



MANUFACTURING IN INDIA

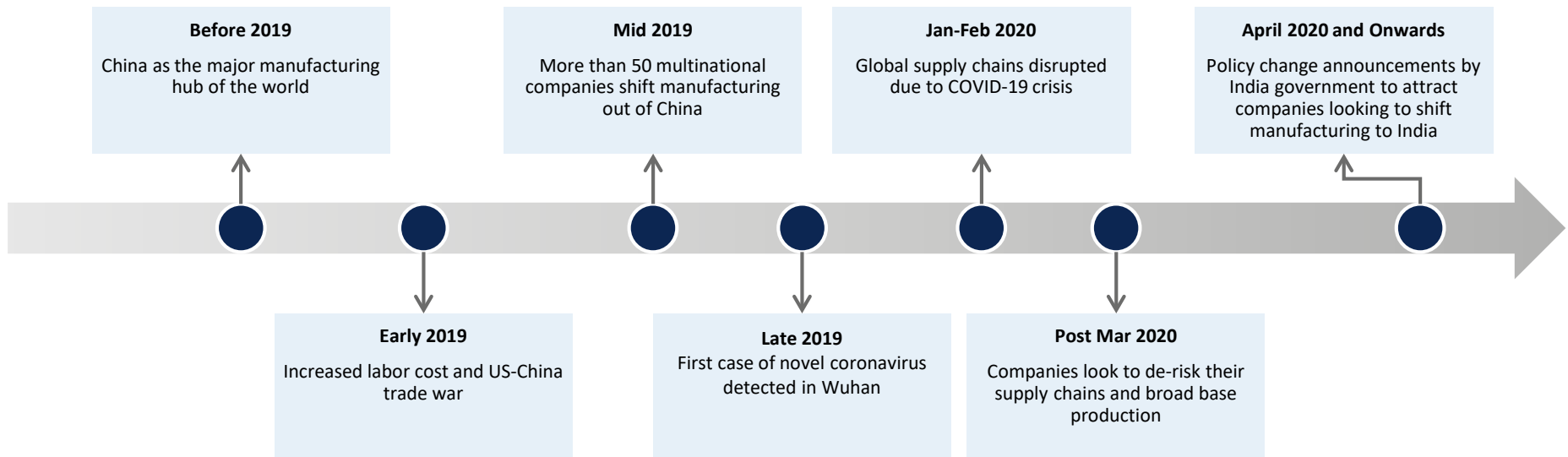
Q2 2020 UPDATE



GCA

CONTEXT

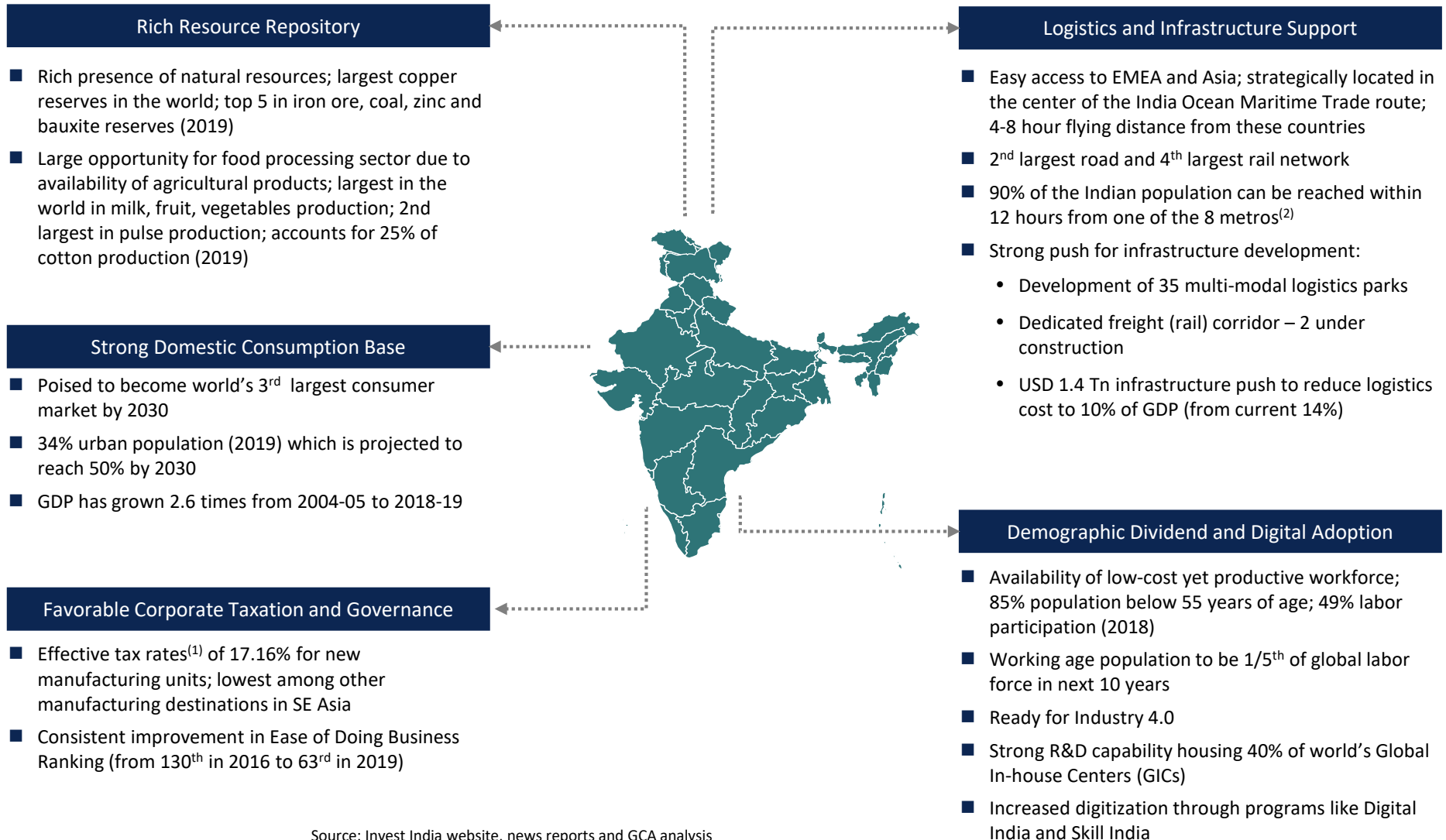
- Companies are looking to build resilience in their supply chains. While global supply chains have traditionally been reliant on China as the primary manufacturing base, since the beginning of 2019, companies have been impacted by factors such as rising labor rates in China and the US-China trade war
- COVID-19 has exacerbated the situation. Companies are keen to de-risk their supply chains and reduce over reliance on a particular country and are hence evaluating alternatives to China for their current or new capacities
- India intends to address this opportunity and position itself as a viable alternative and in the process, play a larger role in global supply chains



- India is revisiting its policies to make foreign investment and manufacturing seamless for international companies through focus on land acquisition, labor laws and infrastructure
- The central & state governments are working in close coordination to bring about changes on the ground
- This document provides an overview of the changes that have been proposed by the government recently and how GCA can help companies establish a manufacturing presence in India

THE INDIA ADVANTAGE

India offers a large domestic market and a favorable ecosystem with low-cost labor and raw material availability



Source: Invest India website, news reports and GCA analysis

Note: (1) Effective tax rates= corporate tax rate of 15% + other surcharges and cess

(2) 8 metros are Delhi, Mumbai, Chennai, Bangalore, Kolkata, Pune, Ahmedabad and Hyderabad

The years referred to are financial year: April to March

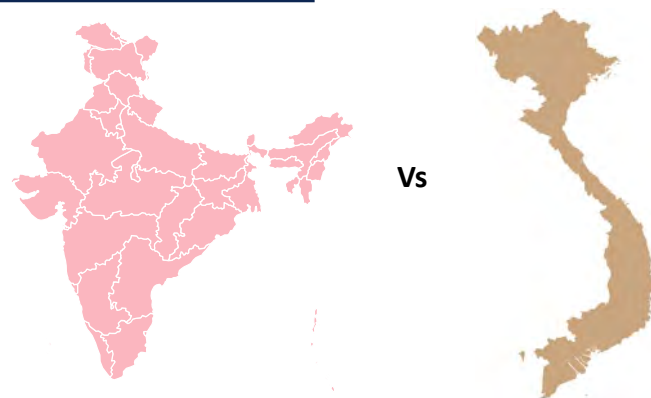
COMPARISON OF INDIA WITH OTHER SOUTH EAST ASIAN COUNTRIES

India is well-positioned on parameters such as infrastructure and taxation



Parameter	Malaysia	Thailand	Indonesia	Vietnam	India	India's Rank
Corporate Tax for New Manufacturing Industries	24%	20%	25%	20%	17.16%	1
Ease of Protecting Minority Investors Index	81.7	75	63.3	55	80	2
Budget Transparency Index	50	57.7	53.8	65.4	80.8	1
Ease of Getting Credit Index	75	70	70	75	80	1
Comparative Labor Wages (monthly)	USD 200-220	USD 260-280	USD 195-215	USD 130-140	USD 100-120	1

Case in Point

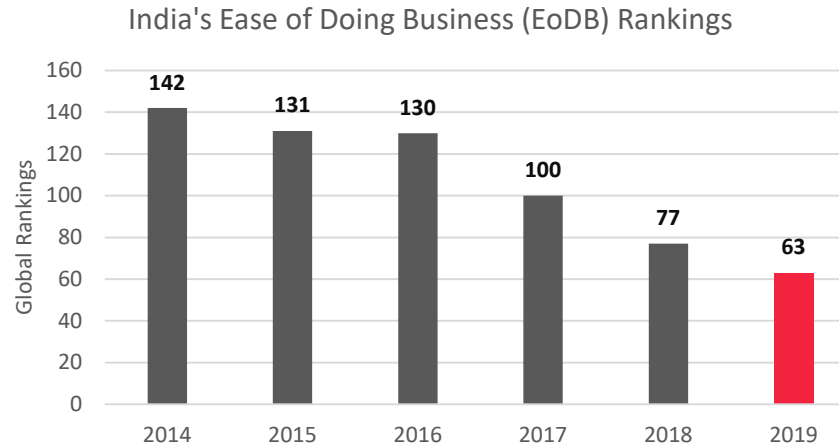


Parameter	India	Vietnam
Automation Readiness Index, 2018 ⁽¹⁾	18 th	24 th
FDI Inflows	USD 49 Bn	USD 38 Bn
Domestic Market	USD 11 Bn	USD 7 Bn
Rank on Port Quality	51	85
Number of Major Ports	12	7
Annual Capacity of Ports	1500 Mn Tons	500 Mn Tons
Labor Availability	500 Mn	58 Mn

Source: News reports, Invest India website and GCA analysis
 Note: (1) Ranking published by Economic Intelligence Unit
 The years referred to are financial year: April to March

INDIA'S IMPROVEMENT IN EASE OF DOING BUSINESS RANKING

Structural reforms implemented by the government have helped India improve its Ease of Doing Business (EoDB) ranking from **142 in 2014 to 63 in 2019**



Structural Reforms Implemented to Drive Improvements in the Ease of Doing Business (EoDB) Ranking

Starting a Business

- Implementation of SPICe⁽¹⁾ platform
 - One step online incorporation of company
 - Reduced fees
 - Post implementation, the average time for company incorporation was reduced to 1.7 days (2019)

Trading Across Borders

- Robust risk management system to waive off inspection for 80% products
- e-Sanchit platform for digital filling of documents
- Electronic sealing of containers to ensure faster custom clearances

Paying Taxes

- GST⁽²⁾ implementation
 - Single unified tax that replaced multiple central and state taxes
- Digitization of EPF⁽³⁾ and ESI⁽⁴⁾ filings
- Reduced corporate tax rates

Insolvency Resolution

- Introduction of Insolvency and Bankruptcy Code (IBC), 2016
 - Timebound reorganization procedure for corporate debtors
 - Creation of a professional body (NCLAT⁽⁵⁾) for resolution of issues

Source: World Bank, Ministry of Corporate Affairs (Govt. of India) & DIPP (Govt. of India)

Note: (1) SPICe: Simplified Proforma for Incorporating Company electronically

(2) GST- Goods and Services Tax

(3) EPF- Employee Provident Fund

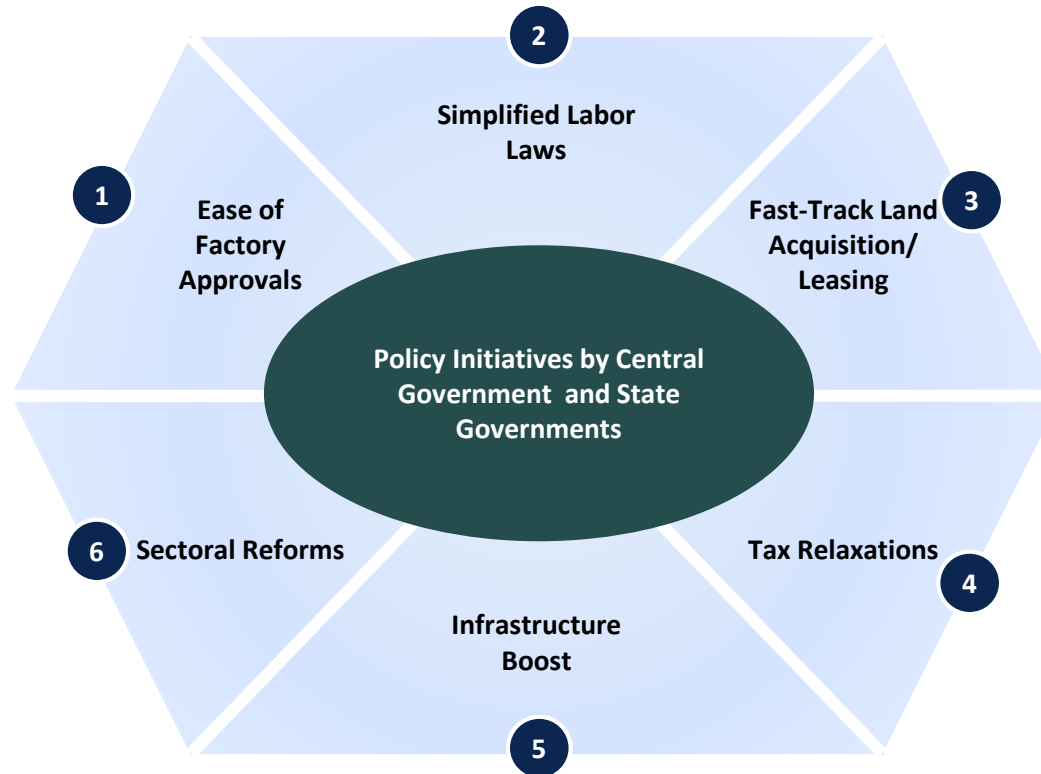
(4) ESIC: Employee State Insurance Corporation

(5) NCLAT: National Company Law Appellate Tribunal

The years referred to are financial year: April to March

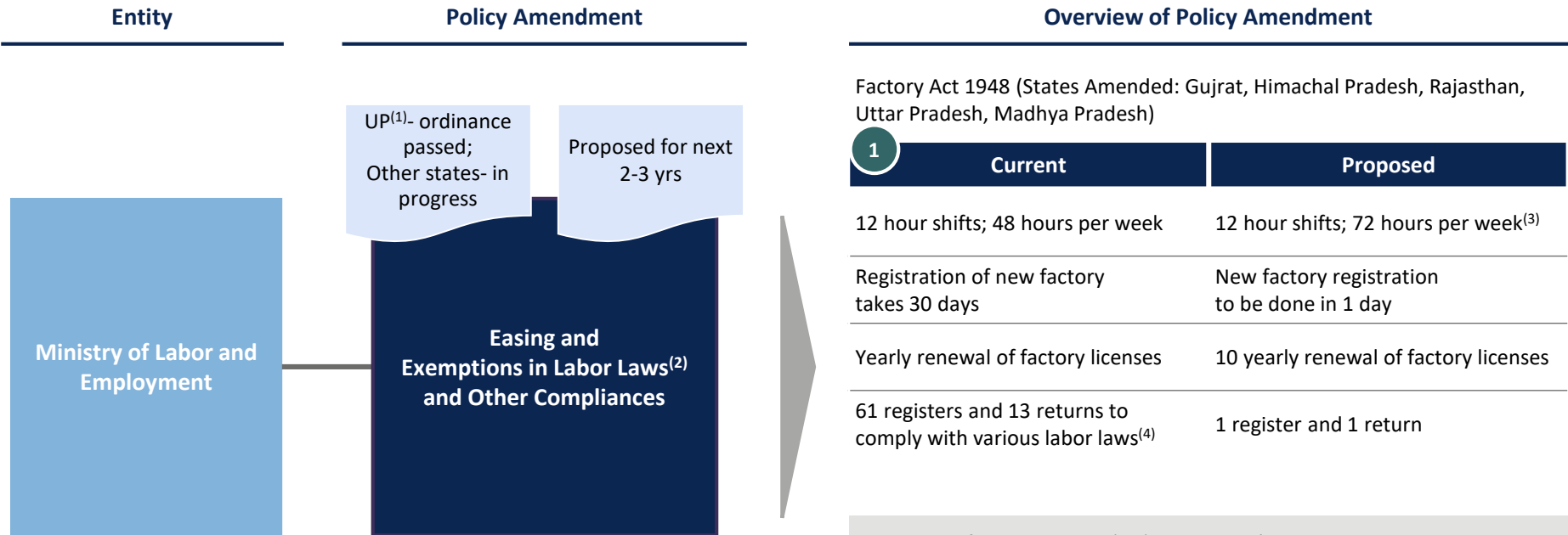
CREATING AN ENABLING ECOSYSTEM

Several policy initiatives have been recently announced to further strengthen the ecosystem for international companies to set up manufacturing in India



AMENDMENT TO FACTORY ACT

Factory Act 1948, which is one of the key legislations for operating a manufacturing setup, is currently being amended to make it less cumbersome for international companies to operate in India



The State of Uttar Pradesh (UP), under the 'Uttar Pradesh Temporary Exemption from Certain Labor Laws Ordinance, 2020' will be exempted from compliance from most of the labor laws for a period of 3 years.

The State of Madhya Pradesh (MP) has given further relaxations under the Contract Labor Act where in only contractors supplying more than 50 workers need to register themselves. Currently there is a need for all contractors to register.

Source: News reports and GCA analysis

Note: (1) Indian state of Uttar Pradesh

(2) Presently there are over 200 state laws and 50 central laws

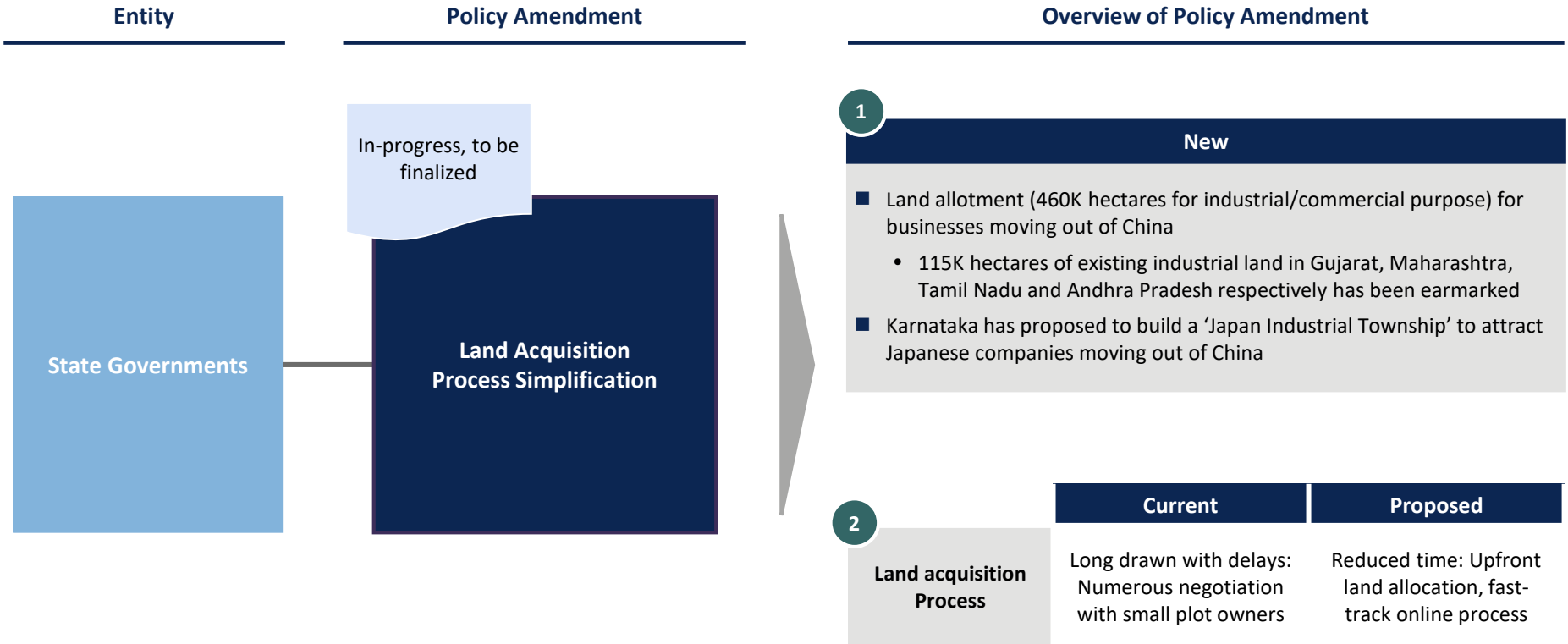
(3) Over-time wage rate to be double that of the normal wage rate

(4) **Registers** are the various records that need to be kept by the companies and **Returns** are the various statutory forms that need to be submitted in order to comply with the various provisions of the Factory Act 1948

The years referred to are financial year: April to March

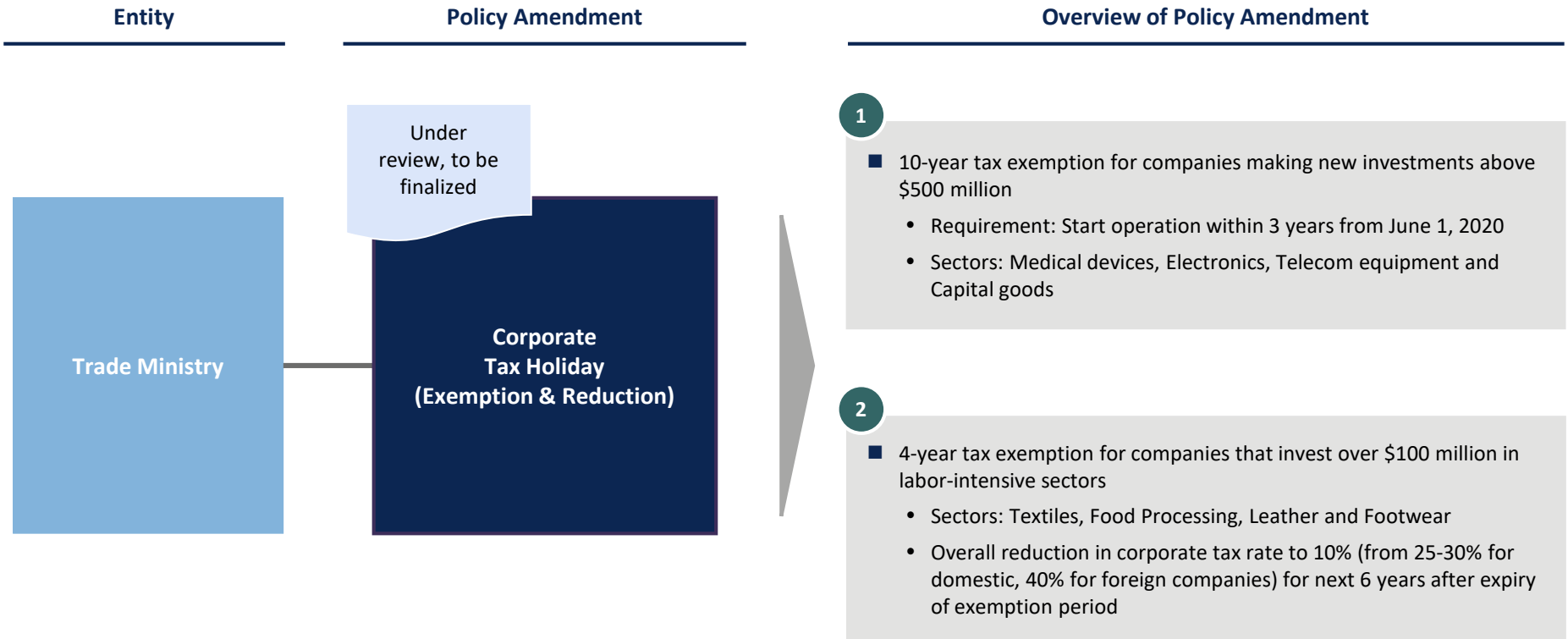
EASING OF LAND ACQUISITION PROCESS

Allocation of extensive land parcels in India specifically for transfer of manufacturing hubs from China to India and implementation of fast-track methods for land acquisition are focus areas



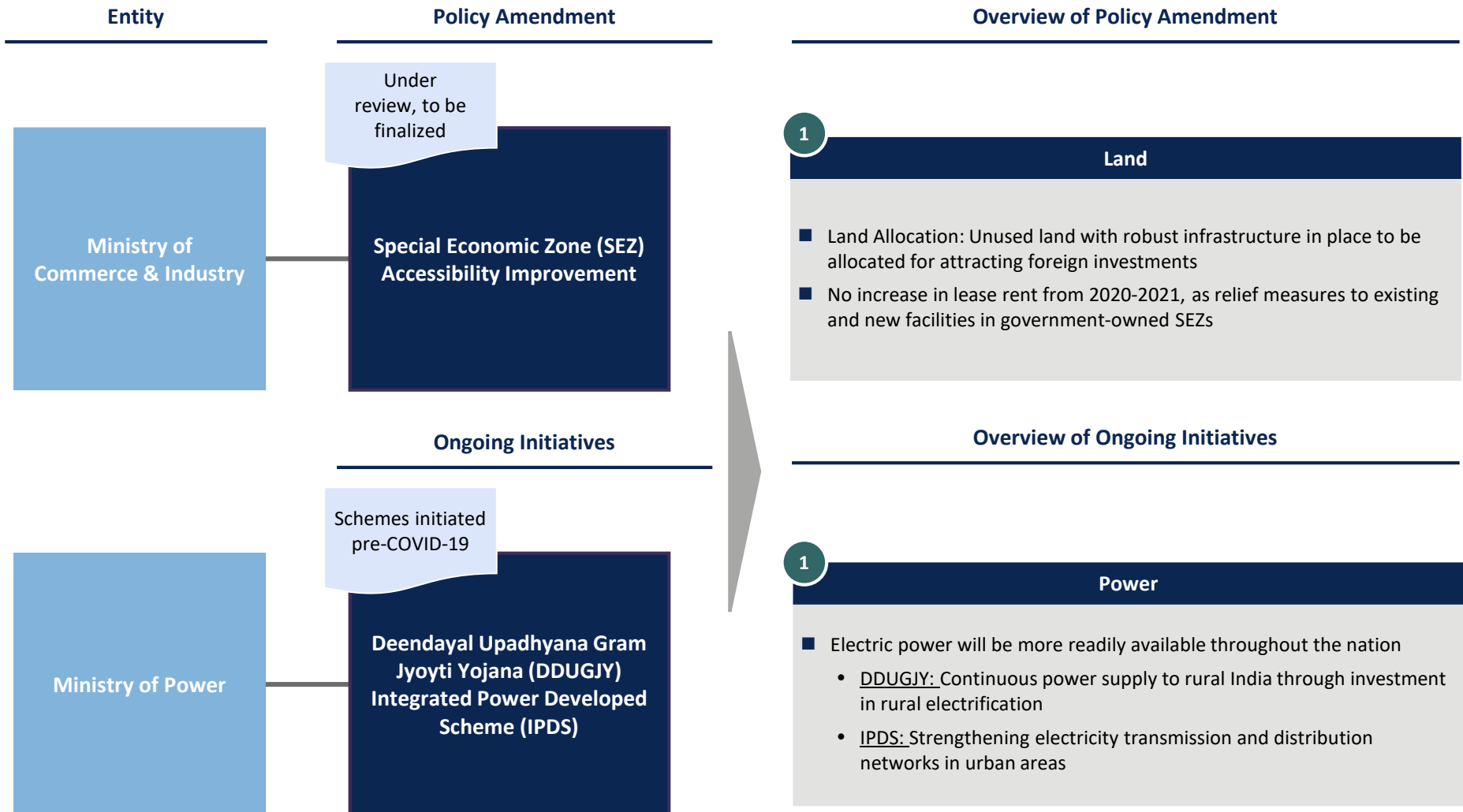
TAX INCENTIVES

As an incentive to stimulate new foreign investments, India is proposing significant tax holidays (exemptions and reduction) for high-value investments





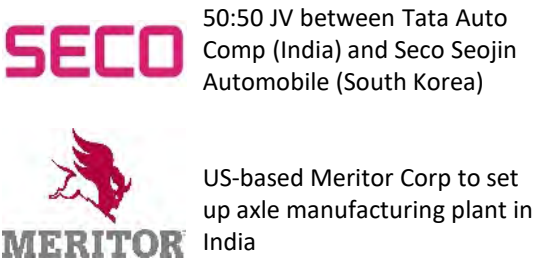
INFRASTRUCTURE SUPPORT

Policy amendment for Special Economic Zones (SEZs) will supplement ongoing government initiatives such as improved reliability of power supply



FOCUS SECTORS





The central government and state governments in India are focusing on specific sectors to drive foreign investments in manufacturing – these are food processing, leather, auto parts, textile and medical devices

	Food Processing	Leather	Auto Parts
Key Figures	<ul style="list-style-type: none"> Domestic market: USD 543 Bn (2020) Exports: USD 18 Bn (2019) Foreign Direct Investment (FDI): USD 3.28 Bn between 2014–2019 	<ul style="list-style-type: none"> Second largest consumer of footwear in the world: 2.49 Bn pairs (2019) Exports (footwear & accessories): USD 5.5 Bn (2019) FDI: USD 54 Mn between 2014–19 	<ul style="list-style-type: none"> Domestic market: 4th largest globally with a size of USD 43 Bn (2019) Exports: USD 15.2 Bn (2019), growing at 14.5% (2019 over 2018) FDI: USD 11.57 Bn between 2014–19
Factors Driving Future Growth	<ul style="list-style-type: none"> 42 Mega Food Parks approved (17 operational); 299 cold-chain projects approved Strong supply factors: Global leader in milk, spices and large bovine population; No 2 in food, horticulture and fish production Partnership opportunity in 47 approved / on-going projects with value of USD 597 Mn 	<ul style="list-style-type: none"> Declared as a Special Focus Sector under the National Manufacturing Policy USD 36 Mn allocated for technology upgradation of existing units (FY 19) Central government is planning a USD 1 Bn investment for attracting foreign investors Cheap and highly productive workforce (55% workers below 35 years of age) 	<ul style="list-style-type: none"> Government has allocated USD 1.5 Bn for the electric vehicles segment. Interventions are planned for demand generation and technology upgradation Announcement of Automotive Mission Plan (AMP) to increase exports by 40% Large domestic passenger vehicle market
Recent Investments/ Proposals	 <p>Swiss company Pioneer Ventures acquired Mumbai-based Lateral Praxis</p>	 <p>German footwear brand Von Wellx has decided to shift its manufacturing from China to India</p>	 <p>50:50 JV between Tata Auto Comp (India) and Seco Seojin Automobile (South Korea)</p> <p>US-based Meritor Corp to set up axle manufacturing plant in India</p>

100% Foreign Direct Investment (FDI) is allowed in all the focus industries through the automatic route

FOCUS SECTORS

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	Textile	Medical Devices
Key Figures	<ul style="list-style-type: none"> Domestic market: USD 100 Bn (2018); CAGR 10% (2009–2018) Exports: USD 36.6 Bn (2019) 	<ul style="list-style-type: none"> Domestic market: USD 11 Bn (2018), 75-80% of which is imported Exports: USD 2.1 Bn (2019) FDI: USD 600 Mn between 2014–19
Factors Driving Future Growth	<ul style="list-style-type: none"> Government has spent USD 316.25 Mn since 2017 on skill upgradation, infrastructure and machinery of existing units under various schemes like ISDS⁽¹⁾, SITP⁽²⁾ and ATUFS⁽³⁾ Free Trade Agreements (FTAs) have been signed with ASEAN countries in order to promote exports. Similar agreements are expected with EU Government is providing strong focus on the development of the technical textile segment Robust supply-side factors: low-cost raw material and manpower 	<ul style="list-style-type: none"> Government has announced several measures to increase domestic manufacturing: <ul style="list-style-type: none"> Manufacturing license made perpetual Development of 4 medical device parks with common infrastructure to reduce manufacturing cost (investment–USD 57 Mn) Declaration of Production Linked Incentive Scheme 2020 – incentive is 5% of incremental sales over 2019-20 sale of devices manufactured in India The sector is expected to see robust growth in domestic demand owing to the expansion in healthcare infrastructure
Recent Investments/ Proposals	<p> Youngone Corp (Korea) to invest USD 130 Mn in Kakatiya Mega Textile Park in Warangal, India</p> <p> Hyosung Corporation has started its full-scale spandex plant in India</p>	<p> Abbott</p> <p> Medtronic Further.Together</p> <p>Companies like Abbott and Medtronic have expressed interest in shifting their manufacturing base from China to India</p>

100% Foreign Direct Investment (FDI) is allowed in all the focus industries through the automatic route

Source: News reports, secondary research and GCA analysis

Note:

(1) ISDS-Integrated Skill Development Scheme

(2) SITP-Scheme for Integrated Textile Parks

(3) ATUFS-Amended Tech Upgradation Fund Scheme

The years referred to are financial year: April to March

CASE STUDY: VON WELLX TO SHIFT MANUFACTURING BASE FROM CHINA TO INDIA



VON WELLX
GERMANY

Von Wellx is a German footwear brand that is a pioneer in designing and manufacturing of orthopedic footwear. It has 100 million customers and 18 manufacturing facilities worldwide and is sold in over 80 countries

Shift

From Manufacturing in China.....

- 2 manufacturing facilities in China
- Export hub to 80 countries

....To Setting Up an Integrated Value Chain in India

Phase 1:

- Partnership with Iatric Industries Pvt. Ltd, which has an annual manufacturing capacity of 0.5 million pairs and exports to 48 countries
- Manufacturing unit in Agra, Uttar Pradesh, India
- Capacity of 3 million pairs annually
- 2-year timeframe to reach 3 million pairs; USD 13 Mn investment
- India to act as an export hub for 80 countries

Phase 2:

- Development of ancillary industries like outsoles, special fabric and chemicals, which are currently not available in India

Factors Influencing Shift

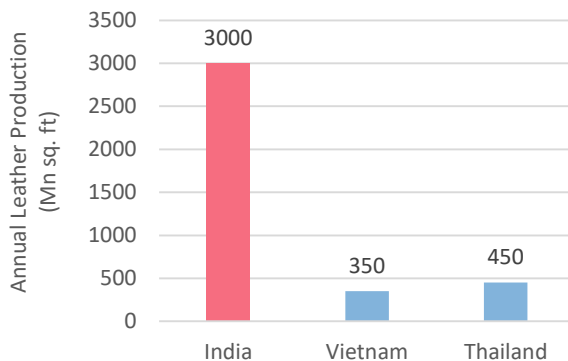
Sector Specific Factors

- Easy availability of raw material. Whereas, the alternate manufacturing destinations like Vietnam & Thailand are dependent on imports for leather, India accounts for 13% of the world leather production
- Leather being a labor-intensive sector, availability of a low-cost and young workforce is a key advantage for India
- Availability of export infrastructure due to a large export market (USD 1.8 Bn in 2017)
- Large domestic market: 2nd largest footwear consumer in the world

Policy Initiatives

- In April-May 2020, the central government and state governments announced a host of measures to attract foreign investments:
 - Most labor laws were suspended for a period of 3 years
 - Creation of an online system for land allocation
 - Upfront identification of land for companies moving out of China
- Infrastructure and skilled manpower availability through the mega leather cluster created at Agra by the central government

Domestic Leather Production (2019)



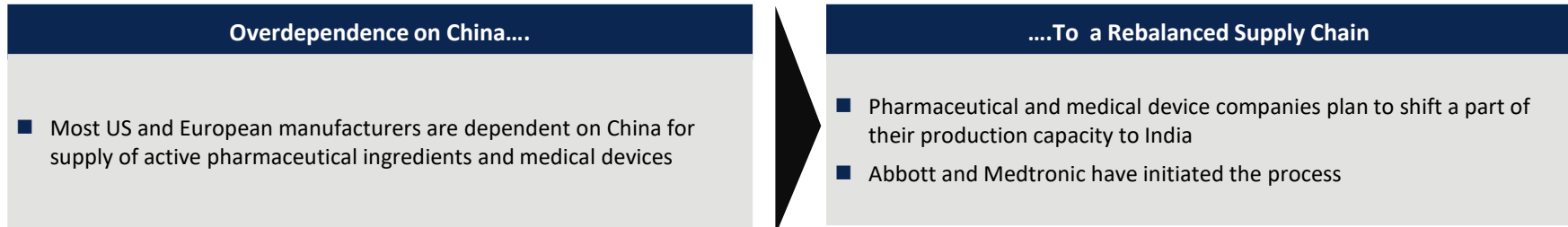
Source: News reports and GCA analysis
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CASE STUDY: SUPPLY CHAIN DIVERSIFICATION OF PHARMACEUTICAL & MEDICAL DEVICE COMPANIES

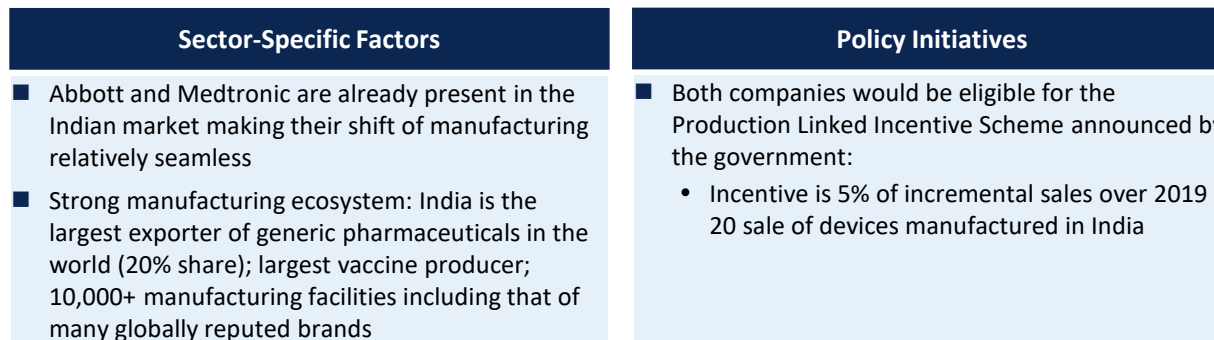


The COVID crisis is resulting in a need to diversify and rebalance global drug and medical device supply chains

Shift

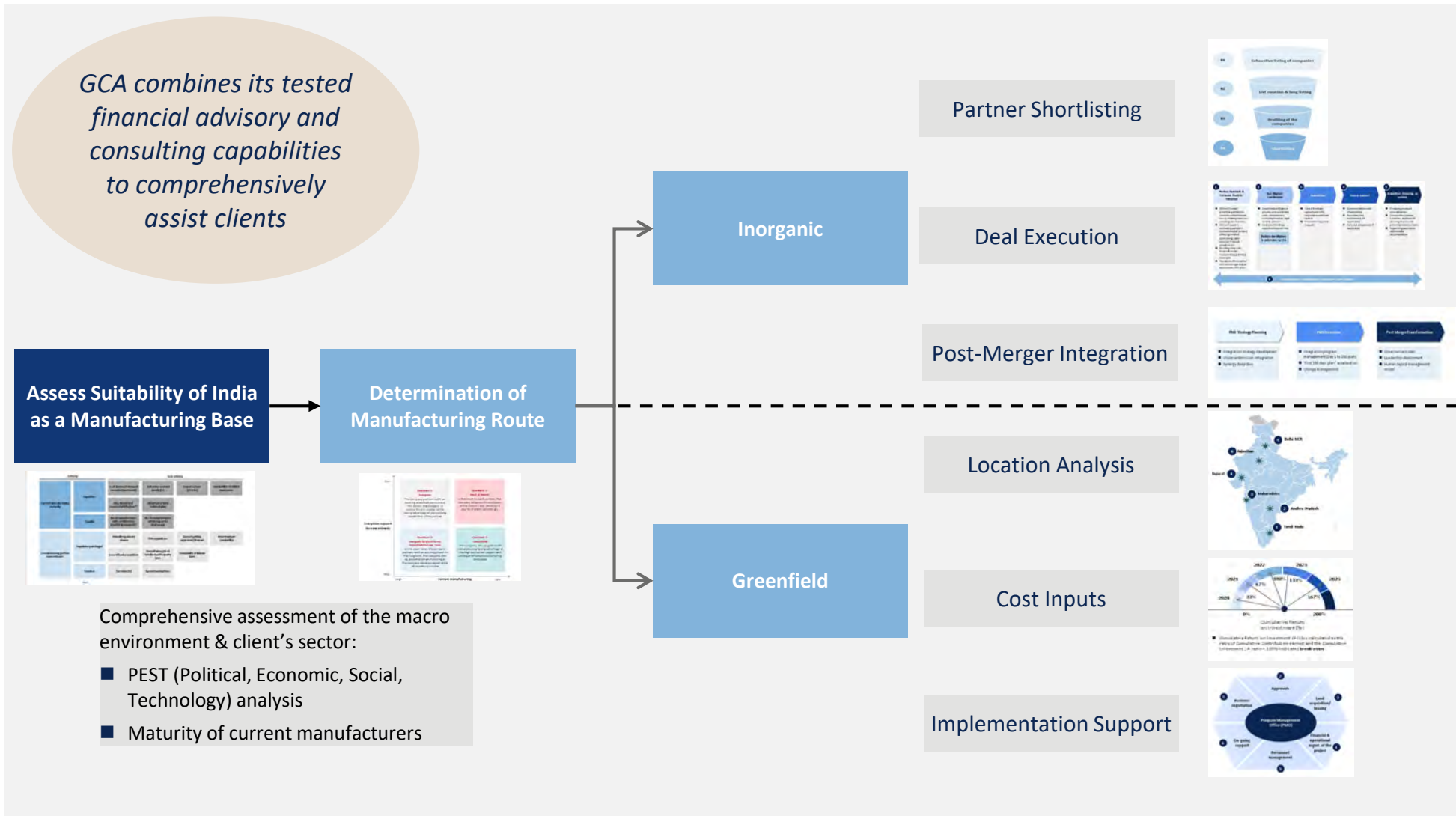


Factors Influencing Shift



HOW GCA CAN HELP COMPANIES ESTABLISH A MANUFACTURING PRESENCE IN INDIA

GCA assists clients end-to-end from development of a manufacturing roadmap to on-ground implementation



SELECT CASE STUDIES



Leading Japanese Engineering Company: India Entry Strategy

- Market assessment
- Strategic entry options
- Target finalization and business due diligence
- Deal negotiation and execution
- Post-Merger Integration (PMI)



US-Based Specialty Chemical Company: Manufacturing Strategy

- Assessment of the competitive landscape
- Logistics and distribution modelling
- Techno-commercial assessment of the various procurement sources
- Business case evaluation for manufacturing partnership (JV)



Global Logistics Company: India Growth Strategy

- Market assessment
- Value chain mapping of key players
- Target finalization
- Business due diligence
- Deal negotiation and execution



Japanese Steel Company: India Entry Strategy

- Market assessment
- Strategic entry options
- Target finalization and business due diligence
- Business due diligence
- Deal negotiation and execution

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