



Embassy of India  
Berlin, Germany



MAKE IN INDIA MITTELSTAND!

Rödl & Partner

# NEWSLETTER

JULY 2023



## Investment Support for German Mittelstand Enterprises



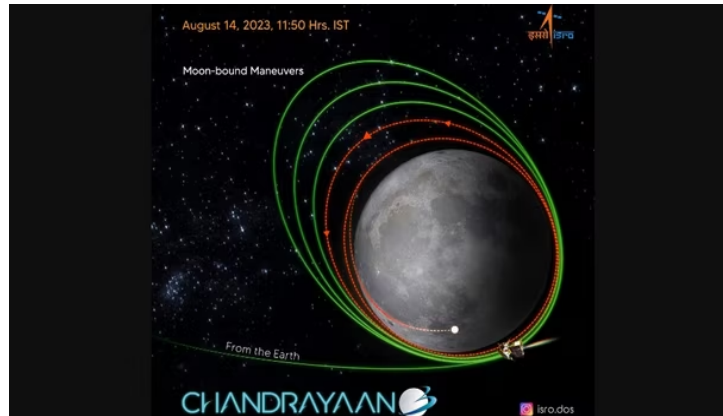
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# Economic Update

As India's citizens cross their fingers for the expected moon landing of the [Chandrayaan-3 moon mission](#) on 23rd of August, our Economic Overview does, as always, take a look at the most relevant developments of the last month.



Germany has been reported to have increased its exports to India massively. According to [preliminary export data](#) published by the German Federal Statistical Office, export to India has increased by 19.4 year-on-year in the first half of the year to around 8.6 billion euros. India mostly buys machinery, chemical products as well as vehicles (including trains, ships and aircraft) from Germany. Indeed, India's most [recent purchase from Airbus](#) has been declared a game-changer for the aviation industry.

The ties between Germany and India are also evident from the current discussions about a potential submarine deal Germany is trying to close with India. During the visit of Germany's Defense Minister Boris Pistorius, the two countries [signed a memorandum of understanding](#) for a multi-billion dollar submarine project. As India is currently looking for a partner to produce six submarines, Germany – among other countries – has placed a bid for the project. This comes as no surprise considering that Germany is trying to strengthen its military cooperation with India and to treat India as a future strategic partner as Pistorius highlighted during his recent visit to India.

India and the European Union also continue preparing for important Free Trade Agreement (FTA) negotiations. The next round of high-level India-EU meetings is expected at the end of August on the sidelines of the G20 trade ministers' meet-

ings in Jaipur. The G20 Trade and Investment Ministerial Meeting is scheduled for 24th and 25th of August. Another round of FTA-related meetings would be in line with the previous five rounds that have been held so far between India and the European Union. Some of the potential points of disagreement anticipated is the [new EU Deforestation Regulation](#) which is expected to impact Indian exporters the most as well as the question of [how to treat refurbished](#) items that make their way into India. Nevertheless, Commerce and Industry Minister [Piyush Goyal has once again stressed](#) that he hopes India will close a number of FTAs in the coming months, among others with the EU, Canada and the United Kingdom.

According to the Indian Department of Economic Affairs' [most recently published economic report](#), the Indian manufacturing industry has increased its performance despite the current inflation, which overall remains a challenge for economies worldwide. Long-lasting effects such as supply chain shortages, together with inflation, had a substantial impact on manufacturing industries worldwide. However, the effects have yet to have such long-lasting effects in India. In the first half of 2023, the manufacturing sector experienced a minor slowdown which was overturned by June. This supported the Indian lending strength and the overall macroeconomic stability of the Indian economy, showcasing that the Indian economy is on a steep upward trend and therefore able to process severe market shocks.

**- Maja Yadu, Project Coordinator MIIM, Roedl & Partner**

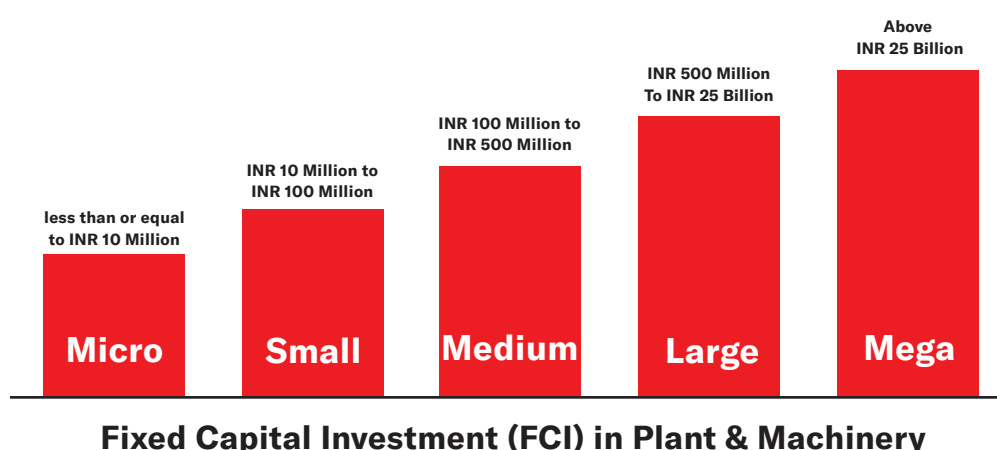
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# Subsidies For Manufacturing In India: Part IV

## AATMANIRBHAR GUJARAT SCHEMES 2022

In our special series of articles on the subsidies provided by State Governments in India, we now discuss the Industrial Policy introduced by the State Government of Gujarat in year 2022, for manufacturing companies. The Government unveiled the **AATMANIRBHAR GUJARAT SCHEMES 2022** to encourage industries to transition towards green manufacturing practices and adopt decarbonization initiatives to remain globally competitive and strengthen integrated value chains for an Aatmanibhar Bharat. In the current global geopolitical scenario and at a time when the world recovers from the aftershock of the pandemic and experiencing the re-alignment of global supply chains, Gujarat being an entrepreneurial society supports industries to attract investments and supports local manufacturing and thus accelerating the growth and creates employment opportunities in the state. An overview of the policy has been provided below.

### A. Categorization of the Policy



*\* Additional criteria must be cumulatively satisfied to qualify as a Mega Industrial Unit.*

## **B. Benefits under Aatmanirbhar Gujarat Schemes 2022**

As the benefits under the scheme differ for one category to another, an applicant would have to evaluate the benefits that would be available to him based on the category depending on the location of unit and the quantum of investments. Some of the major benefits under policy are elaborated below:

- *New MSME would be eligible for **Capital Investment Subsidy** as a percentage of term loan subject to maximum amount as prescribed under the scheme.*
- *Units would be eligible for **Interest Subsidy** in respect of interest actually paid to the Banks and Public Financial Institutions (excluding unsecured loans, private loans / borrowings, loans from NBFCs etc.). The amount of interest subsidy would be calculated at an effective rate of interest, after deducting the interest subsidy receivable from any agency of the State Government or under any Government of India Schemes. The tenure of interest subsidy would differ for one category to another.*
- ***State Goods and Service Tax (“SGST”) Reimbursement** as a percentage of gross SGST payable by the unit on the sale of eligible products billed and delivered within Gujarat subject to maximum percentage of Eligible Fixed Capital Investment as prescribed under the scheme. The tenure of interest subsidy would differ for one category to another.*
- *Eligible Mega unit will be eligible for **100% reimbursement of input SGST paid on capital goods** to the extent input tax credit is admissible under Gujarat GST Act, 2017. The reimbursement shall be provided in 20 equal annual installment.*
- *Reimbursement of employer’s contribution under **Employees’ Provident Fund (EPF)** for new employees for a period of 10 years from date of commencement of commercial production subject to certain criteria.*
- *Eligible Mega units shall be eligible to claim **100% reimbursement of stamp duty and registration charges** paid to Government of Gujarat for purchase and/or lease of land for the project.*
- *Units shall be eligible to receive **exemption from Electricity Duty** as applicable under Gujarat Electricity Act 2003.*

## Thrust manufacturing sectors

### **Green Energy Ecosystem**

- *Green Hydrogen/ Green Ammonia*
- *Electrolyser*
- *Renewable energy equipment*
- *Battery Storage*
- *Fuel Cells*

### **Mobility**

- *Aviation related manufacturing*
- *Electric Vehicles*
- *Auto or auto components*
- *Space related manufacturing*

### **Capital Equipment**

- *Electrical Machinery and/or Equipment*
- *Industrial Machinery and /or Equipment*
- *Telecom related Machinery and/or Equipment*

### **Metals and Minerals**

- *Metals*
- *Mineral Processing*
- *Ceramics*

### **Textile & Apparel**

- *Technical Textiles*
- *Textile, Apparel & Garments*

### **Sustainability**

- *Municipal solid/ liquid waste recycling equipment manufacturing*

### **Agro Processing**

- *Agro and Food Processing*

### **Gems and Jewellery**

- *Gems and Jewellery including Lab Grown Diamonds*

### **Healthcare**

- *Pharmaceuticals and/or APIs*
- *Medical devices*

## **C. Need to evaluate the Aatmanirbhar Gujarat Scheme 2022 for manufacturing units.**

The Aatmanirbhar Gujarat schemes for assistance to industries is expected to transform the Gujarat's manufacturing landscape in the coming years. The scheme is expected to attract an investment of INR 12,500 Billion generating employment opportunities for over 1.5 Million people in Gujarat. A business entity before establishing a business or expanding the business in the State of Gujarat should evaluate benefits under subsidies offered under the scheme. This scheme outlines the government's vision and initiatives to accelerate industrial growth, attract investments, create employment opportunities and support local manufacturing in the state. The subsidies provided under the scheme include financial assistance, tax benefits and land allocation, all of which can significantly reduce operational costs and enhance the overall feasibility of setting up a manufacturing unit in Gujarat. Further claiming benefits under these schemes can reduce capital investment substantially over a period of time which can result into effective management of cash flow for the business. Moreover, understanding the specific eligibility criteria and application procedures for these subsidies enables the entity to plan its business operations in alignment with the policy's objectives, ensuring that it can fully capitalize on the available benefits.

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



# Concessional Tax Rate Scheme for New Manufacturing Companies

In recent years, many multinational companies have preferred India as a favored Manufacturing destination. One major advantage that India offers is a cost arbitrage and its vast pool of skilled labor which is essential for manufacturing. The Indian Government continues to introduce measures to capitalize on this favorable environment and investor sentiment.

In our earlier editions, we covered special series of articles on the subsidies provided by State Governments in India for manufacturing companies. In this Article, we cover the “Concessional Tax Regime” that was introduced in the year 2019 for corporates, the window for which is due to expire soon, i.e. on 1 April 2024.

Newly set up companies (i.e. companies set up after 30 September 2019) engaged in manufacturing are eligible for a concessional tax rate of ~17 percent [as per Section 115BAB of the Income-tax Act, 1961 (‘Act’)<sup>1</sup>]. Companies opting to be governed by the concessional tax rate are also not subjected to Minimum Alternate Tax<sup>2</sup> calculated as a percentage of book profits.

Several conditions need to be satisfied to be eligible for concessional tax rates. One of the critical conditions is that the manufacturing or production activity needs to commence before 1 April 2024. Therefore, there is less than a year available to be ready with the manufacturing setup.

In such a scenario, the entities planning new investment in manufacturing operations in India can consider the following aspects would, while eyeing a concessional tax rate of 17 percent, in such a short timeframe:

- Cost-benefit analysis, in light of projections of new future business and profit from such business over a timeframe of 5 to 10 years and ~8 per cent of such profit being the tax benefit;

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1. Benefit extended to new cooperative societies set up after 31 March 2023

2. Generally, arises in case of inadequate tax profits due to any concessions, accelerated deductions or set off of brought forward losses

- Internal business plans and necessary approvals, if the business projection portrays a positive future business scenario;
- Analysis of eligibility for concessional tax rate in light of various conditions laid down. Some important fact-specific issues are covered below:

*- If there is already an existing business operation in India, then it would need to be analyzed whether the newly proposed manufacturing business activity can be said to be not formed by splitting up or reconstruction of existing business activity;*

*- The business activities of the new entity need to be restricted to manufacture or production only (and some specified allied business activities). If there are any other business activities; that need to be undertaken (such as after-sales services, etc.), then further cost-benefit analysis needs to be undertaken for structuring these business activities differently;*

*- Similarly, the extent of processes proposed to be undertaken in India would need to be evaluated to assess, if the same amount to manufacture or production;*

*- If there is a plan to use old plants and machinery already used in the past, then it needs to be ensured that such old machinery does not constitute more than 20 percent of the total value of plant and machinery. Subject to certain conditions, machinery imported from outside India may also not be considered to be old plants and machinery for this condition.*

It can be seen that there's significant action required before the manufacturing activity can be set up and commence. Hence, appropriate steps in this direction need to be taken in a timely manner, not to miss the opportunity of being eligible for a concessional tax rate.

Given the multiplicity of action items, planning for any new investment in manufacturing activity needs to take into consideration the above aspects on an immediate basis, to optimize the benefits of the new setup. In order to simplify the process, one can also plan to start with manufacturing operations on a smaller scale to meet the timelines and keep on growing these operations over a period,

business opportunities grow. Such scaled-up operations after 31 March 2024 in the manufacturing entity, which is already eligible for a concessional tax rate under section 115BAB, also automatically become eligible for a concessional tax rate. This would give a benefit to lock in the concessional tax rate in perpetuity (unless the law changes) and at the same time, the profits from scaled-up operations in the future will also be eligible for a concessional tax rate.

- **Chetan Kakariya, Partner, Roedl & Partner**
  - **Priyanka Limaye, Associate Partner, Roedl & Partner**
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# India - Easing Out Business But Leaving Space For Improvement

In the World Bank Group ranking “The Ease of Doing Business” India was ranked 142nd in the year 2014. In the same year, the Indian Government introduced an extensive reform plan aiming to ease out business undertakings in India. This initiative led to an incredible improvement by 79 places in the ranking in 2020, reaching 63rd place.

As per the Economic Survey 2022-23 overall throughout the administrations of India, more than 39,000 compliances have been reduced to promote India as a business and manufacturing hub.

In detail:

- ***Reduction of compliances under the DPIIT’s BRAP 2020 (fifth edition)***
- ***Decriminalization of more than 3,500 provisions related to technical or procedural defaults.***
- ***Decriminalization of minor economic offenses under the Companies Act, 2013***

In addition to the above improvement, a major step forward in easing out business in India is the digitalization of processes throughout the administration e.g. the introduction of the National Single Window System (NSWS) which is a digital platform for applications for approvals regarding business requirements. In this regard, the Digital Personal Data Protection Act, of 2023, which was passed by the Indian parliament but is yet to come into effect, is adding to an up to mark digital environment. It sets out clear guidelines for businesses on how to take care of their customer’s data, grants users greater rights, and promotes transparency in the handling of personal information. In a time where more processes outside and inside of a Company get digitized and the amount of personal data which is being used increases on an exponential level, it will give foreign companies – especially European companies dealing with strict GDPR – assurance of a positive data privacy landscape. Overall, the Digital Personal Data Protection Act, of 2023, is a significant step toward data protection and privacy in digital India, which was ruled by an outdated legal system.

Keeping this in mind, there is a major topic that would further improve the market entry landscape. Section 115 BAA of the Income Tax Act was introduced to promote manufacturing in India. It allows manufacturing companies incorporated after 2019 to pay income tax at a rate of 22% along with a surcharge of 10 % and a cess of 4 % instead of 30%. However, to avail of this benefit manufacturing has to start by 31st March 2024. Even though many in the market expected an extension of this deadline, no announcement in this regard was made.

Due to Covid-19 many companies - even though attracted by this potential benefit - were not able to take the step of setting up a manufacturing unit in India, as the pandemic brought many uncertainties. As setting up a trading company as a first step, which is an easier and faster process, would not qualify for the above benefit, companies decided to postpone their market entry for the time being. Luckily India recovered from the economic consequences of Covid faster than expected and towards the end of the Year 2022 companies decided to start their “project India”. This decision came at a time when the MCA Portal through which companies have to file the incorporation was updated from V2 to V3. Unfortunately, this update came with major technical glitches which hampered the companies’ efforts for more than 6 months. Under these circumstances, it would be a sign of great understanding of the government towards the needs of foreign companies via reaching out to them by extending the deadline mentioned in 115 BAA to avail above benefit.

India, which anyway holds a big potential for foreign companies would benefit from such an extension in several aspects. More foreign manufacturing companies in India would lead to the creation of more jobs for Indians highly skilled workers, who would not have to leave India in search of jobs and therefore India’s talents could be retained in India.

- ***Simone Puddu, Senior Consultant, Roedl & Partner***

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# The New ‘Perfect Fit’?

## The Up-and-Coming Collaboration of Germany and India – A Comment

**India has always been a crucial long-standing economic partner for Germany. Last year alone, the trade volume increased to around 30 billion Euros, making India the essential trading partner for Germany in South and South-east Asia. Therefore, the partnership has been constantly developing and improving. On July 19th, for the first time in 10 years, the German Minister of Economic Affairs and Climate Action visited India. Robert Habeck is also the vice-chancellor of Germany. He aimed to further increase cooperation and collaboration between the two countries, all in light of the recent political developments and the upcoming G20 summit.**

### **Geopolitical challenges**

One of the influencing factors is the Ukrainian conflict. Ever since its start, Western countries have condemned Russia's actions. Throughout this time India has always tried to promote a peaceful resolution between the two countries. Now the West is trying to further pull India on its side. However, India's neutrality and peace promotion could to this moment not be swayed in aligning itself with the West. This was not only acknowledged by Vice-Chancellor Robert Habeck but also respected by acknowledging the long-lasting relationship between India and Russia.

Additionally, the current Free Trade Agreement negotiations (FTA) between the EU and India were a point of discussion. The Minister confirmed to the Indian Government that he would support the FTA and try to expedite the negotiations. Partially, this is due to the recent release of the German China Strategy, which aims to decrease German dependency in the Asian region. To succeed with their newly formed strategy, new strong economic partners have to be found, something for which India would be exceptional, given its long-lasting reliability and economic power.

The upcoming G20 summit also played a vital role in the visit of the German vice-chancellor. Since the beginning of this year, India holds the presidency. During his three-day visit, subjects such as sustainability, trade, and energy policies were discussed. All of these are on the upcoming G20 agenda of India and are of particular interest since India plans to become a leading country for the Global South during its presidency.

### **Unlimited Potential**

In recent years, India has provided foreign countries with various incentives to shift their production plants to India. Given the current economic and political situation, these projects could experience exponential results – indeed, some already have.

One of the initiatives launched by the Indian government is the “Make in India Mittelstand” (MIIM) initiative. This project was launched by the Indian Embassy in Berlin and the Department for Promotion of Industry and Internal Trade (DPIIT) and aims to promote and support the German “Mittelstand” in India. Through this project, India aims to further increase connectivity and economic collaboration with Germany. The initiative provides a network and support for companies interested in setting up or expanding their business in India and brings together government, non-profit and private entities for comprehensive support. MIIM also serves as a knowledge platform and offers access to a wide range of specially curated and exclusive industry reports, newsletters, webinars, events and much more. The mission? Ensuring that the German Mittelstand is well-equipped to thrive in India and to make use of its manifold opportunities.

Additional advantages for German companies would be the Indian Tax law. This law states that companies are only taxed in India based on income. Additionally, there are royalties, interest, capital gains, and many more taxes, but they are all very favourable to foreign Investments (FI). One of the most potent examples is that the Indian government forfeits all import taxes on raw materials if these are then used for a manufacturing process in which the final product is then exported abroad again. This shows that India is doing everything it can from a regulatory side to increase FI into India.

In addition to these mentioned projects, India provides various foundations for economic success. Not only does the large population play a key role, but also the fact that India is renowned for its countless high-ranking universities and, therefore, a highly educated labour force which presents unlimited potential when combined with the willingness to promote reforms and the stability of democracy. In addition, the lower pricing guideline results in cheaper labour costs compared to Western countries. For precisely these reasons, the German Federal Labour Minister, Hubertus Heil, also visited India around the same time as the vice-chancellor. Together, they actively called upon Indian essential workers to come to Germany. With this initiative, the two ministers aimed to compensate for Germany's lack of essential workers in the healthcare industry. They promoted lucrative pay and the newly reformed immigration law which allows essential workers of different sectors quicker entry and faster access to work permits.

## **Challenges**

Despite these overwhelming positive aspects of India, it also must be noted that specific challenges remain.

For example, India does have a growing economy and values that can relate to the West when looking at human rights for example. However, the Indian infrastructure is still slightly lagging. However, India is already on the verge of compensating with rapidly growing investments (currently amounting to 33 billion Euros). Nonetheless, India still has a long way to go until the infrastructure can be compared to the ones of Western countries.

## **Outlook**

Overall, the visit can be viewed as a steppingstone in the long and ongoing path of expanding the connection, cooperation, and collaboration between India and Germany. It is also important to highlight that other influential German politicians have been visiting India in the past months, for example, the Minister of Defence, Boris Pistorius. These visits can not only be considered a sign of increasing cooperation, but they also underline the fact that India is beginning to make full use of its solid foundation to become one of the top international players. And that is exactly why this is a supreme match in cooperation and collaboration. When

combining the sheer potential of an up-and-coming economic superpower with the know-how of an established one can only imagine the possibilities.

**- Rahul Oza, Partner, Director,  
Head of Practice West & South India, Roedl & Partner  
- Valentin Ketterer, Roedl & Partner**

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**We are proud to introduce  
our new MIIM-member**

# Bühler Motor GmbH

Bühler Motor stands for customized and reliable mechatronic drive solutions. Our expertise reaches far beyond DC/BLDC small motors, small gear motors and pumps. 1,300 employees worldwide use their in-depth knowledge of mecha-

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tronics, sensor and actuator technology for the development and production of customer-specific drives in the medium and high-volume segment. Mainly for the automotive industry, aviation and numerous industrial applications.

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## PULS GmbH

PULS is the technology and market leader for highly efficient and reliable DIN rail power supplies for industrial applications.

The durable and compact power supplies and supplementary units are the result of more than four decades of R&D experience and the commitment of around 1,700

employees worldwide. Therefore, PULS puts a lot of effort into engineering. More than 100 PULS developers regularly set new technological benchmarks on the market with innovative and sustainable power solutions.

PULS manufactures its products at its own environmentally friendly production sites in the Czech Republic, China and Germany. The entire supply chain management is controlled by PULS' internal processes. Starting with the design and development, on to the purchasing of components and the manufacturing in their own factories, everything is controlled by the company's work processes. This enables PULS to achieve the highest quality, standards and reliability.

PULS power supplies are already used in millions of applications in industry segments like factory automation, automotive technology, machine building, intralogistics, renewable energy, building automation, medical technology, railway projects, etc.

Global teams of sales and application engineers provide PULS customers with the best service and technical consultation.



# 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 175 companies which represent a cumulative declared investment of 1.5 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](mailto:miim@indianembassy.de) | Phone: +49 30-25795514 | Fax: +49-30-25795520**

## MIIM Team

[www.makeinindiamittelstand.de](http://www.makeinindiamittelstand.de)

[www.facebook.com/IndiaInGermany](https://www.facebook.com/IndiaInGermany)

[www.twitter.com/eoiberlin](https://www.twitter.com/eoiberlin)

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Embassy of India**

**Rödl Rechtsanwaltsgesellschaft  
Steuerberatungsgesellschaft  
Äußere Sulzbacher Straße 100  
90491 Nürnberg  
Deutschland/Germany  
www.roedl.com**

**Embassy of India  
Tiergartenstraße 17  
10785 Berlin  
Deutschland/Germany  
<https://indianembassyberlin.gov.in/>**