# INDIA INSIGHT

2 | 2015

MAIER VIDORNO

Visit our new Maier+Vidorno Website: **www.maiervidorno.com**


# "Now is the best time to go to India"

Interview with Raveesh Kumar
Consul General of India in Frankfurt

**What was your experience of the visit of the Indian Prime Minister Narendra Modi to Germany to inaugurate the Hannover Industrial Trade Fair 2015?**

The joint inauguration of the Hannover Industrial Fair, where India was the Partner Country, by Prime Minister Narendra Modi and Chancellor Angela Merkel was an important step towards the strengthening of the Indo-German economic partnership. Simultaneously, the visit was a combination of political, economic, social and cultural outreach to Germany, which is the industrial and technical powerhouse of Europe. The objective of Prime Minister's visit was to invite the German industry to invest in India under the initiative of 'Make in India'. The importance of 'Ease of doing business' with India was highlighted by the Prime Minister in his inaugural speech and in his discussions with top German CEOs during the visit. To mark the success of the event, Indian companies signed 11 MoUs with German firms in order to boost foreign fund inflows as well as promote domestic manufacturing.

**Has India changed since Narendra Modi became the Prime Minister of India?**

In my opinion, the new government has made rapid strides towards an inclusive growth for the people of India. It has been just over a year since the government under the leadership of Prime Minister Narendra Modi has been in power – a period that can be characterised by significant economic and political transformation. All the major economic parameters are looking bright. Inflation has declined by over 6 percentage points since late 2013. The current account deficit has declined from a peak of 6.7% of GDP (in Q3, 2012-13) to a more manageable level of 1.5%. The fiscal deficit is at 3.99% in 2014-15 and is projected to meet the medium-term target of 3% of GDP. After a phase of deceleration, real GDP has been growing at 7.3% for the period 2014-15 against 6.9% in 2013-14. Most of the international financial institutions including the World Bank, IMF, UNCTAD, OECD and others are predicting even faster growth in the coming years. Moody's has recently upgraded the rating of India as positive on account of our concrete steps in various economic segments. Several reform measures have been undertaken by this government in the areas of streamlining of taxation, FDI policy liberalisation, labour and land reforms.

The government has also launched social and financial inclusion schemes to ensure uniform and equitable growth. Jan Dhan Yojana, which is a comprehensive financial inclusion by opening of bank accounts of people who have been left out in the process so far, gained acceptance immediately. It is notable that on the inauguration day, a record 15 million bank accounts were opened under this scheme and so far 150 million have been covered under this scheme. Jan Dhan, Aadhar and Mobile (JAM) – for direct benefit transfer which will remove the middleman and ensure plugging of leakage of benefits.

**Modi recently stated that in the last year, "the world's perception about India has changed." Can you tell us how this might affect foreign investments in India?**

First, the perception changes and now the reality is changing. The Indian government's policy regime and a robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in the recent months such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom,

Consul General Raveesh Kumar in his Office in Frankfurt

power exchanges and stock exchanges. FDI into India through the direct approval route increased by 162% up to US$ 1.91 billion in the first ten months of the current fiscal year. FDI to India doubled to US$ 4.48 billion in January 2015, the highest inflow in the last 29 months. The foreign inflows have grown to touch US$ 25.52 billion during the April-January 2014-15, an increment of almost 36% from the corresponding period last fiscal. Any foreign investor looks

> PAGE 2

CONTENT

at three things before putting his money – stability of the system and assurance and value of returns. India satisfies all these conditions – it is the fastest growing economy in the world with a history of political stability.

**The 'Make in India' initiative seems to have been welcomed by the German industry. How exactly can German companies with the intention to invest in India benefit from this initiative?**

The 'Make in India' initiative comprises of 25 sectors that have been identified to encourage targeted investment inflow in India. Germany has carved a niche for itself in sectors like defence manufacturing, electronics, infrastructure, automotive technology, machinery, renewable energy, infrastructure, waste management and Indias dual education system. As they also form the core of the 'Make in India' initiative, during Hannover Messe, these areas were identified as potential sectors for further collaboration and these 25 sectors under 'Make in India' initiative have received arrays of incentives and relaxations for investors, information about which is readily available online on 'Make in India' website (www.make-inindia.org). Additionally, the government has also eased foreign entry into these sectors. Electronic portals such as eBiz have been set up by the government, which provide online access to core services that are required to obtain necessary clearances, licenses and complete mandatory tax registrations. eBiz also offers online access to a number of regulatory filing services that are needed to operate business/industrial units.

**In addition to the 'Make in India' initiative, Modi has announced an initiative for the creation of 100 Smart Cities in India – and Germany is set to partner in developing three smart cities. Can you tell us something more about the current state of affairs of that project?**

In January this year, Germany has agreed to develop three smart cities in India in the ambitious project of building 100 Smart Cities. A Joint Declaration of Intent on Sustainable Urban Development was signed during the Hannover Messe 2015 between the Ministry of Urban Development, Government of India and the German Federal Ministry of Environment, Nature Conservation, Building and Reactor Safety. It talks about cooperation in development of smart cities. The exact name and number of cities will be decided in due course.

**What is your personal advice for foreign companies that want to sell their products in India?**

I would like to emphasise that the overall mood and environment in India is business and investment friendly. We are aware about the concerns and we are taking steps which are geared to generate a favourable investment climate in the country. We need the support of foreign companies and my advice is very simple – India is changing. You will find an environment that is not only open but welcoming. Now is the time to go to India if you have not been there already.

**Is there something particular that consulting companies can do to support companies that want to expand to India?**

Consulting companies based in Germany are bridges or guides to German companies that want to invest in India and vice versa. Many times, companies that want to invest abroad do not have enough resources or expertise to make the correct decisions. Consulting companies that also have a presence in India are better placed to advise them by removing misperceptions about India and presenting them with a realistic picture to make their venture successful and fruitful. The task of the consulting companies is to do the necessary hand holding for potential investors desiring to invest in foreign countries. It is in the benefit of the respective government and the consultants to work closely to ensure smooth transactions in order to set base in the destination country. This also is the objective of the Indian government.

**You have been living in Germany since 2013. What is your favourite experience so far?**

I find my experience in Germany very stimulating and deeply satisfying, both personally and professionally. It is actually difficult to recall one favourite experience because there have been many but the few days which I spent with my family wandering through the black forest region has been a wonderful experience.

**You will be part of our business conference India Day in June in Cologne. What are your expectations for the companies' view on India investments?**

Last year when I addressed the India Day in Cologne, the present government had just assumed office. There were several unanswered questions and to some extent hesitation amongst the companies with regard to future investments in India. The last year has changed this perception. The overall mood for the industry is positive. The clear mandate of the current government is to encourage and ease manufacturing in India. Germany is the land of hidden champions and I expect that these companies will find it an appropriate time to consider India as their next manufacturing destination.

# What are the promising sectors for manufacturing in India?

Hermann Mühleck
Head of German Business Center India
Ernst & Young GmbH

Trade and investment activities in the High-Technology sector between India and Germany have historically been very high, with Germany being the third largest source for imports and sixth largest destination for exports globally over a sustainable period of time.

One reason for this is that both very small and very large companies in Germany are often entrepreneurially led. A huge number of these companies are market leaders in advanced technologies which have been responsible for numerous leading edge applications, even those not produced in Germany. India, on the other hand, is facing a significant trade deficit that is still expected to worsen. India's young population is growing faster and faster, bringing up to 15 million young people on the labor market every year. And this young and aspiring workforce needs jobs – which cannot be created by agricultural or services sectors only.

Increased collaboration in the High-Technology sector between Germany and India could be the solution for these challenges. Development and employment of the young Indian generation will boost disposable income and generate tremendous market opportunities. In order to unleash these growth opportunities, the Embassy of India in Berlin commissioned Ernst & Young (EY) to evaluate the current competitiveness of India's manufacturing sector and to offer advice regarding policy measures promoting FDI in India.

For this purpose, EY has conducted a study that evaluates the current status of India's investment landscape. The study – entitled 'Prospects for Indo-German Collaboration in High-Technology Manufacturing' – illustrates both the present status and the future potential of investment opportunities for German manufacturing companies in India. Furthermore, it identifies the most promising manufacturing sectors in India. This selection enables the Government of India to further promote Indo-German collaborations in a more focused and highly effective way.

According to an evaluation focusing on sector-specific key performance indicators, the most relevant 13 industry sectors from an Indo-German perspective are Electronic Systems Design and Manufacturing (ESDM), Photonics, IT, Automotive, Civil Aviation and Airports, Transportation Infrastructure, Water, Renewable Energy, Heavy Engineering, Biotechnology, Pharmaceuticals, Defense Manufacturing, and Space. Each sector profile considers the current status, expected growth, and sector-specific trends, taking into account the perception of 92 CEOs of High-Technology companies representing internationally operating companies and key opinion leaders. The information will help potential investors to understand all determining factors which are critical for making investment decisions. It allows benchmarking India against other BRICS countries with regard to the perception about key performance indicators – for example, market attractiveness, key obstacles, economic potential, and market readiness for High-Technology solutions.

Both governments have outlined the relevant regulations governing export controls and dual use of items. On this basis, an assessment has been derived identifying the sectors that have had an impact on the collaboration between Indian and German companies in the past. The study was jointly released by German Chancellor Angela Merkel and Indian Prime Minister Narendra Modi during the opening ceremony at the India pavilion at the Hannover Messe on April 13th, 2015 – as part of the 'Make in India' campaign.

The basis of the study is an analysis of customer preference data of 840 million adult individuals in India. The findings indicate that investors in the High-Technology sector are facing a highly fragmented and pluralistic consumer market. Driven by the availability of global communication platforms, Indian consumers today are well informed about High-Technology products, its features, availability, and pricing. This then leads to a market multiplicity that is not ultimately determined by the growth of the middle class but by the polarization of opposing expectations, even within small consumer segments. Its reflection is crucial for investment strategies, be it for market entry or product strategy. The key to succeed in this divergent environment is smart engineering, which leads to indigenous products for accelerated growth not only in India but also for the surrounding markets.


Source: Embassy of India, Berlin

**Chancellor Merkel and PM Modi jointly presenting the EY study 'Prospects for Indo-German Collaboration in High-Technology Manufacturing'**

Based on identified challenges, the responses of the targeted companies, and on activities the Government of India has started in the course of the 'Make in India' program, EY has developed instruments that could serve as a roadmap for governmental bodies to achieve increased attractiveness for investments and collaboration in High-Technology sectors in India.

The study has been conducted by EY Strategy and is available for download under www.de.ey.com/HighTech-India.

# State Subsidies in India

Bhavesh Thakkar
Partner
BDO India LLP

Today, India is considered to be one of the major forces in the global economy. Due to its large consumer market, rapid infrastructural developments, ample pool of talent, abundant natural resources, and low manufacturing costs, India trumps other countries in terms of being an ideal destination for business investments. The 'Make in India' campaign is being marketed in a big way. However, the jury is still out on its success – but the entire focus is on pushing manufacturing and employment in India, which was hitherto missing. Due to the fact that India is a federal economy and since it is deemed to become a global manufacturing hub, the overall contribution and role of the state governments must not be denied. Rather, the role of the state governments is predominant to attract investors to set up a manufacturing facility in their respective states. The last two years have been an era of competitive federalism wherein the state governments have been trying to outdo each other in attracting investments. Off late, this has become a very important indicator of the state's economic growth, with huge media coverage of the states attracting the maximum investment.

In the quest to attract investments there has been stiff competition among various states to offer subsidies and grants to industries being set up. Each state is trying to surpass the other in declaring industrial policies, offering maximum possible benefits. Industries planning to invest in India are required to be acquainted with these subsidies as these can significantly impact the cash flow and the payback period of their enterprise. There are innumerable instances wherein manufacturing units have failed to claim these substantial benefits just because of lack of awareness. The benefits range from 30% to 100% of the capital cost – and thus should not be ignored.

Though each state comes up with its own policy, there are certain common points in all state subsidies:

- Each state develops an industrial policy, generally spanning a period of five years; the applicable period may be different in each state
- The industrial policies are applicable to almost all manufacturing enterprises; in the recent past, even sector specific policies have been unveiled
- The states have been generally divided into zones, and for lesser developed zones the benefits are bigger; this is in line with practices followed worldwide; some states do not follow the zone-wise classification and offer uniform subsidies
- Subsidies are available to new units set up in the state but also to existing units which undergo expansion
- The percentage of benefits normally depends on the size of investment: It is important to note that the benefits for large projects with substantial capital or employment generation capabilities are kept flexible and normally decided by a special committee; this is to provide tailor-made subsidies to those units and help states compete with other states to formulate the benefits
- There is no difference between the benefits available to a foreign company and those available to an Indian domestic company

The benefits can be broadly summarised into two categories:

a) Cost Reductions: Benefits are in the form of reduction in payments for certain percentage of energy, stamp duty, water, or other utility bills that the manufacturing unit needs to pay; this helps the unit in reducing production costs and making the product competitive in the market.

b) Tax Reimbursements: Benefits are linked to the capital cost of the company; the benefit is capped as a certain percentage of the capital cost and the encashment of the benefit is in the form of tax reimbursements of various taxes paid to the state government.

There are two methods by which the tax reimbursements are given by the state:

1) Cash Back Method: Enterprise charges and collects sales tax from the customers. Sales tax collected net of input tax credit is paid to the state government. Certain percentage tax paid to the state government is reimbursed back to the enterprise.

2) Defferal Method: Enterprise charges and collects sales tax from the customers. Enterprise retains specified percentage of net tax for stipulated number of years as a soft loan. The retained amount is paid back to the state government after the end of stipulated number of years.

The majority of state governments currently follow the cash back method and the other states are also expected to phase out the deferral method and switch to the cash back method.

The benefits of state subsidies are tremendous and form an important part of the decision making process. Like in the state of Rajasthan or Madhya Pradesh, the benefit percentage is 100% of the investment. Subsidies cannot be the sole guiding factor in choosing the location of the enterprise, but since the benefits are indeed quite substantial, it certainly plays an important role when making such a decision. The moot point here is that the overall awareness of the scheme is pretty low and that manufacturing units set up in the recent past have not claimed these benefits. Investors should be informed about these possibilities so that they do not miss out on these substantial benefits.

## UPCOMING M+V EVENTS

| | |
|---|---|
| 07 July 2015 | Außenwirtschaftstag Hessen<br>Frankfurt - Germany |
| 14 July 2015 | HR Management India<br>Maastricht - The Netherlands |
| 15 July 2015 | HR Management India<br>Stuttgart - Germany |
| 23 July 2015 | Asia Pacific Forum<br>Nuremberg - Germany |
| 10 September 2015 | German-Indian Round Table<br>Cologne - Germany |

IMPRESSUM

Publisher: Maier+Vidorno GmbH · Siegburger Straße 231
50679 Köln · Germany · Tel. +49-221-8804080
Fax. +49-221-880408-11 · info@maiervidorno.com