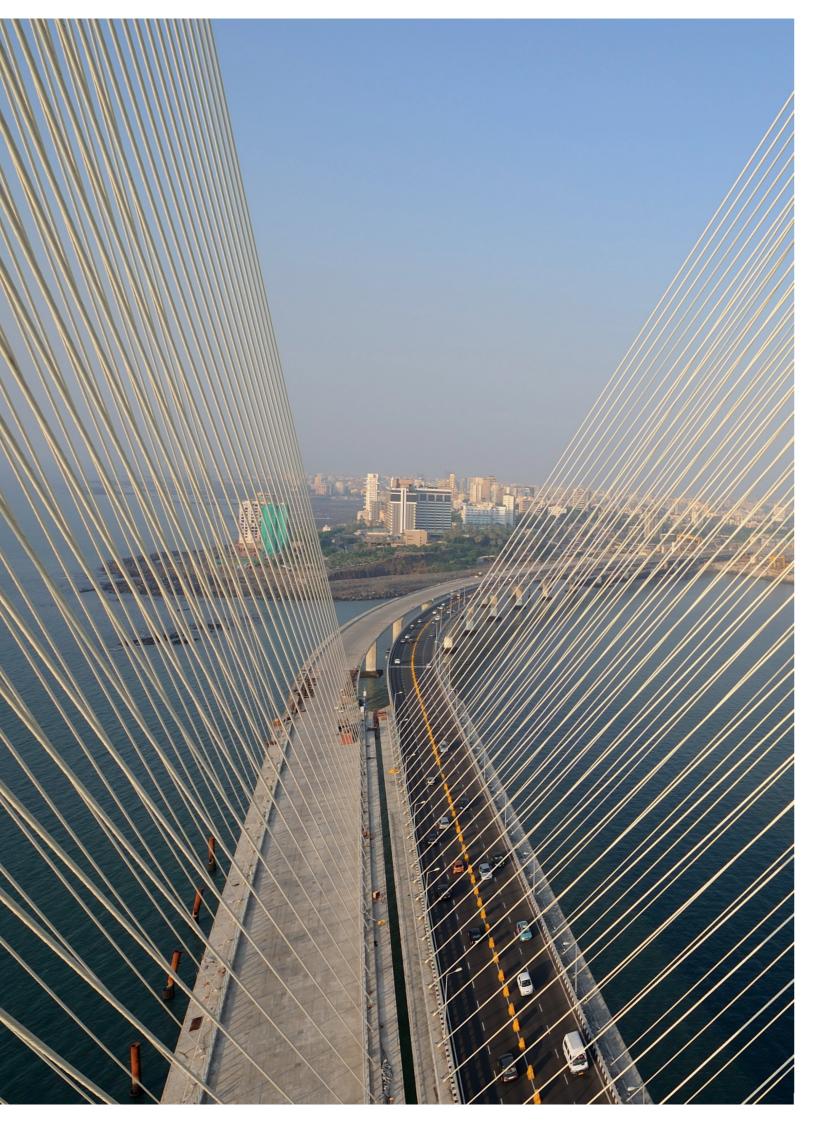




Doing business in India





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The materials contained in this publication were assembled in July 2012 and were based on the law enforceable and information available at that time.

Executive summary

Liberalisation of the Indian regulatory framework has enhanced its attractiveness as a destination for foreign investors. This guide sets out some of the key issues that foreign investors should consider when establishing their operations in India.

Key aspects of doing business in India:

Growth

India is the world's largest democracy and the secondfastest growing major economy.

Pro-business and stable government

India offers political stability that is vital to foreign investments. Government agencies, which have a pro-business attitude, work closely with the business sector to promote economic growth.

Extensive trade links

Investors can leverage on India's trade network with its regional and bilateral free trade agreements with many trading partners.

Increasing infrastructure and good living standards

A significant investment in infrastructure is taking place in India, particularly in the metropolitan areas. Coupled with this, India offers good living standards with a robust transport system, superior healthcare facilities and first-class entertainment centres.

Competitive tax system

India offers a very competitive tax regime and comprehensive network of Tax Treaties. Indian taxes would be further modified by the introduction of Direct Taxes Code (which was expected to be introduced in April 2012 but has been delayed) and the Goods and Service Tax.

Skilled workforce

India offers a highly-rated human capital base recognised for its skills, knowledge and talent.

Well-developed financial system

Its financial system is well regulated and offers a broad range of services. Businesses can also tap into its developed capital markets as an alternative source of financing.

Robust legal system

The legal and judicial system here is robust and efficient, thus, businesses can count on India's rigorous enforcement of laws.

Great work ethics

India has great work ethics and a very professional way of operating. Employees are hard working and willing to work on holidays/weekends if necessary.



Foreword

In today's world, business must compete on a much wider playing field, no longer confined within national borders. Post liberalisation in 1991, India has undergone a paradigm shift owing to its competitive stand in the world. The Indian economy has been on a growth trajectory over the last decade with rapid strides across new age industries like Information Technology, IT enabled services, and Pharma to name a few. Today, India is the third largest economy in the world by GDP PPP (purchasing power parity)*, seventh largest country in the world by area and second largest by population** and there is ample reason for India's viability as a destination for foreign investment. In addition to the above-mentioned macroeconomic indicators, higher disposable incomes, emerging middle class, low cost but competitive and skilled workforce, all contribute towards India being an appropriate choice for investors. In India, the antecedents of the HSBC Group can be traced back to setting up of the Mercantile Bank in 1853. HSBC, with over 150

year's expertise, offers the full range of banking and financial services to customers across 29 major Indian cities and backed by our global presence in 84 countries and territories with around 6,900 offices worldwide***. We are well positioned to assist entrepreneurs, multinationals and conglomerates eager to tap into this exciting and booming market.

Created in collaboration with PricewaterhouseCoopers, this guidebook, Doing business in India, provides a thorough analysis of various options in establishing a business in India. It also provides an insight into key opportunities available in India, as well as taxation systems and laws applicable to businesses operating here.

As your trusted partner, HSBC is always looking for ways to facilitate your business growth. With this guide, I hope you find the impetus for building a successful venture in India and I wish you a very prosperous future in this land of opportunities.

* Economic Times report quoting IMF data (http://articles.economictimes. indiatimes.com/2012-04-19/ news/31367838_1_ppp-terms-india-s-

gdp-power-parity)



^{**}http://www.indembassy.co.il/

^{***}http://www.hsbc.com/1/2/about

Introduction

Doing business in India

Economic Growth

The growth of the Indian economy is based upon rapid urbanisation, poverty alleviation and building much-needed infrastructure. This creates significant opportunities for foreign investment. In addition to this, India is now Asia's biggest buying economy, and has the world's largest growing middle class. The 2011 PwC report, Profitable growth strategies for the Global Emerging Middle (GEM) estimated that by 2021, India will have about 600 million people constituting its emerging middle class segment.

According to the Economic Survey 2011-12, the Indian economy is estimated to grow at 6.9 per cent in 2011-12 and 7.6 per cent in 2012-2013. The growth forecast has broadly been based on the rebound in the agriculture sector which is expected to grow around 2.5 per cent.

The Index of Industrial Production (IIP) registered a robust growth of 6.8 per cent in January 2012. Output of the manufacturing sector (which constitutes over 75 per cent of the index) grew by 8.5 per cent while the mining sector and electricity sector increased by 2.7 per cent and 3.2 per cent respectively. Industrial production expanded by 4 per cent between April 2011-January 2012.

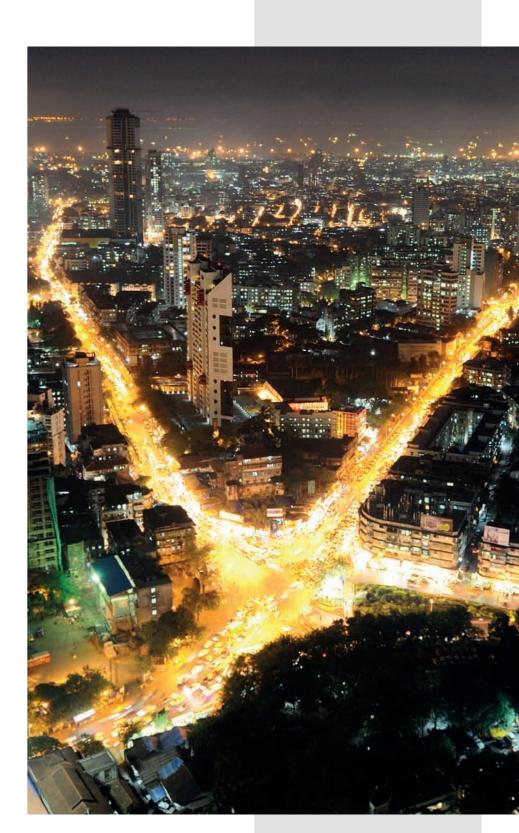
In light of the economic uncertainties in Europe, although the Indian economy has slowed down recently, opportunities still exist for significant growth. The biggest problem in India has been inflation which was averaging at 9.4% in 2011. With monetary tightening and slowing growth, inflation is expected to plateau to 8% this year and 7.3% in 2013.

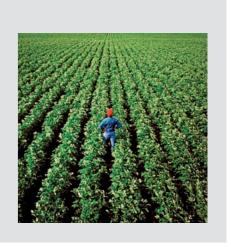
The Asian Development Bank has estimated that over the next two decades, the

middle-class population in the country will reach 1 billion. Since 2001, the Indian middleclass has seen increases in its disposable income, and consequently, consumption and savings have also risen. With the current rate of growth, analysts predict that by 2025, India will become the fifth largest consumer goods market in the world and the Indian middle-class is set to assume the traditional role of the American and European middle-classes. This view has also been acknowledged by the Global industry in particular.

With an enhanced consumer segment in terms of increased consumption in consumer durables furthering growth, and a positive outlook on employment and rising incomes, this has facilitated growth in consumption. India's performance has been widely acknowledged by global agencies:

- India is ranked as the second most favoured destination for FDI over 2010-12 (World Investment Prospects Survey 2010-2012, UNCTAD).
- India is the world's top location for non-financial services investment and among the top three most attractive international investment destinations (AT Kearney 2010 FDI Confidence Index).
- India ranked among the top three countries where British companies can do better business during 2012-14 (Report by Leeds University Business School – commissioned by UK Trade & Investment (UKTI).
- Offers great promise as a vital and high-potential market, securing the top ranking in both the AT Kearney's 2009 Global Retail Development Index and the 2009 Global Services Location Index.





Demographic advantage

India is today one of the three largest Asian economies in terms of purchasing power parity. The median age of India's population is 25, which in comparison to other Asian countries, puts India in a very favourable demographic position.

The United Nations predicts that India's working age population (15-64 years) will increase by 135 million in one decade, that is, by 2020. So while most countries such as those in Europe, China and the US will witness a decrease in workforce in the coming

decades, India's position is strengthening: this is a product of its high birth rate, which will last until around 2050. A young, eager and welleducated workforce is the key to India's future prosperity.

In the modern knowledge economy, this favourable demographic phase provides India with a significant competitive advantage and has important implications for the country's economic growth trajectory and social stability.

Highlighted here are some of the key attributes of the Indian Economy.

1. Gross Domestic (GDP) and Major Sectors

India is the fourth largest economy in the world in PPP terms with a per capita GDP level of US\$3,039.

The economy is constantly evolving and growth opportunities are present across multiple sectors. As the supply of products and services is insufficient for the 1.2 billion people, this creates a significant and sustained investment potential across all sectors ranging from infrastructure and energy to consumer goods and financial services.

Diagram 1, illustrates the GDP contribution made by each sector in 2011-12.

The agriculture and allied sectors contribute towards 13.9% of India's GDP with industry and the services sector accounting for a share of around 27% and 59% respectively.

The trade, hotel, transport and communications sector account for the dominant share GDP followed by Agriculture & allied sectors. Leading multinationals today are setting up their R&D centres in India, thereby acknowledging India's true potential.

While the prospects of sectors such as IT, Telecommunications, Healthcare and Biotechnology have been well recognised, the Indian Media and Entertainment Industry, Financial Services, Real Estate, Renewable Energy, Travel and Tourism, Retail, Education, and Auto Components among others, are also attracting global attention.

2. Major Trading Partners

India's top-ten trading partners (for exports and imports) in 2010-2011, and their respective share in India's total trade are shown in *Diagram 2*.

India's Top Export Destinations

UAE, US and Singapore were India's leading trading partners in 2011-12 (April to September), accounting for 11.9%, 11.3% and 6.2% respectively, of India's overall trade.

Diagram 1.
Sector-wise composition of India's GDP

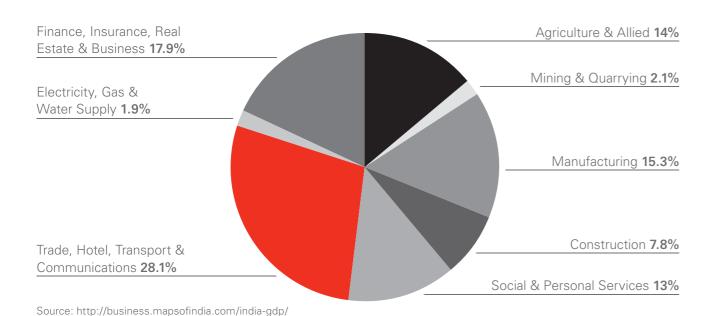
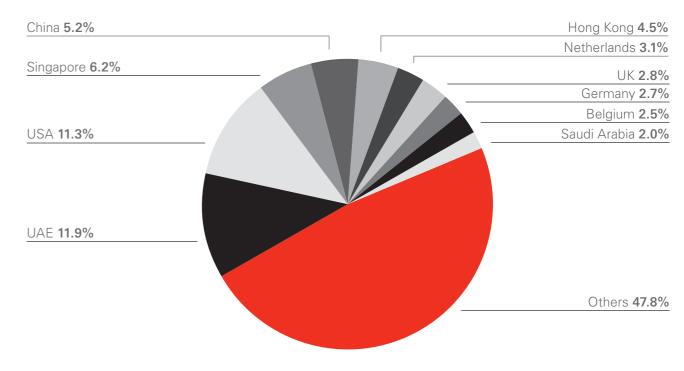


Diagram 2.
Percentage Share of Exports of Top 10 Countries in 2011-2012



Source: Economic Survey 2011-12 (April - Sept 2011)

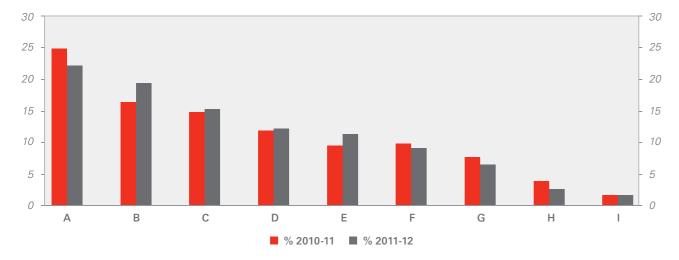
2011-12

India'sT op Manufacturing Exports

The top four items in India's manufactured exports are engineering goods, petroleum products, gems and jewellery,

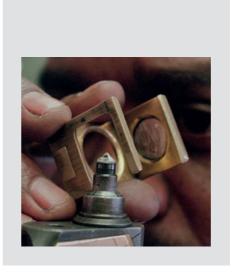
chemicals and related products with respective shares in overall exports in 2011-12 (April to September) of 21.9%, 19.1%, 15.1% and 12%.

Diagram 3.
India's Top Commodity Exports in 2011-2012



- A. Engineering Goods
- B. Petroleum Products
- C. Gems and Jewellery
- D. Chemicals and Related Products
- E. Agriculture and Allied Products
- F. Textiles and Textile Products
- G. Others
- H. Ores and Minerals
- I. Leather and Manufactures

Source: Compiled from Ministry of Commerce and Industry and DGCI&S data (April - Dec 2011-12)

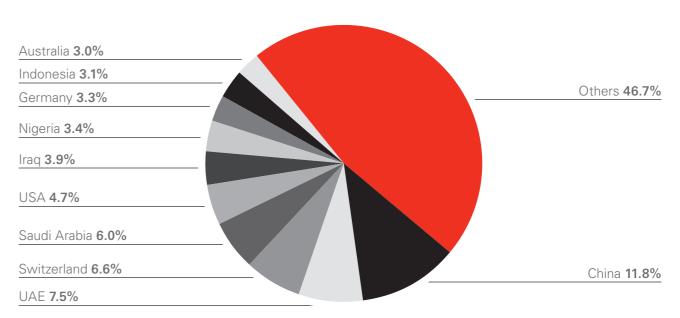


India's Top Import Sources

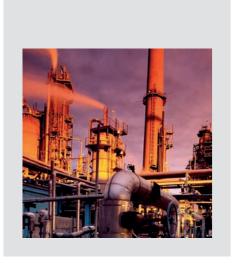
China, UAE and Switzerland were India's leading import partners in 2011-12 (April to September) contributing with shares of 11.8%, 7.5% and 6.6% respectively.

Diagram 4.

Percentage Share of Imports of Top 10 Countries in 2011-2012



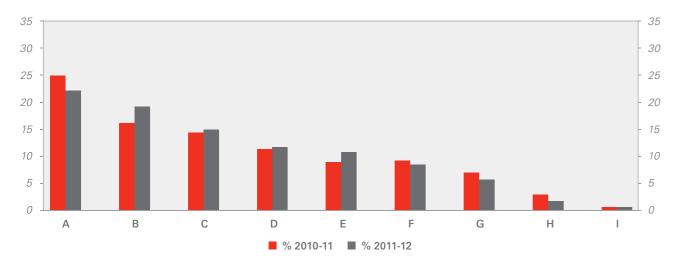
Source: Economic Survey 2011-12 (April - Sept 2011)



India's Top Commodity Imports

Petroluem and petroleum products, capital goods and Gold and Silver were India's top commodity imports in 2011-12 (April to September) accounting for 30.6%, 19.9% and 12.6% respectively, of India's overall imports.

Diagram 5. India's Top Commodity Imports in 2011-2012



- A. Engineering Goods
- B. Petroleum Products
- C. Gems and Jewellery
- D. Chemicals and Related Products
- E. Agriculture and Allied Products
- F. Textiles and Textile Products
- G. Others
- H. Ores and Minerals
- I. Leather and Manufactures

Source: Compiled from Ministry of Commerce and Industry and DGCI&S data (April - Dec 2011-12)

3. Foreign Investments

The FDI regime has been progressively liberalised during the course of the 1990s (particularly after 2000). A number of restrictions on foreign investment have been removed and procedures have been simplified.

With limited exceptions, foreigners can invest directly in India, either on their own or as a joint venture in industries where foreign investment is restricted. Moreover, investment ceilings, which are applicable in certain cases, are gradually being removed/phased out. India has witnessed a steady increase of foreign inflows over the years. FDI net inflows have grown at a rate of over 30% compounded annually over the last decade. FDI inflows were US\$36.5 billion during April 2011-March 2012 (US\$16.0 billion in the corresponding period of the preceding year). Portfolio inflows fell sharply from US\$31.3 billion a year earlier to US\$3.3 billion during April-December 2011, mainly as a result of the uncertainty and risk in the global economy in relation to the eurozone crisis.

Country-wise, investment routed through Mauritius remains the largest component of FDI inflows into India in 2011-12 followed by Singapore and the UK.

Features of the government's foreign investment policies and incentives offered by it:

- No government approval is required for FDI in majority of the sectors/activities, except for a small negative list formulated by the government.
- The government has formulated 'Sector-Specific Guidelines for FDI,' wherein investments up to specified sectorial caps are covered under the automatic route, with a few exceptions.
- Foreign Investment Promotion Board considers proposals for foreign participation that do not qualify for automatic approval.
- Decisions on all foreign investment proposals are usually taken within 30 days of submitting an application.
- Free repatriation of capital investment is permitted, provided the original investment (on a repatriable basis) was made in convertible foreign exchange. Further, free

- repatriation of profits on capital investment is permitted, subject to payment of taxes and other specified conditions.
- Indian capital markets are open to FIIs.
- Indian companies are permitted to raise funds from international capital markets.
- Special investment and tax incentives are given for exports and sectors, including power, electronics, software and food processing.
- 'Single window' clearance facilities and 'investor escort services' are available in various states to simplify the approval process for new ventures.

4. Physical and Economic Infrastructure

India's process of economic reform is firmly rooted in a political consensus that spans its diverse political parties. Its political institutions have fostered an open society with strong collective and individual rights and an environment supportive of free economic enterprise.

India's time-tested institutions offer foreign investors a

transparent environment that guarantees the security of their long-term investments. India's dynamic and highly competitive private sector has long been the backbone of its economic activity. It accounts for over 75% of its Gross Domestic Product and offers considerable scope for joint ventures and collaborations.

Today, India is one of the most exciting emerging markets in the world. Skilled managerial and technical manpower that match the best available in the world and a middle class whose size exceeds the population of the USA or the European Union, provide India with a distinct cutting edge in global competition.

5. Financial System

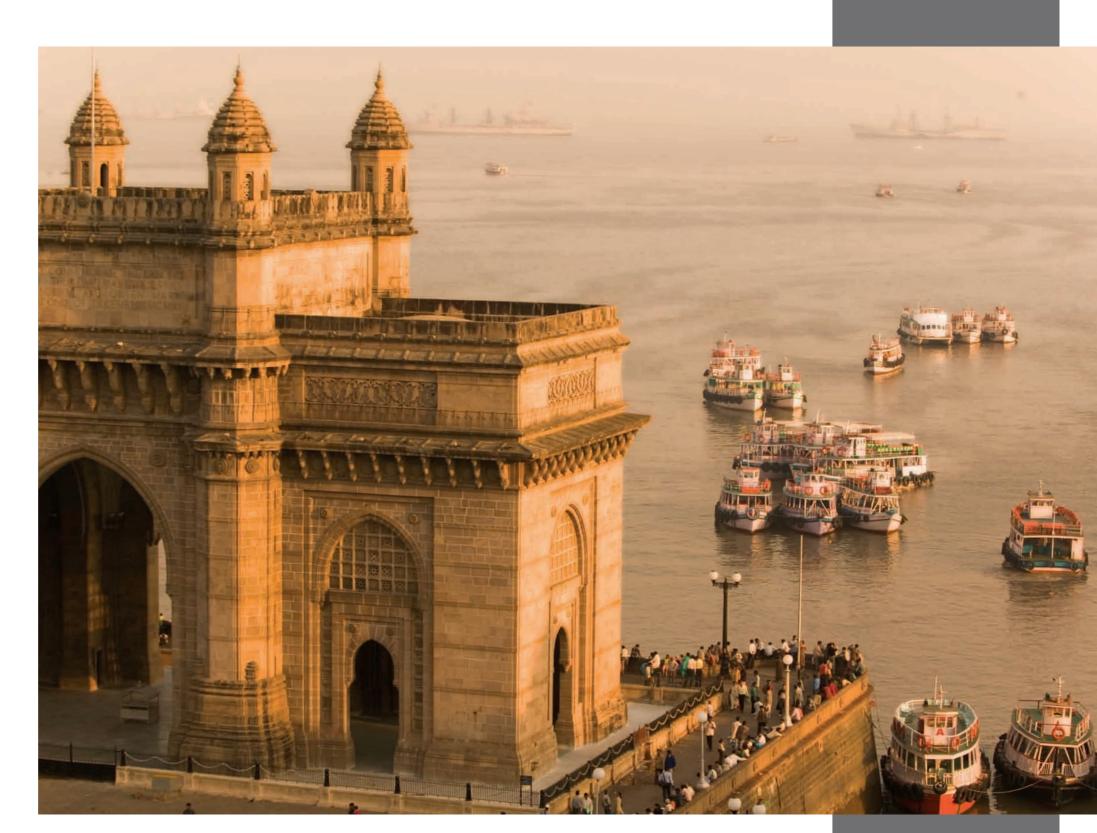
Its financial system is well regulated and offers a broad range of services including banking, insurance, asset management and treasury services. Businesses here can easily tap into its deep and liquid capital markets as an alternative source to raise funds.

6. Legal System

The Indian judiciary has a reputation of being independent and non-partisan. Judges are not appointed on political considerations. They enjoy a high standing in society.

The Judicial system has a unified structure. The Supreme Court, the High Courts and the lower Courts constitute a single Judiciary. Broadly, there is a three-tier division.

The influence of the British Judicial System continues to be significant. The official language for Court proceedings in the High Court & the Supreme Court is English. The procedural law for land, as well as most of the commercial and corporate laws, are modelled on English laws. English case law is often referred to, and relied upon, both by lawyers and judges.



Conducting business in India

A foreign company setting up operations in India has the following options:

Operating as an Indian Company

Wholly-Owned Subsidiary Company

A foreign company can set upa wholly-owned subsidiary company in India to carry out its activities. Such a subsidiary is treated as an Indian resident and an Indian company for all Indian regulations (including Income Tax, Foreign Exchange Management Act, 1999 and the Companies Act), despite being 100% foreign-owned. At least two shareholders, for a private limited company, and seven shareholders, for a public limited company, are mandatory.

• Joint Venture with an Indian Partner (Equity Participation) Although a wholly-owned subsidiary has proved to be the preferred option, foreign companies have also begun operations in India by forging strategic alliances with Indian partners. The trend is to choose a partner who is

in the same field/area of activity or who brings synergy to the foreign investor's plans for India. Sometimes joint ventures are also necessitated due to restrictions on foreign ownership in certain sectors.

The foreign investment guidelines for investment in an Indian company have already been discussed above.

Limited Liability Partnership (LLP)

LLP is a new form of business structure in India. It combines the advantages of a company, such as being a separate legal entity having perpetual succession, with the benefits of organisational flexibility associated with a partnership. At least two partners are required to form a LLP and they have limited liability. LLP is comparatively easier to manage with less compliance levels as compared to a company form of organisation. Further, a LLP is not subject to mandatory requirements applicable to a company with regard to provision of depreciation and transfer to reserves prior to distribution of profits. The FDI policy for LLPs has been notified recently making this a possible viable entity form for Indian business operations of foreign investors.



Operating as a Foreign Company

Liaison office

Setting up a liaison or representative office is a common practice for foreign companies seeking to enter the Indian market. The role of such offices is limited to collecting information about the possible market and to providing information about the company and its products to prospective Indian customers.

Such offices act as listening and transmission posts and provides a two-way information flow between the foreign company and the Indian customers. A liaison office is not allowed to undertake any business activities other than liaison activities in India and cannot, therefore, earn any income in India, under the terms of approval granted by the RBI.

• Project office

Foreign companies planning to execute specific projects in India can set up temporary project/ site offices in India for this purpose. The RBI has granted general permission to a foreign entity for setting up a project office in India, subject to the fulfilment of certain conditions. The foreign entity needs only to provide a report to the jurisdictional Regional Office of the RBI giving the particulars of the project/contract.

• Branch Office

Foreign companies engaged in manufacturing and trading activities abroad can set up branch offices in India for the following purposes, with the prior approval of RBI:

- Export/import of goods.
- Rendering professional or consultancy services.
- Carrying out research
 work in which the parent
 company is engaged that
 promotes technical or financial
 collaborations between Indian
 companies and a parent or
 overseas group company.

- Representing the parent company in India and acting as a buying/selling agent in India.
- Rendering services in information technology and development of software in India.
- Rendering technical support for the products supplied by parent/group companies.
- Acting as a foreign airline/ shipping company.

In general, manufacturing activity cannot be undertaken through a branch office. However, foreign companies can establish a branch office/unit for manufacturing in a Special Economic Zone subject to the fulfilment of certain conditions.

Citizens of specified countries are prohibited from establishing a project office or any other place of business in India without the prior permission of the RBI.



Taxation in India

Corporation Income Tax

Corporate tax rates are as follows:

For a company	Where taxable income exceeds INR10 million	Other cases
Domestic Company	32.45%	30.9%
	(30% plus surcharge of 5% plus education cess of 3%)	(30% plus education cess of 3%)
Foreign Company	42.02%	41.2%
	(40% plus surcharge of 2% and education cess of 3%)	(40% plus education cess of 3%)

Dividend Distribution Tax (DDT)

Dividend income is exempt in the hands of the shareholders. However, a DDT is levied on companies declaring dividends. The effective DDT rate is 16.22% (15% plus 5% surcharge and education cess of 3%). In order to mitigate the cascading effect of DDT, any dividend received by a domestic company during any financial year from its subsidiary is allowed to be reduced from the dividend to

For a company

Domestic Company

Foreign Company

be paid/distributed/declared by such a domestic company for the purpose of computation of DDT, provided that DDT has been paid for by the subsidiary.

Minimum Alternate Tax (MAT)

The MAT ensures that companies with low (or zero) tax liabilities under normal tax rules are still subject to a corporation tax charge. Thus, MAT of 18.5% on book profits, along with surcharges and education cess is levied on

20.01%

19.44%

companies whose tax payable under normal income tax provisions is less than 18.5% of book profits. The current effective rates are as below.

A credit of such tax paid under MAT provisions is allowed against the tax liability which arises in the subsequent ten years under the normal provisions of the Income-tax Act.

Unadjusted MAT credit can be carried forward until the tenth year following the year in which the credit arises.

19.05%

19.05%

Where taxable income exceeds INR10 million Other cases

Alternate Minimum Tax (AMT)

A modified version of MAT, termed AMT is applicable to LLPs and certain other taxpayers (other than companies) who are availing from specified profit-linked tax incentives. In such cases, AMT at 18.5% is payable on adjusted total income.

Unadjusted AMT credit can be carried forward until the tenth year following the year in which the credit arises.

Particulars	Tax Rates⁺	
	Resident	Non-resident
a) Short-term capital assets ¹ (other than (b) below)	Normal corporate/ individual tax rates	Normal corporate/ individual tax rates
b) Short-term capital assets- listed equity shares and units of equity-oriented funds which have been charged to Securities Transaction Tax (STT)	15%	15%
c) Long-term capital assets-listed equity shares in a company or unit of an equity-oriented fund which have been charged to STT	Exempt	Exempt
d) Long-term capital assets-unlisted securities (other than (c) above) ²	10%	10%
e) Other long-term capital assets ³	20%	20%

^{*}An applicable surcharge and education cess would also be levied on the above tax rates.

^{1.} A short-term capital asset is one which is held for a period of not more than 36 months (not more than 12 months in the case of shares, listed securities, units of mutual funds and zero coupon bonds).

^{2.} Effective FY commencing April 1, 2012 long-term capital gain arising from sale of unlisted securities in the case of non-residents will be taxed at the rate of 10% (earlier 20%). Such gains are to be computed before giving effect to currency fluctuations or any indexation benefits.

^{3.} Indexation of cost of acquisition and improvement of a long-term capital asset of any nature (other than debentures) is available to residents. However, the benefit of indexation is available to non-residents only on long-term capital assets other than shares/debentures of an Indian company acquired in foreign currency. Further, long-term capital assets being listed securities, including equity shares in a company or unit of an equity-oriented fund, which have not been charged to STT, may be taxed at 10% (plus applicable surcharge and education cess) without giving any indexation benefit at the option of the taxpayer.



Computation of Total Income – General

- All incomes accruing or arising in India are taxable in India to a non-resident taxpayer subject to the Double Taxation Avoidance Agreement (DTAA) with the country of residence of the taxpayer.
- Taxable income is computed for a uniform accounting year, i.e. the fiscal year from 1 April to 31 March.
- The taxable income is called 'Total Income', which is computed after adding certain disallowances, such as loss on sale of assets and miscellaneous expenditure written off and the reduction of certain allowances/benefits from the book profits.

Depreciation

Depreciation is allowed separately at the following rates for computing taxable income.

For certain priority items, such as energy-saving devices and pollution control equipment, depreciation is allowed at higher rates.

Withholding taxes

There is an obligation on the payer both resident as well as non-resident, to withhold tax when certain specified income/payments are credited and/or paid.

Transactions with persons located in Notified Territories

In order to discourage transactions with persons located in a country which does not effectively exchange information with India, certain anti-avoidance measures were introduced from 1 June 2011. These measures would enable the Government to designate any Country/ jurisdiction not exchanging information with India as a 'notified jurisdictional

area'. Transactions between any taxpayer and a party located in a notified jurisdictional area could have implications such as higher withholding tax on payments, taxability of receipts and non-deduction of expenses.

Double Tax Avoidance Agreements

Double Tax Avoidance Agreements override the Indian Income-tax Act provisions to the extent that they are more beneficial to the taxpayers (concessional tax rates applicable under certain double tax avoidance conventions that India has signed with various countries). Relief is granted in respect of income chargeable to tax, both under the Incometax Act of India and the domestic tax laws in that other country, in order to promote mutual economic relations, trade and investment.

Advance Rulings

To facilitate full planning and to avoid any future disputes under the Income-tax Act, a non-resident can approach the Authority for Advance Rulings to determine the income tax aspects of any proposed or current transaction.

An advance ruling can also be sought by a resident to determine the tax liability of a non-resident with whom a transaction has been undertaken or is proposed to be undertaken. Certain notified residents may also apply to the Authority for Advance Rulings to seek a ruling concerning the computation of total income.

Such an advance ruling would be binding on the person seeking it in relation to the transaction and the income tax department cannot disregard the ruling unless there is some change in the facts or law affecting it.

Indian transfer pricing regulations

Transfer Pricing

provides that the pricing of any transaction between associated enterprises (AE), where either or both entities are non-resident for tax purposes (international transaction), is to be computed with regard to the arm's length principle. Two enterprises are considered to be associated if there is direct/ indirect participation in the management or control or capital of an enterprise by another enterprise or by the same persons in both enterprises. The transfer pricing provisions generally follow the relevant Organisation for Economic Co-operation and Development (OECD) guidelines. However, there are certain fundamental differences. Effective from FY commencing on 1 April 2012, the scope of transfer pricing regulations has also been extended to a number of specified domestic related party transactions.

The Indian provisions require the computation of an 'arm's length price' to be based on 'arithmetic mean' of comparable results. Furthermore, the law provides flexibility in ALP by allowing variance of around 5% of the transaction value. However for FY 2011-12 the Central Government has removed the 5% variance and instead they would notify the variance percentage. In addition, from FY 2012-13 onwards, an upper ceiling of 3% is put in place in respect of the Central Government notifying the tolerance range for the determination of arm's length price.

Burden of Proof and Assessment

The burden of proving that the international transactions are in accordance with the arm's length principle lies with the taxpayer. For this purpose, the Income-tax Act requires the maintenance of prescribed information and documents relating to international transactions undertaken between AEs. Additionally it is also mandatory to report all the international transactions with AEs during the year. For this purpose a tax payer is required to file an Accountant's Certificate in the prescribed format by the due date of filing corporate tax return i.e. 30 November following the end of the relevant financial year. This certificate is obtained from an independent Chartered Accountant. Failure to comply

with this documentation and reporting requirement will be subjected to significant penalties.

Once the accountant's certificate has been filed, the relevant assessing officer with the approval of CIT may refer the case to Transfer Pricing Officers (TPO) for detailed review. The TPO can also review any other international transaction for the determination of ALP that may be noted by him during the course of proceedings before him. Based on available information, the TPO may adjust or recompute the prices of the international transactions. The order of such a TPO would have to be considered by the Assessing Officer when finalising the assessment. Such an adjustment would attract tax and interest on the additional amount. A penalty of 100% (rising to 300%) of the tax on the adjusted amount may be levied.

Dispute Resolution

In order to expedite the resolution of disputes of the MNCs, India introduced an alternative dispute resolution mechanism in the form of Dispute Resolution Panels (DRP). These DRPs are comprised of three CITs. Such an alternate scheme of dispute resolution is applied in respect of foreign companies/companies facing adjustments on transfer pricing orders passed on or after 1 October 2009 which are prejudicial to the assessee. In such cases, the Assessing Officer

Factory Building 10% Furniture and fittings 10% Plant and machinery (general) 15% Computers (including software) 60% Motorcars, other than those used in a business of running them on hire 15% Intangible assets (such as know-how, patents, copyrights, trademarks, licences, franchises or any 25%

other business or commercial rights of a similar nature)

is required to forward a draft order to the assessee. The assessee can file objections against the draft order before the DRP. After considering all evidence/ objections and further enquiries, the DRP is to issue directions to the Assessing Officer within nine months. The Assessing Officer passes an order within one month in conformity with the directions of the DRP. The order passed by the assessing officer pursuant to directions of the DRP can be appealed both by Revenue and taxpayers before Second Appellate authority.

GAAR

From FY commencing on 1 April 2013 India's legislative GAAR would come into force. Under these broad set of Rules an agreement could be categorised as 'impermissible avoidance agreement' if the main purpose is to obtain a tax benefit and one of the specified supplementary tests is met. The consequences would be denial of tax benefits. The onus to prove that the transaction is impermissible is on Revenue. GAAR panel (not less than three members) will be constituted to dispose of any references by the Revenue and would include an independent member from the Ministry of Law. The GAAR order would be appealable with the Tribunal. CBDT has issued draft guidelines for implementation of GAAR. Consultation process for finalising the GAAR guidelines has been initiated. Effective from FY commencing from 1 April 2012 a reference can be made by a resident as well as a non-resident to determine if the arrangement they propose to enter into would be hit by the GAAR provisions.

Advance Pricing Arrangement (APA)

Effective from 1 July 2012, APAs have been introduced with a view to significantly bring down TP litigation and provide certainty to foreign investors. APA is an agreement between a taxpayer and a tax authority on an appropriate transfer pricing methodology for a set of transactions over a fixed period of time in future.

Direct Taxes Code (DTC)

On 30 August 2010 the government placed before the Parliament the Direct Taxes Code Bill, 2010. The Bill is modelled on the draft Direct Taxes Code that was originally released in August 2009, changes proposed in the Revised Discussion Paper released in June 2010 and further suggestions and comments made on this by stakeholders. The Bill was referred to the Standing/Select Committee of the Indian Parliament for further deliberation. The committee has submitted its report to the Government in March 2012. DTC was expected to be introduced in April 2012 but has been delayed.

Indirect Tax

Sales Tax

The sale of movable goods in India is chargeable to tax at the central or state level. The Indian regulatory framework has granted power to state legislatures to levy tax on goods sold within that state. Such sales are, therefore, chargeable to VAT at the rates notified under the VAT laws of the relevant state. All goods sold in the course of interstate trade are subject to Central Sales Tax (CST). Where goods are bought and sold by registered dealers for trading or for use as inputs in the manufacture of other goods or specified activities (such as mining or telecommunications networks), the rate of CST is 2%, provided Form C is issued by the purchasing dealer to the Seller. In the absence of Form C, the applicable rate would be the rate of VAT on such goods in the originating state.

CST is sought to be phased out before the introduction of Goods and Services Tax (GST) in India, which is likely to be implemented post April 2013. In the interim, CST will continue to co-exist with state VAT. Inter-state procurement on which CST is charged in the originating state is not eligible for input tax credit in the destination state.

VAT

State level sales tax was replaced by VAT with effect from

1 April 2005 in the majority of Indian states. At present, all the Indian states have transitioned to the VAT regime.

Under this regime, the VAT paid on goods purchased from within the state is eligible for VAT credit in the hands of the purchaser. The input VAT credit can be utilised against the VAT/ Central Sales Tax payable on the sale of goods. This ensures that the cascading effect of taxes is avoided and that only the value addition is taxed. Currently, there is no VAT on imports into India and exports are zero-rated. This means that while exports are not charged to VAT, VAT charged on inputs purchased and used in the manufacture of export goods or VAT paid on goods purchased for exports, is available to the purchaser as a refund.

State VAT is charged at varying rates of 1%, 4%, 5% and 20%. Goods other than those notified to be covered under the above rates are charged at a general rate ranging from 12.5% to 15%. The general rate though was set at 12.5%, some of the states have varied these tax rates in view of revenue considerations.

Customs Duty

Customs duty is levied on the import of goods into, and export from India. The rate of customs duty applicable to a product to be imported/exported depends upon on its classification under the Customs Tariff Act. With

regard to exports from India, duty is levied only on a very limited list of goods.

The Customs Tariff is aligned with the internationally-recognised Harmonised Commodity Description and Coding System of Tariff Nomenclature (HSN) provided by the World Customs Organisation.

The peak rate of Basic Customs Duty (BCD) is currently set at 10% for all goods other than agricultural and other specified products. Customs duty is levied on the transaction value of the imported or exported goods. While the general principles adopted for valuation of the goods in India are in conformity with the World Trade Organisation agreement on customs valuation, the central government has established independent Customs Valuation Rules applicable to the export and import of goods.

CENVAT (Excise Duty)

Central Value Added Tax (CENVAT), commonly referred to as excise duty is a tax levied on the manufacture or production of movable and marketable goods in India. The standard rate of excise duty for non-petroleum products is currently set at 12%. In addition, Education Cess (EC) is set at 2% and Secondary and Higher Education Cess (SHEC) is at 1%. These are applicable on aggregate excise

duties. Apart from the standard rate, reduced rates of 6% and 2% are prescribed for certain specified products. The rate at which excise duty is levied on the goods depends on the classification of the goods under the Excise Tariff. The Excise Tariff is primarily based on the eight-digit HSN classification adopted, so as to achieve conformity with the Customs Tariff.

Service Tax

The erstwhile Service tax regime, wherein service tax was levied on specified taxable services, has been replaced with the Negative List based taxation of services effective 1 July 2012. In terms of the Negative List based scheme of taxation, all services are taxable except those mentioned in the Negative List or specifically exempted under the mega exemption notification. The existing rate of service tax is 12%. In addition, EC of 2% and SHEC of 1% on the service tax is leviable and accordingly the effective rate of service tax is 12.36%.

For most services, the service provider is liable to service tax. However, for certain specified services, both the service provider and service recipient are liable to service tax on the specified value of services and in certain other cases, the liability has been cast on the service recipient to discharge service tax liability under reverse charge mechanism.

Wealth Tax

Wealth tax is charged net wealth as on 31 March every year (referred to as the valuation date). Wealth tax is charged both on individuals and companies at the rate of 1% of the amount by which the 'net wealth' exceeds INR3 million.

The term 'net wealth' broadly represents the value of the excess of certain assets over the debts concerned. Assets include guest houses and residential houses, motorcars, jewellery/bullion/utensils of gold and silver, yachts, boats, aircraft, urban land and cash in hand. A debt is an obligation to pay a certain sum of money incurred in relation to those assets which are included in the 'net wealth'.

Tax Incentives Scheme

100% Export-Oriented Units (100% EOU) Scheme

- 100% EOUs are extended a host of incentives and facilities, including duty-free imports of capital goods, raw material, and consumables as well as tax deductions against export income.
- These units are permitted to be set up for a varied range of business activities including manufacture, services, software development, agriculture, aquaculture, animal husbandry, floriculture, horticulture and sericulture, without any restrictions of location.
- Trading activities are not covered for the purpose of the benefits extended to these units.
- Undertakings set up in EOUs were eligible for a deduction of 100% of the derived export profits for 10 years up to 31 March 2011.

Special Economic Zone (SEZ) Scheme

The SEZ Policy was introduced with a view to provide an internationally-competitive and unproblematic environment for exports.

SEZs are duty-free enclaves considered to be outside the customs territory of India for the purposes of carrying out their authorised activities. SEZ developers are entitled to 100% tax holidays (of profits and gains derived from the business of developing the SEZ) for ten consecutive years out of 15 years beginning from the year in which the government is notified of

the SEZ. Exemption from DDT to SEZ developers has been withdrawn from 1 June, 2011 and exemption from MAT has also been discontinued with effect from financial year 2011-12.

Expenditure undertaken by a developer on account of the development of SEZ is also exempt from duties of customs, excise and central sales tax.

A unit set up in an approved SEZ enjoys a 100% tax holiday for five years and 50% for the next ten years (during the last five years subject to certain additional conditions) out of profits derived from actual exports of goods and services. The tax holiday period commences from the year in which the SEZ unit begins to manufacture or produce or provide services.

Electronic Hardware Technology Park (EHTP) Scheme and Software Technology Parks of India (STPI) Scheme

These schemes offer a package of incentives and facilities like duty-free imports in line with the 100% EOU scheme, as well as deemed export benefits and tax holidays. Export-oriented IT enabled services like call centre services, data processing, medical transcriptions, etc. are also eligible to be registered under the STP scheme.

Undertakings set up in EHTPs or STPs were eligible for a deduction of 100% of derived

Personal Tax

export profits for ten years up to 31 March 2011.

Enterprises/Undertakings in Industrial Parks in Specified States

Income tax holidays and exemptions from CENVAT are available for units set up in industrial parks in North East states, subject to certain conditions.

Tax holiday in respect of others

Undertakings engaged in operating and maintaining a hospital or engaged in the business of hotel located in the specified district having a World Heritage Site are eligible for tax deduction of profits subject to certain conditions.

Investment linked incentives

Investment linked tax incentives providing deduction of 100%-150% in respect of specified capital expenditure is available to certain businesses. Examples of qualifying investment are laying and operating a cross-country natural gas pipeline network for distribution and storage, building and operating a new hotel or hospital, developing and building a housing project, new plant for production of fertilizer, setting up and operating an inland container depot, bee-keeping and production of honey and beeswax, setting up and operating a warehousing facility for storage of sugar.

A foreign national seconded to work in India, in general, becomes liable to Indian income tax. Other taxes to which an individual may become liable are capital gains tax levied on disposal of assets in India and wealth tax levied on possession of taxable wealth. Taxation in India is based on the residential status of a person and not on citizenship. The residential status of a person under the Income-tax Act is determined solely based on his or her physical presence in India, regardless of the purpose of the stay. A person may qualify to be a Resident and Ordinarily Resident (ROR), Resident but not Ordinarily Resident (RNOR) or a Non-Resident (NR) in India.

Salary income is subject to income tax in India if services are rendered in India, irrespective of whether salary is received in India or not. Other incomes are subject to income tax if received or are deemed to be received in India, or accrue or arise or are deemed to accrue or arise in India. However, ROR income that accrues or arises outside India will also be subject to tax in India. In other words, an expatriate who is ROR is taxed on his/her worldwide income.

The Government has introduced compulsory social security regulations for employees holding foreign passports and working for an entity in India to which the Provident Fund (PF) Rules apply. India has, principally, two types of Social Security schemes, namely, an Employees Provident Fund and an Employee Pension Scheme.

At the end of each year, a tax return has to be filed with the income tax authorities in the prescribed form. The return is to be filed at the latest by 31 July of the relevant assessment year.

Personal Tax Rates

Taxable Income Over (INR)	Not Over (INR)	Tax on column 1 (INR)	Percentage on excess (%)
0	200,000	-	0%
200,000	500,000	-	10%
500,000	1,000,000	30,000	20%
1,000,000	and above	130,000	30%

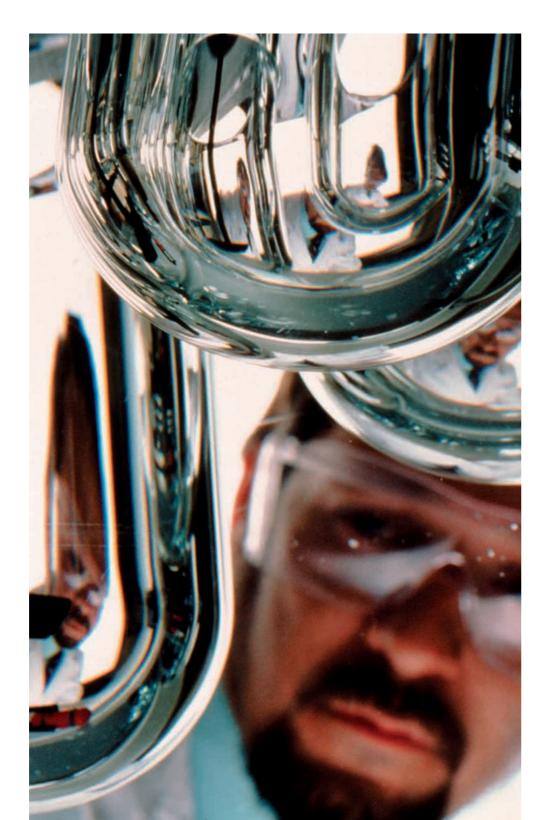
A resident senior citizen (aged above 60 but below 80 years) and very senior citizens (aged 80 years and above) with income up to INR 250,000 and INR 500,000 respectively, do not have to pay tax. Further, an education cess at 3% of the tax is levied (irrespective of the level of income).

Audit and accountancy

Businesses including both private and public companies and branches of foreign companies are required to be audited by independent certified public accountants.

Most companies have voluntarily adopted 31 March as the date for preparing their financial statements because a uniform accounting year ending on 31 March is required for tax purposes.

Company accounts must be prepared according to the accrual basis of accounting and on a historical-cost basis, but revaluation of capital assets is permissible. The Companies Act prescribes the form and content of the balance sheet and the information to be disclosed in the Profit and Loss Account.



Human Resources and Employment Law

Human Resources

India has a large pool of all types of labour as well as an adequate supply of office staff for both management/supervisory and clerical posts. Skilled manpower and professional managers are available at a comparatively moderate cost. India is particularly rich in IT professionals. Both Indian and multinational recruitment agencies exist in the market. The Indian work culture is immensely diverse and extremely professional. English language is used for much official communication.

Employment Laws

India is a member of the International Labour Organisation and complies with the conventions it has ratified. It has enacted comprehensive legislations to provide a good working environment for labour and protects their interests.

The key labour laws applicable to employers and employees in India have been outlined below:

- The Industrial Disputes Act 1947, is the main legislation in India that provides for the investigation and settlement of industrial disputes;
- Trade Unions Act 1962, provides for the registration of trade unions of employers and workers, and is administered by the state governments. It confers

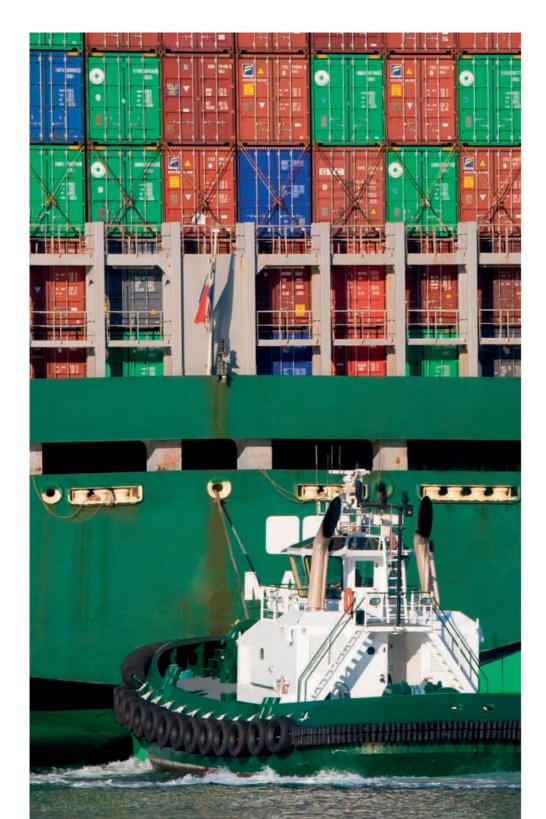
- legal and corporate status on registered trade unions;
- Plantation Labour Act 1951, provides for the plantation labour and regulates the condition of work in plantations;
- Payment of Bonus Act 1965, provides for the payment of bonus to persons employed in certain establishments on the basis of profits or on production or productivity, as well as matters connected therewith;
- The Payment of Gratuity Act 1972, provides a scheme for the payment of gratuity to all employees earning wages to do any skilled, semi-skilled, unskilled, manual, supervisory, technical or clerical work, whether the terms of such employment are express or implied, and whether or not such employees are employed in a managerial or administrative capacity;
- The Workmen's Compensation Act 1923, is to compensate an employee or his/her survivors in the vent of industrial accidents or occupational diseases, resulting in disablement or death during the course of the person's employment;
- Industrial Employment (Standing Orders) Act 1946, requires employers in industrial establishments to clearly define the conditions of employment to their workers by issuing standing orders or implementing services rules;

- Minimum Wages Act 1948, seeks to determine the minimum rates of wages in certain employments, a list of which is contained in the legislation;
- The Payment of Wages Act 1936, seeks to regulate the payment of wages to certain classes of employees in an industry;
- Factories Act 1948, is a principal legislation that governs the health, safety and welfare of factory workers;
- Employees Provident Fund and Miscellaneous Provisions Act 1952, seeks to ensure the financial security of employees in an establishment by providing a system of compulsory savings;
- The Maternity Benefit Act 1961, regulates the employment of women in certain establishments for prescribed period before and after childbirth; and
- Employees State Insurance Act 1948, provides for healthcare and cash benefits to the employees in case of sickness, maternity or injury suffered during the employment, whether they are working in a factory, establishment or elsewhere, or they are directly employed by the principal employee or through an intermediate agency, if the employment is incidental or in connection with the factory or establishment.

Trade

The government is committed to liberalising its trade regime as part of an effort to double India's share of world trade. The government is also working to improve customs clearance, and is in the process of negotiating a number of regional trade pacts. India joined the World Trade Organisation in 1995. It has negotiated the South Asia Free Trade Agreement (SAFTA), comprising other South Asian countries, and also concluded agreements with ASEAN and Thailand while still negotiating with Japan.

From a very high level, successive Indian governments have worked to bring down tariff rates since the early 1990s. While tariffs have been reduced and quantitative restrictions were largely eliminated in 2001, India has increasingly relied on non-tariff barriers, including technical standards and regulations, sanitary rules, local content schemes and quotas. Also, since January 2005, a new patent law has been in place, designed to bring India in line with international standards and put local intellectual property rights protection on a par with WTO and Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) provisions.



Banking in India

India's banking system is among the strongest in the world and it has strict banking secrecy laws. As the regulator of India's financial services sector, the Reserve Bank of India has prudential oversight over the banking, securities, futures and insurance industries, including administering the various statutes pertaining to money, banking, insurance, securities and the financial sector in general.

There are generally no restrictions imposed on both resident and non-resident companies in holding bank accounts. Savings accounts are, however, not offered in India to companies. Opening a bank account is a relatively simple and straight-forward process. The extent of paperwork required largely depends on each bank's Know Your Client requirements. Investors with good credit standing should generally be able to avail themselves of a myriad range of credit facilities in India. These credit facilities include overdrafts, short-term advances to medium and longterm loans, import and export financing facilities, etc.

HSBC in India

Who We Are

The antecedents of the HSBC Group in India can be traced back to October 1853 when the Mercantile Bank of India, China and London was founded in Mumbai. The acquisition in 1959 by The Hongkong and Shanghai Banking Corporation Limited of the Mercantile Bank, was a decisive factor in laying the foundation for today's HSBC Group. Founded in 1865 to serve the needs of the merchants of the China coast and finance the growing trade between China, Europe and the United States, HSBC has been an international bank from its earliest days.

The Hongkong and Shanghai Banking Corporation Limited in India offers a full range of banking and financial services through its 50 branches and 142 ATMs across 29 cities.

HSBC is one of India's leading financial services groups, with over 30,000 employees.

HSBC's network of branches are located in Ahmedabad, Bangalore, Chandigarh, Chennai, Coimbatore, Gurgaon, Guwahati, Hyderabad, Indore, Jaipur, Jodhpur, Kochi, Kolkata, Ludhiana, Lucknow, Mumbai, Mysore, Nagpur, Noida, New Delhi, Nasik, Patna, Pune, Raipur, Surat, Trivandrum, Thane, Vadodara and Visakhapatnam.

The Bank is the founding and a principal member of the HSBC Group which operates 6,900 offices in 84 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. HSBC is one of the world's largest banking and financial services organisations.

Historical Milestones

Year of commencement of operations in India

1853 The Mercantile Bank of India, China and London

1867 The Hongkong and Shanghai Banking Corporation Limited (HBAP)

1995 HSBC Securities and Capital Markets (India) Private Limited (HSCI)

2000 HSBC Electronic Data Processing India Private Limited (HDPI)

2001 HSBC Professional Services (India) Private Limited (HPSI)

2002 HSBC Software Development (India) Private Limited (HSDI)

2002 HSBC Asset Management (India) Private Limited (AMIN)

2003 HSBC Insurance Brokers (India) Private Limited (ININ)

2003 HSBC Operations and Processing Enterprise (India) Private Limited (HOPE)

2008 Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited

2009 HSBC InvestDirect(HIDL)

Firsts in India

A leader in bringing stateof-the-art electronic banking technology to India and to its customers, HSBC in India has several 'Firsts' to its credit.

2009 First Bank to launch an integrated E-Card for supply chain farmers

2009 First Bank in India to offer Non-Life Insurance product through ATMs

2008 First Bank in India to offer HSBC Direct, a zerobalance alternate-delivery channel-driven proposition targeted at the SME space

2008 First Bank in India to offer Fixed Deposit product through ATMs

2006 First Bank to offer security device (OTP token) for internet banking

2005 First bank to provide a scorecard-based unsecured overdraft offering to the Indian SME (Small and Medium Enterprise)

2005 First bank to issue Private Label Credit Card in India

2004 First bank to offer repayment flexibility for personal loan customers

2003 First bank to offer 0% surcharge on buying auto fuels on credit card

2000 First bank to offer HSBC Premier Customers, hospital access without initial deposit and emergency referral service

1999 First bank to offer a choice between Fixed and Floating interest rates to its Home Loan customers

1999 First to introduce Export Factoring

1999 First bank to integrate electronic banking platform with an ERP solution (SAP R/3)

1999 First foreign bank to raise 10-year Subordinated Debt

1999 First Forward Rate Agreement in the country

1998 First to introduce an affinity card with a Club – the Tollygunge Club Card

1996 First to provide NRI and foreign users international online access to their accounts abroad.

1995 First to take on VISA Plus acquiring business

1995 First to undertake Global ATM Switch System (GATS) issuing

1995 First to undertake GATS acquiring business

1995 First to introduce off-branch ATMs

1994 First bank to provide online access to accounts

1989 First to have inter-branch, inter-city connectivity

1987 First bank to provide ATMs

1985 First bank to computerise operations



Awards for Excellence

Awards Won in 2012

 HSBC has been ranked No. 1 amongst foreign banks in The Financial Express-Ernst & Young Best Banks for 2010-11

Awards Won in 2011

- HSBC India wins the 'Best Corporate for Volunteering' award for 2011
- CHOICe (Canara HSBC OBC Life Insurance) has received the India Insurance Review's 'Innovation Leader 2011' Award for successfully establishing bancassurance business
- HSBC InvestDirect has been awarded India's Best Market analyst in the category IPO at Zee Business Awards, 2011
- HSBC has been adjudged a winner for the 'Top 10 Green IT Enterprise Award 2011'. This award was given by CIO magazine in association with APC – Schneider
- HSBCnet ranked 'Best of Breed' online Banking Platform as per 2010 Greenwich Associates Online Services Benchmarking study (regional awards)
- HSBC ranked the Best Domestic Cash Management Bank for 2010 by Euromoney (regional awards)

Corporate Sustainability

For HSBC, Corporate Sustainability is about bringing social and environmental issues together with financial performance to maintain and grow a successful business for the benefit of our stakeholders.

- We apply clear policies and processes to manage potential social and environmental risk in our lending and other financial activities in sensitive sectors.
- We help our clients to seize the opportunities presented by the shift to a low-carbon economy.
- We try to reduce our own environmental footprint and share good practice on this with our clients and other stakeholders.
- We focus our community investment (philanthropic activities) on education and the environment.

Our education programmes help to lift people out of poverty, build financial literacy and promote environmental awareness.

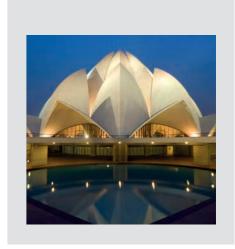
Our environmental programme focuses on the HSBC Climate Partnership – a five-year environmental programme to reduce the impact of climate change on people, forests, freshwater and cities.

HSBC's programme partners are carrying out original scientific research, developing demonstration projects, creating working models, and proving clear solutions so that governments can enact legislation for the adoption of low-carbon policies.

The HSBC Climate Partnership was launched in India in January 2008 and supports Earthwatch, WWF, The Climate Group and Smithsonian Tropical Research Institute to combat the impact of climate change on forests, freshwater, cities and people. In 2008, HSBC launched Earth Sciences Forum in India, a Public Private Partnership between HSBC and the Ministry of Science and Technology and Ministry of Earth Sciences, Government of India to find solutions to climate change. HSBC India also supports community water harvesting, drought proofing and sustainable livelihood projects as an essential measure to reduce climate stress on agriculture. To reduce its carbon footprint, HSBC India undertakes several energy, water, and waste initiatives across the country.

HSBC sees volunteering as a key driver to employee engagement and an important contribution to the community, with employees regularly participating in several community and outreach projects pan India.





Country overview

Capital city	New Delhi	
Area and population	Area of 3,300,000 sq km and population of 1.2 billion	
Language	The official language is Hindi, but English is the preferred language for conducting business and is widely read and spoken	
Currency	Indian Rupee (INR)	
International dialling code	+91	
National Holidays	Scheduled Public Holidays for 2013	
	Milad-Un-Nabi (Birth of the Prophet Muhammad)	25 January
	Republic Day	26 January
	Maha Shivratri	10 March
	Holi	27 March
	Good Friday	6 April
	Mahavir Jayanthi	23 April
	Buddha Purnima	25 May
	ld ul Fitr (End of Ramadan)	9 August
	Independence Day	12 August
	Janmashtami	28 August
	Mahatma Gandhi's Birthday	2 October
	Dussehra (Vijaya Dashami)	14 October
	Idu'l Zuha/Bakrid (Feast of the Sacrifice)	16 October
	Deepavali or Diwali (Festival of Lights)	3 November
	Muharram (Islamic New Year)	5 November
	Muharram (Islamic New Year)	14 November
	Guru Nanak's Birthday	17 November
	Christmas Day	25 December
Business and banking hours	Business hours: 9am to 6pm Bank hours: 10am to 5pm generally on 9 Bank hours: 10am to 1pm generally on 9	

Stock exchanges	National Stock Exchange (NSE) Bombay Stock Exchange (BSE)
Political structure	Parliamentary democracy
Economic statistics	GDP: US\$1,848 billion (2011-12) FDI Inflows: US\$36.5 billion Foreign Exchange Reserves: US\$292.6 billion (as at January 2012)
Fundamental Rights	Guaranteed by the Constitution
State Religion	Secular state – there is no state religion
Directive Principles of State Policy	Promotion of the people's welfare in a social order
Union of India	28 federal states and 7 union territories
Parliament	Two houses – Lok Sabha (Lower House) and Rajya Sabha (Upper House)
Head of State	President
Head of Government	Prime Minister
Independent Judiciary	Supreme Court – highest judicial authority in India High Court – Head of judicial hierarchy in the individual states

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