



Embassy of India  
Berlin, Germany



MAKE IN INDIA MITTELSTAND!

Rödl & Partner

# NEWSLETTER

## JANUARY 2025



### Investment Support for German Mittelstand Enterprises



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# Economic Overview

As India charts its path toward becoming a developed nation by 2047, its economic landscape continues to evolve, marked by strategic trade partnerships, sectoral growth, and policy-driven innovation. The recent discussions on the India-EU Free Trade Agreement (FTA), India's growing focus on renewable energy, and advancements in key industries underscore the country's dynamic economic outlook.

## India-EU Free Trade Agreement: Renewed Momentum

India and the European Union are working toward concluding a long-awaited free trade pact this year<sup>1</sup>. European Commission President Ursula von der Leyen, during her recent visit to India, emphasized the need for an "ambitious" trade and investment deal covering industries such as pharmaceuticals, semiconductors, clean hydrogen, and defense. The EU remains India's largest trading partner in goods, with bilateral trade reaching \$137.5 billion in FY 2023/24. External Affairs Minister S. Jaishankar also signaled India's commitment to fast-tracking the FTA, acknowledging the increasing importance of India-EU relations.

Simultaneously, India has resumed FTA talks with the United Kingdom after an eight-month pause due to elections in both nations. The India-UK trade deal, if finalized, would be India's first comprehensive agreement with a Western country, potentially setting a precedent for future negotiations with other major economies.

## Powering Growth: Clean Energy and Industrial Expansion

A key focus of India's Union Budget 2025-26 is the power sector, with a significant push for clean energy and energy security. The government has increased budgetary allocations for clean power production, with a near 40% boost in FY 2025-26 compared to the previous fiscal year. Notably, the rooftop solar scheme has received a 220% increase in capital expenditure, aligning with the goal of supplying solar power to 10 million households by March 2027<sup>2</sup>.

Additionally, India is reinforcing its industrial backbone through the textile sector, which aims to reach export revenues of 108.43 billion USD by 2030. Prime Minister Narendra Modi highlighted how the sector has already seen a 7% increase in textile and apparel exports, making India the world's sixth-largest exporter. The government's Mission for Cotton Productivity and increased credit access for MSMEs are expected to drive further growth<sup>3</sup>.

## Technology and Global Capability Centers (GCCs): A New Growth Engine

India's technology sector is poised to become a \$300 billion industry in FY 2025-26,

growing by 6% over the previous year. The sector, contributing 7.3% to India's GDP, saw tech exports rise by 4.6% to \$224.4 billion in the 2024-25 financial year<sup>4</sup>.

A notable trend within India's tech ecosystem is the expansion of Global Capability Centers (GCCs), with approximately 60% of the world's top 500 companies establishing such centers in India. These GCCs are now outpacing traditional IT services firms in job creation, fueled by advancements in artificial intelligence, machine learning, and cloud computing. This shift highlights India's transition from an outsourcing hub to a global innovation and digital transformation leader.

## Conclusion

With strong trade partnerships, policy-driven growth in renewable energy and manufacturing, and a thriving technology sector, India continues to solidify its position as a global economic powerhouse. The evolving India-EU and India-UK trade negotiations, combined with domestic initiatives to enhance industrial and technological competitiveness, reinforce India's long-term vision of becoming a major player in the global economy. For Mittelstand companies exploring opportunities in India, these developments present a promising landscape for investment and collaboration.

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

# Mittelstand In Focus

## Evolution of FinTech and Regulatory Framework in India

Financial technology has revolutionized the global financial landscape, transforming traditional banking, payments, and investment systems. In India, the fintech industry has evolved significantly over the past decade, fueled by advancements in technology, increased internet penetration, and supportive government policies. However, with this rapid growth comes the need for a robust regulatory framework to ensure stability, security, and consumer protection. This article delves into the evolution of FinTech in India and the regulations that govern this dynamic sector.

### The Evolution of Fintech in India

#### Early Beginnings

The fintech journey in India began in the early 2000s, primarily focusing on payment gateways and online banking solutions. Companies like PayPal and Indian payment startups laid the groundwork for digital transactions. However, the sector's growth remained modest due to limited internet penetration and lack of trust in online systems.

#### The Turning Point: The Last Decade

The Last decade marked a significant shift in the fintech ecosystem. Several factors catalyzed this transformation:

- 1. Digital India Initiative:** The government's Digital India campaign, launched in 2015, aimed to promote digital infrastructure and literacy. This initiative created a conducive environment for fintech startups
- 2. Rise of Smartphones and Internet Penetration:** Affordable smartphones and data plans, propelled by companies like Reliance Jio, brought millions of Indians online, creating a massive market for digital financial services
- 3. Unified Payments Interface (UPI):** Introduced in 2016 by the National Payments Corporation of India (NPCI), UPI revolutionized the payments ecosystem, enabling instant, secure, and low-cost transactions
- 4. Demonetization:** The 2016 demonetization gave a push to cashless transactions. Fintech companies witnessed an exponential rise in user adoption during this period
- 5. Innovative Startups:** A wave of innovative startups emerged, offering services such as peer-to-peer lending, digital wallets, robo-advisory, and insurance technology. Companies like Paytm, PhonePe, and PolicyBazaar became household names

## Current Landscape of Fintech in India

India is now one of the largest fintech markets globally. The sector encompasses diverse segments, including:

**Digital Payments:** Dominated by UPI, mobile wallets, and payment gateways.

**Lending:** Platforms offering instant personal and business loans using AI-based credit scoring

**Wealth Management:** Apps enabling investments in mutual funds, stocks, and digital gold

**Insurtech:** Technology-driven insurance services for streamlined policy purchases and claim settlements

**Regtech:** Solutions focused on regulatory compliance and risk management

India's fintech adoption rate stands at 87%, significantly higher than the global average of 64%. With over 2,100 fintech startups, the sector has attracted substantial foreign and domestic investment, further driving innovation

## Regulatory Framework for Fintech in India

Recognizing the importance of regulating this burgeoning sector, Indian authorities have introduced several measures over the years. Key stakeholders include the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and the Insurance Regulatory and Development Authority of India (IRDAI).

### Reserve Bank of India (RBI)

The RBI plays a central role in overseeing fintech operations. Some notable regulations include:

1. Payment Aggregator and Payment Gateway Guidelines (2020):
  - Mandated licensing for payment aggregators
  - Ensured data security and consumer protection
2. Prepaid Payment Instruments (PPI):
  - Defined operational guidelines for wallets and other PPIs
  - Introduced Know Your Customer (KYC) requirements
3. Digital Lending Guidelines (2022):
  - Addressed issues of predatory lending and data misuse
  - Mandated direct loan disbursements to borrower accounts and transparent disclosure of charges
4. Account Aggregator Framework (2021):
  - Facilitated secure data sharing between financial institutions, empowering users with control over their financial information

### Securities and Exchange Board of India (SEBI)

SEBI regulates fintech companies operating in the investment and wealth management space. Key measures include:

1. Robo-Advisory Regulations: Mandated registration for robo-advisors to ensure compliance with fiduciary duties
2. Crowdfunding Platforms: Proposed guidelines to regulate equity-based crowdfunding

1. and protect investors

### **Insurance Regulatory and Development Authority of India (IRDAI)**

The IRDAI governs insurtech companies, ensuring that innovation does not compromise policyholder interests. Measures include:

- Guidelines for the use of telematics in motor insurance.
- Regulations on digital policy issuance and claim processing.

## **Emerging Trends in Fintech Regulations**

### **Data Protection and Privacy**

The proposed Digital Personal Data Protection Act, 2023, aims to address concerns related to data privacy, mandating clear consent frameworks and penalties for breaches

### **Cryptocurrency Regulations**

India's stance on cryptocurrencies has been evolving. While the RBI initially imposed a ban, the Supreme Court lifted it in 2020. However, the government is working on legislation to address concerns related to money laundering and investor protection

### **Sandbox Frameworks**

Regulatory sandboxes introduced by the RBI, SEBI, and IRDAI allow fintech startups to test innovative products in controlled environments, fostering innovation while mitigating risks

### **Strengthening Cybersecurity**

Regulators are increasingly emphasizing robust cybersecurity measures, including mandatory audits and incident reporting

### **The Way Forward**

India's fintech sector is poised for further growth, driven by advancements in artificial intelligence, blockchain, and open banking. To sustain this momentum, a balanced regulatory approach is essential. Key recommendations include:

1. Collaborative Regulation: Regular dialogue between regulators and fintech companies to address emerging challenges
2. Consumer Awareness: Initiatives to educate users about digital financial products and their risks
3. Incentives for Innovation: Tax benefits and funding support for startups engaged in underserved areas such as rural lending and microinsurance

## **Conclusion**

The evolution of fintech in India represents a remarkable journey of innovation, inclusion, and growth. However, as the sector matures, the need for comprehensive and adaptive regulations becomes imperative. By fostering a supportive yet vigilant regulatory environment, India can ensure the sustainable development of its fintech ecosystem, cementing its position as a global leader in financial technology.

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**Manish Singh, Deutsche Bank AG**  
**Tarun Kumar Singh, Deutsche Bank AG**

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# Maximize Your Tax Efficiency with Input Service Distribution (ISD) Under GST

The Goods and Services Tax (GST) regime in India has streamlined tax compliance, but businesses with multiple locations face challenges in distributing Input Tax Credit (ITC) on common input services.

To address this, the government has made ISD registration mandatory from 1 April 2025 (Notification No. 16/2024-Central Tax, dated 6 August 2024).

## Why does ISD matter?

ISD ensures that ITC on common input services—such as consultancy, marketing, legal, security, and IT services—is distributed efficiently across business units, avoiding accumulation in one location while others remain underutilized.

For example, ABC Ltd., headquartered in Mumbai with branches in Gurgaon, Bangalore, and Kolkata, incurs GST on legal and consulting services at the head office. Using ISD, it distributes the ITC among branches based on their turnover, ensuring fair credit utilization and improved cash flow.

## What are the key highlights of the ISD provisions under GST regulations?

- ISD applies only to input services, not goods or capital goods.
- Mandatory ISD registration for businesses with multiple units using common services.
- ITC is allocated proportionately based on mechanism as provided in GST regulations.
- Timely compliance required to avoid penalties.

## Who Needs ISD Registration?

- Businesses with multiple locations availing common input services centrally.
- Companies looking to enhance tax efficiency and compliance.
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## What are the Compliance Requirements under ISD?

- ITC must be distributed as per prescribed regulations in the same month of service receipt.
- File GSTR-6 by the 13th of each month.
- Maintain proper records, including ISD invoices.

## How to Prepare for ISD Implementation?

1. Identify if ISD registration is required for your business.
2. Classify common expenses and determine the ISD registration location.
3. Update IT and accounting systems for ISD compliance.
4. Ensure vendors issue invoices in the name of the ISD unit.
5. Train finance teams on efficient ITC distribution.

Example of ITC Distribution for ABC Ltd. Having multiple locations across India:

Under Rule 39 of CGST Rules, 2017, ITC is distributed proportionally based on turnover:

Location	Turnover (INR)	Proportion (%)	ITC (INR)
Mumbai (HO)	50,00,000	50	13,500
Gurgaon	20,00,000	20	5,400
Bangalore	20,00,000	20	5,400
Kolkata	10,00,000	10	2,700
Total	100,00,000	100	27,000

With ISD becoming mandatory, businesses must act now to ensure compliance by:

- Assessing ISD applicability.
- Optimizing ITC distribution strategies.
- Ensuring full regulatory compliance with minimal effort.

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# Upcoming Webinar

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**Transfer Pricing**

**03.04.2025**

***Save the date and register [here!](#)***

# 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 227 companies which represent a cumulative declared investment of 2.15 bn EUR to India. MIIM has supported and facilitated the establishment of approximately 125 new manufacturing sites and expansions, along with 65 new subsidiaries. The program also offers numerous workshops—both physical and virtual—and networking events that facilitate knowledge exchange, while also serving as catalysts for meaningful partnerships that drive innovation and growth.

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!

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# Investment support for German Mittelstand Enterprises

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