

India – An Update

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ASA & Associates

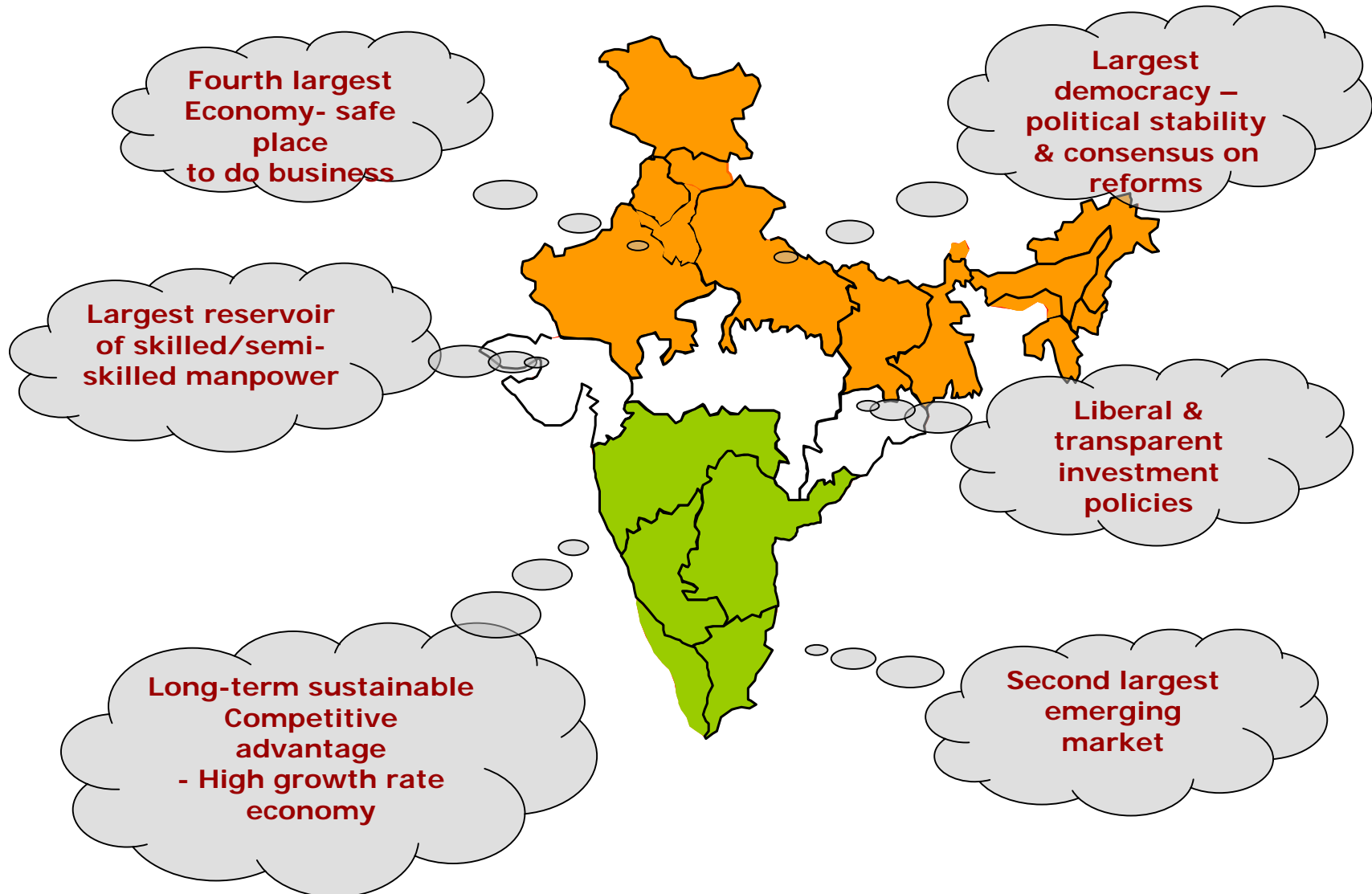


Outline

Session I

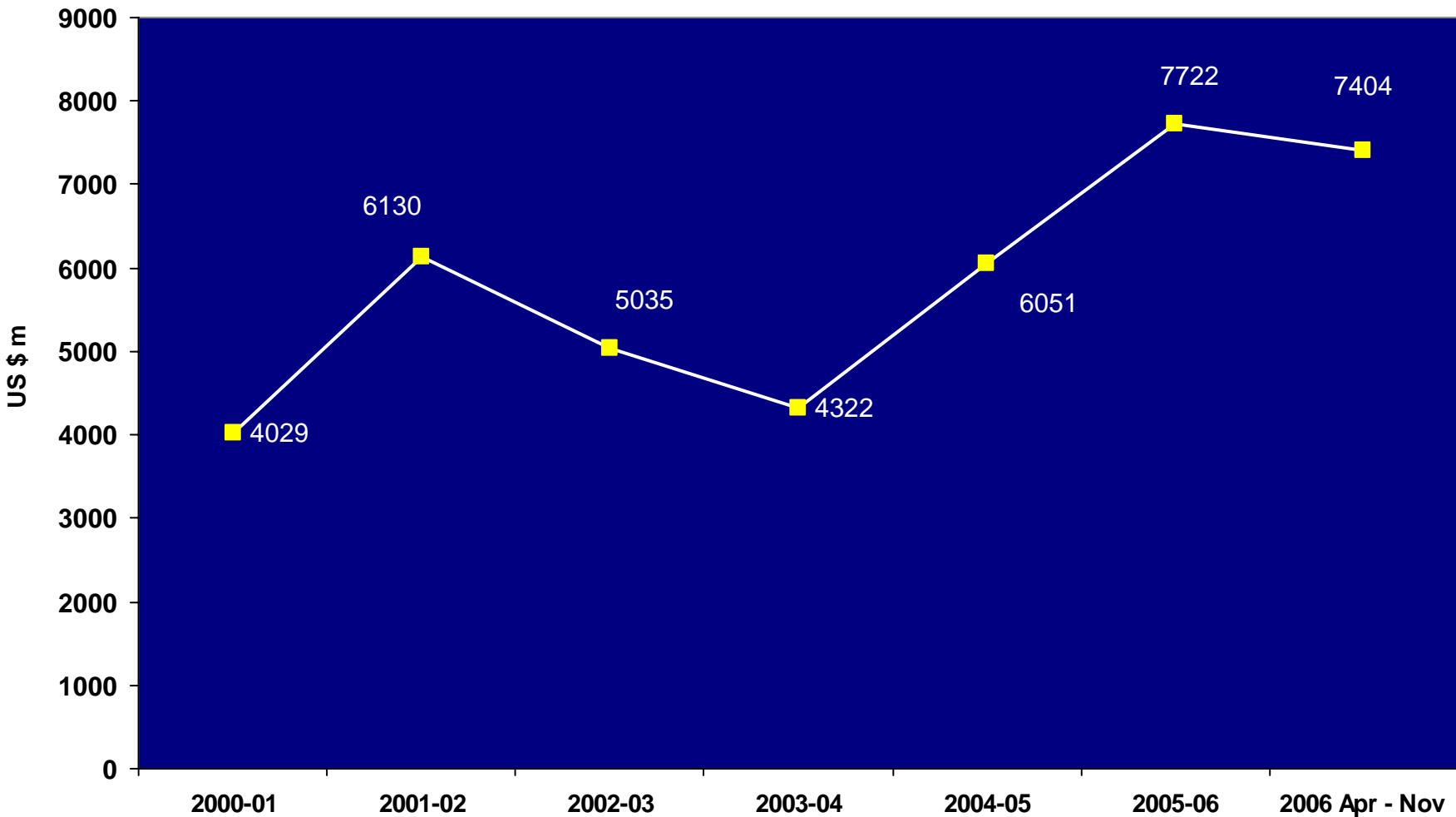
- ❑ Economic Indicators
- ❑ India – Japan Investment Relations
- ❑ Major Growth Sectors
- ❑ Overall Growth Drivers

India – Land of Opportunities



Economic Indicators - India

FDI – Robust Growth



Economic Indicators - India

Services dominate GDP today

Composition of GDP 2005	Rs trillion	Per cent
Industry	7.8	24
Trade, hotels and transport	8.4	26
Finance and real estate	4.4	14
Government	4.6	14
Agriculture	7.0	22
GDP	32.3	100

INDIA – JAPAN INVESTMENT RELATIONS

Economic Indicators – India & Japan

Foreign Direct Investment – Inflows from Japan

	2006	2007 <i>(January-September)</i>
Inflows <i>(in USD)</i>	5.9 billion	13.8 billion

Share of top investing countries FDI

(Financial year-wise):

Amount Rupees in crore (US\$ in million)

Ranks	Country	2004-05 (April- March)	2005-06 (April- March)	2006-07 (April- March)	2007-08 (April- Oct. 2007)	<u>Cumulative Inflows</u> (from April. 2000 to Oct.. 2007)	<u>%age with total Inflows</u> (in terms of rupees)
1.	Mauritius	5,141 (1,129)	11,441 (2,570)	28,759 (6,363)	16,037 (3,942)	81,927 (18,481)	44.25
2.	U.S.A.	3,055 (669)	2,210 (502)	3,861 (856)	1,875 (458)	17,456 (3,902)	9.43
3.	U.K.	458 (101)	1,164 (266)	8,389 (1,878)	823 (203)	15,197 (3,390)	8.21
4.	Netherlands	1,217 (267)	340 (76)	2,905 (644)	874 (214)	10,016 (2,214)	5.41
5.	Singapore	822 (184)	1,218 (275)	2,662 (578)	3,718 (925)	9,524 (2,209)	4.14
6.	Japan	575 (126)	925 (208)	382 (85)	2,436 (588)	8,436 (1,899)	4.56
7.	Germany	663 (145)	1,345 (303)	540 (120)	1,096 (268)	5,760 (1,298)	3.11
8.	France	537 (117)	82 (18)	528 (117)	187 (46)	2,988 (661)	1.61
9.	Switzerland	353 (77)	426 (96)	257 (56)	845 (207)	2,776 (629)	1.50
10.	Cyprus	12 (3)	310 (70)	266 (58)	1,707 (411)	2,390 (562)	1.29
TOTAL FDI INFLOWS *		17,138 (3,754)	24,613 (5,546)	70,630 (15,726)	37,745 (9,277)	209,182 (47,206)	-

Note: *Includes inflows under NRI Schemes of RBI, stock swapped and advances pending for issue of shares

Economic Indicators – India & Japan

India – Japan Investment Relations ~ Some facts

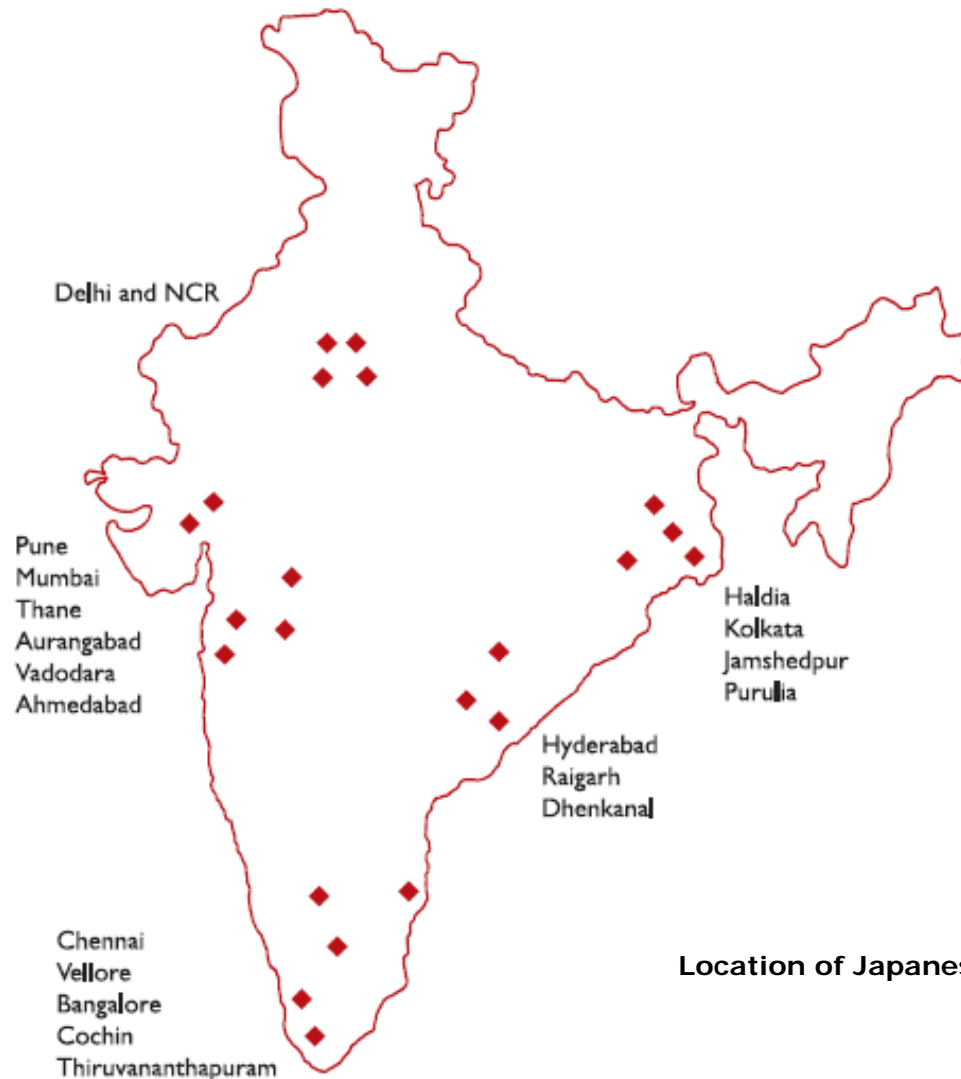
- ❑ Top Sectors ~ Transportation (55%), Electrical Equipment (7%)
- ❑ About 350 Japanese companies in India
- ❑ Japan Global Investments
 - USD 31 billion in 2004
 - USD 10 billion in East Asia
- ❑ Japan Cell in various Government Agencies

Economic Indicators – India & Japan

Japanese FDI Projects over 2005-2007

Company Name	FDI (USD million)	Description
Maruti Udyog Limited	699	New factory for car production & diesel engine plant
Mitsubishi Chemicals	364	Increasing capacity
Toyota Motor Corporation	128	Capacity expansion
Honda	214	Capacity expansion and building new factory

Japanese Investment in India



Location of Japanese companies in India

MAJOR GROWTH SECTORS

Major Growth Sectors

- ❑ Infrastructure
- ❑ Healthcare
- ❑ Auto components
- ❑ Food processing
- ❑ Retail

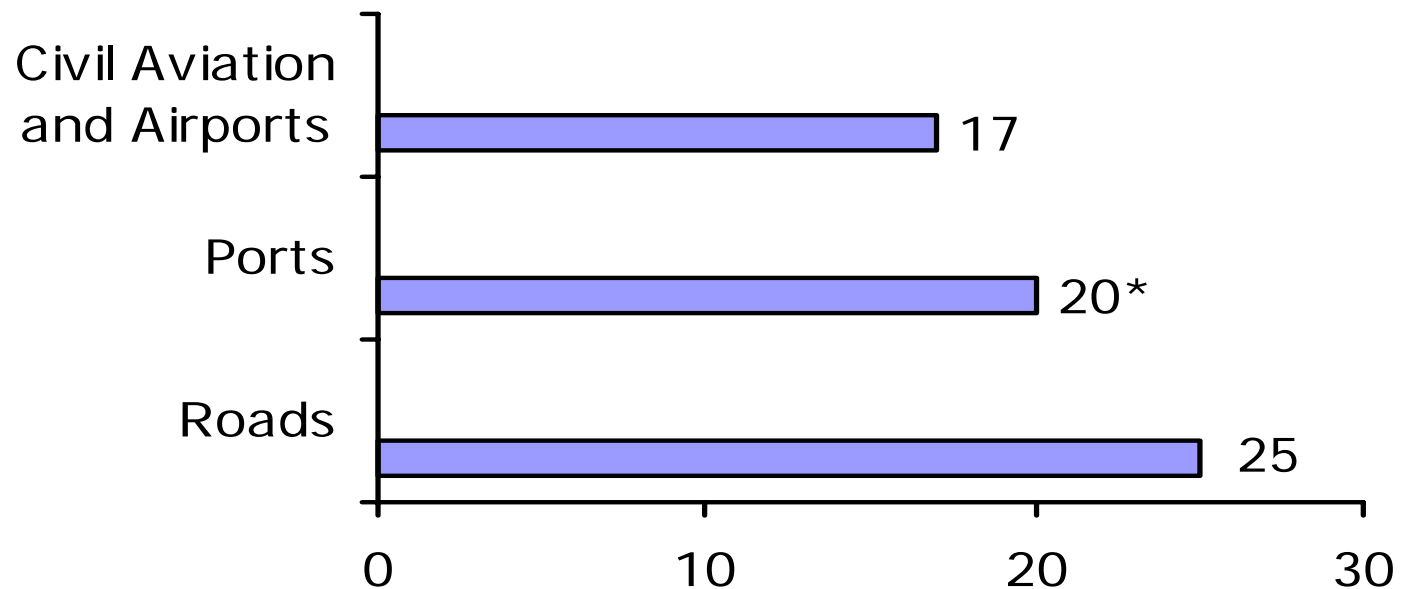
Major Growth Sectors ~ Infrastructure

- Recent Initiatives
 - Delhi Mumbai Industrial Corridor developed with Japanese assistance
 - 24,000 km of Highways being developed under National Highway Development Programme
 - Golden Quadrilateral project – To link 4 major metros

- Investment Opportunities
 - Projects for 12,000 km would be on offer
 - Many more opportunities in the States

Major Growth Sectors ~ Infrastructure

Investments required in the major sectors till 2010 (in \$ billion)



Major Growth Sectors ~ Healthcare – Growth Drivers

- ❑ Healthcare spending in the country will double over the next 10 years
- ❑ Private healthcare will rise from USD 14.8 billion to USD 33.6 billion in 2012.
- ❑ Total healthcare market could rise from USD 22.2 billion currently (5.2 per cent of GDP) to USD 50-69 billion) (6.2-8.5 per cent of GDP) by 2012

Major Growth Sectors ~ Healthcare-Business Opportunities

- ❑ Health Insurance
- ❑ Medical Tourism
- ❑ Telemedicine
- ❑ Preventive Healthcare
- ❑ Laboratory & Diagnostic Services
- ❑ Healthcare BPO & IT
- ❑ Medical Devices

Major Growth Sectors ~ Auto Components

- ❑ Fast Growing Industry
 - ❑ Approx. US\$ 8.7 billion industry in 2004-05
 - ❑ Annual growth rate 30%
 - ❑ US\$17billion by 2012 (AT Kearney study)

- ❑ Top global vehicle manufacturers/ tier 1 suppliers sourcing components from India:
 - ❑ General Motors, Daimler Chrysler, Volvo, Cummins, Ford, Fiat, Renault, Toyota Motors

- ❑ Opportunities to leverage on low cost, high-skilled manpower to reduce cost of production

Major Growth Sectors ~ Food Industry

- ❑ Third largest producer of food
 - Largest milk producer
 - Largest livestock population
 - 2nd largest in fruits & vegetables

- ❑ Tremendous opportunities
 - 50% of household income spent on food items
 - Fast rise in demand of processed food expected with increasing income levels and urbanisation: over 250 million strong middle class



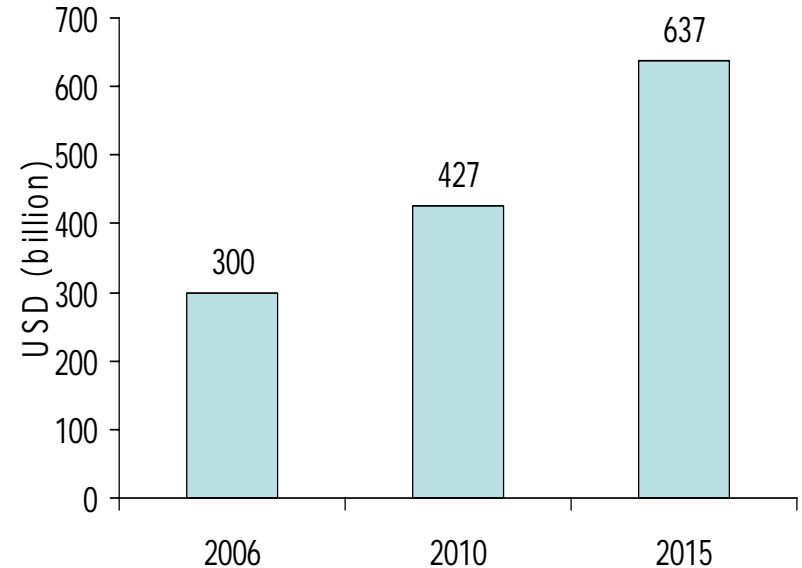
Investment of US\$ 28 billion required to raise food processing from 2% to 8-10%.

- ❑ Investment opportunities in processing of fruit & vegetable, meat, fish & poultry, milk products, packaged food & drinks.

Major Growth Sectors ~ Retail Industry Overview

- Fastest growing sector in the Economy
- Largest employer generator after agriculture
- Currently pegged at USD 245 billion, anticipated to grow to USD 385 billion in the next five years.
- Compounded Annual Growth rate of 46.44%
- Around 12 million outlets
- Outlet density 6%, highest in the world

Growing Retail Market



Major Growth Sectors ~ Retail Industry ~ Projections & Status

- Among the fastest growing organized retail categories are:
 - Health & Beauty care services
 - Food & Grocery
 - Entertainment
 - Catering Services
 - Footwear
 - Mobile Phones
 - Apparel & Fashion Accessories and Jewellery

- Sales through modern formats increasing; among the fastest growing formats are
 - specialty and supermarket
 - Hypermarket
 - discount stores
 - department store
 - convenience store
 - e-retailing

Major Growth Sectors ~ Retail Industry ~ Opportunities

- ❑ India tops the annual list of most attractive countries for international retail expansion, according to AT Kearney's Global Retail Development Index 2006
- ❑ Consumer spending continues to grow at double digits
- ❑ Leading retailers have recorded an increase in sales between 50 to 100 percent in the calendar year 2006 over the previous year.
- ❑ Retailers like Wal-Mart, GAP, Tesco, JC Penney, H&M, Karstadt-Quelle, Sears (Kmart), etc stepping up their sourcing requirements from India
- ❑ Investments in the sector slated to go up nearly 12 times to \$30 billion over the next five years

OVERALL GROWTH DRIVERS

Overall Growth Drivers

- ❑ Growing consumer class
- ❑ Availability of technically trained manpower
- ❑ Increase in FDI
- ❑ Decrease in Government controls
- ❑ Green field development and M&As have increased
- ❑ Competition has increased efficiency

Session II

OVERVIEW OF REGULATORY COMPLIANCES IN INDIA

Project Management

- ❑ Location Identification
- ❑ Land Acquisition
 - Industrial land/Private land
- ❑ Recruitment of Key Personnel
- ❑ Other Registrations
 - Income tax, Service tax, Excise, Local taxes, VAT etc.
 - Environmental Approval
- ❑ Compliance with Statutory Authorities
 - Taxes viz. Income tax, Customs, Excise, Sales, VAT etc
 - Regulatory with FIPB, RBI, SEBI etc.
 - Audit under Indian Companies Act

Accounting & Payroll

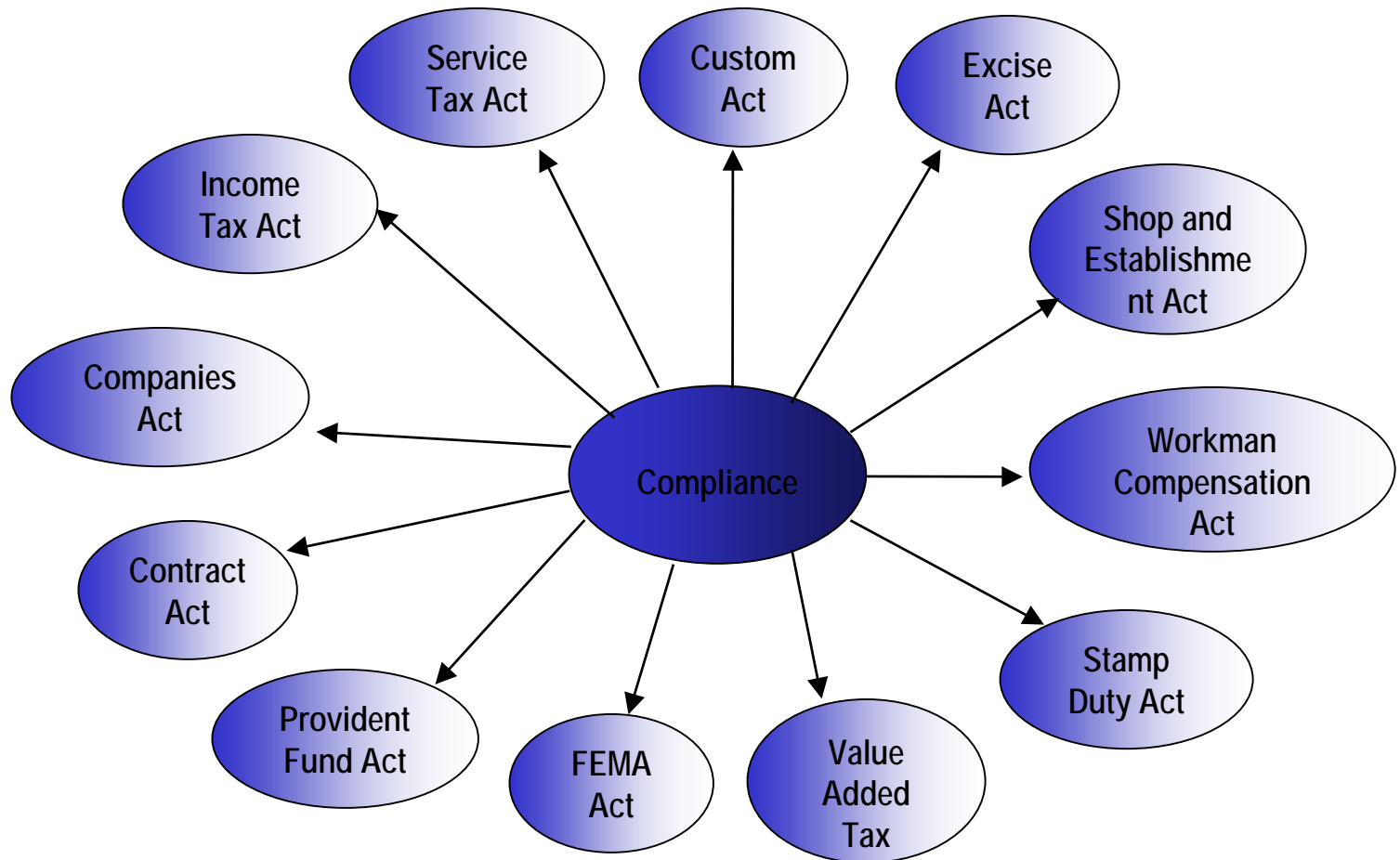
Accounting

- As per Indian Generally Accepted Accounting Policies
- Indian Accounting Standards nearly aligned with International Accounting Standards
- Freedom to choose Accounting Year as per global reporting norms

Payroll

- Draft employment contracts
- Compensation compliances
- Regulatory compliances under labour laws
- Structure and Revision of compensation packages

Various Acts – Brief Introduction



Session III



Overview of Tax & Regulatory Environment In India

□ Direct Tax

- Corporate / Individual Tax
- Transfer Pricing
- Fringe Benefit Tax ('FBT')

□ Indirect Tax

- Excise / Custom / Service tax / Value added tax ('VAT')
- Stamp Duty

□ Other Compliances

- Secretarial Compliances
- Labor laws in India
- Miscellaneous

Corporate Tax

- ❑ **Chargeability**
 - Tax Levied on Basis of Residential Status
 - Indian Incorporated Companies Taxed on Worldwide Income

- ❑ **Rates of Tax**
 - Maximum Marginal Rate

Tax Payee	Resident	Non Resident
Corporate	33.99	42.23
Individual	33.99	33.99

Corporate Tax...

❑ **Compliances**

- Annual corporate tax filings by October 31st of the Assessment Year
- Companies with annual turnover of INR 1 million / 4 million to obtain special certification by CPA before filing tax return
- Tax to be deposited quarterly installments
- Tax assessments conducted on set criteria viz. turnover, industry, profitability ratios, past assessments etc.

Corporate Tax...

❑ Foreign Companies

- Permanent Establishments ('PE') taxed as foreign companies i.e. 42.23 %
- Deemed Profit Provisions Available to Foreign Companies – To Avoid Maintenance of Detailed Expense Records
- Advance Rulings on Transactions Possible
- Tax of 10% on Royalties and Fee for Technical Services
- Credit of taxes paid in India allowable in home country

❑ General

- Applicability of Minimum Alternate Tax ('MAT') provisions
- Tax Holiday for Export Oriented Units ('EOU's) or Special Economic Zones ('SEZ's)
- Dividend Distribution Tax ('DDT') at 17% on dividends declared by Indian Companies. Generally, DDT is a cost except for countries like Singapore, UK, USA and Mauritius

Individual Tax

- ❑ Tax Levied on Basis of Residential Status
- ❑ Ordinary Residents in India taxable on worldwide Income. Others taxable on India sourced incomes only
- ❑ Tax Rates are as per slabs

Tax Rates for Financial Year 2007-08	
Income Range	Rate (%)
Upto 110,000	Nil
110,000 – 150,000	10
150,000 – 250,000	20
250,001 and above	30

- ❑ Taxable income includes Salaries, Business Income, Capital Gains, House rental and Other incomes

Transfer Pricing

- ❑ TP Rules introduced in 2002 in accordance with the OECD Guidelines
- ❑ Special teams created in five cities Delhi, Bangalore, Mumbai, Chennai and Calcutta
- ❑ Special TP audits are conducted for all tax payers whose international transactions exceed INR 150 million (SGD 5 million approx)
- ❑ Methods in Use – CUP, CPM, RPM, PSM and TNMM (TNMM being most prevalent)

Transfer Pricing...

- In most cases, the approach of the Transfer Pricing Officer has been pragmatic. Business decisions have been given due weightage and practical approach is preferred

- **Compliance Issues**
 - Tax payer to furnish TP certification by a CPA on annual basis
 - Maintain prescribed documentation, which can be verified in case an audit is initiated
 - Provide necessary information and explanations to the Transfer Pricing Officer during detailed verification

Transfer Pricing...

Non-compliance leads to penalties

Default	Nature of Penalty
In case of a post-inquiry adjustment, there is deemed to be a concealment of income	100 – 300 % of tax on the adjusted amount
Failure to maintain documents	2% of the value each international transaction
Failure to furnish documents	2% of the value international transaction
Failure to furnish accountant's report	Rs 100,000

Fringe Benefit Tax

- ❑ Tax on Employer for Providing Employee Benefits
- ❑ Taxation on Fringe Benefits at 33.99 percent
- ❑ Non Tax Deductible Expense to Employer Company
- ❑ No Tax Credits Against Corporate taxes
- ❑ Applicable to all tax payers (except individuals), including foreign companies having employees in India
- ❑ Compliance Issues
 - ❑ Deposit tax on quarterly basis
 - ❑ File returns of FBT annually

Fringe Benefit Tax

Fringe Benefit	Valuation (%)	FBT (%)
Entertainment, Hospitality, Conference, Sales Promotion , Employee Welfare, Conveyance, Hotel Boarding & Lodging , Repairs & Maintenance of Cars, Telephones, Guest House Expenses	20	7
Festivals, Health Clubs, Gifts, Scholarships	50	17
Contribution to Superannuation Fund, Concessional Travel, ESOP's	100	34

Indirect Taxes

- ❑ **Excise Duty**
 - ▶ On manufacture of goods. Peak rate at 16%
 - ▶ Basic duty + additional excise duty + special excise duty
 - ▶ Credit allowed of duty paid to limit the cascading effect of duty
- ❑ **Customs Duty**
 - ▶ On the import of goods into India. Peak rate at 10%
 - ▶ Basic duty + Additional custom duty
 - ▶ Duty drawback on goods re-exported. Significant concessions
- ❑ **Sales Tax** - On sale of movable goods. Rates vary for different states. Substituted by Value Added Tax ('VAT') effective April 2005
- ❑ **Service Tax** - Levied at 12.36% on identified taxable services
- ❑ **Research & Development Cess**- On import of technology into India at 5% on payments
- ❑ **Value Added Tax (VAT)**
- ❑ **Stamp Duty**

Other Compliances

❑ **Secretarial Compliances**

- Maintain records as per Indian Companies Act
- Hold meeting of Board of Directors and Annual General Meeting
- Submission of annual return and important resolutions to Registrar of Companies ('ROC')
- Internal and statutory audits

Other Compliances

❑ Labour Laws

- Payment of Bonus Act
- Provident Fund Act
- Employee State Insurance Act
- Workman Compensation Act
- Industrial Disputes Act

Other Compliances

- ❑ **Miscellaneous**
 - Pollution Control Act
 - Right to Information Act
 - Local Municipal Acts

THANK YOU