



DOING BUSINESS IN UTTAR PRADESH, INDIA

2023

FOREWARD:

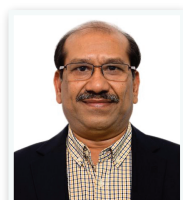
Uttar Pradesh (“UP”) is a vast, populous, and diverse state of India encompassing many different identities, languages, cultures, and religions. Uttar Pradesh is country’s 3rd largest economy, contributing nearly 8% of national GDP and fourth largest state in terms of Land Area in India. The most populated state in India, covering roughly 16% of India's population, with a population of around 240 Mn, it is at par with 5th largest country in the world and has more people than Brazil or many European countries. In terms of its economic growth, India is one of the fastest growing economies of the world and UP is going to be a significant contributor in this growth journey. Led by the PM Modi government in India and CM Adityanath Yogi in UP, several economic, financial, and institutional reforms including the reforms leading to ease of doing business across state, have been implemented.

This document endeavours to lay down the fundamental legal regime regarding the conduct of business in state of Uttar Pradesh, India and resolves queries and issues normally raised by overseas investors.

It is intended to act as a summarised guide to aid a potential investor in his decision-making in how to establish business entity and carry-on operations in UP. This document can be accessed at our website www.krestonsnr.com.

Today, when the world is looking at India as an ideal business destination, we hope that this document proves to be a handy and useful guide to all the aspirants from global business fraternity as well as our professional associates throughout the world in their analysis and evaluation of business ventures and in strengthening decision making process.

With significant changes in infrastructure development and business-friendly policies, UP state is bound to grow significantly in the coming years, and global business houses must consider UP state for their business development strategies.



CA Mahendra Rustagi

CEO



CA Manoj Sharma

Partner

10th February 2023
Lucknow, UP (India),

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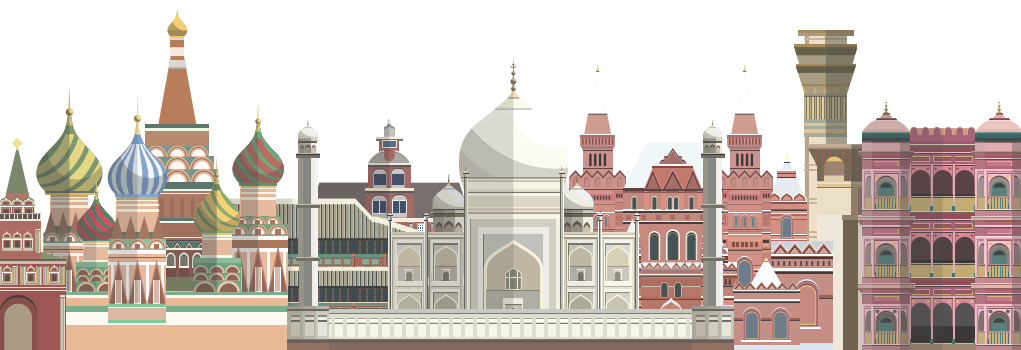
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1. A Brief About Uttar Pradesh, India

Chief minister Yogi Adityanath has set a target of attracting ₹10 lakh crore investment at the Global Investors Summit (GIS) - 2023 to boost the state's economy to a trillion dollars in five years. Such investments are likely to lead to large-scale economic growth and employment in the state.

State Government has initiated many actions to apprise the world economies about the potential UP has. State's Chief Minister, Mr. Yogi Adityanath, has invited business houses across the globe to participate in "new India's growth engine" and invest in Uttar Pradesh.



Few facts about Uttar Pradesh are given below:

1. Uttar Pradesh is country's 3rd largest economy, contributing nearly 8% of national GDP.
2. Fourth largest state in terms of Land Area in India.
3. The most populated state in India, covering roughly 16% of India's population. With a population of around 240 Mn, it is at par with 5th largest country in the world and has more people than Brazil or many European countries.
4. The state is among the most popular tourist destinations in India, with prominent pilgrims like Mathura, Prayagraj, Varanasi, Sarnath, and the well-known Tajmahal.



5. While the state is a leading producer of food items, it is also the top manufacturing state in India. UP is a leading electronics exporter in the country and has emerged as a key hub for IT/ITes and the service sector, including Software, BPO, R& D Services.
6. Noida, Greater Noida, and now Yamuna Expressway, with their proximity to the national Capital, Delhi, are among India's most preferred investment destinations for electronics manufacturing.
7. Largest Railway Network with around 9,000 KM of total track.
8. Largest road network in India with around 4,00,000 KM of total road length
9. One of India's largest International Airport coming up at Jewar (Greater Noida)
10. A single window System for approval for setting up business in UP.
11. A large chunk of Land Bank for industrial use.



2. Invest in UP – Focus & Sunrise Sector

UP Government has defined following as Focus and Sunrise sectors for investment purposes:

Focus Sectors:

• **Food Processing & Dairy**

- 100% FDI Allowed through automatic route (including trading, eCommerce)
- 1st in India in the production of Milk, Food Grain & Sugarcane
- 3rd in India in the Production of Fruits
- Largest exporters of processed frozen meat in India
- 9 Agro climate zones in UP With varied forms of agro specialities

• **Handloom and Textile**

- 3rd Largest Textile Producer in India
- 5th Largest producer of Silk in India
- 47 approved Textile Parks/Clusters
- Availability of traditionally competent labor at a competitive cost

• **Information Technology**

- 100% FDI allowed through automatic route
- The abundance of skilled labor at competitive rates
- 167 million subscribers (Wireless plus wireline)
- More than 40 IT & ITes Parks

• **Tourism**

- 100% FDI allowed under the automatic route in the Tourism and hospitality industry in India, subject to applicable regulations and laws
- 2nd Highest Domestic Tourists footfall in India
- 3rd highest foreign tourist footfall in India
- Emerging destination for wellness, MICE, adventure & Eco-Tourism

- **Electronics Manufacturing**

- The largest exporter of consumer electronics in India
- 40% of Mobile manufactured in India come from the State
- 55% of India's mobile component manufacturing units operate from UP

- **Film**

- The biggest film city in the country is coming up in State
- Subsidy for shooting in the State and setting up Film Training Institute

- **Renewable Energy**

- 100% FDI allowed through automatic route
- 28GW Capacity to produce renewable energy in State
- The abundance of raw materials, viz. bagasse, rice husk, etc.
- The abundance of continuous tracks of land with high solar radiation is suitable for setting up Solar Parks in the State.

- **Civil Aviation**

- 100% FDI allowed (Up to 49% under automatic route)
- Continuous increase in passenger and freight movement in the State.
- 25 Airports targeted under the UDAN Regional connectivity scheme.



Sunrise Sectors:

• Pharmaceuticals

- 100% FDI allowed under automatic route for greenfield & Brownfield pharma (74% through automatic route and after that through approval route)
- Largest consumer base in India
- The State has a 17% share in national sales in terms of value.
- The State has 9 Pharma Clusters and 1 Biotech Park.

• Logistics & Warehousing

- Upcoming Jewar International airport to be the largest in North India
- Strategically located being adjacent to NCR and gateway to eastern & southern exporting hubs
- 8.5% share of Delhi Mumbai Industrial Corridor (DMIC) and 57% share in Amritsar Kolkata Industrial Corridor (AKIC). The intersection points of both is at Dadri in Greater Noida
- The highest share of Eastern Dedicated Freight Corridor (EDFC).

• Electric Vehicle Manufacturing

- 100% FDI is allowed under automatic route
- 3rd Largest automobile consumer in India by the number of vehicles registered
- Rapidly growing urban centres posing high demand for the automobile in tier 2 and 3 cities of the State

• Defence & Aerospace

- 100% FDI is allowed in the Defence industry (74% through automatic route and after that through approval route)
- Destination for Defence industrial corridor announced by Govt. of India
- 5,000 Hectares of developed land for the Defence Industrial Corridor

3. Business Setting up Options

A foreign group planning to set up business operations in state of Uttar Pradesh, India can do so through the following legal entity options depending upon the business need:

- Set up a liaison office/representative office, project office, or branch office of the foreign Company to undertake activities permitted under the Foreign Exchange Management (Establishment in India of Branch Office or Other Place of Business) Regulations, 2000; or
- Incorporate a company under the Companies Act as a Joint Venture [JV] or a Wholly Owned Subsidiary [WOS]; or
- Incorporate a Limited Liability Partnership [LLP] under the Limited Liability Partnership Act, 2008.

All the legal entity options are detailed below to provide more clarity.

Liaison Office

A Liaison Office [LO] can undertake only liaison activities, i.e., it can act as a channel of communication between the Head Office abroad and parties in India. It is not allowed to undertake any business activity in India and cannot earn any income in India.

Branch Office

Companies incorporated outside India and engaged in manufacturing or trading activities are allowed to set up Branch Offices [BO] in India with specific approval of the Reserve Bank of India (India's Federal Bank). Such BOs are permitted to represent the parent/ group companies and undertake, among other things following activities in India:

- Export/import of goods,
- Render professional or consultancy services,
- Carry out research work in areas where the parent company is engaged etc.

Project Office

The Reserve Bank of India has granted general permission to foreign companies to establish Project Offices [PO] in India, where they have secured a contract from an Indian company to execute a project in India.

Citizen or Company registered in Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran, China, Hong Kong, or Macau needs prior permission from the RBI to establish a BO/LO/PO or any other place of business in India.

Wholly Owned Subsidiary / Joint Venture

A foreign company may be set up as a WOS in sectors where 100% FDI is permitted under the FDI policy. Alternatively, it could enter a joint venture with an Indian partner.

Limited Liability Partnership

A Limited Liability Partnership [LLP] is an alternative to a corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership. An LLP can continue its existence irrespective of changes in partners. It can enter contracts and hold property in its own name. It is a separate legal entity and is liable to the full extent of its assets. The liability of the partners is limited to their agreed contribution to the LLP.

Foreign Exchange Management Act governs Foreign Direct Investment ("FDI") in Indian Business. One can invest in the following manner:

- **Automatic Route:** Various sectors are covered under automatic approval for setting up business in India.
- **Government Approval Route:** Certain activities/sectors that are not covered under the automatic route require prior Government approval for FDI.

Repatriation of Funds from India

Over the years, the Indian Government has substantially liberalised remittances of income and assets. All investments and profits earned by Indian subsidiaries or branches of a foreign company are repatriable after payment of applicable taxes, subject to sector-specific exceptions.

Foreign Holding Companies or foreign investors can receive profits from Indian companies in two broad ways:

- **Pay out of profits as dividends; and**
- **Buy back of shares by the Company.**

Taxation

In India, post the introduction of Goods & Services Tax w.e.f. 1st July 2017, major tax laws (both Direct & Indirect) are uniform and applicable universally throughout India including Uttar Pradesh.

Income Tax

a) Domestic Companies

Domestic Manufacturing companies incorporated after 01-10-2019 not availing certain deductions/ incentives which commenced their manufacturing operations by 31st March 2024	15%
Domestic companies not availing certain deductions/ incentives	22%
Other Domestic Companies	30%

b) Foreign Companies

The tax rate of foreign company is 40% (plus Surcharge and education cess)

c) Limited Liability Partnership (LLP)

The tax rate of LLP is 30% (plus Surcharge and education cess)

Goods & Services Tax (GST)

Goods and Services Tax (GST) is a destination-based consumption tax. It has brought transparency into the administration, reduced the cascading effect of taxes on the cost of goods and services, and thereby created a common national market. Different GST rate slabs, such as NIL, 5%, 12%, 18% & 28%, have been prescribed for different categories of products.

Further, imports are subjected to GST, while exports are zero-rated i.e., GST-free and refunds are allowed for input tax credit on inward supplies.

Customs Duty

In India, Customs Duty is levied on the import of goods into the country. Customs Duty is payable at the time of clearance of goods for home consumption from the customs station.

Other Laws

In addition, any organisation set up in India or the state of Uttar Pradesh must comply with environmental laws, social security laws, and other laws depending upon the nature of operations.



4. Incentive Schemes for Industrial Units

Business Units categories for Incentives

Categories	Capital Investment
Large	Above Rs.50 Crore but below Rs.200 Crore
Mega	Rs. 200 Crore or above but below Rs. 500 Crore
Super Mega	Rs. 500 Crore or above but below Rs. 3,000 Crore
Ultra-Mega	Rs. 3,000 Crore and Above

Fast Track Land Allotment

Government Authorities shall facilitate preferential land allotment on a fast-track basis for many significant projects. A summary list of such categories of investors is given below:

- Super Mega and above class as per DPR and as per policy
- Mega projects meeting the following conditions:
 - Projects with 100% Foreign Direct Investment
 - Companies featuring in Fortune Global - 500 in last three consecutive years.
 - Companies featuring in Economic Times-200 in last three consecutive years.
 - Companies featuring in Forbes Global-2000/ Asia best – 200 companies in last three consecutive years.
- Large+ category projects, which are industrial PSUs of any State/Central Govt with majority Govt holding.

Stamp Duty Exemption

- 100% in Bundelkhand & Poorvanchal,
- 75% in Madhyanchal & Paschimanchal (except Gautam Buddh Nagar & Ghaziabad)
- 50% in Gautambuddh Nagar & Ghaziabad districts

Investment Promotion Subsidy

Business undertakings have been provided an option to choose any of the options out of three mutually exclusive options. A summary of all three options is given below:

Option 1: Capital Subsidy with boosters

Capital Subsidy = Base Capital Subsidy X Gross Capacity Utilisation Multiple (GCM) + Additional Capacity Subsidy

- Base Capital subsidy - As a % of Eligible Capital Investment ("ECI") as subject to below:

Gross Capacity Utilisation Multiple (GCM) = Minimum of (75%, Peak Capacity Utilisation of the considered year)/75%

- The GCM shall be considered as 1 for the first year, provided the capacity utilization for the unit is 40% of the installed capacity.
- For the subsequent years, GCM shall be considered as 1, provided the peak capacity utilisation of that year is 75% or more of the installed capacity.
- In case the peak capacity utilisation is less than 75%, the GCM shall be proportionately reduced.

Additional Capacity Subsidy in the form of Boosters (For Mega & Above Category Projects)

Annual Capital Subsidy = [(Base Capital Subsidy X GCM) + (Employment Booster + Exports Booster + Ecosystem Booster)]/ applicable Incentive disbursement duration

Employment Booster:

Mega and above category projects can avail of Employment Booster as below on providing minimum employment as provided below Table. The average annual employment (covered under Employment Provident Fund) provided by the applicant will be considered to arrive at the yearly Employment Booster percentage:

- On employing a minimum or 75% women of minimum employment for the given project category – Booster of 2%
- On employing more than twice the minimum or 75% women of twice the minimum employment for the given project category – Booster of 3%
- On employing more than thrice the minimum or 75% women of thrice the minimum employment for the given project category – Booster of 4%

Exports Booster:

Mega and above category projects can avail of the Exports Booster, which would be determined as a ratio of production meant for exports to total production for a given year as below:

- More than or equal to 25% of its production through exports – Exports Booster of 2% of ECI
- More than or equal to 50% of its production through exports – Exports Booster of 3% of ECI
- More than or equal to 75% of its production through exports – Exports Booster of 4% of ECI

Ecosystem Booster:

Business undertaking shall be eligible for this subsidy on procurement of any input/ raw material for manufacturing its final product from any existing or new manufacturing unit within the state of Uttar Pradesh. The subsidy shall be as below:

- 40% to 60% of its total raw/input material requirement – Ecosystem Booster of 2% of ECI

- 60% to 75% of its total raw/ input material requirement – Ecosystem Booster of 3% of ECI

- More than 75% – Ecosystem Booster of 4% of ECI

Option 2: Net SGST Reimbursement

Reimbursement of 100% of the Net SGST amount deposited in the State's account subject to the following:

Option 3: PLI Top-up

Top up on incentives received under the PLI Scheme of the Government of India:

- 30% of the PLI incentives (as and when disbursed by GOI) sanctioned under any PLI Scheme of the Government of India

- An overall ceiling of the incentives to be capped at 100% of ECI

Case to case Incentive

- The government may consider providing customized incentive packages on a case-to-case basis as deemed necessary for projects of particular importance.

- The Cabinet shall approve kind of such projects eligible for case-to-case basis incentives.

The Incentive for R&D projects and Intellectual Property Rights

- Reimbursement of 25% of the expenditure (up to a max. of ₹10 Cr) for standalone R&D units. Max. 10 units over the policy period to be incentivized.
- Reimbursement of 50% of the expenditure (up to a maximum of ₹1 Cr) incurred for registration of patents, copyright, trademarks, and Geographical Indicators as a result in-house R&D – for manufacturing units and standalone R&D eligible units

Financial Grant to Centres of Excellence (CoE)

- 50% of the project cost up to ₹10 crores.
- Private companies/ PSUs/ Govt Centres of Excellence (CoE) which are not entitled to any benefits under any of the policies
- Max. 10 such COEs in the policy period with a cap of a maximum of 2 CoEs in a sector.

Incentives to Infrastructure Projects

(E.g., Pumped Storage Plants (PSP); Other projects may be added from time to time)

- Eligible Investment size = Mega and above category
- Incentives: Stamp duty reimbursement; Base Capital Subsidy (as per Option1, without GCM & any boosters)

Incentives to Private Industrial Parks

Incentives to developers of Private Industrial Parks (Having minimum five units with no single unit occupying more than 80% of the total allocable area):

20 acres or more in Bundelkhand & Poorvanchal and 30 acres or more in Madhyanchal and Paschimanchal

- Capital subsidy @ 25% of ECI (except land cost) – Max. up to ₹40 Crore in Madhyanchal & Paschimanchal, ₹45 Cr in Bundelkhand or Poorvanchal

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- Capital subsidy @ 25% of ECI (except land cost) – Max. up to ₹40 Crore in Madhyanchal & Paschimanchal, ₹45 Cr in Bundelkhand or Poorvanchal
 - Capital subsidy @ 25% of the cost of Hostel/ Housing (except land cost) for workers in the Industrial Park – Max. up to ₹25 Cr
 - 100% exemption on stamp duty on the purchase of land
 - More than 100 acres
 - Capital subsidy @ 25% of ECI (except land cost) – Max. up to ₹80 Cr
 - Capital subsidy @ 25% of the cost of Hostel/ Housing (except land cost) for workers in the Industrial Park – Max. up to ₹50 Cr
 - 100% exemption on stamp duty on the purchase of land
 - 70% of incentives will be released on completion of park development, the next 10% on completion of allotment of envisaged plots and the final 15% after the units in the park start their commercial operations.

If you wish to have further details on various incentives available for Business in Uttar Pradesh, please connect with us, and we shall be happy to provide the relevant information.

Details of Major Industrial Policies

- UP Food Processing Policy 2023
- UP Warehousing & Logistics Policy 2022
- UP Solar Energy Policy 2022
- UP Tourism Policy 2022
- UP IT & ITeS Policy 2022
- UP State Solid Waste Management Policy 2022
- UP Poultry Development Policy 2022
- UP Export Promotion Policy 2020-25
- UP Startup Policy 2020 (Amended in 2022)
- UP Industrial Investment & Employment Promotion Policy 2022
- UP Textile & Garmenting Policy 2022
- UP Aircraft Maintenance, repair & overhaul Policy 2022
- UP Defence, Aerospace unit & employment promotion Policy 2022
- UP Electric Vehicle Manufacturing Policy 2022
- UP MSME Policy 2022

About Kreston SNR



Kreston SNR is a full service advisory firm providing end to end business advisory services for any organisation carrying on business or looking to setup its business in India or overseas.



Head Quartered at New Delhi with branch offices at Noida, Pune & Bangalore, Kreston SNR caters to both domestic and overseas clients.



Engaged in providing India entry support, Tax, Accounting and Consulting Services to its Domestic and Overseas clients.

Also engaged in ESG and Sustainability services for corporates in India and overseas.



Our focus is to bring value to clients through the expertise of our team consisting of CAs, CS, legal & Management professionals.



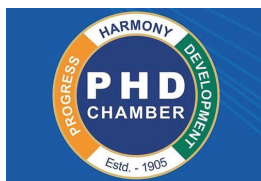
The firm has an overall strength of around 75 team members and partners.

Membership



Kreston Global is a global network of independent accounting firms Headquartered in UK. Founded in 1971 Kreston offers reliable and convenient access to quality services through member firms located around the globe.

Currently ranking as the 12th largest accounting network in the world, **Kreston** has more than 160 firms with 23,500 professional and support staff. Kreston Members are present in over 120 countries worldwide.



PHD Chamber of Commerce & Industry

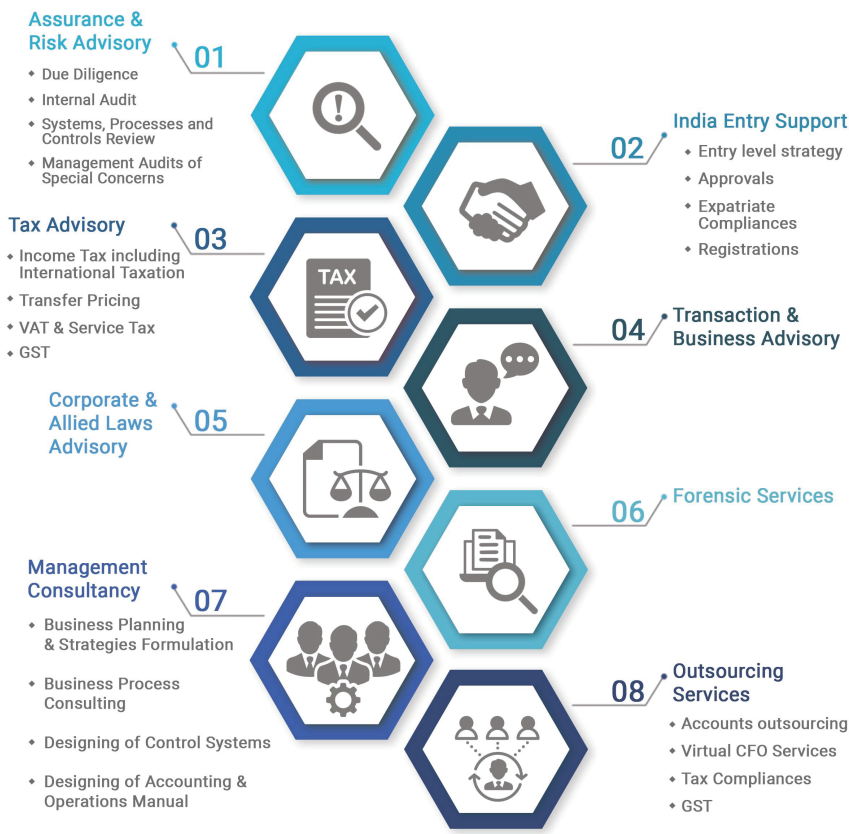
Established in 1905, PHD Chamber is a proactive and dynamic multi - State apex organisation working at the grass-root level having strong national and international linkages.

The Chamber acts as a catalyst in the promotion of industry, trade and entrepreneurship. PHD Chamber, through its research-based policy advocacy role, positively impacts the economic growth and development of the nation.

What We Offer

Kreston SNR is committed to assist its clients in the following areas:

BUSINESS CONSULTING SERVICES



What We Offer

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) SERVICES

- ESG Assessment
- ESG Framework Development
- ESG Strategy and Advisory
- Reporting and Engagement
- ESG Integra



Our Presence



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