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Doing Business in India
Investor Guide for the Food Processing Sector

M O F P I

Ministry of Food Processing Industries

Government of India

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Doing Business in India Investor Guide for the Food Processing Sector

Published for the Ministry of Food Processing Industries (MoFPI) by Ernst & Young LLP (EY) and Confederation of Indian Industry (CII)

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Contents

Executive summary	10
India at a glance	14
Trends in India's Global trade and investment relations	17
India advantage - Ease of doing business	20
Infrastructure development in India	22
Food processing and food retail in India	24
Food processing - Indian regulatory landscape	27
Food processing - Schemes and incentives offered	31
Forms of business presence in India	37
Typical funding options available for India operations	39
Foreign exchange laws in India	40
India tax environment	43
The historic launch of GST	47
Robust set of economic laws	49
Landmark policy reforms and initiatives in recent times	51
Roadmap for Indian market entry	52
India: An optimistic outlook	57
Sources of information	62

Foreword

Food processing is considered as one of the fastest growing industries in India. The growth of the industry is supported by the availability of a large raw material production base. India is the largest producer of milk, bananas, mangoes, guavas, papaya, ginger, okra, second largest producer of wheat, rice, fruits, vegetables, tea, sugarcane and cashew nut and the third largest producer of cereals, coconut, lettuce, chicory, nutmeg, mace, cardamom and pepper globally.

Given the natural supply advantage and a population of 1.3 billion people (that spend a high proportion of their disposable income on food), there is a potential to nurture mutually beneficial relationships with global food processing, food retail and related supply chain organizations who could realize significant business growth opportunities in India, through new technologies, innovations and other methods of value additions.

Further, India's geographical location gives it a unique advantage when it comes to exports, having convenient connectivity to Europe, Middle East & Africa from the western coast, and Japan, Singapore, Thailand, Malaysia, Korea, Australia & New Zealand from the eastern coast.

Food processing is a priority sector for the Indian Government, as well as one of the focus sectors in the Make in India initiative. Further, the availability of affordable credit and other fiscal incentives has also led to India being considered as one of the most favourable markets.

In light of the above factors, and with total consumption of the food and beverage segment in India expected to increase from US$ 369 billion to US$1.142 trillion by 2025, output of the food processing sector (at market prices) is expected to increase to US$ 958 billion for the same period. These estimates clearly evidence the vast market opportunity offered by the Indian food processing, food retail, transport, logistics and related infrastructure sectors to players in the food processing value chain.

We trust that this report would be a useful guide for international as well as domestic food processing, food retail and related supply chain companies that are looking to invest or expand their presence in India.

Preface

As per the International Monetary Fund (IMF), India is a shining star in the global economy with investors viewing the country as a vast, diverse, technologically advanced and a fast-developing economy. Further, with a population of approximately 1.3b people, India is the third largest economy in the world (based on purchasing power parity), making for an extensive consumer goods and B2B sales market. As per HSBC's latest report1, India is expected to surpass Germany and Japan to become the world's third largest economy in nominal US dollar terms, with the transition expected to be quicker on a PPP basis.

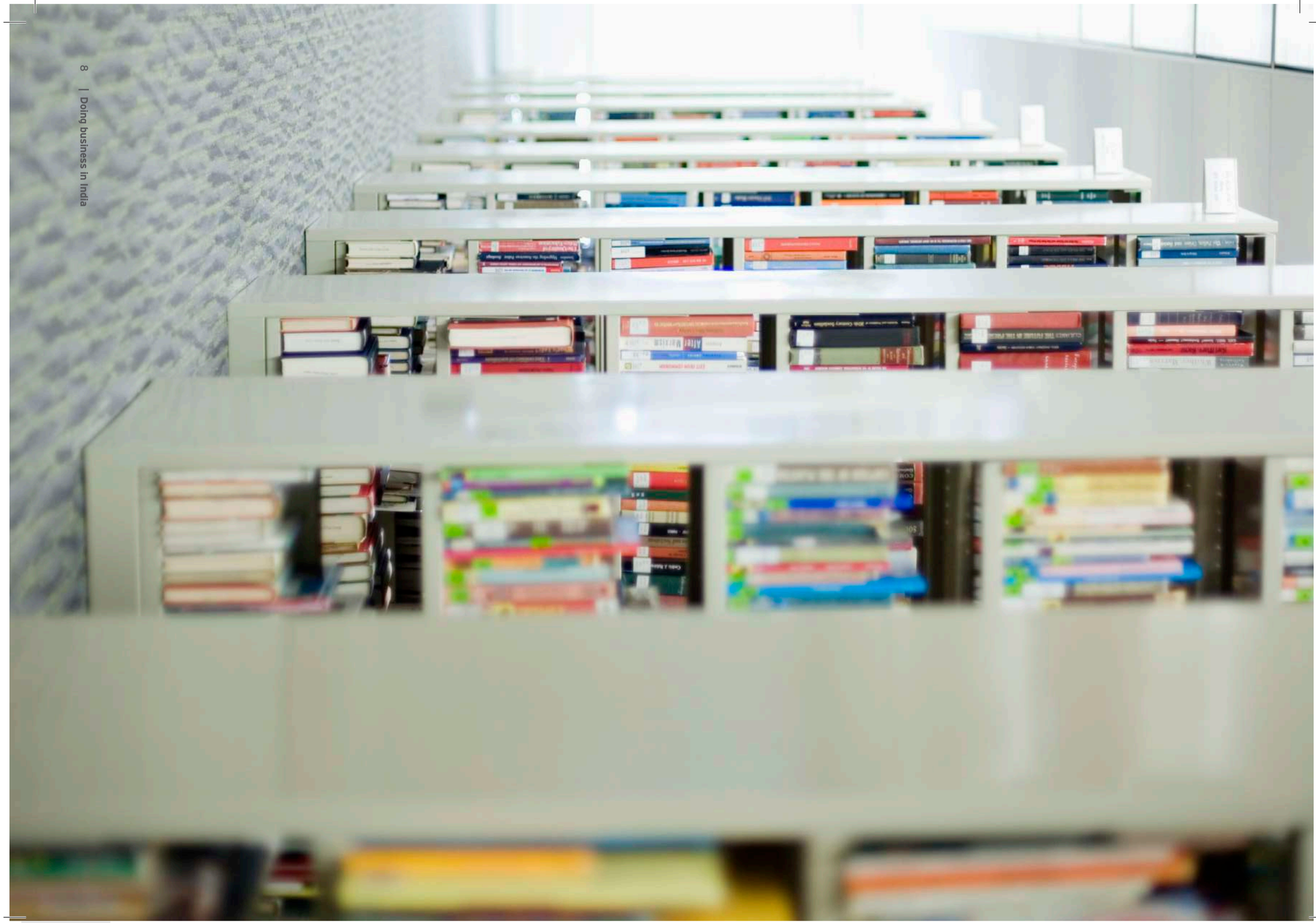
India is ranked 8th in AT Kearney's FDI Confidence Index for 2017, marking a consistent improvement from its 9th rank in 2016 and 11th in 2015. Further, in 2016, India retained its position as the world's most preferred Greenfield FDI destination, ahead of both China and the US2.

The business landscape in India has shown consistent improvement over the years, which is evident from the improvement in India's ranking in the World Bank's report on ease of doing business. India's ranks highly on several key parameters such as protecting minority interests, getting credit and electricity. Several regulatory liberalizations and policy reforms over recent years have paved the way for foreign investments in India's ever-improving business environment.

With the introduction of the Goods and Services Tax (GST) in India, there is now a higher level of uniformity across states expected on the indirect tax front, which in turn may provide a boost to ease of doing business in the country. Other policy reforms such as the abolishment of the Foreign Investment Promotion Board are also expected to make investing in India a far more convenient process.

In light of several growth drivers, the Indian demographic dividend and positive outlook, the Indian food processing and food retail sectors have gained prominence in recent years. These factors, coupled with steady support from MoFPI and a robust set of regulations overlooked by FSSAI, have created significant opportunity for various global food processing, food retail and related supply chain companies to establish operations in India.

It is hoped that this report is useful for both global organizations looking forward to doing business in India, as well as for companies looking to expand their business operations in India.

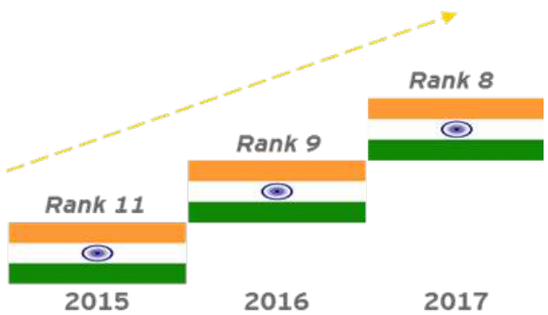


Glossary of terms

Abbreviation	Full form
b	Billion
BCD	Basic custom duty
BEPS	Base Erosion & Profit Shifting
BIS	Bureau of Indian Standards
BMA	Black Money (Undisclosed Foreign Income and assets) and Imposition of Tax Act, 2015
BO	Branch office
CAGR	Compounded annual growth rate
CBDT	Central Board of Direct Taxes
DIPP	Department of Industrial Policy & Promotion
DMIC	Delhi-Mumbai Industrial Corridor
EBITDA	Earnings before interest, tax, depreciation and amortization
ECB	External commercial borrowings
EQL	Equalization levy
EY	Ernst & Young LLP
FATF	Financial Action Task Force
FDI	Foreign direct investment
FEMA	Foreign Exchange Management Act, 1999
FERA	Foreign Exchange Regulations Act, 1973
FICS	Food Import Clearance System
FIFP	Foreign Investment Facilitation Portal
FIPB	Foreign Investment Promotion Board
FMCG	Fast moving consumer goods
FPO	Fruit product order
FSS Act	Food Safety and Standards Act, 2006
FSSAI	Food Safety & Standards Authority of India
FY	Financial year
GAAR	General Anti-Avoidance Rules
GDP	Gross domestic product

Abbreviation	Full form
GMV	Gross merchandize volume
GST	Goods & Services Tax
IMF	International Monetary Fund
INR	Indian national rupees
IP	Intellectual property
ITDP	Integrated Tribal Development Project
JV	Joint venture
LLP	Limited liability partnership
LO	Liaison office
LPI	Logistics Performance Index
m	Million
MBRT	Multi-brand retail trading
MoFPI	Ministry of Food Processing Industries
OECD	Organisation for Economic Co-operation and Development
PADS	Pre-arrival Document Scrutiny
PMKSY	Pradhan Mantri Kisan Sampada Yojana
PO	Project office
PPP	Purchasing Power Parity
RBI	Reserve Bank of India
RDB	Rupee denominated bonds
ROC	Registrar of Companies
SBRT	Single brand retail trading
SEBI	Securities Exchange Board of India
SPCB	State Pollution Control Board
SWIFT	Single Window Interface for Facilitating Trade
t	Trillion
US$	United States dollars
w.e.f.	With effect from

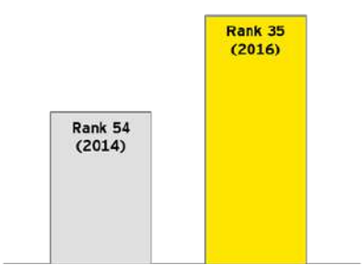
India, one of the fastest growing economies, has now emerged as one of the most attractive investment destination globally. A large consumer base, growing disposable incomes and improvement in ease of doing business are some of the key drivers of the emerging global preference for investing in India, as evidenced by India's steady upward shift in rankings as per AT Kearney's FDI Confidence Index.



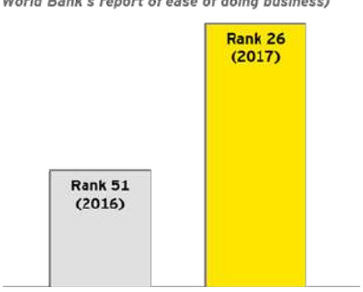
Between 2010 and 2016, India's real GDP grew at a CAGR of 7.3%, with International Monetary Fund (IMF) having pegged India's real GDP growth to be in the range of 7.1% to 7.4%, between 2016 and 2018. Further, IMF and other agencies have predicted India to be one of the top three global economies by 2050.

India's commitment to improving its infrastructure and related facilities, evidenced by the development of integrated trade corridors, among other initiatives aimed at developing world-class infrastructure and ensuring scientifically planned urbanization, has been acknowledged by the World Bank in several reports, as reflected in the country's improvements in ranking on several important parameters (depicted below).

India's ranking on World Bank's Logistics Performance Index



India's ranking on ease of getting electricity (as per World Bank's report of ease of doing business)

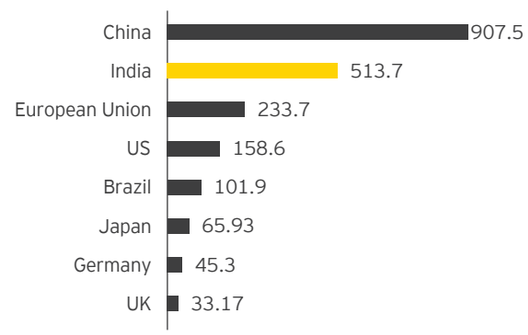


Executive summary

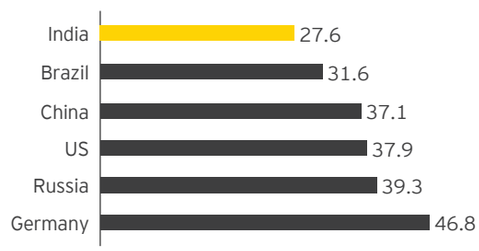
[1] World Bank Report – Global economic prospects – June 2017

While the overall development of infrastructure would play a significant part in developing the various sectors of the Indian economy (including food processing), several schemes and incentives being offered by MoFPI, such as the Mega Food Park Scheme *(which envisages a cluster approach for creation of state-of-the-art support infrastructure in a well-defined agricultural or horticultural zone, along with the setting up of modern food processing units and a well-established supply chain)*, are aimed at improving yield levels, reducing wastage and effectively integrating the food processing supply chain in the country.

India's large labor force (m)



India's young population



India has a comparatively young population, as evidenced from the median age

Finally, the historic launch of GST is expected to significantly ease doing business in India by managing the multiple indirect taxes applicable under the erstwhile tax regime, removing the cascading effect of taxes and widening the tax base. By unifying all Indian states and union territories into a common market, GST will exponentially improve the Indian business environment, which in turn is expected to provide a boost to new investments (especially foreign investments) in the country.

The above factors, coupled with a reducing fiscal deficit, stable currency, and robust banking channels, have led to several multi-national corporations recognizing India as a preferred investment destination, with several such companies investing and expanding operations in the country.

Further, the Indian Government has also implemented several reforms in recent times, such as the Bankruptcy & Insolvency Code, Make in India initiative and abolition of the Foreign Investment Promotion Board (FIPB), in order to further enhance ease of doing business in the country.

In India, the food processing industry has emerged as a high-growth and high-profit sector, with India being the world's largest producer of diary products (including milk, ghee etc.), buffalo meat and several fruits such as bananas, papayas, mangoes and guavas; the second largest producer of several other fruits and vegetables; and the third largest producer of broiler meat[1].

Between April 2000 and June 2017, India attracted approximately US$342.40b of foreign direct investment. Out of this, US$ 7.81b was in the food processing sector, making it the 13th largest sector receiving FDI in India[2]. A conducive policy and regulatory framework, coupled with several favorable demand and supply factors in the country, has led to a sharp increase in investments in these sectors.

[1]MoFPI Annual Report (2016-17)

[2]DIPP Quarterly Fact Sheet (April 2000 to June 2017)

Alignment with global tax laws

The introduction of GST on 1 July 2017, subsuming several exisiting indirect tax laws in the country, is expected to seamlessly integrate doing business in several states and improve the ease of doing business in the country	**Recent tax reforms**	Committment to reduce corporate tax rate to 25% over the next few years and to not introduce retrospective amendments for levy of income tax
Fast-tracking of litigation, increase in thresholds for revenue appeals and lauch of additional benches for the Authority of Advance Rulings		Aligning of Indian anti-avoidance income-tax laws with international standards and OECD's Action Plans prescribed for BEPS, by introducing measures such as equalization levy (EQL) and signing of multi-lateral instruments

Robust regulatory framework for the Indian food processing sector

Under the aegis of MoFPI, India has a robust regulatory landscape governing the sector, especially given the increasing importance and priority placed on it.

MoFPI

MoFPI is responsible for formulation and administration of rules, regulations and laws relating to food processing in India.

With a view to develop a robust supply chain, reduce food wastage in the country and seamlessly integrate the Indian food processing industry, MoFPI currently offers several schemes and fiscal incentives to boost investments, such as:

- Mega Food Park Scheme
- Scheme for cold chain, value addition and preservation infrastructure
- Scheme for creation/expansion of food processing and preservation capacities
- Scheme for creation of forward and backward linkages

FSSAI

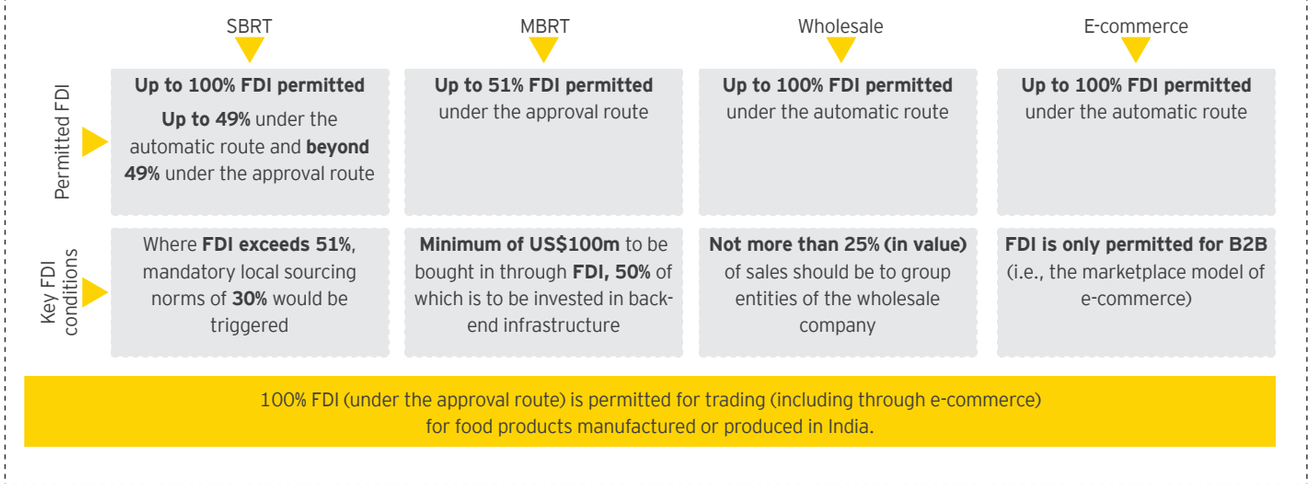
By enacting the Food Safety and Standards Act in 2006 (FSS Act), India took an important step toward building a safe food culture in the country. This brought the nine regulations and various orders on food safety administered by different ministries under one umbrella. FSSAI is also the National Codex Contact Point of India, and functions as an interface between Codex Alimentarius Commission and India as a member country.

FSSAI has adopted some of the Codex Alimentarius international food standards that contribute to the safety, quality and fairness of this international food trade.

For ease of doing business, FSSAI has introduced initiatives such as online application for registration and licensing of food business, single-window clearance for imported food products, trainings for food safety professionals, constitution of scientific panels and committees for the review and enactment of new standards, and implementation of IT interfaces to minimize the requirement for food business operators to visit FSSAI offices.

Further, FSSAI has recently launched the Pre-Arrival Document Scrutiny (PADS) for ports where single-window clearances have not been implemented. Under PADS, scrutiny of import documents is done much before the actual arrival of goods in India, thereby reducing the processing time for imports in the country.

Sectoral caps for FDI in India[1]



Manufacturing sector
100% FDI is permitted for the manufacturing sector under the automatic route.

Agriculture and animal husbandry
100% FDI is permitted for the manufacturing sector under the automatic route.

Plantation sector
100% FDI is permitted, under the automatic route, for certain specified plantations such as tea and coffee.

India's natural food production advantage, coupled with the growing consumer expenditure and demand for food in the country, has created vast potential for the food processing industry. In light of several growth drivers (such as the Indian demographic dividend, rising affluence, the growing influence of social media on Indian consumers and positive outlook for the Indian economy), several global food and retail conglomerates have set up operations in India and are also looking to expand in the country.

Important online links

Particulars	Online link
Ministry of Food Processing Industries	http://mofpi.nic.in/
Food Safety & Standards Authority of India	http://www.fssai.gov.in
Foreign Investment Facilitation Portal	http://www.fifp.gov.in/
Ministry of Corporate Affairs	http://www.mca.gov.in/
Make in India	http://www.makeinindia.com/
Reserve Bank of India	https://www.rbi.org.in/
Bureau of Indian Standards	http://www.bis.org.in/
Confederation of Indian Industries	http://www.cii.in/
Ernst & Young LLP	http://www.ey.com/in/en/home

[1]Consolidated FDI Policy 2017

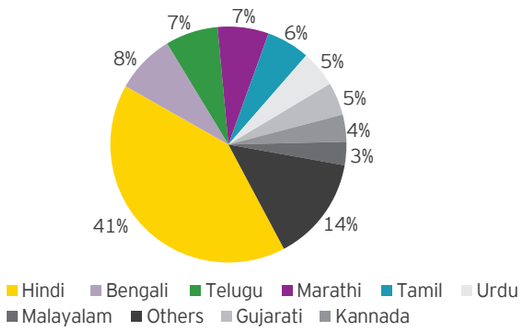
India at a glance

With a population of approximately 1.3b, India is the world's largest democracy. Over the past decade, the country's integration into the global economy has been accompanied by economic growth, which has resulted in India beginning to emerge as a preferred investment destination and an open-market economy.

Measures of economic liberalization, including industrial deregulation, privatization of state-owned enterprises and reduced restrictions on foreign trade and investment, began in the early 1990s and served to accelerate the country's growth, which averaged nearly 7% per year from 1997 to 2016. Certain key facts and statistics regarding India's profile as a country have been highlighted as follows.

Geographic and political profile	
Capital	New Delhi
Administration	29 states and 7 union territories
President	Ram Nath Kovind (tenure: 5 years – since 2017)
Prime Minister	Narendra Modi (tenure: 5 years – since 2014)
Neighboring countries	Afghanistan, Bangladesh, Bhutan, China, Myanmar, Nepal, Pakistan and Sri Lanka
Total area	3.29m sq km
Climate	Temperate in north and tropical monsoon in the south
Natural resources	Coal (fourth-largest reserves in the world), iron-ore, manganese, mica, bauxite, rare earth elements, titanium ore, chromite, natural gas, diamonds, petroleum, limestone and arable land.
Railways	108,706 km
Roadways	4.87m km (second largest in the world)
Waterways	14,500 km
Airports	125 (18 of which are international)

Local languages in India

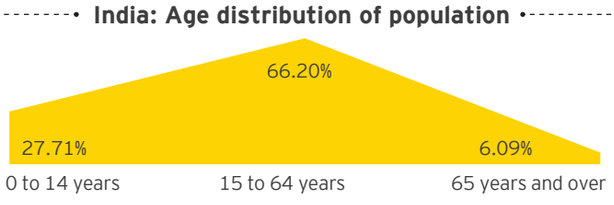


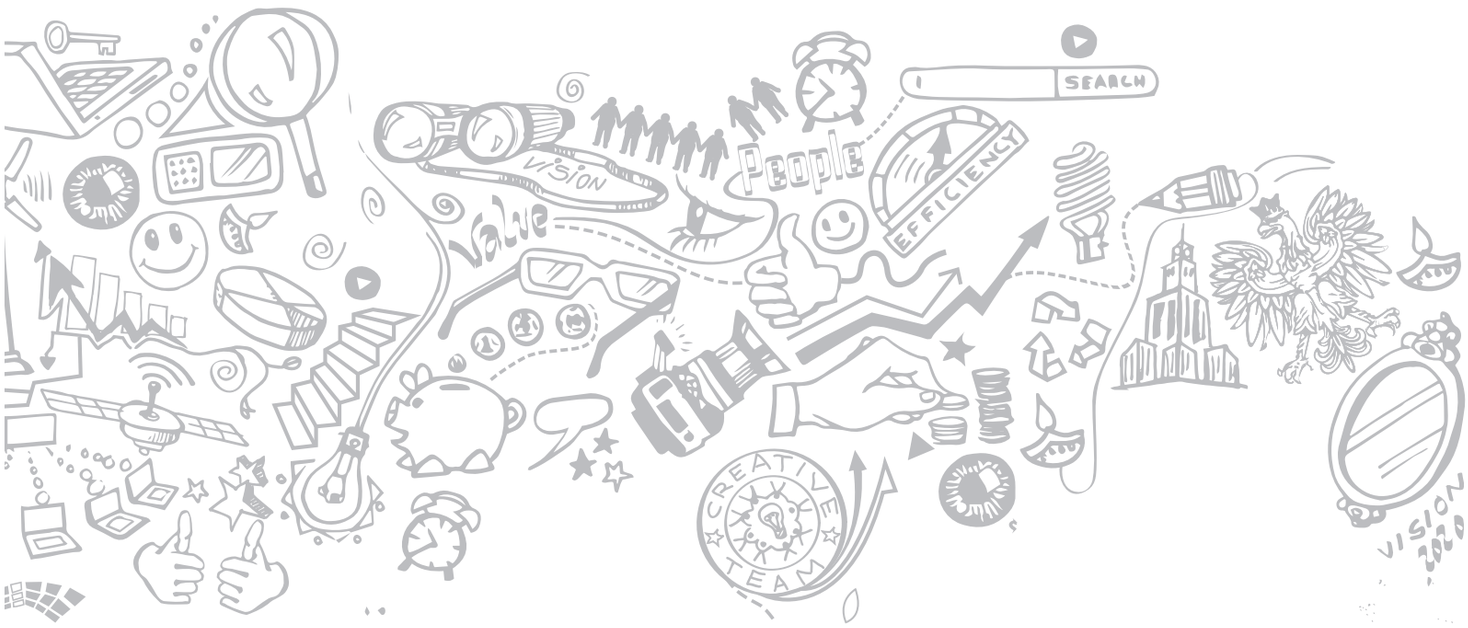
English enjoys the status of subsidiary official language, and is the most important language for national, political and commercial communications in India.

Cultural profile	
Religions	Hinduism, Islam, Christianity and Sikhism are the four major religions in India.
Languages	India has 21 officially recognized languages, with Hindi being the country's official language.

Demographic profile	
Population	1.27b (2016 estimate)
Life expectancy	Overall: 68.5 years (males: 67.3 years; females: 69.8 years)
Age structure	0–14 years: 27.71% | 15–64 years: 66.20% | 65 years and over: 6.09%
Median age	27.6 years
Labor force	513.7m (2016 estimate) second largest in the world
Sex ratio	1.08 males per female (2016 estimate)
Birth rate	19.3 births per 1,000 population
Death rate	7.3 deaths per 1,000 population

India: Age distribution of population

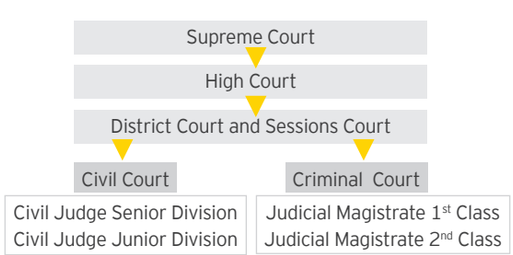




Economic profile	
Currency	Indian national rupee
Fiscal year	1 April to 31 March
GDP	US$2.25t (current prices, 2016); real growth rate of 7.6% in 2016
GDP composition by sector	Services: 53.7% | Industry: 31.2% | Agriculture, forestry and fishing : 15.2%
Savings rate	32.3% of GDP
FDI	US$342.40b (April 2000 to June 2017)
Trade	Exports (2016–17): US$20.57b | Imports (2016–17): US$25.41b

Financial markets in India	
Central bank	Reserve Bank of India
Capital markets regulator	Securities Exchange Board of India (established in 1992)
Major stock exchanges	Bombay Stock Exchange (established in 1875) | National Stock Exchange (established in 1992)

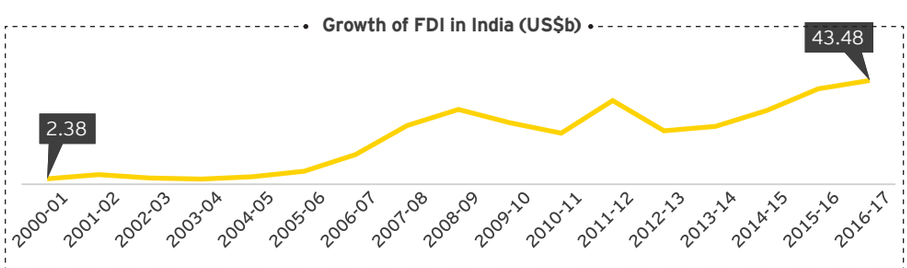
Overview of legal framework in India



Trends in India's
Global trade and investment relations

Foreign investment in India[1]

- India is ranked eighth in AT Kearney's FDI Confidence Index for 2017, marking a consistent improvement from rank 9 in 2016 and 11 in 2015.
- Further, in 2016, India retained its position as the world's most preferred Greenfield FDI destination, ahead of both China and the US.
- The cumulative FDI equity inflows between April 2000 and June 2017 aggregated to US$342.40b, of which US$43.48b was invested in FY2016-17 alone. Further, the first quarter of FY2017-18 (April to June 2017) attracted FDI of over US$10b.
- The service sector has historically attracted the highest FDI in India, accounting for almost 18% of the total FDI inflows between April 2000 and June 2017 (US$61.36b).
- Other notable sectors showing potential to attract FDI include trading (4.37%), food processing (2.28%), agriculture services (0.58%) and retail trading (0.30%).



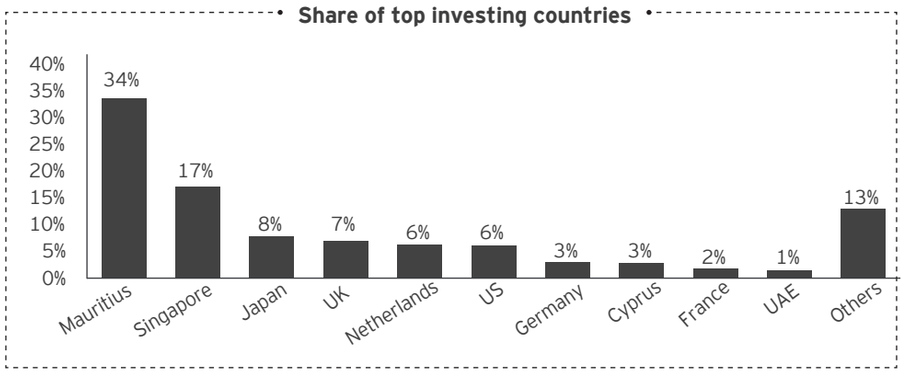
1DIPP Quarterly Fact Sheet on Foreign Direct Investment (April 2000 to June 2017)

Share of top investing countries

While countries such as Mauritius, Singapore and the Netherlands feature among the top investors in India, it is largely because of funding by various global companies through these jurisdictions on account of favorable tax and other treaty networks.

Over the last decade since FDI in retail trading has been permitted, there have been further policy changes and amendments in the regulations, to support global retail giants to establish a presence in India (one such amendment was the 2014 amendment that permitted SBRT entities to also undertake trading activities through e-commerce). As a result, there are now several global retail organizations that have established a strong presence in the Indian market.

With rapid urbanization, rising affluence coupled with an increase in share of household consumption expenditure toward food, increased digital awareness and constant policy support from the Indian Government, the food processing and retail sectors in India are truly India's sunrise sectors.



Various global food and other retail companies have established a presence in India, as illustratively tabulated below:

Sector	Illustrative list of global companies present in India
Food processing and food retail	Nestle, General Mills, Bunge, Mondelez, Tesco, Lotte, Domino's, Pizza Hut, KFC, TGI Friday's, Perfetti, Unilever, Coca-Cola, PepsiCo, McDonald's, Burger King, Carlsberg, Diageo, Ajinomoto, Kellogg's, Starbucks, Taco Bell, Cinnabon, Archer Daniels Midland, Mead Johnson, Abbott, Amway, Ferrero etc.
Wholesale trading	Red Bull, Walmart, Metro AG, etc.
Retail trading (other than food)	Zara, Marks & Spencer, H&M, Gap, Benetton Group, Tommy Hilfiger, DKNY, Forever 21, Kenneth Cole, Superdry, Decathlon etc.

Recent and potential investments in India's food processing and retail sectors[1]

Recent food retail investments

Amazon Corporate Holdings, Grofers India and Super Market Groceries Supplies (Big Basket) have recently received approval for investing a total of US$695m in the Indian food retail sector.

Amway to expand presence

With an investment of US$148.74m, Amway plans to open 50 retail stores in the country by 2018.

Coca-Cola to set up a food processing and bottling plant

Coca-Cola, the US-based beverage giant, plans to invest around US$116m in India to set up a food processing unit and a bottling plant in Madhya Pradesh.

Mondelez sets up largest plant in Asia

In 2016, Mondelez commissioned the first phase of its largest Asia-Pacific manufacturing facility coming up in Andhra Pradesh's Sri City. The factory has been set up with an initial investment of US$190m.

Tesco to expand India presence

UK-based Tesco PLC, while already in India, is looking to open 50 new retail outlets, as well as a new distribution center in Hyderabad

Japanese brands looking to invest in India

Japanese brands such as Marubeni Corporation, Ise Foods, House Foods Group and Kagome are planning to invest in India to source for raw materials. The Japanese firms are also planning to invest in cold chains and other infrastructure.

> *With the clients I speak around the world, and as we make our investment decisions, India, today, is one of the highest rated destinations for investments right now in the world.*
> ***Mark Weinberger, Chairman & Global CEO, EY***

India's foreign trade relations[2]

- India's global trade relations have been improving over the years, with the overall trade deficit (taking merchandise and services together) for FY2016–17 (US$40.98b) 16.87% lower than the trade deficit of FY2015–16 (US$49.30b).
- India's major export partners have been:
  - US
  - Germany
  - UAE
  - China
  - Japan
  - Thailand
  - Indonesia
  - European Union
- Major merchandise exports from India: Refined petroleum, diamonds, packaged medicaments, jewelry, rice etc.
- India's major merchandise imports: Crude petroleum, gold, diamonds, coal briquettes, petroleum gas etc.
- As per the Federation of Indian Export Organization, improving product diversity of Indian exports and inclusion of more high-tech products will help India's merchandise and service exports to cross US$500b in FY2017-18, thereby further enhancing India's position in the international market.
- India has recently also been tapping newer export markets in Africa and Latin America.

Food processing exports[3]

Between 2011 and 2016, India's exports of processed food and related products (including animal products) grew at a CAGR of 11.74%, reaching US$ 16.2b. The major export destinations for food products include the Middle East and South East Asian regions.

[1] https://www.ibef.org/industry/retail-india.aspx
[2] http://pib.nic.in/newsite/PrintRelease.aspx?relid=161802
[3] IBEF Report – Food Processing

India advantage
Ease of doing business

As per World Bank's report on doing business, India's rank for ease of doing business has **improved to 130 in 2017** (from 131 in 2016) out of a total 190 countries.

The World Bank utilizes a "distance to frontier" score (DTF score) while determining the rank for ease of doing business.

The World Bank determines the rank of countries based on the following indicators:

- Getting electricity
- Registering property
- Trading across borders
- Paying taxes
- Enforcing contracts
- Starting a business
- Resolving insolvency
- Construction permits
- Availing credit
- Protecting minority interests

In the 2017 report issued by World Bank, India has shown improvement in several of the above indicators, as discussed on the following page

> *India's got a 7% growth rate, stable government, good macroeconomic indicators like low inflation and deficits under control, plus it's got massive reforms aimed at the right direction.*
> ***Mark Weinberger, Chairman & Global CEO, EY***

S. no.	Parameter	Brief description	2017 rank	2016 rank
1	Getting electricity	An electricity connection is a basic requirement for businesses. It would cover service quality, general safety, technical standards, procurement practices and internal wiring installations.	26	51
2	Registering property	Ensuring formal property rights and land administration is fundamental to any form of business operations.	138	140
3	Trading across borders	In today's globalized world, easier trade between economies is increasingly important for businesses.	143	144
4	Paying taxes	Economies around the world have made paying taxes faster, easier and less costly for businesses – for example, by consolidating payments and filings of taxes, offering electronic systems for filing and payment, establishing taxpayer service centers and allowing for more deductions and exemptions.	172	172[1]
5	Enforcing contracts	Courts are essential for entrepreneurs, as they interpret the rules of the market and protect economic rights. Efficient and transparent courts also encourage new business relationships.	172	178

[1] While there has been no change in India's rank for paying taxes, the DTF score has shown improvement. Further, India's rank in this parameter is expected to show significant improvement in the coming years, with the implementation of GST.

Infrastructure development in India

Availability of world-class infrastructure is a key driver for the successful development of any economy. This sector has contributed significantly to India's overall development and enjoys the support of the Indian Government by way of policies and schemes aimed at ensuring time-bound creation of world-class infrastructure in the country.

Infrastructure would typically include power, bridges, dams, roads and urban infrastructure development, which in turn will play a key role in the development of various other sectors and in attracting foreign investments by building confidence in the Indian market.

The following are the key proposals of the Government in the Union Budget of 2017 for the development of the country's infrastructure:

US$37.46b has been allocated for development of the transportation sector in India, including railways, roadways and shipping.

Select airports in tier 2 cities are to be taken up for operation and maintenance on a PPP mode.

The Budget allocation for roadways in 2017-18 has been increased to US$10.07b, as against US$8.99b in 2016-17.

3,500 km of railway lines are expected to be commissioned in 2017-18, with at least 25 stations being awarded for redevelopment.

In 2017-18, the total capital and development of railways has been pegged at US$20.33b, of which US$8.53b has been provided for by the Government.

Apart from the above, with a view to accelerate the growth in manufacturing and to ensure scientifically planned urbanization, the Indian Government has adopted the strategy of developing integrated industrial corridors. The following five corridors have been planned for development:

- Delhi-Mumbai Industrial Corridor (DMIC)
- Chennai-Bengaluru Industrial Corridor
- Amritsar Kolkata Industrial Corridor
- Bengaluru- Mumbai Economic Corridor
- Vizag-Chennai Industrial Corridor

In each of these corridors, manufacturing will be a key economic driver and these projects would be critical in raising the share of manufacturing in India's GDP to 25% by 2025.

The National Industrial Corridor Development & Implementation Trust (NICDIT) has been set up as the apex body (under administrative control of DIPP), and is responsible for the coordinated and unified development of all industrial corridors in the country. Further, an apex monitoring authority under the chairpersonship of the Hon'ble Finance Minister will be constituted to periodically review the activities of NICDIT and the progress of the projects.

DMIC was the first industrial corridor approved by the Union Cabinet in 2011 with a grant of INR175b (US$2.75b) as a project implementation fund, and an additional corpus of INR10b (US$150m) for project development activities, to be provided over a period of five years for the first phase of this corridor[1].

DMIC shall cover the states of Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra. Out of 24 investment nodes identified for development, 8 industrial cities have been taken up in the first phase. The Government of Japan has also committed investments to the tune of US$4.5b for the first phase of DMIC[1].

The Government has recently announced the launch of an umbrella project Bharatmala, which will subsume all existing road projects (including the National Highway Development Project) and see the construction of 20,000 km of highways in the first phase. A total fund of INR10 trillion has been allocated in phases, to complete the various components of the program. Besides completion of existing projects, Bharatmala will also include new efforts such as development of border and international connectivity roads as well as coastal and port connectivity roads, improvement in the efficiency of national corridors, and development of economic corridors.

Key components of Bharatmala:

- Construction of national highways through coastal/border areas, ports, backward areas and religious and tourist sites
- Border and coastal connectivity covering 7,000 km of National Highways
- Construction, strengthening and widening of approximately 1,500 major bridges and 200 railway over bridges/ railway under bridges on national highways
- Improvement of newly declared national highways and providing better connectivity to district headquarters
- Enhancing freight traffic along 44 identified economic (freight) corridors, inter-corridors and feeder-routes for development

These initiatives, among others, are expected to improve infrastructure in India to global standards in the near future, and significantly ease doing business in the country. India's commitment to improve its infrastructure and related facilities has also been acknowledged by the World Bank in

its LPI, wherein India's ranking improved by 19 places in 2016 to reach 35, from 54 in 2014 (out of 150 countries).

One of the sub-parameters used by the World Bank while determining the LPI rankings is the quality of trade and transport related infrastructure (such as railways, roadways, ports and information technology). The momentum generated by the current Government in this area has been duly recognized, with India's ranking improving by 22 places in 2016 to reach 38 (out of 150 countries).

Further, in 2017, India's rank in getting electricity as per the World Bank's report on ease of doing business (discussed in the previous chapter) improved 25 places to reach rank 26 (out of 190 countries).

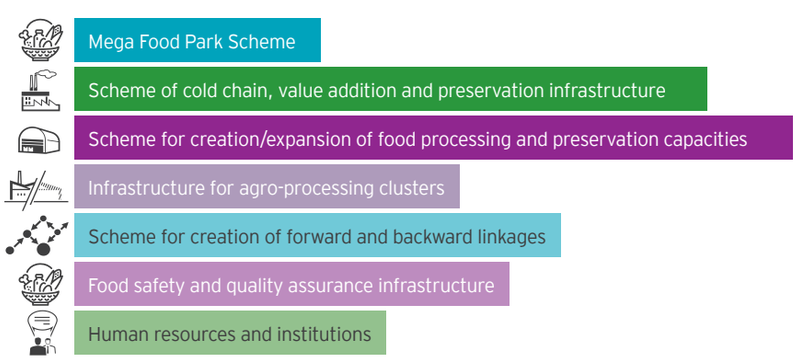
Importance of infrastructure for food processing

Development of scientific farming, farm mechanization and supply chain infrastructure such as cold storage, warehousing and distribution facilities is crucial for the overall improvement of processing levels and the development of the food processing industry.

The food processing industry, as well as the Government, are now eager to boost efficiency and access to the markets, thus giving rise to a significant investment opportunity in areas such as food parks and cold storage facilities.

While there are schemes and funds set up for the development of the overall infrastructure of the country, MoFPI has also implemented several schemes and fiscal incentives for promoting the development of infrastructure, specifically related to India's food processing industry.

The majority of such schemes are covered under the Pradhan Mantri Kisan Sampada Yojana, which is an umbrella scheme launched by MoFPI, and includes the following:



A summary of the eligibility and assistance provided under some of the above schemes can be found later in this report, and further information on the various schemes and incentives available can be found at http://mofpi.nic.in/.

While the overall development of infrastructure would play a big part in developing the various sectors of the Indian economy (including food processing), the above initiatives of MoFPI would improve yield levels and effectively integrate the food processing supply chain in the country.

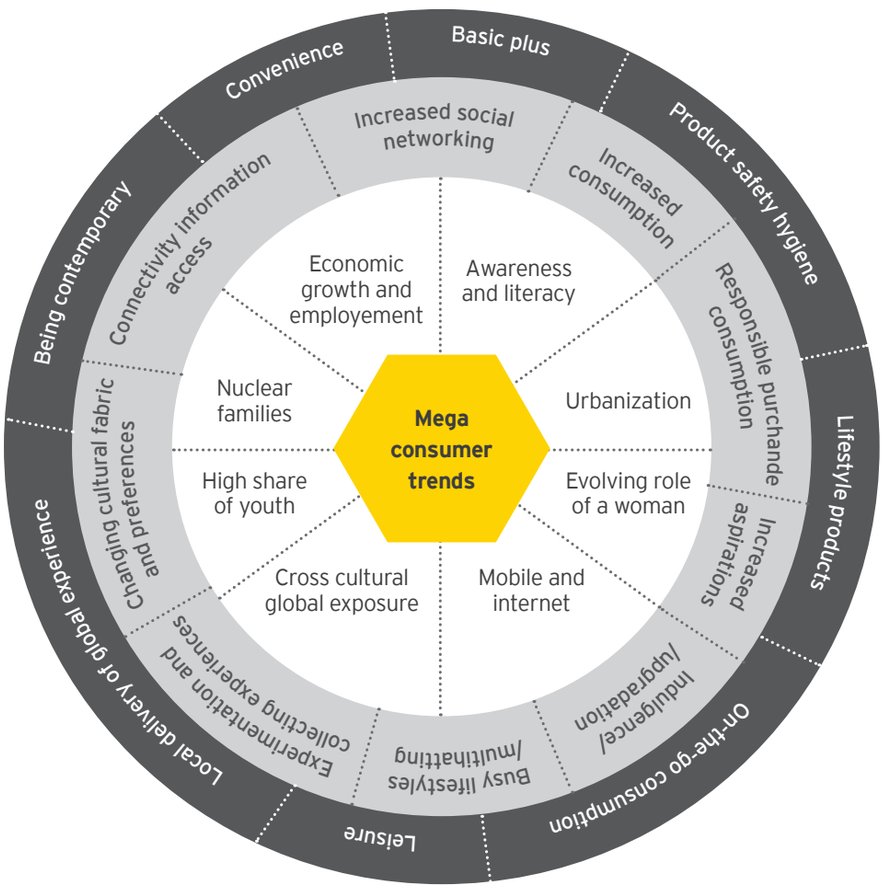
Given the need for improvement in India's supply chain infrastructure when it comes to food, coupled with the recognition of this fact by the Indian Government and the several schemes and incentives available, investments in this space are poised to grow in the coming years.

Accordingly, there are several global logistics and other related infrastructure companies that are now looking at India as an attractive investment destination. Further, global food processing, food retail and related supply chain companies are also beginning to view India as a country that is developing world-class infrastructure, thus making it a very attractive investment destination.

[1]http://pib.nic.in/newsite/PrintRelease.aspx?relid=155056

Food processing and food retail in India

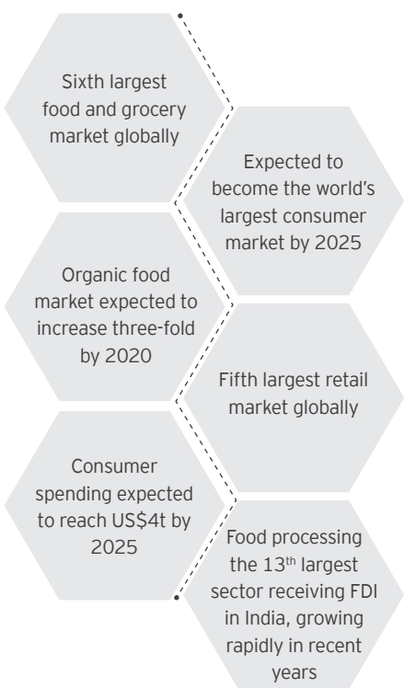
With a population of approximately 1.3b people, a median age of 27.6 years, a birth rate more than double the death rate and a rapidly growing middle class population that spends a high proportion of their disposable income on food, the Indian food and retail sectors are poised to witness tremendous growth in the coming years.



> *Given India's natural food processing and macro-economic advantage, coupled with several other growth drivers such as urbanization, rapidly growing middle class population and rising digital influences on consumers, India's food processing and food retail segments are the next sunrise sectors, poised to witness tremendous growth. It would be hard for global companies to ignore the strong business and growth opportunities that India has to offer today.*
> ***Aashish Kasad, Partner & India region tax leader for the Consumer Products & Retail Sector***

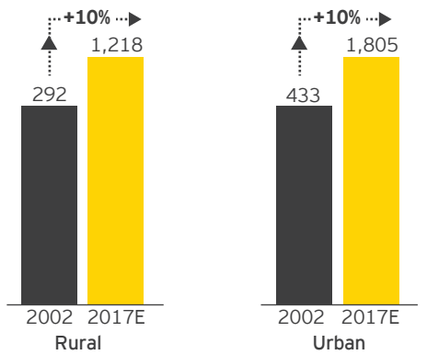
Food processing in India covers fruit and vegetables, plantations, grain processing, spices, milk and dairy products, meat and poultry, fisheries, non-alcoholic and alcoholic beverages, as well as other consumer product groups (such as confectionery, chocolates, cocoa products, soya-based products, mineral water and high protein foods).

Food processing has been growing rapidly on account of the natural advantage that India holds. Further, with the incorporation of FSSAI, the quality of food being processed in India has consistently improved, which in turn has led to Indian food products having a strong export demand.

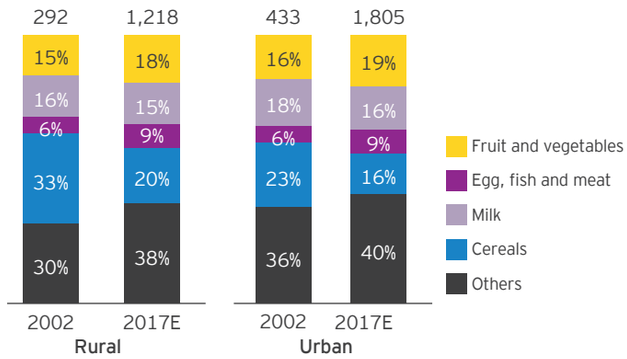


Source: IBEF Reports on Food Processing, Retail and Indian FMCG Industry

Monthly per-capita expenditure of food in India (INR)

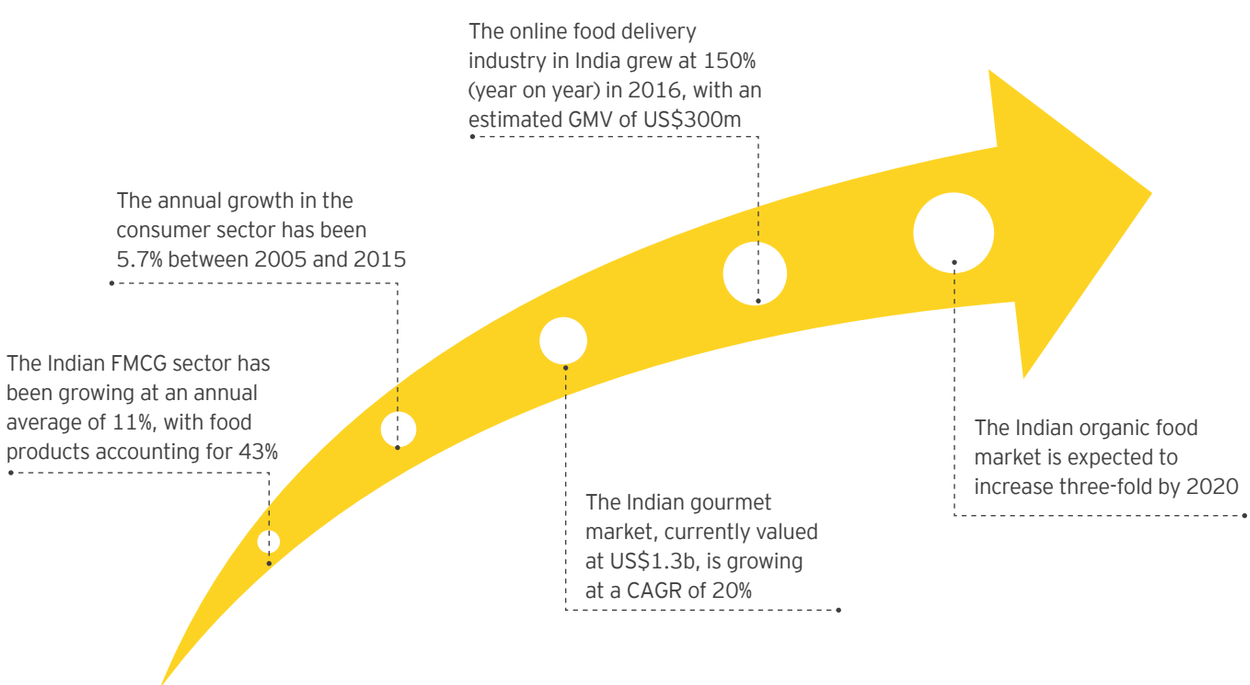


Share of food expenditure in India



Source: IBEF, MOSPI, CSO, Office of Economic Advisor, Ministry of Commerce & Industry, EY analysis

The Indian food retail segment has witnessed tremendous growth[1]



[1]IBEF Reports on Food Processing, Retail and Indian FMCG Industry

These factors, coupled with the improving ease of doing business in India, have been driving foreign investments and collaborations in recent times. Between April 2000 and June 2017, the Indian food processing sector attracted foreign investments aggregating to US$7.81b, making it the 13th largest sector receiving FDI in the country. Also, over 80% of the sector's FDI since April 2000 has been received since April 2012.

FY2017–18 is also showing strong promise for foreign investment in the sector, with

US$263m having already been invested within the first quarter (April to June 2017).

> *The Indian food processing sector is a vital part of India's economy and has been attracting investments from leading global players as well as domestic companies. The Government has taken significant steps to unlock the potential of the sector including liberalization of the FDI policy, establishment of mega food parks and strengthening of the supply chain infrastructure. Together with these reforms, rapid adoption of technology and collaborations by Indian food companies, the industry is well poised for high growth, employment generation and increased competitiveness in the global market."*
>
> ***Rajiv Memani, India Region Chairman, Ernst & Young LLP & Chairman of EY's Emerging Markets Committee***

India's growing focus on contract farming

Contract farming refers to a system of farming and marketing in which agro-processing/exporting or trading units enter into a contract with farmers to purchase a specified quantity and quality of one or more agricultural commodities at a pre-agreed price. Contract farming has the potential to fill the gap of investments and land improvement by supplying quality inputs, giving technical guidance and management skills, while assuring farmers a confirmed offtake of their produce at a pre-agreed commercial consideration.

The Indian Government has committed itself to doubling farmers' income by 2022 through the adoption of targeted policies and multipronged schemes and programs, including those related to post-production reduction of food losses (on account of the inability of food to reach the market due to poor infrastructure and logistics) and food wastage (at various stages including storage, transportation and consumers).

In light of the above factors, and as part of the Union Budget of 2017, it was announced that a model law on contract farming shall be framed in India. Pursuant to that, a committee has been set up to draft a **Model Contract Farming Act**. The committee is determined to formulate a comprehensive, promotional and facilitative model **Contract Farming Act**, which can address all the constraints in adopting contract farming in a big way.

The committee has begun deliberations and discussions, and has invited suggestions and inputs from various stakeholders, including the general public, which can be sent at surendrak.singh@nic.in.

The approach shall be to promote a win-win situation for both the farmers and the sponsoring company, so that the risks and uncertainties in meeting the obligations of the contract are addressed. The aim would also be for the farmers to benefit from a pre-agreed future price for their produce, besides efficiency in resource management and knowledge at the production stage. Simultaneously, the sponsoring company should also be able to plan for processing, marketing and exports based on pre-agreed quantity and quality for an agreed-upon contractual price.

Food processing
Indian regulatory landscape

India has developed a robust regulatory landscape governing the food processing sector, given its increasing importance and priority.

MoFPI

MoFPI is a ministry of the Government of India set up in 1988, with a view to develop a strong and vibrant food processing industry, to improve employment in rural sector and enable farmers to reap the benefits of modern technology and to export surplus of processed food in India. MoFPI is currently headed by the Union Cabinet Minister for **Food Processing Industries of India, Ms. Harsimrat Kaur Badal,** and **Minister of State, Sadhvi Niranjan Jyoti**.

The functions of MoFPI are broadly classified under policy support and development activities.

MoFPI acts as a catalyst for bringing in greater investment into this sector, guiding and helping the industry and creating a conducive environment for its healthy growth. The major aims of MoFPI are:

- Facilitate better utilization and value addition of agricultural produce with a view to enhance the income of farmers
- Minimize wastage at all stages in the food processing value chain, by the development of infrastructure for storage, transportation and processing of agro-food produce
- Induct modern technology into the food processing industry from both domestic and external sources
- Encourage R&D in food processing for product and process development and improved packaging
- Promote export of processed food products

Further information on the roles and activities of MoFPI can be found at http://mofpi.nic.in/.

Policy support	▸ Formulation and implementation of policies for the food processing sector with overall national priorities and objectives ▸ Facilitating the creation of a conducive environment for healthy growth of the food processing sector
Development support	▸ Continued emphasis on the creation of world-class infrastructure for growth of the sector through mega food parks, integrated cold chain infrastructure and also through assistance under various schemes and incentives ▸ Widening the R&D base in food processing by involvement of various R&D institutes and support to various R&D activities ▸ Human resource development to meet the growing requirement of managers, entrepreneurs and skilled workers in the food processing industry ▸ Assistance in setting up analytical and testing laboratories, active participation in the laying down of food standards and their harmonization with international standards

FSSAI

By enacting the FSS Act in 2006, India took an important step toward building a safe food culture in the country. This brought the nine regulations and various orders on food safety administered by different ministries under one umbrella. Ensuring the availability of safe and wholesome food for human consumption is a key objective of the FSS Act. Therefore, it has consolidated all laws related to food and sparked a movement, from multi-level and multi-departmental controls in food safety and nutrition to an integrated line of command with an overarching policy framework for food safety and nutrition.

In 2008, FSSAI was established under the aegis of the Ministry of Health and Family Welfare (MoHFW) to enforce the provisions of the new law. MoHFW administers it through the Chairperson and Chief Executive Officer (appointed by the Central Government), along with a 22-member team.

Under the FSS Act, FSSAI is a single reference point for all matters related to food safety and standards in the country. FSSAI is assisted by scientific committees and panels in setting standards and the central advisory committee in coordinating with enforcement agencies. Further, FSSAI guides and regulates all persons engaged in the manufacturing, processing, importing, transporting, storing, distributing and retailing of food on issues of food safety and nutrition.

Some of the key functions of FSSAI under the FSS Act include:

- Framing regulations to lay down food standards and guidelines
- Laying down procedure and guidelines for accreditation of laboratories for food testing
- Providing scientific advice and technical support to the Government in areas that have a direct or indirect bearing of food safety and nutrition
- Collating data regarding food consumption, contamination, identification of emerging risks, introduction of a rapid alert system etc.
- Disseminating information and promoting awareness about food safety and nutrition in India
- Conducting training programs for food businesses
- Contributing to the development of international technical standards for food, sanitary and phytosanitary standards

To further enable it to meet its objectives, in 2011 FSSAI enacted the Food Safety & Standards Rules, along with several other regulations.

Food Safety & Standards Regulations in India
Procedural regulations
Food Safety and Standards (Licensing and Registration of Food Businesses) Regulation, 2011
Food Safety and Standards (Prohibition and Restriction on Sales) Regulation, 2011
Food Safety and Standards (Laboratory and Sampling Analysis) Regulation, 2011
Food Safety and Standards (Food Recall Procedure) Regulation, 2017
Food Safety and Standards (Import) Regulation, 2017
Food standards
Food Safety and Standards (Food Product Standards and Food Additives) Regulation, 2011
Food Safety and Standards (Packaging and Labelling) Regulation, 2011
Food Safety and Standards (Contaminants, Toxins and Residues) Regulation, 2011
Food Safety and Standards (Food or Health Supplements, Nutraceuticals, Foods for Special Dietary Uses, Foods for Special Medical Purpose, Functional Foods and Novel Food) Regulation, 2016
Food Safety and Standards(Fortification of Food) Regulation, 2016
Food Safety and Standards (Organic Foods) Regulation, 2017

FSSAI is also responsible for framing vertical and horizontal standards for food products. Horizontal standards that cut across categories of foods are covered in two principal regulations: Food Safety and Standards (Contaminants, Toxins and Residues) Regulation, 2011 and Food Safety and Standards (Packaging and Labelling) Regulation, 2011.

Vertical standards, which mainly include identity and compositional standards of specific food products, are covered under Food Safety and Standards (Food Product Standard and Food Additives) Regulation, 2011, which contain 377 vertical standards for various types of food and also cover additives, microbiological requirements etc. In addition to the vertical and horizontal standards, there is a separate regulation on health supplements, nutraceuticals, food for special dietary use, food for special medical purposes, functional foods and novel foods.

The standards are framed based on scientific parameters, including developments in food science, food consumption patterns, advancement in processing technology and identification of new risks. Seventeen scientific panels and a scientific committee comprising of over 200 independent scientists/domain experts assist in the development of the standards. Further, in order to ensure a holistic appraisal of the standards and feasibility of their implementation, eight standard review groups have been constituted for identifying gaps and suggesting new standards wherever required.

In a conscious policy move to harmonize local standards with global standards, FSSAI has decided to adopt Codex standards where there are no domestic standards or regulations in place. Simultaneously, an exercise to harmonize FSSAI's standards with Codex has been undertaken and around 9,000 provisions for additives have framed while harmonizing standards with globally acceptable practices.

FSSAI has also taken steps to harmonize legal metrology rules on labelling requirement with Food Safety and Standards (Packaging and Labelling) Regulation, 2011. This has removed the ambiguity that existed around the labeling requirement of food products.

FSSAI is also the National Codex Contact Point of India, and functions as an interface between Codex Alimentarius Commission and India as a member country. FSSAI has adopted some of the Codex Alimentarius international food standards that contribute to the safety, quality and fairness of this international food trade.

Food Safety and Standards (Import) Regulations, 2017

FSSAI has introduced an online Food Import Clearance System (FICS) for ease in clearance of imported food products into India. FICS has been integrated with Single Window Interface for Facilitating Trade (SWIFT) of the Customs Department. The importers/custom house agents are required to file their bill of entry through an integrated declaration form only once with SWIFT.

As part of FICS, all clearance sub-processes are handled electronically, including document scrutiny, sampling, payment of fees, testing of samples and final clearance. As a result, the clearance time has reduced from about 12 days to nearly 8 days.

FSSAI has also introduced a risk-based inspection system, which is also aligned to international standards. Rather than testing end products, this system identifies, assesses and maps industrial risks that can compromise food safety and addresses these directly.

Other FSSAI initiatives for ease of doing food business in India

For ease of doing business, FSSAI has introduced initiatives such as online application for registration and licensing of food business, single-window clearance for imported food products, trainings for food safety professionals, constitution of scientific panels and committees for review, updating and enactment of new standards and implementation of IT interfaces to minimize visits of food business operators to FSSAI offices.

At present, the single-window clearance for imported food products has only commenced at certain ports in Delhi and Mumbai. Keeping the spirit of promoting ease of doing business, FSSAI has launched the Pre-Arrival Document Scrutiny (PADS) for ports where single-window clearances have not been implemented. PADS will also be integrated with ports where single-window clearance has been implemented.

Under PADS, scrutiny of import documents will be done much before the actual arrival of goods in India, thereby reducing the processing time for imports in the country. The aim of PADS is to prevent the arrival of non-standardized goods in the country, thereby saving the importer and the regulatory authority from the losses and hassles due to the rejection of such goods after import.

To ensure availability of safe and wholesome food for every Indian citizen on a sustainable basis, along with regulatory tools, it is imperative to actively work toward consumer awareness and capacity building of food businesses. For consumer awareness, Project SNF (Safe and Nutritious Food) has been initiated. It adopts a 360-degree approach for citizen guidance and behavioral change in every sphere — at home, school, workplace and even when eating out. For capacity building, a Food Safety Training and Certification ecosystem has been set up as a participatory program of training and capacity building, designed to enhance public awareness while simultaneously training food handlers across the value chain.

The success of FSSAI rests on forging of partnerships among all stakeholders, as food safety is a shared responsibility.

Further information on FSSAI can be found at http://www.fssai.gov.in

Bureau of Indian Standards Act, 1986

The Bureau of Indian Standards, empowered by the Bureau of Indian Standards Act, 1986, operates a product certification scheme by which it grants licenses to manufacturers covering practically every industrial discipline from agriculture and textiles to electronics.

The certification allows the licensees to use the popular ISI mark, which has become synonymous with quality products for the Indian and neighboring markets for over 55 years.

While the scheme itself is voluntary in nature, the Indian Government has, in public interest, enforced mandatory certification on various products through various quality control orders issued from time to time, under various acts.

While BIS continues to grant licenses on application, the enforcement of compulsory certification is done by the authorities notified in such quality control orders. The BIS offers a variety of licenses within India and overseas. Overseas applicants can also be granted BIS certification and ISI mark for their products under the Foreign Manufacturers Certification Scheme (FMCS).

In this connection, the Food Safety and Standards (Prohibition and Restriction on Sales) Regulations, 2011 has prescribed mandatory certification under the BIS Act for the following products:

- Infant milk food
- Infant formula
- Milk cereal based weaning food
- Processed cereal based weaning food
- Follow up formula
- Packaged drinking water
- Packaged mineral water

Further information can be found at http://www.bis.org.in/

AGMARK certification

AGMARK is a certification mark for agricultural products in India, assuring that they conform to a set of standards approved by the Directorate of Marketing and Inspection, an agency of the Indian Government. AGMARK is legally enforced in India by the Agricultural Produce (Grading and Marking) Act of 1937 (as amended in 1986).

The present AGMARK standards cover quality guidelines for 213 different commodities spanning a variety of pulses, cereals, essential oils, vegetable oils, fruits and vegetables, and semi-processed products such as vermicelli.

The AGMARK certification is employed through fully state-owned laboratories located across the nation that act as testing and certifying centers. In addition to the central AGMARK laboratory in Nagpur, there are regional AGMARK laboratories in 11 nodal cities (Mumbai, New Delhi, Chennai, Kolkata, Kanpur, Kochi, Guntur, Amritsar, Jaipur, Rajkot and Bhopal).

Each of the regional laboratories is equipped for the testing of products of regional significance. Hence, the product range that could be tested varies across the centers.

In this connection, the Food Safety and Standards (Prohibition and Restriction on Sales) Regulations, 2011 has prescribed mandatory certification under AGMARK for the following products:

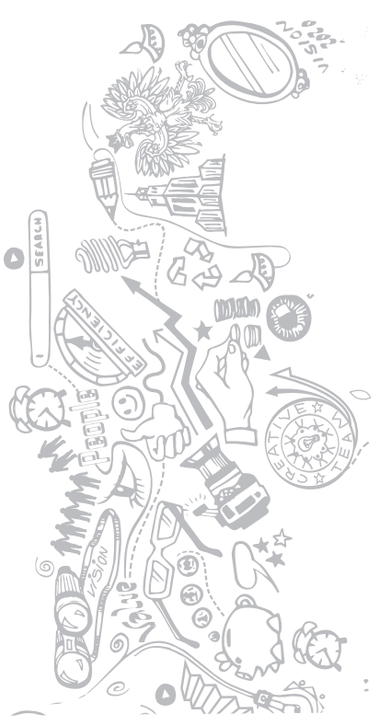
- Till oil
- Blended edible vegetable oils
- Fat spread
- Carbia Callosa
- Honey dew
- Ghee

Standards of Weights and Measures in India

The Standard of Weights and Measures Act, 1976 was enacted primarily to establish standards of weights and measures, to regulate trade or commerce in weights, measures and other goods that are sold or distributed by weight, measure or number.

Further, in 2009, the Legal Metrology Act, 2009 was passed by the Indian Parliament in order to repeal and replace the Standards of Weights and Measures Act, 1976 and the Standards of Weights and Measures (Enforcement) Act, 1985. The said act was brought into force w.e.f 1 April 2011, with the aim of protecting consumer interests while simultaneously keeping the industry free from unnecessary interference.

Pursuant to the above, the Legal Metrology (Packaged Commodities) Rules, 2011 were prescribed in order to regulate pre-packaged commodities. Under the said rules, pre-packaged commodities are required to comply with certain mandatory labeling requirements.



Food processing
Schemes and incentives offered

MoFPI offers several notable schemes and incentives to further promote the growth and development of the Indian food processing sector.

In May 2017, the Cabinet Committee on Economic Affairs, chaired by Hon'ble Prime Minister, gave its approval for re-structuring various schemes offered by MoFPI, under a new central sector scheme SAMPADA (Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters) for the period 2016–20. The SAMPADA Scheme has very recently been renamed as Pradhan Mantri Kisan Sampada Yojana (PMKSY).

PMKSY has an allocation of INR60b (approximately US$900m) and is expected to leverage investments to the tune of INR314b (approximately US$4.70b), which would benefit nearly 2 million Indian farmers and generate direct/indirect employment for over 500,000 people[1].

The desired impact of this scheme includes:

- Providing a boost to the growth of Indian food processing sector
- Creating modern infrastructure, with efficient supply chain infrastructure and management, from the farm gate to the retail outlet
- Increasing the processing level and reducing wastage of agricultural produce
- Improving the availability of safe and convenient processed foods at affordable prices and enhancing the exports of the processed foods from India
- Providing better prices to farmers, and helping in doubling farmers' income
- Creating employment opportunities in rural areas

PMKSY is a comprehensive package to give a renewed thrust to the food processing sector in the country.

It includes new schemes of infrastructure for agro-processing clusters, creation of backward and forward linkages and creation/expansion of food processing and preservation capacities, apart from existing schemes such as mega food parks, integrated cold chain and value addition infrastructure, and food safety and quality assurance infrastructure.

These schemes aim at the development of modern infrastructure to encourage entrepreneurs to set up food processing units based on a cluster approach, provide effective and seamless backward and forward integration for processed food industry by plugging gaps in supply chain and creation of processing and preservation capacities and modernization/ expansion of existing food processing units.

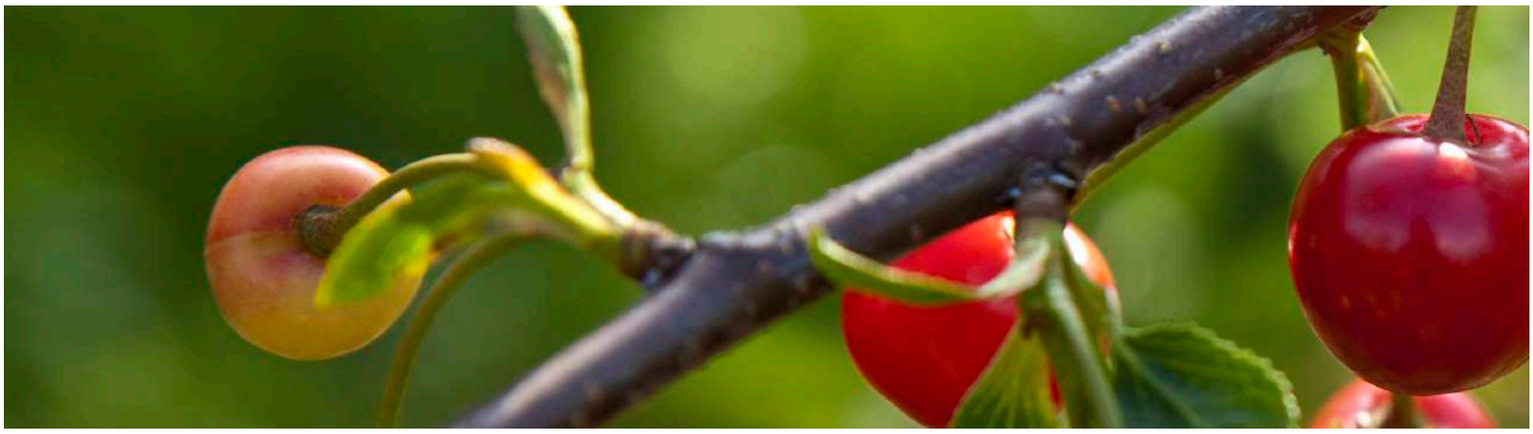
In light of the above, certain key schemes offered by MoFPI have been summarized in this chapter.

[1]http://pib.nic.in/newsite/PrintRelease.aspx?relid=170174

Mega Food Park Scheme	
Background	The Mega Food Park Scheme is based on a "cluster" approach and envisages a well-defined food processing zone containing state-of-the-art processing facilities, along with support infrastructure and a well-established supply chain. As of 30 June 2017, there were 9 mega food parks functional in India (located in Punjab, Uttarakhand, Assam, Jharkhand, Andhra Pradesh, Karnataka, West Bengal and Madhya Pradesh).
Project components	The project components of a mega food park envisaged in this scheme include collection centers, primary and central processing centers, and cold chain infrastructure. **Collection centers and primary processing centers:** These components shall have facilities for cleaning, grading, sorting and packing, dry warehouses and specialized cold stores including pre-cooling chambers, ripening chambers, reefer vans, mobile pre-coolers, mobile collection vans etc. **Central processing centers:** These shall include common facilities such as testing laboratories; cleaning, grading, sorting and packing facilities; dry warehouses; specialized storage facilities including controlled atmosphere chambers, pressure ventilators, variable humidity stores, pre-cooling chambers and ripening chambers; and cold chain infrastructure including reefer vans, packaging units, irradiation facilities, steam sterilization units, steam generating units and food incubation and development centers.
Assistance provided	The scheme envisages a one-time capital grant for 50% of the total project cost (excluding land costs) subject to a maximum of INR500m (approximately US$7.5m). For projects in the north-east region, including Sikkim, Jammu & Kashmir, Himachal Pradesh, Uttarakhand and Integrated Tribal Development Projects (ITDP) notified areas, the one-time grant shall be 75% of the total project cost (excluding land costs), subject to a maximum of INR500m (approximately US$7.5m). Further, a program management agency shall be appointed by the Ministry to provide management, capacity building, coordination and monitoring support. For meeting these costs, and also of other promotional activities by the Ministry, a separate amount, to the extent of 5% of the overall grants available, shall be earmarked.

Scheme of Cold Chain, Value Addition and Preservation Infrastructure	
Background	The objective of this scheme is to promote the development of integrated cold chain and preservation infrastructure facilities, without any break from the farm gate to the consumer.
Project components	Eligible projects for this scheme include either a **food irradiation facility** or a project including any two of the following components: ▸ Minimal processing center at the farm with facilities such as weighing, sorting, grading, waxing, packing, pre-cooling, controlled atmosphere/modified atmosphere cold storage and normal storage ▸ Mobile pre-cooling vans and reefer trucks ▸ Distribution hubs with multi-product and multi-controlled/modified atmosphere chambers, cold storage/ variable humidity chambers, packing facility, fog treatment and blast freezing
Assistance provided	The scheme provides for a financial grant for 35% of the total cost of plant and machinery and technical civil works, subject to a maximum of INR100m (approximately US$1.5m). For projects in the north-east region, including Sikkim, Jammu & Kashmir, Himachal Pradesh and Uttarakhand, the financial grant shall be for 50% of the total cost of plant and machinery and technical civil works, subject to a maximum of INR100m (approximately US$1.5m). Further, for value addition and processing infrastructure, and irradiation facilities, the above grant in aid shall be 50% of the total cost (and 75% in the case of north-east states, Himalayan states and ITDP notified areas and islands), subject to a maximum of INR100m (approximately US$1.5m).

Scheme for Creation/Expansion of Food Processing/Preservation Capacities	
Background	This scheme was formed with the objective to create food processing and preservation capacities, and also to modernize and expand existing food processing units in the country. The eligible food processing sectors for availing assistance under the scheme include fruit and vegetable processing, milk processing, ready-to-eat and ready-to-cook products, grains and pulses, natural food flavors, food additives and food extracts, processing plants (to be setup in mega food parks) that make food products fit for human and animal consumption, fruits/honey-based wines etc.
Eligible organizations	Organizations and entities that would be eligible for availing benefits of this scheme include the following: ▸ Central and state PSUs ▸ Joint ventures ▸ Public and private companies ▸ Partnership firms and limited liability partnerships ▸ Proprietorship firms ▸ Farmer producer organizations/NGOs/cooperatives
Project components	An indicative list of processing activities that would be eligible under this scheme is as follows: ▸ Sorting, grading, washing, peeling, cutting and sizing activities ▸ Pasteurization, homogenization, evaporation, concentration etc. ▸ Packaging facilities such as canning, vacuum packaging, bottling and edible packaging ▸ Chemical preservation, pickling, fermentation or any other specialized facility required for preservation ▸ Temperature-controlled transport and storage facilities ▸ All other processing/preservation/transport/storage facilities that are related to value addition and shelf life enhancement of food products. The above list of eligible activities is only illustrative. Innovative food processing technologies shall also be considered under this scheme, with recommendations from a technical committee. *Standalone projects such as temperature-controlled storage and transport facilities would not be considered under this scheme, as a project should result in the creation or expansion of food processing capabilities in order to be eligible.*
Assistance provided	The scheme provides for a financial grant for 35% of the total cost of plant and machinery and technical civil works, other than ineligible expenses, subject to a maximum of INR50m (approximately US$0.75m). For projects in the north-eastern states, Himalayan states, ITDP notified areas and islands, the financial grant shall be for 50% of the total cost of plant and machinery and technical civil works, other than ineligible expenses, subject to a maximum of INR50m (approximately US$0.75m). *Ineligible expenses include expenses such as cost of land, site development, building of compound wall, personal transport vehicles, second-hand/refurbished/reconditioned plant and machinery, expenses on painting of machinery, fuel, consumables, stores, consultancy fees and margin money.* Apart from the above, MoFPI shall engage a professional project management agency (to be selected on a bidding basis) for evaluation, examination and monitoring of the proposals.



Scheme for Creation of Backward and Forward Linkages	
Background	This scheme was formed with the objective to provide effective and seamless backward and forward integration for the processed food industry by plugging the gaps in the supply chain in terms of availability of raw material and linkages with the market. The scheme aims to enable the linking of farmers to processors and the market thereby ensuring remunerative prices for their produce. The eligible food processing sectors for availing assistance under the scheme include horticulture, milk and milk products, meat, poultry, marine and fisheries, ready-to-eat and ready-to-cook products, retail shops for perishable food products, etc.
Eligible organizations	The following organizations and entities would be eligible for availing the benefits of this scheme: ▸ Promoters of food processing units ▸ Entrepreneurs desirous of entering into the food processing supply chain ▸ Groups of producers (such as cooperatives) linked to food processing units or desirous of setting up minimal processing/ value-addition centers ▸ Retailers with linkages with farm level and/or with processors
Project components	The eligible components and facilities for availing benefits under this scheme include the following. **Backward linking:** ▸ Integrated pack-house(s) (with mechanized sorting and grading line, packing line, waxing line, staging cold rooms, cold storage etc.) ▸ Milk chilling center(s)/bulk milk cooler(s) ▸ Pre-cooling unit(s)/chillers ▸ Reefer boats ▸ Machinery and equipment for minimal processing and/or value addition such as cutting, dicing, slicing, pickling, drying, pulping, canning and waxing ▸ Machinery and equipment for packing/packaging **Forward linking:** ▸ Retail chain of outlets to be set up by processors and/or organizations with farm-level infrastructure (as covered under backward linking above) for perishable food products. These would have facilities such as frozen storage, deep freezers, refrigerated display cabinets, cold room, chillers, packing and packaging ▸ Distribution center associated with the retail chain of outlets as above with facilities such as cold room, cold storage and ripening chamber **Transport**: Refrigerated/insulated transport/reefer vans in conjunction with the forward or backward linking discussed above.
Assistance provided	The scheme provides for a financial grant for 35% of the total cost of plant and machinery and technical civil works, other than ineligible expenses, subject to a maximum of INR50m (approximately US$0.75m). For projects in the north-eastern states, Himalayan states, ITDP notified areas and islands, the financial grant shall be for 50% of the total cost of plant and machinery and technical civil works, other than ineligible expenses, subject to a maximum of INR50m (approximately US$0.75m). Ineligible expenses include expenses such as cost of land, site development, building of compound wall and approach road, second-hand/refurbished/reconditioned plant and machinery, pre-operative expenses and plant and machinery not directly related to the proposed project.

Apart from the above, the Scheme for Human Resources and Institutions includes the following four components:

- Research and development in the food processing sector
- Promotional activities, advertisements, publicities, studies and surveys
- Skill development
- Strengthening of institutions

The above components have been summarized in the following pages.

Research & Development in the Food Processing Sector	
Background	The main objective of the scheme is the development of new products and new cost-effective technologies for preservation and packaging of food products, and standardization of various factors such as additives, coloring agents, preservatives and pesticide residue.
Assistance provided	▸ **For Government organizations:** 100% grant would be provided for equipment cost (plus the cost of consumables and expenditure specific to the project for a maximum period of two years). No assistance would be provided for existing equipment. ▸ **For private organizations:** 50% grant would be provided for equipment cost in general areas and 70% in Jammu & Kashmir, Himachal Pradesh, Uttaranchal, Sikkim, north-eastern states, Andaman & Nicobar Islands, Lakshadweep and ITDP notified areas. ▸ **Others:** 100 % grant would be provided for projects sponsored by MoFPI, restricted only to public-funded organizations of repute, in cases of cutting edge areas of research that are expected to lead to the development of innovative products, processes and manufacturing practices.

Promotional activities, advertisements, publicities, studies and surveys	
Background	The objectives of this scheme are as follows: ▸ To organize, co-sponsor and participate in all national level seminars, workshops, fairs and exhibitions for the food processing sector, to encourage investment in food processing, and to create awareness of the schemes being implemented by the ministry ▸ To commission studies/surveys to assess and evaluate various aspects of food processing sectors and allied activities ▸ To create awareness about schemes through print/audio-visual media, and through advertisements and publicity materials. ▸ To organize road shows, develop software and conduct investor facilitation activities to promote the food processing sector
Assistance provided	▸ For organizing all India level seminars, workshops, fairs and exhibitions for the food processing sector, grant in aid shall be to the extent of 50% of the cost of the event, subject to a maximum of INR 0.5m. ▸ In case the event is sponsored/ co-sponsored by MoFPI, or MoFPI is participating directly through any designated agency or institute, the limit of INR 0.5m would not apply. ▸ Financial assistance for advertisement and publicity components would be on an actual cost basis, which would be determined by following due procedure

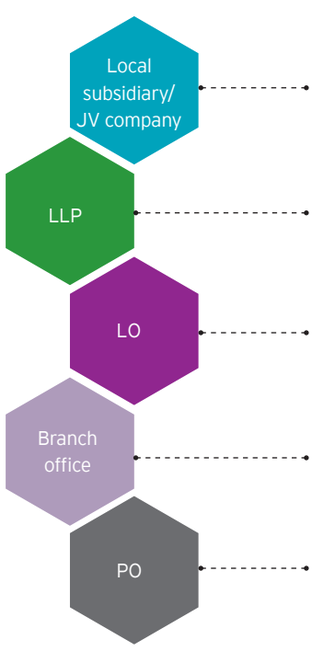
Skill development	
Background	The objectives of this scheme are as follows: ▸ To provide sector-specific skilled workforce from floor level workers, operators, and packaging and assembly line workers to quality control supervisors, in the various sub-sectors of the food processing industry ▸ To contribute toward achieving the projected skilled human resource requirements, as envisaged by National Skill Development Corporation (NSDC) in the food processing industry (i.e., 17.8m persons by 2022)
Assistance provided	▸ For the development of course curriculum for training modules and its translation in English, Hindi and regional languages based on the qualification packs (QP) validated by the NSDC as National Occupational Standards for different job roles in various sectors of food processing industries, the grant-in-aid would be INR0.5m per QP for development of training modules (both in print and multimedia) for each job role. Further, INR50,000 per QP would also be available for the translation of already developed training modules in different languages, for each job role. ▸ For the creation of infrastructure facilities for skill development, grant in aid shall be 50% of total cost of plant and machinery, subject to a maximum of INR1.5m per training module, and limited to two training modules per training center.

Strengthening of institutions	
National Institute of Food Technology, Entrepreneurship and Management (NIFTEM)	The objectives of this scheme are as follows: ▸ MoFPI established the NIFTEM at Kundli, District Sonepat, Haryana, in May, 2012. NIFTEM currently offers several courses and undertakes R&D projects in the area of food technology. ▸ Under this scheme, funds will be provided to NIFTEM for the creation of academic and administrative infrastructure such as hostels for foreign students, sports facilities, hazardous chemical storage, effluent treatment plants, solid waste management systems and residential units. Funds will also be provided to promote research activities and skill development in the food processing sector.
Indian Institute of Food Processing Technology (IIFPT)	▸ MoFPI upgraded IIFPT, Thanjavur, Tamil Nadu, to a national-level institute in February 2008. IIFPT currently offers courses and undertakes R&D projects in the area of food processing. ▸ Under this scheme, funds will be provided to IIFPT for the creation of infrastructure facilities, including purchase of additional land for expanding campus and creation of academic and administrative infrastructure such as machine fabrication and testing centers, a sport complex, an auditorium, training cum incubation centers and residential units.

Further information on the various schemes and incentives available can be found at http://mofpi.nic.in/

Forms of business presence in India

While incorporation of a company (private company, listed public company, JV company etc.) is one of the most common forms of establishing presence in India, other common forms of business presence include LLPs, POs, branch offices and LOs.



Local subsidiary/JV company: Subject to FDI regulations; funding can be via debt/equity/internal accruals; no restrictions on repatriation of dividend

LLP: Liability of partners restricted to their agreed contribution; foreign investment permitted in sectors where 100% FDI allowed under the automatic route (with no sector-specific conditions for receiving FDI)

LO: Initially opened in India by certain foreign corporates to act as a communication channel, spread awareness of their products and explore new opportunities

Branch office: Opened in India to undertake specific business activities (as may be permitted by RBI), such as trading, consultancy services, research work and technical support services

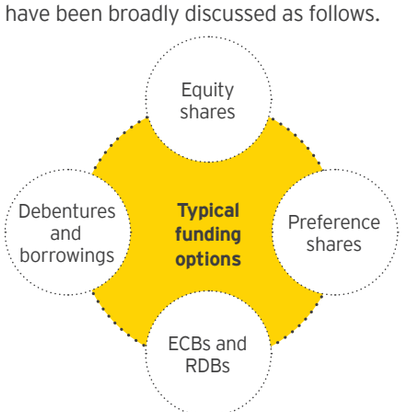
PO: May be set up by a foreign corporation having secured a contract from an Indian company, provided that it is funded by inward remittances from abroad

A broad-level comparison of the aforementioned forms of business presence has been tabulated below.

Particulars	Local subsidiary/JV company	LLP	LO	Branch/PO
Legal status	Separate legal entity	Separate legal entity	Extension of parent	Extension of parent
Setting-up requirements	Depends on whether activities are under the approval or automatic route as per FDI regulations	Foreign investment permitted in sectors where 100% FDI under the automatic route is permitted (without any sector-specific conditions)	Subject to approval of RBI	Subject to approval of RBI (unless established in an SEZ unit) Prior approval may not be required for establishing a PO, subject to certain conditions
Permitted activities	Any activity specified in the MOA of the company would be permitted, subject to restrictions in the FDI regulations.	LLP should be engaged in activities/sectors for which 100% FDI is allowed under the automatic route.	Only a liaison/representative/ communication role is permitted. No commercial or business activities are permitted to be undertaken by the LO.	Activities listed/permitted by RBI are permitted. Manufacturing (except in SEZ units) is not permitted.
Funding	Preference as well as equity shares, other forms of permitted borrowings (local and overseas as per prescribed norms) or internal accruals	Partners' contribution to capital	Local expenses to be met out of inward remittances received from abroad from the head office through normal banking channels	Local expenses to be met through inward remittances from the head office or from earnings from permitted operations
Limitation of liability	Limited to equity participation	Limited to partners contribution	Unlimited	Unlimited
ROC compliances	Various compliances required, significantly higher statutory compliance and filing requirements	Registration with ROC required Annual filing of accounts and annual statement on solvency to be filed	Registration and periodical filling of accounts/other documents required	Registration and periodical filling of accounts/other documents required
FEMA compliances	Required to file periodic and annual fillings related to receipt of issue of shares to foreign investors	Required to file prescribed forms on receipt of funds, transfer of partners' share	Required to file an annual compliance certificate with RBI	Required to file an annual activity/compliance certificate (from auditors in India) with RBI
Key income-tax aspects	Subject to tax as per domestic tax rates; dividend distributed subject to dividend distribution tax	Dividend distribution tax not applicable in the case of LLPs, and profits distributed to partners not taxable in the hands of partners	May constitute a permanent establishment in India for the head office, based on the exact nature of activities being undertaken	Likely to constitute a permanent establishment for the head office in India, and profits would accordingly be attributed and subjected to tax in India

Typical funding options available for India operations

At present, there are various alternatives available for Indian entities to avail funding, the most common of which include equity and preference shares, debentures, domestic borrowings, external commercial borrowings and RDBs. These funding options have been broadly discussed as follows.



Track 1 : Medium-term foreign currency ECBs
Track 2 : Long-term foreign currency ECBs
Track 3 : Rupee denominated ECBs

This is only a snapshot of selected funding options that are typically availed by corporations in India, and alternative funding options may be explored on a case-to-case basis.

Equity shares

The amount of equity capital a company can issue is limited by the authorized capital specified in its MoA.

A company can increase its authorized capital only if permitted by its articles of association.

Equity capital can be repatriated on liquidation or on transfer of shares.

Akin to equity, funds may be infused into an LLP by way of contribution to capital.

Preference shares

Foreign investment through convertible preference shares, which are compulsorily convertible into equity shares, are treated as FDI and non-convertible preference shares as external commercial borrowings.

Preference shares have to be redeemed within a period of 20 years.

The rate of dividends paid to non- residents should not exceed the limit prescribed as per extant FEMA regulations.

Debentures and borrowings

Overseas funding through compulsorily convertible debentures, convertible into equity shares, would be treated as FDI and non-convertible debentures as external commercial borrowings.

Further, Indian entities may also avail funding by way of domestic borrowings (without restrictions).

External commercial borrowings

ECBs can be issued in Indian rupees or foreign currency, and are regulated by the Ministry of Finance and RBI.

They can be accessed under two routes: the automatic route and the approval route.

ECBs up to US$750m for rupee and foreign currency expenditure fall under the ambit of the automatic route.

RDBs

RDBs are bonds issued in Indian national rupee, and can be subscribed to by residents of any country that is either a member of the Financial Action Task Force (FATF), or a member of FATF style regional body.

It would be crucial to note that related parties (as defined in Indian Accounting Standards) are not permitted to subscribe to, invest in or purchase RDBs.

Foreign exchange laws in India

Prior to 1999, Indian cross-border and exchange control regulations were covered under FERA, which prohibited several cross-border business transactions, unless specifically permitted.

In 1991, the Indian Government introduced various landmark reforms liberalizing the regulations governing cross-border transactions and foreign investments in the country. Given that FERA was no longer compatible in the post-liberalization era, it was replaced in 1999 by FEMA.

As on date, Indian exchange-control regulations with respect to cross-border and foreign currency transactions are governed by FEMA (along with the regulations and guidelines prescribed thereunder).

Further, since 1999 the FDI regime in India has been progressively liberalized with most restrictions on foreign investments have been removed and procedures simplified.

FDI in India is permitted either under the automatic route or the approval route, as explained below:

- **Automatic route:** No prior approval is required to be sought by the investor. The only requirement would be to intimate RBI (through an authorized dealer [AD] bank) within 30 days of the inflow of funds and issuance of shares respectively.
- **Approval route:** Prior approval of the Government is required to be obtained by the investor. Up to 2017, the FIPB was entrusted with the authority to provide such approvals. However, w.e.f. from 2017, the FIPB has been replaced by the online Foreign Investment Facilitation Portal.

Foreign currency transactions can be broadly classified into capital and current account transactions, as under:

- **Capital account transactions:** Such transactions are generally prohibited, unless specifically permitted under the relevant regulations.
- **Current account transactions:** Such transactions are freely permitted, unless specific restrictions are prescribed under the relevant regulations.

With respect to food processing and retailing, FDI regulations have been segregated into the following broad categories, each having certain conditions that are to be met:

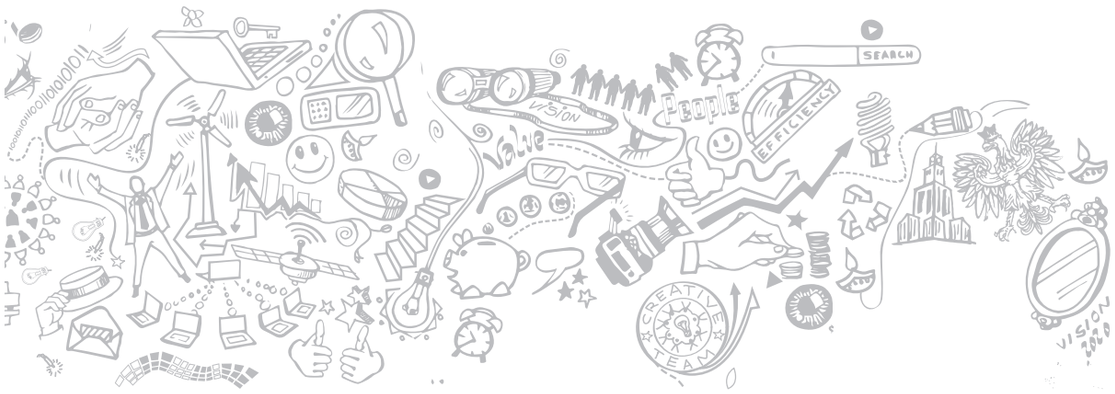
Category	Description
Manufacturing	Entities that undertake manufacturing operations in India
Agriculture	Entities engaged in floriculture, horticulture, apiculture and cultivation of vegetables
Plantation	Entities engaged in plantation of tea, coffee, rubber, cardamom, palm oil and olive oil
Wholesale trading	Entities that sell goods to other retail, industrial, commercial or business users but not to end consumers
SBRT	Entities that sell goods (to end consumers) of only one brand
MBRT	Entities that sell goods (to end consumers) of various brands
E-commerce	Entities that act as a digital marketplace for other retailers to sell products to end consumers
Food retail	Entities that sell (including through e-commerce) food products manufactured or processed in India (to end consumers)

The following is a snapshot of the FDI regulations for the manufacturing, trading and food-related sectors in India.

Sectoral caps for FDI in India[1]

	SBRT	MBRT	Wholesale	E-commerce
Permitted FDI	**Up to 100% FDI permitted** **Up to 49%** under the automatic route and **beyond 49%** under the approval route	**Up to 51% FDI permitted** under the approval route	**Up to 100% FDI permitted** under the automatic route	**Up to 100% FDI permitted** under the automatic route
Key FDI conditions	Where **FDI exceeds 51%**, mandatory local sourcing norms of **30%** would be triggered	**Minimum of US$100m** to be bought in through **FDI, 50%** of which is to be invested in back-end infrastructure	**Not more than 25% (in value)** of sales should be to group entities of the wholesale company	**FDI is only permitted for B2B** (i.e., the marketplace model of e-commerce)

100% FDI (under the approval route) is permitted for trading (including through e-commerce) for food products manufactured or produced in India.



Manufacturing sector

100% FDI is permitted for the manufacturing sector under the automatic route.

A manufacturer is also permitted to sell its products manufactured in India through wholesale, retail or e-commerce activities.

Plantation sector

100% FDI is permitted under the automatic route for the following plantations:

- Tea and coffee
- Cardamom
- Rubber
- Palm oil and olive oil

FDI is not permitted for any other plantation activities.

Agriculture and animal husbandry

100% FDI is permitted under the automatic route for the following activities:

- Floriculture, horticulture, apiculture and cultivation of vegetables and mushrooms under controlled conditions (i.e., where climatic and related conditions are controlled artificially)
- Development and production of seeds and planting material
- Animal husbandry, aquaculture, apiculture
- Services related to agro and allied sectors

FDI is not permitted for any other agricultural activities.

In 2017, in order further improve the ease of doing business in India, the Finance Minister, inter alia, announced phasing out of the FIPB as a part of his union budget speech. Pursuant to the same, on 29 June 2017, the DIPP issued a notification whereby the FIPB was replaced by the online FIFP for processing of FDI proposals covered under the approval route.

FIFP is an online single point interface of the Indian Government for investors to facilitate FDI. The procedure for processing FDI proposals (for retail trading and food retail, where under the approval route) has been broadly summarized below:

Filing of application

Proposal for foreign investment, along with supporting documents to be filed online on the FIFP at the following URL:

www.fifp.gov.in/

Where the online application is digitally signed by an authorized signatory, there is no requirement for physical submission of the application. However, for applications without a digital signature, once the e-filing of the application is complete, the applicant is required to file one signed copy of the printed application, along with duly authenticated copies of the documents attached with the application, with the nodal officers of the concerned ministry/department. In case of applications for retail trading and food retail, physical applications will need to be filed with the following officer:

Sh. Sushant Sudan (Deputy Director, DIPP),
Room No. 359 A, Udyog Bhawan, New Delhi.

Internal procedures for approval

- DIPP would circulate proposal to RBI within two days for comments from a FEMA perspective.
- Proposed investments from Pakistan and Bangladesh would also require clearance from the Ministry of Home Affairs.
- DIPP would be required to provide its comments within four weeks from the receipt of the online application and the Ministry of Home Affairs (if applicable) would need to provide comments within six weeks.
- Pursuant to the above, additional information/ clarifications may be asked from the applicant, which is to be provided within one week.
- Proposals involving FDI exceeding
- INR50b (approximately US$ 775m) shall be placed before the Cabinet Committee of Economic Affairs.

Final approval

Once the proposal is complete in all aspects (which should be within 6-8 weeks from the receipt of the online application), it shall be processed and approval/rejection shall be conveyed to the applicant within two weeks.

(Such approval/rejection letters shall be sent online)

India tax environment

Direct tax administration in India

Regulator

Administration, supervision and control in the area of direct taxes lie with the CBDT, which works under the Ministry of Finance.

Indian tax year

The Indian tax year extends from 1 April of a year to 31 March of the subsequent year.

Submission of return

All corporations (that are subject to Indian transfer pricing regulations) are required to file their income-tax returns by 30 November

(30 September in case of any other corporation).

Payment of advance tax

Corporate tax liability needs to be estimated and discharged by way of advance tax in four instalments on 15 June,

15 September, 15 December and 15 March of every year.

Corporate income-tax

A corporation's income consists of:

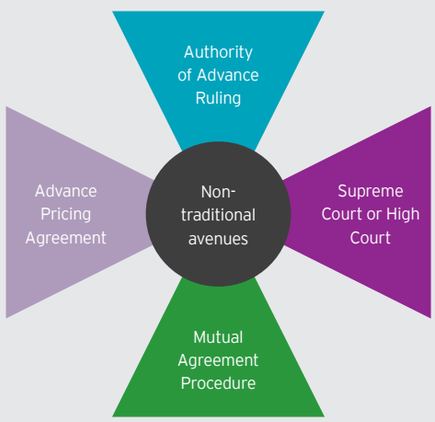
- Income from house property
- Income from business
- Capital gains on disposition of capital assets
- Residual income arising from
- non-business activities

Tax treaty: If there is a tax treaty entered into between India and the country of residence of the taxpayers, then provisions of the domestic tax law, or the tax treaty, whichever is more beneficial, would apply.

India has an extensive network of tax treaties, including comprehensive agreements, tax information exchange agreements and limited agreements.

Tax litigation framework in India

- Assessing Officer
- Commissioner of Income-tax (Appeals) or Dispute Resolution Panel
- Income-tax Appellate Tribunal
- High Court
- Supreme Court



Individual income-tax

Liability of income tax: Liability for income tax is governed by the tax residential status of individuals during the tax year.

Types of income subject to tax in India:

- Employment income
- Income from house property
- Self-employment/ business income
- Capital gains
- Residual income arising from other activities

Transfer pricing in India

Objective: Comprehensive transfer pricing regulations were introduced in India effective from 1 April 2001, with the objective of preventing associated enterprises from manipulating prices in intra-group transactions, for example, by transferring their profits outside India.

While there are some differences, Indian transfer pricing provisions are generally in line with the transfer pricing guidelines issued by the OECD.

Recent landmark tax updates in India

Alignment with international tax laws

- **BEPS and Multilateral Instruments:** BEPS refers to the process of shifting profits to low/no tax jurisdictions and exploiting gaps and mismatches in tax laws. To prevent that, the OECD has issued 15 "action plans" providing various policy suggestions. Given that various tax treaties would require amendment, Action Plan 15 talks about developing multi-lateral instruments to amend them.
  On 7 June 2017, India along with 67 other countries attended the first joint signing ceremony in Paris, and India has notified 93 tax treaties that it has entered into for modification under the MLI.
- **EQL:** Aligned to OECD's BEPS Action Plan 1, EQL provisions were made applicable in India with effect from 1 June 2016. EQL is a 6% levy to be withheld on any payments to non-residents for digital or online advertisements, or facility/service in connection thereto.
- **Thin capitalization:** Aligned to OECD's BEPS Action Plan 4, India introduced section 94B of the Income-tax Act, 1961, which states that the tax deductible of interest payments made to associated enterprises shall be restricted to a maximum of 30% of the EBITDA of the interest paying entity. These provisions are applicable to interest expenses incurred on or after 1 April 2017.
- **General Anti-Avoidance Rules (GAAR):** In line with several countries, India has introduced GAAR, which is applicable to any tax benefits obtained on or after 1 April 2017.

Key income-tax incentives for the food processing industry

There are certain income-tax incentives available for companies engaged in the food processing sector, some of which have been highlighted below:

Profit-linked tax holiday prescribed under section 80-IB

Section 80-IB of the Income-tax Act, 1961 provides a deduction for profits and gains derived by eligible businesses. In this connection, the section defines one of the eligible businesses to be the business of processing, preservation and packaging of fruits, vegetables, meat, meat products, poultry, marine, dairy products or the integrated business of handling, storage and transportation of food grains.

The deduction that has been specified for the aforesaid businesses is as follows:

- 100% of profits and gains derived: First five years (beginning in the year in which the undertaking commences undertaking the eligible business
- 25% (30% in the case of a company) of profits and gains derived: Next five years

In order to avail the benefit of this tax deduction, the above-defined eligible business should have commenced business on or after the following dates:

- Processing, preservation and packaging of fruits and vegetables, or integrated business of handling, storage and transportation of food grains: 1 April 2001
- Processing, preservation and packaging of meat, meat products, poultry, marine or dairy products: 1 April 2009.

Investment-linked deduction under section 35AD

Section 35AD of the Income-tax Act, 1961 provides for an investment-linked deduction for capital expenditure that has been incurred wholly and exclusively for specified businesses. The deduction offered under this section is dependent on which of the specified businesses the capital expenditure was incurred for, and can be either a 100% deduction or a weighted deduction of 150%.

An important aspect to be considered here is that where an investment-linked deduction is claimed and allowed under this section, one would not be permitted to also claim an income-linked deduction (such as the deduction under section 80-IB discussed earlier).

Some of the relevant specified businesses, along with the deduction available for capital expenditure under this section, have been summarized below:

- Setting up and operating a cold chain facility: 150% deduction
- Setting up and operating a warehousing facility for storage of agricultural produce: 150% deduction
- Setting up and operating a warehousing facility for storage of sugar: 100% deduction
- Production of fertilizers in India: 150% deduction
- Bee-keeping and production of honey and beeswax: 100% deduction

Other relevant income-tax incentives in India

Tax holiday prescribed under section 10AA

As per section 10AA of the Income-tax Act, 1961, units that have been set up in an SEZ prior to 1 April 2021, engaged in the manufacture or production of any article or thing, shall be eligible for the following deductions for profits and gains derived:

- First five years (beginning in the year in which the undertaking commences manufacturing/production): 100% deduction of profits derived from exports
- Next five years: 50% of profits and gains derived from exports
- Next five years: 50% of profits derived, subject to the deduction amount being debited to a "Special Economic Zone Re-investment Account" and used for certain specified purposes (such as purchase of plant and machinery).

Patent-box regime prescribed under section 115BBF

As part of the Finance Act of 2016, India introduced a 10% tax (on a gross basis) on royalty income earned from patents that have been developed and registered in India. The objective of this tax is for royalty income to be taxed in the jurisdiction where substantial R&D activities are undertaken, and not just the jurisdiction of legal ownership.

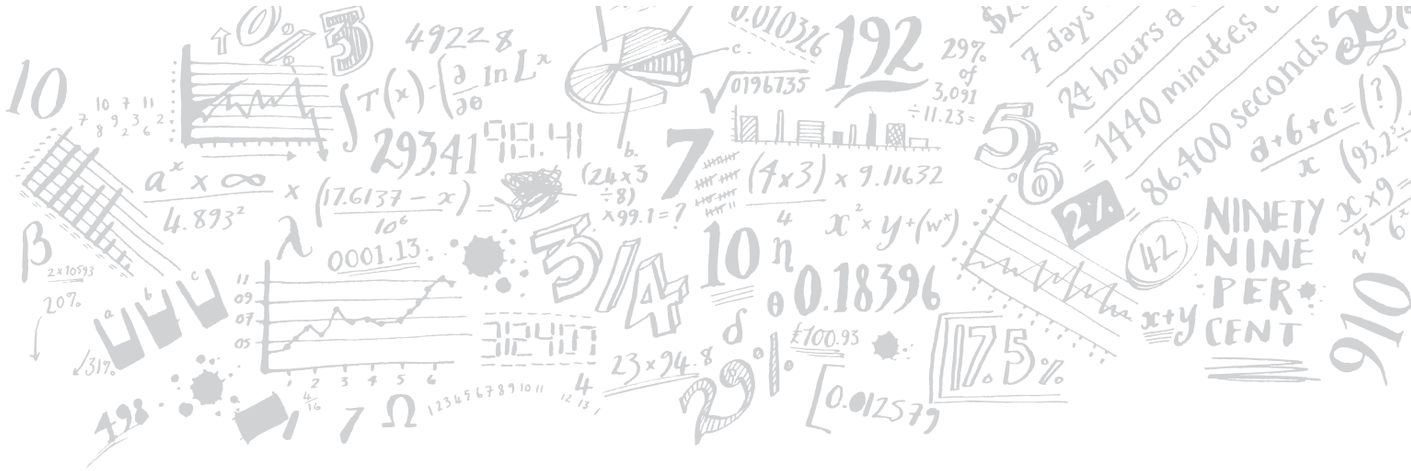
Eligible taxpayers:

- Should be the true and first inventor
- Should be registered as a patentee
- Should be a resident of India

Eligible income: Royalty income earned from eligible patents, excluding the following:

- Income from outright transfer of patents
- Consideration for sale of products manufactured using the patent
- Inter-unit fair charge
- Royalty prior to registration of patent

Eligible patents: Patents that have been developed and registered in India



Summary of important income-tax rates in India

Important tax rates applicable to corporates (as per the domestic tax law)

Particulars	Base tax rate* (%)
Domestic company – where total turnover for FY2014–15 does not exceed INR50m	29
Domestic company – any other case	30
Non-resident company	40
Non-residents and foreign companies – royalty and fees for technical services	10
Long-term capital gains	20
Long-term capital gains – on transfer of listed shares	Exempt
Short-term capital gains – on transfer of listed shares	15
Dividend distribution tax (subject to grossing-up)	15
Interest on foreign currency borrowings made prior to 1 July 2017	5
Interest on foreign currency borrowings made after 1 July 2017	20
Interest on RDBs made prior to 1 July 2020	5
Minimum Alternate Tax (on book profits, adjusted for limited additions and deletions that are prescribed) – payable only if it exceeds the tax payable under normal provisions	18.5

*The base tax rates mentioned above are for assessment year 2018-19 and are exclusive of education cess and higher secondary education cess, aggregating to 3% on the total tax liability, and applicable surcharge (if any).

Income-tax slab rates applicable for individuals (as per domestic tax law):

Income slabs	Base tax rate*
Income up to INR250,000	Nil
Income between INR250,000 and 500,000	5% of income in excess of INR250,000
Income between INR500,000 and INR1,000,000	INR12,500 + 20% of income in excess of INR500,000
Income above INR1,000,000	INR112,500 + 30% of income in excess of INR1,000,000

*The base tax rate mentioned above is exclusive of education cess and higher secondary education-cess, aggregating to 3% on the total tax liability, and also excluding applicable surcharge (if any).

Applicable surcharge rates on income-tax (as per domestic tax law):

Income slabs	Surcharge rate (%)
Domestic company – taxable income between INR10m and INR100m	7
Domestic company – taxable income in excess of INR100m	12
Foreign company – taxable income between INR10m and INR100m	2
Foreign company – taxable income in excess of INR100m	5
Individuals – where total taxable income exceeds INR10m	15

The historic launch of GST

At the stroke of midnight on 30 June 2017, GST was implemented in India, becoming India's largest tax and fiscal reform since independence.

GST has replaced central level indirect-taxes, including excise, service tax, countervailing duty, special additional duty and other state taxes such as VAT, CST, octroi duty, entry tax and entertainment tax. It is the single comprehensive tax leviable on the manufacture, sale and consumption of goods and services at a national level. Under the GST regime, only the final consumer is required to bear the tax on value addition at every stage, from producer/service provider to the retailer.

The Government's main objective of implementing GST was to streamline the existing indirect tax structure, mitigate cascading and double taxation issues, and eliminate inefficiencies in the current tax system.

Implementation of GST is aimed at creating a common national market – "One Nation One Market" as proclaimed by the Hon'ble Prime Minister – by eliminating state boundaries. It is also aimed at supporting and boosting other Government flagship projects such as Make in India and Ease of Doing business in India.

In India, the Government conducted a GST rate fitment exercise to align GST rates with the existing indirect tax effective rates.

As regards the food processing industry, GST has been exempted on most raw agro-commodities including rice, wheat, milk, fresh fruits and vegetables, while the GST rates for products of mass consumption such as edible oils, cereals and milk have been kept at nil or at the lower rate of 5%.

Further, for food preparations of fruits, vegetables, meat and poultry etc., the GST rates vary between 12%, 18% and 28%.

While the majority of indirect taxes in India have been subsumed under GST, certain taxes such as basic custom duty (BCD), export duty and custom cess shall continue to be applicable.

Accordingly, while import of goods would continue to be subject to BCD and custom cess, other import duties such as countervailing duty and special additional duty, which have been subsumed under GST, would be replaced by Integrated GST payable on import of goods in to India.

Further, GST would be applicable on the supply of all goods and services except alcohol for human consumption, which would continue to be subject to state excise and VAT. Similarly, specified petroleum products such as crude oil, petrol, diesel and natural gas have been kept outside the purview of the GST regime and would likely be brought in to the GST base at a later stage, as recommended by the GST Council.

> *GST will not only ease the process of doing business, but will also improve the way of doing business. GST will play an important role in achieving the goal of New India.*
> ***Narendra Modi, Hon'ble Prime Minister of India***

While a detailed list of GST rates applicable to food products can be found in Appendix A, a summary of the BCD and GST rates applicable to major food categories has been tabulated below:

Category of food processing	BCD rate	GST rate
Meat and poultry products		
Meat and edible meat offal – all goods other than in frozen state and put up in unit containers	30%	Nil
Meat and edible meat offal – all goods in frozen state and put up in unit containers	30%	12%
Fish seeds, prawn/shrimp seeds, whether or not processed or cured or in frozen state	30%	Nil
Food preparations of meat, meat offal etc.	30%	12%
Dairy products		
Fresh milk and pasteurized milk	30%	Nil
Skimmed milk powder, UHT milk, milk and cream, and yogurt	30%–60%	5%
Butter, dairy spreads, cheese	30%	12%

Category of food processing	BCD rate	GST rate
Vegetables, fruits and food grains		
Fresh and edible vegetables and fruits other than in frozen or preserved state; cereals (such as wheat, barley and oats), flour, aata, maida etc. other than put up in a unit container and bearing a registered brand name	Vegetables: 30% Wheat: 25%–50% Oats and Barley: 0% Flour and Aata: 30%	Nil
Fresh and edible vegetables and fruits in frozen or preserved state; cereals (such as wheat, barley and oats), flour, aata, maida etc. put up in unit container and bearing a registered brand name		5%
Fruit juices, fruit pulp and vegetable juices	30%–35%	12%
Consumer foods		
Sauces and preparations thereof, mixed condiments and mixed seasonings	30%	12%
Instant food mixes, soft drink concentrates, ready-to-eat packaged foods, all biscuits, ice creams, cakes and pastries etc.	30%	18%
Food preparations not specified elsewhere; chocolates and other food preparations containing cocoa	30%	28%
Food processing machinery		
Machinery for the industrial preparation or manufacture of food or drink, other than machinery for the extraction or preparation of animal or fixed vegetable fats or oils	5%	18%
Freezers and other refrigerating or freezing equipment, electric or other	7.5%–10%	28%
Milking machines and dairy machinery	7.5%	12%
Machines for cleaning, sorting or grading, seed, grain or dried leguminous vegetables; machinery used in milling industry or for the working of cereals or dried leguminous vegetables other than farm type machinery and parts thereof	7.5%	5%

GST is expected to ease doing business in India by managing the multiple indirect taxes applicable under the erstwhile tax regime, removing the cascading effect of taxes and widening the tax base. By unifying all Indian states and union territories into a one nation, one common market, GST will exponentially improve the Indian business environment.

GST is expected to bring in a lot of certainty on the indirect tax front and this will provide a boost to new investments, especially foreign investments, in India.

Project Import Scheme

Meaning and objective

- The Project Imports Scheme is a scheme under the Indian customs law under which goods imported for the purpose of setting up of industrial projects or substantial expansion of an existing industrial project are eligible for a concessional customs duty rate.
- Typically, import of goods into India is liable to custom duty, the rates of which are based on the classification of goods under the Indian Customs Tariff, which is aligned with the international Harmonised System of Nomenclature (HSN). Under this scheme, all goods that are required for setting up of an industrial project or substantial expansion of an existing industrial project are classified under chapter heading 98.01, and are subject to a single rate of basic customs duty.
- Import of goods under this scheme helps facilitate smooth and quick assessment through a simplified process of classification and valuation, and by placing the goods imported under a single tariff classification code.
- Projects eligible for concessional customs duty rates under this scheme include industrial plants, irrigation projects and power projects among others.

Goods eligible for the Project Imports scheme

- All items of machinery, including:
  1. Prime movers
  2. Instruments
  3. Apparatus and appliances
  4. Control gear and transmission equipment
  5. Auxiliary equipment (including those required for research and development purposes, testing and quality control)
  6. All components (whether finished or not) or raw materials for the manufacture of the aforesaid items and their components, required for the initial setting up of a unit, or the substantial expansion of an existing unit
  7. Spare parts, other raw materials (including semi-finished material) or consumable stores not exceeding 10% of the value of the goods specified above provided that such spare parts, raw materials or consumable stores are essential for the maintenance of the plant or project

Duties and taxes applicable under the Project Imports scheme

- The basic customs duty rate for goods imported under the Project Imports Scheme (i.e., under chapter heading 98.01) is 5%, **as typically applicable for food processing projects**.
- However, for certain specified projects (such as a **specified drinking water supply project**), the basic customs duty rate is 0% [1] .
- Prior to 1 July 2017, CVD on import of goods under this scheme was applicable and the CVD rate was equivalent to the excise duty rate applicable for the respective goods. Hence, the CVD rate for goods imported under this scheme varied depending on their classification under the Central Excise Tariff.
- After the introduction of GST, goods imported under this scheme shall be classified under chapter 98.01 and be liable to I**GST at 18% [2].**

MoFPI has been designated as the sponsoring authority under this scheme for projects including industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic and marine produce and meat, as well as cold storage and cold room projects.

Robust set of economic laws

India has a robust set of economic and commercial laws that enable domestic and multinational companies to smoothly operate their business in the country. Some of the key mercantile laws in India are as under.

Indian Contract Act, 1872

It encapsulates provisions governing the entire life of a contract from its formation to its implementation and conclusion.

Companies Act, 2013

It is the main legislation that provides for the law relating to the functioning of corporates in India.

Under the Companies Act, the National Company Law Appellate Tribunal (NCLAT) was constituted w.e.f. 1 June 2016. NCLAT is a quasi-judicial body adjudicating matters related to corporate law.

NCLAT has 11 branches, 2 at New Delhi (one being the principal bench) and one each at Ahmedabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata and Mumbai.

Negotiable Instruments Act, 1881

The law related to promissory notes, bills of exchange, cheques and other negotiable instruments is codified in India under the Negotiable Instruments Act, 1881.

Competition Act, 2002

The Competition Act provides for the establishment of the Competition Commission of India (CCI) and Competition Appellate Tribunals to hear and settle appeals against the orders of the CCI and also to adjudicate on the claims of compensation that may arise from the findings of the CCI or the orders of the Appellate Tribunal.

LLP Act, 2008

The LLP Act, 2008 was enacted by the Parliament of India to introduce and legally sanction the concept of LLP in India.

Information Technology Act, 2000

The Information Technology Act, 2000 is an act of the Indian Parliament, notified on 17 October 2000.

It is the primary law in India dealing with cybercrime and electronic commerce, and is based on the United Nations Model Law on Electronic Commerce 1996 (UNCITRAL Model) recommended by the General Assembly of the United Nations by a resolution dated 30 January 1997.

Labor laws

Industrial Disputes Act, 1947: It is the main legislation in India that provides for the investigation and settlement of industrial disputes.

Trade Unions Act, 1926: It provides for the registration of trade unions of employers and workers and is administered by state governments. It confers legal and corporate status on registered trade unions.

Factories Act, 1948: It is the principal legislation that governs the health, safety and welfare of factory workers.

Employees Provident Fund and Miscellaneous Provisions Act, 1952: It seeks to ensure the financial security of employees in an establishment by providing a system of compulsory savings.

Securities & Exchange Board of India Act, 1992

The Securities & Exchange Board of India Act (commonly known as the SEBI Act) is an act of Parliament, enacted for the regulation and development of the Indian securities market.

The Act has been regularly amended to meet the changing requirements of the securities market in India.

[1] Basic custom duty rate for goods imported under this scheme is specified under entry numbers 597 to 606 of Customs Tariff Notification 50/2017 dated 30 June 2017.

[2] Entry no 451 of Schedule III of CGST rate notification 1/2017 dated 28 June 2017 (Clarified vide Circular no F. No. 609/54/2017-DBK dated 30 June 2017).

Technology transfer and collaborations in India: Points to consider

Technology transfer, the process of transferring scientific findings for further development and commercialization, typically involves the following:

- Identifying new technologies
- Protecting technologies through patents, trademarks and copyrights
- Forming development and commercialization strategies such as marketing and licensing to existing private sector companies or creating new companies based on the technology

Transfer of technology without any equity investment in India would not be subject to the FDI regulations in the country. Having said that, payments made to foreign parties for technology transfer are governed by FEMA provisions.

As per the extant exchange control regulations, there are currently no restrictions on foreign remittances toward royalty on account of foreign technology collaboration agreements. However, payments made to associated enterprises would need to be at an arm's length price in order to conform to the transfer pricing regulations in India.

Further, 100% FDI would be permitted under the automatic route for foreign entities looking to invest in an Indian company or establish a WOS/JV company for the purpose of technology collaboration and transfers into the country.

India has established certain laws with respect to protection of intellectual property rights, some of which have been broadly summarized below.

Further, with a view to encourage development of IP in India, India has introduced a lower tax rate of 10% (on a gross basis) for royalty income earned from any patents that have been developed and registered in India. More information can be found in the chapter on the Indian tax environment in this report.

Copyrights	India's copyright law, laid down in the Indian Copyright Act, 1957 and amended by the Copyright (Amendment) Act, 2012, fully reflects the Berne Convention on copyrights to which India is a party.
Trademarks	The Trade Marks Act, 1999 and the Trade Marks Rules, 2002 govern trademarks in India.
Patents	The Indian Patents Act, 1970 provides for the grant, revocation, registration, license, assignment and infringement of patents in India. Any infringement of a patent is punishable under the terms of this Act.

Landmark policy reforms and initiatives in recent times

Given the strong mandate for development, and the Government's intent to further ease doing business in India, there have been various initiatives and policy reforms in recent times, some of which have been summarized below.

Make in India

The Make in India initiative was launched in September 2014 as part of a wider set of nation-building initiatives.

This initiative was launched viewing India's natural advantages as a manufacturing hub, and quickly became a rallying cry for India's innumerable stakeholders and partners. It was a powerful and galvanizing call to action for India's citizens and business leaders, and an invitation to potential partners and investors around the world.

Make in India represents a complete change of the Government's mind-set, a shift from an issuing authority to a favorable business partner.

The Insolvency and Bankruptcy Code, 2016

On 28 May 2016, the Parliament of India provided its assent to the Insolvency and Bankruptcy Code, 2016, with an aim to consolidate the insolvency law in India (currently contained in a number of legislations) into a single legislation.

The key features of the code are as follows:

- It will now govern insolvency proceedings in respect of companies, LLPs, partnership firms and individuals.
- Under the Code, corporate insolvency will need to be resolved within 180 days of acceptance of application for the insolvency resolution process.
- It empowers even creditors to initiate corporate insolvency process on default in payment of debt.
- Where the corporate insolvency cannot be resolved, it provides for liquidation of the company.
- It lists out a clearly defined waterfall mechanism for payment of debt on liquidation.

Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BMA)

BMA was introduced with the object of tackling the menace of undisclosed overseas income and assets. BMA, effective from 1 July 2015, applies to persons who are residents of India and contains stringent provisions in the form of levy of 30% tax and three times penalty on undisclosed foreign income, along with initiation of prosecution proceedings that can lead to imprisonment for 3–10 years.

Among other things, BMA provides for the following:

- Mode of recovery of taxes from the taxpayer
- Service of notice and communications with the taxpayer
- Appearance of an approved valuer before tax authorities, on behalf of the taxpayer

Demonetization

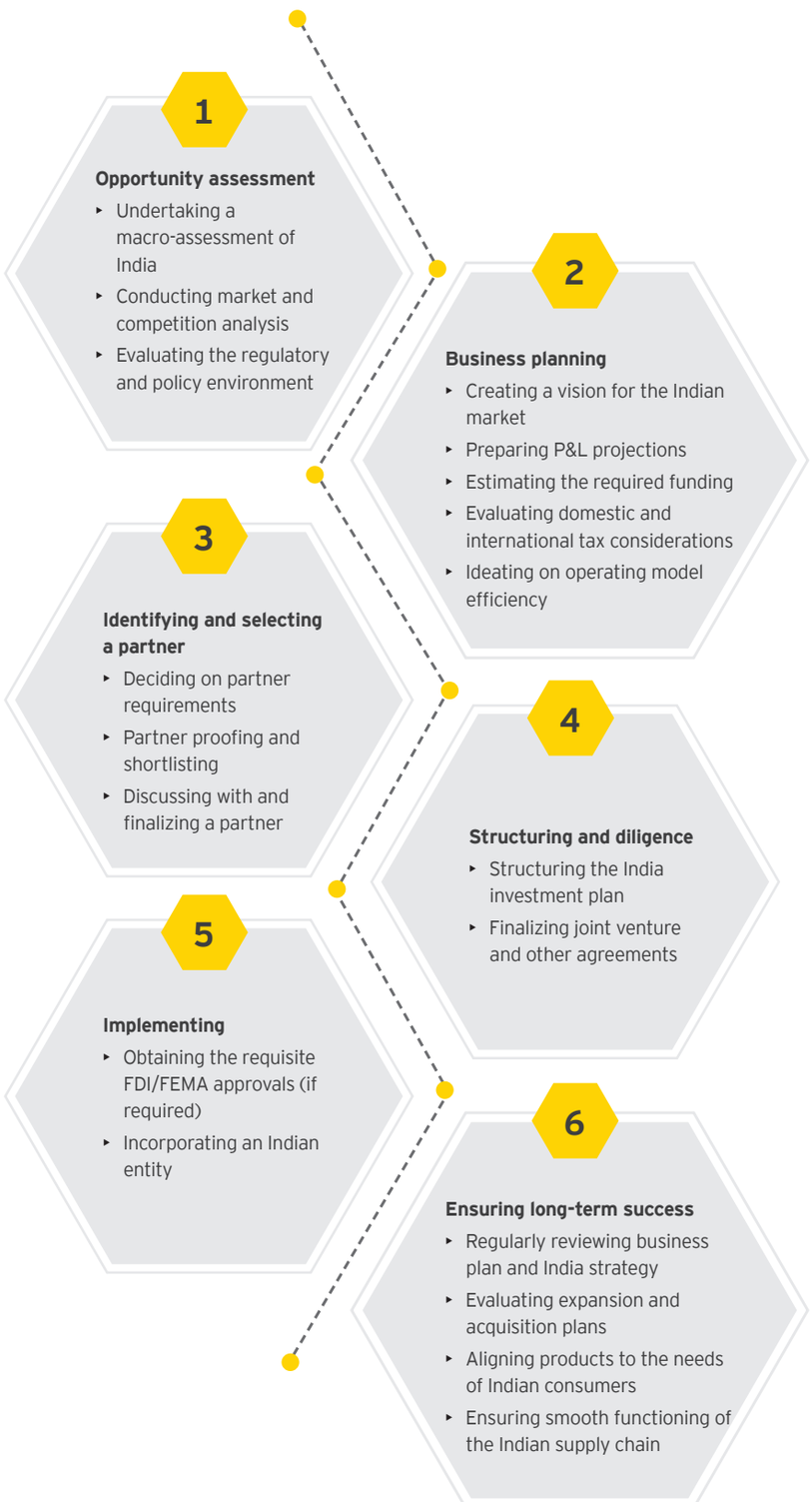
On 8 November 2016, in a strong move to curb corruption and counterfeit currency in the country, the Indian Government announced the demonetization of all INR500 and INR1,000 bank notes (which is said to be over 80% of currency notes in circulation).

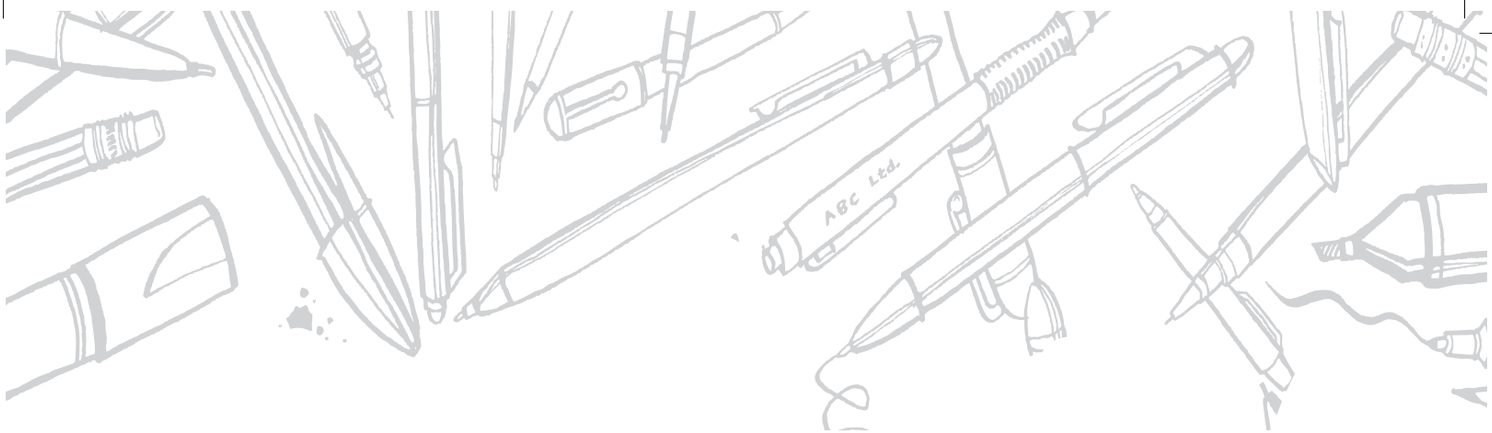
While there was an initial short-term slowdown in consumption, the overall impact of demonetization is viewed by many as positive. The revival in footfall at shopping malls, among other factors, indicates that despite the short-lived chaos, demonetization did not have a negative impact on the Indian economy.

Further, with demonetization enabling citizens and corporates to embrace banking and digitized forms of payments such as debit/credit cards and e-wallets, the move is expected to prove to be progressive in the long run.

Other than the above, the implementation of GST and the abolishment of FIPB are the other landmark policy reforms implemented by the Government in recent times. Both these reforms have been discussed earlier in this report.

Roadmap for Indian market entry

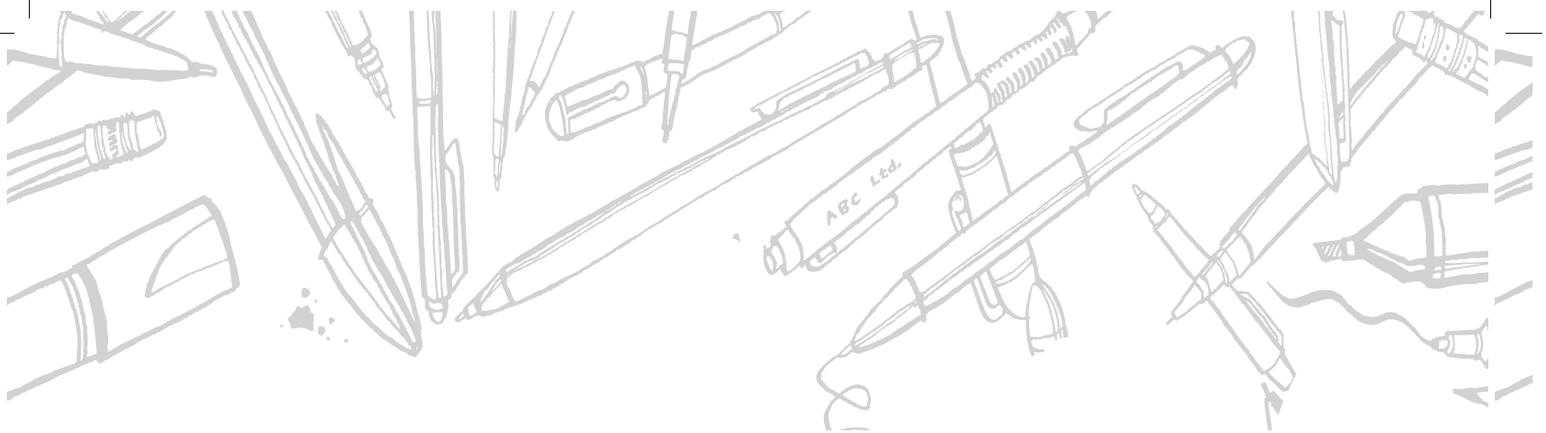




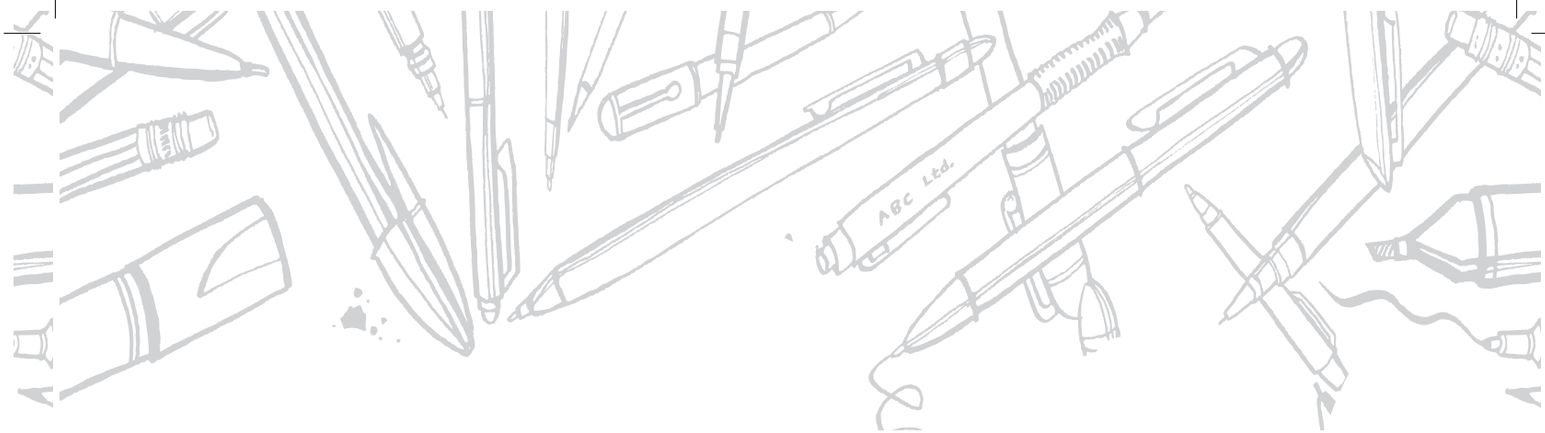
Step-plan for incorporating a food processing unit

For an investor looking to incorporate a food processing unit in India, an illustrative list of approvals and registrations required have been tabulated below, which could vary depending on the state of incorporation and the exact nature of operations proposed to be undertaken.

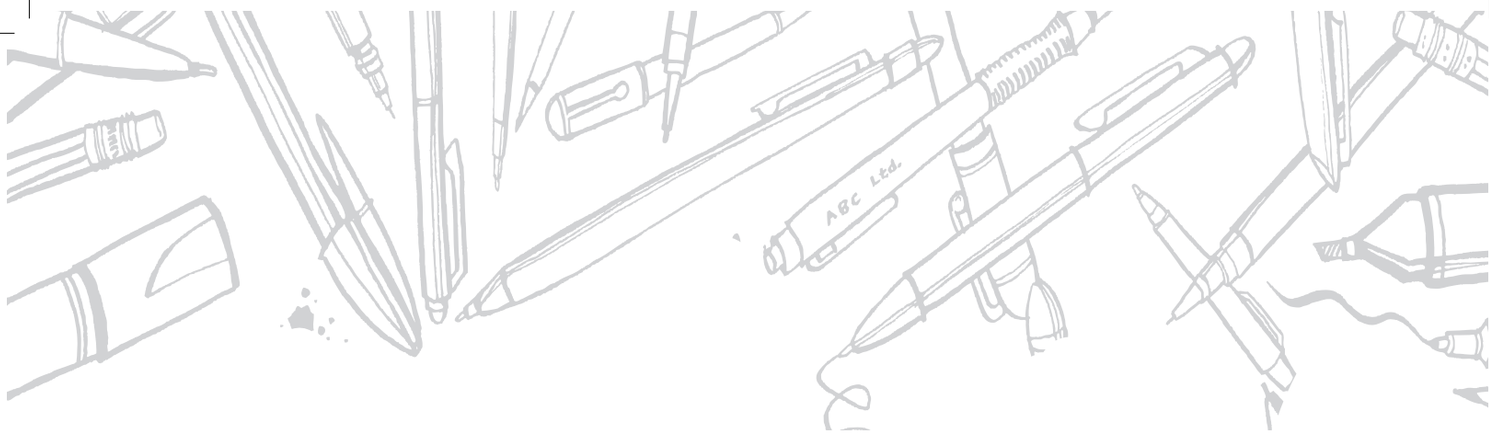
S. no.	Activity	Brief description	Stage	Required	
				Owned premises	Leased premises
1	Registration of company	File necessary documents with the ROC for the purpose of incorporating a company	Pre-construction	✓	✓
2	Receipt of FDI	Obtain necessary FDI approvals (where under the approval route), and file necessary documents with RBI (via AD Bank) for receipt of foreign equity	Pre-construction	✓	✓
3	Industrial Entrepreneurs Memorandum (IEM)	Make an application to the Secretariat for Industrial Assistance for obtaining IEM.	Pre-construction	✓	✓
4	Land allocation	Industrial plot: apply to the Industrial development authority for allotment of land Private land: enter into a purchase agreement and obtain a land ownership certificate from the local revenue department.	Pre-construction	✓	×
5	Approval of building layout	Obtain drawing plan approval and building permit from: ‣ Local industrial development authority/ municipal corporation/town and urban planning department (depending on location of land) ‣ Factory inspectorate ‣ Fire department	Pre-construction	✓	×
6	Approval for drain/ sanitary work	Obtain approval of drain/sanitary work from local authority	Pre-construction	✓	×
7	No-objection certificate (NOC)	Obtain NOC for height clearance of buildings/structures/masts from the Directorate of Air Traffic Management, Airport Authority of India, when the project lies within a 20 km radius of air strips/funnel	Pre-construction	✓	×
8	Excavation permit	Obtain an excavation permit for laying the foundation, from the Collector and Executive Engineer, Ward office	Pre-construction	✓	×



S. no.	Activity	Brief description	Stage	Required	
9	Environmental clearance	Obtain environment clearances from a state-level expert committee, for all building or construction projects having a built up area of more than 20,000 sq. mt. and development projects or townships covering an area of more than 50 hectares, or a built up area of more than 150,000 sq. mt.	Pre-construction	✓	×
10	Consent to establish	Obtain consent to establish from the State Pollution Control Board (SPCB) prior to commencing construction	Pre-construction	✓	✓ (only in case of renovation)
11	Ancient monument approval	Obtain approval from Archaeological Survey of India (ASI) if the project site or parts of it are within a 300 meter radius from a declared boundary of any monument protected under the Ancient Monument Act, being under the control of ASI	Pre-construction	✓	×
12	Building and other construction workers registration	Obtain mandatory registration as required under the Building and Other Construction Workers Act	Pre-construction	✓	✓ (only in case of renovation)
13	Forest NOC	Obtain an NOC from the Forest Department when there is a proposal for tree cutting/ felling and transplantation at the site of any rare species of trees	Pre-construction	✓	×
14	Fire NOC	Obtain a fire NOC from the local fire department for the layout plan, as stipulated in the local building bye-laws and National Building Code (NBC)	Pre-construction	✓	×
15	Railway Authority NOC	Obtain an NOC from the Railway Authority in case the project site is along a railway corridor or within such jurisdiction	Pre-construction	✓	×
16	Borewell NOC	Obtain an NOC from the state ground water authority	Pre-construction	✓	✓ (if not already obtained)
17	Temporary power connection	Apply for temporary power connection from the electricity department before start of construction	Pre-construction	✓	×



S. no.	Activity	Brief description	Stage	Required	
18	Approval from local body for construction waste generation	Submit a construction waste management plan and obtain the appropriate approvals from local authorities prior to commencing construction work where construction is expected to generate more than 20 tons per day or 300 tons per month	Pre-construction	✓	✓
19	Provident Fund registration	Obtain Provident Fund registration at the time of employing new persons and depositing amounts in their provident funds	During construction	✓	✓
20	Contract labor registration	Obtain the requisite registration for engaging a contractor	During construction	✓	✓
21	Employee State Insurance code (ESI code)	Obtain ESI code for providing monetary and medical benefits to employees in case of sickness, maternity and employment injury	During construction	✓	✓
22	Interstate migrant registration	In case the contractor engages interstate migrants for construction or any other activity, the company is required to be registered with the Labour Department	During construction	✓	✓
23	Petroleum license	Obtain a petroleum license from the Chief Controller of Explosives, in case gas cylinders are used and stored beyond the threshold limit	During construction	✓	✓
24	Gas cylinder license	Obtain a gas cylinder license from the Chief Controller of Explosives, in case gas cylinders are used and stored beyond the threshold limit	During construction	✓	✓
25	FSSAI license	Obtain the requisite licenses under the FSS Act (and regulations prescribed thereunder)	After construction	✓	✓
26	Consent to operate	Obtain a consent to operate from the SPCB prior to commencing operations of the unit	After construction	✓	✓
27	Factory license	Obtain a factory license from the prescribed authority	After construction	✓	✓
28	Bio-medical waste authorization	Obtain authorization from the SPCB for generation of bio-medical waste	After construction	✓	✓
29	Permanent water and electricity connection	Obtain a permanent water and electricity connection from the concerned authorities	After construction	✓	✓ (if not already obtained)



S. no.	Activity	Brief description	Stage	Required	
30	Approval for obtaining biological resources or knowledge associated thereto	Obtain approval, by making an application accompanied by a prescribed fee, before obtaining any biological resource or knowledge associated thereto, for research or for commercial utilization or for bio-survey and bio-utilization	After construction	✓	✓
31	Registration for packers	Apply for registration to the Director or Controller of Legal Metrology of the state	After construction	✓	✓
32	AGMARK and BIS certification	Obtain AGMARK and BIS certification, as applicable	After construction	✓	✓
33	Solvent license	Obtain license from the state government, District Magistrate or any other officer authorized by the Central or the state government	After construction	✓	✓
34	SMPV license	Obtain license for storage of compressed gas in a pressure vessel	After construction	✓	✓
35	Boiler registration	Obtain registration for boilers	After construction	✓	✓
36	Permanent Account Number (PAN)	Obtain a PAN from the	After construction	✓	✓
37	Tax deduction and collection Account Number (TAN)	Obtain a TAN from the	After construction	✓	✓
38	GST Registration	Obtain GST registration	After construction	✓	✓
39	Importer-Exporter Code (IEC Code)	Obtain an IEC Code, if proposed activities include import and export of goods/services	After construction	✓	✓
40	Shops and Establishment (S&E) registration	Obtain S&E registration at the time of commencing operations	After construction	✓	✓
41	Profession tax registration	Obtain profession tax registration	After construction	✓	✓
42	Obtain Udyog Aadhaar Number	In case of MSMEs, file online self-declaration of basic company details, and obtain unique Udyog Aadhaar number http://udyogaadhaar.gov.in	After construction	✓	✓

This table does not include availing of schemes and incentives, as these have been covered in an earlier chapter of this report.

With a view to further ease doing business in the country, several state governments have been developing online approval procedures, as well as single-window clearances to assist investors with all the requisite pre-approvals at a state government level.

Further, the Indian Government has incorporated "Invest India" as an official investment promotion and facilitation agency, which is envisaged to be the first point of reference for potential investors. Invest India is promoted by DIPP and the Indian Ministry of Commerce and Industry.

India: An optimistic outlook

India has had the highest GDP growth market in the world for the second consecutive year, and is estimated to continue to do so in the sustainable future due to its strong macro-economy. The World Bank has predicted a growth rate of 7.2% for India in 2017 (against 6.8% in 2016). Further, India's growth is projected at 7.5% in 2018 and 7.7% in 2019[1].

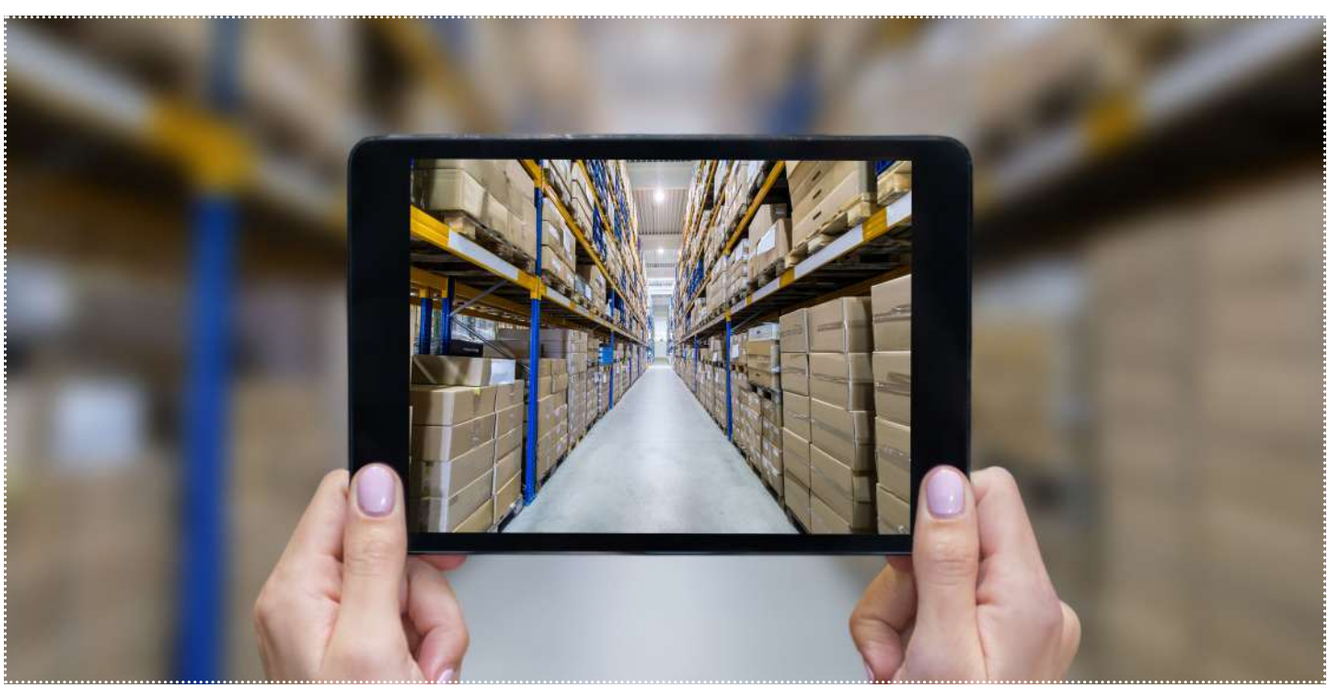
A new era of structural reforms in India has commenced, bringing about a new growth impetus, with many states having modernized regulations and administrative procedures and others experimenting with reforms of land acquisition and labor regulations.

With the implementation of GST expected to make India a more integrated market, a spur in productivity, investment, competitiveness, job creation and incomes in the country is expected.

Further, with the abolishment of the FIPB, the procedure for foreign investors to enter the Indian market has become relatively smoother, and is accordingly expected to have a positive impact on the already growing FDI in India.

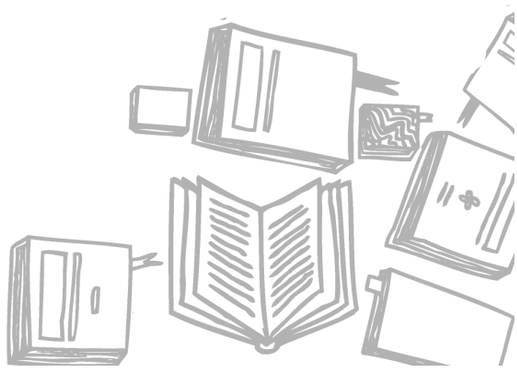
With India's natural food processing advantage, demographic demand and robust regulatory environment governing food in the country, India's food processing and food retail industries are gaining attention globally, and are expected to grow at a rapid pace in the coming years.

> *There is no doubt that PM Modi is changing the attitude of India towards opening the economy to the rest of the world. His government is trying to put in place reforms that will broadly improve the Indian economy and that means from infrastructure investment to reaching out to rural population to creating more wealth to things like putting in a GST structure, which is monumental.*
> ***Mark Weinberger, Global Chairman & CEO, EY***



[1] World Bank Report – Global economic prospects – June 2017

Appendices



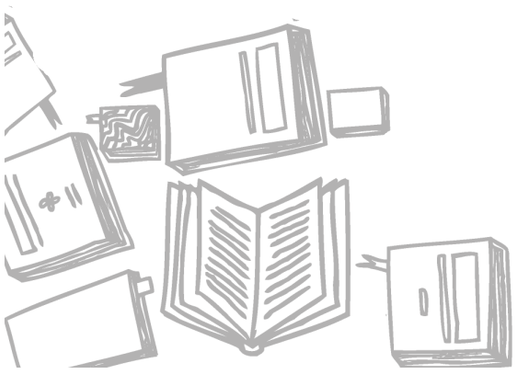
Appendix A

Applicable GST rates for the food processing sector

GST rate[1]	Products covered
Nil	▸ Meat (other than in frozen state and put up in container) ▸ Bones and horn cores, bone grist, bone meal etc., hoof meal, horn meal, etc. ▸ Fish, prawn and shrimp seeds ▸ All fish, fresh or chilled (but not processed, cured and frozen) ▸ Fresh milk, pasteurized milk but not concentrated, sweetened ▸ Eggs (in shell) ▸ Curd, lassi and buttermilk ▸ Chena or paneer (except in unit container with brand name) ▸ Natural honey (no container-no brand) ▸ Fresh fruits and vegetables, roots and tubers (except in frozen state or preserved) ▸ Dried fruits ▸ Leguminous vegetables, shelled or unshelled ▸ Dried leguminous vegetables, shelled, whether or not skinned or split (pulses) ▸ Coffee beans, unprocessed tea leaves and fresh spices ▸ All cereals (no container-no brand) ▸ Cereal grains hulled ▸ Flour ▸ Atta, maida and besan (no container-no brand) ▸ Wheat or meslin flour ▸ Cereal flour, groats and meals (no container-no brand) ▸ Flour of potato, dried leguminous vegetables (no container-no brand) ▸ Oilseeds of seed quality ▸ Cane jiggery (gur) ▸ Palmyra jiggery ▸ Puffed, flattened and parched rice ▸ Papad (except when served for consumption) ▸ Bread (branded or otherwise) (except when served for consumption and pizza bread) ▸ Prasadam ▸ Water (other than aerated, sealed etc.) ▸ Non-alcoholic toddy ▸ Tender coconut powder ▸ Aquatic, poultry and cattle feed ▸ Salt, all types

GST rate[1]	Products covered
5%	▸ All fish variants (except seeds of fish, prawn and shrimp) processed, cured and frozen state ▸ Ultra-high temperature milk ▸ Milk and cream including skimmed milk powder but excluding condensed milk ▸ Yoghurt and other fermented milk and cream ▸ Chena or paneer in unit container and branded ▸ Egg yolk, fresh or dried ▸ Natural honey in branded unit container ▸ Vegetables frozen or preserved (but unsuitable in that state for immediate consumption) ▸ Edible fruits and nuts; peel of citrus fruit or melons, in frozen or preserved state ▸ Coffee, tea, pepper, vanilla, cloves and cardamoms ▸ Seeds of anise, coriander and cumin ▸ Ginger (other than fresh ginger), saffron, turmeric and other spices ▸ Cereal groats, meal and pellets in branded unit container ▸ Cereal grains worked upon (hulled, rolled and flaked) ▸ Meal, powder, flakes, granules and pellets of potatoes ▸ Meal and powder of the dried leguminous vegetables (pulses, sago and tamarind) ▸ Wheat gluten ▸ Soya beans ▸ Ground nuts ▸ Copra ▸ Linseed, rape seeds, sunflower seeds and other oilseeds such as mustard and poppy ▸ Flour and meals of oilseeds ▸ Sugar beet and sugar cane (frozen and dried) ▸ Vegetable fats and oils (groundnut, olive, palm, sunflower oil etc.) ▸ Beet sugar, cane sugar and khandsari sugar ▸ Cocoa beans, shells and paste ▸ Mixes and doughs for preparation of bread, pastry and other baker's wares ▸ Pizza bread ▸ Seviyan ▸ Rusks and toasted bread ▸ Sweetmeats ▸ Flours, meals, and pellets of meat and fish meant for animal consumption ▸ Cashew nuts and cashew nut in shell ▸ Raisin ▸ Ice and snow

GST rate[1]	Products covered
12%	▸ All meat in unit containers put up in frozen, salted, dried or smoked state ▸ All meat and marine products, prepared or preserved ▸ Butter, ghee, butter oil and cheese ▸ All goods under Chapter 20 (preparations of vegetables, fruits, nuts or other parts of plants, including pickle, murabba, chutney, jam and jelly) ▸ Ketchup and sauces, and mustard sauces ▸ Dry fruits ▸ Starches ▸ Animal fats and oils ▸ Fruit and vegetable juices ▸ Roasted chicory and coffee substitutes ▸ Yeasts and prepared baking powders ▸ Namkeens, bhujiya, mixture and chabena ▸ Bari made of pulses including mungodi ▸ Soya milk drinks ▸ Fruit pulp or fruit juice based drinks ▸ Tender coconut water (in unit container with brand name) ▸ Beverages containing milk
18%	▸ Condensed milk ▸ Malt, whether or not roasted ▸ Refined sugar and sugar cubes ▸ Sugar confectionery ▸ All preparations of cereals, flour, starch or milk for infant use and sold retail ▸ Pasta, spaghetti, macaroni and noodles ▸ Corn flakes and other cereal flakes ▸ Waffles and wafers (other than chocolate coating) ▸ Pastries and cakes ▸ Extracts, essences and concentrates of tea or mate ▸ Soups and broths ▸ Ice cream and other edible ice ▸ Instant food mixes, soft drink concentrates, sherbet, betel, supari and packaged food ▸ Water, including natural or artificial mineral waters and aerated waters, not sweetened ▸ Ethyl alcohol and other spirits ▸ Vinegar and substitutes ▸ Curry paste, mayonnaise and salad dressing; mixed condiments and mixed seasoning



GST rate[1]	Products covered
28%	▸ Molasses ▸ Chewing gum/bubble gum and white chocolate ▸ Cocoa butter, fat and oil ▸ Cocoa powder ▸ Cocoa chocolates ▸ Malt extract (other than for infant use and mixes and doughs of bakers) ▸ Waffles and wafers coated with or containing chocolate ▸ Extract, essences and concentrates of coffee ▸ Mustard flour and sauces thereof ▸ Sugar, lactose and glucose syrups ▸ Food flavoring material ▸ Churan for pan ▸ Custard powder ▸ Aerated waters containing added sugar or other sweeting matter

In the case of pulses, cereals and flours, 5% GST is applicable where they are put up in unit containers and bear a registered brand name (nil GST being applicable in all other cases).

In this connection, on 9 September 2017, the GST Council suggested the following recommendations with respect to determining whether or not the said products contain a registered brand name:

- A brand registered as on 15 May 2017 shall be deemed to be a registered brand for the purposes of GST, irrespective of whether or not such brand is subsequently deregistered.
- A brand registered as on 15 May 2017 under the Copyright Act, 1957 shall be treated as a registered brand for the purposes of GST.
- A brand registered as on 15 May 2017 under any law for the time being in force in any other country shall be deemed to be a registered brand for the purposes of GST.
- A mark or name in respect of which actionable claim is available to the company shall be deemed to be a registered brand name for the purposes of GST

[1] On 9 September 2017, the GST Council suggested a further reduction in the GST rates for products such as walnuts, tamarind, roasted gram, custard powder and batters. An official notification for these change of rates is awaited as on 13 September 2017.

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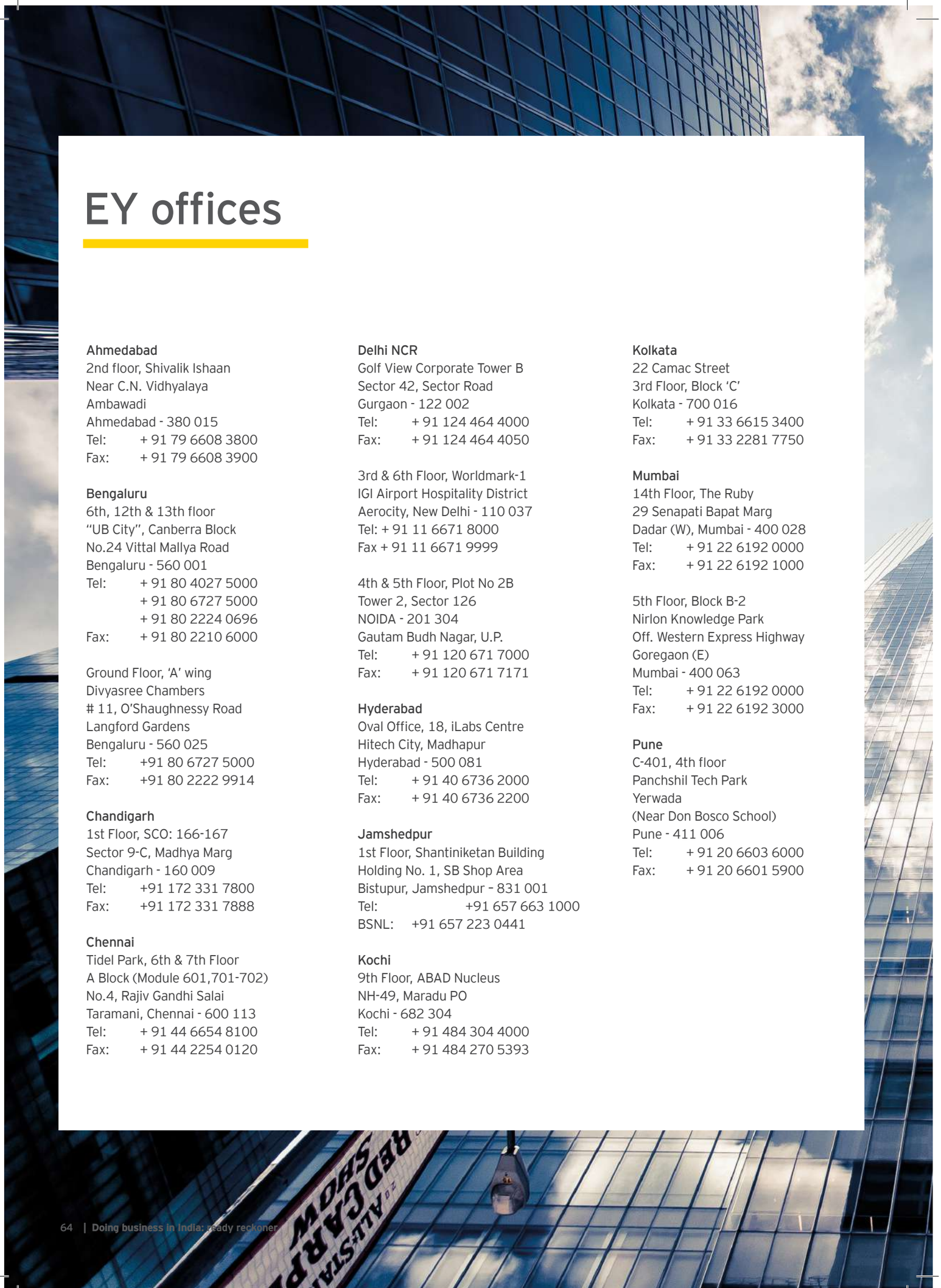

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Notes

MOFPI

Ministry of Food Processing Industries

Government of India

The Ministry of Food Processing Industries is concerned with formulation and implementation of the policies for the food processing industries within the overall national priorities and objectives.

The Ministry acts as a catalyst for bringing in greater investment into this sector, guiding and helping the industry and creating a conducive environment for healthy growth of the food processing industry. The Ministry aims at:

- Creating the critical infrastructure to fill the gaps in the supply chain from farm to consumer;
- Value addition of agricultural produce;
- Minimizing wastage at all stages in the food processing chain by the development of infrastructure for storage, transportation
  and processing of agro produce;
- Induction of modern technology in the food processing industries;
- Encouraging R&D in food processing for product and process development;
- Providing policy support, promotional initiative and facilities to promote value added produce for domestic consumption and also exports.

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