



### J. Sagar Associates Enlightens On Make in India



The noise is louder across the nation to stand out as a manufacturing hub on the global platforms but in and around the slogans, the efforts and policy are invisible pillars of the campaign. Through the interview, Mr. Venkatesh Prasad, Partner, J. Sagar Associates, have enlighten us on the policies and compliance segment whereas, Mr. Kumarmanglam Vijay, Partner, J. Sagar Associates cleared the clouds on the taxation subject.

By – Namrata Nikale Tanna, Editorial Manager, Oil Asia Journal.

**Q - Prime Minister Narendra Modi's Make in India is one of the biggest initiatives to help the Indian manufacturing sector, Kindly share your opinion on the same and how will it boost the oil and gas industry?**

**Prasad** - India has always been viewed as a service hub wherein the service industry contributed around 55 per cent of the Gross Domestic Product (GDP) and the contribution from the manufacturing sector lingered around 16 per cent. Historically, manufacturing sector has been the key driver of growth at the nascent stages of development of main economies in Europe, North America, Japan, South Korea and Taiwan, and most recently in China. Thereby, it appears imperative for India to develop the manufacturing sector to a point where it accounts for a high share of GDP. It is not that the Indian economy has not been performing over the years, however, it was being swayed by the success of the service sector and there was lesser focus on developing the manufacturing sector. 'Make in India' initiative strives to change the global outlook towards India from service sector to manufacturing sector and to lead India towards further development.

The Prime Minister Narendra Modi's 'Make in India' initiative is certainly a great catalyst and is in fact a '*Big Push*' for promoting India as an investment destination and a global hub for manufacturing, designing and innovation. 'Make in India' initiative hopes to attract both capital and technological investment in India. According to UNCTAD, India is now the 3<sup>rd</sup> most attractive FDI destination.

The Government of India (GoI) has been taking various initiatives for attracting investment to boost domestic output and strengthening the relative infrastructure including oil & gas sector. These efforts have and will continue to create several opportunities for oilfield services, EPC companies and capital goods companies. The oil and gas industry is one of the 25 key areas identified under the

'Make in India' initiative and is poised to get great boost from the 'Make in India' initiative. The government's concerted efforts to improve the overall infrastructure such as industrial corridors, smart cities, dedicated freight corridors etc. are going to increase the overall oil and gas demand in India. To unleash the power from these growth drivers, increased investment could be expected in India's oil and gas sector. In the next few years, while foreign investments may be subject to global investment sentiments, local investments can be expected to be strong (especially considering the increased profitability of the national oil companies (NOCs) on account of lower global crude prices.

Ministry of Petroleum and Natural Gas (MOPNG), NOCs and private players are collaborating to work towards a collective R&D Programme for developing indigenous technologies to enhance exploration and exploitation of hydrocarbons and alternate sources of energy. To begin with, 7 (seven) thematic research areas in the domain of geoscience, reservoir characterization, enhanced production of oil and gas, exploiting unconventional sources of hydrocarbons, software development, engineering solutions and alternate energy resources have been identified. The MOPNG has constituted a Steering Committee to roll out the 'Make in India' campaign in the oil and gas industry. The committee has the mandate to devise a strategy and develop a roadmap for successful implementation of the 'Make in India' campaign in the oil and gas industry. The government is also putting emphasis towards domestic manufacturing for equipment used in petroleum and natural gas sector for oil field services like drilling rigs, offshore support vessels, tubular goods, and seismic services and equipment for constructing process platforms, pipelines and collecting stations, as well as other surface facilities for transportation of oil and gas from wells to delivery points.

**Q - According to you, will Make in India initiative inspire Indian entrepreneurs in the manufacturing sector?**

**Prasad** -The 'Make in India' initiative will hopefully inspire Indian entrepreneurs and encourage them to innovate, undertake skill development plan and overall connect the urban-rural centres with such initiatives. The Indian industry was accustomed to the Inspector Raj which saw Government interfering and regulating in the demand supply requirements, due to which there were various uncertainties regarding the timelines, market potential procedure and risk involved in setting up business in India. 'Make in India' intends to change this by bringing a shift in how government interacts with industry under this initiative. It is proposed that the government will partner with the industry in economic development of the country. The approach will be that of a facilitator and not a regulator. Thereby, trying to bring back industry's lost confidence in the government.

With the launch of the 'Make in India' initiative, great emphasis is being given to improving the 'Ease of Doing Business'. However, the fact remains that India still ranks 130 out of 189 on the World Bank's Doing Business index. This shows that despite the concerted efforts from the government to bring in structural transformation, the ground realities have not changed to the extent one would have expected. However, the steps being taken are in the right direction.

Under the 'Make in India' initiative several de-licensing and deregulation measures have been taken which will surely reduce complexity and significantly increase speed and transparency. To give you an example, in order to boost the entrepreneur and start-ups confidence, recently, in the oil & gas

sector, the government has taken a policy shift towards liberal licensing regime for small and marginal fields by allowing entities without prior experience in the sector to participate in auctions. Ultimately, this auction was dominated by start-ups and 15 (fifteen) of the 22 (twenty two) successful bidders were new to the industry.

The steps being undertaken for digitalization will make process and procedures hassle free. Development of smart cities and industrial corridors will ensure that there are greater avenues for ideas to get transformed into products. Skill development program will provide the necessary workforce to the entrepreneur. Apart from this the government has also designed policies and goals for specific industries. Area based incentives (SEZs), state based incentives, export incentives (under foreign trade policy) and relaxation on FDI caps are the highlights of the program. The roadmap for each sector has been laid separately as well. Further, India with its growing middle class population, favourable demography, stable government, thriving democracy and competitive and skilled labour offers favourable environment for flourishing entrepreneurship.

Some of the key concerns for entrepreneurs/investors are also being tried to be addressed

- ❖ Government has time and again emphasized that 'retrospective tax' is a thing of past, and going forward there has been assurance that there will be consistency, predictability and clarity in the tax policies;
- ❖ The GST and bankruptcy code is being implemented

Therefore, the steps being undertaken under the 'Make in India' and other parallel yet synergistic initiatives (policy, regulatory and administrative levels) are facilitating the Indian entrepreneur at all stages of the business cycle by:

- (a) Providing opportunities;
- (b) Facilitating compliances;
- (c) Providing financing and tax benefits to start-ups;
- (d) Providing availability of skilled manpower etc.

No doubt, these will inspire the Indian entrepreneurs to venture in the manufacturing sector.

#### **Q- Do you think that Make in India will reduce the burden on the compliance segment?**

**Prasad** -Some of the initiatives being undertaken under the 'Make in India' program are directly targeted towards reducing the burden of compliance by digitalisation, simplification of laws, and making processes easier. These initiatives if implemented in right spirit will result in enhancing the ease of doing business in India, and make government more transparent, responsive and accountable.

To share a few examples, the Ministry of Commerce and Industry has launched the eBiz portal, which was India's first Government-to-Business (G2B) portal aimed at transforming and developing a conducive business environment. While in the past decade we had heard of B2B and B2C, this concept of G2B is a welcome change. Similarly, the Ministry of Labour & Employment has developed a unified Web Portal 'Shram Suvidha' for easing the labour laws compliances. Some of the state governments have also started their own digitization initiative. Further, at procedural level as well, several steps are being taken which will have positive outcome, such as increasing the validity period

of security clearance and industrial license to 3 (three) years etc. But as I mentioned earlier, the fact remains that India still ranks 130 out of 189 on the World Bank's Doing Business index and thus a lot remains to be done under the initiative.

**Q- Could you brief us about how Make in India have eased policies and laws?**

**Prasad** -Under 'Make in India', several structural reforms have been implemented and some more are proposed. Over the last two years, the focus of the government has been to ease, rationalize and simplify the FDI regime. The FDI Policy has been successively liberalized and sectors such as defence, railways, banking, construction, single brand retail, broadcasting and civil aviation have been opened up for foreign direct investment. The Foreign Investment Promotion Board, which was the nodal agency to consider and recommend the FDI proposals not falling under the automatic route, is proposed to be abolished from financial year 2017-18. Further, to facilitate the investors an Investor Facilitation Cell has been created in 'Invest India' to guide, assist and handhold investors during the entire life-cycle of the business.

The passage of new laws such as GST, Land Acquisition and the Bankruptcy code, among others, will certainly contribute to strengthening the economic fundamentals of this country. The enactment of Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act, 2015 will facilitate speedy and efficacious enforcement of contracts, recovery of monetary claims and award of compensation for damages suffered which are absolutely critical to encourage investment and economic activity especially in the infrastructure economy. Apart from the above, the government had also undertaken the initiative of identifying and repealing the obsolete laws. I understand that around 1150 such laws have already been scrapped.

A strong intellectual property regime has a fundamental role to play in growing innovative industry, fostering economic competitiveness, and attracting greater foreign investment. In this regard, the Union Cabinet has approved the National Intellectual Property Rights Policy that will lay the future roadmap for intellectual property regulations in India.

The opaque regime for consideration of 'environmental clearances' which were earlier one of the major deterrent for investment in greenfield & brownfield projects, have been streamlined and relaxed to some extent. There have been several initiatives to ease the import – export procedure as well.

So overall, it appears that significant changes are being carried out in the extant policies and laws so as to facilitate the 'Make in India' initiative. These reforms will have a long term impact and cannot be measurable in the short term.

**Q- May we request you to share the tax reforms to rejuvenate the manufacturing sector?**

**Vijay** - Policy for promoting 'Make in India' is being implemented in several ways through successive Budgets. Key initiatives in this regard are reduction of corporate tax rate to 25 per cent (from 30 per cent) for the newly set-up companies and companies with less than ₹ 50 crore turn over, provision of additional depreciation allowance for new plant and machinery, provision of additional depreciation allowance to new plant and machinery set-up in specified backward areas; provision of deduction for increase in persons employed, weighted deductions for research and development

etc. In order to enable manufacturing companies to avail better infrastructure, significant deductions have been provided to companies setting up new roads, highway projects, warehouses, cold chains, fertilizer production, container depots, pipelines etc. Apart from that, incomes from exports of goods manufactured in Special Economic Zones are already exempt from tax.

Overall, there are multiple ways in which manufacturing in India is sought to be rejuvenated.

**Q- Government of India has been pushing GST bills, how will it help in promoting the Make in India campaign?**

**Prasad** -GST will definitely help in promoting the 'Make in India' campaign, as it will 'ease doing business in India' and will make the taxation process simplified. Taxation structure and treatment has been one of the deciding factors for the potential investor and the tax regime has been criticised for being uncertain and obscure by domestic as well as foreign investor. GST will streamline the tax regime and will make it uniform throughout the country.

GST will significantly improve ease of doing business in India by harmonising the indirect tax rates applicable across India, simplifying the compliance process and automating the same and would do away with need for regulatory interface with multiple authorities. Hitherto, taxation structure and state and area based incentives etc. have been the key deciding factors for the manufacturing companies to set-up manufacturing plants and warehouses. Once GST is implemented, such decisions shall be taken primarily having regard to the economic criterions.

It is expected that GST will reduce cascading effect of the indirect taxes or duty on goods. GST will also promote manufacturing owing to reduced compliances with multiple laws.

The GST will add impetus to the vision of cooperative federalism enshrined in our Constitution by promoting 'Make in India' by 'Making One India'.

**Q- Where do you think we will see key growth areas in the oil and gas industry in the next few years?**

**Prasad** -In my understanding there are broadly 5 (five) key drivers for the growth of the oil and gas industry:

- ❖ Increase in demand;
- ❖ Policy support;
- ❖ Technological advancement through innovation;
- ❖ Potential increase in investments;
- ❖ Addressing India's energy security concerns.

These will impact all the 3 (three) segments of the oil and gas industry *i.e.* upstream, midstream and downstream.

In the upstream segment, India has significant potential to discover new oil and gas basins since 78 per cent of the country's sedimentary area is yet to be explored. This segment is poised to be greatly benefitted by the introduction of Hydrocarbon Exploration and Licensing Policy, 2016 (HELP).

Introduction of HELP appears to be an investor friendly initiative, however, its actual implementation remains to be seen. On the face of it, the policy initiative towards uniform licensing, marketing and pricing freedom, open acreage and revenue share under the HELP, if implemented in right spirit may have far reaching transformative significance for the upstream oil and gas industry. This will also give impetus to the development of shale gas in the Indian basin.

In the midstream segment, India suffers from a comparatively low density of pipelines, and therefore, there is great opportunity to be tapped. India's LNG demand is set to get doubled (or perhaps more) in the next 4-5 yrs., and huge opportunity lies for LNG, terminal operation, engineering, procurement & construction services.

In the downstream, India's increasing consumption of fertilizer, petroleum, and petrochemicals means the domestic downstream segment is set to expand as well.

So, in my view, fundamentally the oil and gas industry in India should see major growth in all the segments. However, the above will remain subject to the global oil and gas prices.