FRANKLIN
LAW FIRM

NEWS FLASH – SEPTEMBER 2014

INDIA PRACTICE

MAKE IN INDIA

The new Government of India ("**GOI**"), led by Prime Minister Narendra Modi, stepped into power amidst high expectations and steep challenges posed by high inflation and falling growth rates.

The GOI announced the 2015 budget, which demonstrates a commitment to financial consolidation and reducing the fiscal deficit. Promoting investment, foreign and domestic, has been the clear underlying theme of the budget. The GOI made a particular effort to allay fears of investors, stating that the GOI would not change any laws with retrospective effect, thereby assuaging fears of creating unforeseen liabilities on past investments.

This was further bolstered by the GOI's announcement of the "Make in India" global campaign on 25th September, placing a spotlight on the investment opportunities in India, whilst simultaneously easing the barriers to entry for investment.

We have summarized below the main sectoral announcements, which have the potential of reviving the investment cycle in India and overall growth of the Indian economy.

Foreign Direct Investment ("FDI")

- The FDI cap in the following sectors is to be raised from 26% to 49%, subject to all joint ventures being entirely controlled by Indian management (i.e. all the directors on the board of the joint venture company must be Indian citizens):
  - defense manufacturing (for specific projects where there could be significant technology transfer, the GOI has announced its willingness to consider 100% FDI); and
  - insurance.

  As before, all investments in these sectors will be subject to prior approval by the Foreign Investment Promotion Board ("**FIPB**") (the "**approval route**");

- 100% FDI has been permitted in the railway infrastructure sector, to incentivize the development of high-speed train systems, sub-urban corridors and freight lines.

- To encourage FDI for the development of "smart cities" along identified industrial corridors, such as the Delhi-Mumbai Industrial Corridor and the Chennai-Bengaluru Industrial Corridor, the policy for greenfield construction development projects has been relaxed, reducing the compulsory built up area from 50,000 square metres to 20,000 square metres and minimum capitalization norms from USD 10 million (~ 7.7 million euros) to USD 5 million (~ 3.8 million euros), with a 3 years lock-in. Projects which commit at least 30% of the total project cost towards low cost affordable housing will be exempt from the built-up area and capitalisation conditions, though still subject to the 3 years lock-in.

- Manufacturing units with FDI made under the automatic route (i.e. without any prior approval of the FIPB) will be allowed to sell their products through retail, including e-commerce platforms, without any additional approvals.

Real Estate, Urban Housing & Development

To meet the demands of the ever growing urban population, the GOI has offered tax incentives to promote investments in the urban infrastructure and housing sectors. With the easing of FDI norms, allocation of INR 40 billion (~ 500 million euros) and the announcement of certain tax benefits, the affordable housing sector is expected to be the biggest beneficiary of the budget.

INR 70.6 billion (~ 900 million euros) has been allocated by the GOI to create 100 "smart cities". The master planning of 3 new smart cities in the Chennai-Bengaluru Industrial Corridor Region is scheduled to be completed shortly.

Assistance to the ongoing Metro rail projects in Delhi, Jaipur, Mumbai, Kolkata, Bengaluru, Chennai and Kochi has been substantially increased by INR 22.65 billion (~ 289 million euros) and INR 1 billion (~ 12.8 million euros) has been allocated for new Metro projects in Lucknow and Ahmedabad.

National Manufacturing Policy

The GOI has laid particular emphasis on the revival of the manufacturing sector, by proposing to set up National Investment and Manufacturing Zones. This is aimed at increasing the sectoral share in the GDP from 15% currently to 25% by 2022. It is projected that this will double the employment levels in India and increase India's global competitiveness in manufacturing.

New & Renewable Energy

The energy consumption is estimated to increase from 821.2 TW to 1433.2 TW by 2022. To bridge the gap, INR 5 billion (~ 60 million euros) has been allocated for Ultra Mega Solar Power Projects in Rajasthan, Gujarat, Tamil Nadu, and Ladakh, whilst INR 1 billion (~ 12.8 million euros) has been set aside for the development of 1 MW solar parks.

Airports and Roads

The GOI plans to build 200 low-cost airports in the next 20 years to connect Tier-II and Tier-III cities. INR 378.8 billion (~ 4.9 billion euros) has been allocated for building 8,500 km of national highways and roads.

Conclusion

These measures seem to have the clear objective to encourage the inflow of FDI. Although the new government has only been in power a little more than 100 days, it is encouraging to note a concentrated effort at promoting growth. Their continued implementation of these policy initiatives will go a long way in determining India's growth path over the coming years.

For more information on these subjects, please contact the India Practice of Franklin Law Firm: Bradley Joslove (bjoslove@franklin-paris.com) or Meghna Prakash (mprakash@franklin-paris.com)

If you do not wish to receive this newsletter in the future, please let us know and you will be removed from our mailing list. The information contained herein is for informational purposes only. Its content should in no way be construed as legal advice or legal opinion on a specific issue.

FRANKLIN LAW FIRM

26 avenue Kléber
75116 Paris, France
http://www.franklin-paris.com
Tel: +33 (0) 1 45 02 79 00
Fax: +33 (0) 1 45 02 79 01