Embassy of India
Berlin, Germany

MAKE IN INDIA MITTELSTAND!

Rödl & Partner

N E W S L E T T E R

O C T O B E R 2 0 2 3

Investment Support for German Mittelstand Enterprises

IN THIS ISSUE:

Economic Overview

Now that Diwali is over and India has returned ‘back to business’, it’s time for another ‘Make in India Mittelstand!’ Economic Overview with information on the most important current developments in the Indo-German (economic) sphere.

A senior official at the **International Monetary Fund (IMF) emphasized** India's anticipated role in driving global economic growth, foreseeing a 200 basis points increase to 18% over the next five years. The IMF recently revised India's growth estimate for the fiscal year 2024 upward to 6.3%, attributing this positive adjustment to resilient domestic demand and robust investment inflows. This underscores India's significance as a dynamic and expanding economic force on the global stage.

This information is in accordance with the **latest Economic Overview** published by the Indian Department of Economic Affairs: Macroeconomic indicators signaling growth remain robust. In September, inflationary pressures significantly eased, addressing concerns from the previous two months, attributed to temporary factors like seasonal constraints on the supply of specific food items. Despite potential risks related to rainfall patterns and global economic challenges, the ongoing reduction in core inflation is projected to keep headline inflation within the targeted range. The Union Government sustains a strong fiscal position, with steady revenue growth, especially in direct taxes, and prudent expenditure management. This approach enables front-loading of capital spending without straying from the budgeted borrowing plan.

Moreover, India's manufacturing landscape is **witnessing increased competitiveness**, attributed to a key factor— the government's production-linked incentive (PLI) scheme. This initiative has proven instrumental in aligning manufacturing costs more closely with China's, unlocking new levels of competitiveness. As a direct consequence, there is a noticeable surge in contract manufacturing, signifying a growing trend within the industry.

This is in line with a **new study** published by the German Chambers of Commerce Abroad (AHK) and the German Chamber of Commerce and Industry (DIHK):

Despite facing challenges in various regions and a global economy showing signs of sluggishness, a significant portion of internationally active German companies, roughly a third, are gearing up for increased investments. Volker Treier, the head of foreign trade at the German Chamber of Industry and Commerce (DIHK), emphasized the resilience of German companies abroad based on the survey of over 3,600 companies.

While the overall willingness to invest has slightly decreased over the next twelve months, as revealed by the DIHK and AHK study, a notable trend emerges. A fifth of companies are planning to reduce investments at their international locations, compared to 17% in the spring. On the other hand, 33% of companies express intentions to boost investments, a slight decline from 36% in the spring.

The survey also highlights that 18% of companies attribute their investment decisions to the derisking strategy pursued by the German government. This strategy aims to mitigate dependence on one country, especially in critical sectors susceptible to geopolitical risks. In light of this risk diversification approach, India is gaining attention as a favorable investment destination, with Stefan Halusa, Managing Director of the Indo-German Chamber of Commerce, noting an increasing interest from many companies.

What's more, this month marked a significant milestone as **Germany and India formalized concrete collaboration projects** within the framework of the "Green and Sustainable Development Partnership" established in 2022. This partnership lays the groundwork for substantial cooperation in the coming years, focusing on the expansion of renewable energies, sustainable urban development, public mobility, sustainable agriculture, and the preservation of natural resources. Notably, Germany has committed investments exceeding one billion euros to support these initiatives, signaling a robust commitment to advancing green and sustainable development in collaboration with India.

It is on this positive note that we end the Economic Overview – stay tuned for more news in our next MIIM Newsletter!

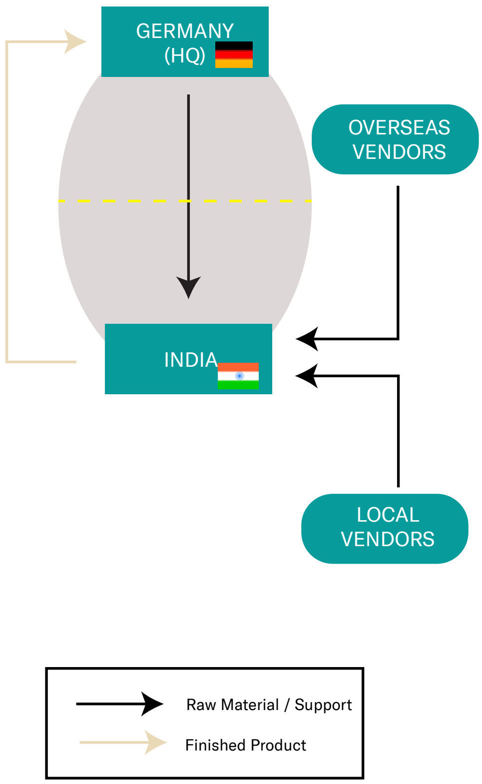
- ***Maja Yadu, MIIM Project Co-ordinator, Roedl & Partner***

Contract Manufacturing in India

In our last article, we had discussed on suitability, benefits, legal framework of Contract manufacturing in India. We now discuss on the Indirect Tax Implications on Contract manufacturing in India.

General Overview of Contract Manufacturing in India

Contract manufacturing is when one company enters into an arrangement to produce components or products for another business i.e. another company name. It is a business arrangement where either the group entity or local or overseas vendors would provide raw materials to the Indian Subsidiary/ Company i.e. contract manufacturer. Further the contract manufacturer would manufacture the goods as per the specifications, technological and managerial guidelines of group entity and send finished product back to group entity. In other words, it's an outsourced manufacturing service.



Group Entity (GER)

- Intellectual Property / Technology Owner;
- Enters into understanding with Customer w.r.t. supply of Products;
- Supplies raw material to Indian entity i.e. contract manufacturer ("IND");
- Provides technology, know-how, production related support services to IND;
- Assist in procurement from third party vendors and also in development of local vendors.

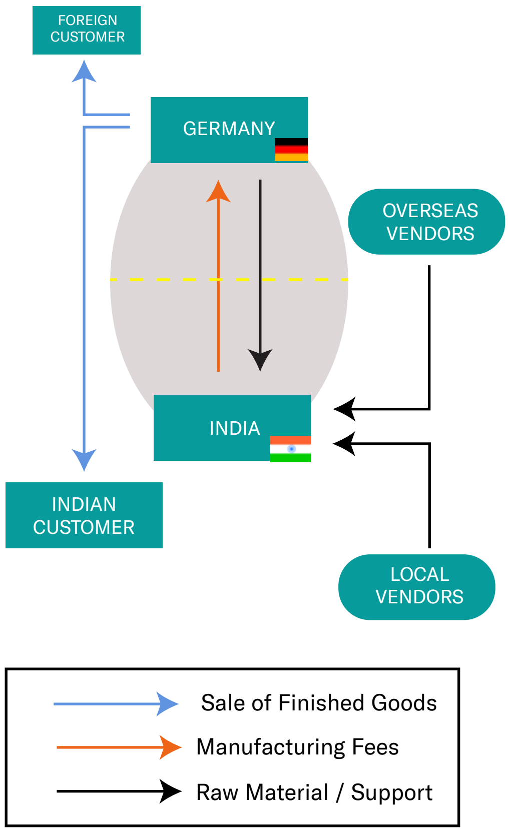
Indian Entity (IND)

Carry out manufacturing activity with support of GER;
Provides finished goods to GER.

Manufacturing Services by IND to GER

IND would either import raw materials or locally procure raw materials from vendors in India. Further, IND would manufacture goods using technology / Intellectual property of GER as per GER's specifications and subsequently would send finished goods back to GER. For providing manufacturing services to GER, IND would raise invoice on GER. Further, GER would supply finished goods to its customers either in India or outside India. Let's discuss on Indirect Tax implications if GER sells finished goods to Indian customers as under:

- **Import of raw materials:** Import of raw materials from related parties/ associated enterprises or affiliates would require appropriate pricing methodology from both Transfer Pricing and Indirect Tax (i.e. Customs) perspective.
- **GST on Manufacturing Service:** IND would charge fees on GER for providing manufacturing services. Whether IND would be liable to discharge GST liability on the same? If yes, GST would be tax cost in the hands of GER.



<u>Cross border movement of goods</u>

- **Re-import of manufactured goods by Indian customers:** If IND exports/ships the finished goods to GER and subsequently finished goods without any addition are imported by customer in India from GER then it would amount to additional logistics, time lag, tax cost, etc. which would generally be an unfavourable commercial transaction.

<u>No cross border movement of goods</u>

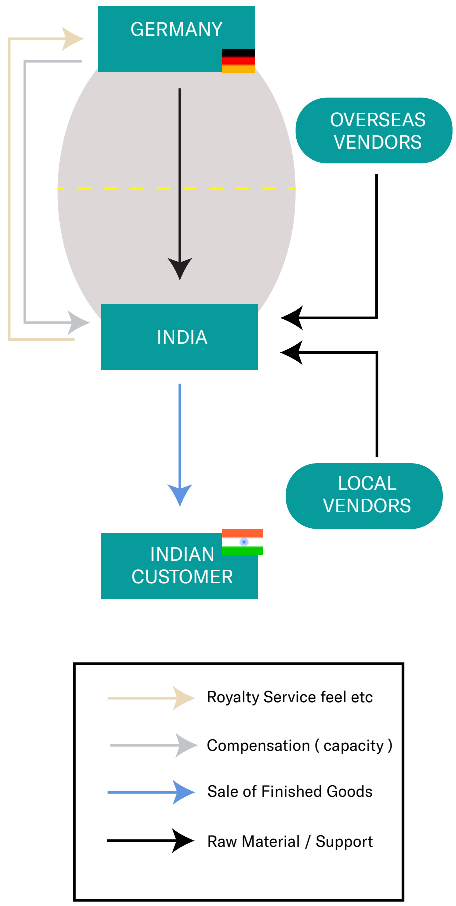
- **Legal restrictions on GER:** Is payment in foreign currency possible without movement of goods from India to foreign country or vice versa in cross border transactions?
- **GST registration and compliance:** GER would be required to take GST registration in India and discharge GST liability for supplying goods to Indian customers as there is no cross border movement of goods i.e. goods in India are sold to Indian customers. Further, it is important to analyse that whether GER would be able to take GST registration in India and pay GST liability in absence of place of business in India? If not, whether Indian customer would be liable to pay GST? If Yes, then how would Indian customer discharge GST liability i.e. GST liability under forward charge mechanism or under reverse charge mechanism as purchase of goods by Indian customers would not qualify as import of goods?

Manufacturing services by IND to GER as discussed above is the traditional approach which was adopted by various companies globally. India being one of the many non-member economies with which the Organization for Economic co-operation and Development (OECD) has working relationships in addition to its member countries.The said approach was within the framework of OCED guidelines but had various implications/ ambiguity under Indirect Tax Laws in India as mentioned above.

Thus, in the current global geopolitical scenario and at a time when the world recovers from the aftershock of the pandemic COVID-19 and experiencing the re-alignment of global supply chain, many companies have restructured their business strategies to explore alternatives to contract manufacturing. An overview of one of the commonly explored alternative is as under:

<u>**Licensed Manufacturing by IND**</u>

IND would either import raw materials or locally procure from vendors in India. Further, IND would manufacture goods using technology/ intellectual property of GER as per GER's specifications, while GER would retain ownership of technology/ intellectual property. GER would acquire customers in India and negotiate sales price of finished goods with Indian customers for which GER would charge compensation fee to IND as mutually agreed. Further, IND would supply goods to Indian customers at price negotiated by GER. For the use of technology/ Intellectual property, IND would be liable to pay royalty/ license fee to GER as mutually agreed. Let's discuss on Indirect Tax implications under licensed manufacturing by IND as under:



- **Import of raw material:** Import of raw materials from related parties/ associated enterprises or affiliates would require appropriate pricing methodology from both Transfer Pricing and Indirect Tax (i.e. Customs) perspective.
- **Compensation:** Whether IND would be liable to pay any compensation for acquisition of customers of GER in India? If yes, in case of related parties/ associated enterprises or affiliates, IND would be required to evaluate valuation of the compensation as per respective tax laws. Subsequently, compliance under Tax Laws would be required.
- **Repatriation of Profits:** Service Fees/ Royalty or Dividends? Tax implications on service fees/ royalty or dividends? Most appropriate alternative of repatriation under exchange regulations?
- **Inflow in loss situation:** Fee or Subvention charges? Tax implications on fees or subvention charges?

From the above, it can be concluded that though there would be no or minimal difference between contract manufacturing and licensed manufacturing under legal framework but there is remarkable difference along with its implications under Indirect Taxes in India.

Thus, it would be imperative to evaluate legal implications under foreign exchange regulations, tax implications under Transfer Pricing in case of related parties/ associated enterprises or affiliates transactions, International Taxation and Indirect Taxes (Customs and Goods and Service Tax) for contract manufacturing and it's the alternative in India so that companies can strategically restructure their business plans for India which would be economically, commercially and operationally more beneficial.

Our next article would be on implications under International Taxation and Transfer Pricing on Contract Manufacturing in India. Please Stay Tuned!

- ***Anand Khetan, Partner, Roedl & Partner***
- ***Atish Laddha, Associate Partner, Roedl & Partner***
- ***Rajvi Doshi, Senior Associate, Roedl & Partner***

Mittelstand In Focus
Unlocking value through global capability centres

The 'Make in India Mittelstand' initiative.

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 second edition, we review how global capability centres can add value to their business.

What is a global capability centre?

A global capability centre (GCC) is essentially a centralised department that offers specific services such as Human Resources, Finance, Technology, Customer Service, Risk and Research, among others. These centres allow companies to centralise and standardise services, ensuring they function effectively whilst upholding quality standards.

Why establish a GCC?

1. **Focus on core business:** With GCCs handling auxiliary tasks, companies can concentrate on their primary objectives and strategic plans.
2. **Risk management:** A centralised system facilitates improved control over potential operational risks.
3. **Improved service quality:** Uniform processes often yield consistent and superior service quality.
4. **Enhanced customer satisfaction:** Specialised services ensure customer needs are addressed promptly and efficiently.
5. **Technological edge:** GCCs frequently employ the newest tech solutions to refine and automate procedures, which individual units might not be able to invest in or implement as effectively.
6. **Economical operations:** Centralising services typically results in reduced operational costs due to economies of scale and standardised processes.

Why Choose India?

India has emerged as the most preferred location for Global Shared Services. The findings from the 2023 edition of "Global Shared Services and Outsourcing Survey"[1] showed that India is followed by Poland and Mexico as the top preferences. Currently, India is house to 50% of the world's GCCs, having a market size of 46 billion dollars in 2022. By 2030, 500 more multinational companies are expected to open their GCCs in India, increasing the market size to 110 billion dollars[2]. India is also ranked 1st in the Global Sourcing Destination, contributing to 59% of global sourcing.

Here are some of the advantages of choosing India for building your GCC.

Skilled workforce: India hosts a massive talent pool of highly skilled IT resources with advanced digital capabilities, with GCCs employing around 1.66 million people in India[3]. Roughly 1 in 10 analytics professionals worldwide are from India.

Infrastructure: The country has space and potential to expand its infrastructure wrapped with easy access through roads, airports in major cities and other facilities. Electricity and reliable internet connectivity are no longer limited to the major metros along with a massive scalable penetration across different geographies.

Cost effectiveness: The cost of operating a captive centre in India is much lower than in developed countries, such as the US and the UK. This is due to reasonable employee costs, lower real estate costs and favourable exchange rates.

Digital Transformation: India has seen a surge in talent pool in emerging technologies such as data analytics, experience design, AI/ML, robotic process automation, IoT, cloud, blockchain, and cybersecurity. GCCs in India are leveraging this talent pool and are playing a significant role in enabling digital transformation at a global scale.

Government support: The government of India has set up Special Economic Zones (SEZs) where companies have access to various tax incentives and other benefits. Key states have come up with engineering R&D policies and the setting up of innovation and technology clusters. This helps in leveraging India's existing IT services, strengths and the available talent pool of engineers. Additionally, liberal government policies are in place to attract foreign investment (most sectors open to FDI under automatic route).

Deutsche Bank's support to clients

Global Capabilities Centres in India grapple with two challenges:

a) Grasping intricate local regulations and disclosure requirements, which diverge from European norms.

b) Efficiently managing liquidity and handling cross-border transactions, given their susceptibility to foreign currency exposures due to their cost-plus revenue model.

Deutsche Bank stands as a dependable partner for firms navigating these challenges. Revered for its unwavering dedication to the Indian market, robust client relationships, advanced product technology, and global linkage underpinned by stringent governance, Deutsche Bank offers tailored solutions for GCC operations in India. This includes a sophisticated platform for automating A1 (imports and exports) flows, a dedicated FEMA desk for regulatory adherence, and automated tools for effective liquidity management and foreign currency risk mitigation.

1 Global Shared Services and Outsourcing Survey | Deloitte US
2 How India is gearing up for a US$110b GCC industry by 2030 (ey.com)
3 India's Global Capability Centers Market to Reach US$110 Billion by 2030 (india-briefing.com)

Event-Recap:
“Make in India for the World”


It was our pleasure to organise a "Make in India for the World" seminar in collaboration with Invest India, the German Federal Ministry for Economics and Climate Action (BMWK), under the aegis of the Department for Promotion of Industry and Internal Trade (DPIIT).

The event helped promote Make in India as a key initiative to boost the manufacturing sector and help India achieve self-reliance by encouraging companies to develop, manufacture and assemble products made in India and incentivize dedicated investments into manufacturing.

The event included special addresses by distinguished high-profile speakers and an insightful panel discussion with experienced company representatives. The speakers addressed the participants on the current developments in the Indian economy, the efforts taken by the Government of India in making India an attractive investment destination, the various incentives offered for foreign investors in the country and the potential for furthering collaborations between Mittelstand companies from Germany and India.

The event witnessed great enthusiasm among the participants, who expressed positive appreciation of the business environment in India. German Mittelstand companies were encouraged to make use of the MIIM initiative in their investment plans in India.

We hope to meet you at one of our various insightful upcoming physical and virtual events! You will find more details on the following pages.

Upcoming Events

INDIA-GERMANY DIGITAL PARTNERSHIP: GERMAN MITTELSTAND MEETS INDIAN IT INDUSTRY (NASSCOM)

Berlin | 23.11.23

15:30 – 17:30 CET
Register here for the event.

"MAKE IN INDIA MITTELSTAND!" MEETS THÜRINGEN: BUSINESS OPPORTUNITIES IN INDIA

Erfurt | 28.11.23

16:00 – 18:30 CET
Register here for the event.

KEY ISSUES AND CONSIDERATION IN INTERNATIONAL COMMERCIAL ARBITRATION

Webinar | 12.12.23

15:30 – 16:30 CET
Register here for the webinar.

Stay tuned for many more events!

Thüringen International

Kofinanziert von der Europäischen Union

सत्यमेव जयते

Embassy of India Berlin

Rödl & Partner

MAKE IN INDIA MITTELSTAND!

"Make in India Mittelstand!" Meets Thüringen: Business Opportunities in India

India, with its booming economy, diverse and growing consumer base, demographic potential and innovation-driven landscape, presents a wealth of opportunities for businesses looking to expand internationally. The Indian market is witnessing an immense interest from German Mittelstand companies and is quickly becoming their preferred investment destination.

Are you a forward-thinking German SME seeking new horizons for growth and expansion? Do you aspire to tap into the dynamic and thriving market of India? Do you want to interact with high-profile representatives from politics and administration, both from India and Germany?

Then this event is for you! Join us for this interactive and highly informative event and learn more about how to structure a successful market entry, India's taxation benefits, offerings by the Indian government for foreign companies and many more topics of relevance to decisionmakers of Mittelstand companies.
Click **here** to register!

28 November 2023 | Erfurt

Venue: Haus Dacheröden | Anger 37 | 99084 Erfurt

Programme Partners

Rödl & Partner · KHAITAN & CO · KFW DEG · Deutsche Bank · SBI

INVEST INDIA · AHK · INVEST PUNJAB · TIDCO · TRIFAC

EDB · INDEXTb · RIICO · wbidc

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MAKE IN INDIA MITTELSTAND!

Time	Agenda
15:30 – 16:00 hrs	**Registrations & Entry**
16:00 – 16:10 hrs	**Welcome Address** Andreas Krey, Managing Director, LEG Thüringen
16:10 – 16:25 hrs	**Special Keynote Address** Wolfgang Tiefensee, Minister for Economy, Science and Digital Society
16:25 – 16:40 hrs	**Special Keynote Address** H.E. Parvathaneni Harish, Ambassador of India to Germany
16:40 – 17:00 hrs	**How to 'make it' in India as a Mittelstand Company – Practical Insights On Successfully Growing Your Business in India** Martin Wörlein, Head of India & South Asia Advisory, Rödl & Partner
17:00 – 17:15 hrs	**Testimonial 1: Glatt Ingenieurtechnik GmbH** Clifford Schäferskϋpper, Head Sales and Market Development
17:15 – 17:30 hrs	**Testimonial 2: GBneuhaus GmbH** Michael Petry, Managing Director
17:30 – 18:00 hrs	**Q&A Session**
18:00 onwards	**Networking Reception**

Programme Partners

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 181 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

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