

THE ECONOMY

India is the world's largest democracy and amongst the fastest growing economies. In slowing global market conditions the Indian economy has shown remarkable resilience. In the words of Finance Minister – "2011-12 was a year of recovery, interrupted."

The GDP growth couldn't revert to the pre-global financial crisis levels, but still grew at a healthy 6.9 percent (FY 12). The number of FDI projects have increased from the lows of 2009 and 2010. This is especially commendable when the rest of the world witnessed a growth of less than 3%.

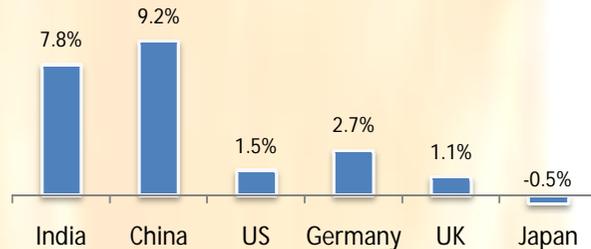


Figure 1: GDP Growth Rate, 2011
Source: CIA Fact book

Despite the impressive GDP growth, the Indian industry struggled under the twin burdens of persistent high inflation which escalated input costs and rising interest rates due to a tightening monetary policy by the Reserve Bank of India (The Federal Bank). This led to a relative slowing of the manufacturing sector to 3.9% in 2011-12.

The GDP growth was driven by the services sector which grew at 9.4%. The services sector now accounts for 56% of the GDP. Overall, the Prime Minister's Economic Advisory Council (PMEAC) expects the GDP to grow by 7.6% in 2012-13 compared to 6.9% in 2011-12

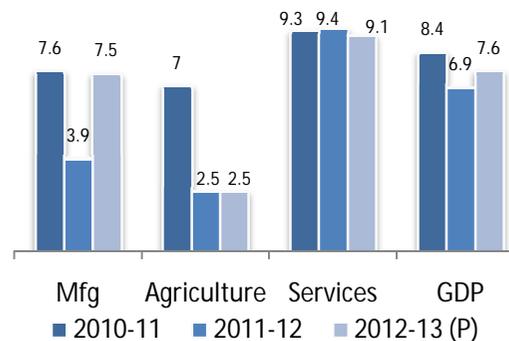


Figure 2: Performance of Various Sectors (in %)
Source: PMEAC Economic Review

Foreign Direct Investment (FDI)

Amidst this slowdown, India has been seen as the engine of growth which would lead the global revival. Its strong fundamentals, steady domestic demand and long term favourable demographic advantage render it as one of the most attractive destinations for FDI.

In 2011, India has attracted USD 58.26 bn in FDI (up 12% from USD 51.95 bn in 2010). In challenging conditions during the last year, India has remained attractive as an investment destination, and has

performed favourably compared to its direct competitors for global FDI.

	2010	2011	% Increase in 2011
India	774	932	20%
China	1344	1409	5%
USA	1522	1707	12%
UK	941	1014	8%
Brazil	336	507	39%

Table 1 Increase in number of FDI Projects
Source: Ernst & Young Report, 2012

India attracts investments from all regions of the world, but more than half (51%) of the 932 projects are from the US, Germany, the UK and France.

Bangalore, Mumbai, Chennai, New Delhi and Pune are the top 5 FDI recipient cities.

Union Budget

Amidst the shadows of Euro-zone crisis, a faltering global economy, high currency volatility and widening fiscal deficit, the Finance Minister presented the Union Budget, identifying the following objectives:

- i. Focus on domestic demand growth recovery
- ii. Create conditions for rapid revival of high growth in private investment
- iii. Address supply bottlenecks in agriculture, energy and transport sector

Sector-wise Policy Proposals in the Budget

The government outlines its policies for various sectors for the next financial year in the Union Budget. Some of the key policy proposals for the FY 13 are:

Sector	Policy	Implication
Railways	<ul style="list-style-type: none"> – Highest ever plan outlay of USD 12.02 bn with focus on safety, modernisation, Decongestion & Capacity Augmentation – Investment of USD 34 billion on rolling stock in next 5 years – Requirement of USD 280 billion in next 10 years for modernisation 	<ul style="list-style-type: none"> – Emphasis on safety and modernisation would demand huge investment from private sector – Significant opportunities for organizations offering modernization and maintenance products and services
Agriculture	<ul style="list-style-type: none"> – Deductions in capital expenditure extended to beekeeping, sugar warehousing, cold chains, production of fertilizers etc – National Mission on Food Processing' to be started in 2012-13 	<ul style="list-style-type: none"> – Increase in private investment in agriculture and food processing – Reduction in food wastage, capacity addition for food storage and technological upgradation of food processing infrastructure
Manufacturing	<ul style="list-style-type: none"> – <i>National Manufacturing Policy</i>: Proposals include single-window clearance, a liberal exit policy, exemptions from capital gains tax, and incentives for green manufacturing and technology acquisitions 	<ul style="list-style-type: none"> – Improvement of overall climate for investment into manufacturing – Share of manufacturing in GDP to rise to 25% from 15.4% (in 10 years) – Opportunities for companies into green and clean technologies
Infrastructure	<ul style="list-style-type: none"> – Investment in infrastructure to go up to USD 1 trillion during the 12th Plan period (2012-17) – Half of this investment is projected to come from the private sector 	<ul style="list-style-type: none"> – Increased investments through PPP model into various infrastructure – Immense opportunity for capital goods (construction, cement, iron and steel etc) companies due to derived demand
Major Tax Reforms Outlined in the Budget		
Indirect Tax – Goods and Services Tax (GST)	<ul style="list-style-type: none"> – Drafting of model legislations for Central and State GST which will implement common PAN based registrations, return filing and payment processing for states on a shared platform, expected to become operational by August, 2012 	<ul style="list-style-type: none"> – Removal of the cascading effect of the present regime – Taxes on goods and services at the point of final consumption only – Prevention of inefficient distribution system based on tax planning due to varied tax structure amongst different states
Direct Tax Code (DTC)	<ul style="list-style-type: none"> – DTC will reform the present tax structure to make it more transparent, ensuring greater compliance and simpler to abide 	<ul style="list-style-type: none"> – Changes would decrease tax burden and increase disposable income – New norms for instruments eligible for tax exemptions
General Anti-avoidance Rules (GAAR)	<ul style="list-style-type: none"> – GAAR empowers the Revenue Authorities to deny the tax benefits of transactions or arrangements which do not have any commercial substance or consideration other than achieving the tax benefit 	<ul style="list-style-type: none"> – Foreign Investors will not be able to gain tax benefits by routing investments through tax haven countries – GAAR has been deferred for a year, and will be applicable from 2013-14

ABOUT INI CONSULTING

INI is a boutique consulting firm which provides strategic advisory and implementation support services to organizations on India Entry, Agri-Consulting and Infrastructure Health Assessment. The services offered transcend various stages of a company's lifecycle right from conceptualization of business plan to operations management. Strong local presence, deep knowledge of market segments, extensive operational experience and strong network makes INI the preferred partner for the clients.