Embassy of India
Berlin, Germany

MAKE IN INDIA MITTELSTAND!

Rödl & Partner

NEWSLETTER

Investment Support for German Mittelstand Enterprises

IN THIS ISSUE:

Economic Overview

In the face of a global economic slowdown, India has emerged as a beacon of resilience, propelled by robust domestic demand. Notably, major global rating agencies have expressed unwavering confidence in the country's economic strength. As we delve into the economic landscape, it's evident that the supply-side dynamics in FY24 are aligning with this optimism.

According to the **latest Economic Review** published by the Indian Department of Economic Affairs, rapid advancements in the agriculture sector, particularly in wheat and rice procurement, have led to a continuous rise in food buffers, sustaining rural demand. Simultaneously, the manufacturing sector is experiencing growth driven by increased production and expanding sales.

Examining the demand side, private final consumption expenditure (PFCE) has taken the lead as the primary driver of India's growth in FY24, a trend further solidified by the recent festive season.

Crucially, the Central Government is making strides towards achieving the budgeted deficit target for the current fiscal year. Inflationary pressures are also showing signs of moderation, with October 2023 witnessing a decline in consumer price inflation (CPI), largely attributed to a dip in core inflation.

With more than half of the current financial year marked by positive developments, India is poised to conclude the fiscal year as projected, showcasing a robust growth performance and macroeconomic stability. This has also been highlighted by a **recent report released by S&P Global**, which predicts the economic growth engine in the region to shift towards South Asia and Southeast Asia, spearheaded by India.

This optimism towards India was also evident during the 'India Week' in Hamburg in November. Hamburg's economy sees significant potential in the swiftly expanding Indian market. According to a **statement from the Chamber of Commerce**, India is crucial for Hamburg's foreign trade, not just due to its market size but also as an alternative supply source and an export market. Moreover, the increasing presence of research and development centers by major companies in India highlights its growing importance in this regard for Hamburg businesses.

Moreover, two industry sectors have played a particularly interesting role in the last month and hence deserve special attention in this month's Economic Overview:

India is preparing to introduce an upgraded incentive scheme of ₹10,000 crore to support the establishment of electronic and semiconductor component plants within the country according to government officials. This initiative, aimed at fostering a favorable environment for global entities establishing mega chip-packaging units, is expected to replace the existing Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS). The revamped plan, set to launch early next year, will shift from a reimbursement approach to a 'pari-passu' method for fund allocation, releasing funds based on investment or milestone achievements. Officials suggest a potential tripling or doubling of the scheme's current corpus to accommodate increased interest. Additionally, the revised plan aims to stimulate research and development in the sector, encouraging MSMEs and startups engaged in chemical and gas-related R&D for semiconductors. This comprehensive approach aims to enhance India's global standing in the semiconductor industry. This could also be of interest to German companies exploring this sector. Despite the current complexities concerning the German government's budget, Vice Chancellor Robert Habeck wants to continue promoting major investment projects and **has promised semiconductor manufacturers billions of euros in funding.**

What's more, in the aftermath of the COP 28 summit in Dubai, the challenges climate change poses have been highlighted and discussed. India has ambitious plans – India's 14th National Electricity Plan (NEP) sets it on a path to more than triple its renewable energy capacity by 2030. Although **financing remains one of the main hurdles**, India is clearly working towards its goals. Together with Invest India, MIIM has taken a detailed look at the **renewable energy sector** – we'd like to encourage you to give the report a read!

Last but not least and economics aside, the 'Make in India Mittelstand!'-Team wishes you a merry Christmas and a happy and prosperous New Year! We look forward to interacting with you next year and to support you in implementing your India plans.

- ***Maja Yadu, MIIM Project Co-ordinator, Roedl & Partner***

Contract Manufacturing Transfer Pricing Implications

In our previous articles of Contract Manufacturing in India series, we delved into the various legal nuances and consequential indirect tax implications of contract manufacturing in India. We would now proceed to discuss the relevant Transfer Pricing Implications on Contract Manufacturing in India.

Who is a contract manufacturer?

A contract manufacturer is essentially a low-risk producer who carries out manufacturing activities on behalf of a Principal (Group Entity). The significant risks associated with manufacturing are taken on by the Principal, leaving the contract manufacturer with a more straightforward role.

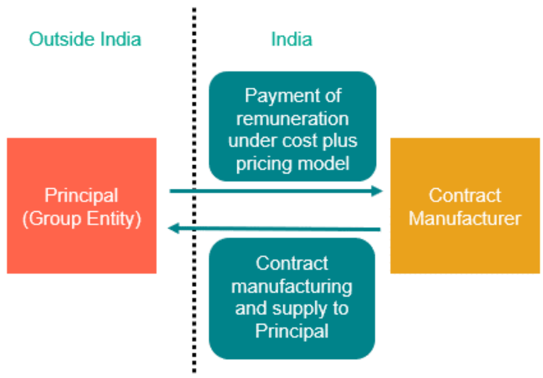
How do the parties function?

In this setup, the contract manufacturer produces goods based on the specifications provided by the Principal. The Principal, in turn, handles sales and marketing, coordinates production, provides instructions to the contract manufacturer regarding quantity and quality, and ultimately sells the products to external customers under its own account. The Principal assumes entrepreneurial risks, such as market risk, credit risk, and inventory risk, and also owns essential product intangibles while the contract manufacturer simply operates as a captive entity passing most of the risks to the Principal.

Under the contract manufacturing arrangement, the Principal guarantees fixed volumes and agrees to absorb the risks related to any unused capacity. Consequently, all fixed costs, including depreciation of fixed assets related to manufacturing operations, are recovered from the Principal or Group Entity.

What is the remuneration model followed?

Before determining the pricing for transactions between the contract manufacturer and the Principal, it is crucial to identify and cover all direct and indirect costs associated with production. This includes considering all overheads incurred during the manufacturing activity. The contract manufacturer is expected to earn compensation based on the total cost incurred for its operations and an appropriate mark-up on them. This model is commonly referred to as the **cost-plus** remuneration model.



Test of Arm’s Length Principle

The Transfer Pricing regulations provide that the remuneration received from the group entity i.e. the Principal, should satisfy the test of Arm’s Length pricing i.e. the remuneration should be at par with the market standards. In simpler terms, the remuneration received by the contract manufacturer should commensurate with that of independent third parties engaging in similar contract manufacturing activities.

The Arm's Length Principle is applied to establish a fair price for the 'Contract Manufacturing' activity through a thorough functional analysis and appropriate comparability analysis. This approach ensures that the pricing is fair and follows the principles of an open market transaction.

Conclusion

The contract manufacturer will thus operate as a risk-free entity, bearing no losses, as any cost would be pooled in the cost base and charged to the Principal under the cost-plus remuneration model. Further, understanding the transfer pricing implications of contract manufacturing involves recognizing the responsibilities and risks assumed by each party and determining a fair compensation that aligns with market standards. This ensures a transparent and equitable relationship between the contract manufacturer and the Principal, contributing to a smooth and compliant business operation.

- ***Gauri Bivare, Associate Partner, Roedl & Partner***
- ***Mohit Pasari, Consultant, Roedl & Partner***

MANDATORY DEMATERIALISATION OF SECURITIES OF A PRIVATE LIMITED COMPANY

Introduction

Under Indian law regime, every company incorporated under the Indian Companies Act, 2013 or erstwhile Indian Companies Act, 1956, which is limited by shares, is required to issue certain types of securities to its stakeholders. For example, equity shares, preference shares, debentures, etc., depending upon various factors and the funding requirements of an entity. As a proof, such Indian company issues the certificates to the holder of such securities. These certificates can be in a physical form (paper certificates) or in dematerialized form.

Till now, only public limited companies were required to issue these securities in dematerialized form mandatorily and private limited companies were exempted from this requirement which means that private limited companies were free to issue physical certificates to the security holders.

However, with effect from October 27, 2023, the Ministry of Corporate Affairs, Government of India, has made it compulsory for all the private limited companies (except small companies):

1. to issue their shares, debentures, preference shares and other types of securities in dematerialized form; and
2. to facilitate conversion of all existing securities in dematerialized form.

Besides, all the security(ies) holders are also directed to ensure that all the securities that they hold are converted into dematerialized form, which means that they also maintain a demat account in which they would hold the dematerialized securities.

However, Small Companies, as defined under the Companies Act, 2013, are, exempted from this requirement.

This is to clarify that dematerialization of securities means the conversion of physical securities into an electronic format which is maintained by the dedicated depositories authorized by the Government of India.

In this context, securities include any kind of shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a similar nature.

Deadline

An eligible private company has to take aforesaid steps within 18 months from the closure of the financial year.
For example, if a private limited company's last financial year ended on 31 March 2023

(which is a general case in India), then that company is required to comply with these requirements on or before **30th September 2024.**

Applicability of new requirement

The requirement of dematerialization of securities is applicable on following –

1. All the private limited companies (other than Small Companies) incorporated in India
2. Shareholders and debenture holders of the private limited companies (other than Small Companies)

A Small Company means a private limited company having a paid-up share capital of INR 5,000,000 (fifty lakh) or less AND turnover not exceeding INR 20,000,000 (two crore) in the immediately preceding financial year.

However, it is pertinent to note that if a company is a holding company of a any other company (including foreign body corporate) or a subsidiary company of any other company (including foreign body corporate), then it will not be considered as a Small Company, even if it meets the above criteria.

Action points

For a private limited company

A private limited company which is a subsidiary of a foreign company, then it must ensure following –

1. By 30 September 2024, must convert all types of shares, debentures, other securities into dematerialized form by making the necessary application to a depository and securing International Security Identification Number (ISIN) for each type of security and notify all its existing security holders of this facility.
2. All the further issues and transfers of shares, debentures, other securities made after 30 September 2024 shall be made only in dematerialized form.
3. File form PAS – 6 (Reconciliation and Share Capital Audit Report) with the Registrar of Companies (ROC) within 60 (sixty) days of the end of each half year.

For a securityholder of a private limited company

1. The holders of securities of a private limited company must get a demat account opened with the authorized depository for holding the dematerialized securities therein.
2. Ensure that their existing securities in a private limited company(ies) are dematerialized before transferring them or subscribing for new shares, after 30 September 2024

Consequences of non-compliance

In case the company or the security holders do not comply with the requirement to dematerialize their securities by 30 September 2024, the following consequences will apply –

a. The company will not be able to issue/ allot any type of securities.
b. The security holder will not be able to transfer or subscribe for any type of security.
c. Monetary penalties on company and every officer in default

   a. *On the company – INR 10,000 (ten thousand) + INR 1,000 (one thousand) for each day violation continues. Maximum limit is INR 200,000 (two lakh)*
   b. *Every officer of the company who is in default – same as above. Maximum limit is INR 50,000 (fifty thousand)*

Conclusion

This amendment is the combined efforts towards digitalization drive of the Government while also curbing the money laundering and tax evasions kind of activities. Dematerialization of the securities will ensure more transparency with respect to the owners of the securities and mitigate the risk of theft, fraudulent transfers or mutilation of the physical certificates.

It is important for all eligible private limited companies to start taking necessary actions to convert their existing securities in dematerialised form at the earliest to avoid last hour rush.

Also, as a foreign shareholder of an Indian subsidiary or a joint venture company, it becomes vital for foreign entities and individuals to initiate the process of getting a demat account in India to keep their dematerialized securities in it as being a foreign entity the formalities pertaining to demat account opening could be relatively lengthier and more complex than for an Indian resident.

Non-compliance could attract not only monetary penalties on both i.e., the Indian company and its directors, but also entails challenges in case of further capital infusions or transfer of securities.

- ***Neha Sharma, Associate Partner, Roedl & Partner***
- ***Bhumika Paliwal, Senior Consultant, Roedl & Partner***

Mittelstand In Focus
Production-Linked Incentive Scheme: A boon for manufacturing in India

Make in India Mittelstand, a pivotal initiative by the Indian government integrates a wide range of support services which German mid-sized companies can avail for entering the Indian market. Since its launch, collaborative efforts between the Government of India and the Reserve Bank of India (RBI) have resulted in several such initiatives focused on the ease of doing business in India for global entities. Through our Mittelstand in focus series, we will explore various such initiatives that make India an attractive market. In this third edition, we review India's Production Linked Incentive scheme and what it means for corporates.

Unlocking value, driving growth

Introduced in March 2020, the Production Linked Incentive (PLI) scheme aims to enhance local manufacturing, reduce import dependencies and strengthen India's position in the global supply chain. It provides incentives on incremental sales (over base year sales) of goods manufactured in India. These incentives are offered to eligible companies in critical sectors like advanced cell battery, electronic products and pharmaceuticals, among others. The objective is to encourage domestic and foreign investments, thereby promoting large-scale manufacturing and boosting India's exports.

The 2022 Union Budget provided an initial outlay of INR 1,970 billion for the PLI scheme across 14 key sectors, with a view to creating national manufacturing champions and up to six million new jobs through additional total production of goods worth INR ~30,000 billion over the next 5 years[1]. Since then, the PLI scheme has seen significant traction and made a substantial impact across sectors.

This article delves into the scheme, its current trends, industry-wise insights, benefits for participating companies, and its role in augmenting India's economic growth.

Emerging Trends

The PLI scheme has attracted interest from major global and domestic companies, leading to increased investments in the manufacturing sector. Initially focused on electronics manufacturing (especially mobile phones), the scheme was expanded to 14 sectors by 2022. It has driven 85% export growth from FY18 to FY23[4], furthering its objective of making India a global manufacturing hub.

As on June 2023, 733 applications had been approved across 14 sectors, with an expected investment of INR 3.65 trillion by both foreign and domestic companies. Micro, small and medium enterprises (MSME) are among the beneficiaries in sectors such as bulk drugs, medical devices, pharma, telecom, white goods, food processing, textiles and drones.[2]

Progress Report

Electronics & Mobile Manufacturing : *With global majors like Apple and Samsung in the fray, this sector has seen a surge in local manufacturing and job creation. The government has proposed an outlay of INR 386 billion for large-scale electronics manufacturing and INR 170 billion for IT hardware*[1].

Pharmaceuticals : *PLI is encouraging the production of raw materials and bulk drugs, reducing India's dependency on imports. The government has proposed a PLI scheme outlay of INR 69 billion for bulk drugs.*

Textiles : *The government has sought to encourage the production of man-made fibres and technical textiles, attracting interest from global apparel brands. There have been 64 applications in this sector, attracting proposed investment of INR 197 billion and a projected turnover of INR 1,939 billion, boosting employment by over 240,000*[1].

Automobiles & Auto Components : *The scheme targets advanced automotive technologies, especially in electric and hybrid vehicles to expedite the transport revolution. In the auto component sector, the scheme has attracted proposed investment of INR 748 billion against a target of INR 425 billion over the past five years*[3].

Advantage India

The PLI scheme offers direct financial benefits in the form of subsidies, ranging between 4% to 6% on incremental sales. Several states have also developed industrial clusters with state-of-the-art infrastructure to attract investors.

Global supply chain realignments have opened new export markets and opportunities for Indian companies. In this context, the scheme makes Indian goods globally competitive by reducing production costs and providing policy support.

The future of Indian manufacturing

PLI is no ordinary incentive programme – it is a visionary step towards transforming India's manufacturing sector. As more global giants invest in the country, it will accelerate India's transformation into a global manufacturing powerhouse. While challenges remain, the early trends and industry response indicate a promising trajectory for India's economic future.

Deutsche Bank’s Services to Global Clients

Deutsche Bank is a leading partner for foreign firms looking to invest in the Indian economy. It has a legacy of strong client relationships, based on advanced products and a global network underpinned by robust governance. It offers tailored solutions for manufacturing operations in India, with automated tools for effective liquidity management and foreign currency risk mitigation. The bank has a bouquet of financing products catering to clients’ capital expenditure (CapEx) and working capital requirements, including long term Rupee-denominated loans, CapEx Letter of Credit and more. Clients can also benefit from Deutsche Bank’s GIFT City Branch and avail long-term capex financing in the form of

External Commercial Borrowing (ECB) and Buyer's Credit for CapEx imports. The bank also provides a sophisticated platform for automated cross-border flows and a dedicated Foreign Exchange Management Act (FEMA) desk for regulatory adherence.

1. Indian PLI Schemes: Promoting Growth and Innovation (investindia.gov.in)
2. 2pib.gov.in/PressReleaseIframePage.aspx?PRID=1932051
3. Press Information Bureau (pib.gov.in)
4. Statista Make in India report | April 23

Upcoming Events

7TH MIIM EXCHANGE PLATFORM

Berlin | 19.03.2024

Register here for the event.

Stay tuned for many more events!

About MIIM

MIIM' is a market-entry support programme for German Mittelstand and family-owned enterprises launched by Embassy of India Berlin, Germany in 2015; driven by Government of India's national programme, 'MAKE IN INDIA'.

The objective of MIIM programme is to facilitate investments by German Mittelstand and family-owned companies in India and to provide market entry related services.

The MIIM program has enrolled more than 184 companies which represent a cumulative declared investment of 1.64 bn EUR to India.

As a part of MIIM program members are exposed to a wide range of business support services under a single platform. The program is being implemented with the support of its Knowledge Partner – Rödl & Partner, Facilitation Partners including Central and State Government Ministries in India and also key industry partners who can support the companies in various aspects of market entry into India. Offered services includes Strategy consulting, M&A, operational market entry support, tax & legal support, financial services and other services

MAKE IN INDIA MITTELSTAND!

Rödl & Partner - Exclusive Knowledge Partner

Investment support for German Mittelstand Enterprises

MIIM Team

MRS. RACHITA BHANDARI
Head MIIM Project Team
Deputy Chief of Mission
Embassy of India, Berlin

MR. SAKETA MUSINIPALLY
Deputy Head - MIIM Project Team
First Secretary
Embassy of India, Berlin

MR. MARTIN WOERLEIN
MIIM Project Team
Head of India Practice
Rödl & Partner

MIIM Hotline:

Email: miim@indianembassy.de | Phone: +49 30-25795514 | Fax: +49-30-25795520

MIIM Team

www.makeinindiamittelstand.de

www.facebook.com/IndiaInGermany

www.twitter.com/eoiberlin

www.linkedin.com/in/miim-make-in-india-mittelstand

Herausgeber/Editors:
Embassy of India

Embassy of India
Tiergartenstraße 17
10785 Berlin
Deutschland/Germany
https://indianembassyberlin.gov.in/
miim@indanembassy.de

Verantwortlich für Inhalt, Layout, Satz / Responsible for content and layout :

Embassy of India
Tiergartenstraße 17
10785 Berlin
Deutschland/Germany
https://indianembassyberlin.gov.in/
miim@indanembassy.de

INVEST INDIA
NATIONAL INVESTMENT PROMOTION & FACILITATION AGENCY

सत्यमेव जयते
EMBASSY OF INDIA
BERLIN

Rödl & Partner

MIIM

MAKE IN INDIA MITTELSTAND!

Powering Tomorrow:

Sector Overview and Opportunities in India's Renewable Energy Industry

Our report on India's Renewable Energy Industry has just been published! Download the report **here** for some exclusive and comprehensive insights on the sector and relevant tax and regulatory aspects!

MAKE IN INDIA