



Doing Business in India



THE INDIA ADVANTAGE

There is ample reason for India's viability as a destination for foreign investment. Strong and positive macroeconomic indicators, higher disposable incomes, emerging middle class, low cost competitive workforce, investment friendly policies and progressive reform process all contribute towards India being an appropriate choice for investors.

The Indian Government is committed in its efforts to maintain the 8 plus growth rate and provide a conducive policy environment to business enterprises, both public and private, to invest and grow their business in the country. To this end, the Government has liberalized the foreign investment regime substantially over the last decade. Today, foreign direct investment is allowed in almost all sectors barring a few sensitive areas such as defence. Further, FDI is allowed in most of the sectors under the automatic route, except a few, where approval from the Foreign Investment Promotion Board is required.

In addition to FDI, Foreign Institutional Investment (FII) is also flowing into India.

Advantage India

- Progressive movement towards delicensing and deregulation.
- India is the world's largest democracy.
- Large pool of young skilled labour force, cost effective production facilities, large domestic market.
- Capacity upgradation in infrastructure, industrial base and intellectual capital.
- Progressive tax reforms.
- Progressive opening of the economy to FDI.
- Portfolio investment regime liberalized.
- Liberal policy on technology collaboration.

- Investor friendly policies.
- Acceleration of the privatization process and restructuring of public enterprises.
- Good network of research and development.
- Economic and political stability.

India as a Manufacturing Hub

Over the past few years, a manufacturing revolution has been underway in the Indian economy, spurred on by the increasing presence of multinationals, scaling up of operations by the domestic companies and expanding domestic market. India's manufacturing base, which is the fourth-largest among emerging economies, is among the fastest growing and has seen more investments as a proportion of GDP than any country except China.

India's vast domestic market and availability of low-cost workers with advanced technical skills has been instrumental in attracting an expanding number of multinationals who are setting up their manufacturing bases in the country.

The sheer size of the Indian market has obvious appeal. The rapid growth of the Indian economy is likely to make India the fifth largest consumer market in the world by 2025 from twelfth in 2005, says a study by McKinsey Global Institute. Aggregate Indian consumer spending is likewise estimated to more than quadruple to approximately US\$ 1.5 trillion by 2025, on the back of a ten-fold increase in middle class population and three-fold jump in household income.

India also offers abundant engineering and technical manpower, producing annually about 300,000 graduate engineers. Significantly, the technical workforce is set to cross the two-million mark this year, with the march from one million to two million happening in just about three years.



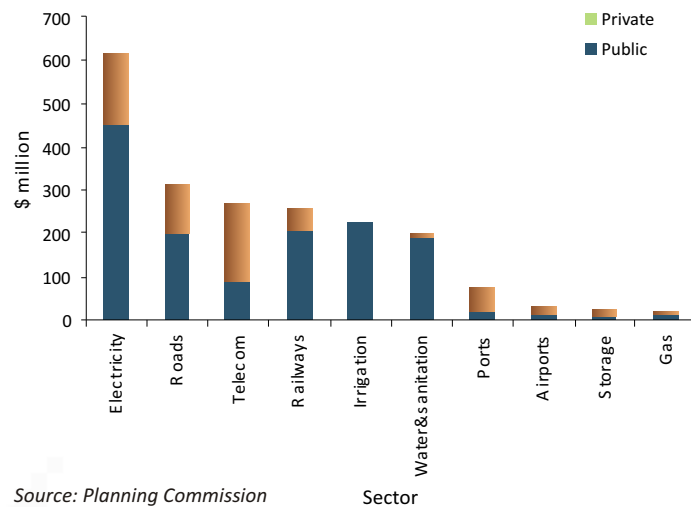


Service Sector

Service Sector in India today accounts for more than half of India's GDP, and India has skills across a range of sub-sectors. The various sectors that combine together to constitute service industry in India are:

- Trade
- Railways
- Communication (Post, Telecom)
- Insurance
- Business Services
- Personal
- Community Services
- Hotels and Restaurants
- Other Transport & Storage
- Banking
- Dwellings, Real Estate
- Public Administration; Defence Services
- Other Services

Required investment estimated by Committee on Infrastructure



Source: Planning Commission

Infrastructure Segment

India is on a development path for more infrastructure facilities on an urgent basis. The expected investment required in infrastructure over the next five years as per the Planning Commission is as follows:

Indian Markets

Over 300 million Indians (63 million households) are expected to have a household income of over US\$6,000 by 2015 (over US\$30,000 in PPP terms). India is experiencing a rapid growth in consumer spending. The economic reforms since the early nineties have unleashed a new entrepreneurial spirit creating a vibrant economy supported by rising per capita income. Fast-growing disposable incomes, increased availability and use of consumer finance and credit cards complement the keenness of the average Indian to adapt to and assimilate global trends. This has led to the creation of a rapidly growing consumer base and one of the world's largest markets for manufactured goods and services.

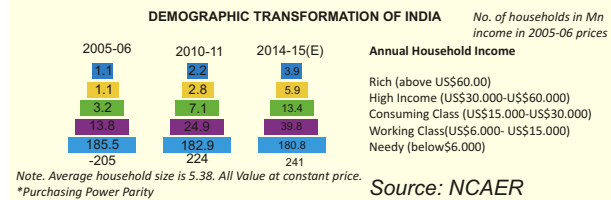
Growth in key sectors like infrastructure, services and manufacturing continues at about 10-12% p.a.

The market for basic goods such as groceries and textiles is already large, driven by the demands of an enormous population. Markets for other products are equally large and growing rapidly.

- Almost 500 million telephone subscribers, growing at over 14 million each month
- Over 8 million TV sets and 4 million refrigerators are sold annually and expected to grow at 20% p.a.
- Total production of vehicles has crossed 11 million in 2006-07, up from 8.6 million in 2004-05. In 1998-99, this was only 4.2 million.



By 2014-15, over 63 million households are expected to have an annual income of over US\$ 6,000 per annum [US\$ 30,000PPP' terms]



Source: NCAER



Versatile & Skilled Manpower

An unparalleled resource of an educated, hard-working, skilled and ambitious workforce is the hallmark of India's human capital.

That this workforce is also one of the youngest adds to India's attractiveness as an investment destination. Of the BRIC countries, India is projected to stay the youngest with its working-age population estimated to rise to 70% of the total demographic by 2030 - the largest in the world. India will see 70 million new entrants to its workforce over the next 5 years.

English is the language of business in India and the large English-speaking workforce is a benefit to investors and employers. In fact, the number of Indians who know English is more than the population of the USA. India's diverse cultural heritage puts its citizens at ease with people from other cultures and vice versa.

With over 380 universities, 11,200 colleges and 1,500 research institutions, India has the second largest pool of scientists and engineers in the world. Over 2.5 million graduates are added to the workforce every year, including 300,000 engineers and 150,000 IT professionals.

Robust Legal and Business Support Systems

India is a free-market democracy with a robust, well-developed legal and administrative system. The Indian legal system has been derived originally from that of the United Kingdom and is at par with that of any developed economy.

Accounting standards in India are similar to those followed internationally. Many Indian companies are listed on the NYSE and NASDAQ and report their results under US Generally Accepted Accounting Principles (GAAP).

India has a long history of entrepreneurship, private enterprise and market economics that dates back to the 19th century. In fact, the Bombay Stock Exchange (BSE) was set up in 1875.

The original Indian Companies Act governing the incorporation and operation of limited liability companies dates back to 1882, though it has been extensively updated thereafter.

As a result of the pro-business environment, Indian companies have investments in most sectors of the economy spanning infrastructure, manufacturing and services. Several Indian companies conduct their business on a global scale and have worldwide operations. These, along with numerous companies from the small and medium enterprise (SME) sector offer considerable scope for joint ventures, collaborations and partnerships.

India has well-developed support services for business and industry with professional audit and accounting firms (some are affiliated with international accounting firms) and qualified corporate law practitioners. Major international advertising companies, investment banks and consulting firms are also well-represented in India.



FOREIGN DIRECT INVESTMENT

India has been ranked at the third place in global foreign direct investments in 2008, despite the economic meltdown, and will continue to remain among the top five attractive destinations for international investors during the next two years, according to United Nations Conference on Trade and Development (UNCTAD) report on world investment prospects titled, 'World Investment Prospects Survey 2009-2011'. FDI equity inflows amounting to US\$ 10.5 billion were received during April-July 2009 marking about 8% increase over the same period last year.

Improving global sentiment and an increasingly conducive environment in India are facilitating foreign investors' role in the country currently. Several other factors being attributed to the revival in foreign direct investments (FDI) in the country include liberal investment policies and reforms, innovative and technologically advanced products being manufactured in India and low cost and effective solutions.



To bolster higher overseas investment into cash-strapped micro and small enterprises (MSEs), the government has liberalised the FDI norms for the sector replacing the current 24 per cent ceiling on foreign holding with sectoral caps. These industries will now be guided like other large enterprises as far as FDI is concerned.

The top sectors attracting highest Foreign Direct Investment inflows into the country are electrical equipments, services sector (financial and non financial), telecommunications, transportation industry, fuels, chemicals, construction activities, drugs and pharmaceuticals, food processing, cement and gypsum products. Huge investment potential exists in the upcoming Knowledge Process Outsourcing (KPO) sector and the real estate industry.

Foreign Direct Investment Policy

Foreign Direct Investment in India is allowed on automatic route in almost all sectors except following:

- Proposals that require an industrial licence and cases where foreign investment is more than 24% in the equity capital of units manufacturing items reserved for the small-scale industries. 21 items are now so reserved for production by the small sector.
- Proposals in which the foreign collaborator has a previous venture or tie-up in India.
- Proposals relating to acquisition of shares in an existing Indian company in favour of a Foreign/Non-Resident Indian (NRI) or Overseas Corporate Body (OCB) investor; and
- Proposals falling outside notified sectoral policy or caps or under sectors in which FDI is not permitted and/or whenever any investor chooses to make an application to the Foreign Investment Promotion Board and not to avail of the automatic route.

Investment Facilitation Agencies

Foreign Investment Promotion Board (FIPB)

The FIPB is a specially empowered board set up specifically for expediting the approval process for foreign investment proposals. There are no prescribed application forms for applying to FIPB, except in the case of purely technical collaborations.

For more details, please visit the website at:
www.finmin.nic.in/the_ministry/dept_eco_affairs/fipb/fipb_index.htm

Foreign Investment Implementation Authority (FIIA)

FIIA facilitates quick translation of FDI approval and implementation. The organisation also provides a proactive one-stop after-care service to foreign investors by helping them obtain the necessary approvals, sort out operational problems and meet various government agencies to find solutions to problems and maximise opportunities through the partnership approach.

For more details, please visit website at:
http://dipp.gov.in/fiia_dipp.htm

Investment Commission (IC)

The Investment Commission advises the Government of India on changes in policy and procedures that will enhance investment in India, recommends projects and investment proposals that should be fast tracked/mentored and promotes India as an investment destination.

Website: www.investmentcommission.in

Secretariat for Industrial Assistance (SIA)

The SIA, functioning with the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, acts as a gateway





to industrial investment in India. It provides a single-window clearance for entrepreneurial assistance and facilitates the processing of investors' applications requiring government approval.

Website: <http://dipp.gov.in>

India Brand Equity Foundation (IBEF)

IBEF collects, collates and disseminates comprehensive information on India. www.ibef.org has been developed as a single-window resource for in-depth information and insight on India. IBEF also produces a wide range of well researched publications focused on India's economic and business advantages.

Website: www.ibef.org

Procedure under Automatic Route

FDI in sectors / activities to the extent permitted under automatic route does not require any prior approval either by the Government or RBI. The investors are only required to notify the regional office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors.

Procedure under Government Approval

FDI in activities not covered under the automatic route, requires prior Government approval and is considered by the Foreign Investment Promotion Board (FIPB).

For details on sectoral FDI caps, please see www.dipp.gov.in

Approvals of composite proposals involving foreign investment / foreign technical collaboration are also granted on the recommendations of the FIPB. Application for all FDI cases, except

non- resident Indian (NRI) investments and 100% export oriented units (EOU), should be submitted to the FIPB unit , Department of Economic Affairs (DEA), Ministry of Finance. Application for NRI and 100% EOU cases should be presented to SIA in Department Industrial Policy and promotion. Applications can also be submitted with Indian missions abroad who forward them to the Department of Economic Affairs for further processing. Application can be made in form FC- IL , which can be downloaded from www.dipp.gov.in. Plain paper applications carrying all relevant details are also accepted. No fee is payable.

Sectors Where FDI is Prohibited

- Gambling and Betting
- Lottery business
- Atomic Energy
- Retail Trading except in single-brand outlets up to 51%





A Non-Profit Joint Venture Company 'Invest India' Formed Between The Government and Private Sector

In September 2009, the Government of India formed a non-profit company "Invest India", as a joint venture between the Department of Industrial Policy & Promotion, Federation of Indian Chambers of Commerce and Industry (FICCI) and the State Governments, for promotion of FDI into the country.

The company will be responsible for promoting foreign investments into the country in a more focused, comprehensive and structured manner. It will assist the Government in its efforts towards projecting India as an attractive investment destination for foreign investors and facilitating them in identifying and realizing investment opportunities in India. The unique feature of this company is the partnership between the private sector organization and the Government of India and the State Government(s).

For more details, please visit: www.commerce.nic.in

4. The incentive available under Focus Product Scheme (FPS) has been raised from 1.25% to 2%.
5. A large number of products from various sectors have been included for benefits under FPS. These include engineering products, plastic products, jute and sisal products, technical textiles, green technology products, project goods, vegetable textiles and certain electronic items.
6. In an endeavour to make India a diamond international trading hub, it is planned to establish a "Diamond Bourse".
7. The policy is committed to support the growth of project exports. A high level coordination committee is being established in the Department of Commerce to facilitate the export of manufactured goods / project exports creating synergies in the line of credit extended through EXIM Bank for new and emerging markets.

For more details, please visit: www.commerce.nic.in



Foreign Trade Policy 2009-14

The Government of India announced a new Foreign Trade Policy in August 2009 for the period 2009-14, which provides higher support for market and product diversification. Highlights of the Policy are as follows:

1. Incentive schemes have been expanded by way of addition of new products and markets.
2. Twenty six new markets have been added under Focus Market Scheme. These include 16 new markets in Latin America and 10 in Asia-Oceania.
3. The incentive available under Focus Market Scheme (FMS) has been raised from 2.5% to 3%.

