1. Services Sector:

India Scenario
GDP by Economic Activity in percent shows that services sector contributed nearly 59 percent to the GDP of India in FY 2013.*

Sources: Ministry of Finance, Central Statistical Organization
* taken at 2004 – 05 constant prices
According to a study by Boston Consulting Group, nearly 40 million new services jobs and USD 200 billion in revenue (from the services sector) will be generated in India by 2020.

### Major Players

<table>
<thead>
<tr>
<th>Financial Services</th>
<th>IT/ ITeS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Bank</td>
<td>Google</td>
</tr>
<tr>
<td>LIC</td>
<td>Microsoft</td>
</tr>
<tr>
<td>SBI</td>
<td>iGATE</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>HCL</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>Tech Mahindra</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>AEGIS</td>
</tr>
<tr>
<td>Axis Bank</td>
<td>Minaes</td>
</tr>
<tr>
<td>UTI Mutual Fund</td>
<td>GIPL</td>
</tr>
<tr>
<td>UTSI</td>
<td>GESIA</td>
</tr>
<tr>
<td>NSE</td>
<td>NASSCOM</td>
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<tr>
<td>HSBC</td>
<td>EIPL</td>
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<tr>
<td>GLS</td>
<td>Infosys</td>
</tr>
<tr>
<td>GVFL</td>
<td>Cognizant</td>
</tr>
<tr>
<td>Gujarat Venture Finance Limited</td>
<td>Infosys</td>
</tr>
<tr>
<td>YES Bank</td>
<td>Infosys</td>
</tr>
<tr>
<td>Bank of India</td>
<td>Infosys</td>
</tr>
<tr>
<td>ADMMIT</td>
<td>AIG Life</td>
</tr>
<tr>
<td>World Trade Centers Association</td>
<td>AIG Life</td>
</tr>
<tr>
<td>IL&amp;FS</td>
<td>MOTIF</td>
</tr>
<tr>
<td>Corporation Bank</td>
<td>Hexaware Technologies</td>
</tr>
<tr>
<td>Bank of America</td>
<td>Mphasis</td>
</tr>
<tr>
<td>GIC Re</td>
<td>Rolta</td>
</tr>
</tbody>
</table>
2.1 Focus sub sectors - Financial Services

Global Scenario
Below are the five key emerging trends in the global financial services space.

<table>
<thead>
<tr>
<th>5 key trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Growing importance of <strong>emerging markets like Asia and Africa</strong></td>
</tr>
<tr>
<td>2. <strong>IT Platform sharing</strong>: Immediate access to information and integration along product lines and geography are a must for future success</td>
</tr>
<tr>
<td>3. <strong>E-Banking</strong>: With increasing penetration of the internet services and increasing number of people with cell phones; an expected 10-20 percent year over year growth, personal and business banking transactions will be conducted through mobile phones more and more</td>
</tr>
<tr>
<td>4. <strong>Mobile Money</strong>: The increase of mobile phone usage in emerging markets makes mobile money a safe, low cost initiative for the financial sector</td>
</tr>
<tr>
<td>5. <strong>Self Service</strong>: Self-service and the customer should be a primary focus for firms in this new financial service world, according to IBM. Customer questions and concerns should be addressed more quickly. This will result in improved service delivery and greater customer satisfaction</td>
</tr>
</tbody>
</table>
2.2 Focus sub sectors - Financial Services

India Scenario
The financial services sector grew by 2.6 times between FY06 and FY11 at a CAGR of 21 percent.

**Corporate & Investment Banking**
- Corporate Lending
- Syndications
- Asset & Structured Finance
- Capital Markets
- Venture Capital

**Consumer & Commercial Banking**
- Retail & Consumer Finance
- Mid Market Commercial
- Lending
- Leasing
- Renting

**Private Banking**
- Wealth Management
- Trust Management

**Transaction, Financial & Operational Services**
- Brokerage
- Securities & Trading
- Derivative & Operational Products
- IT Services

Source: India Budget 2012-13
# Financial Services Growth Drivers

**Drivers of financial services sector growth are:**

| Phenomenal growth in NBFC finance and retail credit | • NBFC’s credit grew at a CAGR of 35 percent in FY07-FY12  
• Retail credit grew 36 percent in FY12 |
|----------------------------------------------------|-------------------------------------------------|
| High Gross Domestic Savings                        | • India’s Gross Domestic Saving expected to increase to 39 percent of GDP at the end of 12th five year plan (2012-17)  
• Increasing middle class is expected to further contribute to it |
| India’s HNWI population to double by 2020          | • High Net Worth Individuals in India will double by 2020 with total holding of USD 3 trillion |
| Robust AUM growth                                  | • Mutual fund industry AUM recorded a CAGR of 16.8 per cent over FY07-FY13. |

### Rank – Financial Development Index (2012)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Nation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>4</td>
<td>Singapore</td>
</tr>
<tr>
<td>6</td>
<td>Canada</td>
</tr>
<tr>
<td>18</td>
<td>Malaysia</td>
</tr>
<tr>
<td>23</td>
<td>China</td>
</tr>
<tr>
<td>28</td>
<td>South Africa</td>
</tr>
<tr>
<td>40</td>
<td>India</td>
</tr>
<tr>
<td>42</td>
<td>Turkey</td>
</tr>
<tr>
<td>49</td>
<td>Philippines</td>
</tr>
<tr>
<td>50</td>
<td>Indonesia</td>
</tr>
</tbody>
</table>

Source: CII, IBEF, Department of Financial Services, GoI, WEF, India Fact Book, Department of Economic Affairs
Revenues of Indian banks grew almost four-fold from USD 11.8 billion to USD 46.9 billion over the decade spanning 2001-10, whereas the profit after tax rose nearly nine-fold from USD 1.4 billion to USD 12 billion over the same period.

It has the potential of becoming the fifth largest banking industry in the world by 2020 and the third largest by 2025.

Banking Laws (Amendment) Bill in 2012 allows the Reserve Bank of India (RBI) to make final guidelines on issuing new bank licenses. This will promote establishment of more banks in the country and will contribute to improved service delivery by integrating modern technology.

The Indian government has advised banks to open at least one branch in villages with a population of more than 2,000, and also cover the peripheral villages.
The penetration of this sector remains low in India. A World Bank Survey conducted in 2011 revealed that only 35 percent of all adults in India had a bank account with a formal banking institution.

- Number of bank branches per 100,000 adults is 747
- Limited banking sector penetration, growing middle class and increasing in the disposable income are contributing to the increased demand for banking services

### Countries with Number of Bank Branches per 100,000 Adults (March 2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Bank Branches (per 100,000 adults)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>747</td>
</tr>
<tr>
<td>South Africa</td>
<td>839</td>
</tr>
<tr>
<td>Brazil</td>
<td>1,065</td>
</tr>
<tr>
<td>Poland</td>
<td>1,626</td>
</tr>
<tr>
<td>Turkey</td>
<td>1,661</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2,063</td>
</tr>
<tr>
<td>US</td>
<td>2,022</td>
</tr>
<tr>
<td>Ireland</td>
<td>2,182</td>
</tr>
<tr>
<td>Austria</td>
<td>2,403</td>
</tr>
<tr>
<td>UK</td>
<td>2,923</td>
</tr>
<tr>
<td>Belgium</td>
<td>3,969</td>
</tr>
</tbody>
</table>

**Source:** KPMG, World Bank Financial Access Report 2010, IMF, IBEF
As on 31st March, 2013, the accumulated total amount of investments held by the insurance sector was USD 306.2 billion.

Consistent increase in insurance penetration from 2.71 percent in 2001 to 4.1 percent in 2011 (i.e., an increase by almost one and a half times).

Insurance density has gone up to USD 59 in 2011 from USD 11.5 in 2001.

During 2012-13, life insurers issued 44.19 million new policies, out of which LIC alone issued 36.78 million policies and the private insurers issued 7.41 million policies.

Nonlife insurance sector noticed a significant growth of 10.25 percent during 2012.

Source: IRDA
Indian general insurance industry has evolved significantly over the past decade or so, the insurance penetration and insurance density levels are significantly lower than the developed as well as comparable developing countries.
The role of non-banking sector in both manufacturing and services sector is significant and play an important intermediary role by facilitating the flow of credit to end consumers, particularly in transportation, SMEs and other unorganized sector.

Non Banking Financial Companies (NBFCs)

- Asset Finance Companies (AFCs)
- Investment Companies (ICs)
- Loan Companies (LCs)
- Infrastructure Finance Companies (IFCs)
- Core Investment Companies (CICs)
- Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs)
- Micro Finance Institutions (NBFC-MFIs)
- NBFC-Factors

Growth in AUM of retail NBFCs (in USD billion)

- 20.4
- 35.8
- 34
- 39
- 49.2
- 61.7
- 63.8

- Non-Banking financial company (NBFC) sector emerging as a strong financial intermediary in the retail finance space
- The sector has grown by 2.6 times between FY06 and FY11 at a CAGR of 21 percent
- NBFCs finance more than 80 percent of equipment leasing and hire purchase activities in India
- In FY2012, 12,385 NBFCs were registered with India, with total assets at USD26 billion
The industry grew at compounded annual growth rate (CAGR) of 18 percent from period 2009 to 2013

- Average assets under management (AUM) posted a growth of 23 percent for the year ended in March 2013
- 139 schemes are launched during financial year 2013, generating sales of USD 3.87 billion
- AUM in the liquid and money market and gold exchange traded funds (ETFs) grew by 16 percent and 18 percent respectively
- **Corporate investors account for around 46 percent of total AUM in India**, while HNWIs and retail investors account for 28 percent and 23 percent, respectively

Source: AMFI, CII
2.3 Financial Service Sector:

Gujarat Scenario
Supported by a pool of trained manpower of Chartered Accountants and commerce graduates, the state has phenomenally active capital markets. Gujarat contributes to almost 30 percent of India’s stock market capitalization, 16 percent to the country’s total output and 19 percent to exports.

- Ratio of Priority Sector Advances to Net Banking Credit stood at 46.38 percent which was well above the benchmark level of 40 percent
- Ratio of agricultural advances to Net Banking Credit was also above the benchmark level of 18 percent which stood at 19.23 percent

Recent studies show that Ahmedabad and Gandhinagar are the favored destinations to migrate in India because of good urban infrastructure, a business friendly environment and good living conditions.
There are many factors that make Gujarat stand out from the competition. Some of these are as follows:

| Business oriented culture | • Highest amount of Bank Deposits on a per capita basis in the country  
|                          | • Largest pool of retail investors in the country. Approximately 30 percent of retail investments in India’s stock market are from Gujarat |
| Continuous government support | Industry-friendly Government and business environment, with no history of labor problems. Gujarat has experienced high growth rates, at over 10 percent over the last 5 years |
| Cost competitiveness | Ahmedabad-Gandhinagar offers a cost advantage to cities such as Mumbai, Bangalore, Chennai, Delhi (NCR) and Pune where companies are experiencing rising costs due to higher wage inflation, and cost of operations |
| Quality of life | • Ahmedabad and Surat were in the list of top three cities voted by the citizens as the best cities. in a survey conducted by Janaagraha, along with market research firm TNS (2013)  
|                    | • In the Voice of India's Citizens Survey in 2013, Surat ranked first while Ahmedabad ranked third in quality of life  
|                    | • The cost of living is also low as compared to cities like Mumbai, Bangalore and Gurgaon |
| Rich and abundant talent supply | Abundant availability of local talent, especially in the fields of Finance, Accounting and Business Management |
India's first Globally benchmarked SEZ for Financial Services, GIFT, aspires to cater to India's large financial services & IT/ITeS potential by offering global firms a world-class infrastructure and facilities.

- **GIFT** aspires to capture a 8% to 10% of financial Services & IT/ITeS sectors in India
- **Multi Service SEZ with International Financial Service Centre (IFSC) Status**
- **Creation of 1 million direct and in-direct jobs**

- **Strategically located in Gandhinagar at a distance of around 12 km from Ahmedabad International Airport**
- **About 3,000 acres earmarked for GIFT Expansion Zone**
- **Integrated Townships to be developed in surrounding development zone that will house educational institutes, International Schools, specialized hospitals, hotels and clubs**

- **Integrated infrastructure for better diversity**
- **Technology ensuring energy conservation**
- **SMART Transportation**
- **District Cooling System**
- **Automated Waste & Water management system**

- **Power Control Centre with a reliability of 99.999% which means outage of 5.3 minutes/annum**
- **Leading-edge, secure & resilient and cost-effective ICT infrastructure**
- **City command and Control Centre for Immediate Emergency Response**

- **Two commercial towers aggregating to ~1.2 million sq.ft. of BUA has been completed**
- **GIFT Tower One is operational**
“What needs to be done on a Macro basis for our country is to have a Urban Infrastructure, I think we are seeing it, GIFT City is Fantastic”
Aditya Puri
MD & CEO – HDFC Bank

“Gujarat has taken a big step in the form of creating infrastructure and the quality of work place that is required in the form of GIFT”
Chanda Kochhar
MD & CEO – ICICI Bank


Business Opportunities in GIFT

Infrastructure Development & Social facilities:
• District Cooling System
• Power Generation & Distribution
• Multi level Parking Complex
• Water body with entertainment facilities
• Hotels & Clubs
• Social Amenities- Hospital and Mall

Real Estate
Commercial and residential high-rise buildings in SEZ and Non-SEZ area:
• International & Domestic Enclaves: Banking, Insurance, Technology, Corporate, Exchange

Setting up units of Financial services, BPO, KPO, IT/ITES and Capital Markets & Trading

The initiative of GIFT shows the positive approach on the FDI (Foreign Direct Investment)
Rt. Hon. Patricia Hewitt Chair- UK India Business Council

Future cities
GIFT : A way towards Smarter cities
2.4 Financial Services – Gujarat
Scenario
Investment Opportunities
GIFT’s target business segments

- National Financial Services Operation hub
- Regional/Functional headquarters for financial service players
- National headquarters for players
- Private banking hub for NRIs/Regional HNWs
- International Microfinance hub
- International commodity trade hub
- Participation in global capital markets
- Global hub for IT services for financial services sector
- Global hub for BPO services for financial services sector

Investment opportunities

- Upto 90 Million Sq. ft of real estate office and residential space
- Opportunities for development of residential spaces
- Opportunities for development of several urban amenities like hotels, convention centre, leisure destinations like restaurants, golf clubs etc
MSME sector forms the backbone of the Gujarat growth model.

Total investment under MSME, between year 2010 - 2014, stood at USD 7695 million creating 1.1 million employment

With the deregulation of the financial sector, the general ability of the banks to service the credit requirements of the SME sector has improved.

However even with various advantages this sector still encounters varied difficulties when trying to access financing, from an incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework to lack of information on both the bank's and the SME's side.

The Enterprises which are registered as an industrial unit under MSME Development act, 2006 with respective DIC are eligible to get benefit under the scheme for following purpose:

For establishing new enterprises which commence commercial production during operative period of the scheme.

For carrying out expansion or diversification with investment more than 50% of its existing gross fixed capital investment.

For Modernization of existing unit by investing more than 25% of its existing gross fixed capital investment to upgrade technology by way of adopting new technology/ production process and/or improving quality of products.

With the presence of such a vast MSME group, there exists immense scope for the private sector to collaborate either directly with them or assist the government in their various endeavors.
### Financial Services: Opportunities

#### MSME financing: Giving thrust to the pillars of growth (2/3)

<table>
<thead>
<tr>
<th>Interest Subsidy</th>
<th>Technology Acquisition Fund</th>
<th>Venture Capital</th>
<th>Skill Enhancement</th>
</tr>
</thead>
<tbody>
<tr>
<td>All MSMEs are eligible for setting of new unit and expansion, diversification or modernization of existing unit.</td>
<td>Assistance for technology acquisition in any form for group of at least 10 MSMEs, by way of 50% grant, subject to max. INR 10 Million/technology including royalty payments for first 2 yrs</td>
<td>Venture capital assistance through Banks/FIs for projects adopting innovative technology such as Technical textile, Nanotechnology, Information Technology, Bio-Technology etc..</td>
<td>Reimbursement @50% of fees, subject to maximum of INR 5000 per person for a minimum one week training for skill upgradation conducted by institutions suggested by Anchor Institute or specialized institutions in a specific sector for a minimum batch size of 25 trainees</td>
</tr>
<tr>
<td>Graded interest subsidy, @7% for micro enterprises and @ 5% for Small &amp; Medium enterprises.</td>
<td></td>
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<tr>
<td>1% additional interest subsidy to youth having less than 35 years of age in case of first project. Woman entrepreneurs accorded priority.</td>
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</tr>
<tr>
<td>Maximum amount INR 2.5 million per annum, for five years period</td>
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</table>

### Cluster Development in PPP Mode

- Anchor units, nodal institutions and/or industry associations to take up the cluster program in PPP mode.
- Comprehensive support to strengthen cluster units in a programme covering product design, technology upgradation, quality improvement, energy and water conservation, common branding and marketing facilities, hiring of an expert/cluster development agent, setting up of demonstration plants, common facilities, Incubation centre, ITI extension centre and other need-based facilities.
- Assistance @ 80% (including assistance from Government of India) of proposed cost of programme with a ceiling of INR 100 Million/cluster in a period of 3 - 5 years.
- Assistance to nodal institutions/hiring of experts will not exceed 3% of project cost.
- A Cluster Advisory Institution (CAI) to be constituted.
- Cluster to be eligible for partial financial assistance, available under critical infrastructure scheme.
- Nodal institution to prepare a five year comprehensive development plan of the cluster.

### Technology Acquisition Fund

- Assistance for technology acquisition in any form for group of at least 10 MSMEs, by way of 50% grant, subject to max. INR 10 Million/technology including royalty payments for first 2 yrs.

### Quality Certification

- Assistance for maximum 3 quality certifications @ 50% of expenditure subject to overall ceiling of INR 600,000 in five years.
- Expenditure includes fees charged by certification agencies, cost of testing equipments, calibration charges, consulting fees and training charges.
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</tr>
</thead>
<tbody>
<tr>
<td>Assistance to R&amp;D institutions for testing facilities, incubation centre as well as setting up of new R&amp;D Centre, up to 60% of the project cost excluding land and building cost.</td>
<td>Assistance @ 50%, subject to max. INR 1 Million towards necessary expenditure for obtaining domestic patents and INR 2.5 Million for obtaining international patents subject to maximum 5 patents per unit over a period of 5 years</td>
<td>Reimbursement @ 50% of cost of energy/water audit with a max. of INR 25,000/-.unit</td>
<td>Assistance to MSME for packaging design from recognized institutions, @ 50%; of the cost, subject to maximum INR 200,000 once in a period of five years.</td>
</tr>
<tr>
<td>Vendor unit will be eligible for interest subsidy as per scheme Assistance @ 20% of infrastructure cost excluding land cost, max INR 10 Million to parent unit for development of industrial park</td>
<td>Assistance to Contract/Sponsored research work from Industrial units/Industry Association through recognized R&amp;D institutions / AICTE approved technical colleges, @50% of project cost with a ceiling of INR 5 Million.</td>
<td>In addition, assistance of 20% of cost of equipments subject to max. INR 1 Million in a project</td>
<td>Assistance to MSME for participation in International Trade Fair outside India @ 50% of cost of rent, literature &amp; display material subject to maximum INR 2 lakhs.</td>
</tr>
<tr>
<td>New or existing Medium/large unit as Parent unit to support min. 10 vendor units for a new product/prototype development</td>
<td>Assistance @ 50% subject to max. INR 1 Million towards necessary expenditure for obtaining domestic patents and INR 2.5 Million for obtaining international patents subject to maximum 5 patents per unit over a period of 5 years</td>
<td></td>
<td>Assistance to Industries Associations (min. 5 units) for participation in international trade fairs as Gujarat Pavilion outside India @ 50% of total rent subject to max INR 1 Million</td>
</tr>
<tr>
<td>Support to R&amp;D in the district shall be supported with integrated programme of interest subsidy, technology upgradation and quality certification</td>
<td></td>
<td></td>
<td>Viability Gap Support to industry associations for organizing national seminars/exhibition in Gujarat (max. INR 400,000) and int. seminars/exhibitions in Gujarat (max. INR 800,000)</td>
</tr>
<tr>
<td>Assistance to Industries Associations (min. 5 units) for participation in international trade fairs as Gujarat Pavilion outside India @ 50% of total rent subject to max INR 1 Million</td>
<td></td>
<td></td>
<td>Assistance to industry associations for setting up Convention/Trade centre @ 50% of project cost excluding land, max INR 50 Million once in a period of five years</td>
</tr>
</tbody>
</table>
Government envisions having Urban areas slum free and Rural areas free from Kaccha Houses. This vision provides a plethora of investment opportunities for both estate developers and financial institutions.

Gujarat government has planned to construct 50 lakh affordable housing units worth USD 30 billion in the next five years: over 28 lakh affordable homes in rural areas while 22 lakh homes in urban areas.

"Organized supply of low cost housing especially in the sub Rs 10 lakh range is better in Gujarat than other states. Of the total estimated organized 30,000 units in the country, 14,000 are in Gujarat. In next two years, we expect Gujarat to contribute 20-30 per cent of our total business.”

Harshil Mehta, MD & CEO, Aadhar Housing Finance Limited.

According to the Affordable Housing Policy of the State Government:
The private developers a floor space index up to 3 for affordable and free sale category. The developers will also be permitted commercial construction up to 10% of project area. There will be no municipal charges for EWS and LIG schemes.

During Vibrant Gujarat 2013 Summit, the state government received investment commitment worth INR 1.34 lakh crore for the affordable housing and construction industry.

The government will arrange for loan facility, along with the developer, for the beneficiaries.

The urban houses will be based on PPP model.

Existing players
2.5 Financial Service Sector: Regulatory Regime in India
Routes of Foreign Investment

Automatic Route
- No prior permission required. Intimation to RBI within 30 days of inflow of funds into India and issue of shares.

Approval Route
- Prior government approval required

Negative List
- FDI not allowed in certain sensitive sectors, for example:
  - Atomic energy
  - Lottery business
  - Gambling and betting sector

Automatic Route
- 100% FDI permitted in most sectors
- No prior approval necessary; only post-facto filings
- FDI should be brought through normal banking channels

Prior Approval
- Generally, applicable in the following cases:
  - Cases where FDI is regulated
  - Cases where the FDI exceeds the sectoral cap
- Applications processed by FIPB

Sources:
- Ministry of Corporate Affairs (‘MCA’) which registers companies in India and monitors their functioning
- Reserve Bank of India (RBI) Central Bank of India, the apex institution for monitoring transactions in forex
- Foreign Investment Promotion Board (FIPB) Authority for approving foreign investments in India
- Securities and Exchange Board of India (SEBI) Indian capital market regulator

Source: KPMG Analysis
<table>
<thead>
<tr>
<th>Sector / Activity</th>
<th>% of Equity/ FDI Cap</th>
<th>Entry Route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Construction Company (ARC)</td>
<td>100% of paid-up capital of ARC (FDI+FII/FPI)</td>
<td>• Automatic up to 49%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Government route beyond 49%</td>
</tr>
<tr>
<td>Banking – Private sector</td>
<td>74% including investment by FII/ FPI</td>
<td>• Automatic up to 49%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Government route beyond 49% and up to 74%</td>
</tr>
<tr>
<td>Banking – Public sector</td>
<td>20% (FDI and Portfolio Investment)</td>
<td>Government</td>
</tr>
<tr>
<td>Commodity Exchange</td>
<td>49% (FDI + FII/FPI) [Investment by Registered FII/FPI under PIS will be limited to 23% and Investment under FDI Scheme limited to 26% ]</td>
<td>Automatic</td>
</tr>
<tr>
<td>Credit Information Companies</td>
<td>74% (FDI+FII/ FPI)</td>
<td>Automatic</td>
</tr>
<tr>
<td>Infrastructure Company in the Securities Market</td>
<td>49% (FDI + FII/FPI) [FDI limit of 26% and FII/FPI limit of 23% of the paid-up capital ]</td>
<td>Automatic</td>
</tr>
<tr>
<td>Insurance</td>
<td>26% (FDI+FII/FPI+NRI)</td>
<td>Automatic</td>
</tr>
<tr>
<td>Non-Banking Finance Companies (NBFC)</td>
<td>100%</td>
<td>Automatic</td>
</tr>
</tbody>
</table>
1. Form of entity
   - Company / Limited Liability Partnership / Other forms of business presence

2. Investment route
   - Foreign Direct Investment Norms
   - Automatic Route
   - Entry through tax-efficient jurisdiction
     - Substance needs to be proved

3. Funding
   - At what level?
   - Tax efficient jurisdiction / India
   - Funding structure (equity / debt / hybrid)
   - Exchange Control Regulations
   - Withholding tax considerations

4. Deputation of personnel
   - Permanent Establishment exposure
   - Taxation of Personnel

5. Repatriation
   - Modes of repatriation to be analysed

6. Exit strategy
   - Capital Gains tax in India

Source: KPMG Analysis
Financial Services
Snapshot of Investment Cycle

- Entry Options
  - Liaison Office
  - Branch Office
  - Project Office
  - Subsidiary
  - LLP

- Exit Strategy
  - Buy back
  - Sale of shares
  - Listing
  - Liquidation

- Repatriation
  - Dividend
  - Interest
  - Royalty
  - Fees for Services

Source: KPMG Analysis
### Dividend
- Dividend income is exempt in the hands of shareholders - Company is required to pay DDT @ 16.995%
- Dividend on shares not deductible as business expenditure for tax purposes
- Only post tax profit can be repatriated by way of dividends

### Royalties
- All payments for royalty, lump-sum fee for transfer of technology and payments for use of trademark/brand name under the automatic route without any regulatory restrictions
- Payments subject to tax in India as per the Act or the rates prescribed under the tax treaty (subject to conditions)
- Possible for foreign entity can claim credit of taxes paid on royalty income subject to provisions of tax treaty / domestic laws

### Share buyback
- Amount payable to shareholders restricted to 25% of (paid-up share capital + free reserves)
- 25% of equity share capital permitted to be repurchased in a financial year
- Only possible from free reserves, share premium and funds received from fresh issue of shares
- Gains on buy back of shares exempt in the hands of the shareholders, company buying back the shares liable for additional income tax

Source: KPMG Analysis
Finance Department

Gujarat International finance Tec-city (GIFT)

http://www.financedepartment.gujarat.gov.in/

http://www.giftgujarat.in/
3. Focus sub sectors IT/ITeS
2013 recorded a steady growth for technology and related services sector, with worldwide spending of USD 2.2 trillion, a growth rate of 4.5 per cent over 2012.

India’s Share has risen from 52% in 2012 to 55% in 2013 in the Global Sourcing Market.
The IT industry has not only transformed India’s image on the global platform but also fuelled the economic growth and contributed significantly to the social transformation in the country.

Indian IT & ITeS industry (including hardware) is estimated to have generated USD 118 billion in revenue during FY14.

Indian IT services exports have risen from USD 45.4 billion in FY2013 to USD 52 billion in FY2014.

India, world’s largest sourcing destination with its cost competitiveness in providing IT services, is one of the fastest growing IT services markets in the world accounting for `60 per cent of total IT exports (excluding hardware).

During the past decade (FY2000-2013), the rapid growth of the Indian IT-BPM sector has created direct employment for over 3 million people.

Sources: NASSCOM Strategic Review 2014, IBEF
With customers increasingly engaging with Indian service providers as a ‘strategic partner’, rather than just a pure ‘technology service provider’, key players in the Indian sourcing industry have re-aligned and capitalized on the following four areas –

1. **Continued focus on optimal cost-efficiency**: Service providers are mitigating cost escalations by adopting various strategic imperatives including agile delivery models, automation and standardization of business processes, etc.

2. **India has the world’s largest employable talent pool**: And every year it churns out a huge number of technical and non-technical pool of graduates and post graduates.

3. **Unique customer centricity**: Indian service providers are focusing on three main imperatives: business outcome solutions + non-linearity + transforming customer businesses.

4. **Scalable and secure environment**: The sheer size of the Indian market provides a high level of stability in terms of managing concentricity risk as compared to other sourcing markets.

Sources: NASSCOM Strategic Review 2014
IT services is the fastest growing segment in the Indian domestic market, growing by 14.5 percent to reach USD 1 billion, driven by IS outsourcing, cloud services and increasing adoption from all customer segments – government, enterprise, consumers and SMBs.

IT / ITeS industry is expected to be USD 320 billion by 2020. The CAGR for the decade (2011-2020) is pegged at 15%.

From 240 million internet users in 2014, India is set to have 600 million internet users by 2020.

Domestic BPO market would increase to USD 285 billion by 2020, driven by demand for hosted services and higher uptake by traditional and emerging verticals, including the government.

India plans to spend around USD 3.9 billion on cloud services during 2013-2017, of which USD 1.7 billion will be spent on software-as-a-service (SaaS).

Notes: IS stands for Information services.
In FY 2013-14, the size of ICT industry in Gujarat was estimated around USD 1 billion including exports worth USD 190 million

More than 1,500 companies are registered with Gujarat Electronics & Software Industries Association (GESIA)

IT units in Gujarat are spreading their markets from the US to other regions like Europe, Middle East and Africa

Infrastructure available at Garima Park - Gandhinagar, GNFC Infotower, Astron IT Tech Park - Ahmedabad and L&T Technology Park in Vadodara

The stretch between Ahmedabad and Gandhinagar is now being developed as a knowledge corridor. Land has been allotted and several IT parks and centres of excellence are taking shape here

9 Major Special Economic Zones planned specifically for IT/ITeS are coming up in Gujarat

Source: Department of Science & Technology, Government of Gujarat Budget, 2013-2014, GESIA, STPI (Gandhinagar)
About 50% of the IT/ITeS service providers are looking to move or expand to tier 2 cities for perceived benefits like availability of low-cost skilled resources, lower real estate cost and lower attrition.

Potential benefits of moving or expanding to Tier 2 cities from Tier 1 cities (among IT/ITeS service providers):

- Availability of low cost skilled resources: 71%
- Lower real estate costs: 57%
- Lower attrition: 50%
- Presence of SEZs: 36%
- Regional language capabilities: 29%
- CSR Initiatives - like Rural BPO: 21%

Even with labor and real estate costs on the rise in other parts of India, the following locations in Gujarat offer cost benefits relative to current hubs:
- Ahmedabad
- Gandhinagar
- Vadodara
- Surat

Source: NASSCOM; Director of Technical Education, Gujarat State
IT/ ITeS Sector: Gujarat Scenario
Key enablers for the sector in Gujarat

Growth in IT space in Gujarat is expected at CAGR of 15% over the next 10 years –
Mr. Som Mittal

Gujarat is fast emerging as an ideal destination for IT/ ITeS business to scale new heights.

“Today’s 90 percent of IT services works in India take place from major six destinations – Delhi, Mumbai, Chennai, Bengaluru, Hyderabad and Pune. In the coming year I clearly envision 40 percent of IT services work happening outside of these six cities. This gives Ahmedabad a major opportunity to become a major IT destination in the future in the ICT space. With an integrated IT Policy, initiatives like GSWAN, e-governance and GIFT, Gujarat has immense potential to become the next IT hub.

Mr. Som Mittal, Former President, NASSCOM
GIFT city with its World Class infrastructure offers an excellent platform for setting up of export oriented IT/ ITeS units

- Globally benchmarked International Finance Centre
- Strategically Located
- Central business hub – 0.5 million direct & 0.5 million indirect jobs
- Targeting Financial Services & IT/ ITeS sectors
- First of its kind development in scale, scope & quality
- State-of-the-art infrastructure

GIFT ICT advantage

- High speed IP-based network
- Infinite bandwidth
- Robust data centre with disaster recovery sites
- Intelligent building services
- Shared market infrastructure (Access to National and Global Stock Exchanges)
- Secure, reliable, scalable platform for global financial communities

GIFT city area

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>886 acres</td>
</tr>
<tr>
<td>Multi-services SEZ</td>
<td>261 acres</td>
</tr>
<tr>
<td>Domestic tariff area</td>
<td>625 acre</td>
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<tr>
<td>Built space</td>
<td>7.5 million sq.m</td>
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<tr>
<td>FSI/FAR</td>
<td>3.65</td>
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<tr>
<td>Green belt</td>
<td>0.59 mn sq.m</td>
</tr>
<tr>
<td>Building height</td>
<td>400m</td>
</tr>
</tbody>
</table>

GIFT aspires to catalyze India’s largest financial services potential by offering world class infrastructure to attract top talent in country

- To target 8-10% of financial services potential in India
- Creation of 1 million direct & indirect jobs
- Up to 90 million sq. ft. of real estate office and residential space

Source: Gujarat Urban Development Corporation (GUDC)
Growing manpower availability (FY 2013-14)

- Degree Engg. (66849)
- MCA (85)
- Diploma Engg. (7210)

Technical institutions in Gujarat (FY 2013-14)

- Degree Engg.: 121
- MCA: 85

Seat Matrix Year-Wise

- Computer Engg.: 2010 (6000), 2011 (8839), 2012 (10000), 2013 (12100)
- Electronics & Comm.: 2010 (8150), 2011 (9950), 2012 (11000), 2013 (12000)
- Information Technology: 2010 (8239), 2011 (9839), 2012 (11000), 2013 (12100)

Sources: Education Department, Admission Committee for Professional Courses, Gujarat, Gujarat Technological University
Upcoming IT Policy of Gujarat 2014 - 2019

- After the successful IT Policy 2006-2011, Government of Gujarat is planning to declare “IT Policy 2014-2019” with a plethora of incentives to boost and create an IT enabled ecosystem in the state.

- A special package of incentives for Mega IT/ITeS Project. IT/ITeS Technology Park with minimum area of 25 acres will be provided financial assistance @50% of fixed capital investment in buildings and infrastructure facilities, excluding the cost of land with a ceiling of ~USD 400 thousand.

- Registration / Stamp Duty Exemption

- Financial assistance of up to 25% on lease rentals will be provided for the plug-and-play built up office space leased by new IT/ITeS units in any IT Park.

- 100% exemption on electricity duty for a period of five years or ~USD 49 hundred.

Sources: Department of Science & Technology
Note: USD 1 = INR 61.09 as on 3rd Aug, 2014
### Special Assistance to IT/ITeS MSMEs
- Interest Rate Subsidy for IT/ITeS MSMEs
- Assistance for acquisition of appropriate technology
- Assistance for skill enhancement of employees.
- Market Development Support

### Other Incentives
- Support to R&D institutions
- Patent Assistance
- Special Incentive to set up premier IT institutions.
- 30% subsidy on Bandwidth for connectivity (for BPOs/KPOs) paid to Internet Service Provider (ISP) shall be available for a period of two years from the date of starting commercial operation.
- Exemption from zoning regulations.
- Simplification of Labour Laws.

Sources: Department of Science & Technology
A wide range of opportunities exist in the IT/ ITes sector in Gujarat. They are enlisted below:

- Cloud based services and solutions
- IT Hardware and Chip manufacturing
- SEZs
- IT based education and trainings
- Emergency services
- Developing E-Governance & M- Governance services & initiatives
- Urban and rural planning – using GIS, remote sensing
- World class Data / Computer Centers
- Animation, 3D, Gaming & Digital Entertainment
Patni Computer System Ltd. (was India's sixth-largest software exporter before the acquisition) now iGate Patni, has been present in the state for many years. It now provides effective solutions to over 350 Fortune 1000 clients globally across verticals, clocking a revenue of USD1 billion. It started with a strength of 400 people and now has a diversified, well-trained and motivated talent pool of 26000 people which works cohesively to deliver solutions to clients across the Americas, EMEA and Asia-Pacific.

Infosys expressed interest in setting up facilities in Gujarat. Infosys BPO is also considering to come into Gujarat

Gujarat serves as an inspiration for the entire country. One of India’s most industrialized states, Gujarat’s per capita GDP is almost twice the national average. The time is now ripe for the state to emerge as the country’s most vibrant ICT Hub

- Mr. Kishore Chitale, Head-India Domestic Business, Capgemini India

Focus growth areas for Gujarat will be semiconductors/IT Hardware, BPO/KPO, IT/ITeS services, Application Development

Source: Department of Science & Technology (DST)
Department of Science and Technology

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