

4th Karnataka Manufacturing Summit

**Actualising
Make in India to Make in Karnataka**

18 DECEMBER 2015

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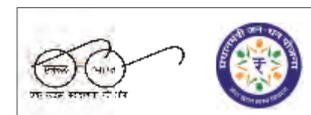
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Actualizing ‘Make in India’ to ‘Make in Karnataka’



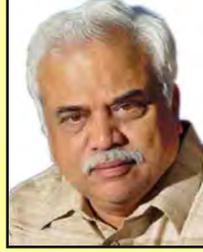
R. V. DESHPANDE
Minister for Large & Medium
Scale Industries
and Tourism Department



Room No. 314-314A
Vidhana Soudha
Bengaluru - 560 001
Ph.No. 22250637
Int: 22033448

3117/HO
No. LMSI & TM/ /2015-16

Date : 13th Nov' 2015



MESSAGE

I am happy to note that ASSOCHAM is organizing 4th Annual Karnataka Manufacturing Summit at Bengaluru on 18 December 2015.

Government of Karnataka is committed to ensure rapid development and economic growth of the state. Department of Industries & Commerce has taken several initiatives to push industrial growth especially the manufacturing sector. A new and bold industrial policy was announced in the year 2014 that aims to achieve industrial growth rate of 12% per annum and enhance the share of manufacturing sector in state GDP from around 16% at present to 20% by the year 2019 that is the terminal year of the policy.

Another important aim of the policy is to ensure balance development of all regions of the state. With this in view, special incentives and concessions have been made available for industries coming up in identified areas that need rapid industrialization.

I hope that the initiative taken by ASSOCHAM will help accelerate the process of industrialization in the state.

My best wishes for success of the Summit.

I also take this opportunity to invite all existing and potential investors to the investor' meet "Invest Karnataka" being held during 3-5 February 2016 at Bengaluru.

A handwritten signature in red ink, appearing to read "R. V. Deshpande".
(R. V. Deshpande)

ಕೆ. ರತ್ನಪ್ರಭಾ, ಭಾಷಣಿ

ಸರ್ಕಾರದ ಅಪರ ಮುಖ್ಯ ಕಾರ್ಯದರ್ಶಿ

K. Ratna Prabha, IAS

Additional Chief Secretary to Government



ವಾಣಿಜ್ಯ ಮತ್ತು ಕೈಗಾರಿಕೆ ಇಲಾಖೆ
Commerce & Industries Department
Government of Karnataka



MESSAGE

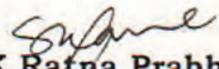
I am glad to know that ASSOCHAM is organizing its Annual Karnataka Manufacturing Summit on 18th December 2015 at Bengaluru.

Industrial Policy 2014-19 launched last year lays out the roadmap that state seeks to follow with a view to position Karnataka at the forefront of industrial landscape of the country. With adequate provision for development of infrastructural facilities and attractive incentives for investors, state government aims to provide an ideal setting for growth of industry. The Policy has started showing results with increase in number of fresh investment proposals received by the state government.

Policy aims to increase share of manufacturing sector in State GDP to 20%. Thus special emphasis is being laid on facilitating growth of manufacturing facilities in the state. State government is also looking into problems faced by entrepreneurs and industrial houses to make sure that they carry on their operations in a smooth and hassle free environment.

Coming close on the heels of Global Investors' Meet "Invest Karnataka - 2016", ASSOCHAM's initiative will surely add to the pace of growth of industry in the state.

I wish the Summit all success.


(K Ratna Prabha)

The Additional Chief Secretary
Commerce and Industries Deptt.



MESSAGE

Thrust on manufacturing sector is manifested in key policy decisions of the central government. Aim is to take the share of sector in country's GDP to 25% by the year 2022. After the launch of 'Make in India' initiative government has taken a series of steps to streamline the process of establishing and running a business. This is likely to speed up the pace of business in general and manufacturing in particular in the country.

However, taking the campaign to its logical goal would require substantive efforts from all concerned especially to broad base the manufacturing landscape of the country. This would entail establishing manufacturing facilities that are scalable, flexible, and open to best global practices.

In line with national vision Karnataka, that has taken a lead in skill-intensive industries, has also initiated steps to enhance share of manufacturing sector in the state GSDP. Reinforcing state's position as a preferred investment destination for manufacturing sector calls for strengthening of new investment climate and development of infrastructure that may allow industries to scale up their operations and achieve global competitiveness.

Over the years, ASSOCHAM's Karnataka Manufacturing Summit has emerged as an important meeting point for policy makers, industry and other stakeholders to discuss issues concerning manufacturing sector in the state. With the theme 'Actualising Make in India to Make in Karnataka', fourth edition of the Summit is being held on 18 December 2015 at Bangalore. The Summit would help bring to light essentials for giving push to manufacturing sector in the state.

I wish the Summit all success.

A handwritten signature in black ink, appearing to read 'D S Rawat', written over a horizontal line.

D S Rawat
Secretary General
ASSOCHAM

MESSAGE

Jyoti Prakash Gadia
Managing Director
Resurgent India Limited



The significance of the manufacturing sector in the Indian economy was reiterated with the launch of the National Manufacturing Policy in 2011 by the Government of India. This National Manufacturing policy aims to enhance share of manufacturing in GDP to 25% within a decade and create 100 million jobs in the manufacturing sector. This policy is one of the most significant policy initiatives taken by the Government and will go a long way in meeting the objectives of the 'Make in India' campaign.

At the state level, the government of Karnataka has taken several initiatives towards the development of manufacturing sector, as evident from the launch of industrial policy 2014-19. Through this policy, the state aims to position Karnataka in the vanguard of industrial progress by providing adequate infrastructure support with appealing incentives and improved facilitation mechanism coupled with reforms to create a business friendly environment to enhance ease of doing business in the State.

In line with the vision set in the 'Make in India' campaign, Karnataka is targeting an industrial growth rate of 12 per cent annually and seeks to enhance the contribution of the manufacturing sector to the state GDP to 20 per cent by the end of 2019. The state is also targeting a balanced and sustainable growth of the manufacturing sector. It is for this reason, that in the newly launched industrial policy, maximum sops have been reserved for investors who are willing to move out of Bangalore and invest in industrially-backward areas.

The state has attempted to address several issues, so as to facilitate investment in the manufacturing sector including single window clearance, infrastructure development, setting up of a National Investment Manufacturing Zone (NIMZ), attractive package of incentives and concessions and human resource development with appropriate skill sets, thereby increasing the depth in manufacturing and enhancing global competitiveness. These initiatives have already provided the much needed boost for the manufacturing sector and going forward, this sector is expected to become the engine of economic and industrial development over a period next 10 to 15 years

In this report, we present a detailed overview of the state and the measures taken by the state government to promote the manufacturing industry. We hope the report helps address and prioritize the issues concerning the manufacturing industry and defines ways for discussions shaping the investment vision for the future.

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Make In India

Karnataka: Manufacturing Sector Overview

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- Key Industries and Sub-Segments
- Sectoral GSDP Composition Trends
- Key issues in the Manufacturing Sector

Make in Karnataka

- Government Policies
- Regulatory Environment

Conclusion

'Make in India' Campaign

Given the current and projected favorable domestic and global sentiments, the launch of campaign could not have been timed better. The honorable Prime Minister launched the Make in India Campaign in September 2014 with an intention of reviving manufacturing businesses and emphasizing key sectors in India (25 sectors identified including both manufacturing and services domain). This has come amidst growing concerns that most entrepreneurs are moving out of the country due to its low rank in ease of doing business ratings.

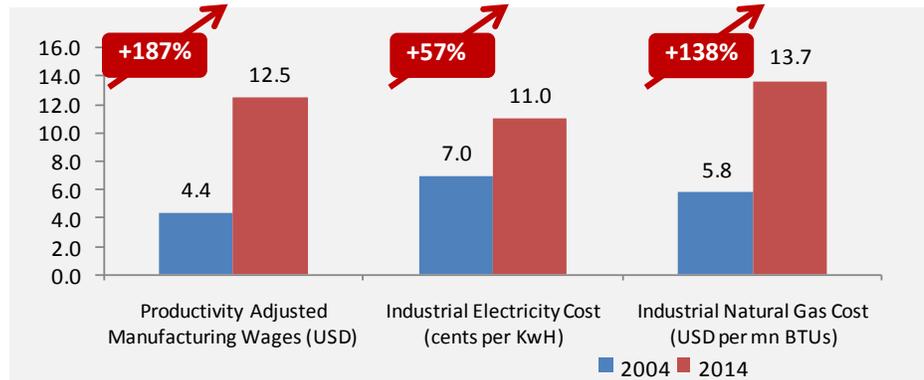
The Make in India sets the program's vision around –

- a) Facilitate investment
- b) Foster innovation
- c) Enhance skill development
- d) Protect Intellectual Property
- e) Build best in class manufacturing infrastructure
- f) Provide employment
- g) Making 'Doing Business' easy for India

Relevance of 'Make in India'

India must become a manufacturing powerhouse in order to gainfully employ its demographic dividend. Its natural advantages like a big labour pool and a large domestic market are available enablers. In addition, China's competitive advantage in terms of cost is fast eroding, being only marginally better than other developed countries. India has the opportunity to take some share of global manufacturing away from China. This would be possible only if the prevalent process inefficiencies are solved through—improved infrastructure, ease of doing business, rationalized tax policies, labour reforms, enhanced skills, ease of land acquisition, implementation of Goods and Services Tax (GST) and fast track approvals.

Weakening China's Cost Competitiveness



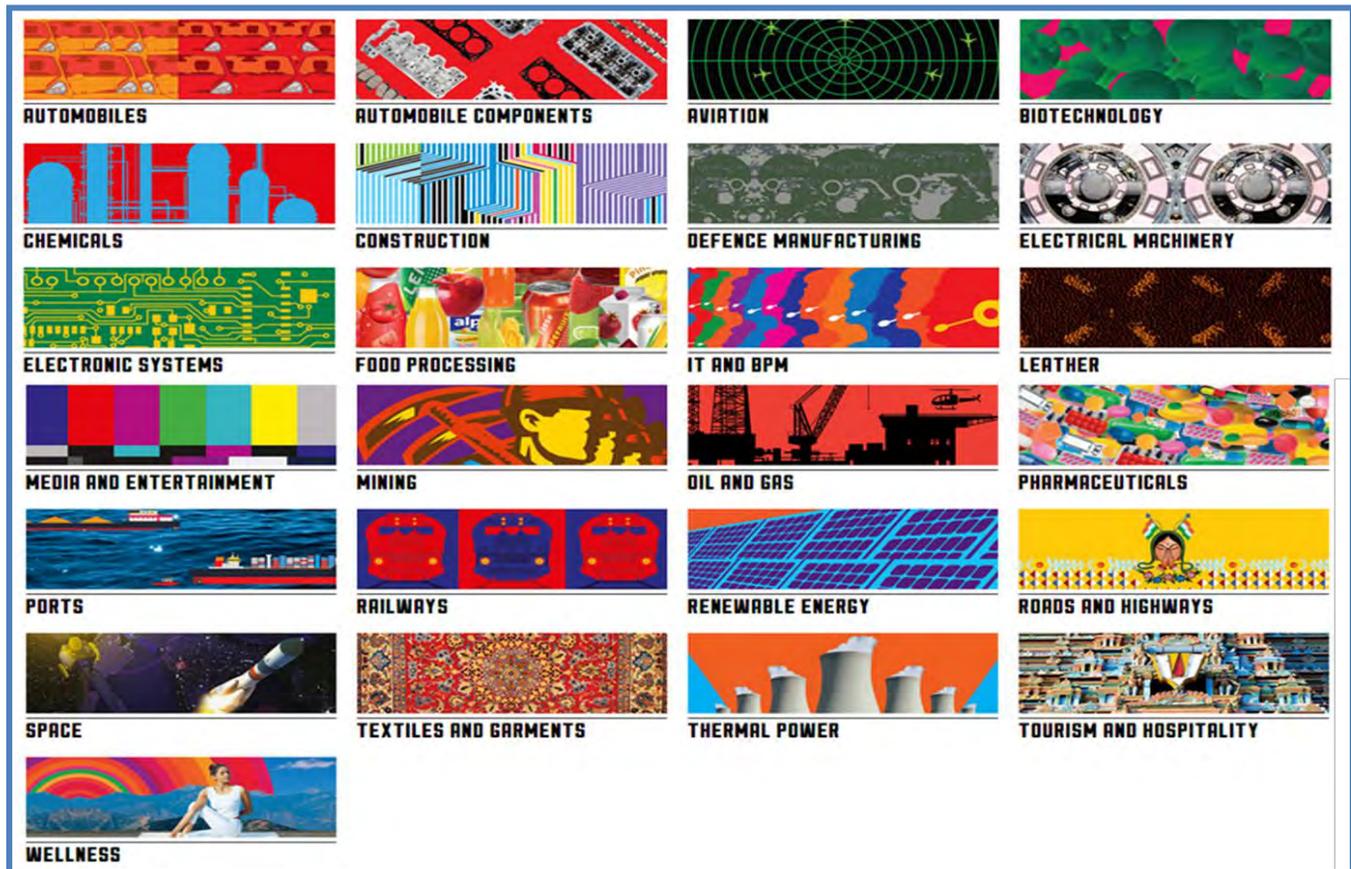
Source: US Economic Census, BLS; BEA, ILO, EIU, BCG Analysis

The "Make in India" initiative, will also tackle the key issue of "Ease of doing Business". It will act as a first reference point for guiding foreign investors on all aspects of regulatory and policy issues and assist them in obtaining regulatory clearances. The Centre has already allowed 100% Foreign Direct Investment (FDI) under the automatic route in construction, operation and maintenance in rail infrastructure projects and increased FDI in defense from 26 to 49 %.

The investor facilitation cell will assist the foreign investors from the time of their arrival in the country to the time of their departure, with focus on green and advanced manufacturing and helping these companies to become an important part of the global value chain. Key imperatives that have been undertaken to improve business process include:

- a) Process of applying for Industrial License & Industrial Entrepreneur Memorandum made online on 24x7 basis through eBiz portal.
- b) Validity of Industrial license extended to three years.
- c) States asked to introduce self-certification and third party certification under Boilers Act.
- d) Major components of Defense products' list excluded from industrial licensing.
- e) Dual use items having military as well as civilian applications deregulated.
- f) Services of all Central Govt. Departments & Ministries will be integrated with the E-Biz – a single window IT platform for services.
- g) Process of obtaining environmental clearances made online.
- h) Advisories sent to all Departments/ State Governments to simplify and rationalize regulatory environment.
- i) All returns should be filed on-line through a unified form.
- j) Checklist of required compliances should be placed on Ministry /Department's web portal.

Sectors covered under 'Make in India'



Source: Make in India website

Market Reactions

The initiative has been hailed by one and all, some industry reactions are captured below:

“This offers a timely and unique opportunity for industry and government to work together to make India truly, globally competitive”-- Chairman of Tata Group, Cyrus Pallonji

“Policy changes if get into action we should see a fairly significant change in the situation, fairly significant change in investment”—Nitin Nohria, Dean, Harvard Business School

"As a nation we need to focus on four areas - rules & regulations, infrastructure, policies and skill training. Make in India can add 90 million jobs in the next decade." –Chanda Kochhar, CEO, ICICI Bank

"In response to Prime Minister Narendra Modi's call to the world to make in India, the UK is launching a campaign to celebrate and inspire Great Collaborations between the UK and India".—Official statement, British High Commission

"The Make in India campaign promises to fast-track India's growth trajectory by making it a manufacturing hub. Made in India, made by India but made for the world"— Rana Kapoor, President, ASSOCHAM

"Make in India and Clean India are very important social campaigns"— Preeti Patel, UK's Minister of Parliament

Potential Impact of 'Make in India'

The vision statement of official website, www.makeinindia.gov.in commits to achieve for the country among other things an increase in manufacturing sector growth to 12-14 % per annum over the medium term, increase in the share of manufacturing in the country's Gross Domestic Product from 16% to 25% by 2022 and importantly to create 100 million additional jobs by 2022 in the manufacturing sector alone. These are ambitious targets, acknowledging slowed growth of manufacturing sector in the last few years.

As per BCG survey and analysis, 2014, India Inc. expects an 8-10% growth in the manufacturing sector Y-o-Y. Growth at this rate would place the manufacturing share of GDP around 17-18% against the targeted 25%. If the same growth were maintained until 2030, Indian manufacturing would be at 22% of GDP at INR 40 trillion. It is important to note that a consistent 8-10% growth is not small anyway, as achieving this can allow India to be among the top 3-5 manufacturing economies globally.

An overview of key benefits from the initiative is listed below:

- a) **Boost of FDI in Identified Sectors:** Increased government commitment and direction to give a sense of reduced risk to investors, thereby fuelling inflows.
- b) **Access to Advanced Technology and Research Support:** The campaign aims to urge both local and foreign companies to invest in India. The foreign investment could enable access to advanced technologies and research knowhow, leading to improved efficiency and quality.
- c) **Push towards Infrastructure Growth:** The campaign provides direct thrust on infrastructure development, in the absence of which investors' confidence would remain jittery.
- d) **Labour Law Reforms:** The Industry has been plagued by high incidence of strikes due to outdated labour laws, especially the flash point between automotive companies and their labour force but reforms could change this scenario in the days ahead.
- e) **Reduced Trade Deficit** backed by multiplier effect on exports. With the help of 'Make in India', the dependence on imports can be brought down and at the same time, current account deficit can also be controlled. India is heavily dependent on imports for a large number of goods and services. While import of certain goods like crude is inevitable, many other products across consumer sectors like electronic white goods, lighting, and consumables which are not technology intensive, have a significant potential to be substituted by local enterprises.
- f) **Business Mindset Change:** The strong government backing and support would help design MSMEs outlook for future. According to a global study done by Egon Zehnder, Indian businesses tend to think more short term as compared to their global counterparts. This takes a toll on investing in process creation, R&D setup thereby hindering innovation and expansion possibilities. 'Make in India' through sustained government support and access to technical know-how through foreign investments can help change the mindset for longer payoffs.
- g) **Global Recognition:** India's performance on ease of doing business has been dismal in global surveys. PM's flagship initiative towards harnessing foreign investment in India through the promise of a favorable investment climate and reformed ways of business doings has the potential to get India a big perceptual lift overseas.

While it is still early days to see real impact, the initial signs are impressive. Here is a look below:

Early Impact of the Campaign

Defence Boost

- Indian Government has cleared INR 80,000 cr worth of defence deals including the construction of six submarines
- Defence Acquisition Council (DAC) approved the manufacturing of these diesel-electric submarines in a single domestic shipyard.

Sweden Appreciation

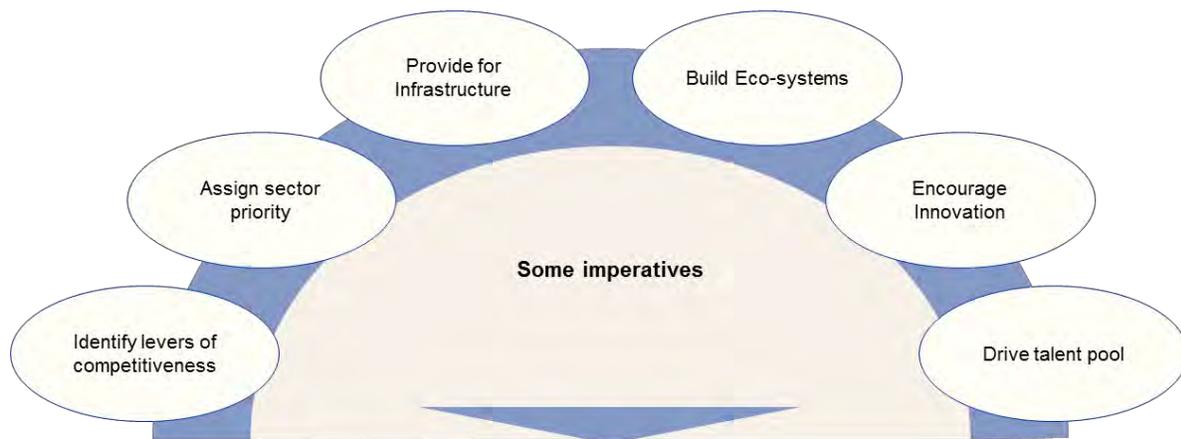
- Campaign is the key highlight at the Sweden India Nobel Memorial Week
- The Swedish Ambassador, H E Harald Sandberg praised PM Modi's initiative to boost the manufacturing, automobile, infrastructure & other sectors drawing upon the traditional strengths of the country.

Source: Maps of India

Strengthening 'Make in India'

The campaign comes with its fair share of challenges, which would be important to counter to make 'Make in India' a reality:

Imperatives for Strengthening Make in India



'Make in India' : Making it a Reality

- a) Identify Levers for Competitiveness:** As the Reserve Bank of India Governor Raghuram Rajan has correctly pointed out, that, the nature of manufacturing is changing. Pure labor cost competitiveness is on its way out as advanced nations approach efficiency and automation led competitiveness. Developed countries are also realizing how crucial local manufacturing is to jobs and to having stable, prosperous societies and so there is an attempt to reverse outsourcing and revive local manufacturing by embracing new technologies and innovations such as 3-D printing and the “Internet of things”. India, thus needs to strategically decide which competitive lever to play for which sector –i) sectors that leverage India’s core strengths ii) sectors that have big domestic market iii) sectors that could benefit from global shift.
- b) Assign Sector Priority:** In addition to above, we must also assign a clear sector priority. Herein, we must assess the idea of localization and building scale for sectors that have large domestic market, e.g. Defense (we are world’s leading importers of arms); Health care (need to get aggressive on IPR support), Electronics (Projected import to outgrow oil import bill), Construction etc.
- c) Provide for Infrastructure:** The success story would not be complete without adequate support of Infrastructure. We must invest further in power and transport infrastructure – to give a perspective of our transport infra, our average speed for freight trains is 25 km/hr., which is less than half of US and Germany and ports have a turn-around time twice that of China.
- d) Build ‘Ecosystems’:** Close dialogue and partnership between government and the private sector, both domestic and foreign, is critical. Indian companies along with Chinese, Japanese, German, American and Swedish companies are all vital partners and we must create an environment that is open and welcoming. Critical to create few oases in the form of special economic zones with localized support and efficiencies to boost manufacturing.
- e) Encourage Innovation:** Foster an environment of innovation as a means to drive competitiveness.
- f) Driving Talent Pool for the Identified Sectors:** MSME sector per se suffers from the lack of accessibility of talent pool. Government can, through the use of advertising maybe, create buzz around identified sectors and project them as attractive employability destination for young talent pool.

Karnataka State Overview



1.1 Generic Profile

Karnataka is India's eighth largest State in terms of area and 9th largest State in terms of population. It is located in the southern region of India, surrounded by the Arabian Sea in the west, Goa in the northwest, Maharashtra in the north, Andhra Pradesh in the east, Tamil Nadu in the southeast, and Kerala in the southwest. Karnataka is one of the leading States in driving India's economic growth, offering trade and investment opportunities across industry sectors.

Some of the prominent cities in the state are Bengaluru, Ankola, Bagalkot, Belgaum, Bidar, Bijapur, Chikmagalur, Chitradurga, Dandeli, Hubli-Dharwad, Mangalore, Mysore and Shimoga.

A quick fact-sheet of the State of Karnataka is enumerated below:

Fact Sheet Parameters	Karnataka
Geographical spread (Sq. Kms.)	192,000
Capital	Bengaluru
Population (million)	61.1
Population Growth	15.60%
Percentage of National Population	5.05%
Population Density per sq. km.	319
Districts	30
Members of LokSabha from UP	28
Members of RajyaSabha from UP	12

Source: <http://164.100.47.5/Newmembers/memberstatewise.aspx>, IBEF Report 2015
<http://164.100.47.132/LssNew/Members/State wiselist.aspx>, Census 2011 Website

The state has a population of about 61.1 million according to the Census 2011, with 15.6% growth rate. The population gender split though balanced, the literacy ratio is heavily skewed towards the male population. A social profile of the state is captured below:

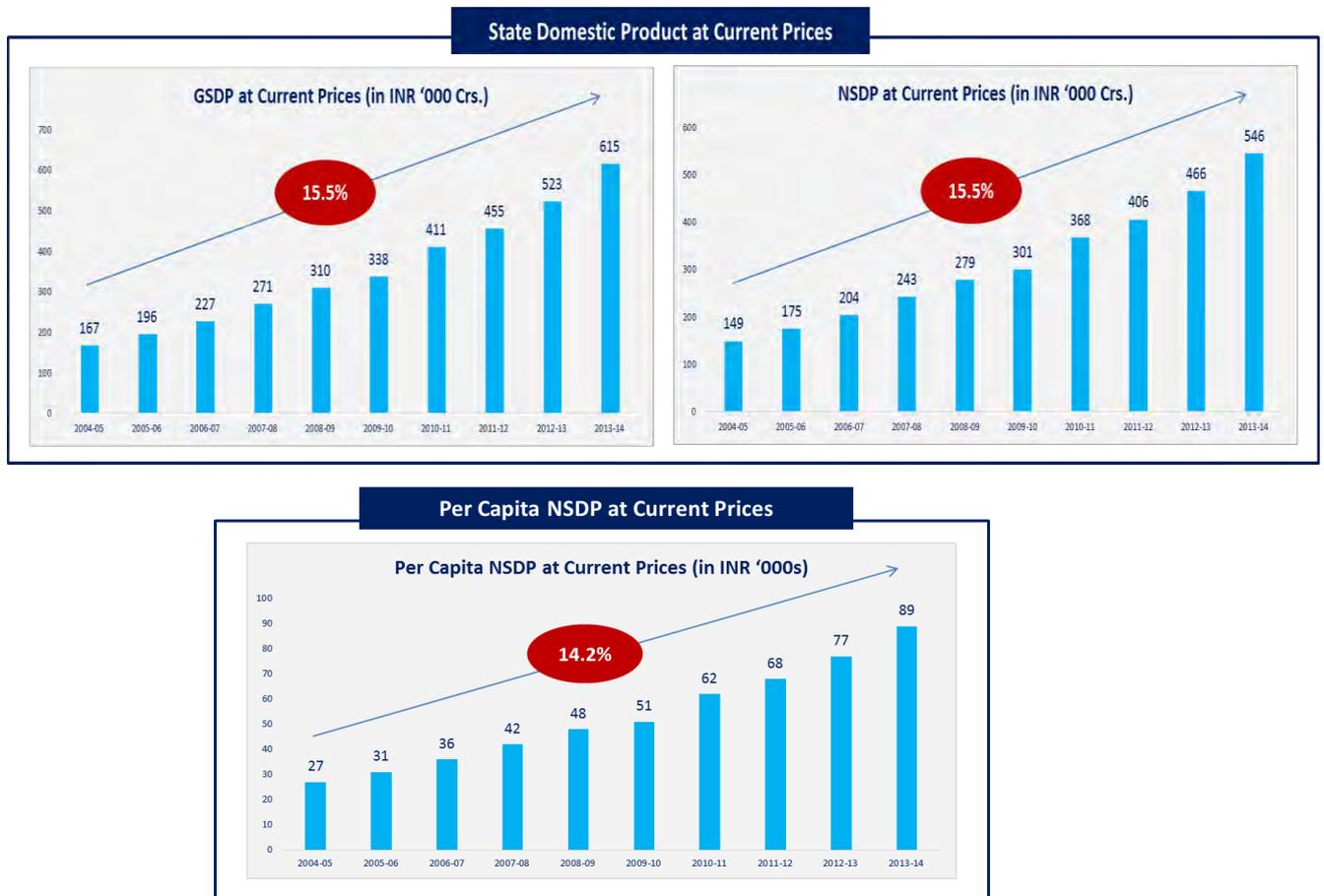
Fact Sheet Parameters	Karnataka
Population (million)	61.1
Male Population	31.0
Female Population	30.0
Sex ratio/1000	973
Literacy rate %	75.4
Male %	82.4
Female %	68.1

Source: Census 2011 Website

1.2 Economic Profile

At current prices, the Gross State Domestic Product (GSDP) of Karnataka stands at INR 615 (Cr.000s) in 2013-14. The GSDP grew at a CAGR of 15.5 percent from 2004-05 to 2013-14. The growth in GSDP over previous year stood at a staggering 17.6 per cent.

The Net State Domestic Product (NSDP) at current prices, of Karnataka was about INR 546 (Cr. 000s) in 2013- 14. The NSDP grew at a CAGR of 15.5 percent between 2004-05 and 2013-14. The state's per capita NSDP in 2013-14 was INR 89,000 compared with INR 27,000 in 2004-05. Per capita NSDP increased at a CAGR of 14.2 percent between 2004-05 and 2013-14.



Source: CSO State Domestic Product and other aggregates, 2004-05 series

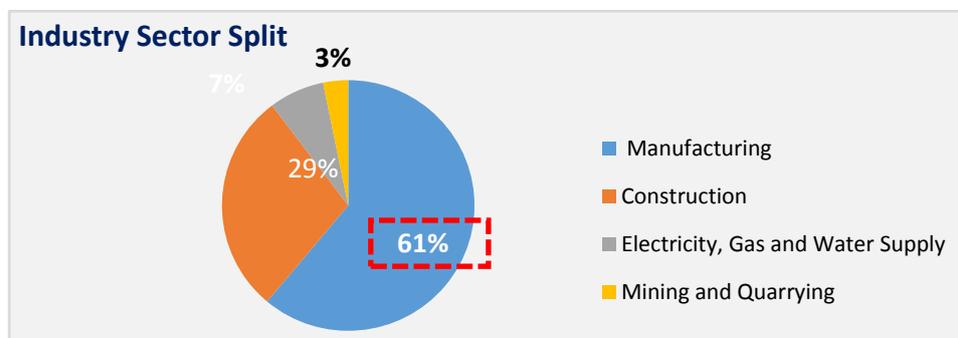
Performance by Sectors

During the last few years, services sector has been contributing as the largest component of GDP for Karnataka. The sectoral share of GDP in 2013-14 is provided below, with the underlying trend of services sector coming on top followed by the industry sector:

Sectoral Composition	2013-14
Agricultural and Allied Sector	18
Services Sector	58
Industry Sector	24

Source : First Revised Estimates , Directorate of Economics and Statistics, Government of Karnataka

:



Source: Economic Survey of Karnataka 2014-15

The manufacturing sector contributes between 15-16% to the state GDP and employs about 11% of the work force followed by Construction sector (9.60%). Although Karnataka is most known for its IT sector, the state has manufacturing capacity in electronics, garments, aerospace and defense, automobiles, biotechnology, and steel production.

As per the Economic State Survey of 2014-15, the GSDP growth rate of the Industrial sector is expected to grow at 4.4% during 2014-15, which is higher than the growth rate of 4.2% that was observed in 2013-14.

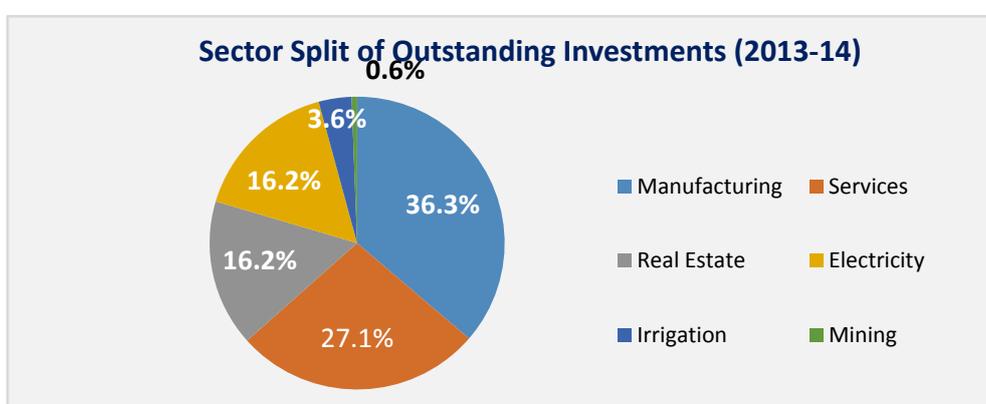
Sectoral Growth Rates of GSDP at Constant (2004-05) Prices	2014-15 [Advance Estimates]
Agricultural Sector	4.5%
Services Sector	8.9%
Industry Sector	4.4%
Electricity, Gas and Water supply	8.7%
Construction	5.7%
Manufacturing	3.2%
Mining and Quarrying	2.3%

Source : Directorate of Economics and Statistics, Government of Karnataka

1.3 Investment Profile

Karnataka's vast and diversified resource base has emerged as a reputed investment destination for investors worldwide. Karnataka accounts for a significant share in the total FDI that flows into India. As per Department of Industrial Policy & Promotion (DIPP) Fact sheet on Foreign Direct Investment (FDI) Equity inflows from April 2000 to March 2015, the State had 7% share in the total FDI equity inflows in India, having attracted US \$16.1 billion during the period.

In 2013-14, outstanding investments in the state totaled US\$ 171.0 billion, representing nearly 7.1 per cent of the total outstanding investments in India. Of the total outstanding investments, the manufacturing sector attracted the most (36.3 per cent), followed by the services sector (27.1 per cent).



Source: IBEF 2015 Report

1.4 Inter-State Comparison of Key Economic Indicators

Having introduced Karnataka at an absolute level, it becomes important to understand how the state stacks to national average and other counterparts on key social and economic indicators.

In terms of attributes, the choice has been kept as a mix of hard fiscal parameters like NSDP, Per Capita NSDP and Number of PPP projects to more social ones like Sex ratio etc. A brief comparison is captured below:

Fact Sheet Parameters	All India	Karnataka	Delhi	Mah	TN	Guj
Geographical Spread (Sq. Kms.)	32,87,240	1,91,791	1483	3,07,713	1,30,060	196,244
Population (mn)	1210.2	61.1	16.8	112.3	72.1	60.4
Literacy Rate	74	75.4	86.3	82.9	80.3	78.0
Sex Ratio	943	973	868	929	996	919
NSDP ('000 crs.) (at current prices)	9299.3	546	373.4	1365.1	771.8	651.0
Per Capita NSDP ('000 at current prices)	74.4	89.0	212.2	117.1	112.7	107.0
FDI Equity Inflow (USD Bn)	248.6	16.1	49.4	73.1	17.0	11.0
Government PPP Projects	1373	266	30	209	75	74

Source : Census India Government Website, DIPP Website March 2015, Census2011.co.in, Infrastructureindia.gov.in, IBEF Report, DEA

1.5 Infrastructure Profile

The physical and soft infrastructure available in the state has been detailed below –

Roadways - The State is well connected with inter-state and intra-State road network. The State has a total road network of the length 2.39 lakh Km. In 2015-16 budget, under special component programme and tribal sub plan, the government announced plans to invest US\$94.75 million for the construction of concrete roads in the state. The break-up of road network for the year 2014-15 is given in table below.

Road Type	Length (in kms.)
National Highways	6,540
State Highways	18,921
Major District Roads	49,683
Municipal Roads	8,366
Other roads	155,545

Source: Economic Survey of Karnataka 2014-15

Railways -Karnataka is well connected with all the major towns and cities in India with a railway network of about 3,250 km. Bengaluru and Hubli are the major junctions connecting the State with various parts of the country. While the majority of the rail network is managed by the South Western Railway with its headquarters at Hubli, some areas are under the management of the Southern Zone. The Konkan railway that operates between Mumbai and Mangalore provides rail connectivity to the coastal region of Karnataka. Bangalore Metro Rail Corporation Ltd (BMRCL), a joint venture of Government of India and Government of Karnataka is a Special Purpose Vehicle entrusted with the responsibility of implementation of the Bangalore Metro Rail Project. The project cost for first phase constituting a length of 42 Km, to be completed by 2015, is INR 11,609 crore. The approximate ridership since inception is 250 Lakhs.

Airport -The state has five domestic airports, located in Bengaluru, Mangalore, Hubli, Mysore and Belgaum. International flights operate from the airports at Bengaluru (Kempegowda International Airport) and Mangalore (Mangalore International Airport).

Bengaluru International Airport the country's first Greenfield international airport, has been developed at Devanahalli in Bengaluru as a passenger and cargo hub. This was developed under the PPP model and started operations in May2008. Presently it handles about 12 million passengers annually.

Ports-Karnataka has a coastline of 300 km with one major port and 12 minor ports (Twominor ports viz; Pavinakurve and Manki are newly declared minor ports). Towards improving the infrastructure of the minor ports, an investment of Rs. 7.25 crore has been made by December 2014.

Power - The Karnataka Government has taken various initiatives to improve the power supply situation in the State. The Karnataka Electricity Regulatory Commission (KERC) had been established as the regulatory authority. There are five distribution companies (ESCOMS) engaged in retail supply of power to end consumers. Karnataka Power Corporation Limited (KPCL) manages power generation for the public sector. Karnataka Power Transmission Corporation Limited (KPTCL), formed by the corporatization of erstwhile Karnataka Electricity Board (KEB) deals with transmission of power. Power Company of Karnataka Limited (PCKL) was set up by the Government of Karnataka in August, 2007 to supplement the efforts of KPCL in terms of capacity addition. PCKL is responsible for capacity addition by way of setting up of new powers projects through bidding process.

As of June 2015 estimates of Central Electricity Authority, the state had an installed power generation capacity of 15,149.82 MW. The state contributed 6,585.05 MW of this capacity, and the private sector contributed 6,539.40 MW, whereas the central government's share was 2,025.37 MW. Of the total installed power generation capacity, 6,563.93 MW was contributed by thermal power. Capacity of 475.86 MW and 3,599.80 MW was contributed by nuclear and renewable power respectively, while hydropower contributed 4,510.23 MW.

Karnataka's power sector has reduced its Transmission and Distribution (T&D) losses from 27.5 per cent in 2004-05 to 19.07 per cent in 2013-14. It was expected to bring down T&D losses to about 18.44 per cent by March, 2015.

Telecom-Leading telecom companies operate in the state in the sectors of telecommunication network, basic telephony services (both wire line and wireless) and networking services for telecommunication equipment. The number of Wireless and wire line Subscribers in Southern States is presented below:

Service area	Subscribers	Tele density
Tamil Nadu	79.34	112.74
Kerala	33.51	94.65
Karnataka	56.76	92.44
Andhra Pradesh	69.29	79.47

Source: Economic Survey of Karnataka 2014-15

Industrial Infrastructure-Karnataka Government has been instrumental in setting up industrial clusters and special economic zones (SEZs) through public-private partnership (PPP) to provide an impetus to further industrial development.

The state has 26 operational, 40 notified SEZs, one valid in principle approval and 60 formal approval SEZs in 2014-15. The Karnataka Industrial Areas Development Board has developed 141 industrial areas spread across the state. The state plans to develop and upgrade eight clusters around Bengaluru with an investment of US\$ 348.4 million. The Karnataka State Industrial & Infrastructure Development Corporation has promoted more than 135 start-up ventures in the state through equity participation and has provided debt to core industries such as steel, cement, mining and textiles, as well as new sectors such as IT, aerospace and telecom.

Exports from SEZs in Karnataka increased at a CAGR of 66.4 per cent from US\$ 0.4 billion in 2007-08 to US\$ 8.49 billion in 2013-14. [Source: IBEF Research]

Education-According to the District Information System for Education (DISE) report (2012-13), Karnataka held the 2nd Rank on Infrastructure Index for the period 2011-12 and 2012-13 for Primary Schools, and 1st Rank for Upper Primary Schools. In terms of the number of universities, Karnataka ranks fifth among all Indian states and union territories, with 44 universities. Of these, 24 are state public universities and 11 are private deemed universities.

Education Statistics	Karnataka
Number of Schools	Lower primary : 26,308 Higher primary : 34,604 Secondary Schools : 14,937
School Drop-out rates	Lower primary : 2.37 Higher primary : 2.54
Pupil-teacher ratio	Average : 23:33:1

Source: IBEF Research

Health-The State has a wide network of health institutions to provide health services both in urban and rural areas. Key indicators for the health sector in the State are given in the table below.

Health Statistics (2013-14)	Karnataka
Beds per lakh population	78
Birth Rate	18.8
Death Rate	7.1
Infant Mortality Rate	35

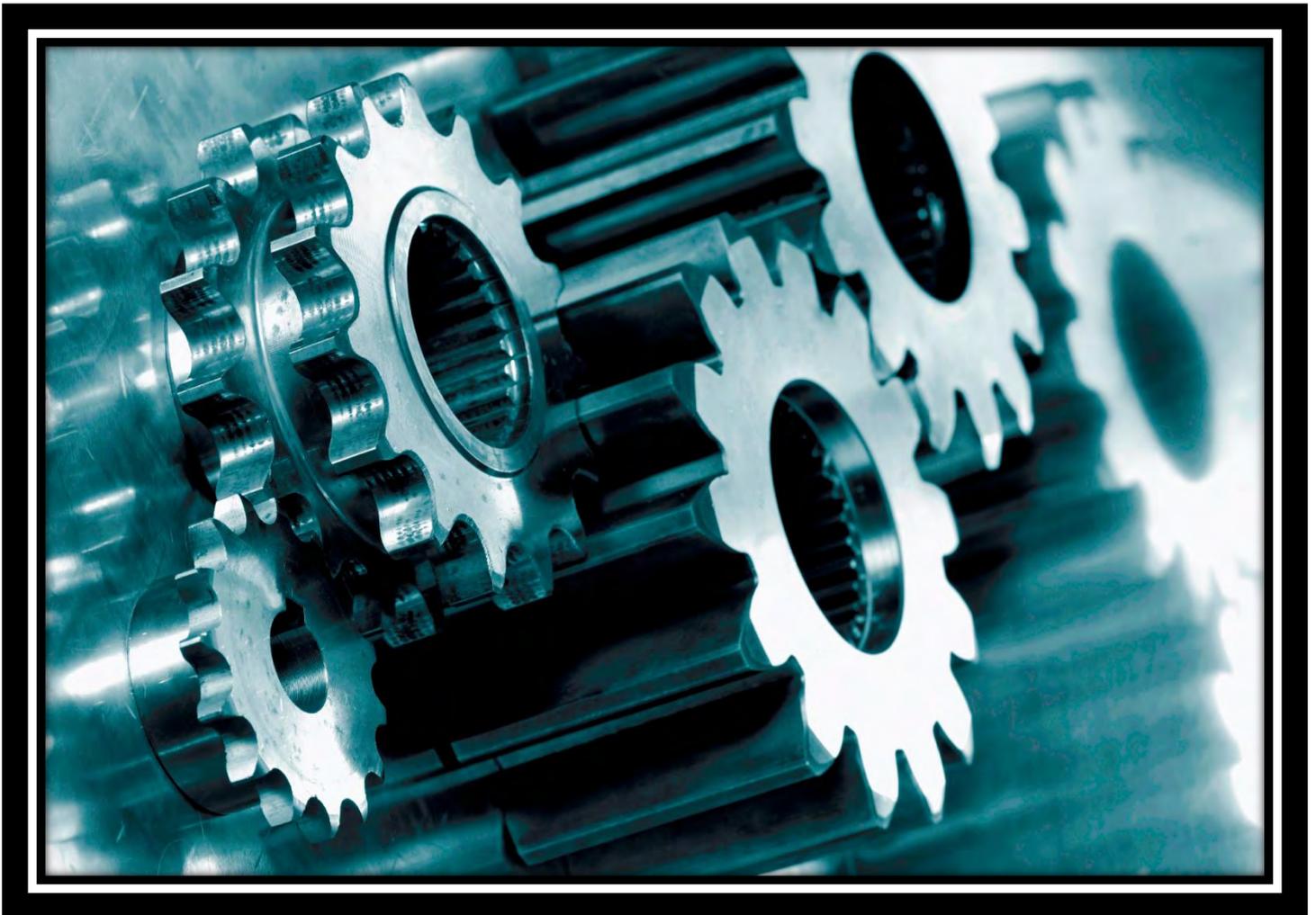
Source: Economic Survey of Karnataka 2014-15

The Government intends to further extend healthcare services by having one Primary Health Centre for every 30,000 inhabitants, one dispensary for every 15,000-20,000 inhabitants, and one sub-centre for every 5,000 inhabitants.

With just 5% of the country's population, totaling to 62 million, Karnataka is one of the more progressive and industrialized states in India. A substantial amount of Karnataka's total GDP is created by the manufacturing sector. The state has witnessed rapid and unparalleled growth across various sectors. The state's rich natural resources, proactive Government policies, talented work force and a strong economy have propelled the State to become a preferred investment destination.

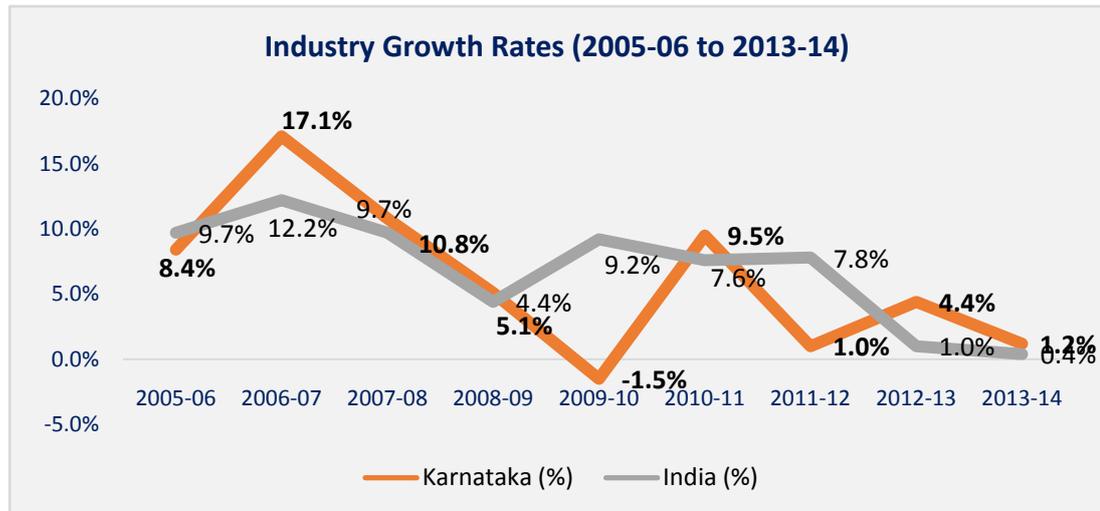
The State also enjoys the distinction of being a pioneer in introducing several successful industrial and technological initiatives. Some of the key sectors garnering significant investor attention include IT, Bio-Technology, Nano Technology, Automobiles and Auto Components, Apparels, Minerals, Food Processing, Aerospace, Oil Refining and Petro Chemicals, Tourism, Wellness Tourism, Contract Research, R&D, Power Sectors, Infrastructure and many others.

Karnataka: Manufacturing Sector Overview



Karnataka Manufacturing Sector: An Overview

The overall economy of India during the 11th five year plan could not grow at the pace as planned due to global slowdown witnessed from the beginning of 2008. Karnataka was not an exception. In general the industrial growth in Karnataka was slow during policy period 2009-14. The wide spread drought situation in the State also contributed to the sluggishness. A year-on-year State vs All India performance is captured below:



Source: Grand Thornton Report

As per the recently released State Economic Survey, the overall organized industrial sector of Karnataka has registered 3.66% growth in 2013-14 as compared to 2012-13. Within the organized industrial sector, Electricity sector has boosted up with highest growth of 11.49% followed by the manufacturing sector (2.92%) and mining sector registered negative growth of -20.48%.

The Annual Survey of Industries (ASI) statistics indicates that Karnataka Organized Manufacturing accounted for 5.27% of the total number of registered factories in 2011-12 in the country. The contribution of registered factories of Karnataka stood at 6.77% of total fixed capital, 6.84% of total output and 11.51% of Gross Value Added (GVA) in the same year.

Organized Manufacturing Particulars (2011-12)	Karnataka	India %
Industries (no.)	11,460	5.27%
Total Output (Rs. Crores)	3,94,840	6.84%
Net value added (Rs. Crores)	1,03,164	12.33%

Source: CSO

The unregistered or unorganized manufacturing sector is also an important component of Karnataka's manufacturing industry. It accounted for 4.37% of total number of unorganized manufacturing enterprises in the country in 2010-11.

In 2013-14, 25966 MSME Units have been registered in the State with an investment of Rs.2,85,056 lakh and providing employment to 167347 persons. As compared to 2012-13, there is a 7.27% increase in the number of units registered, 31.45% increase in investment and 7.58% increase in number of persons employed during 2013-14. Manufacturing of Wearing Apparel; dressing and Dyeing of Fur recorded the top position in terms of investment accounting for about 12.52% of the total investments followed by Manufacturing of Food Products and Beverages with 11.89% investment.

Karnataka Industrial Area Development Board (KIADB) has developed 145 Industrial Areas spread over 33,513 acres across the State and has allotted lands to over 16,960 units. KIADB has also acquired 44,704 acres of land in favor of 437 units under SUC scheme. Karnataka Small Scale Industrial Development Corporation (KSSIDC) has allotted Industrial Sheds/ Plots to 13,513 units in its 174 industrial estates across the State.

Key Industries in the Manufacturing Sector

Among the four broad groups, the consumer goods industry sector accounts for the highest weight followed by the basic goods industry. Within the consumer goods industry sector, non-durables account for 24.7% and durables account for 3.7% of the total weight of 28.5%. These weights indicate relative importance of the different groups in the manufacturing industry of Karnataka. Among the four broad groups, Intermediate goods registered the highest growth of 4.07% followed by Basic goods at 3.64% Capital goods at 3.21% & Consumer goods 1.14%.

Organized Manufacturing Industry in Karnataka – Use-based Classification: Growth Rates 2013-14 [Base: 2004-05]

Industry Group	Weights	Growth Rates 2013-14*
Basic Goods	219.8	3.64
Capital Goods	132.86	3.21
Intermediate Goods	173.57	4.07
Consumer Goods	285.07	1.14

Source: Economic Survey of Karnataka 2014-15*Provisional Figures.

We have detailed below certain key sectors within the manufacturing industry based on their current strength, employment potential and the prospective evolution of the industry.

Defense and Aerospace

Karnataka is a major manufacturing hub in the defense and aerospace industry. The state produces more than a quarter of India's aircraft and statecraft, and 70 percent of industrial activity in the defense and aerospace sector occurs in Karnataka. Karnataka enjoys high potential in this segment due to its relatively low cost aerospace manufacturing. It has significant presence of defense Public Sector Undertakings, research and development agencies and a number of MSMEs, which execute the work for the defense PSUs. The state has been a pioneer in this area and was the first state to announce the country's first aerospace policy in 2013-23, which envisages providing adequate infrastructure and incentives to investors.

Bengaluru is the Aerospace hub of India, having more than 65 per cent of the country's investment in the sector and the United Nations has ranked Bengaluru, as fourth in the World as a Global Hub of Technological Innovation. The city boasts of presence of public sector enterprises and aerospace investment by international private players like European Aeronautic Defense and Space Company, Boeing, Airbus, HCL, Honeywell and UTC Aerospace.

Automotive and Engineering

Karnataka is currently the fourth largest state for automotive production in India, behind Haryana, Maharashtra and Tamil Nadu. The State is a manufacturing hub for automotive majors like, Toyota Kirloskar, Volvo, TVS Motors, Tata Marcopolo, L and T Komatsu, Mahindra Reva, BOSCH, Siemens, and JK Tyres. The state also boasts of a strong auto ancillary sub-sector. Among other players, Bosch, the world's largest auto components manufacturer is based in Karnataka. Majority of the auto clusters are located at Hoskote in Bangalore Rural, Bidadi in Ramanagar and at Dharwad. The automotive sector in Karnataka registered revenues of INR 322 crores in 2011.

Textile industry

The textile industry plays a vital role in the state economy on account of its contribution to industrial production, employment generation and export earnings. Karnataka is one of the top textile manufacturing states driven by availability of large labor pool and raw materials. The textile sector is majorly concentrated in and around Bengaluru. The state government has introduced exclusive policy for the promotion and development of the textile industry. This segment has witnessed substantial investments across the textile value chain activities in the recent past.

Food Processing

Karnataka's food processing industry is witnessing growth, both on account of supply and demand side factors. Availability of abundant raw material and rapid urbanization driving the demand for processed food are the principal factors contributing the industry growth. Karnataka has attained leadership position across several areas in this industry- such as horticulture, spices, coffee and cocoa etc.

The state realized the importance of this sector towards employment generation, reduction of wastage, value addition, and export potential and thus proposed setting up several food parks in the state in addition to the existing IFPPL Mega Food Park at Tumkur. To achieve the same, the state is working with the support from private sector investment in the PPP mode.

Biotechnology and Pharmaceuticals

Karnataka has played a significant role in making India a significant player in the global biotechnology industry. The State is home for 60% of the country's biotech units. There are 365 biotech units in the country. Bangalore is a key location for biotechnology organizations consisting of devoted research faculties, medical and engineering graduates, IT support structure and modern infrastructure. The State has over 6,800 scientists involved in biotech research. Premier Life Sciences institutions such as Indian Institute of Science, National Centre for Biological Science, Jawaharlal Nehru Centre for Advanced Scientific Research, etc. are present in Karnataka.

Karnataka's Pharmaceutical industry generated INR 8,030 Crores in revenue contributing 8% of the country's total revenues in the Pharmaceutical sector. Also, Karnataka ranks 10th in the number of Pharmaceutical manufacturing units in the country, hosting 221 formulation units and 74 bulk drug units contributing to 3% of the total manufacturing units in the country.

Machine Tools

Key manufacturing clusters for Machine Tools in Karnataka are Bengaluru, Belgaum, Chickballapur, Davanagere and Tumkur. Favorable government policies are the principal factors driving the growth of this industry. Key policy enablers include exemption to manufacturers of machine tools from obtaining industrial licenses, low import duties and minimal reservation of items under machine tools for the small scale industry

Steel

Karnataka is the 3rd largest producer of steel in India with a current production level of 10.70 Million Tonnes per annum. The reserves of iron ore in the State, 2nd largest in the country, are estimated at about 3,447 Million Tonnes. The potential of the steel industry still needs to be tapped as Karnataka has large reserves of iron ore. Karnataka's steel sector has been facing major challenges lately. The acquisition of land has been cited as the single biggest problem for manufacturers to set up shop in the State.

Cement

Karnataka is ranked 7th in terms of production of cement in the country. Abundant availability of limestone is the key factor driving the growth in the domestic market. There are over 16 cement industries in Karnataka which account for approximately 6.51% of India's cement production. More than 19 cement projects have been approved in the State by the State High Level Clearance Committee in the last few years with a total capacity of 44 million tonnes per annum. To boost industry growth, the state government has proposed investment in cement industrial zones in Gulbarga, Bagalkot, Chitradurga, and Belgaum districts.

Comparison to Other States

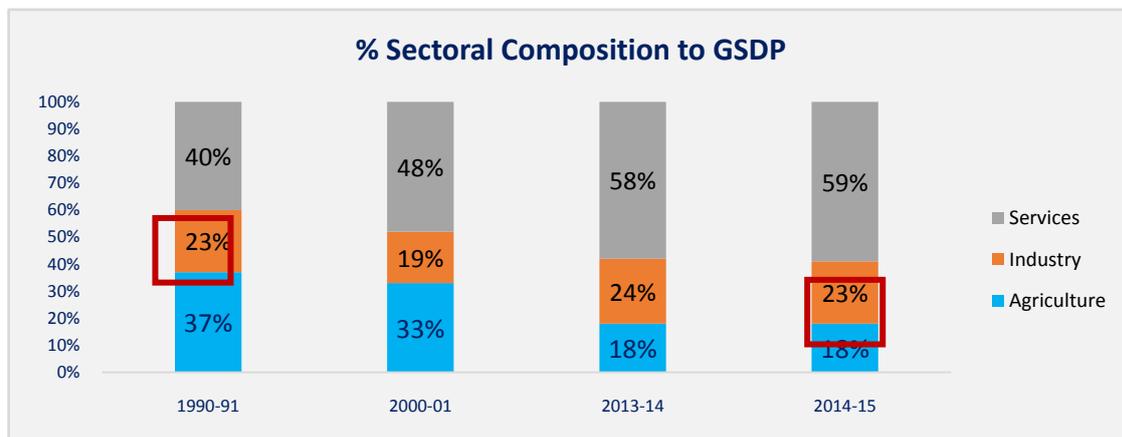
In the recent years, large investments in the automotive, electronics and pharmaceuticals sectors have contributed to the growth of manufacturing in the State. The growth and investments recorded in the manufacturing sector in Karnataka has been outdone by investments and growth rate registered in the manufacturing sector in other states like Maharashtra, Gujarat and Tamil Nadu. Recently, Foxconn and Xiaomi, both smart phone manufacturers decided to make significant investments in Maharashtra and Andhra Pradesh respectively.

The state has slipped from being in the top 3 states in the 80s and 90s. As per a Grant Thornton report for 2012-13, the state ranked 6th amongst other Indian states in terms of percentage share in India's manufacturing output.

In addition, comparing the contribution of the manufacturing sector to the state GDP of various states in the same report, Karnataka remained more or less constant at Rank 5 with Gujarat, Tamil Nadu, Maharashtra and Haryana being the Top 4. The difference between Karnataka and Haryana, Maharashtra and Tamil Nadu is marginal and can be achieved if focused interventions are done.

Shifting Sectoral Mix

The State has had a reputation of bringing in favorable industrial policies, however they have not been deemed as attractive as those in the tertiary sector, with services lapping up most of the shift away from agricultural related activities. In terms of sectoral composition of GDP, while agriculture has clearly declined, industry has remained more or less stable with Tertiary gaining most over the years.



Source: Economic Survey of Karnataka 2014-15

Key Issues in the Manufacturing Sector

- a) **Infrastructure Adequacy and Quality:** While the state is well-connected and networked, there is a need to ensure adequacy and good quality infrastructure backed by fast track execution and implementation of projects. Some of the notable requirements/ challenges are listed below:
- a. Heavy congestion in key cities like Bengaluru needs to be worked upon by creation of Special Investment Regions
 - b. Inadequate Power and Water Supply in remote locations as well as specifically in established industrial zones and regions
Slow movement on establishment of Industrial Corridors
 - c. Fund mobilization and shortage of manpower constraints for state bodies like KIADB and KSSIDC
 - d. 4 /6 laning of highways and arterial roads
- b) **Land Issues:** The issues pertaining to land range from slow machinery leading to time and cost overruns on projects to lack of optimal utilization of available funds.
- a. Availability of land and the time taken from land allotment to signing of absolute sale deeds varies from 3 years to 5 years due to delays resulting from land acquisition bottlenecks
 - b. Land allotted for Industrial purposes used for others (e.g. Real Estate): As per the MTF report, there is available land locked in existing industrial areas, which if released could reduce pressure to procure more land. However, this will require to increase Floor Area Ratio (FAR) from the present average levels of 1.0 to 3.0 and average ground coverage will be increased from 45-50% to 70%.
- c) **State Policies and Regulatory Issues:** Ease of doing business by way of streamlining processes and time taken is a big agenda across states including Karnataka. Lag time in setting up units in an industrial area / park due to various approvals leads to overruns on time and cost, which makes business unviable for the investor. While there is a provision for single window clearance, the same needs to be streamlined (e.g. screening only post land allotment, prescribed time for various divisions to furnish opinions, online project monitoring system etc.) for effective in-market performance. As per a Grant Thornton report, 246 out of 751 large projects proposed under GIM 2012 pending at various State departments.
Additionally, the state needs to pep-up the financial incentives for the sector, in line with other adjoining states to avoid losing out on investments.
- d) **Manpower Issues:** Hiring and retaining local skilled manpower for manufacturing industry is a big challenge. Restrictions on employing women workforce - while service sector is allowed to employ women in night shift (7 PM - 6 AM), the manufacturing sector cannot do the same also limits the available workforce.

- e) **Lack of Training/ Skill Development Infrastructure:** The sector lacks specific cluster based skill development institutes. Manufacturing Task Force in its report has recommended measures like Setting up a dedicated state body, sectoral training institutes, Labor Market Information System and a partnership with private sector to adequately answer the challenge. The implementation and impact awaits to be seen.
- f) **Special focus on MSMEs:** MSMEs are widely dispersed across the State and produce a diverse range of products and services to meet the needs of the local markets, the global market and the national and international value chains. Currently only 4 out of 208 clusters are getting funding from MSME Ministry. Karnataka needs to create a separate department for MSME to focus on this sector such as in Tamil Nadu. The key pressures for MSMEs that needs to be addressed include: limited finances, technology transfer, quality improvements, marketing and promotion amongst others.

In order to get a deeper understanding of the issues plaguing the manufacturing sector, the state government recently constituted a Manufacturing Task Force(MTF). Based on the recommendations of the MTF, the government has introduced several measures to address the concerns of the sector and provide enablers for future growth. This has been discussed in detail in the subsequent section.

Government Policies & Regulatory Framework



Government Policies

As mentioned earlier, Karnataka registered slow growth in the manufacturing sector during the period 2005-14. This sector witnessed a marginal growth of less than one percent between 2005 and 2011. Moreover, the state was also losing investment to established industrial states such as Maharashtra, Gujarat, and Tamil Nadu.

In order to address the issues discussed in the earlier section, and give a boost to the manufacturing sector, the government of Karnataka introduced the Industrial Policy 2014-19. The objectives of the policy are –

- To maintain an industrial growth rate of 12% per annum and to enhance the contribution of manufacturing sector to the State GDP from present level of 16% to 20% by end of policy period in 2019
- To attract investment of Rs. 5 lakh crore and create employment opportunities for 15 lakh persons by the end of the policy period in 2019
- To create an environment to enhance ease of doing business in the State.

In the changed Global scenario of economic development, most states are giving significant thrust to the manufacturing sector to drive growth.

In line with the vision of the 'Make in India' initiative, the government of Karnataka (GOK) has taken several measures to enhance the growth and contribution of the manufacturing sector in the state economy. In this endeavor, it also strives to achieve sustainable and inclusive growth of all regions in the state by providing employment opportunities to a large base of population by equipping them with the necessary skill set.

Some of the steps already taken by the Government of Karnataka to boost the growth of the manufacturing sector are aimed at improving all aspects related to business, starting from infrastructure, human resource development, incentives and concessions, financial support, etc. Some important initiatives of the GOK around these areas have been detailed below –

1. Infrastructure Development

- a. Enhancing land availability and utilization of land for the manufacturing sector -
 - i. To enhance land availability for the manufacturing sector, the state government through Karnataka Industrial Areas Development Board(KIADB) plans to acquire 40,000 acres of land (8000 acres every year) across the State for meeting industrial requirements during the policy period. KIADB has already acquired 30,000 acres of land and another 20,000 acres has been identified for acquisition. These industrial parks will cater to the specific needs of the manufacturing enterprises, especially, Aerospace and Textile manufacturing.
 - ii. With a view to release/ unlock the land available in existing industrial areas and reduce the need to procure more land for industry by KIADB, the state plans to increase Floor Area Ratio (FAR) from the present average levels of 1.0 to 3.0 and average ground coverage will be increased from 45-50% to 70%.

- b. Maintaining existing and setting-up new industrial corridors to drive manufacturing activity in the state-**
- i. The state government is focusing on large scale industrial infrastructure development to encourage domestic and foreign investment. It has already taken several initiatives towards meeting this objective. The new industrial policy proposes to associate with Union government in implementing the Chennai-Bangalore-Chitradurga Industrial Corridor (CBCIC) and Bangalore Mumbai Economic Corridor (BMEC) with the help of external assistance from Japan and the United Kingdom.
 - ii. In order to give a further fillip to the industrial sector including manufacturing, the State plans to set-up four more industrial corridors, which will be located in Dharwad - Koppal - Raichur, Chitradurga - Haveri - Karwar, Bagalkot-Belgaum and Tumkur-Shimoga- Hassan Sectors. These proposed industrial corridors are expected to become the engines of economic and industrial development over a period next 10 to 15 years
 - iii. State will set up State Industrial Corridors (SIC) for benefitting backward districts
 - iv. GOK encourages establishment of industrial areas and industrial infrastructure including roads, water supply, power and ports, etc. in the State in PPP mode
 - v. Existing industrial areas are provided with budgetary support under the ongoing plan scheme 'Infrastructure support to institutions' to upgrade their critical infrastructures from the concerned industrial area/estate Association/ KIADB. Assistance is also available under Modified Industrial Infrastructure Up-gradation Scheme and other similar schemes of Government of India (GOI)
- c. Setting up of National Investment Manufacturing Zone (NIMZ) –**
- i. NIMZ is being developed at Vasanthanarasapura, Tumakuru district over an area of 14,000 acres and is expected to attract an investment of about Rs. 60,000 crore in manufacturing sector over a period of 10 to 15 years and generate employment for 80,000 persons direct and 1.60 lakh persons indirect.
 - ii. NIMZs will house both small and large manufacturers and would be developed as integrated industrial townships with state-of-the art infrastructure, land use plans based on zoning and skills development facilities. Besides the support from the central government, NIMZs will be developed through state sponsored Special Purpose Vehicles (SPVs).

2. Ease of Doing Business

- a. Single Window Clearance Mechanism has been made more effective in improving ease of doing business in the State, especially for manufacturing enterprises.
- b. Easy land conversion norms- This is the single-most-important ingredient of the government's new industrial policy. As per the new policy, the agriculture land where an investor has proposed a project is deemed converted once it is cleared at the highest level in the state government.
- c. Simplification of land acquisition process - GOK plans to make necessary amendments in Karnataka Land Reforms Act,1961 to simplify procurement of land and for speedy conversion of agriculture land for industrial purposes and within stipulated time
- d. Online Approval Mechanism- For ease of doing business in the state and facilitate new investments, the state has introduced an 'Online Approval Mechanism', where in, investors can obtain both in principle approvals and other approvals/clearances from other departments and organizations, through a software called e-udyami.
- e. Online payment of Taxes - The state's commercial taxes department has reduced 95 per cent of the physical touch points and ensures all payments of value-added tax (VAT), Central sales tax(CST), professional tax and filing of returns is done online.

3. Incentives & Concessions

- a. Government is making all efforts to speed up industrial growth in the state by offering an attractive package of incentives. Under the industrial policy 2014-19, the Taluks are grouped as different zones in order to provide different incentives and concessions. The zones are – a) Hyderabad-Karnataka area is grouped into two zones- HK-1 and HK-2 b) Areas other than Hyderabad-Karnataka area are grouped into three zones- OHKZ-1, OHKZ-2 and OHKZ-3. Incentives and Concessions specified in the Industrial policy are-
 - i. Entry Tax Exemption from payment of entry tax on specified goods. The exemption is available for different periods depending upon the location and size of units
 - ii. Interest Free Loan provides for grant of interest free loans. The maximum amount of loan and the period of availability depend upon the location and the size of units. These include interest-free loans of 100 per cent of VAT and CST, with the maximum of 100 per cent of the value of fixed assets for seven to 14 years, depending on the investment and zone
 - iii. Exemption from Stamp Duty on sale deeds, lease deeds, lease-cum-sale deeds, loan agreements, etc.

- b. Manufacturing sector enterprises such as Automobiles, Aerospace, Machine Tools, Steel & Cement, defense and heavy engineering sectors are considered as focused industries in the policy. Anchor industries and focused sector get enhanced package with a ceiling limit of 125 per cent of the fixed assets created.

Based on the investment size, the range of incentives available to them have been mentioned in the table below –

	Anchor Enterprises	Large Enterprises		Mega & Ultra- Mega ¹		Super-Mega ²	
Min. Investment in Fixed Assets	250 Cr.	B/w 10 and 250 Cr.		B/w 250 and 500 Cr.(M) B/w 500 and 1000 Cr.(UM)		1000 Cr. & Above	
Min. Direct Employment	Up to 150	B/w 20-200		B/w 200-400 (M), B/w 400-800 (UM)		800 & Above	
Entry Tax Exemption:							
Goods eligible for exemption	Investment subsidy of 15-20 crore	P & M and capital goods	Raw materials, inputs and components and part, etc.	P & M and capital goods	Raw materials, inputs and components and part, etc.	P & M and capital goods	Raw materials, inputs and components and part, etc.
Period of exemption	depending upon the zone in which the unit is set up	3 years from date of project implementation	5 years from date of commencement of commercial production	3(M) and 5(UM) years from date of project implementation	6(M) and 9(UM) years from date of commencement of commercial production	5 years from date of project implementation	8(OTHR) and 9(FS) years from date of commencement of commercial production
Interest Free Loan:	In case Anchor unit invests 1000 crore or more, it will be entitled to interest free loan:						
HK1 and HK2 Zone	Amount- 100% of VAT + CST, Repayment Period- 10 years, Max. Loan - 125% of eligible fixed assets	Amount- 100% of VAT + CST, Repayment Period- 10 years, Max. Loan - 60 to 75% of eligible fixed assets		Amount- 100% of VAT + CST, Repayment Period- 10 years, Max. Loan - 75 to 90% (M), 95 to 100% (UM) of eligible fixed assets		Amount- 100% of VAT + CST, Repayment Period- 10 years, Max. Loan - 95 to 100% (OTHR), 100% (FS) of eligible fixed assets	
Other Zones		Amount- 100% of VAT + CST, Repayment Period- 10 years, Max. Loan - 40 to 65% of eligible fixed assets		Amount- 100% of VAT + CST, Repayment Period- 10 years, Max. Loan - 50 to 80% (M), 75 to 90% (UM) of eligible fixed assets		Amount- 100% of VAT + CST, Repayment Period- 10 years, Max. Loan - 75 to 95% (OTHR), 80-100% (FS) of eligible fixed assets	

Stamp Duty Exemptions		75-100% depending upon the zone in which unit is set-up	
Electricity Duty Exemptions:			
HK1 and HK2 Zone		9-10 years (UM)	9-10 years (FS)
Other Zones		7-9 years (UM)	7-9 years (FS)
Other Benefits	Concessional registration charges, re-imbusement of land conversion fee, subsidies for setting up effluent treatment plants		

Source – Industrial Policy 14-19

¹Ultra-Mega enterprises includes Focused Manufacturing sector(Aerospace, automotive, machine tool, excl. steel and cement

²Super-Mega enterprises includes Focused Manufacturing sector (Aerospace, automotive, machine tool, excl. steel and cement and Other Sector units

P & M is Plan & Machinery, M (Mega), UM (Ultra-Mega), OTHR (Other Sectors), FS (Focused Sector)

4. Focus on MSMEs including manufacturing sector MSMEs

- a. GOK gives special focus to MSMEs including manufacturing MSMEs. The fiscal incentives offered to MSMEs were doubled in 2014 compared to the last policy. GOK provides benefits and support to MMSEs in several areas – Infrastructure, Finance, Technology and Marketing
- b. GOK procurement of manufactured goods from MSMEs - With an aim to promote the 'Made in Karnataka' brand through market development initiatives, the State Government has amended the Karnataka Transparency in Public Procurements Act (KTPP) to reserve 350 times (products) for exclusive manufacture of MSME and SSIs, Earlier only 28 times were reserved. Under this Act, goods and products manufactured locally in the State will be given preference over those manufactured outside the State in case of all purchases made by Government departments and Government undertakings. This initiative is mainly to give emphasis to self-employment creation, opportunities for micro-small enterprises and offer a host of incentives to local entrepreneurs.
- c. Rural MSMEs including manufacturing MSMEs- To develop rural MSMEs, GOK plans to offer separate rural small industrial areas for the MSMEs with enabling infrastructure, road connectivity, drainage system, street lighting, and water supply. GOK will provide land, power and water at subsidized prices. Rural small industrial areas will have a minimum of 100/ 150 plots per district per year measuring 2,000 sqft to 10,000 sqft and plots shall be allotted only to non-polluting industries.

5. Skill Development

- a. GOK has taken several initiatives to bring industry and academia together so as to create manpower required for development of manufacturing industry. GOK plans to set up a State Level Body, which would be constituted with members from industry, academia and Government to identify and meet the requirements of the industry. This body will work to ensure quality training is imparted in various training institutions of the Department of Industries & Commerce and other Vocational Training Institutions.
- b. Entrepreneurship Development is the top priority under the Policy to motivate youth to take up self-employment ventures. To achieve this, GOK has finalized a list of engineering colleges in tier 2 and 3 cities that would house incubation centers to promote entrepreneurship. Government is focusing more on building an ecosystem fostering entrepreneurship rather than building physical space and purchasing expensive equipment
- c. A new scheme is being formulated to train first generation entrepreneurs in essentials of conceiving, planning, initiating and launching micro and small manufacturing/service enterprises successfully. They will be assisted in preparing their business plans and firming up arrangements with financial institutions/banks on completion of training program.
- d. Government Tool Room & Training Centre - Bangalore (GTTC), Centre for Entrepreneurship Development of Karnataka (CEDOK), and other recognized institutions are funded from the State budget to conduct the training programs to encourage entrepreneurship in the state
- e. Department of Industries and Commerce work closely with the Department of Employment and Training to ensure availability of employable skilled work force for the manufacturing sector
- f. Department of Employment and Training operates 'Suvarna Kayaka Udyoga Shikshana Yojane (SKUSY) scheme' to encourage industries offering 'on the job training' to fresh candidates
- g. A scheme would be formulated to provide on the job training to 2,000 Industrial training institutes (ITI) and Diploma passed candidates each year to increase the employability of the candidates. It is proposed to give stipend to the extent of 50% of salary paid by the Industry and MSMEs subject to ceiling of Rs. 3,000 pm for ITI candidates and Rs. 5,000 pm for Diploma candidates. This incentive would be extended up to 6 months of on-the-job training.
- h. ITIs are encouraged in each industrial area to meet the clusters' skill requirement. Original Equipment Manufacturers (OEMs) and large companies are partnered in this initiative.

- i. GOK plans to strengthen GTTC, which is engaged in training and supplying skilled manpower to the industry. GTTC Tool Rooms will be set up across the State by suitably using State and Central Government funds in potential Industrial Areas with active engagement of the industry.
- j. GOK encourages reputed institutions to open new centers at potential locations to impart training on emerging skill sets. Finishing schools are established in association with industry houses and trade bodies.
- k. Use of high speed internet connectivity, computers, printers and other ICT infrastructure including virtual learning environment is encouraged in all skill development centers across the State.
- l. Utilization of Private Infrastructural Facilities for imparting training programs – Provision is made to allow private industries to collaborate with GTTC and other allied institutes to conduct training programs for students and trainers using their facility and infrastructure. Industries conducting such programs will be allowed to issue certificate equivalent to that issued by skill development centers with prior approval of Department of Technical Education and Department of Industries and Commerce. Such industries may be subsidized for the cost of training, certification and usage of private infrastructure subject to provision of employment for 85% of trained students.
- m. Based on the concentration of the industries and potential for their growth, Sectoral Training institutes (ITIs/ Vocational Training Institutes etc) will be set-up as follows:

Sector	Place
Auto	Bidadi/ Narsapura
Machine Tools	Peenya/ Tumkur
Aerospace	HAL/ Devanhalli
Foundry/ Casting	Belgaum
Agro/Food	Gulbarga/ Bijapur
Electronics	Electronics City/ Hosur Road/ Whitefield
Chemicals and Fertilizers	Jigani/ Haveri/ Mangalore
Pharmaceuticals and FMCG	KR Puram/ Hoskote
Consumer Durables	Whitefield/ Hosur Road
Platics& Rubber	Mysore
Textiles	Peenya/ Mysore Road

Source- Economic Survey of Karnataka 14-15

6. Financial support for the development of manufacturing sector –

- a. GOK plans to make suitable budgetary provisions to meet the expenditure of incentives and other policy measures proposed. Apart from this, suitable arrangements will be made towards equity participation in the proposed SPVs to promote NIMZs.

7. Other Supporting initiatives

- a. GOK recently formed a vision group comprising of industry experts to provide an impetus to the industrial environment in the State. The group, which includes 17 eminent businesspersons, is expected to recommend forward looking policy initiatives to drive industrial growth in the state.
- b. GOK plans to regularly organize investor /business meets and road shows at State/ National/ International level to attract investments into the State. During this meet, GOK will be holding discussions with stake holders, heads of companies and CEOs of multinationals companies. Apart from this, road shows are planned in Chennai, Hyderabad, Pune, Delhi and a few State capitals and more investment meets are lined-up at Mysuru, Mangaluru, Hubballi and Kalaburgi. GOK is also planning a series of meetings with the ambassadors of target/ focus countries such as Japan, Taiwan, the Gulf countries, the US, Germany, France, Sweden and Singapore.
- c. GOK plans to set up a Startup Council to give a boost to the industry including manufacturing enterprises. Bengaluru has 55% of India's startups, and the govt. wants to increase this and also spread out such entrepreneurship to our tier-II cities like Belagavi and Hubballi. Under this policy, the GOK will provide infrastructure support and incubation centers for startups to promote start-up activity in several sectors including manufacturing.

Regulatory Environment

Karnataka is one of the most progressive industrialized states in the country. The state has a distinguished record of introducing several industrial and technological initiatives. A proactive Government, investor-friendly initiatives, talented workforce, good infrastructure and a very congenial industrial climate have been driving the manufacturing sector in the state. GOK has established dedicated offices to promote investment in the state. They are –

- Department of Industries and Commerce (DIC) –
 - DIC plays a pivotal role in the formulation and implementation of Schemes and Policies of the State and Union Governments for the promotion of industrial development in the state.
 - DIC initiatives are aimed at enhancing the competitiveness of domestic industry through modernization, technology up gradation and adoption of best practices
 - DIC operates at the State level through the Directorate of Industries and Commerce, at the District level through the network of District Industries Centers, Industrial wing of Zillapanchayath and in coordination with related Boards and Corporations
 - Some of the crucial infrastructure projects facilitated by DIC include Export Promotion Industrial Parks, International Technology Park Ltd., Electronic City, Food and Agro-technology parks, Agro Export zones, Special Economic Zones, Bengaluru International Airport, etc.
 - DIC functions through the Districts Industries Centers, various Boards & Corporations and Special purpose vehicles. The implementation of Policies of the Government is done through various schemes and the implementation of these schemes is decentralized for faster delivery of services.
 - DIC established Udyog Mitra as a nodal agency under the Single window set up to provide faster, single point clearances for investment projects

- Karnataka Udyog Mitra (KUM) –
 - KUM is an initiative to assist investors so as to promote and facilitate investments in the state.
 - KUM acts as a 'single point of contact' for all investors looking to invest in Karnataka. As a 'single point of contact' in the state, it provides information on various aspects including land availability, statutory approvals and coordination. It also considers / forwards proposals to concerned agencies and communicates status to investors
 - The principal role is to smoothen the transition experience for investors, between the investment proposal phase and the project implementation phase

- It also acts as a secretariat for State High Level Clearance Committee (SHLCC) chaired by Hon'ble Chief Minister and & State Level Single Window Clearance Committee (SLSWCC) chaired by Chief Secretary to Government.
- Government introduced an online portal called e-Udyami in April 2013 to facilitate investors to file applications irrespective of their location and monitor the status of the application filed
- GOK enacted the Karnataka Industries (Facilitation) Act, 2002 to promote industrial activity in the state. Three committees are constituted by act for approval of the projects. The committee's decision is final and binding on all the concerned departments or authorities. The details of the committees are as follows:
 - State High Level Clearance Committee (SHLCC) – This committee functions under the chairmanship of Hon'ble Chief Minister and meets once in two months to approve projects with investments above Rs.100 crores. During the period 2011-15, this committee approved a total of 724 projects, involving an investment of Rs. 10,00,00crore, and targeting to provide employment to 54 lakh people.
 - State Level Single Window Clearance Committee (SLSWCC) functions under the chairmanship of Chief Secretary to the Government and meets every month to approve projects with investments between Rs.15 crores to Rs.100 crores. During the period 2011-15, this committee approved a total of 4030 projects, involving an investment of Rs.61,000crore, and targeting to provide employment to 16 lakh people.
 - District Level Single Window Clearance Committee (DLSWCC) is chaired by the Deputy Commissioner of the districts meets at least once in month to approve projects with investments up to Rs.15 crores
- District Industries Centers - Nodal agencies for approval of projects at the district level. Primary focus is to promote small scale, village and cottage industries

Approvals / Permissions required for setting up a manufacturing unit

GOK provides investors with comprehensive information on all aspects of setting up of a manufacturing enterprise in the state on its website. An entrepreneur has easy access to all the necessary information at each stage of setting-up of a new enterprise. They have been summarized in the table below:

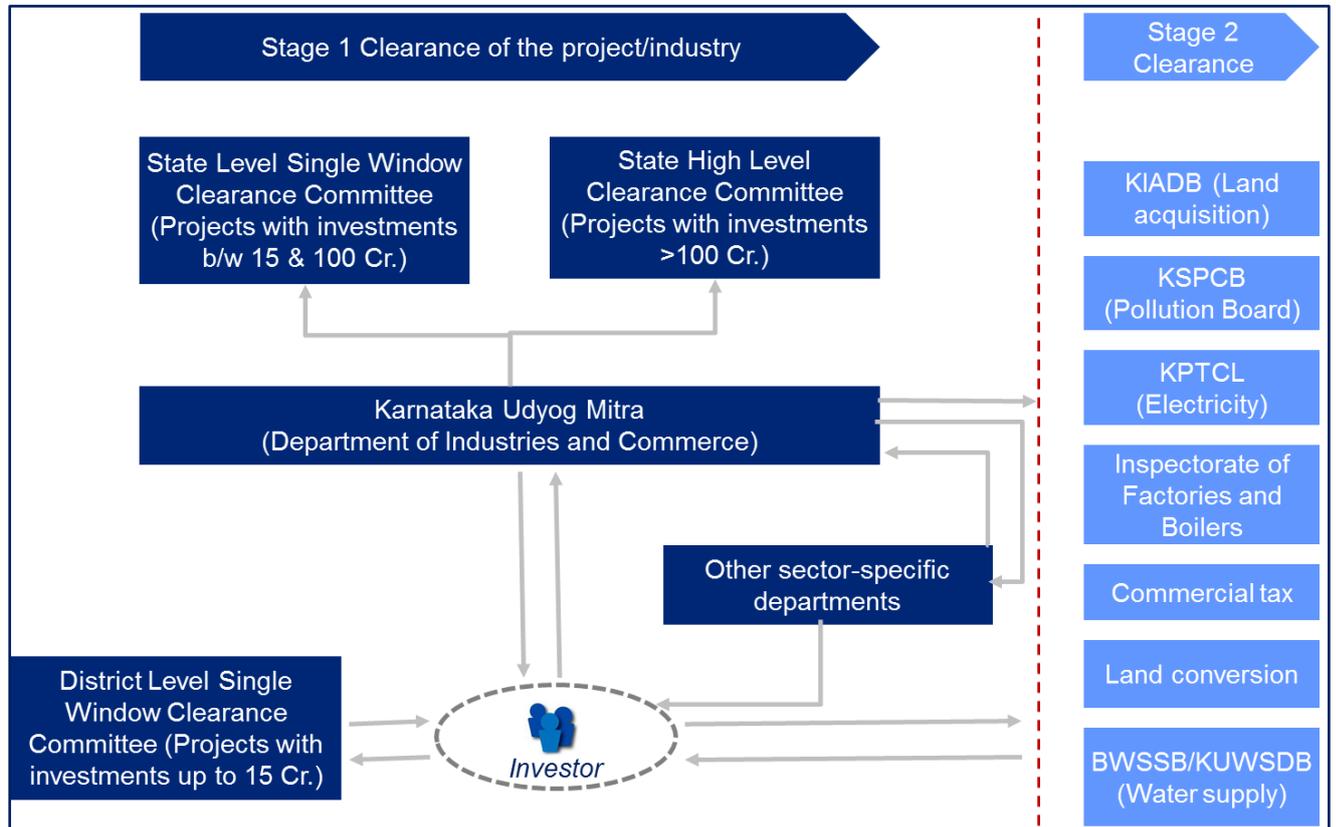
Business Stage	Information / Approvals / permissions required for setting up business in Karnataka	Concerned Agency for the requisite information / permission
General Information	Information pertaining to entry options, procedures, FDI policy, State Industrial policy and Taxes	Department of Industrial policy and Promotion, Department of Commercial Taxes
	Central Excise, Customs and Service Tax related information	Central Board of Excise and Customs
	Income Tax related information	Income Tax Department
	Labor Laws	Department of Labor
	Employees Provident Fund	Employees Provident Fund Organization
	Employees State Insurance	Employees State Insurance Corporation
	Information on availability of Land in Industrial Areas	Karnataka Industrial Areas Development Board (KIADB)
	Environmental Clearance	Ministry of Environment Forest and Climate Change, Govt. of India
Information on categorization of Industries/Activities (Red, Orange, Green)	Karnataka State Pollution Control Board (KSPCB)	
Registrations / Approvals	PAN (Personal Identification Number)	Income Tax Department
	Incorporation of Company	Registrar of Companies
	Service Tax Registration	Central Board of Excise and Customs
	Importer Exporter Code (IEC)	Directorate General of Foreign Trade
	Single Window Clearance - In principle Approval for Projects	Karnataka Udyog Mitra
Project Implementation Phase	Allotment of Land, Change of land use	Karnataka Industrial Areas Development Board, Deputy Commissioner's Office of the respective district
	Registration of Land documents	Sub-Registrar Office
	Environmental Clearance (EC): Category-A Projects/Activities	Ministry of Environment Forest and Climate Change, Govt. of India
	Environmental Clearance (EC): Category-B Projects/Activities	Dept. of Forest, Environment and Ecology, Govt. of Karnataka
	Consent for Establishment (CFE)	Karnataka State Pollution Control Board
	Application for Power supply	Electricity Supply Companies (ESCOMs)
	Application for Water supply	KIADB / BWSSB / Karnataka Urban Water Supply & Drainage Board (KUW&DB) / Water Resources Department

Business Stage	Information / Approvals / permissions required for setting up business in Karnataka	Concerned Agency for the requisite information / permission
	Building Plan approval, Building Completion certificate & Issue of Occupancy certificate	KIADB / BBMP / For other areas- Local Bodies such as City Corporations/Municipalities/Planning Authorities/Panchayaths
	Issue of Factory License &Approval of Factory Plans, Approval &Registration of Boilers	Department of Factories and Boilers
	Approval for Fire safety	Karnataka State Fire and Emergency Services
	Registrations under Labor Acts	Department of Labor
	Registrations under Commercial Taxes	Department of Commercial Taxes
	Consent for Operation, Authorization under Hazardous &Municipal Solid Waste	Karnataka State Pollution Control Board
	Issue of Trade License	BBMP / For other areas- local bodies / City Corporations / Municipalities / Panchayats
Payment of Taxes	KVAT, KST, CST, KTEG, KPT, KET, KLT	Department of Commercial Taxes
	Employees Provident Fund Contribution	Employees Provident Fund Organization
	Employees State Insurance Premium	Employees State Insurance Corporation
	Property Tax	BBMP / For other areas -Local Bodies such as City Corporations / Municipalities / Panchayats
	Service Tax	Central Board of Excise and Customs
	Income Tax	Income Tax Department

Source- Department of Industries and Commerce, Karnataka

Approval process for setting up a manufacturing unit

GOK has laid down a clear and detailed process for investors looking to set up a manufacturing enterprise in the state. For ease of doing business, GOK has set up Karnataka Udyog Mitra (KUM), which acts as a single point of contact for investors seeking information on all aspects on business setting-up, starting from initial information to approvals process to relevant agencies. It also co-ordinates with these agencies on behalf of the investors.



Cost of Doing Business in Karnataka

Cost parameter	Cost estimate
Industrial land (per sqft)	INR 250 to INR 7500
Power cost (per unit)	Commercial and Industrial: INR 4.75 to INR 7
Labor (minimum wage per day)	INR 150 to INR 350
Water (per kiloliter)	Bengaluru Metropolitan Area: Non-domestic: INR 40 to INR 60 Industries: INR 60

Karnataka offers lower cost of doing business as highlighted in the table above. Lower cost of doing business vis-à-vis other states will continue to drive investments and boost growth of the manufacturing sector in the future time period.

Conclusion



Karnataka is one of the more progressive and industrialized states in India and is the fifth largest contributor to India's manufacturing GDP. The manufacturing sector contributes between 15-16% to the state GDP and provides employment to 11% of the workforce. In spite of its strong potential, the manufacturing sector registered sluggish growth during the period 2009-14.

In order to strengthen the manufacturing sector, the state government introduced the industrial policy 2014-19, last year. This new policy aims to attract investment in excess of Rs. 5 lakh crore while providing employment to more than 15 lakh persons primarily in the manufacturing sector. While doing away with bottlenecks and impediments, this policy also aims to encourage valuable investments, so as to increase the contribution of the manufacturing sector to state GDP to 20% by the end of 2019.

Through the new industrial policy, the state government has taken several initiatives towards the promotion and development of the manufacturing sector. Some of the key ones include single window clearance with favorable land conversion norms, infrastructure development, setting up of a National Investment Manufacturing Zone (NIMZ), incentives and concessions and skill development initiatives. In the manufacturing sector, special attention has been paid to companies in the Automobiles, Aerospace, Machine tool, Steel & Cement, defense and heavy engineering sectors on account of their significant contributions towards GDP and Employment generation.

In order to catch up with other major manufacturing hubs, the state is focusing on large scale industrial infrastructure development to encourage foreign investment. The state has already acquired 40,000 acres in its land bank on which it plans to build crucial industrial infrastructure including the National Investment Manufacturing Zone (NIMZ). The state government also plans to associate with Union government in implementing the Chennai-Bangalore-Chitradurga Industrial Corridor (CBCIC) and Bangalore Mumbai Economic Corridor (BMEC) with the help of external assistance from Japan and the United Kingdom.

It is apparent that the manufacturing sector is a key focus area for the government to drive the growth in the state economy. Going forward, it is expected, that government efforts will give a fillip to the manufacturing sector in the state and will help place the state in the center of the "Make in India" campaign.



THE KNOWLEDGE ARCHITECT OF CORPORATE INDIA

EVOLUTION OF VALUE CREATOR

ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 400 Chambers and Trade Associations, ASSOCHAM is serving more than 4,50,000 members from all over India. It has witnessed upswings as well as upheavals of Indian economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country.

Today, ASSOCHAM has emerged as the fountainhead of knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'.

ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment for Indian business to compete globally.

ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

VISION

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrierless technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

MISSION

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, health, Corporate Social Responsibility and environment to be the critical success factors.

MEMBERS – OUR STRENGTH

ASSOCHAM represents the interests of more than 4,50,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skill and expertise of professionals to set itself apart as a Chamber with a difference.

Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the fields of Corporate Social Responsibility, Environment & Safety, HR & Labour Affairs, Corporate Governance, Information Technology, Biotechnology, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Mergers & Acquisitions, Tourism, Civil Aviation, Infrastructure, Energy & Power, Education, Legal, Reforms, Real Estate and Rural Development, Competency Building & Skill Development to mention a few.

INSIGHT INTO ‘NEW BUSINESS MODELS’

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian corporates, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders’ Value, Government Policies in sustaining India’s Development, Infrastructure Development for enhancing India’s Competitiveness, Building Indian MNCs, Role of Financial Sector as the Catalyst for India’s Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chamber of Commerce & Industry, Cochin; Indian Merchants’ Chamber, Mumbai; The Madras Chamber of Commerce & Industry, Chennai; PHD Chamber of Commerce & Industry, New Delhi.

Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.

ASSOCHAM – Corporate Office

The Associated Chambers of Commerce and Industry of India
5, Sardar Patel Marg, Chanakyapuri, New Delhi – 110021
Phone: 011-46550555(Hunting Line) Fax: 011-23017008/9
Email: assochem@nic.in

ASSOCHAM – Southern Regional Office

The Associated Chambers of Commerce and Industry of India
13 & 14, D Block, Brigade M M, 1st Floor, Jayanagar 7th Block, Bangalore – 560070
Tel : 080-40943251/52/53, Fax : 080- 41256629
Email : events.south@assochem.com

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Contact Details:

Gurgaon

903-904, Tower C,
Unitech Business Zone, Nirvana Country,
Sector 50, Gurgaon – 122018
Tel No.: 0124-4754550
Fax No.: 0124-4754584

Mumbai

Quest Offices Private Ltd
The Parinee Crescenzo, 1st Floor
Opp. MCA, G-Block, B.K.C
Mumbai-400051
Tel No.: +91-22-33040667/668
Fax No.: +91-22-33040669

Chennai

13, Building No. 1, 2nd Floor,
1st Street, Balaji Nagar, Ekkaduthangal
Chennai, - 600032, Tamilnadu
Tel No.: +91 9094 0022 80

www.resurgentindia.com

Kolkata

CFB F-1, 1st Floor, Paridhan Garment Park,
19 Canal South Road, Kolkata - 700015
Tel No.: 033-64525594
Fax No.: 033-22902469

Bengaluru

SreeLaxmiPlaza, 3rd Floor, No. 61, 24th
main, 7th cross, Marenahalli, J.P. Nagar
2nd phase, Bangalore –560 078
Karnataka
Tel No.: +91 80 2657 0757

info@resurgentindia.com



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भारतीय लघु उद्योग विकास बैंक

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

“SIDBI Make in India Soft Loan Fund for Micro, Small & Medium Enterprises”



Purpose: To help MSMEs spearhead the “Make in India” Programme.

Corpus: ₹ 10,000 crore fund.

Objective: To provide soft loan, in the nature of quasi-equity and term loan on relatively soft terms to MSMEs.

Coverage and Products: Focus on all the identified 25 sectors covering new enterprises in the manufacturing and service sector and also existing enterprises undertaking expansion, modernization, technology upgradation, etc. Other sectors may also be considered on merit.

Minimum Promoters Contribution: 15% of the project cost for projects up to ₹1 crore and 20% for the rest.

Term Loan: 75% for enterprises with total project cost up to ₹1 core and 2/3rd of the project cost for the rest.

Soft Loan: 10% of the project cost subject to a max. of ₹20 lakh. 15% of the project cost subject to a max. of ₹30 lakh for enterprises promoted by SC/ST/PWD and women.

On expiry of 3 years from the date of first disbursement outstanding soft loan together with any dues thereon shall be converted into secured Term Loan.

Rate of Interest:

Soft Loan: 9.90% p.a. up to 3 years, thereafter normal rate, as per internal rating of the borrower.

Term Loan: 10 to 10.50% p.a. up to 3 years, thereafter normal rate, as per internal credit rating.

Proposals rated below C6 not covered under the Fund.

Minimum Term Loan Size : ₹50 lakh for new enterprises and ₹25 lakh for existing enterprises.

Period of Repayment: Not exceeding 7 years inclusive of moratorium up to 18 months for TL & 2 years for SL.

Reduced Upfront / Processing Fee of 0.5% of the loan.

Security:

Soft Loan- Residual Charge + Personal Guarantee.

Term Loan- CGTME or FACR of at least 1.40 times + Personal Guarantee.

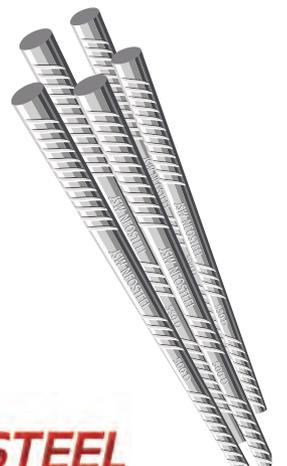
Because your home is your family too.

If you look closely, there'll always be a home in every child's family picture.

Which is why, build your home only with JSW Neosteel Pure TMT Bars.



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