

Chandrawat
& Partners

Production and Manufacturing Sector

An exhaustive guide

Table of contents

Introduction	02
Market dynamics	03
Emerging trends	04
Economic Overview	06
Government initiatives	08
Major investments	11
Governing rules, laws and compliances	12
Tax regime	13
Dispute resolution	14
How we can help?	15





Introduction

The manufacturing industry is important to the Indian economy, accounting for 17% of the Gross Domestic Product (“GDP”) and employing about 27.3 million people. By 2025, the Indian government hopes that manufacturing will account for 25% of the economy's output. India can export items worth \$1 trillion by 2030 and is on its way to becoming a major global manufacturing hub. India is the world's largest market for manufactured goods and services, with a sizable and robust middle class, making it an appealing consumer market. India's overall consumption expenditure is expected to rise to \$5.7-6 trillion by 2030.

The Indian government is looking for international investment in its indigenous semiconductor industry, specifically in the creation and design of fabs and ATMPs. The government has also revealed the Program for the establishment of a Semiconductors and Display Manufacturing Ecosystem in India, which includes an investment of INR 760 billion (>US\$10 billion) towards the establishment of an Indian semiconductor and display manufacturing ecosystem.

Manufacturing industries constitute the backbone of the economy, and the Indian government is encouraging "Make in India" and other measures to promote the manufacturing sector. Manufacturing industries are located based on a variety of criteria, including the availability of raw materials, labor, and infrastructure. Good manufacturing procedures are required for the development of high-quality goods, and guideline materials have been issued to ensure active-substance manufacturers' GMP compliance. Manufacturing is recognized as the foundation of both social and economic growth. This guide will cover India's production and industrial sectors.

Market dynamics

In recent years, India's manufacturing sector has expanded, with a market size predicted to reach US\$365.20 billion by 2028. Manufacturing exports in the country reached an all-time high of \$418 billion in fiscal year 2022, representing a 40% increase over the previous year. The vast number of skilled employees in India supports skill-intensive value chains such as pharmaceutical formulations, capital goods, and automotive components. The Production Linked Incentive Scheme for substantial-scale electronics manufacture in India has been notified, to attract substantial investments in mobile phone manufacture and specified electronic components.

Initiatives such as Make in India, Digital India, and Start-up India have provided much-needed impetus to India's Electronics System Design and Manufacturing sector. However, India's policy ambiguities make it more difficult for investors to enter its market. Manufacturing's percentage of India's GDP has increased just minimally over the last three years, falling from 15.1% in 2014 to 14% presently. India's policymakers are seizing an exceptional opportunity to recruit new manufacturing enterprises by increasing manufacturing's share of the country's GDP and encouraging domestic industry growth. India hopes to be a manufacturing powerhouse, but regulations geared at preserving indigenous industries are working against that goal. Despite potential recessionary and inflationary pressures, the fundamentals for India's long-term economic growth are favourable.





Emerging trends

With various new trends, India's manufacturing sector is likely to grow substantially in the future years. Here are some of the important industrial and manufacturing trends in India:

Building quickly after the pandemic: Despite turbulences, the industrial industry is emerging from the pandemic with a favorable trajectory for 2023.

Adopting important trends to revolutionize the industry: To fuel the factories of the future, the Indian manufacturing industry is adopting essential trends such as a connected workforce.

Increasing investment: The manufacturing industry in India has grown into new sectors and segments, fueled by expansion in priority industries and impacted by positive megatrends. Major investments in mobile phone manufacturing and specific electronic components, such as Assembly, Testing, Marking, and Packaging ("ATMP") facilities, are part of the strategy.



Make in India initiative: The Indian government's Make in India strategy would encourage local brands to work and establish their name and reputation in the market. This will increase employment opportunities for trained personnel in the country, which will ultimately benefit the Indian economy.

Chemicals manufacturing hub: For almost a decade, India's chemical industry has been a global outperformer in terms of demand growth and shareholder value creation. India has the potential to become the global chemical industry's consumption and manufacturing engine.

Overall, the manufacturing industry in India is prepared for growth and transformation in the future years, with an emphasis on embracing new technology and attracting investment.

Economic Overview

The manufacturing industry in India is important to the country's economy, accounting for 17% of GDP. Manufacturing exports in financial year (“FY”)22 reached an all-time high of US\$ 418 billion, an increase of more than 40% over the previous year's total of US\$ 290 billion.



By 2030, the Indian middle class is estimated to account for 17% of global consumption. The Indian government wants manufacturing to account for 25% of the economy's output by 2025. Positive developments in the manufacturing sector, driven by increased production capacity, government policy support, increased merger and acquisition activity, and Private Equity-Venture capital-led investments, are laying the groundwork for the country's long-term economic growth.

The Production Linked Incentive scheme for substantial-scale electronics manufacture in India has been notified, to attract substantial investments in mobile phone manufacture and specified electronic components. Initiatives such as Make in India, Digital India, and Start-up India have provided much-needed impetus to India's Electronics System Design and Manufacturing sector.

If India's manufacturing sector can become more specialized, it has the potential to become a driving force for economic growth and job creation. India has the potential to improve its industrial competitiveness and become a global manufacturing powerhouse. From April through March of FY2022-23, industrial production increased by 5.2% year on year, while manufacturing output increased by 4.7% year on year.



Government initiatives



The Indian government has launched several programs and schemes to increase domestic and foreign investment in the manufacturing sector. The following are some of the key initiatives undertaken by the government:

Goods and Services Tax (“GST”): The introduction of GST simplified the tax structure and lowered the compliance burden for businesses.

Reduction in Corporate Tax: To encourage additional investment in the industrial sector, the government has decreased the corporate tax rate.

Ease of Doing Business: The government has taken several steps to improve the ease of doing business in India, including simplifying the registration procedure, shortening the time required to get permissions, and developing online tools for a variety of processes.

Foreign Direct Investment Policy Reforms (“FDI”): To encourage more foreign investments in the industrial sector, the government has adopted many revisions to its FDI policy.

Phased Manufacturing Programmed (“PMP”): The PMP strives to stimulate domestic manufacturing by offering incentives to manufacturers who create items locally rather than importing them.

Make in India Initiative: The Make in India initiative aims to promote investment, encourage innovation, create world-class infrastructure, and turn India into a centre for manufacturing, design, and innovation.

Production Linked Incentive (“PLI”) Scheme: The PLI scheme provides incentives to manufacturers who produce goods locally and meet certain performance criteria.

Special Industrial Packages: To stimulate domestic production and attract additional investment, the government has issued special industrial packages for several sectors such as electronics, textiles, and food processing.

These initiatives have aided India in becoming a manufacturing, design, and innovation center, as well as boosting the country's manufacturing sector's growth.





Major investments

With an emphasis on attracting foreign direct investment ("FDI") and supporting domestic manufacturing, India has made major investments in the production and manufacturing industries. Manufacturing exports in the country reached fiscal year 22. An all-time high of \$418 billion, representing a 40% increase over the previous year. The Production Linked Incentive ("PLI") scheme for major Scale Electronics manufacturers in India has been notified, to attract major investments in mobile phone manufacture and specific electronic components, such as Assembly, Testing, Marking, and Packaging ("ATMP") units.

Initiatives such as Make in India, Digital India, and Start-up India have provided much-needed impetus to India's Electronics System Design and Manufacturing ("ESDM") sector. India's objective of becoming a global manufacturing hub is gaining traction as more global corporations, particularly those from the United States, continue to invest in the country. Amazon, Apple, Cisco, Walmart, and Foxconn are among the top global firms investing in India. So far, many investments and incentives have been directed toward large-scale electronics manufacturing, pharmaceutical drug production, medical devices, and labor-intensive industrial processes like electronics assembly and textiles.

Governing rules, laws, and compliances

The industrial and manufacturing sectors in India are governed by a variety of laws and regulations. The Factories Act of 1948 is a fundamental piece of legislation that governs all industrial processes and enterprises in India. The Act defines a manufacturing unit as a 'factory' if it employs 10 or more people who use power or 20 workers who do not use power. The Act establishes provisions for factory workers' health, safety, welfare, and working conditions. In addition to the Factories Act, different states have enacted their own regulations to carry out their obligations. The Indian government has also taken several initiatives to stimulate manufacturing and increase domestic and foreign investment in India. For manufacturing companies operating in India, it is crucial to abide by a variety of legal and regulatory requirements to guarantee lawful operations. Here are some significant compliance requirements to keep in mind:

Labor Laws: Manufacturing companies in India must adhere to numerous labor laws, including the Industrial Disputes Act, Minimum Wages Act, Payment of Bonus Act, and Contract Labor ("Regulation and Abolition") Act of 1970.

Factory License: Obtaining a Factory License is mandatory for manufacturing units in India, which is issued under the provisions of the Factories Act of 1948.

Statutory Compliance: It is also necessary to comply with various statutory compliance requirements, such as the Employees' Provident Funds, the Minimum Wages Act, and the Factory Act of 1948.

Intellectual Property Laws: To comply with intellectual property laws in India, manufacturing companies must adhere to regulations related to trademarks, patents, and copyrights.

Tax Regulations: Failure to comply with tax regulations is a significant issue in India's industrial sector. To avoid legal issues, ensure that you file tax returns, maintain accurate records, and pay taxes.

Non-compliance with legal and regulatory requirements can lead to penalties and legal action, making it essential to ensure that your company is in compliance.



Taxation regime

India has a taxation framework that applies to manufacturing and production. For the fiscal year 2022/23, the corporate income tax ("CIT") rate applicable to an Indian firm and a foreign corporation is as follows:

- Foreign companies with PE in India have introduced a new tax system for manufacturing enterprises to stimulate their growth and development. The plan is known as Section 115 BAB of the Income Tax Act, and it provides lower tax rates for Indian manufacturers to encourage growth and job opportunities.
- With effect from Fiscal Year ("FY") 2019-20, any Indian firm can choose to pay income tax at a rate of 22% ("plus relevant surcharges and cess") if certain deductions and exemptions are not claimed.
- Under the "Make in India" policy, India has also implemented a preferential tax framework for corporations. While existing companies are eligible for a 25% tax rate, newly established domestic manufacturing companies and companies engaged in energy production are eligible for a lower tax rate.

Overall, India's production and manufacturing taxation structure contains a variety of tax rates and incentives targeted at stimulating growth and development in the sector.

Dispute Resolution

- 1. Open Communication:-** Encourage transparent and open communication between management and employees. This can support early problem detection and problem solving.
- 2. Establish Grievance Redressal Mechanisms:-** Establish a framework that is organized for employees to voice their complaints and concerns. This could involve suggestion boxes, regular meetings, or appointing specific people to handle disputes.
- 3. Clear Policies and Procedures:-** Make sure that policies and procedures are in place for all elements of employment, such as work hours, wages, benefits, safety, and discipline, and that they are clear and well-communicated.
- 4. Education and Training:-** Give management and employees training on how to resolve conflicts, communicate effectively, and practice workplace ethics.
- 5. Fair Treatment and Equal Opportunities:-** Show that you are committed to providing all employees with fair treatment and equal opportunity, regardless of their position or role within the company
- 6. Negotiation and Mediation:-** Participate in negotiation and mediation processes to assist in settling issues in a way that is agreeable to both parties. This can entail inviting an unbiased outsider to foster dialogue.
- 7. Legal Compliance:-** Ensure that your company complies with all relevant labor laws and regulations. This includes providing fair wages, adhering to safety standards, and respecting workers' rights.
- 8. Conflict Resolution Committee:-** Create a committee with members from both management and labor to examine and settle problems. It should be possible for this committee to decide on and carry out adjustments.



How we can help?



There are several ways we can help our clients in the manufacturing sector of India. Here are some ways:

Providing legal advice Assisting Indian companies and working with Indian counsel on a wide range of legal areas.

Supporting clients undertaking business in India and acting for Indian diversified family conglomerates, corporations, Indian State, and private.

Advising local and international clients on large, influential transactions and financings, as well as complex, high-value disputes.

Providing commercially viable legal solutions.

Our team has lawyers who have the experience to service our clients with the highest level of quality and responsiveness.

SERVING CLIENTS WORLDWIDE



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