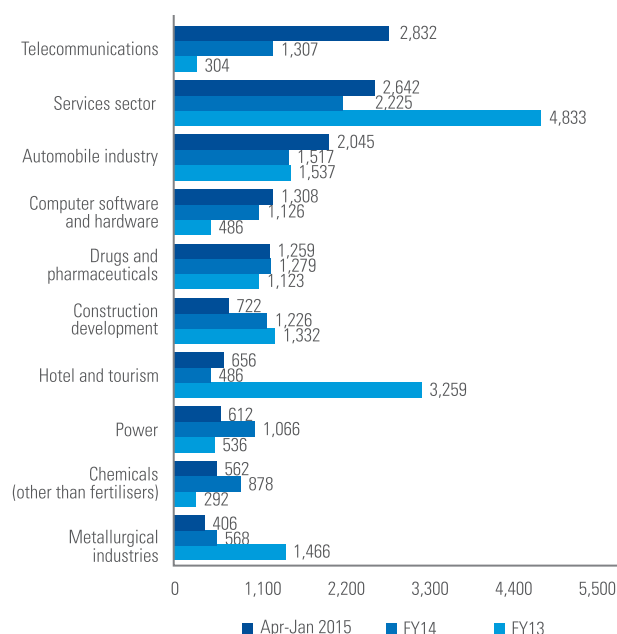


Source: FDI statistics, Department of Industrial Policy and Promotion, January 2015

17. Union Budget 2015-16 speech, GoI, February 2015 18.

18. FDI statistics, Department of Industrial Policy and Promotion, January 2015

Sectors attracting high FDI equity inflows (USD million)



Source: FDI statistics, Department of Industrial Policy and Promotion, January 2015

Share of sectors attracting high FDI equity inflows

Sectors	Cumulative inflows during April 2000-January 2015 (USD million)	Share in total inflows (in per cent)
Services sector	42,101	17
Construction development	24,028	10
Telecommunications	16,995	7
Computer software and hardware	14,125	6
Drugs and pharmaceuticals	12,856	5
Automobile industry	11,857	5
Chemicals (other than fertilisers)	10,230	4
Power	9,512	4
Metallurgical industries	8,481	4

Source: FDI statistics, Department of Industrial Policy and Promotion, January 2015

Useful web links

- **SEBI:** <http://www.sebi.gov.in/>
- **Invest in India:** <http://www.investinginindia.in/>
- **'Make in India':** <http://www.makeinindia.gov.in>
- **ITP:** <http://www.indiainbusiness.nic.in/about.htm>
- **MOSPI:** <http://mospi.nic.in/>
- **Planning Commission:** <http://planningcommission.nic.in/>
- **RBI:** <http://www.rbi.org.in/home.aspx>
- **Web links (Directory) to key government ministries:** <http://india.gov.in/outerwin.php?id=http://goidirectory.nic.in/>



03 Tax/regulatory framework



Regulatory framework for investment in India

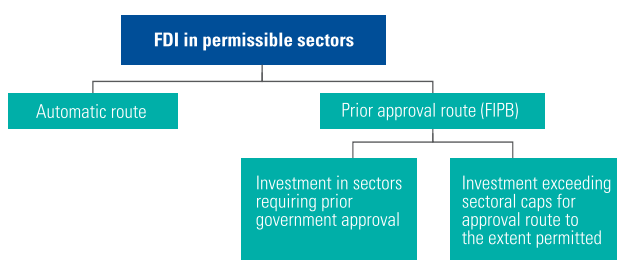
Governing laws

The legal, administrative and compliance aspects of FI in India are embedded in the FEMA, Consolidated FDI policy and regulations notified by RBI from time to time.

The objective of India's FDI policy issued by the GoI is to invite and encourage FI in India. The government issues its FDI policy every year, generally during April-May. The FDI policy contains detailed guidelines, valuation norms, compliances, approval requirements, mode of calculating direct and indirect FDI and other compliance aspects of FI in India.

FDI routes⁰¹

A diagrammatic representation of the FDI routes



Source: Consolidated FDI policy Circular of 2015

With respect to FDI in an Indian company, the following categories assume relevance:

- Sectors in which FDI is prohibited
- Sectors in which FDI is permitted
 - Investment under the automatic route
 - Investment under the prior approval route, i.e. with prior approval of the government.

Automatic route

Under the automatic route there is no requirement of any prior regulatory approval. Only post facto filing by the Indian company to the RBI through an AD Bank is required; it is as follows:

- Filing an intimation within 30 days of receipt of FDI
- Issuing capital instruments within 180 days from the receipt of application money
- Filing the prescribed form within 30 days of issue of capital instruments to foreign investors.

Prior approval route

FDI in the following cases generally requires prior approval of the GoI/FIPB:

- Proposals falling outside notified sectoral caps for the automatic route but within the ceilings permitted under the approval route
- Proposals for FDI in sectors/activities in which it is permitted only under the prior approval route
- Proposals involving issue of shares against non-cash consideration as stipulated (except issue of shares against legitimate dues, remittance of which does not require prior permission of the GoI or the RBI, subject to certain conditions)
- FDI in an Indian company with no operations and no downstream investments
- FDI in an Indian company which will only undertake downstream investment in other Indian companies
- Proposals for issue of warrants/partly paid shares for sectors falling under the approval route.

Approvals are granted by the FIPB on case to case basis after examining each proposal. Pursuant to obtaining the FIPB approval, prescribed filings as applicable under the automatic route are required to be carried out by the Indian company.

01. Consolidated FDI policy Circular of 2015

Sectoral guidelines

The sector lists for FDI falling under the automatic route, prior approval route and prohibited list are revised on a regular basis by the government depending upon industry needs. Further, FDI is also subject to other relevant sectoral laws/regulations.

Recent developments in FEMA/FDI policy

FDI in the construction development sector

The FDI policy permitted upto 100 per cent FDI under the automatic route in the construction development sector, subject to certain conditions. The DIPP has recently further liberalised the FDI policy in this key sector, wherein it has eased the conditions relating to minimum land area requirements, minimum capitalisation, lock-in period, etc.



The table below, provides a snapshot of the aforesaid amendments:

Condition	Amended policy	Extant policy
Minimum area to be developed		
<ul style="list-style-type: none"> In case of serviced plots In case of construction development projects 	<ul style="list-style-type: none"> No minimum land area requirement Minimum floor area of 20,000 square metres 	<ul style="list-style-type: none"> 10 hectares Minimum floor area of 50,000 square metres
Minimum capital to be brought by investee company as FDI	USD5 million within six months of commencement of the project. Subsequent tranches can be brought till the period of 10 years from commencement of the project or before completion of the project, whichever expires earlier.	USD10 million for wholly owned subsidiary and USD5 million for joint ventures.
Exit of foreign investor	An investor will be permitted to exit on completion of the project or after development of trunk infrastructure, i.e. roads, water supply, street lightning, drainage, sewerage.	Investor/investee company was not permitted to sell undeveloped plots.

Source: Press Note No. 10 dated 3 December 2014 issued by the DIPP2014

- Commencement of the project will be the date of approval of the building/lay out plan by the relevant statutory authority.
- Conditions related to minimum area to be developed; minimum capitalisation shall not apply to investee/joint venture companies which commit at least 30 per cent of the total project cost for low affordable housing.⁰²

FDI in the insurance sector⁰²

Recently, the DIPP has raised the cap on FDI in the insurance sector to 49 per cent from 26 per cent. FI of upto 29 per cent is permitted under automatic route, and thereafter beyond 26 to 49 per cent under government route.

FDI in the pension sector⁰³

Pursuant to the enactment of IRDA, 2013, the government has amended the FDI policy, thereby permitting FDI in pension sector upto 49 per cent.

Investment of upto 26 per cent shall be allowed under automatic route, and beyond 26 per cent up to 49 per cent shall be allowed under government route.

FDI in the pharmaceutical sector

Currently, 100 per cent FDI is permitted in the pharmaceutical sector under the automatic approval route in case of greenfield projects. However, FDI in existing pharma companies (brownfield projects) is permitted only with a prior FIPB approval.

Further, proposals involving the 'non- compete' clause are permitted only in special circumstances, with a prior FIPB approval.

Additionally, the government, with an intent to encourage FDI inflows into the medical devices/medical equipment sector, has reviewed its policy for the pharmaceutical sector and has permitted 100 per cent FDI under the automatic route (both greenfield and brownfield investments) for manufacturing of medical devices without any conditions.⁰⁴

Further, the government has also specifically defined 'medical devices'; however, its definition would be subject to amendment in the Drugs and Cosmetics Act.

⁰². Press Note No. 3 dated 2 March 2015 issued by the DIPP

⁰³. Press Note No. 4 dated 24 April 2015 issued by the DIPP

⁰⁴. Press Note No. 2 dated 6 January 2015 issued by the DIPP

Others

Partly paid shares and warrants allowed under the automatic route

The GoI has now allowed Indian companies whose activities/sectors fall under the automatic route to issue partly paid shares and warrants. As per the earlier FDI norms, the above issue required prior approval from the FIPB. The key terms/conditions to be complied are as follows:

- Issuer company to comply with provisions of the Companies Act, 2013 and SEBI guidelines, as applicable.
- Partly paid equity shares pricing to be determined upfront and 25 per cent of the total consideration (including share premium, if any), should be received upfront, and the balance within a period of 12 months. The time period of 12 months shall not be insisted upon where the issue size exceeds USD79.88 million and the issuer company is a listed company which complies with Regulation 17 of the SEBI (ICDR) Regulations regarding monitoring agency. Similarly, in case of an unlisted Indian company, the balance consideration amount can be received after 12 months where the issue size exceeds USD79.88 million, and a monitoring agency is appointed on the same lines as required in case of a listed Indian company under the SEBI (ICDR) Regulations.
- Warrants pricing to be determined upfront and 25 per cent of the consideration shall also be received upfront. The balance consideration towards fully paid up equity shares shall be received within a period of 18 months. The price at the time of conversion should not in any case be lower than the fair value worked out, at the time of issuance of such warrants, in accordance with extant pricing guidelines stipulated by the RBI.

Pricing guidelines for FDI instruments with optionality clauses⁰⁵

The RBI has permitted optionality clauses in the issue of equity shares, and compulsorily and mandatorily convertible preference shares/debentures (FDI compliant instruments) to non-resident investors under the FDI scheme. These conditions for optionality clause oblige buy-back of securities from the investor at the price prevailing/value determined at the time of exercise of the optionality so as to enable the investor to exit without any assured return. The provision of optionality clause shall be subject to a minimum lock-in period of one year or a minimum lock-in period as prescribed under the FDI Regulations, whichever is higher.

Post the above lock-in period, the non-resident investor shall be eligible to exit without any assured return, as under:

- **In case of listed companies:** The non-resident investor shall be eligible to exit at the market price prevailing at the recognised stock exchanges.
- **In case of unlisted companies:** The non-resident investor shall be eligible to exit from the investment in equity shares of the investee company at a price as per any internationally accepted pricing methodology on arm's length basis, duly certified by a chartered accountant or a SEBI registered merchant banker.

Issue and transfer of instruments and pricing guidelines

Indian companies can issue the following capital instruments subject to sectoral caps, timelines and pricing norms:

- Equity shares
- Fully, compulsorily and mandatorily convertible preference shares
- Fully, compulsorily and mandatorily convertible debentures
- Warrants and partly paid shares
- Foreign currency convertible bonds
- Depository receipts (ADRs and GDRs).

Foreign investors can also invest in Indian companies by purchasing or acquiring existing shares/convertible instruments from Indian shareholders or from other non-resident shareholders.

The pricing guidelines for the aforesaid instruments are prescribed below:

- Indian companies can issue FDI compliant instruments subject to pricing guidelines/valuation norms prescribed under the FEMA Regulations.
- The price/conversion formula of convertible capital instruments should be determined upfront at the time of issue of the instruments. The price at the time of conversion should not in any case be lower than the fair value worked out, at the time of issuance of such instruments, in accordance with the extant FEMA regulations.

External commercial borrowings/foreign currency convertible bonds/foreign currency exchangeable bonds

Loans taken from overseas by Indian companies/entities from foreign lenders are governed by the guidelines on ECB issued by the RBI under the foreign exchange regulations. The ECB guidelines stipulate detailed norms for eligible borrowers, recognised lenders, amounts and maturity periods, all-in-cost interest ceilings, end-use, compliances, etc.

Issue of any non-convertible, optionally convertible or partially convertible preference shares or debentures to non-residents is considered ECB from a foreign exchange regulation perspective and also needs to comply with ECB guidelines.

An Indian company can also raise funds by issuing FCCBs or FCEBs. The FCCBs are convertible into ordinary shares of the issuing company in any manner, either in whole or in part. In the case of FCEBs, equity shares of another Indian company (offered company – being a listed company, engaged in a sector eligible to receive FDI and eligible to issue or avail FCCBs or ECB) are issued on conversion. The issuer company should be part of the promoter group of the offered company.

American depository receipts or global depository receipts

A company can issue ADRs or GDRs if it is eligible to issue shares to persons resident outside India under the FDI policy, subject to compliance with framework stipulated in this regard.

05. A.P. (DIR Series) Circular No. 86 dated January 9, 2014

Portfolio investment in India⁰⁶

FIIIs that are eligible and apply/register with SEBI are eligible to invest in India under the PIS within prescribed guidelines, ceilings and parameters. Eligible institutional investors that can register with SEBI as FIIIs include pension funds, mutual funds, investment trusts, banks, charitable societies, foreign central bank, sovereign wealth funds, university funds, endowments, foundations, charitable trusts, insurance companies, re-insurance companies, foreign government agencies, international or multilateral organisations/agencies, broad-based funds, asset management companies, investment managers/advisors, institutional portfolio managers and trustees of trusts.

An application for registration as an FII can be made in two capacities, namely as an investor or for investing on behalf of the applicants sub-accounts.

FIIIs can also access the FDI route for investments in an Indian company subject to compliance with the FDI policy.

Furthermore, the GoI has permitted FPI/QFIs to directly invest in the equity market subject to certain operational and procedural guidelines.

QFIs are permitted to invest through SEBI registered qualified depository participants in equity shares of listed Indian companies through registered brokers on recognised stock exchange as well as equity shares of Indian companies offered to the public in India in terms of SEBI guidelines. A few of the key conditions/restrictions/limits, issued by SEBI and DIPP, are listed below:

- The total shareholding by an individual QFI shall not exceed 5 per cent of paid-up equity capital of the company at any point in time
- The aggregate shareholding of all QFIs shall not exceed 10 per cent of paid-up equity capital of the Indian company at any point in time
- The limits are over and above the FPI and NRI investment ceilings prescribed under the PIS. However, where composite sectoral caps are prescribed under the FDI policy, the limits for QFI investments shall be within such overall limits
- QFI may continue to deal in securities subject to SEBI (FPI) Regulations, 2014 for a period of one year from the date of commencement, or until he obtains a certificate of registration as an FPI, whichever is earlier.

The extant guidelines for PIS for FII and QFI have also been reviewed, and it has been decided to put in place a framework for investments under the new FPI Scheme. The existing portfolio investor class, i.e. FII, QFI registered with SEBI, shall be subsumed under FPI.

Investment as foreign venture capital funds⁰⁷

An FVCI which is eligible and registered with SEBI can invest in an Indian VCF/VCU. It can also set-up a domestic asset management company to manage the funds. All such investments are allowed under the automatic route subject to SEBI and RBI regulations and the FDI policy.

Investment by non-resident Indians⁰⁸

NRIs/PIOs can invest in the shares or convertible debentures of an Indian company on a repatriation basis on the Indian stock exchange under PIS, subject to limits and conditions.

NRIs/PIOs can also invest in the shares or convertible debentures of an Indian company (not engaged in the sectors of agricultural or plantation activities, real estate business, construction of farm houses or dealing in transfer of development rights) on a non-repatriation basis subject to prescribed conditions.

NRIs/PIOs are also eligible to invest in dated government securities, mutual funds, bonds, etc. on a repatriation and non-repatriation basis under the scheme/framework stipulated. NRIs/PIOs can also invest in proprietary/partnership firms within the stipulated compliance framework.

The GoI has also, on 3 June 2015, vide PN 7 by DIPP, amended the definition of NRIs under FEMA to mean an individual resident outside India who is a citizen of India or is an 'Overseas Citizen of India' cardholder as defined under the Citizenship Act, 1955. Person of Indian origin cardholders are deemed to be Overseas Citizens of India. It has also been clarified that investments by NRIs on non-repatriation basis will be deemed to be domestic investment at par with the investment made by residents.

Calculation of total foreign investment

The FDI policy also provides the methodology for calculation of total FI in an Indian company for the purpose of sectoral cap and approval requirements. For this purpose, all types of FIs, i.e. FDI, FII holdings as on 31 March, NRIs, ADRs, GDRs, FCCBs, FCEBs, compulsorily and mandatorily convertible preference shares and fully, compulsorily and mandatorily convertible debentures, will be considered.

The government has on 30 July 2015, vide Press Note No. 8 issued by the DIPP, announced the replacement of separate caps on FI with composite caps, i.e. merging FDI and FPI (FII, QFI) investments. In line with the above announcement, the GoI has introduced composite caps aimed at simplification of FDI policy to attract FIs. This would also give Indian companies a choice between different categories of FIs.

Total FI is equal to direct FI plus indirect FI in an Indian company.⁰⁹

- Direct investments are all specified types of FIs made directly by a non-resident entity into the Indian company
- Indirect FIs are investments in an Indian company made through investing in companies which are owned or controlled by non-resident entities, to be calculated as per the prescribed methodology.



06. Schedule 2, 2A of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000

07. Schedule 6 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000

08. Schedule 3 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000

09. Consolidated FDI policy of 2015

A company is considered as 'owned' by resident Indian citizens if more than 50 per cent of the capital in it is beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens.

'Control' includes the right to appoint a majority of directors or to control the management or policy decisions, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

These provisions are far-reaching in terms of scope, coverage, and computation and go beyond the pro rate methodology.

The entry level guidelines or conditions for FDI in an Indian company have been expressly clarified to extend to indirect FI as well, i.e. downstream investments by Indian entities owned and controlled by non-resident entities.

For FI into an Indian company engaged only in the activity of investing in the capital of another Indian company/ies or a company which does not have any operations and also does not have any downstream investment, prior government approval is required.

For all cases of transfer of ownership or control of Indian companies in specified or controlled sectors from resident Indian citizens or entities to non-resident entities, prior government approval will be required.

For downstream investments, a notification to the government within the prescribed timeframe and parameters is required.

The investing Indian companies cannot leverage funds from the domestic market for the purpose of downstream investment. Surplus retained by Indian entities can be utilised for undertaking downstream investments.

Forms of business presence

Depending upon its business needs, a foreign company can choose between setting up an LO, a BO or a PO or incorporating/investing in an Indian company or an LLP under FDI guidelines.

Eligibility criteria for foreign companies proposing to set-up liaison office/branch office in India

A foreign company can establish an LO or a BO in India with prior approval from the RBI if it is engaged in a sector where 100 per cent FDI is permitted under the automatic route as per the FDI policy.

Other cases and those of NGOs, not-for-profit organisations, government bodies and departments are considered by the RBI in consultation with the GoI.

The application needs to be filed with the RBI through an AD Bank. The LO/BO approval of RBI is location specific and subject to guidelines issued in this regard.

There are eligibility criteria and procedural guidelines for establishment of LO/BO by foreign entities in India.

Following set-up in India, the LO/BO requires various registrations and compliance obligations, including obtaining a Unique Identification Number (UIN) from the RBI. In view of the time frame obligations, the entire process needs to be carefully planned and implemented.

Liaison office¹⁰

An LO can act as a channel of communication or carry out representation/liaison between the head office or group companies and customers in India. It is not permitted to

undertake any income generating, commercial or trading or industrial activity, directly or indirectly.

The LO is obliged to maintain itself and meet its expenditure through inward remittances from the head office. It is generally approved only for a specified period which is subject to renewal.

Foreign banks can establish an LO in India only after obtaining approval from the DBOD, RBI. Foreign insurance companies can establish an LO in India only after obtaining approval from the IRDA of India.

Branch office¹⁰

A foreign company is permitted to establish a BO in India to undertake prescribed commercial activities, and this is generally suitable for manufacturing and trading companies intending to market/sell their products in India or information technology enabled/consultancy firms wanting to render services in India.

The activities permitted for a BO does not include manufacturing (unless set up in an SEZ), for which set-up and operation is governed under separate regulations) and domestic/retail trading.

No prior RBI approval is required to set up a BO in an SEZ to undertake manufacturing or service activity provided 100 per cent FDI under the automatic route is allowed in this sector and subject to other conditions. However, an approval from the SEZ authorities shall be required to set up a unit.

Foreign banks do not require separate approval under FEMA for opening BO in India. Such banks are, however, required to obtain necessary approval under the provisions of the Banking Regulation Act, 1949, from DBOD, RBI.

The bankers/authorised dealers are authorised to deal with the closure applications of such BOs of foreign companies in India.

Project office¹⁰

Foreign companies undertaking projects in India and satisfying prescribed requirements can set up POs for the purpose of executing the project.

The requirement of obtaining prior RBI approval for a PO that meets specified conditions has been dispensed with and only post facto filings are obligated. Similarly, a PO can be wound up without any specific approval by relevant filings through bankers.

A PO can only undertake activities relating to and incidental to the execution of specific projects in India and has to be wound up following the completion of the project.

A PO is permitted to open, hold and maintain two foreign currency accounts subject to prescribed conditions/parameters. A PO is allowed to remit intermittent surplus to its head office, subject to compliance with specific requirements.

Wholly owned subsidiary or joint venture company¹¹

Subject to FDI guidelines and foreign exchange regulations discussed above, a foreign company can set up its own wholly owned Indian subsidiary or joint venture company with an Indian or foreign partner.

10. Foreign Exchange Management (Establishment in India of Branch or Office or other Place of Business) Regulations, 2000

11. Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000

A subsidiary or joint venture company can be formed either as a private limited company or a public limited company. A private limited company is obliged to restrict the right of its members to transfer the shares, can have only 200

shareholders and is not allowed to have direct access to deposits from the public. Subsequent to the Companies Act, 2013 there has been an increase in the compliance requirements for a private limited company.

Comparative summary

A comparative summary of previously discussed business entities is as follows:

Sr. No	Particulars	Liaison office	Branch office	Project office	Subsidiary/joint venture	LLP
1	Setting up requirements (general)	Prior approval of RBI is required.	Prior approval of RBI is required.	Prior RBI approval is not required if certain conditions are fulfilled.	For activities/sectors under the automatic route, only post facto filings with the RBI obligated by the investee Indian company. Others to obtain prior government/FIPB and then proceed with post facto filings.	Prior FIPB approval is required - subject to certain conditions.
2	Permitted activities	Only a liaison, representation, and communication role is permitted. No commercial or business activities giving rise to any business income can be undertaken.	Only activities listed/ permitted by the RBI can be undertaken. Local manufacturing (except for SEZ units) and domestic retail trading are not permitted.	Permitted if the foreign company has a secured contract from an Indian company to execute a project in India.	Subject to sectoral policy in FDI guidelines/framework.	Activities wherein 100 per cent FDI is permitted under the automatic route and there are no performance linked conditions.
3	Funding for local operations	Local expenses can be met only out of inward remittances from the head office abroad through normal banking channels.	Local expenses can be met only out of inward remittances from the head office or from earnings from permitted operations.	Local expenses can be met through inward remittances from the head office or from earnings from permitted operations.	Funding may be through equity or other forms of permitted capital infusion, borrowings (local/ overseas norms) or internal accruals.	Funding may be through capital participation or other forms of permitted capital infusion, local borrowings or earnings from permitted operations.
4	Compliance requirements under Companies Act, 2013	Requires registration and periodic filing of accounts/other documents.	Requires registration and periodic filing of accounts/other documents.	Requires registration and periodic filing of accounts/other documents.	Requires to comply with substantial higher statutory compliance and filing requirements.	Requires registration and periodic filing of accounts/other documents.
5	Compliance requirements under foreign exchange management regulations	Required to obtain and file an annual activity certificate from the auditors in India with an AD Bank with a copy to the income tax authorities. Required to file report with the concerned DGP on an annual basis along with the annual activity certificate.		Compliance certificates stipulated for various purposes.	Requires to file periodic and annual filings relating to receipt of capital and issue of shares to foreign investors.	Requires to report receipt of capital contribution along with other documentation. Similarly, disinvestment and transfer of capital contribution also requires reporting.
6	Permanent Establishment/ taxable presence	LO generally does not constitute PE/taxable presence under DTAA's due to limited scope of activities in India.	Generally constitutes a PE and is a taxable presence under DTAA's as well as domestic income tax provisions.	Generally constitutes a PE and is a taxable presence under DTAA's as well as domestic income tax provisions.	It is an independent taxable entity and does not constitute a PE of the foreign company per se unless deeming provisions of DTAA are attracted.	It is an independent taxable entity and does not constitute a PE of the foreign company per se unless deeming provisions of the DTAA are attracted.
7	Compliance requirements under the Act	No tax liability as generally it cannot/ does not carry out any commercial or income earning activities. Annual filing of information with the income tax authorities within 60 days from the end of the financial year.	Obligated to pay tax on income earned and required to file returns of income in India. No further tax on repatriation of profits.	Obligated to pay tax on income earned and required to file returns of income in India. No further tax on repatriation of profits.	Liable to tax on global income on net basis. Dividend declared is freely remittable but subject to DDT.	Liable to tax on income earned. No DDT.

Source: Based on KPMG in India's understanding of various Acts, practical business models and FEMA provisions.

Additional reporting requirements for LO/BO/PO

Key details to be reported are as follows:

- List of personnel employed, including foreigners in India office
- List of foreigners other than employees who visited India offices in connection with the activities of the company
- Whether all foreign nationals employed at the LO/BO/PO are on e-Visas. If not, indicate details of such foreign nationals
- Whether the foreign nationals on e-Visas have reported to the mandatory authorities, i.e. police station, etc. If not, the name of such nationals/nationality, along with the relevant details and reasons for not complying with the requirement need to be reported
- Projects/contracts/collaborations worked upon or initiated during the year
- List of equipment imported for business activities in India.

Time lines for reporting include:¹²

- **On setting up a LO/BO/PO** – To be submitted within five working days of the LO/BO/PO becoming functional to the DGP of the state concerned in which the LO/BO/PO is established
- **Existing LO/BO/PO** – On annual basis along with a copy of annual activity certificate/annual report to the DGP of the state and with an AD Bank.

Repatriation of foreign exchange

India does not have full capital account convertibility as yet. However, there have been significant relaxations in the recent past for withdrawal of foreign exchange for both current account and capital account transactions. The payments due in connection with foreign trade, other current business, services, etc. are regarded as current account transactions and are generally permissible. As per the Current Account Transaction Rules, the withdrawal of foreign exchange for current account transactions is regulated as follows:

Prescribed schedule	Withdrawal for	Approving authority
Schedule I	Transactions prohibited	N.A.
Schedule II	Transactions which require prior approval of the central government	Concerned ministry or department of the government
Schedule III	Transactions which require prior approval of the RBI	RBI

Source: Foreign Exchange Management (Current Account Transactions) Rules, 2000

In the case of certain transactions listed in Schedules II and III, prior approval is not required if the payment is made out of foreign exchange funds held in EEFC account of the remitter. Remittances for all other current account transactions can generally be made directly through the AD Banks without any specific prior approval. Some of the relevant current accounts payments are discussed below:¹³

Dividends – Dividends declared by an Indian company can be freely remitted overseas to foreign shareholders without any prior approval or dividend balancing requirement.

Foreign technology collaboration – The government's liberalised policy permits payments for royalty, lump-sum fees for transfer of technology and payments for use of trademark/brand name under the automatic route without any restrictions/ceilings.

Consultancy services – Remittances up to USD1 million per project (USD10 million for specified infrastructure projects) can be made without any prior approval of the RBI. However, no such prior approval is necessary if the remittance exceeding this ceiling is made out of an EEFC account of the remitter.

Import of goods – Payments in connection with import of goods and services in the ordinary course of business are generally permissible, subject to the AD Bank's satisfaction.

Netting off export receivable and import payables

During November 2011, the RBI liberalised the procedure for set off of export receivables against import payables and delegated powers to the AD Banks to approve such set-off subject to satisfaction of certain key terms and conditions such as:¹⁴

The import is as per the FTP in force

- Invoices/bills of landing/airway bills and exchange control copies of bills of entry for home consumption have been submitted by the importer to the AD Bank;
- Payment for the import is still outstanding in the books of the importer;
- Both the transactions of sale and purchase may be reported separately in relevant returns;
- The relative GR forms will be released by the AD Bank only after the entire export proceeds are adjusted/received;
- The 'set-off' of export receivables against import payments should be in respect of the same overseas buyer and supplier and that consent for 'set-off' has been obtained from him;
- The export/import transactions with Asian clearing unit countries should be kept outside the arrangement;
- All the relevant documents are submitted to the concerned AD Bank who should comply with all the regulatory requirements relating to the transactions.

Listing of Indian companies abroad

Unlisted companies are allowed to raise capital abroad without the requirement of prior or simultaneous listing in India initially for a period of two years, subject to certain conditions.

After the initial period of two years, the impact of this arrangement would be reviewed.

12. Foreign Exchange Management (Establishment in India of Branch or Office or other Place of Business) Regulations, 2000

13. Foreign Exchange Management (Current Account Transactions) Rules, 2000

14. RBI's AP (DIR) Circular No. 47 dated 17th November 2011

Direct taxes*

India follows a residence-based taxation system. Broadly, taxpayers may be classified as residents or non-residents. A resident individual taxpayer is further categorised as ordinary resident or not ordinarily resident. An ordinary resident is taxed on his global income, whereas a non-resident and not ordinarily resident is taxed on income received/accrued or deemed to be received/accrued in India.

A tax year means an FY which runs from 1 April to 31 March of the following calendar year. Any income pertaining to the tax year (known as the previous year) is offered to tax in the following year (known as the assessment year).

Generally, the global income of domestic companies, partnerships and local authorities is subject to tax at flat rates, whereas individuals and other specified taxpayers are subject to progressive tax rates. Foreign companies and NRIs are also subject to tax at varying rates on specified income which is received or accrues/arises or deemed to be received or deemed to accrue/arise in India.

Residential status

Individual

Depending upon the period of physical stay in India during a given tax year (and the preceding ten tax years), an individual may be classified as an ordinary resident, a non-resident or a not ordinarily resident.

Company

A company is said to be resident in India in any previous year, if it is an Indian company, being a company formed and registered under the Companies Act.

Apart from an Indian company, any company whose POEM during the year is in India shall be considered to be resident of India. POEM is defined as a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made.

Business connection test

Fund management activity carried out by an eligible investment fund through an eligible fund manager acting on behalf of such fund will not constitute business connection in India.

Kinds of taxes

Corporate income tax: Indian company

A resident company is taxed on its global income. Income tax at the rate of 30 per cent is levied on income earned during a tax year, surcharge and education cess are also levied¹⁵.

The GoI has proposed that the basic corporate tax rate will be reduced from 30 per cent to 25 per cent over the next four years, starting from the FY16-17.

In the case of a company, if the income-tax payable is less than the MAT calculated, the book profit will be deemed to be the total income and MAT will be levied. MAT is calculated on the book profit under prescribed rules and compared to the income-tax payable on the total income (according to the

normal provisions of the Act). The company is required to pay MAT at 18.5 per cent on the adjusted book profits; surcharge and education cess are also levied¹⁵.

Any income accruing or arising to any foreign company by way of capital gains from transactions in securities, interest, royalty or fees for technical services shall be excluded from the ambit of MAT, i.e. by excluding both the income and corresponding expenses in the computation.

DDT at 15 per cent (a surcharge and education cess is also levied¹⁶) is liable to be paid on the dividend declared, distributed or paid by a domestic company. Dividend declared by a domestic company must be grossed up for applying DDT, resulting in an effective rate of 20.925 per cent, including surcharge and education cess.

The rate of 'income distribution tax' payable by a mutual fund on distribution of income to unit holders of other than equity oriented mutual fund is required to be grossed based on the prescribed rate of DDT for different categories.

Dividend income received by an Indian company from foreign companies is taxed at 15 per cent. (a surcharge and education cess is also levied¹⁷) provided it holds at least 26 per cent in the nominal value of equity share capital of the foreign company.

An additional income tax at the rate of 20 per cent (surcharge and education cess are also levied¹⁸) is levied on specified distributed income by unlisted domestic companies on buy-back of shares from its shareholders.

Tonnage tax scheme for Indian shipping companies

Tax is levied on the notional income of the Indian shipping company arising from the operation of ships at normal corporate tax rates. The notional income is determined in a prescribed manner on the basis of the tonnage of the ship. Shipping companies can opt for the scheme or taxation under normal provisions. Once the scheme has been opted for, it would apply for a mandatory period of ten years and other tax provisions would not apply.

Securities transaction tax

STT is levied on the value of taxable securities transactions at specified rates. The taxable securities transactions are:

- Purchase/sale of equity shares, a unit of a business trust or units of equity oriented mutual fund
- Sale of unlisted units of business trust under an initial offer
- Sale of options and futures in securities.

Commodity transaction tax

CTT is levied on the sale of a commodity derivative (other than agricultural commodities) traded in recognised associations at the rate of 0.01 per cent on the value of such transaction.

Wealth tax

From FY15-16 onwards, the Wealth-tax Act, 1957 has been abolished.

15. Surcharge:
If the total income exceeds USD159768 - 7 per cent on income tax.
If total income exceeds USD1597679 - 12 per cent on income tax.
education cess: Applicable at 3 per cent on income tax (inclusive of surcharge, if any).
Note: USD1 = INR62.5908 for FY15

16. A surcharge is levied at 12 per cent on the DDT. education cess is levied at 3 per cent on income tax (including surcharge)

17. A surcharge of 12 per cent and education cess of 3 per cent (on the tax and surcharge)
Note: USD1 = INR62.5908 for FY15

18. A surcharge of 12 per cent and education cess of 3 per cent (on the tax and surcharge)
Note: USD1 = INR 62.5908 for FY15

*Note - The content provided under direct taxes has been extracted from the provisions of the Income-tax Act, 1961 and other related allied laws, viz. The Finance Act, 2015; The black money (undisclosed foreign income and assets) and imposition of Tax Act, 2015, etc.

Tax rates

Personal taxes

Individuals are liable to tax in India at the following progressive rates:

Total income	Basic tax rate(s)
Upto USD3,994 (a)/(b)	NIL
From USD3,994 to USD7,988 (c)	10 per cent
From USD7,988 to USD15,977	20 per cent
From USD15,977 and above (d)	30 per cent

- In the case of a resident individual of the age of 60 years or above, but below 80 years, the basic exemption limit is USD4,793.
- In the case of a resident individual of the age of 80 years or above, the basic exemption limit is USD7,988.
- A rebate from tax of up to USD31.95 (including education cess) shall be available for a resident individual whose total income is below USD7,988.
- Twelve per cent surcharge shall be levied if the total income exceeds USD159,768. Marginal relief is available.
- Education cess is applicable at the rate of 3 per cent on income tax (inclusive of surcharge, if any).

Capital gains tax

The profit arising from the transfer of capital assets is liable to be taxed as capital gains. Capital assets include all kinds of property except stock-in-trade, raw materials and consumables used in business or profession, personal effects (except jewellery), agricultural land and notified gold bonds.

LTCG arising from assets held for 36 months or more (12 months in case of certain specified capital assets) are eligible for indexation benefit and are taxed at special rates/eligible for certain exemptions (including exemption from tax where the sale transaction is chargeable to STT).

STCG arising from transfer of equity share in a company and unit of an equity-oriented mutual fund which is subject to STT are taxable at the rate of 15 per cent. Other short-term capital gains are generally taxed at the applicable rates.

Taxability of foreign nationals

Foreign nationals are liable to tax in India depending upon their residential status. Indian tax law provides an exemption of income earned by employees of a foreign enterprise for services rendered in India, subject to the following conditions:

- The foreign enterprise is not engaged in any trade or business in India
- The individual's stay in India does not exceed 90 days
- The payment made is not deducted in computing the taxable income of the employer under the Act.

Remuneration received by a non-resident employed on a foreign ship is exempt from tax provided his/her stay in India does not exceed 90 days.

Taxability of foreign companies

A non-resident company is taxed at 40 per cent on net income which is received/deemed to be received or which accrues/arises or deemed to accrue/arise in India.

Surcharge and education cess are also levied¹⁹.

Taxation of real estate investment trusts and infrastructure investment trust (business trusts)

SEBI has notified regulations relating to the following categories of investment vehicles:

- Real estate investment trust
- Infrastructure investment trust.

(Both the above entities referred to as 'business trust' hereinafter).

These business trusts will raise capital through issuance of units (to be listed)/debt and hold income bearing assets either directly or in the form of controlling interest in Indian entity/SPV.

A specific taxation regime has been introduced for business trusts and investors in such business trusts in a manner that there is no double taxation. Key features of such regime are as follows:

Dividend

- SPV (company) distributing dividend to the business trust is subject to DDT
- Dividend is exempt in the hands of the business trust
- Dividend component of the income distributed by the business trust is treated as such in the hands of the unit holder, and therefore is exempt in their hands.

Interest

Interest received by the business trust from any SPV is given a complete tax pass through status as follows:

- Interest from SPV is not taxable in the hands of the business trust
- SPV is exempted from withholding tax on interest paid to the business trust
- Interest distributed by business trust is taxable in the hands of resident unit holders at applicable slab rates and in the hands of non-resident unit holders at 5 per cent (plus applicable surcharge and cess).
- Business trust will withhold tax on the interest component of the distributed income payable to the unit holders at the rate of 10 per cent for a resident unit holder and 5 per cent for any non-resident unit holder.

Capital gains

- The business trust is taxable on any capital gains earned by it on disposal of any assets at the applicable rate (depending upon whether the gains are short or long-term)
- However, the capital gains component of the distributed income is exempt in the hands of the unit holders.

¹⁹ Surcharge:
If the total income exceeds USD159,768 - 2 per cent on income tax.
If total income exceeds USD1,597,679 - 5 per cent on income tax.
education cess: Applicable at 3 per cent on income tax (inclusive of surcharge, if any).
Note: USD 1 = INR62.5908 for FY15

Tax treatment of the rental income arising to REIT from real estate property directly held by the REIT

The rental income arising to REIT from the real estate property directly held by the REIT is eligible for pass-through status. Accordingly, such income will be exempt for the REIT and chargeable to tax in the hands of its unit holders on distribution. The tenant or lessee is not required to withhold tax on payment of rent to the REIT, but the REIT in turn would withhold tax at 10 per cent on distribution of such income to the resident unit holders and at applicable rates on the distribution to the non-resident unit holders.

Tax implications in the sponsor's hand on exchange of SPVs' shares with business trust units

Exchange of shares of SPV for units of a business trust is not regarded as taxable transfer by virtue of specific exemption being granted. Consequently, taxability is deferred till the time of ultimate disposal of the units by the sponsor.

At the time of ultimate disposal of the units of the business trust, the sponsor shall be entitled to avail the concessional STT-based capital gains tax regime. Further, the acquisition cost of the units to the sponsor shall be deemed to be the acquisition cost of the shares in the SPV. The holding period of the shares would also be included in reckoning the holding period of the units.

Applicability of MAT to sponsor Indian company of business trust

The notional gain or notional loss on transfer of capital asset, being shares of a special purpose vehicle, to a business trust in exchange of its units or any notional gain or notional loss resulting from any change in the carrying value of such units to be excluded for the purpose of computing MAT.

The gain or loss on transfer of units as aforesaid, based on cost of shares exchanged with units or carrying amount of such shares at the time of such exchange where shares are carried at a value other than the cost through profit or loss account, shall be taken into account for the purpose of computing MAT.

Capital gains on transfer of units of the business trust by investors

Units of the business trust shall be listed on the stock exchange; LTCG on transfer of units would be exempt and STCG would be taxable at the rate of 15 per cent (plus surcharge and education cess as may be applicable) provided STT is paid on the transfer of such units.

Capital gains on transfer of units of business trusts by sponsor

At the time of disposal (under an IPO listing or sale thereafter) of the units of the business trust, the sponsor of business trust would be eligible for concessional STT-based capital gains tax regime on par with other investors (i.e. LTCG on transfer of units would be exempt and STCG would be taxable at the rate of 15 per cent, provided STT is paid on the sale of such units).

Limited liability partnerships

The LLP Act was introduced in 2008 in India. LLPs are subject to AMT at the rate of 18.5 per cent of the adjusted total income in case where the income tax payable is less than 18.5 per cent of the adjusted total income. The provisions dealing with DDT do not apply to an LLP.

The conversion of a private company or unlisted public company into an LLP is exempt from tax subject to prescribed conditions.

Foreign institutional investors

To promote the development of Indian capital markets, qualified FIIs/sub-accounts registered with SEBI and investing in listed Indian shares and units are subject to tax at beneficial rates as follows:

Interest	20 per cent
Long-term capital gains [#]	NIL
Short-term capital gains [#]	15 per cent

[#] Subject to payment of STT

A surcharge and education cess are levied²⁰.

The rate of tax on other short-term capital gains is 30 per cent, along with surcharge (if applicable) and education cess.

Any security held by FIIs is a capital asset and liable to be taxed under the head capital gains.

Alternative investment funds

Any income of a VCC or VCF (not being an investment fund) from investment in a VCU shall be exempt from tax subject to fulfillment of certain conditions. The tax pass through status is available to VCC or VCF which are registered with SEBI before 21 May 2012. The VCC/VCF related regulations have been replaced by AIF regulations from 21 May 2012.

To allow domestic managers to further diversify into launching variety of funds (including private equity funds, debt funds, hedge funds, etc.), SEBI announced the SEBI (AIF) Regulations, 2012. To provide ease of operations, many of these funds are structured in the form of a trust.

A special taxation regime exists in case of AIFs that are registered with the SEBI under the SEBI (AIF) Regulations 2012.

Tax pass-through will be granted to all income for AIF Category I and II funds, except business income, subject to certain conditions.

Modes of taxation

Gross basis of taxation

Interest²¹ and royalties/FTS earned by non-residents are liable to tax on a gross basis at 20 and 10 per cent, respectively, unless effectively connected to a PE. However, DTAA protection may be available.

Surcharge and education cess are also levied.²²

20. Surcharge:
If the total income exceeds USD1,59,768 - 2 per cent on income tax.
If total income exceeds USD1,59,769 - 5 per cent on income tax.
education cess: Applicable at 3 per cent on income tax (inclusive of surcharge, if any).
Note: USD1 = INR 62.5908 for FY15

21. Interest received on loans given in foreign currency to an Indian concern or GoI

22. Surcharge:
If the total income exceeds USD159,768 - 2 per cent on income tax.
If total income exceeds USD1,59,769 - 5 per cent on income tax.
education cess: Applicable at 3 per cent on income tax (inclusive of surcharge, if any).
Note: USD1 = INR62.5908 for FY15

Presumptive basis of taxation

Foreign companies engaged in certain specified business activities are subject to tax on a presumptive basis as below:

Activity	Basic of taxation	Effective tax rate (including surcharge (2 per cent/5 per cent) and education cess 3 per cent)
Oil and gas services	Deemed profit of 10 per cent of revenues	4.2/4.3 per cent
Execution of certain turnkey contracts	Deemed profit of 10 per cent of revenues	4.2/4.3 per cent
Air transport	Deemed profit of 5 per cent of revenues	2.1/2.2 per cent
Shipping operations	Deemed profit of 7.5 per cent of freight revenues	3.2/3.2 per cent

Source: Presumptive sections of the Income-tax Act, 1961

Note: USD1 = INR62.5908 for FY15

Head office expenditure

Foreign companies operating in India through a branch are allowed to deduct executive and general administrative expenditure incurred by the head office outside India. However, such expenditure is restricted to the lower of:

- Five per cent of adjusted total income (as defined)
- Expenditure attributable to the Indian business.

In cases where the adjusted total income for a year is a loss, the expenditure is restricted to 5 per cent of the average adjusted total income (as defined).

CSR expenditure

Any expenditure incurred by companies in respect of CSR as referred under the Companies Act, 2013 shall not be allowed as a business expenditure. However, the same can be allowed as a deduction under the specific provisions of the Act while computing profits of business and profession upon satisfying the conditions mentioned therein.

Taxation on transfer of shares of a closely held company without or for inadequate consideration

The transfer of shares of a closely held company without consideration or for inadequate consideration to a firm or to a closely held company is taxable in the hands of the recipient of shares. The taxable income for the recipient will be the fair market value of the shares if the transfer is without consideration. If the transfer is for inadequate consideration then the taxable income will be the difference between the fair market value and consideration that exceeds the threshold of USD799. The computation of the fair market value of the shares has been prescribed.

Share premium in excess of the fair market value deemed as income

Where a closely held company receives from any person, being a resident, any consideration for issue of shares that

exceeds face value of shares, the aggregate consideration received for such shares as exceeds the fair market value of shares is taxable in the hands of a recipient. However, this does not apply in case where the consideration for issue of shares is received by (a) a VCU from a venture capital company or a VCF or (b) a company from a class or classes of persons, as may be notified.

Investment allowance

If a company engaged in the business of manufacturing or production of any article or thing acquires and installs new plant and machinery exceeding USD4 million in a financial year, then an investment allowance of 15 per cent of the actual cost of such new plant and machinery is to be allowed. This benefit is available up to 31 March 2017.

Withholding of taxes

Generally, incomes payable to residents or non-residents are subject to withholding tax by the payer. However, in most cases, individuals are not obliged to withhold tax on payments made by them. Under the Act, the payments to foreign companies/non-residents are subject to withholding tax at the rates given below:

Type of income	Foreign companies (note 3)	Other non-residents*
Interest on foreign currency loan	20 per cent	20 per cent
Interest payable on external commercial borrowings between 1 July 2012 to 30 June 2017 and long-term bonds, including long-term infrastructure bonds, borrowed from 1 October 2014 to 30 June 2017	5 per cent	5 per cent
Income received by FII or QFI by way of interest payable between 1 June 2013 to 30 June 2017 on specified bonds and government securities	5 per cent	5 per cent
Royalties and technical services fee approved by the government or in accordance with the industrial policy	10 per cent	10 per cent
Long-term capital gains	20 per cent	20 per cent
Any other income	40 per cent	40 per cent

Source: Withholding tax rates applicable to foreign companies/non-residents under the Income-tax Act, 1961

* 10 per cent surcharge shall be levied if the total income exceeds USD159768. education cess is levied at 3 per cent on income tax (inclusive of surcharge, if any).

Withholding of tax on interest payment to head office

The interest payable by an Indian branch of a foreign bank to its head office or another branch is taxable in India and subject to applicable withholding tax.

Note: USD1 = INR62.5908 for FY15

Statement for withholding of tax and penalty provisions

The persons responsible for paying any sum to a non-resident are required to furnish prescribed declaration and information. Any non-compliance of these provisions would attract penalty of USD1,598.

Carry forward of losses and unabsorbed depreciation

Business loss (including that of speculation business), unabsorbed depreciation, and capital loss (long-term as well as short-term) can be carried forward and set off as per the prescribed provisions of the law. Business losses can currently be carried forward for a period of eight years, whereas unabsorbed depreciation can be carried forward infinitely.

Loss from speculation business can be set off only against profits from the business of speculation. In certain circumstances, business of trading in shares is deemed to be speculation business. However, a taxpayer with the principle business of trading in shares shall not be deemed to be carrying on a speculation business.

Corporate re-organisations

Corporate re-organisations, such as amalgamations and demergers, are either tax neutral or taxed at concessional rates subject to the fulfillment of the prescribed conditions.

Capital gain will be exempt in respect of indirect transfers by way of overseas amalgamations and demergers, involving any transfer of a capital asset, being a share of a foreign company which derives, directly or indirectly, value as stipulated from share(s) of an Indian company.

Return of income

Every company is required to file a return of income. Every other taxpayer whose taxable income exceeds the maximum amount not chargeable to tax is also required to file a return of income in a prescribed form. The return of income is required to be filed before the prescribed dates of the assessment year.

Any individual, being a resident other than not ordinarily resident in India who is, otherwise, not required to furnish the return of income is now obliged to do so if at any time during the previous year:

- He holds, as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has signing authority in any account located outside India; or
- He is a beneficiary of any asset (including any financial interest in any entity) located outside India.

The beneficiary of any assets shall not be required to file such return if the income, if any, arising from any such asset (including any financial interest in any entity) is includible in the income of the person referred in (a) above.

Assessment and appeals

The tax officer conducts the audit of the income disclosed by taxpayers. The officer may re-compute the tax liability based on their findings after giving an opportunity of hearing to the taxpayer. The taxpayer, if aggrieved by the decision of the tax officer, has an option to file an appeal with the first appellate

authority, i.e. the CIT(A) or with the DRP. The taxpayer can further appeal before the Income-tax Appellate Tribunal, High Court and Supreme Court.

Dispute resolution mechanism

In order to facilitate expeditious resolution of transfer pricing disputes and disputes relating to taxation of foreign companies, an alternate dispute resolution mechanism is available in the form of the DRP.

Relief from double taxation

India has entered into DTAA with more than 90 countries²³. Generally, the provisions of DTAA prevail over the domestic tax provisions. However, the domestic tax provisions may apply to the extent they are more beneficial to the taxpayer. The benefit of the DTAA will not be available unless a taxpayer obtains a TRC from the government of the country where the taxpayer resides.

India has also entered into TIEA with several countries and specified territories outside India, e.g. Argentina, British Virgin Islands, Cayman Islands, Jersey, etc.²³

Authority for advance rulings

A scheme of advance rulings is available to an applicant with respect to any question of law or fact in relation to the tax liability of the non-resident, arising out of a transaction undertaken or proposed to be undertaken.

The scheme of AAR is also available to resident taxpayers in relation to a tax liability arising out of a transaction undertaken or to be undertaken.

The advance rulings are binding on the tax authorities as well as the applicant with respect to the transaction for which the ruling has been sought. However, they can be challenged before the High Court. Advance rulings help non-residents and residents in planning their income tax affairs well in advance and bring certainty in determination of income tax liability. They also help in avoiding long drawn litigation in India.

Settlement commission

Where any case is pending before the tax officer, the taxpayer may make an application before the Settlement Commission for settlement of a case. The application shall be made in a prescribed form in a prescribed manner and contain full and true disclosure of his income which has not been disclosed to the tax officer.

The taxpayers can approach the settlement commission even for those cases wherein re-assessment proceedings are initiated or proceedings for fresh assessments are undertaken in pursuance of order of higher authorities.

Where reassessment notice is issued for any AY, the taxpayer can approach the Settlement Commission for other AYs as well, even if notice for such other AY has not been issued. However, return of income for such other AYs should have been furnished.

Anti-avoidance measures

GAAR has been introduced under the Indian domestic law. However, the applicability of the GAAR provisions have been deferred by two years, to be effective from FY17-18. Further, it has been clarified that GAAR will be applicable to investments on or after 1 April 2017.

Note: USD1 = INR62.5908 for FY15

23. www.incometaxindia.gov.in accessed 20 August 2015

Under GAAR, an arrangement is to be treated as an impermissible avoidance arrangement if the main purpose is to obtain tax benefit and amongst other instances it lacks/deems to lack commercial substance. Further, an arrangement shall be deemed to lack commercial substance under certain prescribed circumstances, viz. if it is not at an arm's length or there is a misuse or abuse of provisions or it is not for a bonafide purpose. Upon a reference being made to the Approving Panel, it shall issue directions in respect of declaring an impermissible avoidance arrangement. An Approving Panel will be constituted of a retired judge of a High Court and other professionals to issue directions on the applicability of GAAR in each case.

The GAAR rules have also been notified which, inter alia, provide the following:

GAAR provisions shall not apply to:

- An arrangement where the tax benefit arising to all the parties to the arrangement in the relevant AY does not exceed USD479,303 in aggregate.
- A foreign institutional investor:
 - Who is an assessee under the Act
 - Who has not taken benefit of the tax treaty which India has entered into with the respective country
 - Who has invested in listed securities, or unlisted securities, with the prior permission of the competent authority, in accordance with the SEBI (FII) Regulations, 1995 and such other regulations as may be applicable, in relation to such investments
- A non-resident person who has investment by way of offshore derivative instruments or otherwise, directly or indirectly, in an FII.

Indirect transfer provisions

Indirect transfer of shares by a foreign company held in another foreign company which derives its value substantially from Indian assets is taxable in India on proportionate basis, if on the specified date (date of transfer or last day of accounting year as stipulated) the value of such Indian assets exceeds USD1.60 million, and it represents at least fifty per cent of the value of all the assets owned by the foreign company or entity.

The value of the assets to be its FMV (without reduction of corresponding liabilities) and the underlying aggregate gains to be apportioned proportionately to Indian assets as per methods to be prescribed. No income shall be deemed to accrue or arise to a non-resident from transfer, outside India, of any share of, or interest in, a company or an entity, registered or incorporated outside India, if the transferor whether individually or along with its associated enterprises:

- neither holds the right of control or management,
- nor holds voting power or share capital or interest exceeding five per cent of the total voting power or total share capital in the foreign company or entity directly holding the Indian assets (direct holding company).

The above criteria for exemption applies where such company or entity directly owns the assets situated in India. If such company or entity indirectly owns the assets situated in India then exemption shall be available if the transferor (whether individually or along with its associated enterprises), at any time in the twelve months preceding the date of transfer:

- neither holds the right of management or control in relation to such company or the entity
- nor holds any rights in such company which would entitle it to either exercise control or management of the direct holding company or entity or entitle it to voting power exceeding 5 per cent in the direct holding company or entity.

Reporting obligation is casted on the Indian concern, through or in which the Indian assets are held by the foreign company or the foreign entity and any non-compliances to attract penal consequences.

Tax incentives

Special economic zones

The SEZ scheme is administered by the Ministry of Commerce through the board of approvals (at the central level) and through the regional development commissioner (at state level). The scheme is operated through the SEZ Act, 2005 and SEZ Rules, 2006.

Units set up in special economic zones

An enterprise which sets up a unit in SEZ for undertaking export activities is entitled to claim tax holiday with respect to its export profits for a period of 15 years commencing from the year in which such unit begins to manufacture or produce articles or things or provide services. The tax holiday of 15 years is as follows:

- A 100 per cent of export profits for first five years
- A 50 per cent of export profits for the next five years
- A 50 per cent of export profits, for the next five years (subject to conditions with restriction to creation and utilisation of reserves).

The unit is eligible for tax holiday subject to satisfaction of prescribed anti-abuse provisions. The profits earned by SEZ unit would be subject to MAT provisions.

Special economic zone developer

A 100 per cent tax holiday on profits and gains derived from the business of developing, maintaining and operating SEZ for 10 consecutive years out of 15 years, commencing from the notification of SEZ, has been provided. However, MAT and DDT provisions are applicable to the SEZ developers.

Offshore banking units and international financial services centre units set-up in special economic zone

OBUs and IFSCs located in SEZs are entitled to tax holidays on 100 per cent of the income for the first five years (commencing from the year in which permission to set up OBU or IFSC is obtained), and 50 per cent for the next five consecutive years. However, MAT and DDT provisions are applicable to these units.

In-house research and development

A weighted deduction at the rate of 200 per cent on the scientific research expenditure incurred (excluding expenditure on the cost of land or buildings) on an in-house research and development facility is allowed as a deduction while computing the income of a taxpayer which is engaged in the business of manufacture or production of any article or thing other than a prohibited article or thing.

Tax holiday in respect of infrastructure projects

Undertakings engaged in prescribed infrastructure projects are eligible for a tax holiday on the basis of profits derived for a consecutive period of any ten years out of a block period of 15/20 years.

Tax holiday in respect of power projects

A tax holiday for a period of ten years in a block of 15 years is available to undertakings on the profits derived from the following activities:

Activity	Condition
Generation or generation and distribution of power	Begins to generate power on or before 31 March 2017
Transmission or distribution by laying a network of new transmission or distribution line	Starts transmission or distribution by laying a network of new transmission or distribution lines on or before 31 March 2017
Substantial renovation and modernisation (more than 50 per cent) of the existing network of transmission or distribution lines	On or before 31 March 2017

Black money law

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 was enacted on 1 July 2015. The purpose of the Act is to set out an unequivocal regime that makes it easier for taxpayers to disclose previously undisclosed income which is held overseas, e.g., in foreign financial accounts and other foreign assets. It seeks to check the black money menace with stringent provisions for those stashing illegal wealth abroad. The Act provides for separate taxation of any undisclosed income in relation to foreign income and assets.

Transfer pricing in India

Scope and applicability

Meaning of associated enterprises

Any income arising from a transaction between AEs either or both of whom are non-resident for Indian income tax purposes, shall be computed having regard to the ALP. Two enterprises are considered to be AEs if there is participation either directly, indirectly or through one or more intermediaries in the management or control or capital of an enterprise. Such participation can be by another enterprise or by same persons in both the enterprises. Further, two enterprises will be deemed to be AEs at any time during the fiscal year in the following circumstances:

- Minimum 26 per cent voting power is held by one enterprise in the other enterprise or a common parent (either a person or an enterprise) holds minimum 26 per cent in both the enterprises; or
- One enterprise advances loan not less than 51 per cent of the total assets of the other enterprise; or guarantees not less than 10 per cent of the total borrowings of the other enterprise; or

- More than half of the board of directors, etc. of one enterprise, are appointed by the other enterprise or more than half of the board of directors, etc. of both the enterprises are appointed by the same person or persons; or
- One or more executive directors or executive members of the governing board of one enterprise, are appointed by the other enterprise or one or more executive directors; or executive members of the governing board of both the enterprises are appointed by the same person or persons; or
- One enterprise is wholly dependent for its business on the IPRs owned by the other enterprise or for which the other enterprise has exclusive rights; or
- At least 90 per cent or more of the raw materials and consumables required by one enterprise is supplied by the other enterprise or by persons specified by the other enterprise. Further, the other enterprise has influence over the prices and other conditions relating to the supply; or
- The goods or articles manufactured or processed by one enterprise are sold to the other enterprise or to persons specified by the other enterprise, wherein the other enterprise has influence over the prices and other conditions relating to such sale; or
- There exists between the two enterprises, any relationship of mutual interest, as may be prescribed.

Meaning of international transaction

- 'International transaction' means a transaction between two or more AEs, either or both of whom are non-residents, in the nature of the following:
- Purchase, sale or lease of tangible or intangible property or
- Provision of services; or
- Lending or borrowing money
- Any other transaction having a bearing on the profits, income, losses or assets of such enterprises, and shall include a mutual agreement or arrangement between two or more AEs for the allocation or apportionment of, or any contribution to, any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to any one or more of such enterprises.

Further, transactions in the nature of capital financing, i.e. purchase/sale of marketable securities, borrowing/lending (either short-term or long-term), guarantees, deferred payments or receivable and transactions in the nature of business restructuring have also been included within the ambit of international transactions under the Indian Transfer Pricing regulations.

Transactions between the taxpayer and any independent resident or non-resident persons (collectively known as 'other person') would be deemed to be an international transactions and would come under the purview of Indian Transfer Pricing regulations if there exists a prior agreement between the AE and the other person or the terms of the transaction under consideration are determined in substance by the AE and the other person.

Domestic transfer pricing

From 1 April 2012, the transfer pricing regulations also apply to certain domestic transactions defined as Specified Domestic Transaction

- Payments (i.e. only expenditure) to specific related parties
- Transactions between tax holiday eligible units and other business of the same taxpayer
- Transactions of the taxpayer who enjoy any kind of tax holiday with closely connected entities
- Such other transactions, as may be prescribed.

These provisions shall be applicable in cases where the aggregate amount of all such domestic transactions exceeds USD3,195,300 in a financial year.

Determination of arm's length price

The Indian transfer pricing regulations require the ALP in relation to an international transaction/SDT to be determined by any one of the following methods, being the MAM.

- CUP method
- Resale price method
- Cost plus method
- Profit split method
- Transactional net margin method
- Other method (this method permits use of a 'price which has been charged or paid, or would have been charged or paid'. Thus it allows use of bonafide quotations, bids, proposals as comparable transactions or prices, and also other economic and commercially justifiable models and similar approaches.)

Range concept

The concept of range for price and margin analysis will be applicable only in those cases where CUP Method, RPM, CPM or TNMM is used as the MAM for the determination of the ALP of international transactions or SDT, entered on or after 1 April 2014.

A minimum of six comparables would be required in the dataset for applying the concept of range. An arm's length range beginning from the thirty-fifth percentile of the dataset (arranged in ascending order) and ending on the sixty-fifth percentile will be considered for the determination of ALP.

If the price at which the international transaction or the SDT is undertaken is outside the arm's length range (i.e. thirty-fifth percentile to sixty-fifth percentile of the dataset), the ALP of the transaction shall be taken to be the median of the dataset.

In a case where the dataset consists of less than six comparables, or the MAM considered for the determination of the ALP is the profit split method or the 'other method', the ALP will be determined based on the arithmetical mean of all the prices/data points included in the dataset. Further, the benefit of three per cent (one per cent for wholesale traders) variation, while adopting the arithmetic mean, would be available.

Use of multiple year data

The data to be used for a comparability analysis should be related to the 'current year' (i.e. financial year in which the international transaction or the SDT was entered into) or to two financial years prior to the current year.

Multiple-year data should be used where RPM, CPM or TNMM is used as the MAM for the determination of the ALP of international transactions or SDT, entered on or after 1 April 2014,

Comparability will be conducted based on:

- data relating to the current year; or
- data relating to the financial year immediately preceding the current year, if the data relating to the current year is not available at the time of furnishing the return of income.

However, if during the assessment proceedings the current year data becomes available, the same shall be considered irrespective of the fact that such current year data was not available at the time of furnishing of return of income.

Use of the weighted average to compute the ALP

The price in respect of comparable uncontrolled transactions shall be determined using the weighted average of the prices/data for:

- the current year and preceding two financial years; or
- two financial years immediately preceding the current year (but not including the current year as the same may not have been available)

with weights being assigned to specific parameters (sales, cost, assets, etc.) depending on the selection of the MAM.



Compliance requirements

Documentation

The transfer pricing regulations have prescribed an illustrative list of information and supporting documents required to be maintained by taxpayers entering into international/specified domestic transactions. Currently, the mandatory documentation requirements are applicable only in cases where the aggregate value of the international transactions exceeds USD159,750 approximately. Taxpayers entering into SDTs beyond the prescribed limit would also have to adhere to the documentation requirements. The documentation requirement can be described as follows:

- Entity related: Profile of the industry, group, Indian entity and AEs
- Price related: Transaction terms, functional analysis (functions, assets and risk analysis), economic analysis, forecasts, budgets, estimates
- Transaction related: Agreements, invoices, pricing related correspondence.

Non-maintenance of mandatory documentation can result in a penalty of two per cent of the value of the transactions between related parties. Further penalties can also be levied at the rate of two per cent of the transaction value for non-reporting of transactions and for incorrect maintenance/submission of documents.

Certification

Further, every person who has entered into an international/specified domestic transaction is required to file a transfer pricing audit certificate (in Form No. 3CEB) on or before 30 November following every financial year ending on 31 March.

Transfer pricing audits

Transfer pricing matters in India are dealt by specialised transfer pricing officers duly guided by Director of International Taxation, being part of the Indian tax administration. In accordance with the internal administrative guidelines issued to the revenue authorities, the Transfer Pricing officers are required to concentrate on cases which are important from risk assessment perspective. Further, all taxpayers where the transfer pricing officers have made an adjustment of USD1.60 million or above shall be subject to a mandatory transfer pricing audit.

Safe harbour rules

In a bid to reduce transfer pricing litigation, the Indian tax authorities had announced the SHRs, in September 2013, applicable for a period of five years starting with AY 2013-14 for various sectors.

SHRs are the minimum profitability or pricing thresholds, which if met for specified categories of international transactions with AEs could provide immunity to taxpayers from transfer pricing audits. The rules provide for a time bound procedure for determination of the eligibility of the taxpayer and of the international transactions for safe harbours. Recently, SHRs have been notified for the government owned electricity companies prescribing limited documentation requirements for such companies.

Safe harbour have met with a tepid response from taxpayers due to the relatively steep margins prescribed, along with other cumbersome compliance requirements and practical difficulties in implementing the same.

Advance pricing agreements

An APA refers to an agreement between the taxpayer and the tax authorities on the pricing of an existing or proposed transaction between related parties. In the APA regime, taxpayer and tax authorities can discuss the transfer pricing issues in a non-adversarial spirit and environment. In other words, APA refers to arriving at proximate prices closer to the ALP. APA provisions were introduced in the Indian transfer pricing regulations with effect from 1 July 2012. The existing Indian APA programme covers five years and the salient legislative provisions of this are as follows:

- Option of unilateral/bilateral/multilateral APA possible;
- The ALP shall be determined on the basis of prescribed methods or any other method;
- Valid for a maximum of five consecutive years unless there is a change in provisions of the Act having a bearing on the international transaction;
- Pre-filing consultation is optional (option of anonymous filing available);
- In case an APA covering a particular year is obtained after filing the return of income, a modified return should be filed based on the APA and assessment or reassessment to be completed based on such modified return;
- APA to be declared void ab initio if obtained by fraud or misrepresentation of facts;
- No regular transfer pricing audits, once an APA is signed. Only an annual compliance audit shall take place;
- Taxpayer can withdraw the APA application at any stage;
- Option of renewal of APA is available.

In order to reduce litigation on transfer pricing and provide 'certainty' for prior years, the APA 'rollback mechanism' was introduced in 2014 in the existing APA programme with effect from 1 October 2014.

Rollback of APAs can now enable the taxpayers to apply the transfer prices agreed upon in an APA to be rolled back for a period not exceeding four previous years, preceding the first year for which the APA is signed. The rollback provisions provide for determining the ALP or the manner in which it shall be determined in relation to international transactions entered into by the taxpayer.

Rollback application is required to be filed along-with main APA application and can cover only those international transactions which are proposed to be covered under the main APA application. Further, taxpayer as well as the revenue authorities would be required to withdraw the pending appeals in respect of the covered transactions.

Mutual agreement procedure

The taxpayers can choose a MAP to resolve bilateral international tax/transfer pricing disputes with certain foreign jurisdictions depending on the provisions in the relevant DTAs. The revenue authorities have issued clarifications whereby, subject to the satisfaction of certain conditions and depending on the relevant foreign jurisdiction, the taxpayers choosing the MAP process may not be required to pay the tax demand until the closure of the MAP proceedings, subject to the furnishing of a bank guarantee.

Indirect taxes*

Customs duty

Customs duty is applicable on import of goods into India. It is payable by the importer of the goods. Customs duty comprises the following elements:

- BCD
- ACD (this is levied in lieu of excise duty and is applicable on goods manufactured in India)
- Education cess
- Secondary and Higher education cess
- SAD (this is levied in lieu of VAT, applicable on sale of goods in India).

The applicable customs duty rate on the import of any goods into India is based on the universally accepted HSN code assigned to the said goods. The generic BCD rate is 10 per cent at present and the effective customs duty rate (i.e. the aggregate of the above mentioned components, i.e. BCD, ACD, SAD and cesses) with BCD at 10 per cent is 29.44 per cent (with ACD at 12.5 per cent, SAD at 4 per cent and cesses at 3 per cent).

The ACD paid as part of customs duty would be available as a CENVAT credit (set-off) to the manufacturers/service providers using the imported goods as inputs in their manufacturing/for provision of services.

The SAD paid as part of customs duty would be available as credit to the manufacturer. For a trader, this SAD is available as a cash refund (subject to the prescribed procedure) if state VAT has been paid on subsequent sales of the imported goods. However, for a service provider no credit is available of the SAD paid.

Excise duty

Excise duty is applicable on the manufacture of goods in India. It is payable by the person undertaking the manufacturing activity. It is recoverable from the buyer of the goods. The applicable excise duty rate on the manufacture of any goods in India is based on the universally accepted HSN code assigned to the said goods.

The generic excise duty rate is 12.5 per cent (*education cess and Secondary and Higher education cess on excise duty has been withdrawn from 1 March 2015).

The excise duty paid on raw materials used in the manufacture of finished products is available as setoff against the excise duty liability on manufacture of such finished goods, subject to satisfaction of prescribed procedures. The benefit of set-off is also available on the service tax which has been paid on services used by the manufacturer. The central government has provided certain excise duty incentives for units set up in specified backward areas of India. The benefits/incentives are in the nature of full exemption from excise duty or refund of duty paid in cash after availing credit.

Service tax

Service tax is applicable on provision of all services except the services specified in the negative list and those specifically exempted vide the mega exemption notification.

The generic service tax rate is 14 per cent* (with effect from 1 June 2015).

(*There is an additional levy proposed of 2 per cent Swachh Bharat Cess on value of taxable services of notified services from a date to be notified).

Generally, the service tax is payable by the service provider except in certain specified categories where the recipient is liable to pay the service tax such as manpower supply services, goods transport services, works contract services, legal services subject to prescribed conditions.

Also, in cases of import of any services, where the service provider is a non-resident, the service recipient in India would become liable to discharge the service tax liability on a reverse charge basis. The service tax law also provides for zero rating of services which are exported outside India. The service tax paid on the services received can be used as set-off against the liability of service tax on provision of services. The benefit of set-off is also available on excise duty which has been paid on inputs/capital goods used by the service provider.

Central sales tax

India has both central and state level indirect tax levies on sale or purchase of goods. Sale transactions which involve movement of goods within the same state are subject to levy of local state VAT, whereas sales which involve inter-state movement of goods are subject to CST in terms of the provisions of the Central Sales Tax Act, 1956.

The rate of CST is equivalent to the VAT rate prevailing in the state from where the movement of goods has commenced. There is a concessional rate of 2 per cent, if the buyer can issue a declaration in Form C subject to fulfillment of specified conditions. CST paid by the buyer while procuring the goods is not available as set-off for payment against any liability and hence is a cost to the business.

Research and development cess

R&D Cess is leviable at the rate of 5 per cent on import of technology directly or through deputation of foreign technical personnel under a foreign collaboration. Where the importer of the technology in India is liable for payment of service tax liability under the categories of consulting engineer's services or intellectual property right services on the import of the technology then the R&D Cess paid is available as deduction from such service tax liability subject to fulfillment of specified conditions.

Value Added Tax

VAT is applicable on sale of goods where the movement of goods takes place within the same state. Each state has different laws for levy of VAT and schedules of rates on various goods. It is pertinent to note that the VAT paid to vendors for procurement of goods can be availed as input tax credit (set-off) against discharge of VAT or CST liability on sale of goods.

Certain VAT/CST incentives are available to units set up in specified backward areas of the states. Such incentives are in the nature of a concessional rate of VAT/CST or in the nature of remission/subsidy of the VAT/CST charged. The VAT rate ranges from nil to 30 per cent across different states and is also dependent upon the nature of the goods.

*Note: The content provided under Indirect taxes has been extracted from the provisions of The Customs Act, 1962 and the Rules and Regulations made thereunder; The Central Excise Act, 1944 and the Rules and Regulations made thereunder; Chapter V of the Finance Act, 1994; Maharashtra Value Added Tax Act, 2002 and

the Rules and Regulations made thereunder; Central Sales Tax Act, 1956; Foreign Trade Policy 2015- 2020; Draft White Paper and Constitutional Amendment Bill on GST as available on public domain; and other allied Indirect tax legislations

Entry tax

Entry tax is levied on the entry of specified goods into a state for use, consumption or sale therein. The entry tax rates vary from state to state and are applicable only on specified goods. Certain states provide for a set-off of entry tax paid against the VAT payable on the sale of goods in such state.

Local Body Tax/Octroi

LBT/Octroi is levied on the entry of specified goods into a specified municipal limit/local area for use, consumption or sale there. Presently, LBT/Octroi is levied only in certain areas of Maharashtra for dealers having a turnover above the specified limit. The LBT/Octroi rates vary from nil to ten per cent across municipal areas and are also dependent upon the nature of the goods. No set-off of LBT/Octroi paid is available against any liability and hence is a cost to the business.

Other local taxes

Besides the above mentioned taxes, there are certain local taxes applicable within specific areas of certain identified cities, towns, villages, etc., e.g. agricultural produce market cess and mandi tax, entertainment tax on entertainment activities, luxury tax on luxuries, etc. Such taxes are generally levied on the removal of goods from the specified locations or on specified activities. No set-off of such taxes paid is available and hence, such taxes would form part of the cost of procurement.

Foreign Trade Policy

The FTP is outlined by the Ministry of Commerce and provides a broad policy framework for promoting exports and regulating imports into the country. The FTP outlines various export promotion schemes for enterprises in designated areas such as Software Technology Parks and Export Oriented Units which enable them to procure raw materials free from customs duty/excise duty/service tax. The FTP also outlines various export promotion schemes providing benefits such as import of goods at nil or concessional customs duty rates if the goods manufactured/services provided using such imported goods are exported subject to fulfillment of prescribed export obligations. Such schemes among other things include:

Merchandise Exports from India Scheme (MEIS)

Under the MEIS, the exporters are required to export notified goods or products to notified countries. Such exporters are entitled to avail duty credit scrip of two to five per cent of the FOB value of exports in free foreign exchange or FOB value of exports realised in free foreign exchange, whichever is lower. The scrip can be used for importing goods without payment of customs duty, for indigenous procurement of goods, payment of service tax on local procurement of services. The scrip and the goods procured using the scrip are freely transferable.

Export Promotion Capital Goods Scheme (EPCG)

Under the EPCG Scheme, capital goods can be imported at a concessional customs duty rate, i.e. nil rate with the export obligation of six times the amount of duty saved over a period of six years.

Service Exports from India Scheme (SEIS)

Under the SEIS, all service providers located in India, irrespective of their constitution and profile, exporting their

notified services are issued scrip equivalent to the value of three or five per cent (depending upon central product classification code of services) of net foreign exchange earned. The scrip can be used for importing goods without payment of customs duty, for indigenous procurement of goods, payment of service tax on local procurement of services. The scrip and the goods procured using the scrip are freely transferable.

Duty Free Import Authorisation Scheme (DFIA)

Under the DFIA Scheme, the raw materials can be imported without payment of customs duty, if the goods manufactured using the imported raw materials are exported, subject to fulfillment of specified conditions.

Goods and Service Tax (GST)

The Indian indirect tax system as enumerated above is complex and multi-layered with levies both at the central and state levels. This results in a cascading effect of taxes, multiplicity of taxes, multiplicity of compliances, etc. With a view to reduce such complexities and streamline various indirect taxes, India is proposing to implement GST.

In India, there would be a dual GST structure comprising of the CGST to be levied by the centre and SGST to be levied by the states. Integrated GST, which is a combination of CGST and SGST, would be applicable on all inter-state transactions of goods and services and would be levied by the central government. Interstate stock transfers would be treated at par with interstate sales for the levy of GST.

The proposed framework of GST is as under:

- GST is a broad-based and destination based consumption tax on supply of goods and services
- The taxable event for GST would be supply of goods and services and, therefore, will no longer be manufacture or sale of goods
- GST proposes to subsume the following taxes:
 - Central taxes: Excise duty, CST, ACD, SAD, service tax, surcharges, cesses, etc.
 - State taxes: VAT, luxury tax, state cesses and surcharges, entry tax, etc.
- Basic customs duty on imports would not be subsumed with GST
- Additional 1 per cent tax on inter-state supply of goods
- Petroleum products, viz crude petroleum, diesel, petrol, aviation turbine fuel and natural gas have been temporarily kept out of the ambit of GST
- Alcohol for human consumption, tobacco and tobacco products are also excluded from gamut of GST levy
- Varying tax rates have been proposed, however, no final consensus achieved yet
- GST is proposed to be introduced from 1 April 2016.

Other laws

The Companies Act, 2013*

Indian company law is predominantly modeled on English law. The Companies Act, 2013 (the Companies Act) was made effective from 1 April 2014 and replaced a substantial part of the Companies Act, 1956. Recently, the Government of India vide Companies (Amendment) Act, 2015 (Amendment Act) amended certain provisions of Companies Act. These amendments are effective from 26 May 2015.

The administration of the Company Law is under the Ministry of Corporate Affairs through the CLB and RoC. A National Company Law tribunal has been proposed to be set-up which is to take over the functions of the CLB.

Certain changes introduced by the Companies Act read with the Amendment Act are as under:

Financial year to be a uniform accounting year of all companies, except in case of companies having foreign parents. CSR made mandatory for companies having net profit of about USD798,840 or more or meeting specified turnover/networth criteria. Such companies will be required to spend at least 2 per cent of its three years average net profit for the general public/charitable purposes.

Types of companies

The Companies Act provides for incorporation of different types of companies, the most popular ones engaged in commercial activities being private limited and public limited companies (liability of members being limited to the extent of their shareholding). A new concept of 'One Person company' having one shareholder and requiring a minimum of one director has been introduced by the Companies Act.

The Amendment Act has recently made following important changes in this regard:

- Requirement of having common seal has been made non-mandatory and
- Companies having share capital are no longer required to file an application with RoC intimating about commencement of business.

Private company

Earlier a private company was required to be incorporated with a minimum capital of USD1,598 and two subscribers. However, recently the requirement of having any minimum paid up capital has been done away with vide Amendment Act. Broadly, the Companies Act:

- Restricts the transferability of shares
- Limits the number of the members (shareholders) to 200
- Prohibits any invitation to the public to subscribe for any of the company's shares or debentures or securities
- Prohibits any invitation or acceptance of deposits from persons other than the company's directors.

The balance sheet and profit and loss account of the company have to be filed with the RoC.

Public company

A public company is a company which is not a private company. Earlier a public company was required to be incorporated with a minimum capital of USD7,988 and seven subscribers. However, vide Amendment Act, the requirement of having any minimum paid up capital has been done away with.

A private company which is a subsidiary of another company which is not a private company shall be deemed to be a public company.

The profit and loss account and balance sheet, along with the reports of the directors and auditors of a public company are required to be filed with the RoC. Listed public companies are additionally regulated by SEBI and have listing agreements with the stock exchange on which they are listed.

A private company is a more popular form as it is less cumbersome to incorporate and also has liberal reporting requirements vis-à-vis the public company. Usually, foreign corporations set-up their subsidiary companies as private companies.

Incorporation of company

A company is formed by registering the MoA and AoA with the RoC of the State in which the main office is to be located. While the Memorandum specifies the objectives and purposes for which the company has been formed, the Articles lay down the rules and regulations for achieving those objectives and purposes. The RoC will give the certificate of incorporation after the required documents are presented along with the requisite registration fee, which is determined according to the share capital of the company, as stated in its Memorandum.

Share capital

The nominal or authorised share capital is the amount of capital stated in the MoA that the company is authorised to issue. The issue of shares symbolises the invitation to subscribe to the share capital in a company. The paid-up share capital is the amount of capital which is subscribed to and paid by the shareholders.

Management

The Companies Act lays down specific provisions with respect to managing the affairs of a company so as to protect the interest of its shareholders and investing public.

With a view to improve public participation in governance of companies, the scope of voting through postal ballot, (i.e. obtaining shareholders approval through postal circulation without holding a general body meeting) has been extended to cover even unlisted companies. In addition, e-voting, i.e. voting by internet has also been introduced.

Directors

A public company is required to have a minimum of three directors and a private company is required to have a minimum of two directors. Directors are under a statutory duty to ensure that company's funds are used for legitimate business purposes.

Note: USD1 = INR62.5908 for FY15

*Note: The content under the Companies Act has been extracted from the Companies Act, 2013 and the Companies (Amendment) Act, 2015.

Whole time/managing directors

Every public company with a paid-up share capital of USD1,597,679 must have a managing or whole time director or a manager. An approval from the Central Government (Department of Company Affairs) is required if the remuneration proposed to be paid to such whole time/managing director is more than what is prescribed in Schedule V of the Companies Act.

Board meetings

Board meetings are required to be held every three months. The board may delegate its powers to borrow, invest funds and take loans, up to certain specified limits, to the committee of directors or managing directors.

Audit of accounts

Auditors of a company are appointed/re-appointed in the AGM of a company. Their tenure lasts till the conclusion of the next AGM. The company in a general meeting may remove auditors before the expiry of their term in office. Auditors are required to make a report to the members of the company in respect of the accounts (balance sheet, profit and loss account) examined by them at the end of each financial year.

The Companies Act introduced the concept of auditor's rotation. It is provided that the auditors will be appointed for a block of five years with yearly ratification at a general meeting, unless they resign or are removed by the general body of shareholders. It is further provided that an auditor should be mandatorily rotated after conclusion of term of five years, and in the case of a firm, after conclusion of two terms of five years, each. A cooling off period of five years is provided for such an auditor/firm to be eligible for reappointment, i.e. such an auditor/firm can be reappointed only after completion of five years from such rotation.

Winding up of companies

Under the Companies Act winding up can be done in two ways, i.e. winding up by the Tribunal and voluntary winding up.

Visa regulations

Business visa²⁴

- A business visa may be granted to a foreign national who desires to visit India to establish an industrial/business venture or to explore possibilities to set up an industrial/business venture in India.
- A business visa is issued from the country of origin or from the country of habitual domicile of the foreign national, provided the period of residence of the foreign national in that particular country is more than two years. If the period of permanent residence of the applicant in that particular country is less than two years, a business visa may be granted only after personal interview, review of documentation and prior clearance from the embassy/mission of the country where the foreign national has a permanent residence.
- The guidelines issued by the MHA, GoI, provide various illustrative scenarios under which business visas may be granted to foreign nationals, i.e. those who intend to visit India for participation in trade fairs, meetings, purchase/sale of goods, etc.

- Business visa with multiple entry facility can be granted up to a maximum period of five years and in the case of U.S. nationals up to a maximum period of ten years. Generally, a maximum stay stipulation of six months is prescribed for each business visit; and
- The business visa can be extended in India up to a total period of five years from the date of issue of the initial business visa.

Employment visa

An employment visa may be granted to a highly skilled and/or a qualified foreign national who desires to come to India for employment. Employment visas are not granted for jobs for which large numbers of qualified Indians are available and for those jobs which are routine/ordinary/secretarial in nature.

An employment visa may be granted to a foreign national only if his/her salary is in excess of USD25,000 per annum. However, the said salary requirement of USD25,000 per annum is not applicable in the below cases:

- Ethnic cooks, language (other than English) teachers/translators and staff working for a high commission/consulate in India
- Foreign national visiting India for honorary work (without salary) with an NGO
- Nationals of Afghanistan, Bangladesh, China, Iran and Sri Lanka, who are married to Indian nationals and who are not eligible for grant of PIO card if they receive a salary of at least USD14,000 per annum.

An employment visa is issued from the country of origin or from the country of habitual domicile of the foreign national, provided the period of residence of the foreign national in that particular country is more than two years.

The guidelines issued by the MHA, GoI, provide various illustrative scenarios under which employment visas may be granted to foreign nationals, i.e. those who intend to visit India as consultants, self-employed professionals, engineers/technicians visiting India for installation and commissioning of machinery/equipments, etc.

Change of employer is generally not permitted on an employment visa. However, the MHA, GoI has clarified that the change of employer by a foreign national in India may be permitted in cases where the transfer is between a parent company and its subsidiary or vice versa, and between subsidiaries of a parent company.

Multiple entry employment visas may be granted for a maximum period of five years. The employment visa can be extended in India on a year to year basis beyond the initial visa validity period, up to a total period of five years from the date of issue of the initial employment visa.

24. <http://mha1.nic.in/pdfs/BusinessVisa-300514.pdf>

Entry (X) visa

- An Entry (X) visa is granted to the spouse and dependents of a foreign national who desires to visit India or is already in India on any other type of visa, i.e. business, employment, etc. The Indian immigration laws do not permit grant of entry (X) visa to unmarried partners.
- An entry (X) visa may also be granted to a foreign national of Indian origin and his/her spouse/dependents who desire to visit India for meeting relatives, holidays, sightseeing, etc.
- The validity of the entry (X) visa is co-terminus with the visa of the principal visa holder or a shorter duration but limited to five years from the date of initial issue.
- Foreign nationals holding entry (X) visas cannot accept any employment in India or undertake/engage in any business/economic activity in India.

Conversion of the entry (X) visa of the spouse of the employee on an intra-company transfer to employment visa may be permitted in India with the prior approval of the MHA, Gol.

Project visa

- The MHA, Gol, within the employment visa regime introduced a new regime known as project visa which has initially been made applicable to the foreign nationals employed in the power and steel sector. The number of project visas that may be granted per power and steel project is subject to a ceiling.
- Project visa may be granted to a foreign national even if his salary is less than USD25,000 per annum.
- Project visas would be only issued to skilled/highly skilled foreign nationals and not to semi-skilled and unskilled foreign nationals. However, project visas may be granted to two chefs and two interpreters per project.
- A multiple-entry project visa is generally issued for a period of one year. However, a foreign national can obtain visa extension of further one year with the approval of state government/UT concerned. Any subsequent visa extension can be granted with the prior approval from MHA, Gol.
- Project visa is project specific and would be restricted to the location of the project. A foreign national coming on a project visa is disqualified from taking up employment in the same Indian company for a period of two years from the date of commissioning of the project. However, the foreign national may be granted a non-extendable business visa to attend any emergent maintenance/commissioning issues in the Indian company.

Conference visa

A conference visa may be granted to a foreign national who intends to visit India with the sole objective of attending a conference, seminar or workshop (event).

Conference visa is generally issued for the duration of the conference and the travelling time. However, the foreign nationals can combine tourism with attending the conference. Missions can, at their discretion, grant visas for the required period. Such visa shall not exceed maximum validity of tourist visa, i.e. six months subject to usual conditions applicable for grant of the tourist visa.

Tourist visa

A tourist visa is generally granted for a maximum period of six months to a foreign national whose primary objective of visiting India is sightseeing, recreation, casual visit to meet friends or relatives, etc., and does not involve any economic or business activity. A tourist visa cannot be extended in India.

Nationals of Afghanistan, China, Iran, Pakistan, Iraq, Sudan, Bangladesh, foreigners of Pakistan and Bangladesh origin and stateless persons holding a tourist visa with multiple entry facility need to maintain a gap of at least two months between two visits to India.

The eTV scheme has been extended to citizens of 75 countries²⁵. Under the eTV scheme eligible foreign nationals may obtain an ETA online and travel to India.

Residential permit

In case the visa is valid for more than 180 days, the foreign national (whose age is 16 years or more) is required to register with the FRRO/FRO within 14 days of arrival in India. Upon registration, the foreign national is granted a residential permit which is generally valid for a period of one year from the date of arrival in India. If the foreign national does not obtain registration within the said 14 days, a penalty of USD30 may be levied.

Scheme for person of Indian origin

Specified PIO may be granted an OCI card. An OCI card holder need not obtain a visa to enter, stay or work in India and is exempt from registration with jurisdictional FRRO/FRO.

With effect from 9 January 2015, the Gol merged the OCI and PIO schemes. Under the new scheme, no further PIO cards will be issued and PIO card holders would be deemed to be OCI card holders.

25. Anguilla, Antigua and Barbuda, Australia, Bahamas, Barbados, Belize, Brazil, Cambodia, Canada, Cayman Island, Chile, China, Cook Islands, Costa Rica, Djibouti, Dominica, Dominican Republic, Ecuador, El Salvador, Estonia, Fiji, Finland, France, Georgia, Germany, Grenada, Guyana, Haiti, Honduras, Indonesia, Israel, Japan, Jordan, Kenya, Kiribati, Laos, Latvia, Liechtenstein, Lithuania, Luxembourg, Marshall Islands, Mauritius,

Mexico, Micronesia, Montenegro, Montserrat, Myanmar, Nauru, New Zealand, Nicaragua, Niue Island, Norway, Oman, Palau, Palestine, Papua New Guinea, Paraguay, Philippines, Republic of Korea, Republic of Macedonia, Russia, Saint Christopher and Nevis, Samoa, Singapore, Solomon Islands, Sri Lanka, Thailand, Tonga, Tuvalu, U.A.E., Ukraine, U.S., Vanuatu, Vatican City-Holy See, Vietnam

04 Sector profiles



Automotive

Sector overview

The Indian automotive industry is the seventh largest producer in the world.⁰¹

India's automotive industry turnover is estimated to be equivalent to 7.1 per cent of the overall GDP, about 26 per cent of the industry GDP, and about 49 per cent of manufacturing GDP.⁰²

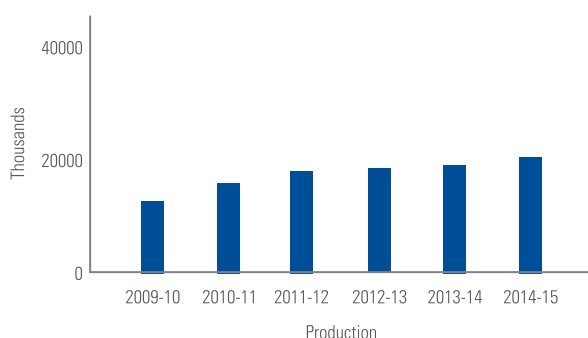
The industry employs 29 million people and contributes 13 per cent of excise revenue for the government.⁰²

Automotive production in FY14 stands at 23.4 million units, including passenger vehicles, commercial vehicles, three wheelers and two wheelers.⁰²

The Indian automotive industry is estimated to be the third largest in world by 2016, and could account for more than 5 per cent of the global vehicle sales.⁰¹

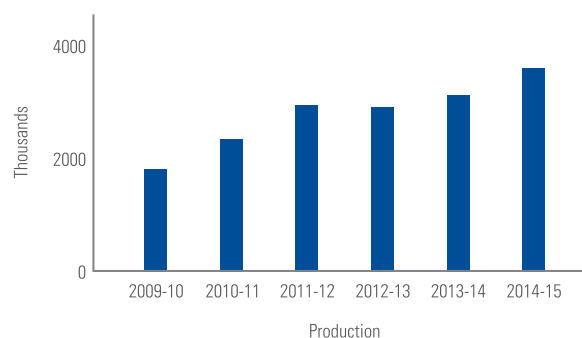
Apart from a liberal FDI policy, the government has made successive policy changes, which include Automotive Mission Plan 2006-2016, National Automotive Testing and R&D Infrastructure Project, to improve investments and boost growth⁰³. The government is also preparing the Automotive Mission Plan II for the period 2016-26 which is planned to be completed by mid-2015.⁰¹

Indian automotive industry's domestic sales trend, 2009-2015



Source: <http://www.siamindia.com/economic-affairs.aspx?mpgid=16&pgid1=22&pgidtrail=23>, Society of India Automobile Manufacturers, Production Trend

Indian automotive industry's exports trend, 2009-2015



Source: <http://www.siamindia.com/economic-affairs.aspx?mpgid=16&pgid1=22&pgidtrail=23>, Society of India Automobile Manufacturers, Production Trend

Demand drivers

Expanding middle class and growing working population are among the key drivers in domestic sales. GDP per capita has grown from USD1,432.25 in 2010 to USD1,500.75 in 2012; it is expected to reach USD1,869.34 by 2018.⁰¹

Easy finance schemes have made vehicles more accessible. The car finance penetration had also increased between 70-72 per cent in 2011-13.⁰¹

01. <http://www.makeinindia.com/sector/automobiles/>, 'Make in India', accessed 30th October 2015
 02. <http://www.siamindia.com/economic-affairs.aspx?mpgid=16&pgid1=22&pgidtrail=23>, SIAM India, accessed 1 May 2015
 03. <http://www.investindia.gov.in/automobile-sector/>, InvestIndia, accessed 1 May 2015

There is increasing presence of global OEMs in the sector which has led to an increased ability to cater across the various segments of the society with vehicles that meet various preferences and needs.

The government has formulated a scheme for FAME, under the National Electric Mobility Mission 2020, to encourage reliable, affordable and efficient electric and hybrid vehicles.⁰⁴

Under the Union Budget 2015-16, the government announced to provide credit to farmers, which is expected to indirectly boost tractor sales.

Key trends

The industry is making note of end user preferences towards new body styles. Vehicle manufacturers are inclined to experiment with these new unconventional options. The compact MPV/Crossover segment is estimated to be nearly 13.2 per cent of the passenger vehicles market in 2019. In 2014, the segment accounted to, 6.85 per cent of passenger vehicles volume.⁰⁵

As a result of increasing number of new launches, product lifecycles are being shortened. Global car manufacturers are synchronising global and Indian product life cycles.⁰⁵

Many car manufacturers are exploring rural markets with the small car segment, and expanding their network as this could be a lucrative market with increasing first time car owners.

From April 2000 to January 2015, the sector reported a cumulative FDI equity inflows of USD11,857.⁰⁶

Opportunities

The average per capita car ownership in India is still considerably low as compared to world standards, making India a vast untapped market, with factors such as growing per capita income, changing lifestyle, urbanisation and increasing working population.

Recent emphasis by the government on alternative technologies is likely to boost electric vehicles sales in India.

Location as a proximity to Asian markets and cost advantage can make India a preferred choice for setting up manufacturing plants for vehicle manufacturers.

Increase in infrastructure spend by the government and growth in allied industries can bring opportunities for commercial vehicle manufacturers.

Increasing percentage of high net income group in India could improve sales in the luxury car segment. Luxury car makers seem to be confident about this growth and expect to see further investments.

Useful web links

- **Society of Indian Automobile Manufacturers:** www.siamindia.com
- **Automotive Component manufacturers Association of India:** www.acma.in
- **'Make in India':** www.makeinindia.com
- **Department of Industrial Policy and Promotion:** <http://dipp.nic.in>
- **Department of Heavy Industries:** <http://hi.nic.in/>



04. <http://www.ibef.org/industry/india-automobiles.aspx>, India Brand Equity Foundation, accessed 1 May 2015

05. <http://indiaautoreport.com/2014-trends-2015-expectations/>, India Auto Report, accessed 1 May 2015

06. Fact Sheet on Foreign Direct Investment, http://dipp.nic.in/English/Publications/FDI_Statistics/2015/india_FDI_January2015.pdf, January 2015, accessed 1st May 2015

07. Luxury car sales grow 8-fold since 2007, Times of India, March 2015



Biotechnology

Sector overview

The biotech sector in India stands fourth in terms of volume and twelfth in terms of value globally⁰¹.

The Indian biotechnology sector is expected to grow from approximately USD5 billion in 2014 to USD100 billion⁰² in 2025, according to the ABLE⁰³.

Export is a major contributor with respect to the biotech sector's revenue, and its contribution has increased at a CAGR of 22 per cent between 2004 and 2014⁰¹.

India's biotech industry comprises of biopharmaceuticals, bioservices, bioagriculture, bioindustry and bioinformatics. Biopharmaceuticals is the biggest sector, contributing 63 per cent of the total biotech sector revenue, followed by bioservices, with around 18 per cent revenue share in 2013⁰⁴.

India's biopharmaceutical sector produces around 60 per cent of the world's vaccine supply⁰⁴. Additionally, India is the largest producer of Hepatitis B vaccine in the world⁰³.

Demand drivers

Push from the government

The government has announced the launch of four new lifesaving vaccines - rotavirus, rubella, inactivated poliovirus and Japanese encephalitis - under the Universal Immunisation Programme in 2014⁰⁵. These vaccines have the potential to save 100,000 infants from various diseases⁰⁵. Additionally, to promote innovation and provide infrastructure support to the biotechnology sector, the government established BIRAC in 2012.

Low-cost of development

Low-cost base along with a large talent pool of scientist and engineers have been driving the growth of the biotechnology industry in India.

High export volume of vaccines

India is a major supplier of vaccines to UNICEF, and around 70 per cent of the total vaccines manufactured here are exported⁰⁶.

Growing strength in manufacturing sophisticated vaccines

The Indian vaccine manufacturers already supply basic vaccines to developing countries and are now exporting more sophisticated vaccines. The capacity of the industry to manufacture sophisticated vaccines such as those against rotavirus, pneumococcal diseases and human papilloma virus is growing⁰⁷.

Key trends⁰⁹

Dominance of biopharmaceuticals segment

Within the biotech industry, it is the biopharma segment that has been generating more than half of the industry's total revenues. The country is ranked as one of the world leaders in production of vaccines.¹⁰

Emergent and robust government backing

The government has been keen to support the industry's growth to counteract the threat of neglected tropical diseases, which remain a major killer in the country⁰⁸. The 'Make in India' vision of the new government, along with other forms of input and assistance, are providing the necessary thrust to the indigenous production of biotech products.

Increased collaboration

Owing to the country's robust generic biotechnology potential and cost advantage, global companies are seen aggressively joining hands with domestic biotech companies.

Embryonic areas

The incipient market for biosimilars is drawing the attention of not only leading Indian biopharma companies, but also generic drugmakers. Moreover, domestic companies are also seen venturing into other emerging areas such as regenerative medicine and cell therapies, which are still nascent in revenue terms but likely to grow rapidly.⁰⁴

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01. 'Biotechnology market in India', Feedback Business Consulting report, via ISI Emerging markets, published in year 2014, accessed April 2015
 02. 'The biotechnology environment', Express Pharma, 25 November 2014
 03. 'Indian Biotechnology Industry - Update', FRPT research report via ISI Emerging market database, published 4 February 2015, accessed April 2015
 04. 'Accelerating Growth: Forging India's Bioeconomy', ABLE report, June 2014
 05. 'India to introduce four new vaccines', <http://www.gavi.org/Library/News/Statements/2014/India-to-introduce-four-new-vaccines/>, 4 July 2014, accessed April 2015
 06. 'Indian vaccine market clocks USD600 million in 2011-12', <http://www.biospectrumasia.com/biospectrum/analysis/2802/india-largest-vaccine-producer-huge-growth>, accessed April 2015
 07. 'Vaccine market in India', Netherlands Office of Science and Technology India report, published in 2013 accessed April 2015
 08. 'Indian biotech set to grow despite challenges', Able India, 13 June 2014
 09. KPMG in India analysis, 2015
 10. 'ACCELERATINGGROWTH: FORGING INDIA'S BIOECONOMY', ABLE, Page 7, 2014, accessed May 2015

Opportunities

Opportunities in the global industrial enzyme market

The global industrial enzyme market is expected to reach around USD4.2 billion by 2015¹¹. Currently, India has a low share in the market, however, it is in a good position to leverage this opportunity with its low-cost manufacturing strength and R&D capabilities.

Biosimilar development cost is low

Biosimilar market is expected to reach around USD20 billion by 2020 from an estimated USD2 billion¹³. India is in a good position to leverage this opportunity as relative development cost is low in the country.

Domestic demand for vaccine is high

India has enormous demand for vaccines due to growing population and presence of large number of non-immunised children. Moreover, the government's push towards elimination and eradication of some diseases through vaccination provides huge opportunities for vaccines manufacturers.

Opportunities in agriculture biotech space

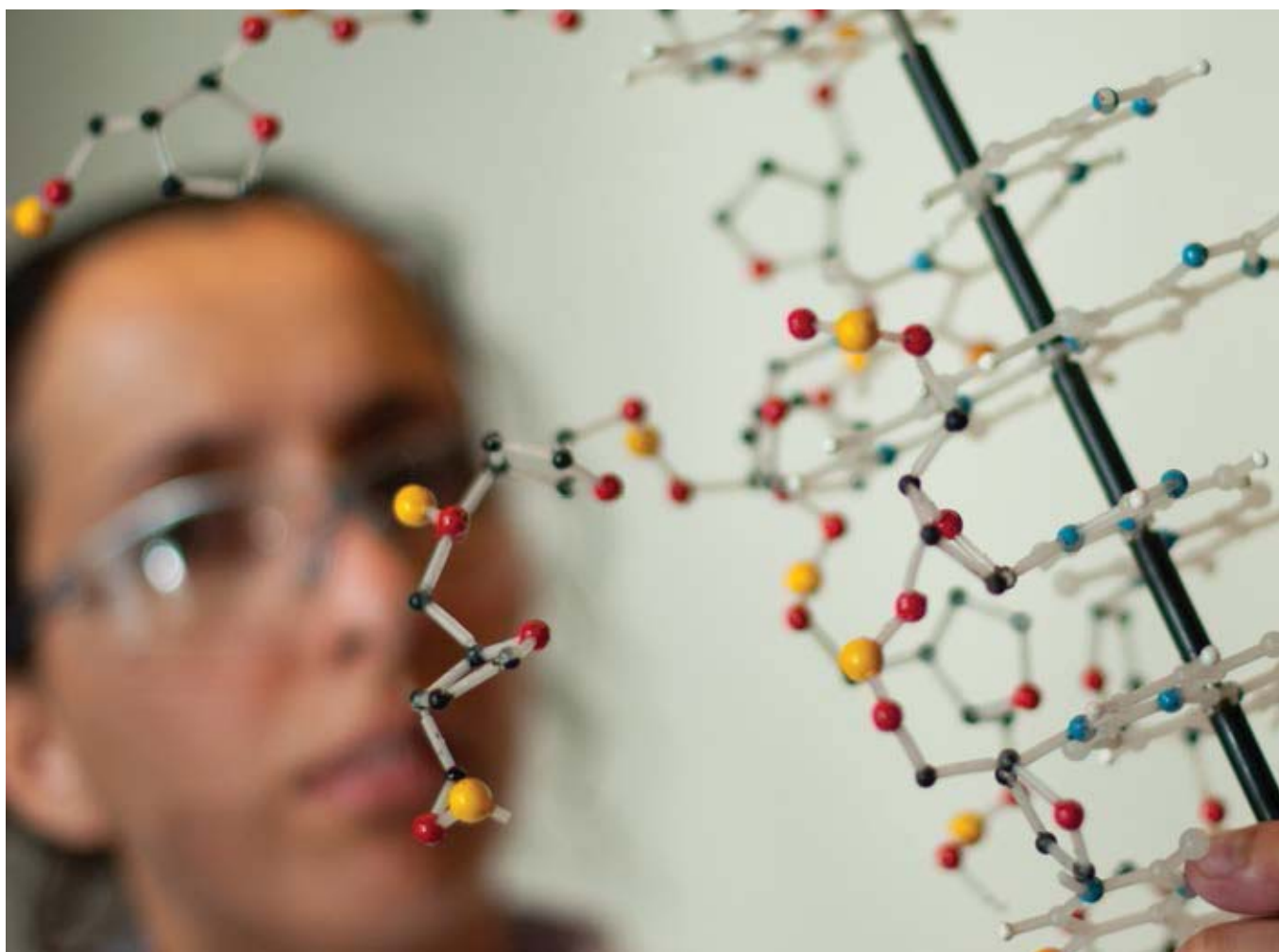
The success of BT cotton in the agriculture biotech space has positively impacted rural lives in many states¹². India has the potential to become a major producer of genetically engineered crops and vegetables.

Availability of skilled workforce for the Bioinformatics industry

Availability of good infrastructure and skilled workers is likely to help the bioinformatics industry¹⁴ grow in India. With the increasing usage of biological database for drug discovery, India's bioinformatics industry is in a good position to leverage this opportunity.

Useful web links

- **Association of Biotechnology Led Enterprises:**
<http://www.ableindia.in/>
- **All India Biotech Association:**
<http://www.aibaonline.com/>
- **Department of Industrial Policy and Promotion:**
<http://www.dipp.nic.in>



11. 'Indian Biotechnology Industry – Update', FRPT research report via ISI Emerging market database, published 4 February 2015, accessed April 2015

12. 'The biotechnology environment', Express Pharma, 25 November 2014

13. 'Accelerating Growth: Forging India's Bioeconomy', ABLE report, June 2014

14. <http://www.biospectrumindia.com/biospecindia/views/123413/trends-bioinformatics-market>, 'Trends in bioinformatics market', Bio Spectrum India website, 18 December 2012



Cement

Sector overview⁰¹

Cement production in India has increased by an average annual rate of 8.3 per cent to reach 251 MT during FY07 to FY13. Currently, India is the second largest producer of cement in the world, accounting for about 8 per cent of the total global production.

The current capacity of India is around 350 MT. Cement industry is expected to add another 56 million tonnes by end of 2017 and 550 million tonnes in total by 2020.

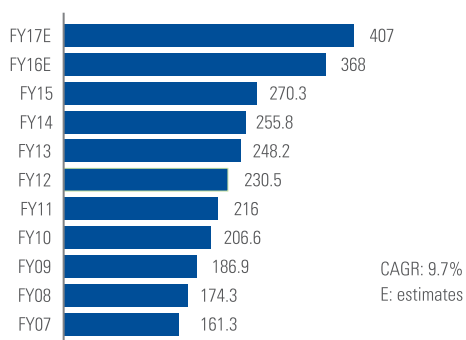
Out of the total installed capacity, private sector and public sector hold 98 per cent and 2 per cent respectively.

The sector comprises of 188 large cement plants which constitute about 97 per cent of the total installed capacity, while the remainder is constituted of mini-cement plants.⁰¹

Cement is a cyclical commodity with a high correlation with the GDP.

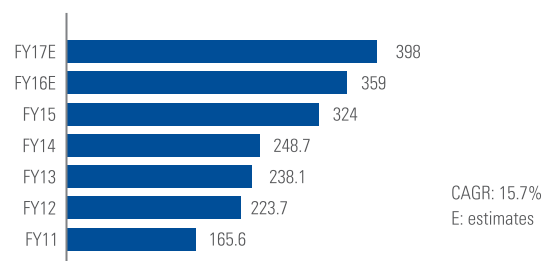
The sector is divided into five geographical regions: south, north, east, west and central. Each of these regions has a significant limestone cluster which acts as a major production centre of cement.⁰¹

Cement production in India (million tonnes)



Source: <http://www.ibef.org/industry/cement-india.aspx>, Cement Sector Report, IBEF, August 2015

India's cement production capacity (million tonnes)



Source: <http://www.ibef.org/industry/cement-india.aspx>, Cement Sector Report, IBEF, August 2015

Demand drivers

Increase in urbanisation, rising income levels, easy availability of credit and higher employment rates have contributed to the demand for housing, which constitutes about 67 per cent of the total cement consumption in India.⁰²

The other major consumers of cement include infrastructure (13 per cent), commercial construction (11 per cent) and industrial construction (9 per cent).⁰²

Improved demand for commercial real estate and rebound in tourism have also likely contributed to increased construction activities, resulting in rise in demand for cement.

As the demand of cement depends on the infrastructure sector, announcement of increase in infrastructure allocation by USD11,200 million in the Union Budget 2015-16⁰³ is expected to further boost the demand of cement.

The government in the Union Budget 2015-16 announced 'Housing for All by 2022' which needs completion of two crore houses in urban areas and four crore houses in rural areas, which could be a medium to long-term benefit for the cement industry.⁰³

01. Sectoral Report: Cement, IBEF, August 2014

02. Cement Sector Analysis Report, www.equitymaster.com, 17 November 2014

03. 'Budget 2015: Infrastructure investment to increase by Rs 70,000 crore over 2015-16', Deccan Chronicle, 28 February 2015

Key trends⁰⁴

FDI inflows in the cement industry have increased. Cement and gypsum products attracted a cumulative FDI of USD3,085.6 million during the period between April 2000 to January 2015.⁰⁵

The presence of small and mid-size cement players is increasing, leading to a reduction in the market concentration of industry leaders, thereby catering to the increasing cement demand.⁰⁶

Several cement manufacturers in India have increased the usage of alternate fuels, especially bioenergy, to fire their kilns in order to reduce production cost.⁰⁶

Availability of fly-ash (from thermal power plants) and use of advance technology has increased production of blended cement, which witnessed higher demand in the past decade.⁰⁶

Opportunities⁰⁴

The per capita consumption of cement in India is 192 kg, which is lower when compared with the world average of 365 kg (excluding China). This indicates an enormous opportunity for the growth in the Indian cement industry in the long-term.⁰⁷

Indian government is emphasising on greater participation of private players in the industry by approving their investment schemes and projects.

Commercial real estate demand from the IT and ITeS sector, technology parks, organised retailing shopping malls, and multiplexes has increased with growing population, and is expected to present an opportunity for cement companies.

The Government of India has decided to adopt cement instead of bitumen for the construction of all new road projects, which is a good opportunity for the cement industry.

Useful web links

- **Cement Manufacturers Association:**
<http://www.cmaindia.org/>
- **Department of Industrial Policy and Promotion:**
<http://dipp.nic.in/>



04. KPMG in India analysis, 2015

05. Factsheet on FDI, from April 2000 to January 2015, DIPP, Ministry of Commerce and Industry, GoI

06. Sectoral Report: Cement, IBEF, August 2014

07. Cement Sector Analysis Report, www.equitymaster.com, 17 November 2014



Sector overview

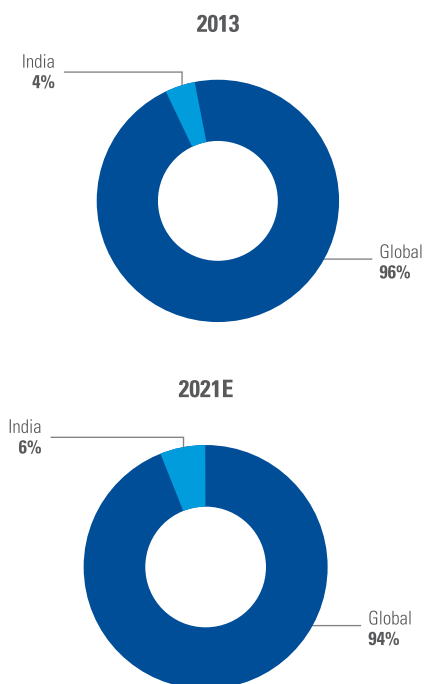
Chemicals industry in India covers more than 70,000 commercial products, including basic chemicals and chemical products, petrochemicals, agrochemicals, dyes, paints and varnishes, synthetic fibres and industrial gases.⁰¹

India is the third largest producer of chemicals in Asia and sixth by output in the world. The industry accounts for almost 16 per cent of the world's production of dyestuff and dye intermediates.⁰¹

It is currently the world's third largest consumer of polymers and the third largest producer of agro-chemicals.⁰¹

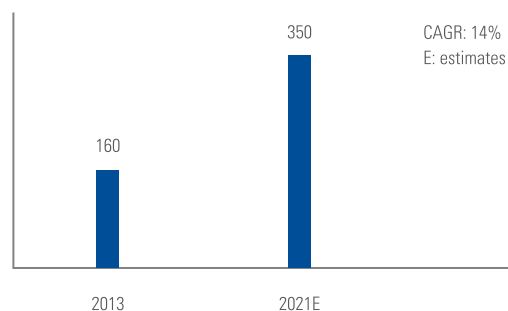
The current estimated size of the Indian chemical industry is USD144 billion⁰¹. It is expected to grow at an annual rate of about 14 per cent to reach USD350 billion by 2021.⁰²

Contribution of India to the global chemicals industry



Source: <http://www.ibef.org/download/Chemicals-March-2015.pdf>, Chemicals, August 2014, IBEF

Indian chemicals industry (USD billion)



Source: <http://www.ibef.org/download/Chemicals-March-2015.pdf>, Chemicals, August 2014, IBEF

Demand drivers

India's growing per capita consumption, demand for agriculture-related chemicals and strong export demand are growth drivers for chemicals.⁰²

The chemical industry is expected to witness strong increase in demand due to focus on improving products and increasing usage of specialty chemicals and knowledge chemicals in industries such as pesticides, textiles, paper, paints and varnishes, leather, etc.⁰³

The growing construction/infrastructure industry too has led to a rise in demand for construction chemicals.

Rise in disposable income and improvement in standard of living is likely leading to growth in the consumption of consumer goods, resulting in greater demand for chemical products.⁰⁴

01. <http://www.makeinindia.com/sector/chemicals>, accessed on 29 April 2015

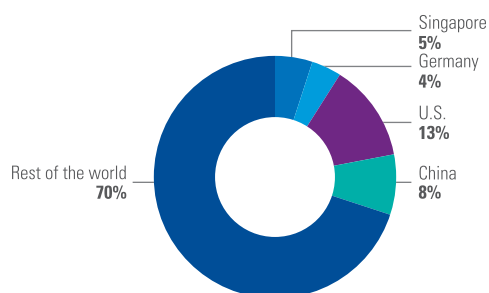
02. <http://www.ibef.org/download/Chemicals-March-2015.pdf>, Chemicals, August 2014, IBEF

03. KPMG in India analysis, 2015

04. http://www.chemweek.com/lab/Outlook-2014-Looking-forward_57898.html, Outlook 2014: Looking Forward, IHS Chemical Week, April 2014

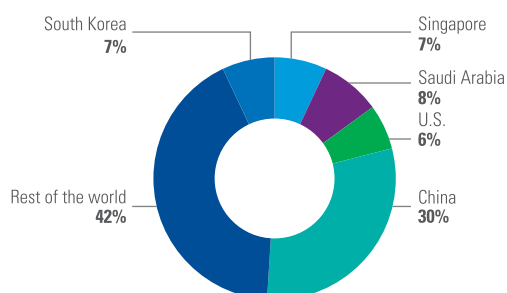
India's major export and import partners in the chemical sector, FY13

Major export



Source: Chemical Sector Report by Dun and Bradstreet (D&B), July 2013 via ISI Emerging Markets, accessed August 2014.

Major import



Source: Chemical Sector Report by Dun & Bradstreet (D&B), July 2013, via ISI Emerging Markets, accessed August 2014.

Key trends⁰⁹

FDI inflows in the chemical industry (excluding fertilisers) have increased. Cumulative FDI from April 2000 to January 2015 is at USD10,230 million.⁰⁵

The government has been encouraging R&D activities in the chemical sector so as to enhance growth prospects.

The total requirement of urea in the country is around 300 LMT, out of which 220-230 LMT is produced annually from the indigenous urea units and the balance is being met from the international market.⁰⁶

Enticed by the size and returns of the Indian chemical industry, foreign firms have strengthened their presence by setting up their offices in India.

Exports of chemicals from India have increased significantly, with about 50 per cent of the current production of agro-chemicals and 75 per cent of its colourant chemicals.⁰⁶

Opportunities⁰⁹

Supportive government policies and domestic environment, including 100 per cent FDI under the automatic route and delicensing the manufacturing of most chemical products, has enabled the sector's growth in India. These measures seem to have improved the competitiveness in the chemical sector.

Reduction in excise and customs duty on certain raw materials (like naphtha) and the proposal to reduce corporate tax from 30 per cent to 25 per cent over the next four years in the Union Budget 2015 are expected to boost investment.⁰⁸

Setting up of integrated PCPIR has been initiated by the government, which is expected to have several SEZs, industrial parks, free trade and warehousing zones, growth centres and export-oriented units.⁰⁷

The increasing demand-supply gap in urea production is expected to provide fertiliser companies an opportunity to boost their production and meet the surplus demand.⁰⁹

The government is continuously reducing the list of reserved chemical items for production in the small-scale sector, thereby encouraging higher investment in technology up-gradation and modernisation.⁰⁷

Useful web links

Department of Chemicals, Government of India:
www.chemicals.nic.in



05. Factsheet on FDI, from April 2000 to January 2015, DIPP, Ministry of Commerce and Industry, GoI

06. 'Revival of the Barauni and Gorakhpur Fertiliser Units', India Chemical News, 15 April 2015, accessed April 2015

07. <http://www.makeinindia.com/sector/chemicals>, accessed on 29 April 2015

08. 'Chemical industry cheers custom duty revision', Rediff, 1 March 2015, accessed, April 2015

09. KPMG in India analysis, 2015



Sector overview

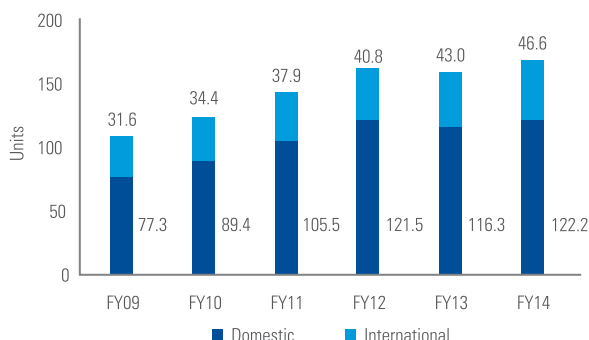
The size of Indian civil aviation industry is among the top ten in the world at USD16 billion. India is expected to be the third largest aviation market by 2020; and the largest by 2030. Further, Indian carriers plan to double their fleet size by 2020 to around 800 aircrafts.⁰¹

In FY14, passengers throughout increased to 168.9 million, growing by 6 per cent compared to previous year, and cargo to 2.27 MMT, growing by 4 per cent compared to the previous

year.⁰² Foreign carriers transported more than 80 per cent of all international cargo to and from the country.⁰³

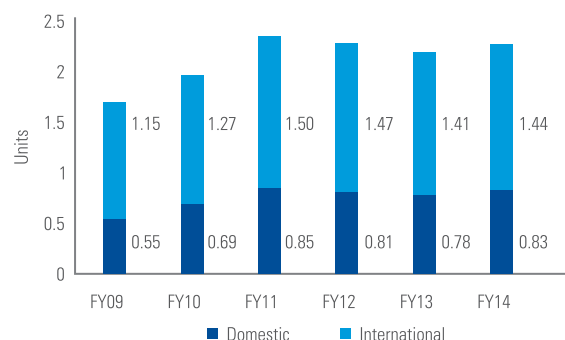
As per MoCA estimates, the overall air traffic is forecasted to grow at an annual average growth rate of 10.1 per cent in this decade. Domestic traffic is expected to grow at 11.4 per cent and international traffic is expected to grow at 9.5 per cent for the next ten years.⁰⁴

Passenger traffic handled at airports (millions)



Source: Airport Authority of India Traffic Report, March 2014; KPMG in India analysis, 2015

Air cargo volume at Indian airports, 2009-14 (million tons)



Source: Airport Authority of India Traffic Report, March 2014; KPMG in India analysis, 2015

Demand drivers

Rising disposable incomes and expanding middle income strata, LCC, modernised airports, FDI in domestic airlines, increasing liberalisation, open sky policy and augmented regional connectivity are key growth drivers of the Indian civil aviation industry.

As a result of colossal under penetration in the sector, approximately 99.5 per cent of the Indian population is yet to experience air travel⁰¹; fast track approval of budget airports, increase in inbound and outbound tourism, which includes medical tourism increase in business and leisure travel, are expected to bolster incremental demand.

Key trends⁰⁵

The Indian aviation industry is witnessing a rise in private participation and investment. The government had earmarked an investment of USD11.7 billion in the airports sector during the twelfth five year plan period, of which USD9.0 billion is being pumped in from India's private sector. Investment made by the private sector during the twelfth five year plan is expected to represent an increase by 69.1 per cent as compared to that during the eleventh five year plan.⁰⁶

Indian airports have been focussing on non-core business to enhance revenues in areas such as-retail, advertising, vehicle parking, etc.⁰⁶

Increase in international partnerships such as inter-line agreement allows airline companies to issue and accept tickets for flights that are operated by partner airlines.

01. India Aviation report, March 2014, KPMG in India and FICCI

02. Airport Authority of India Traffic Report, March 2014; KPMG in India analysis, 2015

03. World Air Cargo Forecast, 2014-2015, Boeing

04. Report of Working Group on Civil Aviation Sector, National Transport Development Policy Committee (NTDPC), June 2012, KPMG in India analysis

05. KPMG in India analysis, 2015

06. Airports report and snapshot, IBEF, March 2015

The FDI in air transport (including air freight) during April 2000 to January 2015 stood at USD561.8 million.⁰⁷

There is an overhaul in the baggage pricing model among airline companies such as unbundling baggage services from ticket pricing, and offering supplementary baggage allowance at no additional cost.

Opportunities

Growing private sector participation through the PPP route would raise investments in existing and greenfield airports, which can create opportunities in MRO, ground handling, airport modernisation, air traffic management solutions, etc. The government of Andhra Pradesh is planning on developing greenfield airports in six cities under the PPP model.⁰⁸ The Government of India is said to start the development of five no-frill airports and award management contracts to four operators in the private sector.

India is the international trade hub of South Asia, and privatisation initiatives could make the industry more cost competitive to other countries, increasing the demand for South Asia's goods in Europe.⁰⁹

Under the new aviation policy, to be announced later this year, there could be a possible overhaul of the '5/20' rule, which requires airline companies to have five years of operational experience and 20 aircrafts.¹⁰

AAI plans on building 200 low cost airports in the next 20 years, in tier-II and tier III cities, increasing potential target market for airline companies. AAI has developed and upgraded over 23 metro airports in the last five years. It plans on spending USD1.3 billion on non-metro projects between (2013-2017).⁰⁸

The maintenance, repair and overhaul of (MRO) business in India, which is said to be valued at USD484 million, is said to grow to more than USD1.5 billion by 2020. MRO service providers are exempted completely from customs and countervailing duties.⁰⁸

Useful web links

Ministry of Civil Aviation: <http://www.civilaviation.gov.in/>



07. FDI statistics, Department of Industrial Policy and Promotion, January 2015
08. Airports Sectoral Presentation, IBEF, August 2015

09. World Air Cargo Forecast 2014-2015, Boeing, October 2014
10. KPMG in India analysis, 2015



Sector overview

With nine DPSUs, 39 ordnance factories and an employee base of about 180,000 people, India figures among the world's largest producers of defence-related products.⁰¹

India, has consistently been the world's largest arms importer for the last five years.⁰²

The anticipated demand upsurge has been attracting several foreign and Indian OEMs.

The present government looks to change the approach on India's defence imports by using the 'Make in India' policy to the extent of export of weapons to other nations.

Demand drivers

There have been a number of modernisation initiatives taken by the government, which include:

- Approval for the DAC to modernise Indian armed forces over the next 15 years, beginning from April 2012.⁰³
- Orders worth USD18.4 billion which are expected to be placed during the twelfth five year plan.⁰⁴
- Replacement of the ageing military systems and equipments acquired during the Soviet era.⁰³

Key trends

The cumulative FDI in the defence industry from April 2000 to January 2015 was USD5.01 million.⁰⁵

Proposed allocation for the defence sector for FY15 is USD41 billion; an increase of 11 per cent over last year's allocation.⁰²

The industry is expected to grow at a CAGR of 9.83 per cent during 2015-19, and is likely to have an expenditure of around USD241 billion during this period.⁰⁶

The present government has proposed to do away with the distinction between different types of foreign investments, especially between foreign portfolio investments and foreign direct investments (FDI).

Opportunities⁰⁷

There is expected to be a rise in the Indian defence sector spending as the capital outlay for the defence sector was set at USD38.32 billion for FY15 to enable the execution of a major modernisation drive and new procurement.⁰²

With enhanced allocation and the government's intent to push 'Make in India' in the aerospace and defence sectors, the industry is very optimistic about upcoming opportunities and policy reforms.⁰²

The sector is witnessing a new energy and a good momentum in defence initiatives under the new government. The government has already permitted FDI in defence, enabling the Indian-controlled entities to become manufacturers of defence equipments. The 'Make in India' policy is expected to achieve greater self-sufficiency in the area.

Defence offsets are being identified to engage foreign OEMs and helping Indian companies become single source suppliers to them. With more emphasis being put on effectively implementing the existing policies and procedures, the outlook is very positive for defence manufacturing in the country.

Useful web links

- **Ministry of Defence, GoI:** <http://mod.nic.in/>
- **DRDO:** <http://drdo.gov.in/>
- **Ordnance Factory Board:** <http://ofbindia.gov.in/>

01. Creating A Vibrant Domestic Defence Manufacturing Sector by CII, published in April 2012

02. Union Budget 2015-16 presented in the Parliament by Shri Arun Jaitley on 28 February 2015

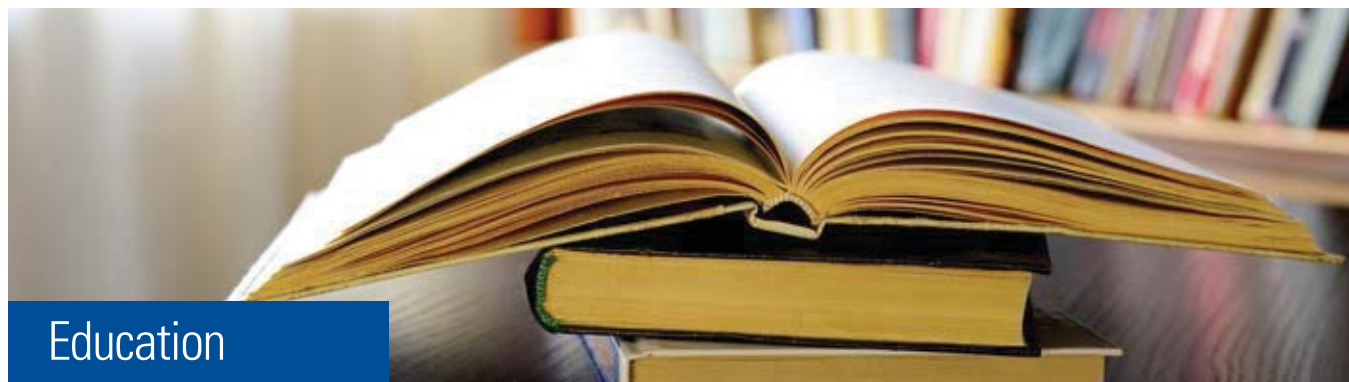
03. The Indian Defense Industry – Market Opportunities and Entry Strategies, Analyses and Forecasts to 2016 by DefenceIQ, published in 2011

04. India's Military Modernisation Up To 2027 Gets Approval, press release by Defence Now, 2012

05. FDI statistics, Department of Industrial Policy and Promotion, January 2015

06. Global CRO Market 2015-2019 by TechNavio, published in December 2014

07. KPMG in India analysis, 2015



Education

Sector overview

The Indian education sector is estimated to grow at a CAGR of 12 per cent to USD97 billion by 2015.⁰¹

As a mark of policy shift, the government appropriation for higher education increased by 155.6 per cent from USD1,775.4 billion in the eleventh five year plan to USD4,537.3 billion in the twelfth five year plan.⁰²

The number of universities/university-level institutions has increased 18 times from 27 in 1950 to 574 in 2012. The sector has 42 central universities, 295 state universities, 69 private universities, 130 deemed universities, 33 Institutions of National Importance (INI - established under Acts of Parliament) and five institutions established under various state legislations. The number of colleges has also increased substantially from 578 in 1950 to more than 35,000 in 2012.⁰³

The government launched Rashtriya Uchchatar Shiksha Abhiyan (RUSA) in 2013 to foster higher education in the country. It is a new centrally sponsored scheme for higher education which is planned to spread over two plan periods (twelfth and thirteenth). A total of 316 state public universities and 13,024 colleges are expected to be covered under RUSA with an aim to improve the gross enrollment ratio from 19 per cent at present to 30 per cent by 2020.⁰³

The recent budget announced an amount of USD11.13 billion to be allocated for various education projects, including mid-day meal scheme costs.⁰⁴

The GoI plans to impart skill based knowledge to 50 million people in the twelfth five year plan.

Demand drivers

A burgeoning young population is expected to drive the demand for education services in India. The median age in India is expected to be 29 as compared to 37 years for China and the U.S., 45 years for western Europe and 48 years for Japan by 2020.⁰⁵

The country needs an additional 1,000 universities and 50,000 colleges in the next decade to accommodate 50 million college-ready students.⁰⁶

With a growing demand in vocational education, international vocational skills education providers are also exploring opportunities through PPPs and collaborations with Indian companies.

The Right to Education Act, which makes education for children between 6-14 years a fundamental right, acts as a strong demand driver.

Key trends⁰¹

The sector has witnessed growth in private higher education institutions; earlier in the form of deemed universities and recently through state-led private universities. These private universities are self-funded and bring private funding to university education.

PPPs have not fructified, and with stringent rules on non-profit institutions for education, funding remains a key issue for this capital intensive sector.

There is a pragmatic shift in approach with an emphasis on skill development which has resulted in the creation of the Ministry of Skill Development and Entrepreneurship on 10 November 2014. This ministry was created in response to the fragmented nature of skill development prevalent in the country. The creation of the ministry is expected to help in the convergence of over 70 skill development related schemes across 20 ministries and departments.⁰⁷



01. KPMG in India analysis, 2015

02. <http://www.12thplan.gov.in/>

03. <http://mhrd.gov.in/>

04. <http://www.indiabudget.nic.in/>

05. <http://www.populationcommission.nic.in/>

06. <http://india.gov.in/reports-national-knowledge-commission>

07. <http://skilldevelopment.gov.in>



Electronic systems design and manufacturing

Sector overview

With the revival of the global economy, the electronics industry is expected to gain momentum and grow in size in the coming years.

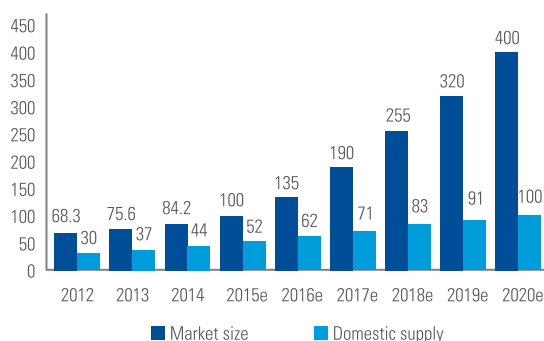
The rapid growth of consumer electronics in emerging economies and the burgeoning demand for smartphones and tablets are some of the key growth drivers of the overall electronics market.

In India, the sector is expected to touch USD400 billion by 2020 and the number for exports reaching approximately USD80 billion by 2020⁰¹. The Indian government focusses more on this sector and aims to transform it from a consumption driven market to one with manufacturing capability to meet local and export-related demand while simultaneously focussing on producing high value-added electronic products⁰².

The electronic products segment constituted the largest segment of India's electronics and IT hardware market with an estimated 79 per cent market share in 2012. Semiconductor design constituted 15 per cent of the market with electronic component and semiconductor designs and others accounting for the rest⁰².

Export of semiconductor design and electronic products constituted the bulk of export revenues with electronic component and semiconductor designs and manufacturing services contributing only a small percentage.

India's electronic system design and manufacturing market size and domestic supply, 2012-20, in USD billion



Source: Ministry of Electronics and IT, Govt. of India, accessed April 29, 2015, <http://deity.gov.in/esdm>

Demand drivers⁰⁴

Emerging high-growth areas for domestic manufacturing include LED lighting, automotive electronics, energy meter, solar energy and IT products such as tablets.

As per the defense procurement policy released by Ministry of Defense in 2014, all contracts with foreign vendors will have an offset clause. This offset, ranging between 30-50 per cent of the deal value, mandates foreign firms to invest in technologies and production of strategic electronic products within India. In many cases, this is implemented in partnership with Indian firms, which provides them with the much-needed skills and expertise in the sector.

India's burgeoning rural market is emerging as the next growth area for consumer electronics companies.

Key trends

Rapid growth in the demand for electronics, clubbed with a sluggish domestic production, has widened the demand-supply gap in the industry. While the demand for electronics stood at approximately USD100 billion in FY13, goods worth approximately USD36 billion were produced in India⁰².

The top five players are responsible for about 15 per cent of the sector's revenue, reflecting the largely fragmented nature of the sector in the country.⁰³

The SME sector has significant presence in the lower/medium end of the value chain, especially in the electronic component and semiconductor design sector.

Opportunities

The rise of SMAC and the convergence of technologies is generating demand for multi-skilled resources; the boundaries between smartphones, computers and tablets are getting blurred with each passing year⁰⁴.

Several electronics companies are in the process of establishing new manufacturing facilities in India, which are expected to drive the demand for electronic components and semiconductor designs in the future.

From consumer to IT to industrial electronics, mobile devices are gaining ground across the entire spectrum of the electronics and IT hardware sector. This may demand a workforce proficient in the manufacturing of such devices and their components.⁰⁵

01. Annual Report 2014-15, http://deity.gov.in/sites/upload_files/dit/files/annual_report_2014-2015.pdf, accessed on 3 June 2015

02. Annual Report 2013-14, Deity, <http://deity.gov.in/content/annual-plans-reports>, accessed on 29 April 2015

03. http://deity.gov.in/sites/upload_files/dit/files/annual_report_2014-2015.pdf, Annual Report 2014-15, accessed on 3 June 2015

04. The SMAC Code – Embracing new technologies for future business report by KPMG India, accessed on 29 April 2015

05. KPMG in India analysis, 2015

The Indian government has launched several initiatives to bridge the 'digital divide' between urban and rural areas and harness the digital revolution to increase the spread of education. Programmes like the NKN and the NOFN are expected to require investments in telecom equipment worth billions⁰⁶.

Useful web links

- **Department of Electronics and Information Technology, Government of India:** <http://deity.gov.in/>
- **India Electronics and Semiconductor Association (IESA):** <http://www.iesaonline.org/index.html>



06. Annual Report 2013-14, Deity, <http://deity.gov.in/content/annual-plans-reports>, accessed on April 29, 2015



Food processing

Sector overview

The food processing sector is one of the largest industries in India, ranking fifth in terms of production, consumption and exports, and is expected to reach USD200 billion by the end of 2015.⁰¹

The sector contributed 14 per cent to the India's GDP (manufacturing sector) through its 32 per cent share in the total food market, 13 per cent share in total country exports and six per cent share in total industrial investment in 2014.⁰¹

Demand drivers

Increasing disposable income, urbanisation and growing awareness of ingredients are driving growth in the packaged food market, leading to the increased consumption of items such as functional and processed foods.⁰²

Per capita consumption and spending on 'processed and packaged' food items such as meat, fruits and vegetables have been steadily growing.⁰²

Organised retail is expected to grow at a CAGR of 20 per cent during 2015-2020⁰³, and is likely to continue to benefit the sector by:

- Improving the supply chain infrastructure at the backend.
- Improving off-takes of food through improved visibility, activations and merchandising at the front end.

Key trends⁰²

Demand growth, supply advantages and policy support have proven instrumental in attracting FDI in the food and agri culture space in India.

The cumulative FDI in the food processing industry from April 2000 to January 2015 was USD5.8 billion.⁰⁴

Companies involved in food processing and manufacturing are increasingly moving up the value chain, while many retailers are establishing linkages with food processors. This integration is likely to lead to improved food quality and supply chain efficiency.

The growing trend of eating outside food has improved growth prospects for the food service industry (projected to be worth USD78 billion by 2018).⁰¹ Several food brands and gourmet food retailers have emerged as prime sellers for processed fruits/vegetables and cereals in the country.

Opportunities⁰²

Favourable supply-side fundamentals of India (abundant raw materials supply, cost advantages), coupled with continuous government policy initiatives, have projected India as a potential sourcing hub, globally.

GoI allows 100 per cent FDI in food processing sector and aims to release USD28 billion on mega a food park scheme, integrated cold chain scheme and abattoirs modernisation scheme during twelfth five year plan.

In addition to this, USD18.5 billion has also been allocated towards the National Mission on Food Processing, USD3 billion to boost sector specific skill development initiatives and USD2.9 billion for the research and development practices and encourage food safety measures.⁰¹

The government's focus and launch of various schemes to provide better infrastructure to the food processing sector opens up opportunities for private investors.

Useful web links

- **Ministry of Food Processing Industries:** <http://www.mofpi.nic.in>
- **Agricultural and Processed food products Export Development Authority:** <http://www.apeda.com>
- **Marine Products Export Development Authority:** <http://www.mpeda.com/>
- **Department of Industrial Policy and Promotion:** <http://dipp.nic.in/>

01. Indian Food Processing Industry, IBEF, October 2014

02. KPMG in India analysis, 2015

03. IBEF website, <http://www.ibef.org/industry/retail-india.aspx>, accessed as on 27 April 2015

04. Overseas Indian Facilitation Centre, <http://www.oifc.in/food-processing-industry-investing-food-parks>, accessed as on 27 April 2015



Gems and jewellery

Sector overview

The gems and jewellery sector holds a very important position in the Indian economy and contributes about 6 to 7 per cent to the country's GDP. Govt has declared the sector as a focus area for export promotion based on its potential for growth and value addition.⁰¹

According to 'Gems & Jewellery Sector Risk Index' report, published by Onicra Credit Rating Agency, the jewellery market in India is expected to grow at a CAGR of 15.95 per cent over the period 2014 to 2019.

The share of gold jewellery export from India accounted for USD523.04 million in January 2015, while silver jewellery export as USD101.46 million, according to the latest data released by the GJEPC.⁰²

The industry heavily relies on imports and exports, and is thus vulnerable to risks arising out of currency fluctuations.

India's gems and jewellery sector has been contributing in a big way to the country's FEEs. Govt has viewed the sector as a thrust area for export promotion. In FY14, India's gems and jewellery sector contributed USD34,696.94 million to the country's FEEs.⁰¹

Demand drivers⁰³

The Indian gems and jewellery industry is one of the fastest growing segments in the Indian economy with an annual growth rate of approximately 16 per cent.⁰⁴

The sector is witnessing changes in consumer preferences, as the westernisation of lifestyle is creating changes in the buying habits of the consumer.

Consumers are demanding new designs and varieties in jewellery, and branded jewellers are able to fulfil their changing demands better than the local unorganised players. Increase in per capita income has led to an increase in the sales of jewellery, as jewellery is typically considered as a status symbol in India.⁰¹

Gold is considered to be an important part of India's culture and tradition. India is one of the biggest consumers of gold jewellery where the demand is majorly driven by festivals and weddings.⁰⁵

India has witnessed an increase in the number of working women over the past few years. This in turn, has resulted in rise in income levels and purchasing power, hence, driving demand for gold jewellery.⁰⁶

Aggressive demand and promotion activities undertaken by the gems and jewellery export promotion council has increased the visibility of the industry and also played an instrumental role in attracting a number of working professionals.⁰⁷

Lower cost of production, driven by a pool of cheap and highly skilled labour, drives export demands in the sector.⁰¹

Favourable government policies like cluster development programmes, other policy incentives and the advent of financing schemes for consumers are further driving the demand in the sector.



01. 'Gems and Jewellery Industry in India'- Sector Snapshot by IBEF, accessed in March 2015.

02. Import-export performance of the Indian gem & jewellery industry by Gem Jewellery Export Promotion Council (GJEPC)

03. KPMG in India analysis, 2015

04. CII Sector Snapshot on Gems and Jewellery Sector, published in 2013.

05. World Gold Council, released in February 2015

06. Indian Women Wear Market Forecast to 2015 by RNCOS

07. Diamond, Gem and Jewellery Banking Summit 2014, June 2014, GJEPC India and SBI

Key trends⁰⁸

In the coming years, growth in the industry would be highly contributed with the development of large retailers/brands.

Consumers are now moving towards branded jewellery offered by large players present in the market. These players satiate the customers by providing them innovative options.⁰⁹

The popularity of online purchase of jewellery is expected to continue in India as various features of online jewellery shopping such as low-base price points, availability of gold variants and diamonds is boosting the interest in online jewellery brands amongst youngsters.¹⁰

Retail stores which cater to jewellery needs for men such as gem-studded gadgets, precious metal watches and accessories is expected to gain popularity as luxury retailing destinations.

Jewellery retailers in high-end and luxury lifestyle ecosystems are expected to gain ground due to shift in consumption patterns of consumers. Jewellery is no longer seen as just investment but is symbolic of being a marker of upward mobility in the society.¹¹

Budget 2015-16 was not able to meet the long pending demand from the industry to reduce the gold import duty.

Duty reduction would have helped in controlling the issue to a very large extent.¹²

Opportunities⁰⁹

The RBI has liberalised gold import norms. With this, star and premier export houses can import the commodity, while banks and nominated agencies can offer gold for domestic use as loans to bullion traders and jewellers.¹³

Also, India has signed an MoU with Russia to source data on diamond trade between the two countries. India is the top global processor of diamonds, while Russia is the largest rough diamond producer.¹⁴

Many Indian retailers are collaborating with international brands to offer a broader product portfolio and innovative designs to their customers.

In addition, many jewellers are collaborating with fashion designers to introduce an element of exclusivity to otherwise traditional Indian jewellery.

The government has set-up SEZs and jewellery parks to promote investment in the sector.

In another significant development, the gems and jewellery skill council of India plans to train over four million people till 2022 as the sector is facing shortage of skilled manpower. The council aims to train, skill and enhance 4.07 million people by 2022.¹⁵

Useful web links

<http://www.gjepc.org/>



08. KPMG in India analysis, 2015

09. 'A multifaceted future: The jewelry industry in 2020', report by McKinsey & co, published in 2014

10. South Indian online shopping trends: Discount coupon rises, press release by Financial Express, January 2015

11. India Retail Trends 2014: White Paper, Tata Business Support Services Ltd.

12. Union Budget 2015: Jewellers seek cut in gold import duty in Budget, press release by Money Control, February 2015

13. Liberalisation of gold import norms on cards, press release by Business Standard, May 2014

14. India, Russia to share data on diamond trade, press release by Times of India, April 2014

15. Jewellery skill council aims to train 4 million people by 2022, press release by Business Standard, January 2015



Healthcare

Sector overview

India's health expenditure was estimated to be worth USD81.5 billion in 2014 and is expected to grow at CAGR of approximately 10 per cent over 2014–19 to reach USD129.9 billion.⁰¹

The government healthcare expenditure was estimated to be USD28.2 billion in 2014 and is forecasted to reach USD49.7 billion by 2019.⁰¹

The per capita healthcare expenditure is low in the country and reached USD67 in 2014.⁰¹

The healthcare industry in India primarily comprises hospitals, pharmaceutical, diagnostics, medical equipment and supplies and medical insurance.

Demand drivers⁰²

Growth in elderly population

Elderly people are expected to drive the healthcare spending as the percentage of population aged 65 and above is expected to increase from 4 per cent in 2010 to 6 per cent in 2020.⁰¹

Rising non-communicable diseases

Increased incidence of NCDs such as cardiovascular, diabetes and obesity is one of the major drivers of the healthcare sector. NCDs account for approximately 35 per cent of all recorded outpatient visits and 40 per cent of all hospital stays.⁰³

Rising income and health awareness

Rising income and increasing health awareness are also driving the growth of healthcare sector in India. The per capita net national income in 2014–15 is expected to grow by 10.1 per cent to reach USD1414.6 from USD1284.3 during 2013–14.⁰⁴

Growth in medical tourism

Medical tourism is also fuelling the growth of healthcare sector in India. The medical tourism market is expected to reach USD4.9 billion in 2015 expanding at a CAGR of 27 per cent from USD1.9 billion in 2011.⁰⁵

Positive government initiatives

Government programmes and increased focus on PPP models in healthcare are driving the growth of healthcare sector in India.

Increasing penetration of private players

Increased penetration of private players augmented by government initiatives and evolving healthcare delivery models are also helping the healthcare sector grow.

Key trends⁰²

New healthcare delivery models

A number of new delivery models such as single specialty chains, day care centres, low-cost healthcare centres and wellness centres have emerged to capture more of the lower income patients and meet changing needs. These models can provide the required solution to transform India's healthcare scenario.

Growing telemedicine market

Telemedicine market in India is witnessing significant growth, owing to its huge potential to provide clinical services to distant and rural locations. The sector was estimated to be worth USD7.5 million in 2012 and is forecasted to reach USD18.7 million by 2017.⁰⁶

Rising e-healthcare sector

E-healthcare is an emerging sector in India. However, it is at a nascent stage and expected to register remarkable growth in coming years. E-healthcare services include buying medicines from e-portals, taking e-prescriptions and helping people contact and interact with doctors.⁰⁷

Growing m-health adoption

M-health is also an emerging sector in India, owing to improving mobile technology infrastructure, growing penetration of mobile phones and launch of 4G services. This segment is expected to reach around USD1 billion by 2017.⁰⁸

01. BMI- Industry Forecast Healthcare in India - Q2 2015, via Thomson research, accessed April 2015

02. KPMG in India analysis, 2015

03. 'Age and Sex Pattern of Cardiovascular Mortality, Hospitalisation and Associated Cost in India', <http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0062134>, accessed February 2015

04. 'India's per capita income to rise by 10 per cent to INR7,378 a month', <http://www.rediff.com/business/report/indias-per-capita-income-to-rise-by-10-to-rs-7378-a-month/20150209.htm>, 9 February 2015, accessed April 2015

05. KPMG in India analysis and Medical value travel in India - FICCI heal conference, KPMG, September 2014

06. 'Analysing the Telemedicine Market in India', Smart Research Insights via ISI Emerging market database, accessed April 2015

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Opportunities⁰⁹

Low health insurance penetration

The penetration of private health insurance in India is low as currently around five per cent of healthcare expenditure is being financed by private insurances.¹⁰

Healthcare infrastructure deficit

Shortage in healthcare infrastructure is a significant problem in healthcare delivery. India needs 0.5 million beds to reach the target of 500 beds per one million people¹¹. There are massive opportunities to invest in building healthcare infrastructure.

Booming medical device industry

India is among the top 20 markets for medical devices in the world¹². The government has taken some positive steps to strengthen this sector such as allowing 100 per cent FDI, and also plans to establish an industrial park for manufacturing medical devices in Gujarat¹³. This could be an opportunity for medical device companies to expand their base and increase domestic production.

Growing medical diagnostic market

The medical diagnostic market size is estimated to be around USD3.5 billion, and is growing at a CAGR of 15 per cent¹⁴. With rising awareness for healthcare and demand for quality diagnostics, India is in a good position to leverage this opportunity.

Re-emergence of traditional medicine

Traditional medicines are re-emerging as a choice for curing various diseases as they are based on natural and herbal ingredients.¹⁵

Useful web links

- **The Ministry of Health and Family Welfare:**
<http://mohfw.nic.in/>
- **Department of Industrial Policy and Promotion:**
<http://www.dipp.nic.in>



09. KPMG in India analysis, 2015

10. 'Global Health Expenditure Database', WHO, accessed 14 February 2015

11. 'Healthcare woes: India has 1 govt hospital bed for 879 people', Indian express, 24 August 2013

12. 'Regulatory and commercial document', <http://www.aimedindia.com/userlogin.asp?type=HRC100>, accessed April 2015

13. 'India Regulatory Brief: Medical Devices Park, Simplified Income Tax Return Forthcoming', <http://www.india-briefing.com/news/india-regulatory-21-april-10512.html/>, accessed April 2015

14. 'SRL Diagnostics to open 45 labs, invest INR450 crore this year', The Hindu, 24 June 2014

15. 'Paper on healthcare sector', http://www.gesdelhi.in/pdf/about_pdf/healthcare.pdf, accessed April 2015



Insurance

Sector overview

The insurance sector in India is regulated by the IRDA and comprises of three broad segments.⁰¹

Insurance sector in India: Broad segments

Life insurance	Non-life insurance	Reinsurance
<ul style="list-style-type: none"> 24 players Total premium: USD52.17 billion 	<ul style="list-style-type: none"> 28 players Gross premium underwritten: USD13.14 billion 	<ul style="list-style-type: none"> 1 player Gross premium underwritten: USD2.7 billion

Source: "IRDA annual report 2013-14", 13 December 2014

- Of the 24 life insurers present in India, one is from the public sector (LIC) and 23 are from the private sector.
- The public sector insurer, LIC, is the dominant player in the market.
- Of the 28 non-life insurers, six are from the public sector and 22 are from the private sector.
- Four of the six public sector insurers operate on multi-line operations, while two have specialised operations: credit and crop insurance, respectively.
- GIC is the only national reinsurance company in India, since 1972.⁰¹

In the last two decades, since its liberalisation in early 2000, the sector has evolved significantly; major development being the entry of several private and foreign players creating a divergence from the public sector monopoly that once characterised its market structure.

- The total life insurance premium stood at USD52.17 billion in FY14 as against USD4.1 billion in FY04. There has been a sluggish growth between FY11 to FY13.⁰¹
- The number of retail policies in force as on FY13 were 336.1 million as compared to 291.6 million in FY09.⁰¹
 - Total life insurance premiums have had a sluggish growth over the past few years due to slow macro-economic conditions as well as multiple regulatory changes impacting product and distribution structures.
 - Tax incentives on insurance products are expected to continue with an enhanced deduction limit already announced in the recent union government budget.

- There is high prevalence of single premium policies being sold every year for tax saving requirements leading to multiple policies per customer. It is estimated that there are 2-3 active policies per customer. Thus, the actual number of unique customers is substantially lower than number of in force policies.⁰²

- The non-life insurance business also recorded double digit growth - gross written premium recording a CAGR of 14.3 per cent from USD3.4 billion in FY04 to USD12.8 billion in FY14.⁰¹

Way forward⁰¹

Going forward, short-term growth is expected to be muted, however, industry is expected to grow at a significant rate in the long-term.

- The total life insurance premium is expected to grow at a CAGR of 8 per cent till FY16 and become USD61 billion and rise with a CAGR of 15 per cent from thereon till FY19 and become USD92 billion.
- The retail new business premium is also expected to reach USD16 billion by FY19.

Demand drivers

Insurance penetration

It remains low in India. Moreover, growth in penetration is also poor. Low levels of financial inclusion and financial penetration provide huge growth opportunity for insurance sector in coming years.⁰¹

The insurance premium penetration is dismally low at 3.9 per cent of the GDP, against global average of 6.3 per cent in 2013-14 and by introduction of more FDI, awareness and information about insurance will be increased.⁰¹

Sector development

Launch of new innovative products, emergence of new distribution channels and increased demand for insurance from sectors such as chemicals and petroleum products, software exports and textile goods have created opportunities for the insurance sector.

Socio-economic and demographic factors

Rise in working population, growing middle class population, emphasis on savings by households, increased income levels and rising demand for healthcare may act as major catalyst for further insurance penetration.

01. "IRDA annual report 2013-14", 13 December 2014

02. KPMG in India analysis, 2015

Urbanisation⁰³

Increasing urbanisation and the number of vehicles accompanied with higher maintenance cost of vehicles has led to greater demand for insurance products.

Others

Tax incentives on insurance products and increase in the organised sector's workforce are some of the other drivers for insurance products.

Key trends⁰³

Opening up of market for new sellers

The RBI has allowed banks to become insurance brokers, permitting them to sell policies of different insurance firms subject to certain conditions. This is expected to help banks utilise their existing customer base and cross sell insurance products.⁰⁴

Market structure⁰⁵

Major foreign insurers and domestic players have entered the Indian life insurance market to capitalise on the opportunities. Several domestic private players operate as a joint venture with foreign insurers. This is expected to expand further with the rise in FDI limit to 49 per cent.

Policy and regulatory changes

Push from government programmes for insurance sector

The RBI has allowed banks to become insurance brokers, permitting them to sell policies of different insurance firms subject to certain conditions.⁰⁴

FDI limit: The select committee of the Rajya Sabha has given its approval, permitting 49 per cent composite foreign equity investment in insurance companies.⁰⁶

Tax structure simplification⁰⁷

A broad agreement has also been achieved with the states on most of the issues concerning the implementation of the single GST, which is scheduled to be rolled out from 1 April 2016.

Fund raising⁰⁸

IRDA has permitted life insurance companies to raise funds in the open market (provided they have operational experience of atleast 10 years). This can provide increased capital to finance their expansion plans.



Opportunities

India's insurable population is anticipated to touch 750 million in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.⁰⁹

Demographic factors

Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning is expected to support the growth of Indian life insurance.

Increase in FDI

FDI limit of 26 per cent has been increased to 49 per cent via amendment in the Insurance Laws Bill and has been notified by RBI on 8 April, 2015. Although 49 per cent investment has been allowed, the Insurance Bill mandates that the management control lies with Indian nationals only.¹⁰

One of Europe's biggest reinsurers, plans to set up shop in India after the country permitted foreign companies that cover the risk of insurers to open branches here. It intends to apply for a branch licence for life and non-life reinsurance once the regulations and requirements are available.¹¹

Push from statutory mandates¹²

Under the present rules, the General Insurance Corporation of India has been designated as the 'Indian re-insurer' which entitles it to receive obligatory cessions of 5 per cent from all the direct non-life insurers. The limits have been laid down in consultation with the Reinsurance Advisory Committee. As the economy expands there is expected to be an automatic boost for the reinsurance sector.

Newer avenues of insurance

In recent years, the increasing costs of events and high stakes in business have led to insurance being undertaken in new segments:

- A cricket tournament organised in May 2015 was insured for around USD191.7 million of cover by the organiser as per media reports. Other organisers too have insured various risks of around USD127.8 million coverage.¹³
- Weather and terror insurance are also seen to be in demand.

Useful web links

- **Insurance Regulatory and Development Authority:** <http://www.irda.gov.in>
- **Life Insurance Council:** <http://www.lifeinscouncil.org>
- **General Insurance Council:** <http://www.gicouncil.in>

03. KPMG in India analysis, 2015

04. 'RBI permits banks to act as insurance brokers', EconomicTimes, 15 January 2015

05. 'India Opens Up Insurance Sector To Foreign Players', Forbes, 23 March 2015

06. 'Parliament passes insurance bill in a major boost to Modi's reform agenda', Live Mint, 13 March 2015

07. 'States agree on issues related to GST', The Economic Times, 09 December 2014

08. 'Insurance Ordinance will help companies raise funds', Economic Times, 27 December 2014

09. 'Insurance Sector in India', IBEF, November 2014

10. 'Six-year wait ends for up to 49 per cent FDI in insurance', Business Standard, 13 March 2015

11. 'Reinsurer Swiss Re plans to enter India', The Economic Times, 19 March 2015

12. 'IRDA annual report 2013-14', IRDA 13 December 2014

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Information technology - BPM

Sector overview⁰¹

India is among the leaders in the global sourcing arena.

India has emerged as a hub of the global technology industry accounting for 50 per cent of the total headcount of global MNCs as well as 80 per cent of the headcount of Indian IT-BPM firms.

The industry accumulated revenues of USD118 billion in 2013, up from a mere USD8 billion at the turn of the century. The IT-BPM market is projected to touch USD146 billion in 2015.

As a proportion of national GDP, the IT-BPM sector has grown from 1.2 per cent of Gross Domestic Product GDP in FY98 to 8.1 per cent in FY14.

Demand drivers⁰¹

Improving economic scenario in the U.S., the market is expected to drive demand for the IT-BPM services from India. Also, continued demand from the U.K. and growing demand from other European nations could fuel the IT-BPM exports in the country.

Increased spending by the central government, especially in areas like smart cities, is expected to lead to demand for IT-BPM services.

Although, BFSI is among the largest vertical segments, fresh demand and growth could emerge from healthcare, utilities and retail sectors.

Key trends⁰²

Convergence of emerging technologies, SMAC is expected to drive the next wave of innovation in the IT-BPM industry.

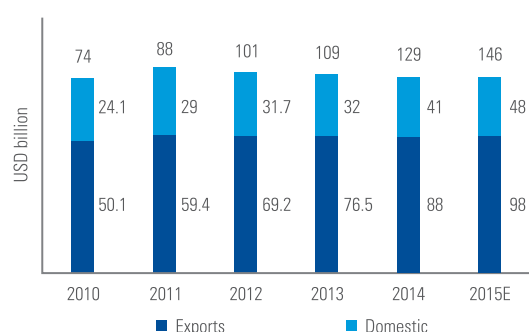
Automation is also playing an increasingly important role in the sector, with mundane coding tasks being outsourced to automated software.

While IT services is the largest segment, BPM is expected to witness the maximum traction in 2015, as enterprises try to achieve cost efficiencies.⁰²

Analytics is also emerging as a growing segment driven by demand for data-driven solutions among U.S. and European companies.

Export revenues are estimated to gross USD98 billion in FY15, growing by 12.3 per cent over last year. Domestic IT-BPM market at USD48 billion is set to grow faster than exports market at 14 per cent⁰¹.

Indian IT-BPM revenues 2010 to 2015



Source: NASSCOM Strategic Report, NASSCOM, 2015

Opportunities⁰²

As the U.S. and Europe based companies are planning to enhance costs, Indian enterprises have a larger opportunity to offer shared service offerings.

Further, many of the large IT deals are due for renewal, which provide large ticket opportunities for Indian companies.

Emergence of new technologies such as cloud computing that can be offered over the internet, provides a chance to service Small and Medium Businesses (SMB) segments outside India, which IT-BPM companies failed to target in the first era of the sector growth.

Companies can capitalise on the increasing demand in the domestic market to expand as well as reduce the geography dependency and foreign exchange risk.

Emergence of mobility and big data provides opportunity to develop new products and solutions as well as cross-sell to existing customers in the U.S. and European region.

Useful web links

- **NASSCOM:** <http://www.nasscom.org/>
- **Department of Electronics and Information Technology:** <http://deity.gov.in/>
- **Software Technology Parks of India:** <https://www.stpi.in/>

01. NASSCOM Strategic Report, NASSCOM, 2015

02. KPMG in India analysis, 2015



Media and entertainment

Sector overview

The current government's optimistic outlook and growth promoting policy initiatives have laid the foundation for an exciting future for the M&E sector. While M&E sector recorded a revenue growth of 11.7 per cent y-o-y in 2014, it is expected to grow from USD17.1 billion in 2014 to reach USD32.7 billion by 2019 at a CAGR that is almost double that of the global M&E industry during 2014-19.⁰¹

With a staggering y-o-y growth of 44.5 per cent, digital advertising further strengthened its position in the overall M&E pie in 2014.⁰¹ Having said that, traditional media, both television and print, continued their double digit growth on the back of higher advertising spends by political parties during Lok Sabha elections and e-commerce companies.⁰¹ However, the same cannot be said about the Indian film industry. The sector took a back seat with a mere growth of 0.9 per cent in 2014.⁰¹

Television, print and films sectors still form the lion's share of the Indian M&E industry, accounting for over 46 per cent, 26 per cent and 12 per cent respectively of the revenue pie.⁰¹

In 2013, the Indian M&E sector contributed close to 1.7 per cent to the country's GDP⁰², and provided full-time employment to 461,900 personnel contributing close to 9.3 per cent to the total employment in the country⁰³.

The Information and Broadcasting (including print) segment has been consistently attracting FDI. From April 2000 to January 2015, the segment accounted for an FDI of USD3,890.9 million.⁰⁴

Demand drivers⁰⁶

Rapid growth of new media powered by rising smartphone and 3G penetration, advent of 4G services, growing affordability of data plans and increasing network speeds are fuelling the demand for digital content which in turn seems to be providing the required impetus to digital advertising.

In 2014, India became the world's fastest growing smartphone market.⁰¹ Renewed emphasis on the 'Digital India' programme by the current government to transform India into a digitally empowered society and knowledge economy is further expected to boost content consumption on digital media.

M&E companies are aggressively investing in the regional markets, which is quite evident from introduction of number of vernacular dailies and periodicals, launch of regional television channels, and movies production houses investing in regional films.⁰¹

With the next phase of growth coming from tier II and tier III cities, the demand for local content which audience can easily relate to is increasing.

Even though developed markets such as the U.S., Europe, Canada have saturated, new geographies such as middle east and Africa are driving growth in international subscription revenue for Indian TV channels.⁰¹

Cost arbitrage, presence of well-equipped studios with state-of-the-art technologies, availability of technical talent and the large pool of fluent English speaking population make India an attractive destination for animation and VFX services.

Key trends

Ongoing digitisation is bringing a paradigm shift in business models and key indicators, especially in television and film segments.

With the growing popularity of digital media across almost all M&E segments, new media distribution channels such as video-on-demand, mobile TV, online video channels, e-books/e-magazines, etc. have emerged. Recognising the potential of digital sector, strategic and private equity investors aggressively invested in digital marketing, digital entertainment, social media, e-retail, e-publishing, and mobile applications in 2014.⁰¹

Realising the importance and growth prospects of regional markets in India, key media players are expanding their footprints in these markets.

India, being the second largest mobile market and third largest smartphone market in the world, is witnessing a change in consumption patterns of entertainment content.⁰¹ In 2014, communication, entertainment and social media topped among the various internet activities for both urban and rural internet users.⁰⁵ In 2013, chat and multimedia content accounted for one-third of the overall smartphone usage.⁰¹

Social media has become one of the most effective and influential mediums to connect with the youth in the age group of 18 to 35 in India, despite lower social media user penetration compared to the global average.⁰⁷

In the current scenario of rapid technological changes and emergence of new consumer centres, industry players, especially in broadcasting and film distribution, are increasingly depending on data-driven insights to help test the concept, monitor performance, identify target audience, improve monetisation and manage costs.

01. '#shootingforthestars', KPMG-FICCI report, March 2015

02. 'Media sector report', Emkay Global Financial Services, October 2013

03. 'Skills gap study for the media and entertainment sector', MESIC, February 2014

04. Department of Industrial Policy and Promotion accessed on 27 April 2015

05. 'Internet in India 2014', IAMAI-IMRB, 2014

06. KPMG in India analysis, 2015

07. 'The Stage is Set', KPMG-FICCI report, March 2014

Opportunities⁰⁸

Relaxed FDI limit in DTH, teleports and cable networks (multiple systems operators and upgrading networks) to 100 per cent is likely to accelerate the transition from analogue to digital television.⁰⁹

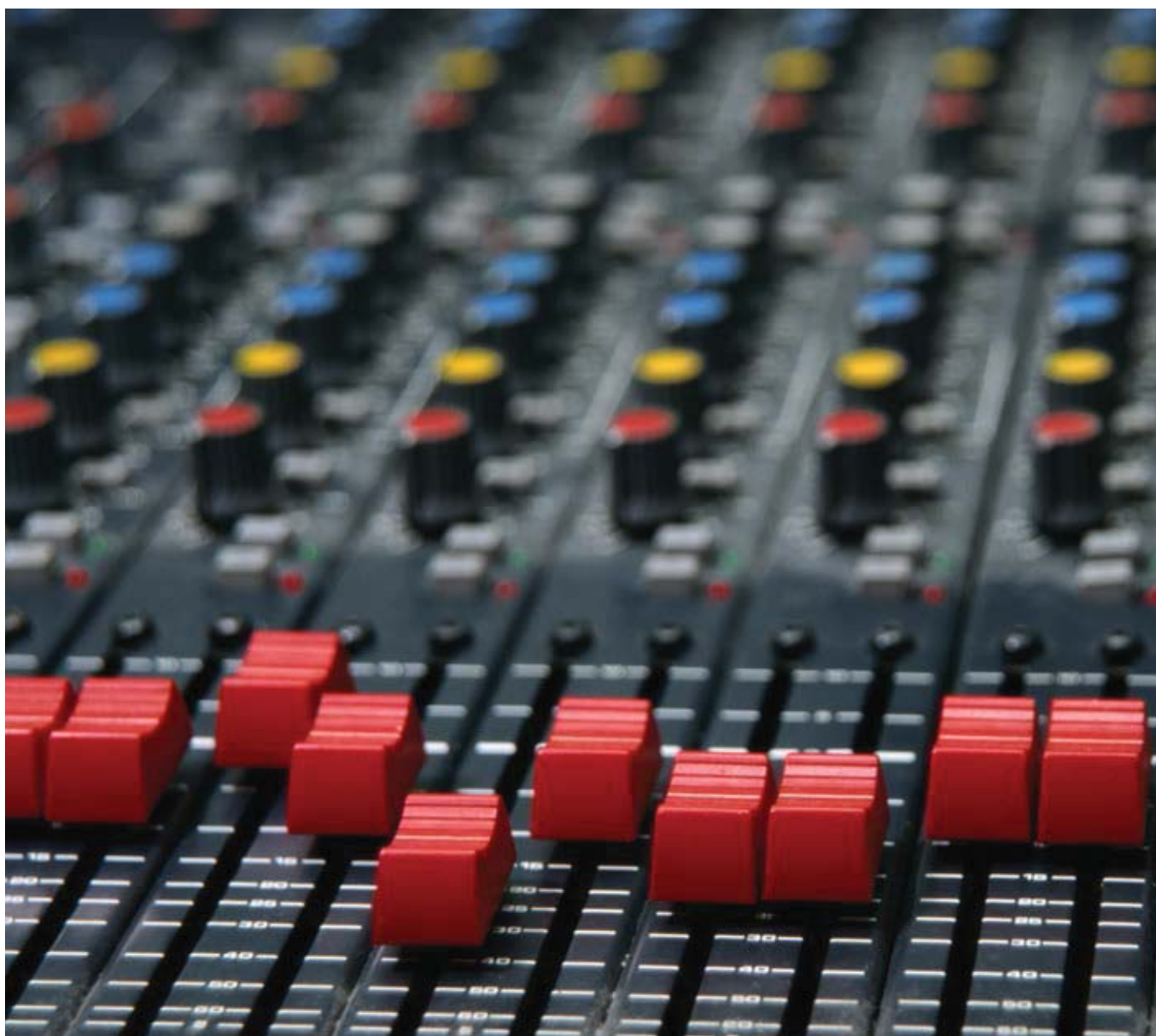
The 12 minutes ad cap during one-hour programming on television (if implemented) could change the way advertisers invest across the various mediums. The cost of television ad per second could significantly increase due to lower ad inventory, forcing advertisers to explore smart storytelling methods and innovative branding ideas across other advertising mediums such as digital platforms, print, radio, etc, to maximise customer engagement.

The Phase III completion of radio reforms may open new opportunities, creating much larger scope of growth for the sector.

The rapid increase in the smartphone and mobile internet users can create new sources of advertisement revenue for M&E companies.

Useful web links

- **FICCI Frames:** <http://www.ficci.com/PressRelease/1911/ficci-press-release-mar25-2015-2.pdf>
- **Federation of Indian Chambers of Commerce & Industry:** <http://www.ficci-frames.com/about.htm>
- **Department of Industrial Policy and Promotion:** <http://dipp.nic.in/>
- **Indian Broadcasting Foundation:** <http://ibfindia.com/>



⁰⁸. KPMG in India analysis, 2015

⁰⁹. 'The Stage is Set', KPMG-FICCI report, March 2014



Metals and mining

Sector overview

India produces 89 minerals, which includes four fuel, 10 metallic, 48 non-metallic, three atomic and 24 minor minerals (including building and other materials).⁰¹

Around 80 per cent of mining in India is in coal and 20 per cent is in metals and other raw materials such as gold, copper, iron, lead, bauxite, zinc and uranium.⁰²

India ranks third in the production of coal and lignite, barytes and chromite, fourth in iron ore, sixth in bauxite and manganese ore, eighth in aluminium and fourth in steel.⁰³

The total value of mineral production including minor minerals (excluding atomic minerals) during FY14 was about USD36,295 million.⁰³

According to advance estimates of GDP (at 2004-05 prices) for FY14, the mining and quarrying sector accounted for about 1.9 per cent of the country's GDP and USD17,008.6 million in value.⁰³

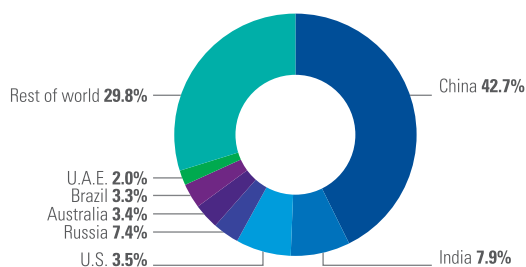
The total number of mines for mineral production (excluding minor minerals, petroleum (crude), natural gas and atomic minerals) in India was 3,461 in FY14.⁰³

India has the fifth-largest coal reserves in the world at 60.6 billion tonnes and has produced 557.7 million tonnes in FY13.⁰⁴

In FY14, India produced 136.4 million tonnes of iron ore.⁰⁴

India has become third largest steel producer in 2015, with the production of total finished steel at 91.46 million tonnes. The production of crude steel increased at an average annual rate of 7 per cent over FY06 to FY15 to 62.4 million metric tonnes.⁰⁴

India's share in global aluminium production (FY2014)



Source: Metal and Mining Sector Report, IBEF, August 2015

India, with deposits of about three billion tonnes of bauxite reserves, ranks fifth in the world. Aluminium production is estimated to be 4.7 million tonnes per annum during 2012 to 2017.⁰⁴

Demand drivers

Growth in the automotive sector in India has been driving demand for steel and aluminium.⁰⁴

Increasing infrastructure investments in the country due to policy support from government is a major factor for increased demand of metals and minerals.

Robust growth in key sectors like telecommunication, roads, airports and ports, are also driving the demand for steel and aluminium.⁰⁴

Aluminium and coal demand has been increasing due to rising power production in India.⁰⁴

Strong long-term demand from the steel industry is expected to further boost the iron ore industry.⁰⁴

Key trends

The cumulative FDI in metallurgical industries and the mining sector has increased. It is estimated at USD8481 million and USD1668.5 million, respectively, between April 2000 and January 2015.⁰⁵

New e-auctioning process of coal blocks is bringing significant revenue to Indian states and has reduced the fuel cost for power plants running on coal (from the auctioned blocks).⁰⁶

The demand for metal and metal products is rising in the domestic market because of which India is a net importer in the metals segment despite strong domestic production.⁰⁴

To ensure secured, stable and long-term supplies of minerals, especially coal and iron ore, several Indian mining companies are venturing overseas.⁰⁴

The Indian government is emphasising on R&D and technology development in the mining sector, giving special focus to selected areas of mining.

01. Ministry of Mines Report- Brief Statement of Activities, Targets and Achievements during 2013

02. <http://www.indiacore.com/mining.html>

03. Annual Report 2013-14, Ministry of Mines, GoI

04. <http://www.ibef.org/download/Metals-and-Mining-August-2015.pdf>, Metal and Mining Sector Report, IBEF, August 2015

05. Factsheet on FDI, from April 2000 to January 2015, DIPPI, Ministry of Commerce and Industry, GoI

06. 'First coal block e-auction earns INR1 lakh crore for states', Business Standard, 23 February 2015

Opportunities

India is currently in a good position to transform its mining sector pertaining to its large reserve base of coal, iron ore, bauxite manganese, etc., and also the push towards progressive policy measures initiated by the ministry, such as the MMDR Act and IBM/GSI reforms.

India's transition into a net importer of steel indicates the demand potential of the sector.⁰⁷

The government's proposal of five ultra-mega power projects, under the plug and play model and similar projects for roads, rail and ports are seen as a big positive for metal industries like copper and steel.⁰⁸

The government's initiative for allocation of coal blocks through a transparent auction process, which has seen success in past few months, is expected to bring several

lakhs of crores of rupees to the coal-bearing states and also lay a good foundation for revival of mining activities in the India.⁰⁹

Announcement of increase in infrastructure allocation by USD11,200 million in Union Budget 2015-16 and government initiatives like 'Housing for All by 2022' could drive the demand for minerals such as iron ore.¹⁰

Useful web links

Annual Report 2013-14, Ministry of Mines, GoI;

<http://mines.gov.in/annual2013t14e.pdf>Federation of Indian



07. Sector Report: Metals and Mining, August 2014, IBEF

08. 'Budget 2015: 5 new mega power plants of 4,000 MW to be set up', IBN Live, 28 February 2015

09. 'Lok Sabha passes Coal Bill to replace Ordinance', The EconomicTimes, 4 March 2015

10. 'Budget 2015: Infrastructure investment to increase by Rs 70,000 crore over 2015-16', Deccan Chronicles, 28 February 2015



Oil and gas

Sector overview

India is the fourth largest consumer of energy in the world. Its primary energy consumption stands at about 600 million tonnes of oil equivalent⁰¹.

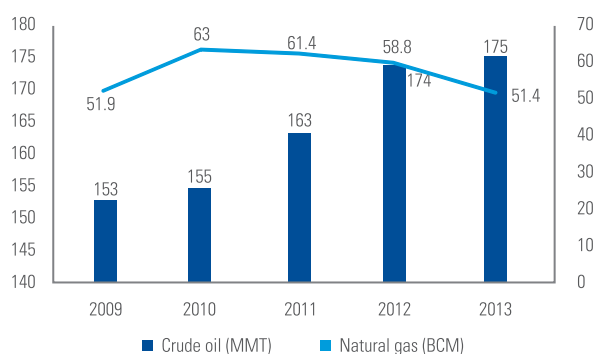
Oil and gas account for about 29.5 per cent and 7.8 per cent of the total primary energy consumption⁰¹.

In 2013-14, India imported about 80 per cent of its crude oil requirements and about 25 per cent of its natural gas consumption⁰².

As of April 2015, India's crude oil refining capacity stands at 215 mmtpa⁰³.

From 2009 to 2013, crude oil consumption witnessed a CAGR of 3.5 per cent. Natural gas consumption continues to decrease in 2013 on account of declining domestic production⁰¹.

Crude oil and natural gas consumption



Source: BP Statistical Review of World Energy 2014

Demand drivers

Rapid urbanisation, rising population, and economic development are together increasing the country's demand for petroleum products and for natural gas.

With increasing concerns of energy security and rising dependence on imports, GoI is keen on the development of domestic oil and gas sector and enhancing domestic production of oil and gas⁰⁴.

Key trends

Cumulative FDI inflow in the petroleum and natural gas industry from April 2000 to Jan 2015 was USD6.5 billion⁰⁵.

GoI plans to launch the tenth round of NELP offering 52 blocks in the coming few months. NELP was introduced in 1997 to promote private participation and investments in the upstream sector in India. Nine rounds conducted till now have witnessed participation from many global oil and gas majors.⁰⁶

The government has also de-regulated diesel price throughout the country in Oct 2014. Diesel prices are now linked to the prevalent prices of India's crude oil basket and on a fortnightly basis oil marketing companies review and accordingly increase or decrease the diesel price⁰⁷.

In October 2014, it approved revision of price of natural gas produced from oil and gas blocks auctioned under NELP from USD4.2 per mmbtu to USD5.61 per mmbtu. The new formula has been effective since 1 November 2014 and is designed to be revised in every six months, i.e. in April and October every year. From 1 April 2015, the natural gas price has been revised from USD5.61 per mmbtu to USD5.17 on the basis of net calorific value.⁰⁸

Opportunities

'Make in India' campaign, promoted by the current government, is encouraging global and domestic majors to come and manufacture oil and gas related equipments in the country.

GoI plans to establish CGD network in over 300 cities in the country. At present the CGD network is established in less than 50 cities⁰⁹.

Gas infrastructure is set to expand across the country with construction of new pipelines taking the total length of the network to more than 30,000 km^{09,10}.

LNG import capacity of India is also planned to increase from current 25 mmtpa to about 80 mmtpa by 2023¹¹.

Several private sector fuel retailers such as Essar, Reliance and Shell now are planning to re-start their existing non-operational retail outlets and recapture the market share in the petrol and diesel markets across the country.

01. BP Statistical Review of World Energy 2014

02. Report - Indian Petroleum And Natural Gas Statistics 2013-14

03. PPAC Website, accessed on 21 April 2015, http://ppac.org.in/content/3_1_Petroleum.aspx

04. <http://planningcommissionarchive.nic.in/>, accessed on 30 April 2015

05. Factsheet on Foreign Direct Investment, From April 2000 to Jan 2015, DIPP, Ministry of Commerce and Industry, GoI

06. <http://india.gov.in/official-website-national-informatics-centre>, accessed on 21 April 2015

07. Diesel Prices Deregulated, Fall by Nearly 6%, NDTV, 2014

08. Natural gas price slashed by 77% to \$4.66 per unit, Business Standard, 2015

09. http://ppac.org.in/content/5_1_ReportStudies.aspx, accessed on 21 April 2015

10. Post Budget Sectoral Point of View for Energy and Natural Resources, KPMG in India, 2014

11. Vision 2030; Natural Gas Infrastructure in India

Useful web links

- **Ministry of Petroleum and Natural gas:**
www.petroleum.nic.in
- **Petroleum Planning and Analysis Cell:**
www.ppac.org.in
- **Directorate General of Hydrocarbons:**
www.dghindia.org
- **Petroleum and Natural Gas Regulatory Board:**
www.pngrb.gov.in





Pharmaceuticals

Sector overview

The Indian pharmaceutical sector, despite the global economic slowdown, has shown consistent performance. It not only has a strong domestic presence, but also exhibits a swelling global presence as an emerging outsourcing destination.

The sector has witnessed recovery from the downswing caused by the industry's backlash to the new drug pricing policy introduced in 2014, and sales in India have seen improvements.⁰¹

The sector, estimated to be around USD25.3 billion (as on November 2014), is projected to grow at rate of 12-15 per cent.⁰²

Strong research pipelines, renewed and rising global interest in the form of big ticket mergers, out licensing deals and marketing agreements are becoming among the norms in the sector.

The Indian pharmaceuticals sector is backed by an expanding manufacturing base that accounts for more than 20,000 registered sites for production.⁰³

The sector boasts of an ecosystem nurturing sustainable innovation: strong process development skills, high quality manufacturing capabilities, cost arbitrage, availability of talent pool with strong academic base and a TRIPS compliant IPR law.

Demand drivers⁰⁷

Growth in domestic demand

Rising income of the populace, increasing health awareness and swelling penetration in rural areas continues to drive the domestic demand for pharmaceutical products. Moreover, as the Indian population ages and continues to expand, the demand for pharmaceutical products also grows in proportion.

Increasing government support

The new government has marked the beginning of a new chapter in the Indian pharmaceutical sector. The declaration of 2015 as 'year of active pharmaceutical ingredients'⁰⁴ and the 'Make in India' initiative are expected to provide a major thrust to the growth of the sector and make it a formidable force globally.

Growth in outsourcing services

India's cost efficiency, skilled yet cheap labour and presence of an established IT industry are working to its advantage. Many developed countries, plagued with resource constraints, are increasingly seen importing India's pharmaceutical industry services.

Increasing health insurance coverage

The recent government initiatives and expanding financial industry in the country have given a boost to the introduction and infusion of products like health insurance policies and life insurance policies to reach a majority of segments of the demographic pyramid. Consequently, increased healthcare spending has been providing an impetus to the pharmaceutical sector growth.

Key trends

Substantial FDI inflows⁰⁶

Cumulative FDI inflow in the drugs and pharmaceuticals sector from April 2000 to January 2015 was USD12.86 billion.

Re-building confidence in brand India⁰⁷

Efforts are being taken by industry stakeholders to re-build the credibility of India manufactured drugs. The mandatory bar-coding of mono cartons of drugs exported from the country is a step forward in helping the country in rebuilding its brand and refuting the bad name that a few stray incidents have brought to drugs made in India.

Expanding reach to nullify risks

Diversification of export markets has been taking place to ease the pressure of increasing USFDA scrutiny on domestic companies. The USFDA continues to issue warning letters and penalties to Indian drug manufacturers, a trend likely to continue keeping in mind the high expectations and standards of USFDA.

Slackening export growth

2013-14 registered the slowest export growth for the sector in nearly 15 years at 1.2 per cent to USD14.84 billion. This was mainly on account of increasing quality and IPR concerns from U.S. and rising competition.⁰⁵

01. 'Pharma sector gets in good shape for 2015', Live Mint, 29 December 2014

02. 'Union Budget 2015 – Pharmaceuticals', KPMG, April 2015

03. 'India Pharmaceuticals and Healthcare Report Q3 2014', Business Monitor Intelligence

04. 'DoP declares 2015 as 'Year of Active Pharmaceutical Ingredients'', Express Pharma, 27 January 2015

05. 'Pharma exports growth slowest in 15 years', Live Mint, 24 April 2014

06. FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI), DIPP, http://dipp.nic.in/English/Publications/FDI_Statistics/2015/India_FDI_January2015.pdf, Page 2, Accessed May 2015

07. KPMG in India analysis, 2015

Consolidation for filling gaps in portfolio

The changing dynamics of the sector set against the backdrop of patent expirations is hinting at the possibility of major consolidation within the sector for meeting the increasing demand and overcoming existing challenges. Collaborative initiatives such as JVs, M&As and other forms of integration are being undertaken by domestic players to diversify and enhance their business proposition along with improving their chances of being accepted globally.

Opportunities⁰⁸

Vision to be the global pharma manufacturing hub

With a combination of its inherent strengths, attractive value proposition and increasing government support, the country aspires to be the 'Pharmacy of the world'. Additionally, with the government recognising the importance and relevance of health for all and making the right investments to drive growth and innovation, the pharmaceutical sector is set to scale greater heights.

Establishing a foothold the U.S. market

Several developed markets, specifically the U.S., continue to remain lucrative for domestic generic drug makers. Additionally, in order to overcome challenges like price erosion, longer gestation period for product approvals, etc. domestic companies with considerable amount of resources are considering brand acquisition as a viable market entry strategy for firms that are looking at establishing their footprint in the U.S.

Moving towards difficult-to-manufacture products

Domestic companies are seen moving up the value chain to counteract the stiff competition and increasingly focussing on niche areas such as oncology, hormones, etc.

Emerging markets' biopharmaceutical's opportunity

Tapping emerging markets via the biopharmaceuticals proposition is also a way forward. South America, specifically Brazil and Argentina, are being considered lucrative markets. India's cost arbitrage together with appropriate collaboration and acquisition decisions is likely to help make a headway in this area.

Increasing focus on R&D via use of technology

The sector is now realising the vitality and utility of big data. The adoption of effective IT tools and resultant changes in the business models of companies are likely to enhance the storage, maintenance and analysis of data in different function areas, further empowering R&D capabilities.

Increasing the spending capacity of individuals

The Union Budget 2015-16 saw greater legroom being provided to the citizens to spend on health. This is likely to further provide a boost to the demand for pharmaceutical products.

Useful web links

- **Department of Pharmaceuticals:**
<http://pharmaceuticals.gov.in/>
- **Pharmaceutical Export Promotion Council of India:**
<http://www.pharmexcil.org>
- **Department of Industrial Policy and Promotion:**
<http://dipp.nic.in/>



⁰⁸. KPMG in India analysis, 2015



Ports

Sector overview

India's ports facilitate 95 per cent by volume and 70 per cent by value of India's external trade via maritime traffic.⁰¹

The country's coastline spans across 7,500 km with 13 major ports under the jurisdiction of the GoI, governed by the Major Port Trusts Act 1963, and about 200 non-major ports (of which only one third are operational) governed by the respective state maritime boards.⁰¹

The Indian ports handled over 1,000 MMT of traffic in FY15, growing at a

CAGR of approximately 5 per cent y-o-y from 762 MMT in FY09.⁰²

Major ports are suffering from capacity constraints, resulting in significant capacity addition at non-major ports. Further, private participants have a preference to invest in non-major ports as they are free to fix their own tariffs, while the tariffs for major are fixed by TAMP, thereby discouraging investments and capability enhancement in them.⁰³

The share of non-major ports have increased to about 45 per cent in total traffic handled in FY14 from 28 per cent in FY09.

Cargo traffic is expected to reach 1,758.3 MMT by 2017, from 933.7 MMT in 2013, growing at a CAGR of 17.14 per cent for the next three to four years.

Cargo capacity in India is expected to reach approximately 2,500 MMT by 2017, from 1,245.3 MMT in 2012.⁰²

Capacity for major ports in India

Ports	State	Year of incorporation	Type	Capacity* (upto Jan 2015)
East coast				
Kolkata/Haldia	West Bengal	1870	All weather - Riverine port	66.89
Paradip	Odisha	1966	All weather - Artificial lagoon port	118.80
Vizag	Andhra Pradesh	1933	All weather - Natural harbour	88.92
Chennai	Tamil Nadu	1875	All weather - Artificial harbour with wet docks	86.04
Tuticorin	Tamil Nadu	1974	All weather - Artificial deep sea harbour	42.06
Ennore	Tamil Nadu	2001	All weather - Artificial harbour	33
West coast				
Cochin	Kerala	1936	All weather - Natural harbour	49.66
New Mangalore	Karnataka	1974	All weather - Artificial lagoon port	77.77
Mormugao	Goa	1963	All weather - Open protected harbour	43.76
Mumbai	Maharashtra	1873	All weather - Natural harbour	44.53
JNPT	Maharashtra	1989	All weather - Tidal port	66.82
Kandla	Maharashtra	1952	All weather - Natural harbour	120.43

Source: Indian Ports Association (IPA), January 2015

Note: 1) * As on Jan 2015 in MMT 2) Kolkata and Haldia port are managed by same port trust

01. Ports, IBEF, January 2015

02. E-magazine, Indian Ports Association, January 2015

03. KPMG in India analysis, 2015

Number of non-major ports in the country

State	No. of non -major ports
Gujarat	41
Tamil Nadu	23
Maharashtra	53
Kerala	17
Karnataka	10
Andhra Pradesh	14
Odisha	2
Goa	5
Andaman and Nicobar Islands	23
Lakshadweep	10
Daman and Diu	2
Pondicherry	1
West Bengal	1
Total	202

Source: Gujarat Maritime Board, http://www.gmbports.org/assets/downloads/port_sector_outline_25122014.pdf, accessed 27 April, 2015;

Indian Ports Association, http://ipa.nic.in/state_ports.htm, accessed 27 April, 2015

Demand drivers⁰⁴

Capacity overruns at major ports, aided by a substantial increase in the cargo traffic of fertilisers, building material and coal, have resulted in significant investments in the development of non-major ports.

The export-import container market in India has grown at a CAGR of 12 per cent in the last four to five years. Other commodities such as POL, iron ore and coal have experienced eight to ten per cent growth during the same period.

The increasing containerisation level for erstwhile break-bulk commodities (e.g. steel, cement, rice and sugar) is expected to drive growth in container cargo traffic.

The development of DFC and the DMIC along the north west corridor is expected to drive the demand for logistics infrastructure.

The GoI's announcement to fix market-linked rates is expected to expedite the bidding for various PPP projects at major ports.

Key trends⁰⁵

PPP is expected to play an important role in the ports sector, particularly in the development of non-major ports. Private investment is expected to contribute 66 per cent and 98 per cent of total investments in major and non-major ports, respectively.

Over the next five years, it is expected that about USD8-10 billion may get invested in the sector, a growth of just 10-15 per cent over the last five years.

Between FY09 and FY14, cargo traffic at non-major ports increased at a CAGR of 16 per cent as compared to a CAGR of 1 per cent at major ports; consequently, the share of non-major ports increased from 28 per cent to 45 per cent during the same period.

Opportunities⁰⁶

For foreign companies investing in the Indian ports sector, 100 per cent FDI under automatic route is allowed for the following services:

- Captive facilities for port based industries.
- Leasing of equipment for port handling and leasing of floating crafts.
- Leasing of existing assets of ports.
- Construction and maintenance of assets such as container terminals bulk/break bulk/multi- purpose and specialised cargo berths, warehousing, CFS, storage facilities and tank farms, handling equipment, setting up of captive power plants, dry docking and ship repair facilities.
- Development of mega-ports with supportive, high potential surroundings that can derive the benefits of economies of scale.

Port development and management, EPC (port construction, dredging, etc.) and port-related services such as pilotage, towage and CFS.

The Maritime Agenda 2020 by the Ministry of Shipping lays focus on developing the maritime sector of India. It provides details on traffic projects, policy initiatives and action plan for the period 2010-2020. These include:⁰⁷

- Attaining a port capacity of about 3,200MT by 2020
- Investment of USD17.49 billion for major ports, with approximately 66 per cent through private investment and the remaining through budgetary allocation
- Utilisation of private funds to create and modernise infrastructure, and that of public funds to develop existing infrastructure including channel deepening and improving connectivity.

Useful web links

- **Department of Shipping:** <http://shipping.nic.in>
- **Indian Ports Association:** <http://www.ipa.nic.in>
- **Department of Industrial Policy and Promotion:** <http://dipp.nic.in/>

04. Crisil Research, May 2014

05. E-magazine, Indian Ports Association, January 2015; KPMG in India, analysis 2015

06. Ports, IBEF, January 2015

07. <http://www.ipa.nic.in/maritimeagenda.pdf>, 'MARITIME AGENDA 2010 - 2020', Indian Ports Association, January 2011



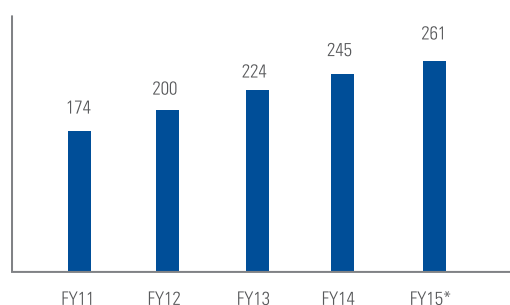
Power

Sector overview

India is the fourth largest producer of electricity and has the fifth largest installed power generation capacity in the world⁰¹.

As of Feb 2015, India's power generation capacity stands at 261 GW. Of this 261 GW, 70 per cent of the power generation capacity is thermal based, 16 per cent is hydro based, 12 per cent is renewable energy based, and about two per cent is based on nuclear energy⁰².

Installed power generation capacity (GW)



Source: CEA Report – Executive Summary February 2015; * data till February 2015

Demand drivers

At present there are 280 million people in the country without access to basic power. The new government has committed to provide access to grid connected power to the entire country by 2019⁰³.

With rapid urbanisation, rising population and high economic growth, the country is expected to witness huge growth in demand for power.

Key trends

From April 2000 to Jan 2015, total FDI inflows in the power sector amounted to USD9.5 billion⁰⁴.

Two UMPPs in Mundra, Gujarat and Sasan and Madhya Pradesh are operational, and the government plans to launch bidding process for four more UMPPs in the coming few months⁰⁵.

DDUGJY was launched in November 2014 to ensure 24x7 power supply: the scheme aims to strengthen and augment

sub-transmission and distribution infrastructure in rural areas⁰⁶.

IPDS was launched in Nov 2014 for strengthening of sub-transmission and distribution networks, metering of distribution transformers/feeders/consumers and IT enablement and strengthening of the distribution sector in the urban areas⁰⁶.

In the last few years many state electricity distribution companies (discoms) have raised their electricity tariffs. This is one of the key steps taken towards reducing the debt burden of these discoms.

Opportunities

Gol plans to augment power generation capacity by 88.5 GW and 100 GW during the twelfth five year plan (2012-17) and thirteenth five year plan (2017-22), respectively⁰⁷.

The Government of India plans to build 100 smart cities in the country by 2022. Smart cities can offer advanced and modern power infrastructure such as smart grids, smart metres, etc⁰⁸.

The 'Make in India' campaign, promoted by the current government, seems to be encouraging global and Indian players to manufacture power related equipments in the country.

Transmission infrastructure in the country is old and inefficient, and most of the state governments and the central government aim to replace this with advance and efficient infrastructure.

Useful web links

- **Ministry of Power:** <http://powermin.nic.in>
- **Central Electricity Authority:** www.cea.nic.in
- **Central Electricity Regulatory Commission:** www.cercind.gov.in
- **Department of Industrial Policy and Promotion:** <http://dipp.nic.in>

01. BP Statistical Review of World Energy 2014

02. CEA report Executive Summary February 2015

03. Zee News accessed on 21 April 2015

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05. Government to invite bids for 4 UMPPs in 3-6 months: Piyush Goyal, power minister, EconomicTimes, PTI, 21 April 2015

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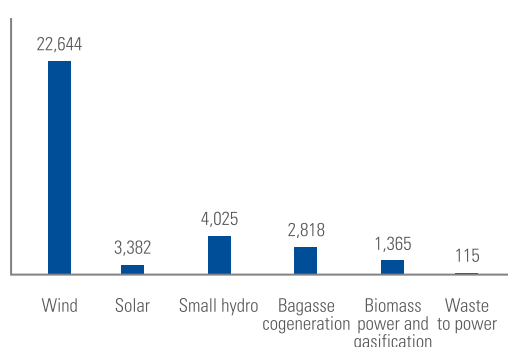
07. Indian Power Sector Analysis, IBEF, August 2014

08. Are India's smart cities too ambitious?, CNBC, 2015



Renewable energy

Grid interactive renewable-based power generation capacity (as of February 2015) (MW)



Source: <http://mnre.gov.in/schemes/grid-connected/>, MNRE Website, 23 April 2015

Sector overview

Renewable energy is power generated from sources such as; solar, wind, small hydro, biomass, and bagasse.

India's renewable based installed power generation capacity (excluding hydro) is sixth largest in the world⁰¹.

The renewable energy sector accounts for about 12 per cent of the total installed power generation capacity in India⁰². The total installed capacity of grid interactive renewable power reached 34.4 GW in February 2015 up from 13 GW in March 2009.⁰³

Demand drivers

With rising concerns over the availability of fuel such as coal and gas, the thermal power generation sector in the country is witnessing a standstill. And since India has huge renewable energy potential, the government, in its quest for energy security, is aggressively promoting development of renewable energy in the country.⁰³

Growing concerns over climate change and rising pollution levels have also led to rapid development of power generation from clean energy sources such as, solar and wind.

With stricter implementation of the renewable purchase obligation guidelines by the sector regulator, the private and government utilities are set to increase their demand and consumption of renewable energy based power.

Key trends

From April 2000 to January 2015, cumulative FDI inflow in non-conventional energy stood at USD3.5 billion⁰⁴.

Government missions such as JNNSM and NWEM have provided requisite momentum for developing power generation capacity from renewable energy sources. In the last one year, solar sector added about 751 MW of capacity while wind sector added 1,513 MW of power generation capacity⁰⁵.

Government is targeting 1, 75,000 MW of installed renewable energy capacity by 2022 in the country and has also created targets for sub-sectors such as solar, wind, biomass and small hydro⁰⁶.

Opportunities

There are huge development opportunities in solar and wind energy sectors. JNNSM targets 100 GW of installed solar energy capacity by 2022 while the current installed capacity stands at 3.4 GW. NWEM targets 60 GW of installed solar energy capacity by 2022 while the current installed capacity is about 22.6 GW⁰⁷.

The 'Make in India' campaign, promoted by the current government, seems to be encouraging Indian and international players to manufacture equipments related to production of renewable energy in the country.

With advancing technology and adoption of smart grid, integration of renewable energy with the existing grid has become smoother and efficient. This further encourages development of the renewable energy across the country since the electricity generated from plants located in far off regions can be transmitted to any place in the country.

Solar RPO target for power utilities, slated to increase from 0.25 per cent to 3 per cent by 2022, is providing further momentum to the growth of the sector⁰⁸.

Useful web links

- **Ministry of New and Renewable Energy:** www.mnre.gov.in
- **India Renewable Energy Development Agency:** www.ireda.gov.in
- **Centre for Wind Energy Technology:** www.cwet.tn.nic.in

01. 'Renewable 2014, Global Status Report' by REN21

02. CEA Report – Executive Summary February 2015

03. <http://www.mnre.gov.in/>, IBEF Report - Power Sector August 2014, accessed on 21 April 2015

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05. <http://mnre.gov.in/schemes/grid-connected/>, accessed on 23 April 2015

06. <http://pib.nic.in/newsite/mainpage.aspx>, accessed on 30 April 2015

07. <http://mnre.gov.in/mission-and-vision-2/achievements/>, accessed on 23 April 2015

08. <http://mnre.gov.in/information/renewable-energy-regulatory-framework/>, accessed on 23 April 2015



Retail

Sector overview⁰¹

The retail sector in India is emerging as one of the largest sectors in the economy. In 2013, the sector was valued at about USD490 billion and is expected to grow at a CAGR of 13 per cent to reach USD950 billion by 2018. The penetration of organised retail is still at a nascent stage (19 per cent in 2014), but it is expected to be at par with physical stores by 2020.

Demand drivers⁰²

Multiple drivers seem to be leading to strong growth in Indian retail through a consumption boom. These include:

- Significant growth in discretionary income and changing lifestyles of Indian consumers are accountable for driving strong demand.
- Easy credit availability with privileges like quick and speedy loans, loans over phones and increasing use of plastic money (credit cards) are factors that have facilitated easy payments, thus driving organised retail sales in India.
- Growing acceptance and usage of e-trailers by consumers due to convenience and secured financial transactions.

Key trends

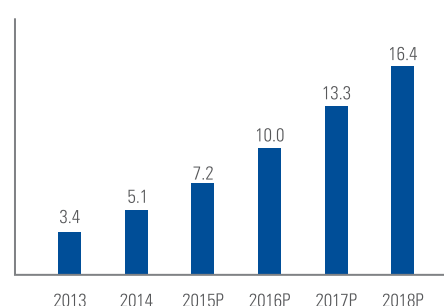
Consumers are increasingly looking for convenience and a superior shopping experience. Furthermore, increasing exposure to western consumption trends and growing media penetration has driven brand consciousness among Indian consumers.

Organised retail formats in India are evolving fast to cater to the changing needs of the Indian consumers. Value formats such as hypermarkets are gaining popularity, and this trend is likely to continue in the near future.

Indian retailers have been increasingly introducing private labels in categories such as food and grocery. Private labels are gaining acceptability among consumers due to their 'value-quality' proposition and profitability to retailers compared to other brand products.

Online retailing in India is likely to continue growing at a healthy rate in the near future, with demand growth coming from metropolitan areas as well as smaller cities. While in Tier-II and III cities, online retail seems to be addressing the demand arising due to the absence of physical stores and brands, in metropolitan areas, it increasingly offers a convenient shopping option to consumers.

E-tailing market size (USD billion)



Source: E-Marketer Report, 05 January 2015; KPMG in India analysis

Opportunities

FMCG players are focussing on the rural market as it constitutes over 33 per cent of the FMCG consumer base in India. With increasing investment in infrastructure, retailers may be able to increase their access to high-growth potential rural market. The recent omission of excise duty on branded apparel has encouraged retailers.

The organised Indian retail industry has begun experiencing an increased level of activity in the private label space. Growing at 27 per cent between 2012 and 2014, private label is likely to play a dominant role in organised retail.⁰³ There is significant headroom for private label to grow in India, where its share is only 4.5 per cent, compared to 17 per cent and 41 per cent in the U.S. and the U.K. markets respectively.⁰³

The revised liberal FDI policy (which allows 100 per cent FDI in single-brand retail and 51 per cent in multi-brand retail) provides an opportunity to foreign players to partner with the existing Indian players and leverage their existing presence as a platform to grow in the country.⁰⁴

Useful web links

- **Department of Industrial Policy and Promotion:**
<http://dipp.nic.in/>
- **IBEF reports:**
<http://www.ibef.org/download/Retail-March-2014.pdf>

01. 'Retailing in India', IBEF, March 2014

02. KPMG in India analysis, 2015

03. 'Global Private Label Report', Nielsen, November 2014

04. 'Sectoral Guidelines', India in Business, Preferred Investment Destination, p10

USD1 = INR62.5908



Roads and highways

Sector overview

Globally, India ranks second in terms of roads network spanning across a total of 4.7 million km. Roads continue to constitute a significant component of India's logistics industry, accounting for 60 per cent of total goods movement and 85 per cent of total passenger traffic in the country.

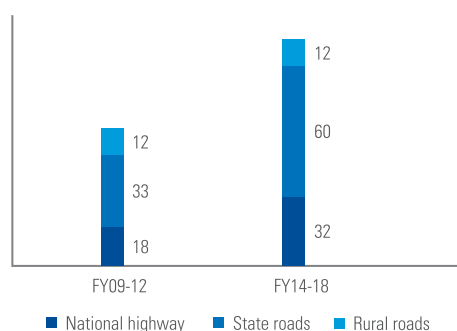
The Planning Commission of India has allocated about 20 per cent of the total investment of USD1 trillion envisaged during the twelfth five year plan (2012-17) to develop roads. The length of national highways is expected to reach 85,000 km by end of the twelfth five year plan in 2017 from 79,116 km in FY13 (1.7 per cent of total roads in India).⁰¹

The government further announced an investment of USD6.4 billion for roads in the 2015-16 Union Budget, including plans for completion of 1 lakh km of roads currently under construction plus sanctioning and building another 1 lakh km of road to connect all unconnected habitations.⁰² The focus will be on developing interstate highways/expressway segments.

The GoI aims to build 30 km of road per day from 2016, to develop 66,117 km of roads under various schemes such as the NHDP, SARDP-NE and LWE.⁰¹

The private sector is a key beneficiary of the increased spending on roads and highways as several projects are undertaken on a PPP basis. It is estimated that roads sector value could increase from USD6.9 billion in FY09 to USD19.2 billion by FY17.⁰¹

Investment in roads (USD billion)



Source: Roads IBEF, March 2014

01. Roads IBEF, January 2015

02. Post budget sectoral KPMG in India analysis, 2015

03. Roads IBEF, March 2014, <http://www.ibef.org/download/Roads-March-2014.pdf>, accessed April 27, 2015

04. KPMG in India analysis, 2015

Note: USD1 = INR62.5908 in FY15

Demand drivers

The GoI has announced several incentives such as declaring the road sector as an industry, providing 100 per cent tax exemptions in any consecutive ten years out of 20 years, duty free imports of certain identified construction plants and equipment, FDI of up to 100 per cent and increased concession periods (up to 30 years).

The completion of the National Highway Development Project (NHDP), which is aimed at developing 50,000 km of national highways by 2015 in seven phases with an investment of USD55.1 billion and modernisation of the road cargo transport community could create more demand in the road transport sector.⁰¹

Key trends⁰³

Increasing private sector participation

Government's policy to develop the road sector using PPP mechanism has attracted large number of private players. The private sector is expected to contribute 33 per cent of the total investment in the twelfth five year plan.⁰¹

Increase in spending

Estimated investments in the road sector during the eleventh five year plan (2007-12) vis-a-vis projected investments for the twelfth five year plan (2012-2017) indicate a significant jump of approximately 120 per cent.⁰¹

Renewed focus on infrastructure

The government expects the infrastructure sector to support its GDP growth in medium to long-term. Thus, it has allocated about USD1 trillion on infrastructures spending during FY13-17, with specific attention towards the road sector.⁰¹

New technologies

In sync with the growing demand for road connectivity, improving basic road infrastructure and adopting a superior technology are being pressed upon.

Opportunities⁰⁴

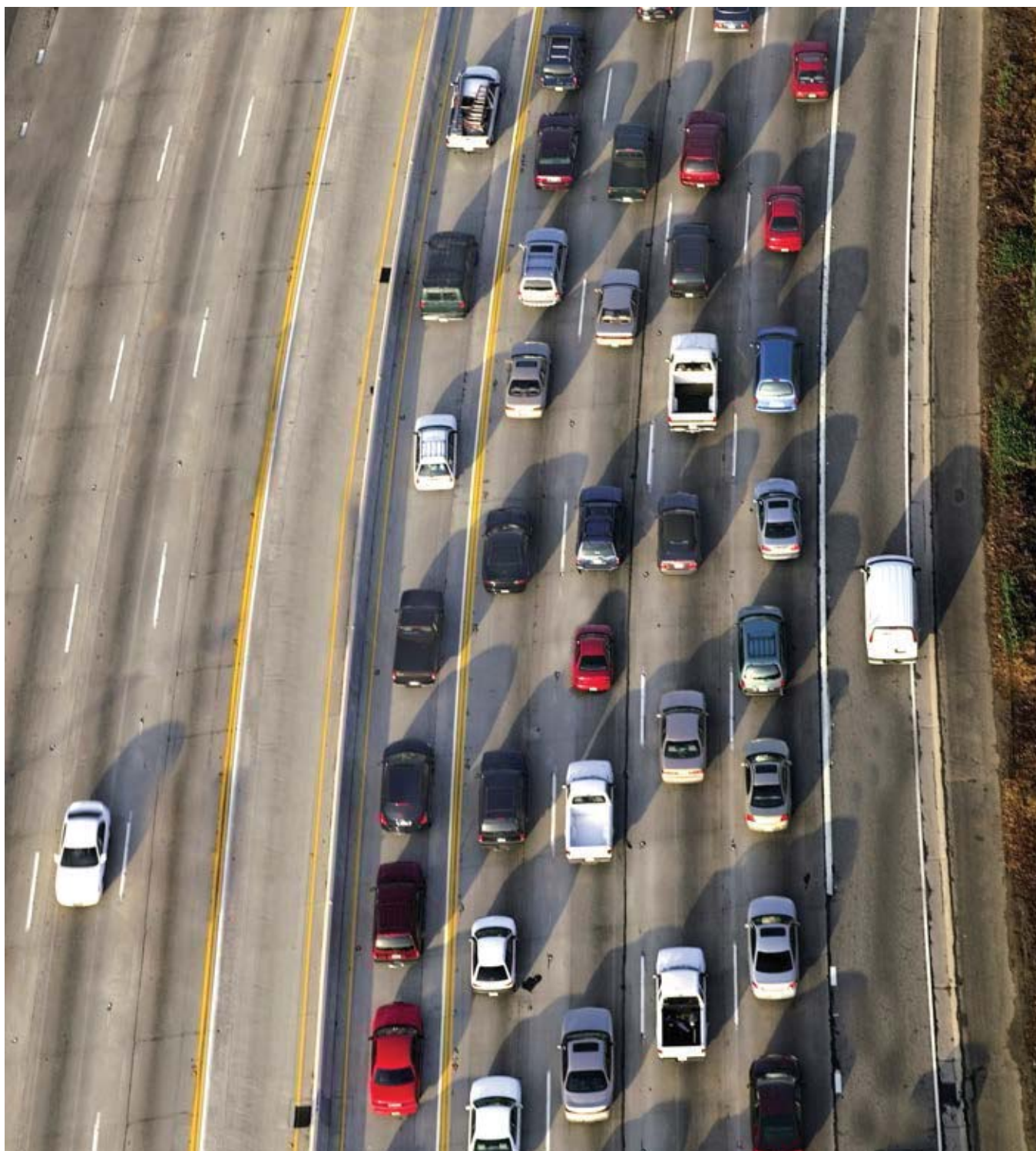
FDI up to 100 per cent under the automatic route is allowed for support services to road transport such as the operation of toll roads, highway bridges and vehicular tunnels. It also includes services such as cargo handling, construction and maintenance of roads, bridges, and construction and maintenance of roads and highways offered on BOT basis, including collection of toll.

The number of expressways and highways have increased; many roads have been widened; electronic toll collection is becoming increasingly common; the 'green channel' concept

is gaining ground, and interstate check posts are becoming automated. Other examples of key progressive measures include the development of the IRTEX, gradual fleet modernisation and consolidation of the trucking community. Immense growth opportunities in highway and expressway development are expected to offer new investment option to the private sector. Particularly, many of the projects under Phase III (approximately 9,100 km, USD19.41 billion) of the NHDP are expected to be awarded on a BOT basis during 2010 to 2015.⁰⁵

Useful web links

Department of Road Transport and Highways:
<http://morth.nic.in>



05. Roads IBEF, March 2014

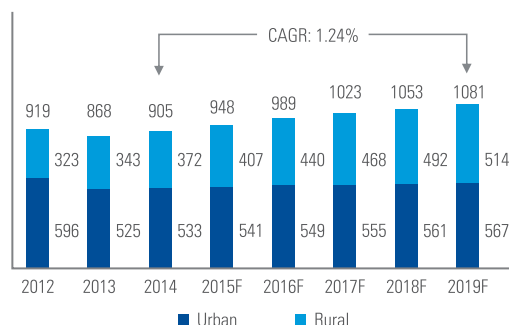
Telecom

Sector overview

Amidst the growing regulatory transparency, snowballing smartphone use, dawdling subscriber addition, the advent of OTT players and rising focus on enterprise segment and rural areas, the India telecom sector's journey has been eventful in the past few years.

The industry revenues touched USD4.2 billion in 2014 and is anticipated to reach USD5.2 billion by the end of 2016⁰¹. However, as a consequence of high debt acquired by the mobile operators and increasing investment on spectrum and other network capital expenditure; the profitability and margins have experienced a subdued growth over the last few years.

Urban, rural and total mobile subscribers (in million)



Source: TRAI quarterly subscription data, CRISIL Mobile Services Analyst Presentation August 2014

Subscriber landscape⁰²

- Urban subscriber growth to remain flat on account of near-saturation in urban areas
- Rural subscribers to be the key for next wave of growth in telecom services

The growth in the mobile subscriber base has been astounding. Originally, expected to reach 948 million by March 2015 (above figure), the mobile subscriber base has already surpassed 961 million connections as of 31 February 2015,⁰³ thus exceeding the expectations.

The growing consumption of digital content (including pictures, audios and videos) and social media is expected to drive the mobile internet growth. The impending launch of 4G

services is expected to further boost data consumption in the country.

Regardless of this, the overall teledensity continues to be abysmal at 76.6 vis-à-vis 46.6 in rural areas at the end of February 2015⁰¹.

Demand drivers

The measures around FDI, spectrum (sharing, trading, road map and charges) and M&A norms have aided in dispelling the regulatory uncertainties that were plaguing the sector earlier. This new found regulatory clarity seems to have facilitated the telecom service operators to plan out their strategies accordingly.

The rising smartphone penetration, availability of low cost, highly competitive tariff plans and emergence of OTT communication services have acted as catalysts to fuel demand for data services.

The drying up of subscriber addition in urban areas have diverted the focus of the operators to rural subscribers. The rising disposable income, smartphone penetration and targeted regional marketing initiatives are expected to drive the demand for basic communication services in the interiors and far-fetched areas of the country.

The telecom equipment market demand, according to TSDMA stood at USD9.1 billion in 2012-13 and is likely to cross USD13.6 billion by 2020⁰⁴, key reasons being expansion in rural areas, 3G and 4G rollout obligations and network upgrades.

Key trends⁰⁶

The key trends in the Indian telecom sector can be segregated based on the industry.

Telecom services operator

With their businesses being capital intensive in nature, the operators are moving towards cloud-based solutions to gain a control over the infrastructure costs. There also has been a shift to transformational solutions⁰⁵ such as from owning to shared infrastructure to reduce the overall costs.

To monetise their data investments, the operators are concentrating on 'app-centric' data plans. Unlimited access to social media services like messaging, music, video, etc. are some of the most popular data plans prevalent in India.

Gaining full control over their Indian operations is on the priority list of the foreign operators.

01. CRISIL, EBITDA margins expected to rise, returns to remain subdued in the medium term, August 2014
Note: USD1 = INR55 in FY13 and USD1 = INR60 in FY14 and onwards

02. KPMG in India analysis, 2015

03. Telecom subscription data, TRAI accessed on 27 February 2015

04. Over 90 per cent of telecom gear in India's Rs.50,000 crore market is imported, Business Standard, April 2014

05. Vodafone India selects Ericsson for prepaid charging transformation, Light Reading, August 2014

06. KPMG in India analysis based on, industry observations and developments, based on countless CXO interviews, press articles etc.

Infrastructure

The tower companies are expanding their reach to remote areas in line with operator's operational objectives of rural expansion.

The launch of 4G services and surge in mobile internet use is forcing the tower companies to upgrade their networks to meet the quality levels and accommodate the continuously rising data flow.

Devices

With 4G services around the corner, LTE enabled devices have become a top priority for telecom operators and device manufacturers alike. Both the stakeholders are collaborating to roll out an uninterrupted 4G experience.

The emergence of cost effective e-commerce platforms as an additional retail channel has device manufacturers moving away from classic brick-and-mortar structure.

The Indian smartphone market is seeing the growing presence of the local and Chinese manufacturers. Home grown brands are giving a tough competition to popular international brands for the market share⁰⁷.

Value added services

Emergence of OTT services has given rise to data users in the country.

The proposed framework to regulate these services is under consideration by the regulatory authority and has led to a new discussion on net neutrality, which is considered by many to be a threat to the start-up culture and potential infrastructure investment returns for telecom operators.

Opportunities⁰⁸

With urban markets getting saturated, it is imperative for operators in India to push for greater voice penetration in rural markets. In rural parts of India, teledensity stands at about 47 per cent⁰⁹, giving a huge headroom for subscriber growth.

RBI's plan to grant payment bank licenses will be an attractive revenue and cross-sell opportunity for the telecom operators.

The growing data consumption in non-metro circles and increasing demand for next generation networks are likely to fuel the network rollouts, thus presenting an opportunity for the telecom infrastructure industry.

The emergence of M2M communications is likely to add to the revenue of enterprise segment. The Indian M2M market is expected to grow at a CAGR of approximately 34 per cent during 2012-2016¹⁰. Additionally, the SMBs are demanding for the converged telecom solutions for their connectivity needs.

The new government's plan to develop 100 smart cities creates immense opportunities for the telecom operators and infrastructure service providers.

Useful web links

- **Ministry of Communication and Information Technology:** <http://deity.gov.in/>
- **Department of Telecommunications:** <http://www.dot.gov.in/>
- **Telecom Regulatory Authority of India:** <http://traf.gov.in/>
- **Cellular Operators Association of India:** <http://www.coai.com/>



07. India Smartphone Market Contracts in Q4 2014, Says IDC, IDC, February 2015

08. KPMG in India analysis based on, industry observations and developments, based on countless CXO interviews, press articles etc.

09. Telecom subscription data, TRAI accessed on 27 February 2015

10. Machine to Machine market in India 2012-2016, Technavio



Textile

Sector overview

The textile sector is the pillar of the Indian economy, with it being the second largest employer with 45 million people:⁰¹

- Currently estimated at USD108 billion, the industry's contribution towards India's GDP and IIP stands at 5 per cent and 14 per cent respectively.⁰²
- The country recorded a domestic consumption of 1,883 million square metres as of FY14 at a CAGR of 11.5 per cent for 2005-14.⁰³

According to UN Comtrade, India became the second largest exporter in FY13, exporting textiles worth USD40 billion, representing a share of 5.2 per cent in the global market.⁰³

The Indian textile industry is expected to grow to USD141 billion by 2021.⁰⁴

The Union Budget 2015 update indicates that:⁰⁵

- Overall budgetary allocation for textile sector has increased marginally by 2 per cent to USD675 million for 2015-16 as against revised estimates of USD660 million in the previous year.
- Allocation under the TUFS is at USD240 million from the revised estimate of USD294.2 million in 2014-15.

Demand drivers

Continued demand through exports is reflected in the fact that textile exports grew 14.7 per cent y-o-y from April to October 2013. The growth is attributed to the U.S. economy's accelerated growth and a recover in the GDP of some European nations. This demand is said to drive the order book of exporters in FY15.⁰⁶

India's favourable demography is set to drive domestic demand owing to increasing share of working women, urban population, and young people, and their rising income levels.

Key trends⁰⁷

The arrival of MMF has made manufacturers increase production and showcase products in international markets.

Several manufacturers have tapped new markets such as the Middle East, South America, Japan, Russia and Australia.

To manage working capital costs and reduce inventory price risk, many companies are using just-in-time inventories and job work models.

Opportunities

India is one of the few countries in the world that has developed all the levels of the textile value chain.

Gol has planned various initiatives:

- Skills training will be imparted to 1.5 million persons involved in the textile and handloom industry.⁰⁸
- Under the TUFS scheme, the cotton textile industry of India will receive margin money from the Ministry of Finance.
- Integrated Textile Parks are being created under the SITP scheme, aimed at providing quality infrastructure, 70 of which have been approved and 30 are functional.⁰⁹

Increased spurt of investments

The Gol allocated USD116.6 million in the next five year plan (2012 to 2017) for the development of technical textiles, which is expected to strengthen the database and standards for technical textiles in the near future.¹⁰

01. 'Textiles', <http://indiainbusiness.nic.in/newdesign/index.php>, accessed on 29 October, 2015

02. <http://www.ibef.org/industry/textiles.aspx>, 'Textile Industry in India', IBEF, September 2015

03. Emerging Markets Direct – Textile and Garment Industry, June 2014

04. <http://www.ibef.org/industry/textiles.aspx>, 'Textile Industry in India', IBEF, September 2015

05. ICRA Budget Analysis, February 2015

06. SKBKS Textile Industry report, April 2014

07. KPMG in India analysis, 2015

08. <http://www.texmin.nic.in/citizen-charter>, Citizens Charter, Ministry of Textiles

09. 'National Workshop to strengthen 'Make in India' in Textiles', Press Information Bureau, 09 April 2015

10. Technical Textiles – The Future of the Textile Industry, Confederation of Indian Textile Industry, May-June 2014



Sector overview

India's tourism sector (including hospitality) was valued at USD122.1 billion in 2013 and is expected to grow at a CAGR of 16.7 per cent to reach USD481.9 billion by 2022⁰¹, placing it among the high-growth industries of India.

India continues to be a favoured tourist destination for leisure as well as business travel.

Foreign Tourist Arrivals (FTAs) have grown at a CAGR of 5.9 per cent during 2008-14. In 2014, India had FTAs of 7.5 million, which is expected to increase further to 13.4 million by 2024.⁰¹

U.S., U.K., Bangladesh, Sri Lanka and Russia were the top five countries that contributed to India's FTAs in 2014.⁰²

FEEs have grown at a CAGR of 8.9 per cent over 2008-14. In 2014, India had FEEs of USD19.7 billion.⁰¹

The total contribution of the travel and tourism industry to the GDP was around USD116 billion (6.7 per cent of total GDP) in 2014.⁰³

The Indian hotel industry, being a direct beneficiary of the growth in the economy and the tourism industry, has also recorded strong growth over the past few years.

Demand drivers

The government has been focussing on an upgrade of physical infrastructure as well as tourism infrastructure which includes national highways to expressways, connecting major cities and towns in India. It has created integrated tourist circuits. Furthermore, new airports in various cities are expected to improve connectivity between major city centres in the country.

According to the UNWTO, India is expected to account for 50 million outbound tourists by 2020 and spends by outbound tourists are expected to reach USD28 billion.⁰⁴

The government has allowed 100 per cent FDI through the automatic route in the tourism and hotel sector. Furthermore, several initiatives by the Ministry of Tourism, such as the visit India year 2009 campaign, promotion of niche products like wellness tourism, and extensive road shows in partnerships with stakeholders in major overseas markets, have contributed to a positive growth in the recent past.

The government recently announced the introduction of Facility of Electronic Travel Authorisation (e-Visa) in a phased manner at nine airports in India to boost Indian tourism.

The visa-on-arrival facility has been implemented for 43 countries⁰⁵; e-Visa facility has also been initiated for some countries; visa-on-arrival will be offered to a total of 150 countries in stages⁰⁵.

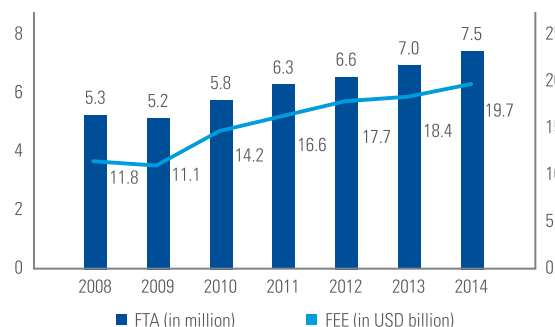
Key trends⁰⁶

The tourism and hotel sector received FDIs worth USD7.8 billion during April 2000 and January 2015.⁰⁷

According to WTTC estimates, capital investment in travel and tourism was USD33 billion in 2014 and is expected to rise by 9.3 per cent in 2015. Capital investment is expected to rise by 6.5 per cent annually to reach USD68.1 billion in 2025.⁰⁸

Domestic travel spending generated about 81 per cent of direct travel and tourism GDP in 2014. This is expected to grow by 7.2 per cent annually to USD180 billion in 2025, from USD90 billion in 2015.⁰⁸

India FTA and FEE



Source: 'Indian tourism statistics at a glance 2013', Ministry of Tourism, GoI; 'Performance of Tourism Sector during December 2014', Ministry of Tourism, GoI

Opportunities⁰⁶

Government expenditure on the tourism industry is rising from a low base providing scope for major improvements.

The luxury market has witnessed tremendous growth from USD3.7 billion in 2007 to an estimated USD10 billion in 2014 which have provided opportunities for players.⁰⁸

The ministry of tourism constantly promotes new tourism products such as rural tourism, cruise tourism, adventure

01. 'Indian tourism statistics at a glance', Ministry of Tourism, GoI

02. Top 15 source countries for FTAs in India during 2012 and 2013, Ministry of Tourism, GoI

03. Tourism action plan: unleashing India's potential 2014, http://www.wttc.org/pdf/India_Tourism_Plan.pdf, accessed April 2015

04. 2014 India market briefing, <https://www.tourismireland.com/Press-Releases/2014/January/Targeting-Indian-tourists-for-Ireland>, accessed April 2015

05. Union Budget 2014-15 highlights FDI statistics, DIP, May 2014

06. KPMG in India analysis, 2015

07. http://dipp.nic.in/English/Publications/FDI_Statistics/2015/India_FDI_January2015.pdf, FDI Statistics, DIP, January 2015

08. Travel and Tourism: economic impact analysis India, 2014, WTTC

tourism, medical tourism, wellness tourism, eco-tourism, and heliport tourism that are expected to increase the inflow of tourists in the country.

Promotion activities through television commercials and aggressive advertising campaigns (such as Incredible India) for India as well as its different states is expected to play a fundamental role in increasing the number of domestic and foreign arrivals.

India offers a diverse range of tourism hot spots. It has 28 world heritage sites and 25 bio-geographic zones, and the country's big coastline provides a number of attractive beaches.⁰⁹

Useful web links

- **Ministry of Tourism:** <http://tourism.gov.in/>
- **World Travel and Tourism Council:** <http://www.wttc.org/>
- **WTTC India:** <http://www.wttcii.org/>



09. 'Indian tourism statistics at a glance,' Ministry of Tourism, Gol

Note: Exchange rate used USD1 = INR62.5908

Glossary

AAI	Airport Authority of India	DIPP	Department Industrial Policy and Promotion
AAR	Authority for Advance Rulings	DPSU	Defence Public Sector Undertaking
ABLE	Association of Biotechnology Led Enterprises	DRP	Dispute Resolution Panel
ACD	Additional Customs Duty	DTAA	Double Tax Avoidance Agreement
AD Bank	Authorised Dealer Bank	DTH	Direct to Home
ADRs	American Depository Receipts	ECB	External Commercial Borrowings
AEs	Associated Enterprises	EEFC	Exchange Earner's Foreign Currency
AGM	Annual General Meeting	EPCG	Export Promotion Capital Goods
AIF	Alternative Investment Fund	ETA	Electronic Travel Authorisation
ALP	Arm's Length Price	eTV	Electronic Tourist Visa
AMT	Alternate Minimum Tax	FAME	Faster Adoption and Manufacturing of Electric and hybrid vehicles
AoA	Articles of Association	FCCBs	Foreign Currency Convertible Bonds
APA	Advance Pricing Agreement	FCEBs	Foreign Currency Exchangeable Bonds
AY	Assessment Year	FCVI	Foreign Venture Capital Funds
BCD	Basic Customs Duty	FDI	Foreign Direct Investment
BCM	Billion Cubic Metres	FEE	Foreign Exchange Earnings
BFSI	Banking, Financial Services and Insurance	FEMA	Foreign Exchange Management Act
BIRAC	Biotechnology Industry Research Assistance Council	FI	Foreign Investment
BO	Branch Office	FIIs	Foreign Institutional Investors
CAGR	Compound Annual Growth Rate	FIPB	Foreign Investment Promotion Board
CBDT	Central Board of Direct Taxes	FMCG	Fast Moving Consumer Goods
CENVAT	Central Value Added Tax	FMV	Fair Market Value
CGD	City Gas Distribution	FOB	Free on Board
CGST	Central Goods and Services Tax	FPI	Foreign Portfolio Investor
CIT(A)	Commissioner of Income-tax (Appeals)	FRO	Foreigners' Registration Office
CLB	Company Law Board	FRRO	Foreigners' Regional Registration Office
CPM	Cost Plus Method	FTA	Foreign Tourist Arrivals
CSR	Corporate Social Responsibility	FTP	Foreign Trade Policy
CST	Central Sales Tax	FTS	Fees for Technical Services
CTT	Commodity Transaction Tax	FY	Financial Year
CUP	Comparable Uncontrolled Price	GAAR	General Anti Avoidance Rules
DAC	Defence Acquisition Council	GDP	Gross Domestic Product
DBOD	Department of Banking Operations and Development	GDR	Global Depository Receipt
DDT	Dividend Distribution Tax	GIC	General Insurance Corporation
DDUGJY	Deendayal Upadhyaya Gram Jyoti Yojana	GJEPC	Gems and Jewellery Export Promotion Council
DFIA	Duty Free Import Authorisation Scheme	GoI	Government of India
DGP	Director General of Police	GR	Generic Requirement

GSI	Geological Survey of India	MAT	Minimum Alternate Tax
GST	Goods and Services Tax	MEIS	Merchandise Exports from India Scheme
GVA	Gross Value Added	MHA	Ministry of Home Affairs
GW	Giga watt	m-health	Mobile Health
HSN	Harmonised System of Nomenclature	MMBTU	Million Metric British Thermal Units
IBM	Indian Bureau of Mines	MMDR Act	Mines and Minerals (Development and Regulation) Amendment Act
ICDR	Issue of Capital and Disclosure Requirements	MMF	Man-made Fibers
IDR	Indian Depository Receipts	MMT	Million Metric Tones
IFSC	International Financial Services Centre	MMTPA	million metric tonne per annum
IIP	Index of Industrial Production	MoA	Memorandum of Association
INR	Indian Rupees	MoCA	Ministry of Civil Aviation
IPDS	Integrated Power Development Scheme	MoU	Memorandum of Understanding
IPO	Initial Public Offer	MRO	Maintenance, Repair and Overhaul
IPRs	Intellectual Property Rights	MT	Metric Ton
IRDA	Insurance Regulatory and Development Authority	MW	Megawatt
IT	Information Technology	N.A.	Not Applicable
IT-BPM	Information Technology-Business Process Management	NCD	Non-Communicable Diseases
ITeS	Information Technology Enabled Service	NDA	National Democratic Alliance
JNNSM	Jawaharlal Nehru National Solar Mission	NELP	New Exploration Licensing Policy
JV	Joint Venture	NGOs	Non-Governmental Organisations
KG	Kilogram	NHDP	National Highways Development Project
LBT	Local Body Tax	NKN	National Knowledge Network
LCC	Low Cost Carriers	NOFN	National Optic Fiber Network
LED	Light Emitting Diode	NRI	Non-resident Indian
LIC	Life Insurance Corporation	NWEM	National Wind Energy Mission
LLP	Limited Liability Partnership	OBUs	Offshore Banking Units
LMT	Lakh Metric Tonnes	OCI	Overseas Citizen of India
LNG	Liquefied Natural Gas	OEM	Original equipment manufacturer
LO	Liaison Office	OTT	Over the top
LTCG	Long Term Capital Gain	PCPIR	Petroleum, Chemicals and Petrochemicals Investment Region
LTE	Long Term Evolution	PE	Permanent Establishment
LWE	Left Wing Extremism	PIO	Person of Indian Origin
M&A	Merger and Acquisition	PIS	Precision Investment Services
M&E	Media and Entertainment	PO	Project Office
M2M	Machine to machine	POEM	Place of Effective Management
MAM	Most Appropriate Method	PPP	Public Private Partnership
MAP	Mutual Agreement Procedure	QFIs	Qualified Financial Investors

R&D	Research and Development	USFDA	United States Food and Drug Administration
RBI	Reserve Bank of India	UT	Union Territories
REIT	Real Estate Investment Trust	VAT	Value Added Tax
ROC	Registrar of Companies	VCC	Venture Capital Company
RPM	Resale Price Method	VCF	Venture Capital Fund
RPO	Renewable Purchase Obligation	VCU	Venture Capital Undertakings
RUSA	Rashtriya Uchchatar Shiksha Abhiyan	VFX	Visual Effects
SAD	Special Additional Duty		
SARDP-NE	Special Accelerated Road Development Programme in North East		
SDT	Specified Domestic Transactions		
SEBI	Securities and Exchange Board of India		
SEIS	Service Exports from India Scheme		
SEZ	Special Economic Zone		
SGST	State Goods and Services Tax		
SHRs	Safe Harbour Rules		
SITP	Scheme for Integrated Textile Parks		
SMAC	Social, Mobile, Analytics, Cloud		
SMBs	Small and Medium Business		
SME	Small and Medium Enterprises		
SPVs	Special Purpose Vehicles		
STCG	Short-term Capital Gain		
STT	Securities Transaction Tax		
TAMP	Tariff Authority for Major Ports		
The Act	Income-tax Act, 1961		
TIEAs	Tax Information Exchange Agreements		
TNMM	Transactional Net Margin Method		
TP	Transfer Pricing		
TRC	Tax Residency Certificate		
TRIPS	Trade-Related Aspects of Intellectual Property Rights		
TSDMA	Telecom Systems Design and Manufacturing		
TUFS	Technology Upgradation Fund Scheme		
U.S.	United States		
UMPP	Ultra Mega Power Project		
UNICEF	The United Nations Children's Fund		
UNWTO	United Nations World Tourism Organization		
USD	United States Dollar		

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