



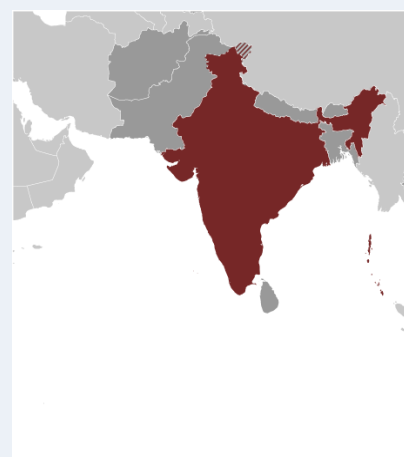
商業信託  
Commercial Trust



## Country Profile: India

## The Facts

Location	Southern Asia
Languages	Principal official – Hindi Secondary official – English Spoken – Hindi 41%, Bengali 8.1%, Telugu 7.2%, Marathi 7%, Tamil 5.9%, Urdu 5%, Gujarati – 4.5%, Others – 21.3%
Nationality	Indian
Religions	Hindu – 80.5% Muslim – 13.4% Christian – 2.3% Others – 3.8%
Government	Federal Republic
Head of Government	Prime Minister
Legislature	Bicameral Parliament
Constitutional Document	The Constitution of India
Economy	India owns the 3 <sup>rd</sup> largest economy in the world by purchasing power parity (PPP). As one of the G-20 major economies and a member of BRICs, India provides investors a stable political environment and friendly policies, such as incentive based schemes and reduction in import tariffs. India has a strong labor force and the costs are competitive. The economy mainly relies on agriculture, industry and services sectors. The economic growth has been significant in recent years.
Currency	Indian Rupee (INR)
GDP (2011)	Total – INR 87,454.90 billion Per capita – INR 72,461 Real GDP growth – +7.2%
Population	1,205,073,600 (approx.)
Percentage of population	Indo-Aryan – 72% Dravidian – 25% Others – 3%
Area	3,287,263 km <sup>2</sup>
Time zone	IST (UTC +5.5)
Public Holidays	National holidays – 11
Climate	Tropical monsoon in south; temperate in north



Sources: *India in Business*, *Central Intelligence Agency*, *International Monetary Fund*

## India

According to UNCTAD's World Investment Report 2012, India ranks third in the list of the world's most preferred investment destinations, after China and the United States. The report also revealed that FDI inflows into India may increase by 20-25% in 2012-13. The country's economic growth during the last one decade has been phenomenal, enticing investors from all over the world to do business in India. Let's take a look at some major reasons why most acclaimed global companies want to start a business in India.

- **Higher GDP growth rate:** India's Gross Domestic Product (GDP) has been growing very fast over the last few years. The average GDP growth rate of India from 2000 to 2012 was 7.4%.
- **Rapid growth in the industry sector:** The Indian economy is no longer dependant only on agriculture. The country is rapidly moving towards an industrialised economy. As of now, Indian's industry sector accounts for 30% of the country's economy.
- **Phenomenal growth in GNI per capita:** India's Gross National Income per capita is also on the rise. According to the latest statistics, the country's GNI per capita increased from \$1,560 in 2000 to \$3,250 in 2009. This simply means that the purchasing capacity of the Indian consumer is increasing at a very fast pace.
- **Favourable business environment:** India is moving upwards in the "Ease of Doing Business" ranking. According to ease of doing business index by World Bank, India's ranking went up from 139 in 2011 to 132 in 2012.

Moreover, corporations can easily find qualified and skilled workforce in India. The best part is that the cost of labour force is very much competitive. Some other benefits of doing business in India include easy availability of raw materials and political stability.

According to American Express, India's 100,000 'dollar millionaires' will increase by 12.8% annually for the next three years. In fact, McKinsey Global Institute has predicted that the average income in India will triple by 2025. Economy Watch adds to these forecasts, saying that the country is set to capture 1% of global trade in the near future. Merchandise exports have already increased by an average of 24% a year over the last four years.

Goldman Sachs expects India to become the third largest economy in the world by 2035.



## Setting up a Business in India

In India, a business can be set up in different forms. Entrepreneurs should choose a form depending upon the nature of business and other factors. There are certain pros and cons for each of these business structures. In order to make an informed decision, an entrepreneur should know about all these structures.

Prerequisites for Starting a Business in India:

- **Director identification number (DIN):** According to the Ministry of Corporate Affairs, Government of India, foreign companies should obtain a Director Identification Number (DIN) in order to start a business in India. This requires filling an online form and producing personal and a business identity proof.
- Registration of company name with the Registrar of Companies (ROC)
- Digital signature certificate
- Making a seal for the business
- **Getting Permanent Account Number (PAN):** The business owner should contact with an authorized agent of Unit Trust of India (UTI) Investors Services Ltd or National Securities Depository Services Limited (NSDL) to get this PAN number
- **Getting Tax account number:** Business owners should collect this from the Assessing Office in the Mumbai Income Tax Department.
- **Other registrations:** The business should also have registration for VAT, employees' provident fund, professional tax, and medical insurance.

The following documents need to be filed with the Registrar of Companies:

- **Memorandum and Articles:** These need to be written by the concerned individuals in their own hand and in the presence of a witness. Four copies of this document should be submitted, each containing their full name, father's name, residential address, occupation, number of shares subscribed, etc.
- **Form 1:** This needs to be executed by one of the directors of the company or any other specified person, such as an attorney, stating that all the requirements of company incorporation have been fulfilled.
- **Form 18:** This also should be filed by one of the directors of the company and contains information regarding the registered office of the company.
- **Form 29:** This document is proof that all the proposed directors of the company consent to act as directors. This is not required in case of a private company.
- **Form 32:** This form provides information regarding the appointment of the proposed directors to the board of directors as of the date of incorporation of the company. The document should be signed by all the directors.

## Private Limited Companies

This is a kind of voluntary organisation that should not include less than two or more than fifty members. This type of business enterprise is not allowed to sell its shares to general public. Let's take a look at some major pros and cons of this business structure.

### Advantages

- **Legally independent:** According to the Indian Companies Act, 1956, Private Limited companies have independent legal existence. This simply means that there are minimum legal restrictions on them.
- **Easy to operate:** Operating a Private Limited company is easier. It doesn't require maintaining too many official formalities. For example, a private limited company doesn't require filing business commencement certificate and statutory report for doing business in India.
- **Huge scope to maximize revenues:** This business form allows a chance to raise capital from a maximum of 50 shareholders. With more capital in place, a business can flourish quickly to earn more revenues.
- **Easy to start a venture:** It requires only two members to start a private limited company.
- **Limited liability:** This business form keeps shareholders at minimum risk. Even in time of financial crisis, creditors are not allowed to seize personal assets of shareholders.

### Disadvantages

- There are several restrictions for the transfer of shares in a private limited company.
- A private limited company is not allowed to sell its shares to the general public.

## Sole Proprietorship

As the term suggests, a sole proprietorship is a form of business that is owned, controlled and managed by one person. It is perhaps the oldest form of business, and it still very much in existence in India. Here are some major pros and cons of this business structure:

### Advantages

- **Easy to start and close:** Setting up a sole proprietorship firm in India doesn't require legal registration with the government authorities. Although some businesses may have licensing requirements, it usually doesn't take much time to complete such formalities. Similarly, closing a sole proprietorship business is quite less cumbersome as compared to other business forms.
- **Total control:** The control of a sole proprietorship business stays completely with the owner. He or she gets the total share of the profits. The owner has the right to take all major decisions for a business.
- **Low formation costs:** Formation of a sole proprietorship company usually does not require paying anything for completing legal or licensing requirements. However, in some cases, business owners may need to pay a very nominal amount of legal costs or licensing fees.

### Disadvantages

- **Lack of continuity:** A sole proprietorship is entirely dependent on the life of the entrepreneur. The business may get closed down in the event of the owner's death or serious illness. Thus, the continuity of this business is very uncertain.
- **Limited resources:** The funding for a sole proprietorship business comes from the owner of the business. With only source of financial resource, this type of business often gets into serious financial crunch.
- **Unlimited liability:** The owner of a sole proprietorship runs the risk of losing everything, should the business fails.

## Partnerships

In this structure of business, there need to be two or more members. Each of the partners is responsible for investing, controlling and managing the business, and is entitled to get a share of the profits or losses on the basis of a predetermined procedure. Given below are some pros and cons of this business model.

### Advantages

- Easy to start
- More resources and more capital
- More efficient management
- Limited risk

### Disadvantages

- Lack of control
- Limited income since the profit amount is shared among partners
- Liability of mistakes by other partners

## Co-operatives

This is a kind of voluntary organisation where every member works towards a common objective. There should be at least ten members in a co-operative firm. Moreover, all members should work from the same locality. The basic principle of a co-operative firm is to work for the welfare of the organisation's members.

There are different types of co-operatives, such as housing co-operatives, consumer co-operatives, marketing co-operatives, and farming co-operatives. Members of a co-operative firm can withdraw their investments anytime without any prior notice. A co-operative firm in India should have a registration with the Registrar of Co-operatives Societies. Let's take a look at some pros and cons of co-operative business structure.

### Advantages

- **Greater capital and resources:** Although a co-operative firm should have at least 10 members, there is no upper limit for the number of members. This makes it convenient for this business model to raise huge amount of funding for business formation or business development.
- **Quality service:** Since the co-operative business model works towards a common goal, it provides quality service at reasonable price.
- **Continuity of existence:** With a huge number of members, this business model can ensure continuity of existence as well.
- **Limited liability:** This business model keeps their members at minimum risk in the event of financial crisis or failure of business.

### Disadvantages

- Limited scope to raise capital
- Lack in managerial services
- Organisational limitation

## Limited Liability Partnerships (LLP)

This is a partnership business structure, which allows all or some business partners the benefits of a limited liability company. This business structure is commonly used by small and medium business enterprises in India.

An entrepreneur can choose any of the abovementioned business structure depending upon the nature of their business and individual preferences. Foreign investors, who want to start a business in India, should know about the following prerequisites.





## Taxation

Once the company is incorporated, it should obtain a Permanent Account Number (PAN). To obtain the PAN, an application should be filed with the Income Tax Department along with Form 49A and the required documents. This PAN is required for opening bank accounts and filing tax returns in India.

A Tax Deduction Number (TAN) is also needed. For this, an application needs to be submitted to the Income Tax Department along with Form 49B and the required documents. TAN is necessary for depositing TDS/TCS.

Companies might also be liable to other types of taxation, such as value added tax, professional tax and service added tax. The best course of action is to gather all the needed information to ensure compliance with the tax and labour laws of the country.

## Immigration and Visa Requirements

Those who want to visit India for business purposes should get a business visa from the issuing authority. The validity period of a business visa may vary from three months to one year, with single or multiple entries. A multiple entry visa allows a visitor to leave the country and come back again within the validity period of the visa. However, one person is not allowed to stay in India for more than six months at a time. The documents required when applying for a business visa include:

- **Proof of residence:** This should either be driver license or utility bill, such as electric bill or water bill.
- **A passport:** This should have at least six months of remaining validity
- **Two passport photos:** Two identical passport size color photographs are required.
- **Sponsorship letter from the parent company:** The letter should be on the company's letterhead, and should mention desired validity period for the visa, nature of applicants business, places to visit, and others.
- **Letter from a partner or sponsor in India:** This letter also requires indicating similar factors as required for the letter from parent company.

Although maximum validity of a business visa is one year, American citizens can apply for a special 10-year business visa. If approved, the US citizen can visit and exit the country for unlimited times during these 10 years. However, the duration of stay for each visit should not be more than six months.

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