Electronic Systems

The Indian ESDM industry is expected to worth US$ 94.2 Billion by 2015 with a CAGR of 9.88 per Cent between 2011-15. The top 10 electronic products, that will drive this segment include mobile phones, flat panel display TVs, notebooks, desktops, digital cameras, inverters/ UPS systems, memory card/ USB drives , EMS?LCD monitors and servers.

Reasons to invest in this sector

- Global demand for electronics to reach US$ 94.2 Billion by 2015
- Large demand being generated due to government schemes like the national knowledge network (NKN), National optical Fiber network (NOFN), tablets for the education sector, a digitization policy and various other broadband schemes
- Adequately developed EMS industry is set to be a significant contributor to the entire industry's development
- Skilled manpower available in abundance in semiconductor design embedded software
- Strong design and R&D capabilities in auto electronics and industrial electronics
- Basic customs duty on LCD and LED TV panels below 48.26 cm is being reduced from 10 per cent to nil
- Basic customs duty is being exempted on specified parts for LCD and LED panels for TVs
- Basic customs duty on colour picture tubes for manufacturing cathode ray TVs is being reduced from 10 per cent to nil

- Special additional duty on all imports/components used in the manufacture of personal computers is being exempted
- A secondary and higher education cess is being levied on imported electronic products
- Full exemption from SAD is being provided on specified inputs. i.e., PVC sheets and the ribbon used in the manufacture of smart cards
- Basic customs dut3 is being reduced from 7.5 per cent to nil on e-book readers
- Manufacturing companies can avail either of the following two deductions: (a) Investment allowance (additional depreciation) at the rate of 15 per cent to manufacturing companies that invest more than Rs 1 Billion in plant and machinery acquired and installed between April 2013 to March 2015, provided the aggregate amount of investment in new plant and machinery during the said period exceeds Rs 1 Billion. (6) The benefit of an additional deduction of 15 per cent of the cost of the new plant and machinery (exceeding Rs 250 million), which is acquired and installed during any previous year, until March 2017.

Incentives Currently Available in This Sector

Modified SIPS:

- Capital subsidy up to 20—25 per cent for 10 years on capex
- Reimbursement of CVD/excise for capital equipment in non—users' units
- Reimbursement of central taxes and duties for 10 years in select high tech units like fabs and ATMPs
- Available for the entire value chain of identified electronics products

- Incentives available for 10 years from the date of approval

Preferential Market Access (PMA) :

- Preference to domestically manufactured electronics goods in Government Procurement
- Extent of government procurement from domestic manufacturers will not be less than 30 per cent of the total procurement

Electronics Manufacturing Clusters (EMCs) :

- Subsidy of 50—75 per cent — up to US$ 10 million per 100 acres of land
- Applicable to both Greenfield and Brownfield projects

Export incentives:

- Focus product scheme—2 per cent duty credit scrip
- Special focus product scheme—5 per cent duty credit scrip

AUTOMOTIVE COMPONENTS

The global automotive components industry registered a turnover of US$ 39.7 Billion in 2012—13, and this figure is expected to reach US$ 115 Billion by 2020-21. This market is estimated to become the third largest in the world by 2016, accounting for more than 5 per cent of global vehicle sales. India is expected to become the fourth largest automobiles producer globally by 2020 after China, USA and Japan. The exports of auto components increased at a CAGR of 17 per cent during 2008-13, reaching US$ 9.7 Billion in 2012-13. The growth of global OEM sourcing from India and the increased indigenization of global OEMs is turning the country into a preferred designing and manufacturing base. Also, reduction in excise

duties in the motor vehicles sector will spur demand for auto components as well as increased investments in R&D operations and laboratories.

Reasons to invest in this sector

- An emerging global hub for sourcing auto components
- Geographically closer to key automotive markets like the ASEAN, Japan, Korea and Europe
- Cost-competitivenes
- Fourth largest producer of steel in the world
- Cost of making steel significantly lower than competitive nations
- Slated to become the second largest steel producer by 2015
- Several global Tier-I suppliers have announced plans to increase procurement from their Indian subsidiaries

Incentives Currently available in this sector

- One of the key provisions of the 2014—2015 Union budget is that excise duty is to be exempted on parts of tractors made and transported from one factory of a tractor manufacturer to another factory of the same company, in order to manufacture the tractors

R&D incentives for industry and privately sponsored research:

- A weighted tax deduction is to be given under section 35 (2AA) of the Income Tax Act
- Weighted deduction of 200 per cent will be granted to assesses for any sums paid to a national laboratory university or institute of technology, or to specified people involved in specific scientific research within a Programme approved by the prescribed authority

Manufacturers with an in-house R&D centre:

- A weighted tax deduction of 200 per cent under Section 35 (2AB) of the Income Tax Act for both capital and revenue expenditure, incurred on scientific research and development. Expenditure on land and buildings is not eligible for deduction
- Concessional excise duty of 6 per cent extended to March 31, 2015, for manufacturers supplying batteries to producers of electrically operated vehicles
- Exemption from basic customs duty on lithium-ion automotive batteries that are used in the manufacture of hybrid and electric vehicles

State incentives:

- Each state in India offers additional incentives for industrial projects. These include:
- Subsidised land costs
- Relaxation/exemption in stamp du e on sale and lease of land
- Power tariff incentives
- Concessional rate of interest on loans
- Investment subsidies
- Tax incentives
- Backward area subsidies, and.
- Special incentive packages for mega projects

Export incentives:

- Export promotion capital goods scheme
- Duty remission scheme
- Focus product scheme, special focus product scheme and focus market scheme

DEFENCE MANUFACTURING

India is one of the largest importers of conventional defence equipment and spends about 40 per cent of its total defence budget on capital acquisitions. About 60 per cent of our defence requirements are met by imports. The allocation for defence in the last Union budget was approximately US$ 37.3 Billion. The opening of the strategic defence sector for private sector participation will help foreign OEMs to enter into strategic partner- ships with Indian companies, leveraging the domestic market while also aiming at global business. Besides helping build domestic capabilities, this will bolster exports in the long term.

Reasons to invest in this sector

- Opportunities to avail defence offset obligations to the tune of approximately Rs 250 Billion during the next 7-8 years
- The offset policy (which stipulates the mandatory off set requirement of a minimum of 30 per cent ior the procurement of defence equipment in excess of Rs 3 Billion) introduced in the capital purchase agreements with foreign defence players would ensure that an eco— system of suppliers is built domestically
- The government policy of promoting self-reliance, indigenization, technology up gradation, achieving economies of scale and developing capabilities for exports in the defence sector
  - The country's extensive modernisation plans, an in— creased focus on homeland security and India's growing attractiveness as a defence sourcing hub
- High government allocation for defence expenditure

Incentives Currently available in this sector

- According to the key provisions of the 2014-2015 Un- ion budget, a provision of Rs 2290 Billion for defence services has been made. The capital outlay for defence increased by Rs 50 Billion, including a sum of Rs 10 Billion to accelerate the development of the railway system in border areas
  - Rs 1 Billion has been provided to set up a technology development fund for defence
- Rs 22.5 Billion has been provided to strengthen and modernise border infrastructure

R&D incentives— industry/privately sponsored research programmes

- A Weighted tax Deduction is to be give under section 35 (2AA) of the Income Tax Act.
- A weighted deduction of 200 per cent is to be granted to assesses for any sums paid to a national laboratory, university or institute of technology, or to specified persons to be used for scientific research within a programme approved by the prescribed authority
- For companies engaged lR the setting up of an in- house R&D centre, a weighted tax deduction of 200 per cent is to be granted under Section 35 (2AB) of the Income Tax Act for both capital and revenue expenditure incurred on scientific research and development. Expenditure on land and buildings is not eligible for deduction

State incentives:

- Each state in India offers additional incentives for industrial projects. Incentives are in areas like subsidised land cost, relaxation/exemption in stamp duty on the sale/ lease of land, power tariff incentives, concessional rates of interest on loans, investment subsidies/tax

incentives, backward areas subsidies, special incentive packages for mega projects, etc

Export incentives:

- Export promotion capital goods scheme
- Duty remission scheme
- Focus product scheme, special focus product scheme, focus market scheme

Renewable Energy

India is endowed With vast potential to generate solar energy and is rapidly emerging as a major manufacturing hub for solar power plants. It is expected that the annual PV-installed capacity will grow at a CAGR of around 49. 5 per cent between 2010 and 2014 to reach 1500MW by the end of 2014. Wind energy accounts for nearly 70 per cent (21. lGW) of installed capacity to generate renewable energy, thereby making India the world's fifth largest wind energy producer. The Government of India has set a capacity addition target of 30GW, which will take the total renewable energy capacity to almost 55GW by the end of 2017. This includes 15GW from wind power, 10GW from solar power, 2.9GW from biomass power and 2. lGW from small hydro power projects.

Reasons to invest in this sector

- India has the fifth largest power generation portfolio worldwide with a power generation capacity of 245GW
- Economic growth, increasing prosperity, a growing rate of urbanisation and

rising per capita energy consumption has widened access to energy in the country

- Current renewable energy contribution stands at 31. 70GW of the total installed capacity of 245 GW in the country, as on 31.03.2014

- Wind energy is the largest renewable energy source in India. The Jawaharlal Nehru National Solar Mission (JNNSM) aims to generate 20,000MW of solar power by 2022, creating a positive environment among investors keen to tap into India's potential
  - The country offers unlimited growth potential for the solar photovoltaic industry.

- Prices for solar modules have declined by almost 80 per cent since 2008, and wind turbine prices have declined by more than 25 per cent during the same period
- The government has created a liberal environment for foreign investment in renewable energy projects. The establishment of a dedicated financial institution — the Indian Renewable Energy Development Agency, adds renewed impetus to promoting, developing and extending financial assistance to renewable energy and energy efficiency/conservation projects

Incentives Currently available in this sector

- Exemption from excise duties and concessional import duties on components and equipment required to set up a solar plant
- A 10-year tax holiday for solar power projects
- Wheeling, banking and third party sales, buyback facility by states.
- Guaran.teed market through solar power purchase obligation for states
- Generation based incentives (GBI) schemes for small solar

projects connected to a grid below 33KV

- Reduced wheeling charges as compared to those for conventional energy
- Special incentives for exports from India in renewable energy technology under renewable sector-specific SEZ
- A payment security mechanism to cover the risk of default by state utilities/discoms
- A subsidy of 30 per cent of the project cost for off-grid PV and solar thermal projects
- Loans at concessional rates for off-grid applications

Highlights of Budget 2014-15:

- Allocation of Rs 5 Billion towards the proposed ultra-mega solar power projects in Rajasthan, Gujarat, Tamil Nadu and Ladakh in J&K, which includes an allocation of Rs 4 Billion for launching a scheme for solar power driven agricultural pump sets and water pumping stations to energise 100,000 pumps, and a future allocation of Rs 1 Billion for the development of lMW solar parks on the banks of canals
- Full exemption from excise duty is being provided for
- solar tempered glass used in the manufacture of solar photovoltaic cells/modules, solar power generating equipment/systems and flat plate solar collectors
- Full exemption from excise duty is being granted
- with respect to the machinery, equipment, etc, required for setting up solar energy production projects

- Full exemption from excise duty is being provided to back sheets and EVA sheets used in the manufacture of photovoltaic cells/modules and specified raw materials used in their manufacture
- Full exemption from excise duty is being provided on the flat copper wire used in the manufacture of PV ribbons (timed copper interconnect) for use in the manufacture of solar cells/modules
- Basic customs duty on the machinery, equipment, etc, required for the setting up of solar energy production projects is being reduced to 5 per cent
- Full exemption from basic customs duty is being provided on specified raw materials used in the manufacture of solar back sheets and EVA sheets.