

# T&A CONSULTING

INDIA TRADE INSIGHT



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India has gradually emerged as a country with a clear intent to undertake policy reforms in line with global regulations and standards

Sincere efforts have been made to ameliorate domestic market conditions to ensure ease of doing business and to reform foreign direct investment (FDI) norms to offer maximum benefits to foreign investors. All of which, now, have begun to pay rich dividends. Despite a marginal fall in India's GDP growth during the last quarter of FY 2016-17, India continued to occupy one of the brightest spots in the global economy. Global rating agency Fitch projected Indian economy to grow at 7.4 percent and 7.6 percent in FY 2017-18 and FY 2018-19, respectively. Meanwhile, India's financial system remains resilient marked by its strong domestic market and higher economic growth. This signals India's financial stability and India will witness a significant improvement despite its stressed public sector banks and corporate balance sheets. Last year, India was ranked 10th globally in terms of total FDI inflows. The International Monetary Fund's latest report projected India to emerge among the top three FDI destinations that also includes China and the United States, in the next three years. Several international players including Intel, Metro Cash & Carry, Sam-

sung, BMW, and Goldman Sachs have recently announced their investment plans for the next 3-4 years in India. Rosneft, the Russian oil giant that took over Essar Oil, has expressed its intent to tap India's lucrative retail fuel market. Though all economic and investment activities in the last couple of month remained noteworthy, the biggest sign of relief came from Finance Minister Arun Jaitley, who reiterated that the Goods and Service Tax (GST) will be implemented as scheduled, from June 30 midnight. The country's biggest reform has been more than a decade in making. Next month, India is participating in G20 Summit in Hamburg, Germany. Although the agenda of the meeting is usually set by the host country, India will have some strategically and economically important issues of global interest, such as increasing trade protectionism, climate change and global financial instability, to put forward. There are a number of key factors that suggest India is making great advances and has established itself as an important player in global policy, trade and investment.

## WELCOME TO GOODS AND SERVICE TAX (GST) INDIA!



After more than a decade of planning and preparation, India looks ready to implement Goods and Service Tax (GST) framework, a comprehensive single taxation system that aims to replace the existing complex system of multiple indirect taxes. The Government has laid down a detailed roadmap for GST roll out from July 1, 2017, even though various states, as well as the industry body the Associated Chambers of Commerce and Industry of India (ASSOCHAM), requested the Central Government to push the implementation date till September, citing logistical unpreparedness of the domestic industries. The Government, however, clarified that the new tax regime will be rolled out from its scheduled date. Prime Minister Narendra Modi identified this new taxation system as an utmost priority, as he envisaged cutting through corruption and red tape gener-

ated due to the swathe of state taxes. The Government has enacted four GST bills: -

1. Central GST (CGST)
2. Integrated GST (IGST)
3. Union Territory GST (UTGST), and
4. Bill to Compensate States

Most of the goods and services have been classified under four different tax slabs - 5 percent, 12 percent, 18 percent and 28 percent. However, certain items such as small cars and luxury cars shall attract cess over and above the prescribed tax rate i.e. 28 percent (1 or 3 percent cess) and 28 percent (15 percent cess), respectively. Some items such as gold and rough diamonds will attract exclusive tax rates. A few items have been excluded from taxation.

### GST Rate Classification for Goods

|                          |  |
|--------------------------|--|
| <b>Exempt</b>            | Food, Grains, Cereals, Milk, Salt  |
| <b>5 Percent</b>         | Coal, Sugar, Tea & Coffee, Drugs & Medicine, Edible Oil                            |
| <b>12 Percent</b>        | Fruit Juices, Vegetable Juices, Beverages containig milk, Bio-gas fuel fertilizers |
| <b>18 Percent</b>        | Capital goods, Industrial intermediaries, Hair Oil, Soap, Toothpaste               |
| <b>28 Percent</b>        | Air conditioner, Refrigerators   |
| <b>28 Percent + Cess</b> | Small cars (1% / 3% cess), Luxury cars (15% cess)                                  |

### GST Rate Classification for Services

|                   |  |
|-------------------|--|
| <b>Exempt</b>     | Education, Healthcare, Residential accomodation, Hotel/ Lodges with tariff below INR 1,000                                       |
| <b>5 Percent</b>  | Goods, Transport, Rail tickets (other than sleeper class), Economy class air tickets   |
| <b>12 Percent</b> | Rail Tickets (other than economy class), Construction of building, Chit Fund, Non-air-conditioned restaurants                    |
| <b>18 Percent</b> | Restaurant having licence to serve liquor, Restaurant with air-conditioning, Hotel/ Lodges with tariff between INR 2,500 - 5,000 |
| <b>28 Percent</b> | Cinema tickets, Betting & Gambling, Hotel/ Lodges with tariff above INR 5,000  |

## How will GST work?

The previous tax framework led to a multiplication of taxes. A tax was paid on tax at every stage of the transaction and thus the value of the product kept increasing till it reached the end users. But in GST, individuals can claim credit for their taxes paid.



## Goods value before the implementation of GST

| Activity                | Cost | Tax @ 10 percent | Final Cost |
|-------------------------|------|------------------|------------|
| Buys Raw Material @ 100 | 100  | 10               | 110        |
| Manufactured @ 40       | 150  | 15               | 165        |
| Adds Value @ 30         | 195  | 19.5             | 214.5      |
| Basic Cost              | 170  | 44.5             | 214.5      |

## Goods value after the implementation of GST

| Activity                | Cost | Tax @ 10 percent | Actual Liability | Final Cost |
|-------------------------|------|------------------|------------------|------------|
| Buys Raw Material @ 100 | 100  | 10               | 10               | 110        |
| Manufactured @ 40       | 140  | 14               | 4                | 154        |
| Adds Value @ 30         | 170  | 17               | 3                | 187        |
| Basic Cost              | 170  | -                | 17               | 187        |

## Impacts on Foreign Companies

A successful implementation of GST is poised to make the Government's Ease of Doing Business dream a reality. The GST will lower overall tax rates, eliminate multiplicativity of taxes and simplify compliance procedures, thus giving a level-playing field to the foreign players already operational or looking to operate in the Indian market. This new tax regime would also end the opaque nature of State and Central Tax system, giving foreign companies a transparent and fixed tax structure for almost all goods and services.

## Impacts on Indian Economy and Industry

Most economists, global credit rating agencies and financial institutions feel that the GST will increase the efficiency of the Indian economy and will push India's GDP growth rate to over 8 percent. The Small and Medium Enterprises (SMEs), one of the primary growth drivers of the Indian economy, will be the major beneficiary. The new tax regime will increase production and movement of goods and services across Indian states, making Indian SMEs more competitive against large domestic enterprises, as well as against firms of various competing countries including China, Bangladesh and the Philippines. The GST will also have a major impact on transportation and logistics, as it will bring down operating costs across industries. This will reduce the overall manufacturing costs and boost domestic consumption.

## INDIA TO EMERGE AMONG TOP THREE FDI DESTINATIONS GLOBALLY BY 2019



A recent report published by the United Nations Conference on Trade and Development (UNCTAD) has solidified India's position as an attractive FDI destination, underscoring that India will continue to rank among the top foreign direct investment (FDI) destinations in the world. Although, FDI inflow to India witnessed a meagre 1 percent growth to reach about USD 44 billion in 2016, placing it 10th in terms of total FDI inflow globally in the year, the global trade and development body projected India to emerge as the third top FDI market, only behind the US and China, over the next two years. In 2016 India attracted USD 62.3 billion FDI in greenfield projects, surpassing both China and the US for the second consecutive year. The global foreign investments have been mainly targeted around the emerging economies, such as China and India, and the United States in the recent years.

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## SAMSUNG TO INVEST ADDITIONAL USD 762 MILLION IN NOIDA PLANT

Amidst an increasing influence of Chinese smartphones in India, Samsung Electronics has announced a fresh investment of USD 762 million, its biggest investment in India so far, as the company plans to more than double its production capacity in the country. Samsung affirmed its commitment to Indian Government's Make in India initiative, underlining that the new investment is intended towards making India a manufacturing and export hub for the company. With this investment decision, the South Korean smartphone maker looks to double its refrigerator production capacity, and, most of all, its mobile phones annual output capacity, which is expected to reach about 12-13 million units a year, up from five million at present. Samsung will export its India-manufactured devices to Africa, Europe, the Middle East and elsewhere by 2020.

- **Mobile Mantra CO had announced ₹2,000cr investment in Noida plant last year**
- **India to become export hub for Europe, Middle East & Africa**
- **Local manufacturing to enable better pricing, supply chain control, faster go-to-market**
- **Samsung's share of Indian smartphone market fell to 26% in March 2017 from 29% in March 2016 as Chinese players gained control over 50% of market**



India's smartphone market grew 15 percent in Q1 2017. Samsung continued to occupy the largest market share at 26 percent in the quarter, despite falling 3 percent against the same quarter last year. However, several Chinese smartphone manufacturers including Xiaomi (13 percent), Vivo (12 percent) and OPPO (10 percent) registered a considerable jump in their market share in India.

## METRO CASH & CARRY INVESTING USD 262 MILLION IN INDIA BY 2020

German wholesaler and food service distributor METRO Cash & Carry announced its plans to invest approximately USD 262 million in India's rapidly evolving wholesale market, by 2020. METRO Cash & Carry India, the Indian subsidiary of the German multinational, set up its first store in Hyderabad in 2006 and opened its fourth store in Hyderabad in May this year. So far, it has set up 24 wholesale stores in India, catering to over 1.1 million dedicated customers across the country. The company has abided by its commitments to Indian Government's Make in India initiatives, sourcing as much as 90 percent of the sold products from the local market.



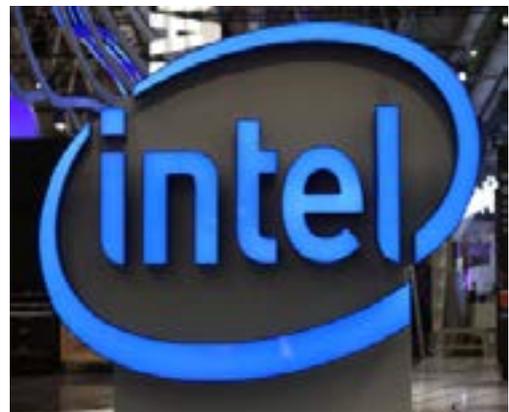
## BMW TO INVEST ANOTHER USD 20 MILLION IN INDIA OPERATION



BMW has announced plans to expand its India operation with an additional investment of over USD 20 million. German luxury car maker has invested heavily in India since 2007. This fresh investment will take the company's total investment in India to up to approximately USD 194 million. The announced amount will be allocated towards BMW Group operation and its financial service arm, taking their total respective allocation to USD 81 million and USD 113 million. BMW will introduce a new version of its India-manufactured 5 Series model this month and 6 Series Gran Turismo (GT) model in 2018, as it looks to diversify its product portfolio in India. BMW also plans to expand its dealer network across the country. At present, it has 18 partners across 30 Indian cities.

## INTEL TO INVEST USD 170 MILLION IN INDIA AFRESH

Leading chip maker Intel Corporation is setting up a new research and development centre in India, with an approximate investment of USD 170 million. As part of the company's expansion plan in the sub-continent, the American multinational will establish a new R&D facility in Bengaluru. The new facility will be focused on developing software and designing hardware, and will generate nearly 3,000 jobs over the next one and half years. Till last year, Intel had invested USD 2 billion in the country. Intel India designs and powers semiconductor chips for its domestic as well as global customers, including original equipment manufacturers (OEMs) of smartphones, computers, and other electronic devices.



## G20 2017 IN HAMBURG - FREE TRADE, CLIMATE CHANGE AND DEVELOPMENT IN AFRICA ON INDIA'S AGENDA



Germany's Hamburg will host the 12th edition of G20 summit, an annual gathering of government and central banks of 20 top economies worldwide (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom and United States) plus the European Union (EU), on July 7-8. The group was restructured in the aftermath of the 2008-09 global financial crisis, with an objective of increasing international financial cooperation. Since 2008, the G20 member countries have been meeting annually to discuss the global issues pertaining to economic and financial instability and to contemplate upon the directed reforms to address them. The initial agenda of the G20 discussions was to forge a closer financial integration against the damage caused by the financial crisis. However, the later discussions have included various other pertinent issues of global importance, including climate change, international tax avoidance, refugee crisis and fight against terrorism.

### ✓ India's Agenda

The global growth has seen a modest improvement since the financial crisis of 2008-09. In 2016 the world economy grew at 3.1 percent. The International Monetary Fund's World Economic Outlook projects the world economy to expand at 3.5 percent in 2017 and 3.6 percent in 2018. The year 2017 has witnessed a rather good start for the global economy. This is where, the G20 emerging economies like India and China can play a bigger role in ensuring inclusive global growth, as these two countries are set to continue registering strong GDP growth figures for the next few years. At a time when countries view protectionism as a measure to protect and strengthen their economic growth, India's Prime Minister Narendra Modi is expected to pitch for new and innovative ways to ensure the momentum of recovery and to stimulate global economic growth. India will encourage the member countries to enhance domestic structural reforms, international economic cooperation, and global economic governance to share the responsibility of global growth.

### ✓ Climate Change

Ahead of the Hamburg Summit, the G20 members are feeling a collective anxiety over Trump's decision to pull out of Paris climate change agreement. India has underscored its commitment and responsibility to go ahead with the Paris accord. The European Union has also reiterated its full commitment to implementing the 2015 Paris Agreement. The EU said it will work with key partners to implement the Paris agreement and will implement projects in Argentina (USD 5 million), India (USD 4.27 million) and China (USD 3.9 million).

### ✓ Trade and Investment

According to the World Trade Organisation (WTO) report, global trade grew just 1.3 percent in 2016, worst since the 2008-09 financial crisis. The institution's preliminary estimates indicate that the global trade will expand at 2.4 percent in 2017 and between 2.1 percent and 4 percent in 2018. Meanwhile, global FDI outflow fell 2 percent in 2016 to USD 1.7 trillion. A recent report projects FDI to rise 5 percent this year to nearly USD 1.8 trillion owing to an expected higher economic growth across many regions, a resumption of growth in global trade, and a recovery in corporate profits. India has expressed its concerns with respect to trade protectionism adopted by a few countries. In the upcoming G20, India is likely to extend its support to advancing free and fair trade and fighting against any legitimate trade-restrictive measures.

### ✓ Development in Africa

Many African countries are already strong political and economic partners of the G20 members. India gives a great importance to its foreign and economic relations with Africa. India has extended 152 lines of credits worth about USD 8 billion to several African countries. Modi would likely to pitch for developing a closer integration and boosting sustainable economic growth, investment and political stability in Africa.

# T&A CONSULTING

BUSINESS WITH INDIA STARTS HERE...

The Newsletter "India Trade Insight" is an initiative by T&A Consulting to provide emerging opportunities for foreign companies looking to "Doing Business in India". The Newsletter provides an overview of Indian Government's initiatives towards ease of doing business, major announcements related to Greenfield investments, M&A and latest figures on Foreign Direct Investment.



T&A is a boutique advisory firm with extensive experience of working with overseas enterprises towards achieving successful and accelerated entry into India.

T&A's portfolio of market entry services includes opportunity assessment, feasibility studies, partner identification (Joint Venture, distributor, vendor, licensee and franchisee) competitor analysis, price benchmarking, location identification, technology collaboration and local representation.

## German Indian Round Table event in Hamburg (Germany)



Anuradha Bhattacharya, representing the IGMP delegation presenting a memento to Mr. Madan Lal Raigar, the Consul General of India at German-Indian Round Table event in Hamburg (Germany)

## Contact Us

**T&A Consulting**  
**1316, 13th Floor,**  
**Devika Towers,**  
**6 Nehru Place,**  
**New Delhi - 110019**  
**India**

**+91 (0) 11 41709326**  
**+91 (0) 11 40546760**  
**contact@insideindiatrade.com**  
**www.insideindiatrade.com**

Anuradha Bhattacharya from T&A Consulting was selected for IGMP in March-April 2017

The Indo-German Manager Training Programme (IGMP) is an element of the Foreign Economic Policy of the German Federal Ministry for Economic Affairs and Energy (BMWi) towards India and intends to promote business relations between the two countries.

The primary objective of the programme is "Initiating and strengthening business relations between German and Indian companies". The training programme included both interactive management training and practical experience including factory visits to German enterprises (including Airbus Facility in Hamburg and Volkswagen in Hannover).

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