BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

The population of India in 2022 is estimated at 1.406 billion according to the latest UN data. The largest city in India is Delhi, with a population of 32.07 million, followed by Mumbai with a population of 20.96 million (CIA, 2022). Overall, there are more than 50 areas India with a population of more than one million. While the number of Indians living in urban areas has increased over the past two decades, about 64% of the population still lives in rural areas (CIA). India is a vast country, marked by a great diversity of religions, languages, literacy levels, traditions, social customs and economic status. There are therefore several types of Indian consumers. There are five categories of Indian homes: elite, well-off, aspiring, future billionaires, strivers. The first two classes of income are those that grow the fastest. However, the largest consumption expenditure is concentrated on categories including people with undergraduate degrees (skilled employees), blue-collar workers and migrant workers. In India, these categories represent about 130 million workers with incomes of more than 3,200 USD per year on average. India struggles to educate and employ its growing population: over 28% of the country's young people are excluded from education, employment or training, while the vast majority of working Indians are employed in the informal sector (World Bank, 2020). According to the latest data from the World Bank, in 2018, India had a literacy rate of 74.4%: 82.4% for men and 65.8% for women. However, the literacy rate varies enormously from one state to another. India still has about a quarter of the world’s extreme poor, and social inequalities in the country are not only rampant but rising. The expansion of this category of population - both in terms of size and income - is expected to be the main driver of consumption in India over the next few years. Nevertheless rising incomes influence spending patterns in the various consumer categories.

Purchasing Power

Consumer spending across India amounted to over 23 trillion rupees as of January 2022 (Statista). India is expected to become the third largest consumer market by 2030. Fundamental changes in Indian family structure are a determining factor in consumption patterns: extended family gives way to nuclear homes - a couple or a single person, with or without children who tend to spend more. According to World Bank data for 2020, per capita GDP (Purchasing Power Parity) in India was USD 6,503.9, and Gross National Income per capita (PPP) was USD 6,440. According to the Gender Gap Index, in 2021 India has slipped to the 140th position from the previous 112th in 2020. Women’s estimated earned income is only one-fifth of men’s, and in terms of wages for similar positions, only 46%-49% of the gap has been closed (World Economic Forum, 2021).

Consumer Behaviour

Indian consumer behaviour is strongly influenced by the caste system that compartmentalises society. It creates social differences and makes it possible to strengthen bonds between people from the same social group.
Thus, a brand will be much easier to advertise via the recommendations of parents and word of mouth. In general, Indian consumers are attached to a particular brand, but are not exclusive. Indeed, they seek above all the added value of the purchase and the brand, more than its reputation. Companies wishing to reach as many consumers as possible must make significant efforts in terms of market penetration.

Indian consumers tend to buy fresh produce (dairy products, fruits and vegetables) at least every two or three days, an advantage for traditional "kirana" stores compared to so-called modern stores like supermarkets. There are over 15 million traditional “kirana” stores in India – 90% of the retail market (USDA). In recent years, rural consumers have grown in importance. Broader Internet access is driving a growing demand for streaming services as well as significant growth in e-commerce. The country already has the second-largest internet population – and only 47% of citizens are online (Data Reportal, 2022). Big brands are already investing in Indian expansion. eCommerce is new to many Indians, particularly outside the big cities. Programs like Amazon Easy are connecting traditional stores to the eCommerce sector. Kirana shops can act as delivery points or help customers place orders.
The shared economy has undergone a tremendous development in India and has grown exponentially in the past five years. Services like MERU Cab are used as an alternative for Uber or BlaBlaCar.

Consumer Recourse to Credit

Credit financing is becoming less and less popular in India, especially in urban areas as most households would prefer to buy with their own income. Nevertheless, the use of credit cards in India has been steadily increasing in 2017 partly due to the demonetisation decision declared by the Indian government in November 2016. As a result, and because of the demonetisation, a large number of retailers have started to accept card payments.
As a result the use of credit cards by Indian consumers has increased as has the frequency of use of their cards regardless of the amount. The number of credit and debit cards in India is steadily increasing but debit card issuance exceeds credit cards. According to the Reserve Bank of India, a total of nearly 31 million credit cards and 880 million debit cards were in service in May 2017.

Growing Sectors

Infrastructure, financial services, ICT, automotive, health, transport and hotels, real estate, education services, production, distribution of electrical energy, machinery and equipment, water and clean energy, franchise and retail.

Consumers Associations

Consumer Advice Company for India

IMPORTING & DISTRIBUTING

Import Procedures

Traders intending to import goods must submit an application to the Directorate General of Foreign Trade and obtain an Importer and Exporter Code (IEC) number. If the trading firm is considered an EOU/EPZ (Export Oriented Units - Export Processing Zone) (100% of the production is exported), the IEC is issued by the Development Commissioner of the Export Processing Zone. This number has to be indicated on all documents filed with the Indian Customs for customs clearance procedure. This number is not required for the import of gifts and suitcases.
To determine whether a license is needed to import a particular commercial product or service, an importer must first classify the item by identifying its Indian Trading Clarification based on a Harmonized System of Coding or ITC (HS) classification.
After obtaining import licenses, importers are required to furnish import declaration in the prescribed Bill of Entry along with permanent account number (PAN) based Business Identification Number, as per Section 46 of the Customs Act (1962).
All imported goods must meet the terms of the Article 11 of the 1962 Customs Act, the Foreign Trade

(Development and Regulation) Act and the EXIM policy in force. Goods that do not fall under the purview of the EXIM policy are generally confiscated or may be reimbursed in exchange for the payment of a fine.

For more information, please visit the Indian Trade Portal.

Specific Import Procedures

Schemes and procedures that facilitate customs clearance include: Electronic Data Interface (EDI), enabling e-payment of duties, implementation of customs Risk Management System (RMS), automation of customs formalities to Special Economic Zones (SEZ).

Certain goods are prohibited under the Foreign Trade (Development and Regulation) Act, 1992.

Distribution channels

There has been a significant expansion in distribution channels in India during the past few years. Indian retail industry is one of the fastest growing in the world. According to Invest India, the overall retail market is set to cross the $2 trillion mark by 2032 from $690 billion in 2021. The Indian retail e-commerce market, which amounted to $72 billion in 2021, is also set to grow at an annual growth rate of 30% for a gross value of goods of $350 billion by 2030. Retail is India's largest industrial sector, currently accounting for over 10% of India's GDP and 8% of total employment.

Most Indian manufacturers use a three-tier selling and distribution structure that has evolved over the years. This structure involves redistribution stockists, wholesalers, and retailers. As an example, an FMCG company operating on an all-India basis could have between 40 and 80 redistribution stockists (RS). The RS will sell the product to between 100 and 450 wholesalers. Finally, both the RS and wholesalers will service between 250,000-750,000 retailers throughout the country. The RS will sell to both large and small retailers in the cities as well as interior parts of India. Depending on how a company chooses to manage and supervise these relations, its sales staff may vary from 75 to 500 employees. Wholesaling is profitable by maintaining low costs with high turnover, with typical FMCG product margins anywhere from 4-5%. Many wholesalers operate out of wholesale markets. In urban areas, the more enterprising retailers provide credit and home-delivery. Now, with the advent of shopping malls, companies talk of direct delivery and discounts for large retail outlets.

In 2021, e-commerce generated $63 billion in revenues, growing by 26% compared to 2020 (ecommerceDB). India will have 500 million online buyers by 2030, compared to 150 million in 2020, with digital spending projected to increase more than tenfold to $800 billion and account for more than a third of all retail sales by 2030.

Distribution market players

India’s food and grocery retail industry is considered the third largest in the world with sales reaching $858 billion in 2022 and expected to grow annually by 8.17% (Statista). The food and grocery sector constitutes nearly 70% of the total retail market in India. The food retail sector in India is comprised of modern grocery retailers along with e-commerce, representing 10% of the market share and traditional retail formats, specifically neighborhood shops called kirana stores, which account for 90% of all retail sales.

Due to the Covid-19 crisis, the food retail sector in India has undergone changes. India's largest food retailer, Reliance, has worked with WhatsApp to expand its presence in the e-commerce market by linking kirana shops to its online platform and supply chain. Due to blocking restrictions and social distance regulations, Indian customers have increasingly turned to e-commerce platforms to secure essential food supplies. Thus, many retailers have organised themselves with and commerce services, Amazon India has expanded its Amazon Pantry services to over 300 cities.

The unorganized sector in food retail is predominantly dominated by general stores, kirana stores, convenience stores and street markets. On the other hand, the organized sector includes gourmet stores, department stores, discount stores, supermarkets and hypermarkets, e-tailers and cash-and-carry formats; there are mainly Indian firms.

The major food retail chains in India are: Reliance Retail, Future Value Retail, Avenue Supermarts Limited, More Retail Limited, Star Bazaar, Spencer’s Retail, Walmart India, Spar Hypermarket and Namdhari’s Fresh.

Retail Sector Organisations

Retailers Association of India

OPERATING A BUSINESS

Type of companies

Sole Proprietorship

Number of partners: One
Capital (max/min): No minimum capital
Shareholders and liability: Unlimited liability.

Partnership

Number of partners: Minimum number is 2, while as the maximum number can be 20 in case of a General Partnership and with no maximum for all Limited companies.
Capital (max/min): No minimum capital
Shareholders and liability: Liability of the partners is unlimited.

Private Limited Company

Number of partners: Minimum number is 2, while as the maximum number can be 50
Capital (max/min): Minimum paid up capital of INR 100,000
Shareholders and liability: Limited liability to the amount contributed.

Public Limited Company

Number of partners: Minimum 7 partners; while as there is no limit on the maximum number of members/shareholders. Minimum 3 directors.
Capital (max/min): Minimum paid up capital of INR 500,000
Shareholders and liability: The liability of a member is limited to the face value of the shares he owns.

Co-operative

Number of partners: Minimum number is 10; while as there is no limit on the maximum number of members. However, the members must be residing or working in the same locality.
Capital (max/min): No minimum capital requirement
Shareholders and liability: The liability of a member is limited to the extent of his capital contribution.

Joint Hindu family business

Number of partners: All members of a Hindu undivided family can do business jointly under the control of the head of the family who is known as the 'Karta'. The members of the family are known as 'Co-partners'. Minimum two members.

Capital (max/min): No minimum capital
Shareholders and liability: The Karta has unlimited liability while the liability of the other members is limited to the value of their individual interests in the joint family.

Setting Up a Company	India	South Asia
Procedures (number)	10.0	7.1
Time (days)	17.5	14.6

Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage

The minimum wage fluctuates a lot between states, sectors and skill levels and is regulary revised. In April 2022, the minimum wage for unskilled agricultural worker was set at 382 Indian rupees for an eight-hour work day.

Average Wage

The average wage fluctuates a lot depending on activity sectors and States. According to a study by Salary Explorer, the average monthly salary was INR 31,900 in 2021.

Social Contributions

Social Security Contributions Paid By Employers: The Employees' Provident Fund (EPF) Scheme is funded by the employer at 3.67% of monthly salaries (plus 0.5% of monthly salaries for administrative costs). 8.33% of the salary is compulsorily contributed to the pension scheme. If the monthly salary of employees exceeds INR 15,000, this contribution is allocated to the pension fund. Finally, the employer must contribute to Employer Liability with an average of 4% of the monthly payroll.
Social Security Contributions Paid By Employees: The Employees' Provident Fund (EPF) Scheme is 12% contributed by the employee, the Employee Pension Scheme (EPS) is not contributed to by the employee.

Intellectual Property

National Organisations

Controller-General of Patents, Designs and Trademarks
Copyright Office
Protection of Plant Varieties and Farmers' Rights Authority
Department of Information Technology
National Intellectual Property Organization (NIPO)

Regional Organisations

None

International Membership

Member of the WIPO (World Intellectual Property Organization)
Signatory to the Paris Convention For the Protection of Intellectual Property

Membership to the TRIPS agreement - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

TAX RATES

Consumption Taxes

Nature of the Tax

Goods and Services Tax

Tax Rate

Goods and services can be subject to six different rates: 0.25% or 3% (diamonds and other precious stones, gold, silver), 5% (coal and biogas, air transport of passengers in economy class, restaurants, construction services of residential apartment), 12% or 18% (electrical apparatus for radio and television broadcasting, accommodation in hotels, intellectual property rights, construction services other than residential apartments, banking services), and 28% (motor cars, air-conditioners, aerated drinks, access to race clubs and casinos).

Reduced Tax Rate

Examples of taxable supplies include:

- 0.25% rate: rough precious and semi-precious stones
- 3% rate: gold and silver
- 5% rate: coal and biogas; air transport of passengers in economy class; restaurants; construction services of residential apartment
- 12% and 18% rates: electrical apparatus for radio and television broadcasting, accommodation in hotels, intellectual property rights, construction services other than residential apartments, banking services
- 28% rate: motor cars; air-conditioners; aerated drinks; access to race clubs and casinos.

A GST compensation cess applies on some demerit and luxury items, including automobiles and tobacco products.

Other Consumption Taxes

The Goods and Services Tax (GST) system replaced the following indirect taxes: Excise duty, CVD/ADC, Service tax, VAT/CST, Entertainment tax, Luxury tax, Lottery taxes, State cesses and surcharges, Entry tax not in lieu of octroi.

Stamp duties and real estate taxes are imposed by municipal authorities and vary across states. A separate securities transaction tax (varying between 0.001% and 0.125%) continues to apply. Some demerit and luxury items are subject to a compensation cess (rates vary).

Corporate Taxes

Company Tax

Domestic companies and partnerships: 30%

The effective tax (including surcharge and health and education cess) can range from 31.20% (income below INR 10 million); 33.38% (income between INR 10 and 100 million); and 34.94% (income over INR 100 million)

Tax Rate For Foreign Companies

A corporation is resident if it is incorporated in India or if its place of effective management is in India during a certain year.
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.

An Indian company is considered resident even if it is controlled from a place located outside the country or if shareholders controlling more than 51% of voting power are non-residents.

Capital Gains Taxation

Tax treatment varies on long-term (assets held for more than 3 years, listed shares and certain securities held for more than 1 year, unquoted shares and real estate held for more than two years) and short-term capital gains. Long-term gains on listed shares and securities are taxed at 10% (with no inflation adjustment) or exempt for the first INR 100,000 if subject to the securities transaction tax (STT). Long-term gains obtained by a non-resident on unquoted shares are also taxed at 10% (with no inflation or exchange rate adjustment). Long-term gains on other types of assets are taxed at 20% with an inflation adjustment (plus the surcharge and health and education cess). Short-term gains are taxed at ordinary tax rates or at 15% if subject to the STT (a surcharge and an education cess apply to these gains).

Main Allowable Deductions and Tax Credits

In general, expenses are deductible if they are incurred wholly and exclusively for business or professional purposes, not in the nature of a personal expense, and if they are not capital in nature.
Allowable deductions include wages and salaries, bonuses and commissions, rent, repairs, insurance, royalty payments, certain taxes (sales, municipal, road, property and expenditure taxes, customs duties), interest, lease payments, depreciation, expenditure for materials and scientific research, etc. One-fifth of start-up expenditure is allowed as a yearly deduction, over a period of five years. Bad debts can be allowed as a tax-deductible write-off if they have been written off as irrecoverable.
Any charitable contribution made by a company to any charity is allowed as a tax-deductible expense (conditions apply), in a range from 50% to 100% of the charitable contribution, depending upon the nature of the charity. No deduction shall be allowed in respect of contributions made in cash exceeding INR 2,000. If a business has opted for the reduced rate of tax of 22% under the new tax regime, it is not allowed to claim deductions of charitable contributions (from FY 2020-21 onwards).
Losses can be carried forward and set off against income from the subsequent year (business and capital losses for 8 years), while carrybacks are not allowed.

Various incentives are provided for companies carrying out specific business activities in India, for example:

- A 10-year tax holiday on 100% profits for developing, operating or maintaining infrastructure, power or network and distribution facilities
- A 7-year tax holiday on 100% profits for qualifying production of mineral oil and natural gas
- A 10-year tax holiday on 100% profits for developing a Special Economic Zone (SEZ)
- A 5-year tax holiday on 100% profits for operating and maintaining hospitals in rural areas
- A 5-year tax holiday on 100% profits plus a 5-year tax holiday on 50% profits from export from a new undertaking, satisfying prescribed conditions and set up in an SEZ (available if the activities started before 30 June 2020)
- A tax exemption of up to 100%for financial contributions to research institutes (restricted to certain

industries)

- A concessionary tax rate of 10% (plus surcharge and cess) on income by way of royalty in respect of a patent developed and registered in India by a resident in India ("Patent Box regime").

Other Corporate Taxes

Indian companies distributing or declaring dividends are liable to pay DDT (dividend distribution tax) at 15%. This rate is required to be grossed up; consequently, the effective rate of DDT is 20.36%. However, the Finance Act 2020 has abolished the DDT with effect from 1 April 2020, hence dividends distributed after that date will be taxable in the hands of shareholders (20% for dividends paid to non-residents; at the normal tax rates applicable to the shareholders for dividends paid to residents).

A securities transaction tax is applicable to transactions involving the purchase/sale of equity shares, derivatives, units of equity-oriented funds through a recognised stock exchange, or the purchase/sale of a unit of an equity-oriented fund to any mutual fund. The rates vary from 0.001% to 0.125%, depending upon the type of securities.

A property tax is levied by the governing authority of the jurisdiction in which the property is located, with rates varying from city to city. Stamp duties apply to all legal property transactions, with different rates being set by each state.

Social contributions paid by the employer amount to 12% of the employee's salary (8.33% are allocated to the Employees’ Pension Fund, capped at INR 15,000/month for Indian employees). A reduced tax rate can apply to individual and Hindu Undivided Family (HUF) taxpayers.

From 1 April 2020, an equalisation levy of 2% applies on the consideration from e-commerce supply and services made or provided by an e-commerce operator without a PE in India, and whose sales, turnover, or gross receipts from the e-commerce supply and services are at least INR 20 million during the tax year. The sale of goods or provision of services by an e-commerce operator to an e-commerce participant is subject to a 1% withholding tax.
An equalisation levy of 6% on the amount of consideration in excess of INR 100,000 applies with regard to specified services (e.g. online advertising, the provision of digital advertising space, and other related facilities or services) received by a nonresident without a permanent establishment in India. The levy must be withheld by a resident payer or a non-resident payer with a permanent establishment in the country.

The Finance Act 2022 included measures to incorporate Virtual Digital Assets (VDAs) such as cryptocurrencies, NFTs, and other similar assets into the tax system. Under these provisions, profits earned from the sale of VDAs will be subject to a 30% tax rate, with no allowance for deductions other than the acquisition cost. Additionally, any losses incurred from the sale of VDAs cannot be offset against other income in the current or future years.

When Indian companies repurchase shares from their shareholders, they must pay an extra tax calculated as 20% of the difference between the consideration paid for the buyback and the original issue price of the shares, plus a 12% surcharge and a 4% health and education cess.

Other Domestic Resources

Income Tax Department

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

Treaties signed with countries for avoidance of double taxation

Withholding Taxes

Dividend: 10% when paid to a resident corporation/individual (7.5% between 14 May 2020 and 31 March 2021)/20% when paid to a non-resident corporation/individual (10% for dividends paid on foreign currency bonds or global depository receipts), plus surcharge and chess.

Interest: 10% when paid to a resident corporation/individual (7.5% between 14 May 2020 and 31 March 2021)/20% when paid to a non-resident corporation/individual. If the interest income derived by a non-resident does not fulfil the conditions prescribed by the law for concessional WHT rates, a rate of 30% (for individuals and entities other than a foreign company) or 40% (for a foreign company), plus the applicable surcharge and chess, will apply.

Royalties: 2% where the royalty is paid to a resident corporation/individual and is in the nature of consideration for the sale, distribution, or exhibition of cinematographic films; otherwise, the rate is 10% (1.5% and 7.5%, respectively, between 14 May 2020 and 31 March 2021)/ 10% when paid to a non-resident corporation/individual, plus surcharge and chess.

The rates may be reduced under a tax treaty.