India
Opportunities and barriers to inbound construction

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G20 rankings & data

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<th>G20 heatmap rankings</th>
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<td>Construction industry health</td>
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<td>Construction industry, real growth</td>
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<td>Announced spend on construction in next 3 years</td>
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<td>Country financial health</td>
<td>Budget balance</td>
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<td>Overall announced fiscal stimulus</td>
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<td>Dealing with construction permits rank</td>
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<td>Business transparency rank</td>
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| Tax regime | BDO overall tax rank | 12=
|                          | World bank – paying taxes rank | 19 |

Financial metrics

Total fiscal stimulus announced
£160bn (approx)

Announced spend on construction in the next 3 years including fiscal stimulus to construction
£377.1bn

Construction industry value – 2009
£59bn

Main corporate tax rate
34%

Construction sector metrics

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<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tr>
<td>Construction industry value, £bn</td>
<td>45</td>
<td>51</td>
<td>59</td>
<td>66</td>
<td>76</td>
<td>86</td>
<td>99</td>
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<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>14.1</td>
<td>8.9</td>
<td>5.7</td>
<td>8.7</td>
<td>9.4</td>
<td>7.2</td>
<td>10.1</td>
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<tr>
<td>Construction industry, per cent of GDP</td>
<td>8.4</td>
<td>8.5</td>
<td>8.3</td>
<td>8.2</td>
<td>8.4</td>
<td>8.6</td>
<td>8.7</td>
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BDO review of tax

- Headline rate of corporate tax towards top end of G20 range
- Generally no thin capitalisation restrictions
- Tax depreciation rates are among the more generous within the G20
- Significant tax incentives are available in defined tax favoured special areas

Overall scoring
5/10
12= out of the G20

BDO ease of doing business

There are some significant barriers for inbound construction activity, however it is possible to get round these
1 Very easy
2 Quite easy
3 Average
4 Quite difficult
5 Very difficult

Top construction firms

- DLF
- HDIL
- Hiranandani
- Lok Group
- Raheja
- Peninsula land

1 Extremely dominant
2 Dominant
3 Quite dominant
4 Not very dominant
5 Not at all dominant
“India offers good opportunities with predicted continued GDP growth and its rapid planned growth in infrastructure, with opportunities in all segments. However, the Indian construction market does have some risks, and investors should be aware of the pitfalls.”

Richard Kelly
Partner; Head of Construction

“Despite the reliefs available for certain construction projects in selected locations, the Indian tax system suffers from the high tax rate applicable to profits.”

Stephen Herring
Tax Partner; Real Estate and Construction

Opportunities and barriers

Ranked 8th overall in our G20 heatmap, despite a challenging environment for inbound companies, the scale of opportunity in India is impressive – its infrastructure sector has seen double digit growth in the past few years, and more than £377bn is planned to be spent on infrastructure by 2012.

India’s infrastructure sector has registered strong growth in recent years, with 2006 and 2007 witnessing real construction sector growth of 20 per cent and 14 per cent per annum respectively, thanks to strong activity by both private and public sources. In 2008 the industry contributed an estimated 8.5 per cent to India’s gross domestic product (GDP), driven by strong demand from the transportation, power, urban infrastructure and irrigation segments. This development has been spurred by a virtuous cycle of strong economic growth, rising government revenues and foreign investment.

In March 2009 the World Bank announced it would step up its exposure to India to $14bn (£10.2bn) in the next three years and will soon clear a $2.6bn (£1.9bn) special loan package.

The Indian government has identified the need for $500bn (£357bn) in infrastructure spending between 2007 and 2012.

World Bank chief economist Justin Yifu Lin, noted that by investing in the bottlenecks of the country like infrastructure, India could see a pick up in labour force, especially in the face of current crises, which would pave the way for a longer-term growth.

Projected spending over the period will include: electricity $167bn (£121.6bn), railways $65bn (£47.3bn), road and highways $92bn (£67bn), ports $22bn (£16bn), and airports $8bn (£5.8bn).

Reports suggest that India’s rapidly expanding infrastructure sector will offer opportunities in nearly all segments, with roads and highways, ports and airports, railways and power standing out as particular bright spots.

Work on the Golden Quadrilateral – a $12 billion initiative spanning more than 3,000 miles of four- and six-lane expressways connecting Mumbai, Delhi, Kolkata, and Chennai – is due to be completed this year. And new airports are under construction in Bangalore and Hyderabad, with more planned elsewhere.

Reasons India is attractive for inbound construction activity

- The infrastructure sector is increasingly well organised.
- The Indian government plans to spend $500bn (£357bn) on infrastructure construction to 2012.

Barriers/challenges to construction activity

- It is often difficult to enter the Indian market, and especially difficult with government projects where there may be difficult tendering and project management requirements. One example of this is that the company bidding for a government project needs to have a track record. In the case of a newly formed SPV or new company it is difficult to prove that the track record exists.
- Proper tax structuring is very difficult in India.
- Finding a potential JV Partner. Foreign-owned companies cannot own land in India, so much investment must take the form of a JV.
- Compliance related to regulatory and income tax issues (e.g. requirements to joint venture, tax treatment of profits).  


BDO viewpoint and advice

Pitfalls to avoid when doing business in India

- Unsound contracts to suppliers.
- Unpredictable costings.
- The difficulty of setting up a cash handling mechanism.
- Commitment to delivery – under the present rules, foreign investors must complete at least 50 per cent of the integrated project within five years from the date of obtaining all clearances.

Practical advice for inbound construction activity

- It is necessary to have local knowledge/support to deal with the compliance and regulatory issues, and in relation to local laws for the construction industry.
- Ensure that proper due diligence is performed when finding the JV partner (which is necessary for many investors into India).
- Ensure that there are proper cash handling mechanisms (payments to labour force are in cash, daily, as the labour force tends not to have bank accounts).

Useful tax and other incentives for inbound construction activity

Main depreciation rates:
- Buildings – 5 per cent tax depreciation is available on a declining balance method.
- Other tangible assets – obtain tax depreciation on specified rates on the declining balance method.

Other incentives:
- Exemption from corporate tax for up to 15 years for developers in Special Economic Zones (SEZs).
- Exemption from corporate tax is available to a venture capital company or fund on income arising from developing or operating and maintaining Indian infrastructure facilities.