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Introduction to INDIA

India is the world's largest democracy with a population of more than 1.3 billion, the second most populous nation behind China, but only the eighth country in emerging Asia in GDP per capita (on a purchasing power parity or PPP basis), just above Vietnam. Indeed, even though Indian economic growth has averaged 7.5% over the past five years, real GDP per capita has increased by only 6.2%.

During prime minister Modi's first term (2014-2019), economic growth has remained sound (despite a significant deceleration in fiscal year 2018/19), macroeconomic imbalances have declined and Modi's government has pushed through some important measures: the Insolvency and Bankruptcy Code, the Goods and Services Tax and greater openness to foreign investment.

However, structural weaknesses remain high, the poverty rate is still high (28%), unemployment has increased, and the country has become more reliant on volatile capital inflows to finance its current account deficit as FDI has declined since 2016. Elected for a second term in May 2019, Modi's new government will have to continue improving its business environment, focusing on the factors that are preventing the efficient operation of the labour market, along with education, women's access to education and jobs, and reductions in tariff barriers. It will also have to move forward with the land acquisition reform that the first Modi government put on hold in 2015.

To implement these reforms, Modi needs to have the majority in the upper house of Parliament. To date, his party, the Bharatiya Janata Party, has a comfortable majority in the lower house of Parliament but not in the upper house where it holds only 41% of seats. However, his coalition party, (the National Democratic Alliance) may take control of the upper house in 2020.

Summary

BNP Paribas presence

BNP Paribas has been present in India since 1860, the second longest-established foreign bank in the country. The Bank has 8 business centres in Mumbai, Delhi, Bangalore, Hyderabad, Kolkata, Chennai, Pune and Ahmedabad, and 14,000 employees. It is one of the few international banks catering for the domestic, regional and global requirements of corporate customers.

BNP Paribas is a member of the local clearing house and offers comprehensive payment, collection and trade finance solutions. This includes partnering with leading local vendors for providing cash in transit and card collection solutions. The bank offers a variety of solutions to address the specific functional requirements in India, including online tax payments, remote cheque printing of cheques, a 'BankSmart' application for mobile phone authorisation, an online payment gateway, pre-signed blank cheques and post-dated cheque collections. These services enable customers to optimise efficiency and control whilst observing local payment practices.

Working with BNP Paribas

As part of the bank's commitment to supporting customers' in-country as well as international needs, the bank has pioneered a range of solutions to support customers in achieving their operational and financial efficiency objectives. These include:

- **Netpay (online payment platform):** Netpay is an India-based local payment platform that enables customers to manage both electronic and paper-based payments through a single payment file.
- **Online tax module:** Customers can make both direct and indirect tax payments directly through the online payment platform (Netpay), with automatic receipt of the associated cyber challan (tax acknowledgement).
Bank Smart: Bank Smart enables authorised users to approve payments using mobile phones or tablets, across iOS, Android and Blackberry operating systems.

Pre-signed blank cheques (PSBC) & post-dated cheque collection (PDC): Cheques remain a common payment method in India and are widely used by non-bank financial institutions such as auto-leasing, mortgage companies and fund companies, as well as industries such as pharmaceuticals and fast-moving consumer goods (FMCG). BNP Paribas has a comprehensive offering to support PSBC and PDC requirements including warehousing, writing and collection.

Payment Gateway: BNP Paribas is one of the few banks to offer bill payment services to utilities and telecoms as an integral solution within the electronic banking system, enabling customers to make utility bill payments electronically.

eReceipts: Enriched information and remitter identification using dynamic virtual accounts.

Immediate Payment Services (IMPS): BNP Paribas India supports IMPS which provides the option to clients to receive payments through interbank electronic fund transfer service via mobile.

National Automated Clearing House (NACH): Direct debit facility for clients with mandate management and online access to view images and upload of transaction file.

Electronic Invoicing: An end-to-end workflow based receivables solution with the ability to efficiently match collections with invoice information sent by the customers.

Document Warehousing: Warehousing and management of import documents (open account) with a workflow-based solution.

SWIFTNet: Fully capable of providing SWIFTNet and have experience with some of the most complex SWIFTNet implementations in India.

BNP Paribas is a major player in trade finance throughout Asia, offering a full suite of traditional trade (letters of credit, bankers' guarantee, trade financing, standby letters of credit, etc.) and supply chain financing solutions (receivables purchase programmes, supplier financing etc.) products, including a unique inventory solution offered through its trade centres in Australia, China, Japan and Singapore, specifically for companies engaged in international trade, as part of a wider network of more than 100 trade centres globally. BNP Paribas has experienced trade finance advisors and personnel who deliver a range of customised trade solutions and advise on local market practices. These solutions are supported by the bank's ISO-certified trade services support team.

BNP Paribas' robust e-banking platform, Connexis Trade, offers automated, paperless transaction processing in a secure environment, with multilingual capabilities, and customisable reporting and workflow controls. The bank is one of only a few globally to have processed a live Bank Payment Obligation ('BPO') transaction, and was the first bank worldwide to transmit information via SWIFTNet Trade for Corporates.

### Currency

- Indian rupee (INR).

### Exchange Rates

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate: INR per USD</td>
<td>61.030</td>
<td>64.152</td>
<td>67.195</td>
<td>65.122</td>
<td>68.39</td>
</tr>
</tbody>
</table>

Central Bank

- The Indian central bank is the Reserve Bank of India (www.rbi.org.in).

Bank supervision

- Most Indian banks are supervised by the RBI’s Board for Financial Supervision.
- Rural and most cooperative banks are supervised by the National bank for Agriculture and Rural Development (NABARB - www.nabard.org).

Bank accounts

Resident / non-resident status

- A company is resident in India in any tax year if it has registered under the Indian Companies Act 1956, other specified Acts/laws or if, during the relevant tax year, the control and management of its affairs were situated wholly in India.
- A non-resident company is one that is at least 60 percent owned by a non-resident or a Non-Resident Indian (NRI), i.e., someone with Indian citizenship who resides outside India.

Bank accounts for resident entities

<table>
<thead>
<tr>
<th></th>
<th>Within India</th>
<th>Outside India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Currency</td>
<td>Permitted without restriction, not convertible</td>
<td>Not permitted</td>
</tr>
<tr>
<td>Foreign Currency</td>
<td>Permitted with restrictions, convertible</td>
<td>Permitted, with restrictions</td>
</tr>
</tbody>
</table>

Bank accounts for non-resident entities

<table>
<thead>
<tr>
<th></th>
<th>Within India</th>
<th>Outside India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Currency</td>
<td>Permitted with restrictions, convertible for some entities</td>
<td>Not permitted</td>
</tr>
<tr>
<td>Foreign Currency</td>
<td>Permitted with restrictions, convertible</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Lifting fees

- Lifting fees may be applied on payments between resident and non-resident bank accounts.
**BNP Paribas insights**

- India has a restrictive regulatory environment, with controls on account opening which may require central bank approval. In addition, debits/credits to such accounts are controlled.
- Structuring & advisory on escrow accounts as per extant regulatory guidelines.
- KYC & AML guidelines apply as per extant guidelines.
- Please contact your BNP Paribas Relationship Manager for more information.

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**BNP Paribas Cash Management Capabilities**

**Liquidity Management**

<table>
<thead>
<tr>
<th>Service</th>
<th>Supported/Permitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical cash pooling</td>
<td>✔</td>
</tr>
<tr>
<td>Notional pooling</td>
<td></td>
</tr>
</tbody>
</table>

- ✔ Supported by BNP Paribas
- ✗ Not required / permitted in INDIA or not supported by BNP Paribas

**Collections**

<table>
<thead>
<tr>
<th>Service</th>
<th>Supported/Permitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash collections</td>
<td>✔</td>
</tr>
<tr>
<td>Cheque collections</td>
<td>✔</td>
</tr>
<tr>
<td>Direct debit collections</td>
<td>✔</td>
</tr>
<tr>
<td>Domestic incoming transfers</td>
<td>✔</td>
</tr>
<tr>
<td>International incoming transfers</td>
<td>✔</td>
</tr>
<tr>
<td>Card acquiring</td>
<td>✔</td>
</tr>
</tbody>
</table>

- ✔ Supported by BNP Paribas
- ✗ Not required / permitted in INDIA or not supported by BNP Paribas

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## Payments

<table>
<thead>
<tr>
<th>Service</th>
<th>Supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash withdrawals</td>
<td>✔</td>
</tr>
<tr>
<td>Cheque payments</td>
<td>✔</td>
</tr>
<tr>
<td>Direct debit payments</td>
<td>✔</td>
</tr>
<tr>
<td>Domestic outgoing transfers</td>
<td>✔</td>
</tr>
<tr>
<td>International outgoing transfers</td>
<td>✔</td>
</tr>
<tr>
<td>Card issuing</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supported by BNP Paribas</td>
<td></td>
</tr>
<tr>
<td>Not required / permitted in INDIA or not supported by BNP Paribas</td>
<td></td>
</tr>
</tbody>
</table>

## Channels

<table>
<thead>
<tr>
<th>Channel</th>
<th>Supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local e-Banking</td>
<td>✔</td>
</tr>
<tr>
<td>Global e-Banking - Connexis</td>
<td>✔</td>
</tr>
<tr>
<td>SWIFTNet / Global host to host</td>
<td>✔</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supported by BNP Paribas</td>
<td></td>
</tr>
<tr>
<td>Not required / permitted in INDIA or not supported by BNP Paribas</td>
<td></td>
</tr>
</tbody>
</table>

## Payments & Collections

## Market overview

The payments and cash management infrastructure in India is evolving at a rapid pace with the introduction of new channels and improved infrastructure, including developments in mobile banking and the local clearing system. Several initiatives like National Electronic Clearing System (NECS), Cheque Truncation System (CTS) and speed clearing are being rolled out to different parts of the country in a phased manner. The aim of these initiatives is to automate
and accelerate the clearing process to achieve more rapid clearing and credit to customer accounts.

Cheques remain the most common method of payment in India and there are more than 1,000 clearing houses across the country which are managed by the central bank and other state-owned banks. The regulator is encouraging the increased use of electronic payments (including real-time gross settlement (RTGS) electronic funds transfer and electronic clearing services – please see below) as an alternative to paper-based payment methods.

### Payment systems

<table>
<thead>
<tr>
<th>RTGS</th>
<th>Type</th>
<th>• Real-time gross settlement.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Participants</td>
<td>• 216 direct.</td>
</tr>
</tbody>
</table>
|      | Transaction types processed | • High-value (above INR 200,000) and urgent INR-denominated credit transfers.  
• Net obligations from India’s other payment systems. |
|      | Operating hours | • 08:00 to 16:30 IST, Monday to Friday. |
|      | Clearing cycle details (e.g. cut-off times) | • Payments are cleared and settled in near real time (within two hours).  
• Initial cut-off time = 16:30 IST, Monday to Friday and 14:00 IST, Saturday.  
• Final cut-off time = 19:45 IST, Monday to Friday and 15:00 IST, Saturday. |
|      | System holidays | • The NG-RTGS is closed on all Indian bank holidays.  
• India’s bank holidays are:  
• 2nd half 2019: July 13, 27, August 10, 12*, 15, 19*, 24, September 10*, 14, 28, October 2, 12, 26, 29*, November 9*, 23, December 14, 25, 28.  
• The date shown may vary by plus or minus one day. These dates are derived by converting from a non-Gregorian calendar (e.g., Muslim or Hindu) to the Gregorian calendar. Some of these dates cannot be determined in advance with absolute accuracy, even by the governing authorities. In the case of Muslim dates in particular, the feast days are determined by the sighting of a new/full moon. |
| ECS | Type | • Multilateral deferred net settlement system. |
|     | Participants | • 80 direct. |
|     | Transaction types processed | • Low-value and bulk electronic credit and debit payments. |
|     | Operating hours | • 09:00-18:00 IST, Monday to Friday.  
• 09:00-15:00 IST, Saturday. |
### Clearing cycle details (e.g. cut-off times)
- The ECS operates two separate subsystems for debits and credits.
- Cut-off time for both subsystems = 18:00 IST, Monday to Friday and 14:00 IST, Saturday.
- Both credits and debits are settled on a same-day or next-day basis.

### System holidays
- NECS is closed on all Indian bank holidays. (Dates as above)

#### CTS

<table>
<thead>
<tr>
<th>Type</th>
<th>Multilateral deferred net settlement system.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
<td>1,611 direct.</td>
</tr>
<tr>
<td>Transaction types processed</td>
<td>Cheque payments which are truncated into electronic items before being processed.</td>
</tr>
<tr>
<td>Operating hours</td>
<td>Monday to Saturday.</td>
</tr>
</tbody>
</table>

#### Clearing cycle details (e.g. cut-off times)
- Cheques are processed by one of four centralised clearing houses.
- Cut-off times differ for each clearing house.
- Locally cleared cheque payments are settled on a same-day basis.
- Intercity cheque payments are settled on a next-day basis.
- Cheques can also be cleared within two working days if they are processed by the speed clearing system.
- Cheques processed between banks in clearing zones that are not subject to speed clearing can take between five days and three weeks to clear.
- Final settlement takes place via the RTGS.

#### System holidays
- CTS is closed on all Indian holidays. (Dates as above)

#### NEFT

<table>
<thead>
<tr>
<th>Type</th>
<th>Multilateral deferred net settlement system.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
<td>209 direct.</td>
</tr>
<tr>
<td>Transaction types processed</td>
<td>One-off and low-value electronic credit transfers.</td>
</tr>
<tr>
<td>Operating hours</td>
<td>08:00–19:00 IST, Monday to Saturday.  The 2nd and 4th Saturday of every month is a public holiday.</td>
</tr>
</tbody>
</table>

#### Clearing cycle details (e.g. cut-off times)
- Payments are settled on a same-day or next-day basis.
- NEFT operates 23 clearing cycles daily from 08:00–19:00 IST, Monday to Saturday.
- Payments are processed in batches.
- Cut-off time for same-day settlement = 19:00 IST.

#### System holidays
- NEFT is closed on all Indian holidays. (Dates as above)

---

**Transaction volumes by instrument**
<table>
<thead>
<tr>
<th>Category</th>
<th>Transactions (millions)</th>
<th>% change</th>
<th>Value (INR billion)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheques</td>
<td>1,206.7</td>
<td>1,171.3</td>
<td>-2.9</td>
<td>80,958</td>
</tr>
<tr>
<td>Credit transfers</td>
<td>3,441.2</td>
<td>6,035.3</td>
<td>75.4</td>
<td>128,632.1</td>
</tr>
<tr>
<td>Debit card payments</td>
<td>2,399.3</td>
<td>3,343.4</td>
<td>39.3</td>
<td>3,299.1</td>
</tr>
<tr>
<td>Credit card payments</td>
<td>1,087.1</td>
<td>1,405.2</td>
<td>29.3</td>
<td>3,283.8</td>
</tr>
<tr>
<td>Direct debits</td>
<td>364.9</td>
<td>478.4</td>
<td>31.1</td>
<td>3,692.4</td>
</tr>
<tr>
<td>e-Money</td>
<td>1,963.7</td>
<td>3,459.1</td>
<td>76.2</td>
<td>838.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10,462.9</td>
<td>15,892.7</td>
<td>51.9</td>
<td>220,703.4</td>
</tr>
</tbody>
</table>

**Credit transfers**

- Credit transfers are used by companies to pay salaries and suppliers.
- High-value (above INR 200,000) and urgent INR-denominated credit transfers are settled in near real time via the RTGS.
- Low-value and non-urgent bulk credit transfers can be settled on a same-day or next-day basis via the ECS.
- Low-value and high-volume credit transfers can also be processed via the NACH on a same-day basis. NACH mandates have replaced all ECS mandates for all recurring payments such as credit card and utility bills.
- One-off and low-value credit transfers can be settled on a same-day or next-day basis via NEFT.
- Cross-border transfers can be made via SWIFT and settled through correspondent banks abroad.

**Direct debits**

- Direct debits are used for regular payments, such as utility bills.
- Direct debits are settled on a next-day basis via the ECS.

**Cheques**

- The cheque is a popular cashless payment instrument, used by both consumers and companies.
- Cheques are truncated into electronic items before being processed via the CTS. Settlement is on a same-day basis for local cheques and a next-day basis for intercity cheques.
- Non-local cheques in areas subject to speed clearing are cleared within two days.
- Non-local cheques in areas that are not subject to speed clearing can take up to three weeks to clear.
- Banks use courier services for cheque collection in areas where they do not have branch coverage. These
cheques are cleared at local clearing houses through correspondent or partner banks.

**Card payments**

- Card payments are increasingly popular, especially for retail transactions.
- There were 931,261,931 debit and 45.2 million credit cards in circulation in January 2019.
- RuPay is India's national domestic payment card operator. There are over 300 million RuPay cards in circulation.
- Visa and MasterCard-branded payment cards are the most widely issued.
- Most debit and credit card payments are processed by the National Financial Switch (NFS) on a same-day or next-day basis.
- Visa card payments are processed via the Visa switch for settlement through Bank of America. MasterCard payments are processed via the MasterCard switch before being settled by the Bank of India. Visa and MasterCard payments are cleared on a next-day basis.
- The RBI is currently implementing a scheme for all cards to carry EMV chips.

**ATM/POS**

- There were 203,458 ATMs in India at the end of January 2019.
- There were 3.6 million POS terminals in India at the end of January 2019.
- Most card payments are settled on a same-day basis via the NFS network. A total of 101 banks participate in the NFS ATM network. A further 708 banks participate as sub-members.

**Electronic wallet**

- The dominant electronic wallet schemes in India are pre-paid cards scheme. All prepaid payment instruments in India are subject to a maximum value limit of INR 50,000 per month. Sixty-one banks are permitted to issue pre-paid cards.
- There are an estimated 250 million mobile wallet users in India. Mobile wallets can hold a maximum of INR 20,000.
- E-money payments are settled via their individual schemes.
- The UPI PoS app can be used to make retail payments in-store.

**BNP Paribas capabilities**

BNP Paribas is a member of the local clearing house and provides a comprehensive offering for cash management, payments and collections with access to over 4,000 branch locations across India through a partner bank network. In addition, the bank has partnered with local vendors for providing cash in transit, card acquiring and cheque collection solutions. The bank also offers a variety of solutions specifically designed to meet customers' local payment and collection needs in India, such as remote cheque printing, remote payments authorisation via mobile phones and tablets, and a range of other services, as outlined above.

BNP Paribas continues to invest significantly in technology to deliver robust, secure solutions for customers across a wide variety of business models, including:

- Complete range of paper and electronic payment options
- Single and bulk payment options
- Single file upload across products/debit accounts/print locations
- Comprehensive reports with real-time advice to beneficiaries
- Client-specific approval workflow
- File encryption and host-to-host connectivity
- Automated reconciliation
Electronic banking

Market overview

- Electronic banking services are available from most banks, with services predominantly used by larger companies.
- There is no national electronic banking standard in India, so companies use banks' proprietary services.
- The Indian banking industry uses a standardised financial message format (Structured Financial Messaging System – SFMS), which is similar to SWIFT messaging standards.
- Transaction and balance reporting, payment initiation and electronic invoice presentment and payment (EIPP) services are available via electronic banking.
- Online and mobile banking services are provided by the country's leading commercial banks. As of April 2019, there were 478 banks permitted to provide mobile banking services.
- The Bharat Interface for Money (BHIM) is a mobile app based on the UPI. It enables transfers between accounts directly through banks. Transactions are near real-time and can be conducted 24/7. Users can also check balances and use mobile numbers to send payments. There are 111 member banks participating in the service.
- The National Payments Corporation of India operates the Interbank Mobile Payments Service (IMPS), a real-time electronic funds transfer system. There are 273 participant banks in IMPS, with a customer base of over 22 million mobile phone subscribers.
- The Unified Payments Interface (UPI) enables users to make, receive and schedule online payments via smartphone. Payments are transferred directly between any two banks. There are 142 members of UPI.

BNP Paribas capabilities

- In addition to offering BNP Paribas' full range of international electronic banking solutions such as Connexis, host-to-host connectivity and SWIFT Corporate Access, BNP Paribas offers specific local solutions such as NetPay to support the local bank connectivity needs of the corporate community in India. In addition, BankSmart facilitates access to electronic banking via mobile phone.

Liquidity management

Domestic: notional pooling

- Domestic notional cash pools are not permitted.

Domestic: cash concentration

- Domestic cash concentration structures are available, however regulatory controls and WHT implications make them difficult to operate.
- Participant entities must share the same beneficial ownership and must comply with Indian rules on intercompany lending.
- Resident and non-resident bank accounts can participate in the same cash concentration structure.
- Lifting fees may be payable on transfers between resident and non-resident accounts and withholding tax may be applied on interest payments to non-residents.
Cross-border notional pooling

- Cross-border notional cash pools are not permitted.

Cross-border cash concentration

- Cross-border cash concentration structures are available, subject to exchange controls.
- Withholding tax is usually applied on interest payments arising from intercompany loans.

BNP Paribas insights

- Domestic cash pooling is achievable in India but may be subject to tax implications depending on the legal status and holding structure of participating companies.
- BNP Paribas provides advisory on pooling with support from in-house and external legal and tax consultants. Please contact your BNP Paribas relationship manager for further information on how best to manage regional and global liquidity.

Short term investments

Market overview

Interest payable on credit balances

- Interest-bearing current accounts are not available.

Demand deposits

- Demand deposits denominated in INR or major foreign currencies are available with terms ranging from overnight to one year.

Time deposits

- Time deposits are available in INR or major foreign currencies with terms ranging from one week to one year. Non-residents are required to invest for a minimum of 1 one year.

Certificates of deposit

- Domestic banks issue certificates of deposit with terms ranging from one week to 12 months. Terms of three months are most common.
- Certificates of deposit can be issued paying fixed or variable interest.
- The minimum investment amount is INR 100,000.

Treasury (government) bills

- The RBI issues treasury bills at weekly auctions.
- Terms are typically for terms of three, six and twelve months.

Commercial paper

- Domestic commercial paper is issued by companies. Most paper is issued for three months, although terms ranging from seven days to 12 months are available.
• Commercial paper must have a published credit rating.
• Companies can also issue inter-corporate deposits. Terms are typically up to six months.
• The minimum investment amount is INR 500,000.

Money market funds

• Money market funds are available.

Repurchase agreements

• Repurchase agreements are only available in India for institutions approved by the RBI.

Banker’s acceptances

• Banker’s acceptances are not available in India.

BNP Paribas insights

• Please contact your BNP Paribas relationship manager for support and guidance on liquidity management.

BNP Paribas Trade Finance Capabilities

Trade payments

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentary credits</td>
<td>✔️</td>
</tr>
<tr>
<td>Documentary collections</td>
<td>✔️</td>
</tr>
</tbody>
</table>

Supported by BNP Paribas

Not required / permitted in INDIA or not supported by BNP Paribas

Guarantees

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Bank guarantees</td>
<td>✔️</td>
</tr>
<tr>
<td>Standby letters of credit</td>
<td>✔️</td>
</tr>
</tbody>
</table>
## Supply chain management

<table>
<thead>
<tr>
<th></th>
<th>Supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>☑</td>
</tr>
<tr>
<td>Payables</td>
<td>☑</td>
</tr>
<tr>
<td>Inventory</td>
<td>☐</td>
</tr>
</tbody>
</table>

## Trade channels

<table>
<thead>
<tr>
<th>Trade Channel</th>
<th>Supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connexis Trade</td>
<td>☑</td>
</tr>
<tr>
<td>Connexis Supply Chain</td>
<td>☑</td>
</tr>
<tr>
<td>SWIFTNet Trade for Corporates</td>
<td>☑</td>
</tr>
<tr>
<td>Connexis Connect</td>
<td>☑</td>
</tr>
</tbody>
</table>

## International trade

### General trade rules

- India is a member of the South Asian Association for Regional Cooperation (SAARC), which aims to abolish most
trade tariffs between member states. SAARC comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

- India has 231 operational special economic zones.

**Trade agreements**

- India is a signatory of the SAARC South Asia Free Trade Agreement (SAFTA).
- India has also established FTAs with Malaysia, Sri Lanka and has signed an outline agreement for establishing free trade deals with Israel, South Korea and Thailand.
- India is in FTA talks with a number of countries and trading blocs including Bangladesh, Chile, Indonesia, the European Union, South Africa Customs Union (SACU), the Gulf Cooperation Council (GCC), Australia, New Zealand, Israel, Panama and Colombia.

**Imports / exports**

<table>
<thead>
<tr>
<th>Imports</th>
<th>Crude oil</th>
<th>Precious stones</th>
<th>Machinery</th>
<th>Fertilizer</th>
<th>Iron and steel</th>
<th>Chemicals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Import sources</td>
<td>China (16.3%)</td>
<td>USA (5.5%)</td>
<td>UAE (5.42%)</td>
<td>Saudi Arabia (4.8%)</td>
<td>Switzerland (4.7%)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exports</th>
<th>Petroleum products</th>
<th>Precious stones</th>
<th>Machinery</th>
<th>Iron and steel</th>
<th>Chemicals</th>
<th>Vehicles</th>
<th>Apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export markets</td>
<td>USA (15.6%)</td>
<td>UAE (10.2%)</td>
<td>Hong Kong (4.9%)</td>
<td>China (4.33%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Import / export volumes**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- goods USD m</td>
<td>328,387</td>
<td>272,353</td>
<td>268,615</td>
<td>304,107</td>
<td>332,087</td>
</tr>
<tr>
<td>- services USD m</td>
<td>157,196</td>
<td>156,278</td>
<td>161,819</td>
<td>185,294</td>
<td>205,103</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- goods USD m</td>
<td>472,434</td>
<td>409,237</td>
<td>376,090</td>
<td>452,241</td>
<td>518,982</td>
</tr>
<tr>
<td>- services USD m</td>
<td>81,119</td>
<td>82,643</td>
<td>95,922</td>
<td>109,371</td>
<td>124,685</td>
</tr>
<tr>
<td><strong>Current account as % GDP</strong></td>
<td>-1.3</td>
<td>-1.1</td>
<td>-0.5</td>
<td>1.5</td>
<td>NA</td>
</tr>
</tbody>
</table>
Trade finance - imports

Documentation

- The following documentation is required in order to import goods into India:
  - bill of entry
  - bill of lading
  - cargo release order
  - catalogs
  - certificate of origin
  - commercial invoice
  - import general manifest
  - inspection report
  - insurance certificate
  - packing list.
- Documentation, usually in the form of a bill of entry, is required for foreign exchange payments for imports in excess of USD 100,000 or the equivalent.

Import licences

- Licences are required when importing certain animals, aircraft, meat, plants, seeds, armaments and antiques.

Import taxes and tariffs

- Tariffs are not set on capital goods covered by India's Export Promotion Capital Goods Scheme.
- Tariffs on other goods are set between 2% and 10%.

Financing requirements

- None

Risk mitigation

- None

Prohibited imports

- Prohibited imports are published on a negative list.

Trade finance - exports
Documentation

- The following documentation is required in order to export goods from outside India:
  - bill of lading (3 copies)
  - certificate of origin
  - commercial invoice
  - customs export declaration
  - insurance certificate
  - packing list
  - technical standards certificate
  - terminal handling receipt.

Export licences

- Permits are required when exporting goods covered by India’s international treaty obligations, goods that may harm fauna or flora and goods that threaten national security.
- Licences are required when exporting textiles, animals, seeds, chemicals, mineral ores, agricultural items and food industry waste.

Export taxes and tariffs

- Export taxes of between 10% and 60% are placed on animal skins, leathers and hides.

Financing requirements

- None

Risk mitigation

- The Export Credit Guarantee Corporation of India (ECGC) and the Export-Import Bank of India provide state-supported export credit insurance and financing.
- Export credit insurance and financing are also available from private companies.

Prohibited exports

- India prohibits exports in line with international treaty obligations.

Regulatory requirements

Reporting regulations

- Reporting regulations are not set for non-bank companies in India.
- Banks are required to report information on foreign currency transactions to the RBI as part of their regular reporting cycle.
• Non-bank companies are not required to file reports with the RBI.
• Banks must submit all reports using official forms and include all supporting documentation.

Exchange controls

• Exchange controls are administered by the RBI.
• Export proceeds must be repatriated within nine months of shipment unless permission has otherwise been granted by the RBI. Repatriated funds can be held in foreign currency accounts in India.
• India has liberalised its rules on External Commercial Borrowing by residents from non-residents. Under the automatic route of the scheme, entities can borrow, without the need for regulatory approval: USD 750 million for entities from infrastructure and manufacturing sectors; USD 200 million for entities from the software development sector; USD 100 million for entities engaged in micro finance activities; and USD 500 million from the remaining sectors.
• Foreign exchange can be lent by resident entities to subsidiaries or joint ventures abroad, up to a limit of 400% of the company’s net worth.

Anti-money laundering / counter-terrorism financing

• India has implemented anti-money laundering legislation (the Foreign Exchange Management Act 1999; the Prevention of Money Laundering Act 2002, effective since July 2005, as amended; the Prevention of Terrorism Act 2003; the Money Laundering Regulations 2003; and the Unlawful Activities (Prevention) Order 2009, plus associated Reserve Bank of India Rules and Notifications).
• India is a member of the Asia/Pacific Group on Money Laundering (APG) and has observer status with the Financial Action Task Force (FATF) and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).
• India has established a financial intelligence unit, the Financial Intelligence Unit-India (FIU-IND) which is a member of the Egmont Group. The FIU-IND reports directly to the Economic Intelligence Council which is headed by the Finance Minister.
• Account opening procedures require formal identification of the account holder and beneficial owner(s).
• Financial institutions are required to conduct ongoing due diligence.
• Occasional customers must be identified for all transactions, domestic and cross-border, of INR 50,000 and above, whether in a single or series of linked transactions.
• Cash transactions exceeding INR 1 million or its equivalent in foreign currency, or a series of transactions aggregating to a value above INR 1 million must be recorded.
• Financial institutions in the broadest sense must record and report suspicious transactions to the FIU-IND within seven working days of the transaction having been identified as suspicious.
• The Indian government does not regulate the hawala market.
• Cash transactions exceeding INR 1 million or aggregating (within a month) to a value above INR 1 million must be recorded and reported to the FIU-IND by the 15th day of the succeeding month.
• All cross-border wire transfers exceeding INR 500,000 or its equivalent in foreign currency must be recorded and reported.
• All records must be kept for at least five years from the cessation of the transactions.

* Data as at June 2019.

Taxation

Resident / non-resident

• A company is resident in India if it is incorporated on India or if its place of effective management, in that year, is in India.
• A partnership firm, LLP or other non-individual entity is considered resident in India if any part of the control and management of its affairs takes place in India.
Financial instruments

- Generally, income from the sale of financial instruments is taxed as business income or capital gains, depending on the specific facts.

Interest and financing costs

- Certain income such as dividends received from an Indian company is exempt from tax in the hands of the shareholder. The interest expense incurred by the shareholder on loans used for the purpose of making such investments which yield exempt income is disallowed on a pro-rata basis, in accordance with a prescribed formula.
- Income of foreign companies and other non-residents derived from interest arising on monies lent in a foreign currency from a source outside India to Indian companies between 1 July 2012 and 1 July 2017 is taxable at a rate of 5% (plus applicable surcharge and education cess) under an agreement approved by the central government. This benefit is currently available on borrowings made by all Indian companies, in foreign currency either under a loan agreement or by way of issue of long-term infrastructure bonds, as approved by the Central Government.

Foreign exchange

- Under Indian GAAP, monetary items held in a foreign currency need to be converted into Indian rupees by applying the conversion rate at the end of the year. Any gain or loss on such conversion is credited/debited to the revenue account (if the underlying transaction is on revenue account) or adjusted in the cost base of the asset (if the underlying transaction is on capital account).
- Taxable profits and liabilities are expressed in Indian rupees. Specific rules exist for converting foreign currencies into Indian rupees.

Advance tax ruling availability

- The Authority for Advance Rulings (AAR) issues rulings on the tax consequences of transactions or proposed transactions with non-residents. It is also able to issue rulings in relation to tax liability of residents in prescribed cases. From 1 April 2015, AAR is able to issue rulings on whether an arrangement is an impermissible avoidance arrangement. Rulings are binding on the applicant and the tax authorities for the specific transaction(s). Advance pricing agreements are also possible.

Capital gains tax

- The tax treatment depends on whether gains are long or short term. Gains are long term if the asset is held for more than three years (one year in the case of shares and specified securities). Long-term gains on listed shares and specified securities are exempt if the transaction is subject to the Securities Transaction Tax (STT). With effect from April 1 2018, the exemption is restricted to INR100,000. Any gain in excess of INR 100,000 is chargeable to tax at the rate of 10% (plus applicable surcharge and cess). Where such gains are not subject to the STT, a 10% tax applies (without benefit of an inflation adjustment).
- The applicable tax rate on long-term capital gains derived by a non-resident from the sale of unlisted securities is 10%. Gains on other long-term assets are taxed at 20% (with the benefit of an inflation adjustment).
- Short-term gains on listed shares and specified securities, which are subject to the STT, are taxed at 15%, and gains from other short-term assets are taxed at the normal tax rates. A surcharge and cess also are imposed.
- An unlisted domestic company is liable to pay an additional tax of 20% on any income distributed to a shareholder on account of a buyback of the company's shares.
Withholding tax (subject to tax treaties)

<table>
<thead>
<tr>
<th>Payments to:</th>
<th>Interest</th>
<th>Dividends</th>
<th>Royalties</th>
<th>Other income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident entities</td>
<td>10%</td>
<td>None</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Non-resident entities</td>
<td>5%20%</td>
<td>None</td>
<td>20%25%</td>
<td>20%25%</td>
</tr>
</tbody>
</table>

- Payments to resident companies have applicable surcharge and cess.

**Interest**
- Interest paid to a non-resident on a foreign currency borrowing or debt is generally subject to a 20% withholding tax, plus the applicable surcharge and cess. The rate may be reduced under a tax treaty.
- A 5% WHT, plus the applicable surcharge and cess, applies to certain types of interest paid to a non-resident, including interest paid on specific borrowings in foreign currency.
- If the non-resident does not have a Permanent Account Number (PAN), i.e. a tax registration number, tax must be withheld at the applicable tax treaty rate or 20%, whichever is higher.
- If the interest income derived by a non-resident does not fulfil certain prescribed conditions for concessional withholding tax rates, a withholding tax rate of 30% (for individuals and entities other than a foreign company) or 40% (for a foreign company), plus the applicable surcharge and cess, will apply.

**Dividends**
- Dividends are not subject to withholding tax. However, the company paying the dividends is subject to dividend distribution tax.
- As from 1 April 2017, an additional income tax of 10% (plus surcharge and cess) applies on a gross basis on dividend income that is declared distributed or paid by a domestic company to a resident individual, a Hindu Undivided Family or partnership firm if the aggregate dividend income of the recipient exceeds INR 1 million per annum.

**Royalties**
- Royalties paid to a non-resident are subject to a 10% withholding tax, plus the applicable surcharge and cess. The rate may be reduced under a tax treaty.
- If a treaty applies, but the non-resident does not have a PAN, tax must be withheld at the applicable tax treaty rate or 20%, whichever is higher.

**Technical service fees**
- Technical services fees paid to a non-resident are subject to a 25% withholding tax, plus the applicable surcharge and cess. The rate may be reduced under a tax treaty.
- If a treaty applies, but the non-resident does not have a PAN, tax must be withheld at the applicable tax treaty rate or 20%, whichever is higher.

**Tax treaties / tax information exchange agreements (TIEAs)**
- India has double tax agreements in force with several countries that allow qualifying companies the benefit of reduced rates of withholding tax and the mitigation of double taxation. The law specifically provides that tax treaties override local tax law wherever they are more beneficial.
- The Finance Act 2013 provides that the condition of the certificate containing such particulars has been dropped and that the non-resident should furnish a certificate of his residence obtained by him from the government of that country or specified territory. Further, the Finance Act provides that the non-resident will
have to provide such other documents and information as may be prescribed.

- Specific measures were introduced with regard to unaccounted monies, held outside India, of resident Indians.
- India has exchange of information relationships with 117 jurisdictions through 98 double tax treaties and 20 TIEAs (www.eoi-tax.org, June 2019).
- India is a signatory of the Multilateral Competent Authority Agreement (MCAA) on the automatic exchange of country-by-country financial account information. Under this multilateral agreement, information will be exchanged between tax administrations, giving them a single, global picture on some key indicators of economic activity within multinational enterprises.

**Thin capitalisation**

- There are no thin capitalisation rules under current domestic tax law in India.

**Transfer pricing**

- The transfer pricing regime is influenced by OECD norms, although the penalty provisions in India are stringent compared to those in other countries. The definition of associated enterprise extends beyond a shareholding or management relationship, as it includes some deeming clauses.
- The scope of the transfer pricing provisions also cover “specified domestic transactions” (including payments to related parties) if the aggregate value of those transactions exceeds INR 200 million in one year.
- The pricing of these transactions must be determined with regard to arm's length principles, using methods prescribed under India’s transfer pricing rules, which are similar to the methods prescribed in the OECD guidelines, with an additional sixth method, i.e. an “other method.” The arm’s length price is determined based on multiple-year data, and based on a range or the arithmetic mean (depending on certain prescribed conditions).
- The taxpayer is required to maintain detailed information and transfer pricing documents substantiating the arm’s length nature of related-party transactions. Companies also may be required to submit a certificate to the tax authorities (in prescribed format) from a practicing chartered accountant that sets out the details of associated enterprises, international transactions, etc., along with the methods used to determine an arm's length price. The certificate must be submitted by the due date for companies required to submit such a certificate to file the annual tax return, i.e. 30 November.
- The Indian transfer pricing documentation requirements have been updated to incorporate the specific reporting regime in respect of country-by-country reporting and the master file provided for under the OECD/G20 BEPS project.
- Where the application of the arm’s length price would reduce the income chargeable to tax in India or increase a loss, no adjustment will be made to the income or loss. Secondary adjustments will apply to transfer pricing adjustments relating to fiscal year 2016-17. The taxpayer is required to repatriate cash to India within a prescribed time to the extent of a transfer pricing arrangement.
- If a taxpayer that benefits from a tax holiday is subject to a transfer pricing adjustment, the benefit will be denied to the extent of the adjustment. The allowable variation in computing the arm's length price will be as provided by the government. Cash repatriation is required for any kind of transfer pricing adjustment.
- Safe harbour rules provide for the automatic acceptance of a taxpayer's transfer price equals or exceeds specified amounts.

**Stamp duty**

- Financial instruments, real property and other specified transactions (including a court order for an amalgamation/demerger) in India attract stamp duties that are levied under the Indian Stamp Act and the stamp acts of the various states (with rates varying significantly between states).
- The Finance Act 2019, proposes that stamp duty be levied on stock exchange transactions.
Cash pooling

- India has no specific tax rules that apply to cash pooling arrangements. It is understood that notional cash pooling is not available in India, so cash pooling should involve the actual physical transfer of funds. Cash pooling tax issues that may need to be considered include deemed dividends withholding tax on interest and the application of transfer pricing rules to domestic transactions for interest and guarantee fee, if any.

Financial transactions / banking services tax

- Financial transactions such as lending, bill discounting and financial leasing are subject to service tax. However, tax is generally applicable on the up-front fees, processing charges and other service charges levied by the bank or financial institutions, but excluding the interest element. However, since service tax is a transaction-based tax, it is important to evaluate transactions to determine the indirect tax implications.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2019 (www.deloitte.com).

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Market data updated as of 02-08-19