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INDIA BRIEFING

From Dezan Shira & Associates

Where to Invest in India

P.04 A State-Based Approach
to Market Entry

P.06 India's Top Investment Destinations

P.09 Ports, SEZs, and Incentives
for Manufacturers

Introduction



ROHIT KAPUR

Managing Director
India

India's business environment has undergone a dramatic transformation in the past few years. This year, the country jumped into 100th place on the World Bank's Ease of Doing Business ranking, up about 30 places. The improvement is attributed to various economic reforms put in place by the national government such as the goods and services tax – strengthening the indirect tax system – and insolvency and bankruptcy code (IBC).

While the overall business sentiment is strengthening in India, it is essential for investors to pay close attention to state-level reforms that vary significantly, and affect the success or failure of investment projects. Before investing in India, businesses must understand and recognize the diversity across Indian states, their market potential in terms of resources, business climate, logistics, as well as conduct true assessment of the on-the-ground situation.

In this issue of India Briefing magazine, we discuss the relevance of a state-based approach to market entry in India. Subsequently, we provide an economic overview of the top five states for investment in India, namely – Gujarat, Maharashtra, Karnataka, Andhra Pradesh, and Tamil Nadu. We also specify the advantages and opportunities available for investment in each state. Finally, we highlight the industrial incentives available in each state, port connectivity and industry-specific special economic zones established across each state.

Dezan Shira & Associates has a growing team of pre-market entry specialists throughout India with years of experience assisting foreign enterprises select optimal locations for investment in the country. For questions on how to assess investment requirements, compare locations for establishment, and leverage the power of special economic zones in India, please **contact our office in India**.

With kind regards,

Rohit Kapur



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Publisher / Rohit Kapur
Managing Editor / Adam Pitman
Editor / Vasundhara Rastogi
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 **ASIA BRIEFING**
www.asiabriefing.com

Asia Briefing Ltd. Unit 507, 5/F, Chinachem Golden Plaza,
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Where to Invest in India

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This Month's Cover Art

Sanjay Bhattacharya
Untitled
35.4"x35"
Sanchit Art Gallery
info@sanchitart.in
+91 11 4140 8010
www.sanchitart.in



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A State-Based Approach to Market Entry

By Dezan Shira & Associates

Editor: Vasundhara Rastogi

India can be a challenging yet rewarding market for foreign businesses. In the past few years, the country has made several progressive pro-business reforms at the national level. But the federal governing system means that the country lacks uniformity in its business environment as each state has its own economic policies and business climate. While many states have constituted policies that promote investments, some states continue to suffer from outdated policies, which can be a deterrent for foreign investors.

To build a successful India strategy, companies must understand the differences between Indian states. Instead of treating the country as a whole, uniform market, companies need to have target specific regions and have a focused approach that aligns with their business needs.

It is also important for businesses to understand that what works in one state in India may not necessarily work in another. Encompassing the individual states' unique selling point (USP) and key growth sectors enable companies to map their requirements with the state government incentives in terms of infrastructure and policy requirements and identify high potential markets.

Based on the nature of the business and commercial activities, companies can then target resources in the country's best performing states, and reap higher benefits.

Before entering India, businesses must:

- Conduct a detailed analysis to select the most suitable options for the proposed set-up;

- Evaluate factors such as government stability, industrial policies, ease of doing business, and transparency;
- Assess economic potential, market size, and operating environments in states and cities; and/or
- Deliberate with state industrial authorities to get a better understanding of their incentives.

Investing in India's top performing states

Gujarat, Maharashtra, Karnataka, Andhra Pradesh, and Tamil Nadu are the top performing states of India in terms of their per capita gross domestic product (GDP) and overall contribution to India's GDP. The per capita GDP is an indicator of people's affluence or deprivation in the state and fairly depicts the variation in living standard and market potential across the country.


Besides holding high market potential, these states have adopted business-friendly measures to entice both local and foreign investment. Some of these include – single window clearance systems, land and labor policy reforms, reduction in the number of statutory approvals for industrial investments, expedition of infrastructure projects, development of sector-specific industrial parks and special economic zones (SEZs), as well as tax reforms.

In the table below, we look at the states' performance in the recent National Council for Applied and Economic Research (NCAER)'s 2018 State Investment

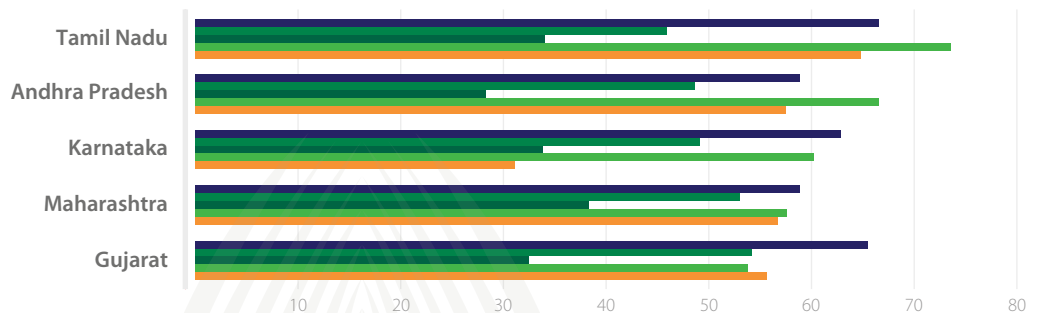
Potential Index (N-SIPI). We also look at the states' performance in other surveys, and their economic statistics to understand their investment potential.

Though not an adequate measure of the business climate in every state, these figures and rankings are a great tool to aid businesses in making investment decisions. They provide a starting

point for firms that are in the pre-investment stage of the market entry process.

Having stated that, companies must note that the key to a successful business operation in India is finding the right balance between illustrative figures, the company's profile, and a true assessment of conditions on-the-ground. 

NCAER RANKING 2018



| | Gujarat | Maharashtra | Karnataka | Andhra Pradesh | Tamil Nadu |
|--------------------------------------|----------|-------------|-----------|----------------|------------|
| ■ Governance and political stability | 65,5 | 58,9 | 62,9 | 58,9 | 66,6 |
| ■ Economy | 54,2 | 53 | 49,1 | 48,6 | 45,9 |
| ■ Infrastructure | 32,5 | 38,3 | 33,8 | 28,3 | 34 |
| ■ Labor | 53,8 | 57,57 | 60,2 | 66,6 | 73,6 |
| ■ Land | 55,7 | 56,7 | 31,1 | 57,5 | 64,8 |
| Overall NCAER ranking 2018 | 3 | 5 | 9 | 7 | 2 |

*Higher score equals better investment potential and better ranking, except for overall ranking.

Other Rankings

| | Gujarat | Maharashtra | Karnataka | Andhra Pradesh | Tamil Nadu |
|--|---------|-------------|-----------|----------------|------------|
| Business Reforms Action Plan 2016 | 3 | 10 | 13 | 1 | 16 |
| State Investment Potential Index 2017 | 1 | 9 | 9 | 3 | 6 |

*Lower score equals better investment potential.

Economic Snapshot

| Key statistics | Gujarat | Maharashtra | Karnataka | Andhra Pradesh | Tamil Nadu | India |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|
| Key statistics | | | | | | |
| Population | 60.4 million | 112.3 million | 61.1 million | 49.7 million | 72.1 million | 1300 million |
| Urbanization rate (%) | 42.6 | 45.2 | 38.7 | 29.6 | 48.4 | 31.2 |
| Number of million plus cities | 4 | 6 | 3 | 2 | 6 | 63 |
| Nominal GDP | US\$230 billion | US\$430 billion | US\$217 billion | US\$136 billion | US\$256 billion | US\$2.65 trillion |
| GDP per capita | ₹214,285 (US\$3,000) (2016-17) | ₹180,596 (US\$2,500) (2017-18) | ₹193,409 (US\$2,700) (2018-19) | ₹142,054 (US\$2,000) (2017-18) | ₹166,934 (US\$2,300) (2016-17) | ₹137,536 (US\$1940) (2016-17) |
| Average GSDP growth 2015-17 (%) | 9.9 | 7.3 | 7.9 | 11.3 | 6.6 | 6.9 |
| State contribution to GDP (%) | 9.6 | 7.2 | 7.2 | 4.5 | 8.4 | |
| NSVA by sector 2015-16 (%) | | | | | | |
| Agriculture | 18 | 11 | 12 | 34 | 13 | 17 |
| Industry | 45 | 33 | 22 | 21 | 31 | 31 |
| Services | 37 | 56 | 66 | 45 | 56 | 52 |

India's Top Investment Destinations

By Dezan Shira & Associates

Editor: Vasundhara Rastogi

Every state in India has a unique economic profile that presents challenges and opportunities to any foreign investor examining the country for expansion. In this article, we provide a bird's eye view of the economic features of the top five investment destinations.

Gujarat

A leading industrial state, Gujarat enjoys faster GDP growth than India as a whole. Strategically located on the west coast of India, it provides a gateway to the land-locked states in north India.

The state's industrial strengths include the production of petrochemicals and allied products, port and shipbuilding, conventional and renewable energy, chemical and allied products, electrical and non-electrical machinery engineering and automotive manufacturing, food and agribusiness, gems, diamonds and jewelry, textiles, and pharmaceuticals among others.

It is also home to many of India's best-known corporations such as Reliance, Mahindra & Mahindra, Adani group, Aditya Birla Group, and Godrej.

Million plus cities: Ahmedabad, Surat, Vadodara, and Rajkot.

Advantages

- Well situated for trade routes to the African continent and the Persian Gulf;

- Almost 25 percent of India's sea cargo passes through the state;
- Gateway to northern India;
- Consistently ranked at the top in ease of doing business surveys;
- Gujarat is a mineral rich state in capacity, reserves and production;
- Strong agriculture, automobile, and pharmaceutical industries.

Investment opportunities

- Infrastructure – roads, ports, urban infrastructure, energy, architecture and design services, green buildings;
- Renewable energy, bioenergy (waste to energy, landfill gas);
- Agriculture – commodities, horticulture, agriculture business technology and services, dairy technology;
- Water – wastewater treatment and water technologies;
- Food processing, logistics.

Maharashtra

Situated to the south of Gujarat, Maharashtra is among the wealthiest and the most industrialized states in India. The state owes its success to its film industry (or Bollywood), international trade, services, technology, aerospace, petroleum, fashion, and apparel. The service sector, in particular, finance, dominates the state economy.

Maharashtra's capital city Mumbai, also known as the financial capital of India, houses several large, global banks and financial institutions. These include the Reserve Bank of India – the country's federal bank, two largest Stock Exchanges (Bombay Stock Exchange or BSE and National Stock Exchange or NSE), and life and general insurance companies. Nagpur – another major city in the state is emerging as a major logistics hub because of its central location.

Maharashtra has established strengths in every sector including information technology (IT) and telecom, petroleum and allied products, chemicals, engineering, automobiles and auto components, electrical and non-electrical machinery, and textiles.

Million plus cities: Mumbai, Pune, Nagpur, Nasik, Aurangabad, and Vasai Virar.

Advantages

- Strategically located on the western coast of India;
- Gateway for imports into western India;
- Houses the financial capital of India - Mumbai;
- Provides conducive business environment and can be used as a launching pad to the rest of the country;
- Houses leading corporations and a key source and destination for FDI;
- Competitive banking, financial, and service industries;
- Home to one of the largest entertainment industries in the world.

Investment opportunities

- Financial services;
- R&D – collaboration and commercialization;
- Infrastructure – metro rail build, development of townships, ports, and waterfront;
- Water – wastewater management;
- Agribusiness – food and beverage products, dairy technology, and services.

Karnataka

Karnataka is an information and communications technology (ICT) and innovation hub of India.

The state is home to over 3,500 IT companies, 50 percent of India's biotech companies, and has an expanding e-commerce industry.

Karnataka is India's largest software exporter, fourth largest automobile producer and a key contributor to electronic industrial output.

The capital city Bengaluru (or Bangalore) dominates the state economy. Besides IT, the city has clusters of aerospace, defense, machine tools, electronics-related industries, and biotech companies. It also has a booming retail market and is the first destination of many global consumer brands, especially luxury labels.

Million plus cities: Bengaluru, Hubli-Dharwad, and Mysuru.

Advantages

- Investor-friendly government has simplified procedures and transparent administration;
- Good connectivity to major national and international markets;
- Excellent telecommunication system with optical fiber connectivity throughout the state;
- Home to public sector enterprises in heavy industry, aeronautics, precision engineering, telecommunications, health and pharmacy, and software development;
- A leading producer of auto components, machine tools, and heavy electrical machinery.
- Globally competitive in IT services and business process outsourcing (BPO).

Investment opportunities

- Information technology and software development;
- Start-ups;
- Electronics, electronic hardware;
- Pharmaceuticals;
- Infrastructure and urban development;
- Agriculture - honey, food processing, dairy technology, and horticulture;
- Resources and energy – mining, mineral processing and renewable energy – solar, mini-hydel, wind, river rejuvenation, waste management.

Bengaluru - Biotechnology and Information technology hub

Bangaluru is the leader in India's biotechnology industry. It is host to leading biotechnology companies and start-ups, and several research and development (R&D) facilities such as the Indian Institute of Science, the National Center for Biological Sciences, the Jawaharlal Nehru Center for Advanced Scientific Research and the University of Agricultural Sciences.

Bangaluru is a favored destination for IT and other knowledge-based industries. Named by the United Nations Development Program as the fourth best technology hub in the world, Bangalore is the most preferred IT outsourcing destination among Fortune 500 companies.

The Bangaluru-BIAL Information Technology Investment Region is also under development near the region's Bengaluru International Airport, with investments amounting to over US\$20 billion. The region will include special economic zones, industrial parks, export-oriented units, warehousing, and free-trade zones. It is expected to be fully completed by 2030, and to generate a projected total of 4 million employment opportunities over the next 10 years.

Andhra Pradesh

Located on the southeastern coast of India, Andhra Pradesh is the eighth largest state in the country in terms of geographical expanse, and tenth largest in terms of population. In 2014, the state's north-western region was bifurcated to form a separate inland state of Telangana. Yet Andhra Pradesh remains among India's fastest-growing states.

With regards to business climate, the state topped the country's ease of doing business ranking in 2018. It also ranked among top ten investment

destinations in the National Council for Applied and Economic Research (NCAER)'s 2018 State Investment Potential Index (N-SIPI). The state's single window clearance system is regarded as a model for other states.

In line with economic, trade and industrial reforms initiated by the state government, Andhra Pradesh has enunciated and ensured several steps to attract global participation in its development activities. The state is today attracting local, national, and international investments in various sectors, including pharmaceuticals, food processing, textiles, electronics and IT, automobiles and auto-components, and mineral-based industries.

Million plus cities: Visakhapatnam, and Vijaywada.

Advantages

- Over 950 kilometers of coastline, India's largest bulk port, and several minor ports;
- Strategically located on the eastern coast of India, offering strong trade connectivity with the largest markets in Asia such as China, Hong Kong, Japan, and Singapore;
- Situated on a delta region that has fertile river plains and is rich with agriculture-based industries.
- Huge reserves of minerals that promote large-scale ore-exports.
- Diverse industrial base spanning aerospace, food processing, IT, precision engineering, and semiconductors;
- Hosts leading software and IT hubs.

Investment opportunities

- Fintech – the state is developing Visakhapatnam as a fintech hub;
- Resources and energy – mining, mineral processing, strong potential in renewable energy technology, particularly, solar and wind;
- Infrastructure and urban development – power transmission investment, architectural services, road safety, and transport technology solutions.

Tamil Nadu

Tamil Nadu is the southernmost state in India bound by Bay of Bengal on the east, the Indian Ocean on the south, and the Arabian Sea on the west. Surrounded by sea from three sides, the state serves as an important gateway to Southeast Asia.

The state is the second largest economy in terms of nominal GDP and the most urbanized state in India. Chennai is the capital city, the fourth largest city in India, and a major manufacturing hub. The city is often termed the “Detroit of India”. The city is home to many Indian and multinational companies, mostly engaged in the automotive, healthcare, IT and financial services sectors. The state is also considered as an educational hub for India.


The other two major cities in Tamil Nadu are Coimbatore and Madurai. Many textile mills and engineering units are located in these two cities.

Million plus cities: Chennai, Coimbatore, Madurai, Tiruchirappalli, Salem, and Tiruppur.

Advantages

- Strategically located on the south-eastern coast of India for access to Southeast Asia;
- Chennai is a major port for agricultural imports and exports and India’s second largest source of software exports;
- A major producer of sugar, maize, horticulture, chemicals, fertilizers, cement, paper and steel;
- A leading solar and wind energy producer, with among the highest installed capacity in India;
- Mature industrial climate with regionally competitive manufacturing industry;
- India’s largest number of special economic zones in operation.

Opportunities

- Infrastructure – roads, ports, urban infrastructure, architecture, and design services;
- Education – training and skill development; research partnerships;
- Energy sector – wind and solar energy, gas pipeline network, and transmission;
- Advanced manufacturing, automotive technology, and aftermarket products. 

Chennai – The Auto-Component Hub of India

The auto components hub in Tamil Nadu is concentrated around its capital, Chennai. Worth US\$6.2 billion, the state produces 35 percent of India’s total auto components manufactured.

Over 350 large suppliers and 4,000 SMEs have their operations here. The ports of Chennai, Tuticorin, and Ennore cater to the unrestricted movement of auto component consignments with dedicated berths.

If power requirements exceed a specified electrical load, Tamil Nadu Electricity Board provides investors a substation at its own expense, on land provided by the developing agency.

Furthermore, auto component projects receive a five percent rebate on the cost of land purchased from the State Industries Promotion Corporation of Tamil Nadu (SIPCOT). Clusters in industrial areas receive a 50 percent reduction in stamp duty, and a five percent additional capital subsidy may also be granted.

Projects also receive 25 percent of the capital cost or a subsidy of Rs3 million (US\$45,000) for a dedicated waste management facility, whichever is less expensive.



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EXPLORE MORE

Ports, SEZs, and Incentives for Manufacturers

By Dezan Shira & Associates
 Editor: Vasundhara Rastogi

To boost manufacturing, as well as the exports of manufactured goods, Gujarat, Maharashtra, Karnataka, Andhra Pradesh, and Tamil Nadu offer different kinds of industrial incentives to investors.

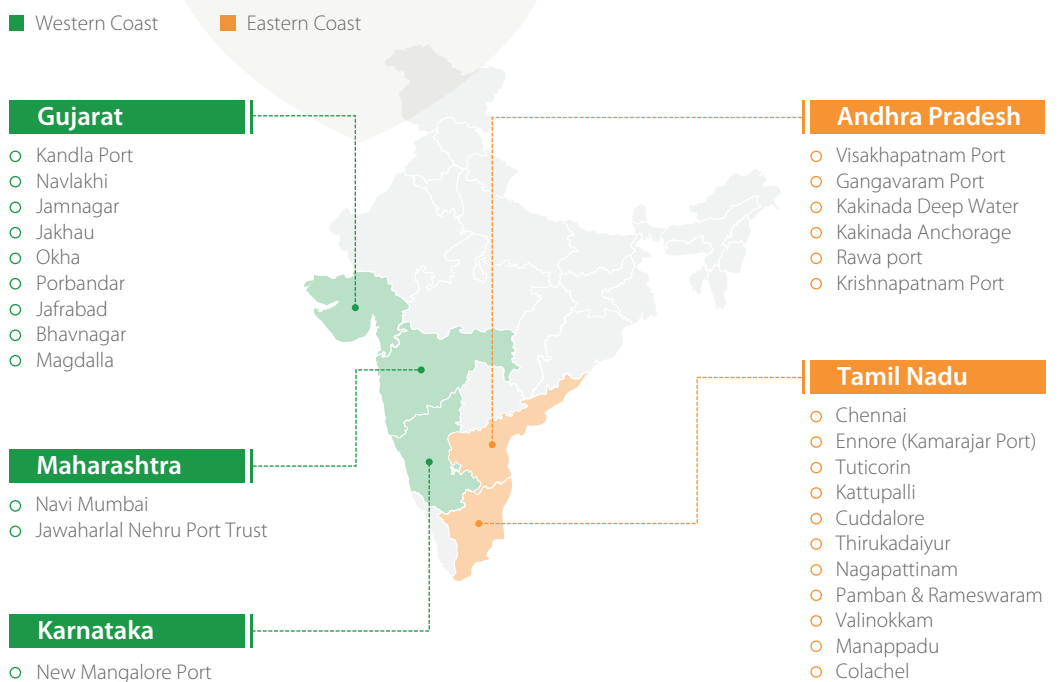
Often, these states seek to develop competitive tax schemes, infrastructure, and special economic zones (SEZs).

Manufacturing companies that situate their operations in these coastal states benefit not just from the available incentives and their markets,

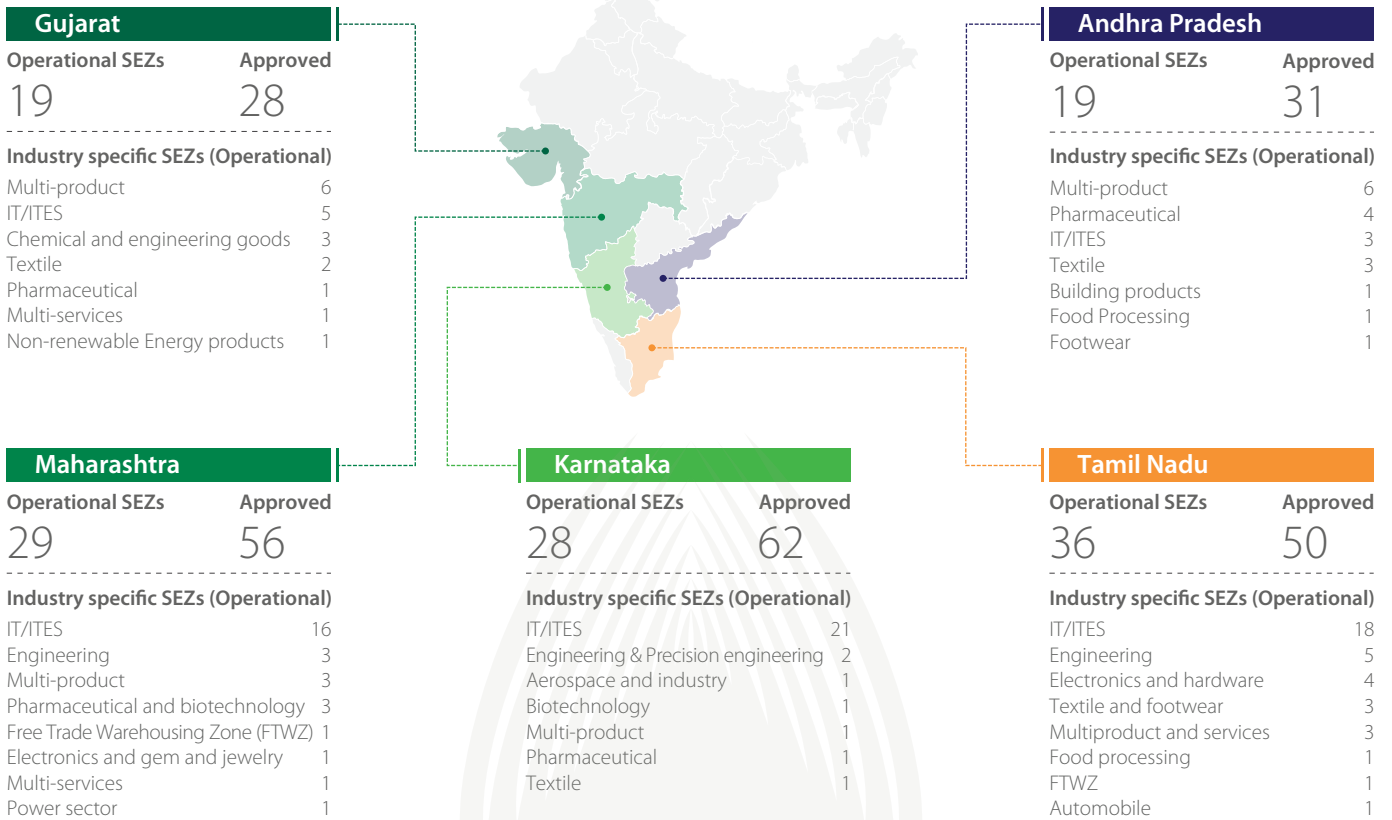
but also from the greater global access that the states provide through their ports, and lower transportation cost for manufactured products. All five states offer a mature industrial climate and culture, and easy access to the import of raw materials through their ports and sea routes.

In the map and table given below, we look at some of the major and intermediate ports situated in the five states, the sector-specific SEZs, and the industrial incentives available for manufacturing activities.

Port Connectivity: Major and Intermediate Seaports



Special economic zones



State-Specific Industrial incentives

| State | Incentives |
|-----------------------|---|
| Gujarat | <ul style="list-style-type: none"> Incentives and assistance for allotment of land, mega IT and ITes projects, development of technology parks, exemption and concession in registration and stamp duty, lease rentals, electric duty and industrial tariff under the state's new IT Policy; Incentives for clusters and anchor units, registration and stamp duty concession, uninterrupted availability of power tariff subsidy, and single window clearance system under Electronics Policy (2014-19); Special incentives for agro and food processing activities like hi-tech agriculture, organic farming, and for varietal development and export of fresh fruits, vegetables, flowers, live plants by air and sea route. |
| Maharashtra | <ul style="list-style-type: none"> Reimbursement of cost of water audit and energy audit; Stamp duty exemption to eligible large IT and biotechnology (BT) units in IT and BT parks, exemption from electricity duty; Multiple incentives such as power tariff subsidy, and interest subsidy. |
| Karnataka | <ul style="list-style-type: none"> Exemption from entry tax, electricity tariff for ultra-mega and super mega enterprises; Single Window clearing mechanism for ease of doing business; Interest-free loan and investment subsidies concessional registration charge reimbursement of land conversion fee. |
| Andhra Pradesh | <ul style="list-style-type: none"> Reimbursement of 100 percent stamp duty on purchase or lease of land and of net SGST at a rate and for a fixed period depending upon industry size and of fixed power cost depending on the sector; Subsidy on the cost of plant and machinery for specific cleaner production measures for MSME, for sustainable green measures, and for wastewater treatment, and green buildings among others; 300 industrial parks including sector-specific industrial parks such as food processing parks, textile parks, and electronic complexes; Tailor-made benefits to mega projects to suit particular investment requirements on the case to case basis, the differential definition of the mega project depending on the industry. |
| Tamil Nadu | <ul style="list-style-type: none"> Capital subsidy, environmental protection infrastructure subsidy; Exemption from electricity tax, stamp duty on lease or sale of land meant for industrial use; Incentive available for additional employment generation and SEZ developer or units. |

Source: NCAER (2018) report



Is your company preparing to invest outside of China?

Consult our experts for advice on how to expand to the global market.



Daisy Zang
Manager, Asian Outbound Investment
Beijing Office
Email: daisy.zang@dezshira.com

Introduction

Dezan Shira & Associates is a multi-disciplinary professional services firm operating throughout the Asia-Pacific (APAC) region. We provide our clients with legal, audit, accounting, and advisory services.

Our network of 28 offices and 620 partners across 100 countries give us a unique advantage to help our Chinese clients invest in international ventures. Additionally, our multilingual Outbound Investments team allows our clients to utilize our services as a one-stop solution for multi-jurisdictional ventures.

Our Outbound Direct Investment Services

Dezan Shira & Associates' outbound investment team is committed to providing a comprehensive and specialized range of advisory services to Chinese companies interested in an overseas expansion.

Our aim is to help businesses expand outside their domestic markets and leverage international business opportunities.



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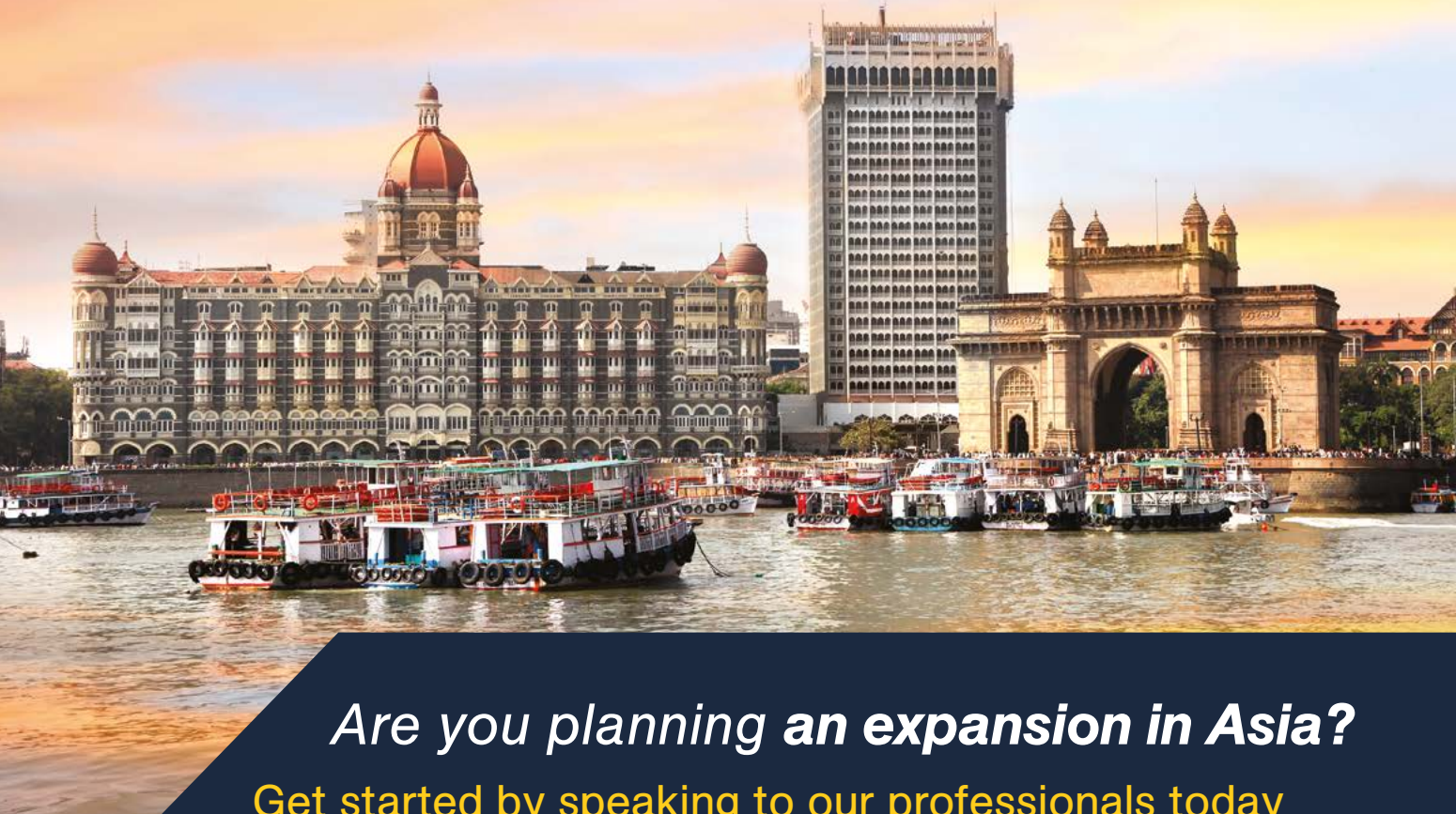
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Nehru Place,
New Delhi 110019, India

Mumbai

+91 22 6741 8760
mumbai@dezshira.com

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