

Sector:

Industries

Project Title:

Multi-product SEZ

Project Description:

Indian economy has witnessed tremendous growth in the last decade primarily due to the contribution made by exports. The total value of exports has grown by 25% to reach US\$ 101 billion in the year ended March 31, 2006. In order to further augment the growth of the exports the Government has set up Special Economic Zone (SEZs) which would provide a hassle free and internationally competitive environment for companies. The exports have been facilitated by the growth in a number of industries such as chemicals and pharmaceuticals, readymade garments, iron ore, machinery and equipment etc.

The performance of these SEZs has encouraged the Government to facilitate development of more SEZs. As on 31.03.2005, there were 811 units operational in the 8 functional SEZs. Investments by the units in these zones are to the tune of USD 406 million. The SEZ units provide employment to about 100,650 persons out of which 32,185 are females.

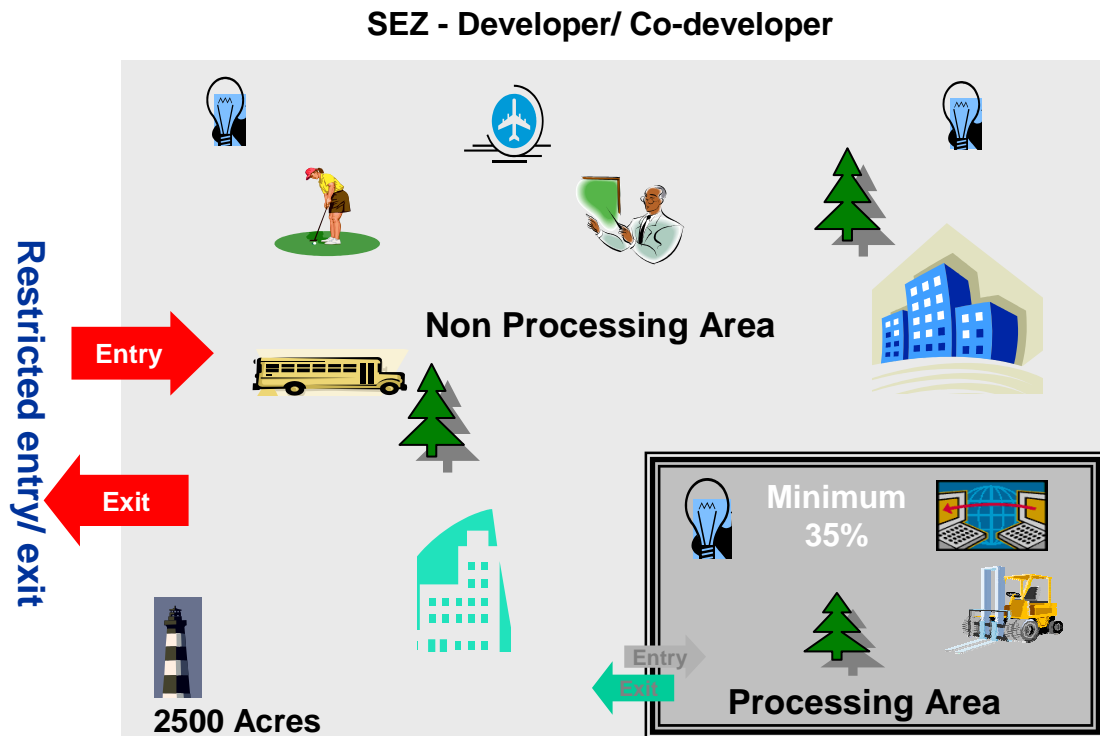
However, the competition has increased substantially over the years with the approvals of about 403 SEZs. Southern India houses the majority of SEZs with 150 approvals thus far. Maharashtra leads the roster with 75 SEZs followed by Andhra Pradesh (54).

Madhya Pradesh in all has 10 SEZs which are principally/ formally approved of these 4 are multi-products/ services. Based on industry demand it can be assumed that the demand for SEZs would be higher than the project supply especially south eastern part of the State.

Hence, with a view to facilitate large scale development of a number of industries, in Madhya Pradesh (MP), the State Government proposes to establish an multi-product SEZ in the State. The SEZ would provide infrastructure support and other incentives for the growth of most lucrative businesses in the State.

The SEZ would encompass firms from different industries such as textiles, automotive industry, engineering industry etc. The SEZ would extend various fiscal and non fiscal benefits to the tenants. The fiscal incentives would include the tax benefits, customs benefits etc provided by an SEZ. Non fiscal benefits would include increase market linkages, improve international competitiveness etc. It would also help attract Foreign Direct Investments into the industry.

Layout of the prospective SEZ



For the envisaged project 2,500 acres of land would be appropriated and would be developed by the private developer. Catering to the specific needs of the services companies the complex would be the right blend of commercial, office and residential facilities. The SEZ would also provide housing and commercial facilities. This multi-product SEZ would be occupied by companies in the following sectors:

- Agro-Processing
- IT/ITeS
- Automobile Industry
- Textiles
- Pharmaceutical
- Engineering
- Chemicals
- Healthcare units

Project Rationale:

SEZs have a tremendous socio-economic impact on Indian economy. SEZs have contributed to the growth and development of the Indian economy in terms of exports, employment and investments. It is the key growth driver of nation's economy and has made the Country globally competitive.

Further, Indian companies are facing tough competition from global players due to increased globalization and liberalization initiatives. The competition is tough from low cost manufacturing destinations such as China, Korea etc. To stay competitive in the changing global scenario, Indian companies have to redefine their capabilities with greater cost control and improved efficiency.

The cluster configuration would enable the tenants unit to leverage various advantages of operational synergies and scale economics. It would assist small and medium companies to attain a critical mass necessary for various operational efficiencies. Further, access to high-end infrastructure and common facilities would impart global competitiveness to these industries.

Proposed Facilities:

The cluster would host the following tenants:

- Large scale industrial unit
- SME
- Logistics providers
- Central Warehouse
- Captive power plant
- Power station

The cluster would offer following infrastructural facilities :

- Developed Plots of 1,000 to 5,000 sq. meters
- Primary and secondary roads
- Excise office
- Warehousing facility
- Uninterrupted power and water supply
- Drainage and sewerage system
- Common effluent treatment plant

Market Potential and Demand Dynamics:

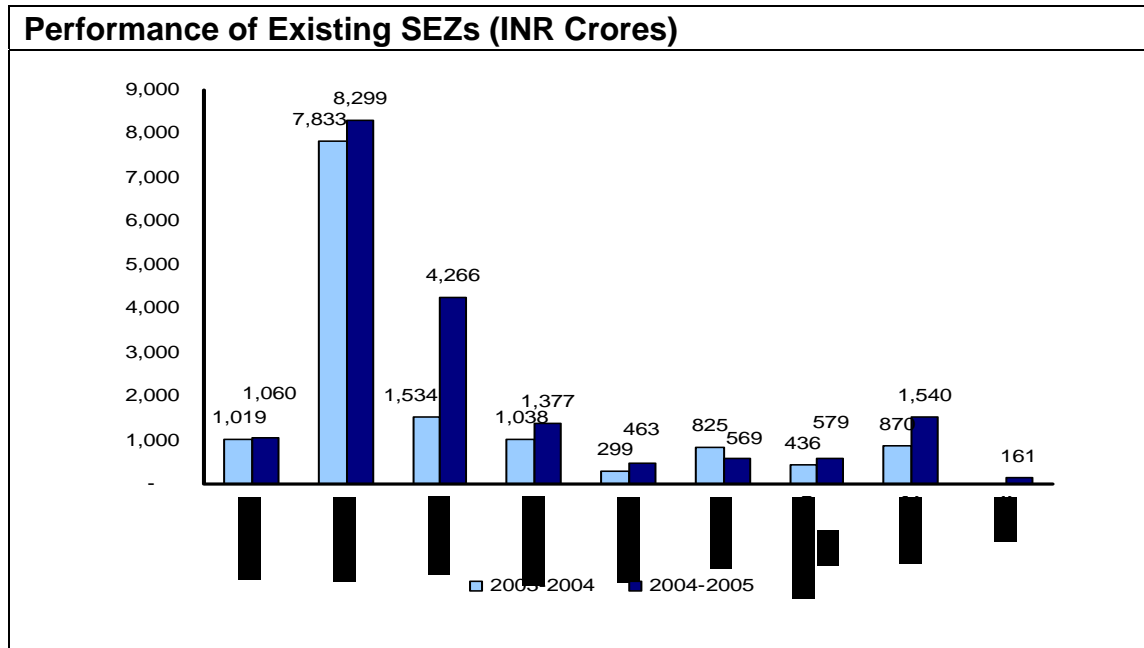
The Special Economic Zone policy is essentially geared to liberalise a country's trade and investment environment in a pre-defined area or zone. In April 2000 Government of India announced a policy for setting up of Special Economic Zones (SEZ) in India. The SEZ policy aims at creating competitive, convenient and integrated Zones offering world class infrastructure, utilities and services for globally oriented businesses.

SEZs have been declared as "Deemed Foreign territories" i.e. duty free enclaves with no

restrictions on investments and import of goods and services. To attract foreign investors and corporates, the Government has offered several incentives such as access to the Domestic Tariff Area (DTA), 100 per cent Foreign Direct Investment under the automatic route, greater flexibility with respect to foreign exchange earnings and procedural ease.

Subsequent to this announcement, several Indian States have taken the cue and announced the development of SEZs either wholly by private entities or in Public-Private Partnerships.

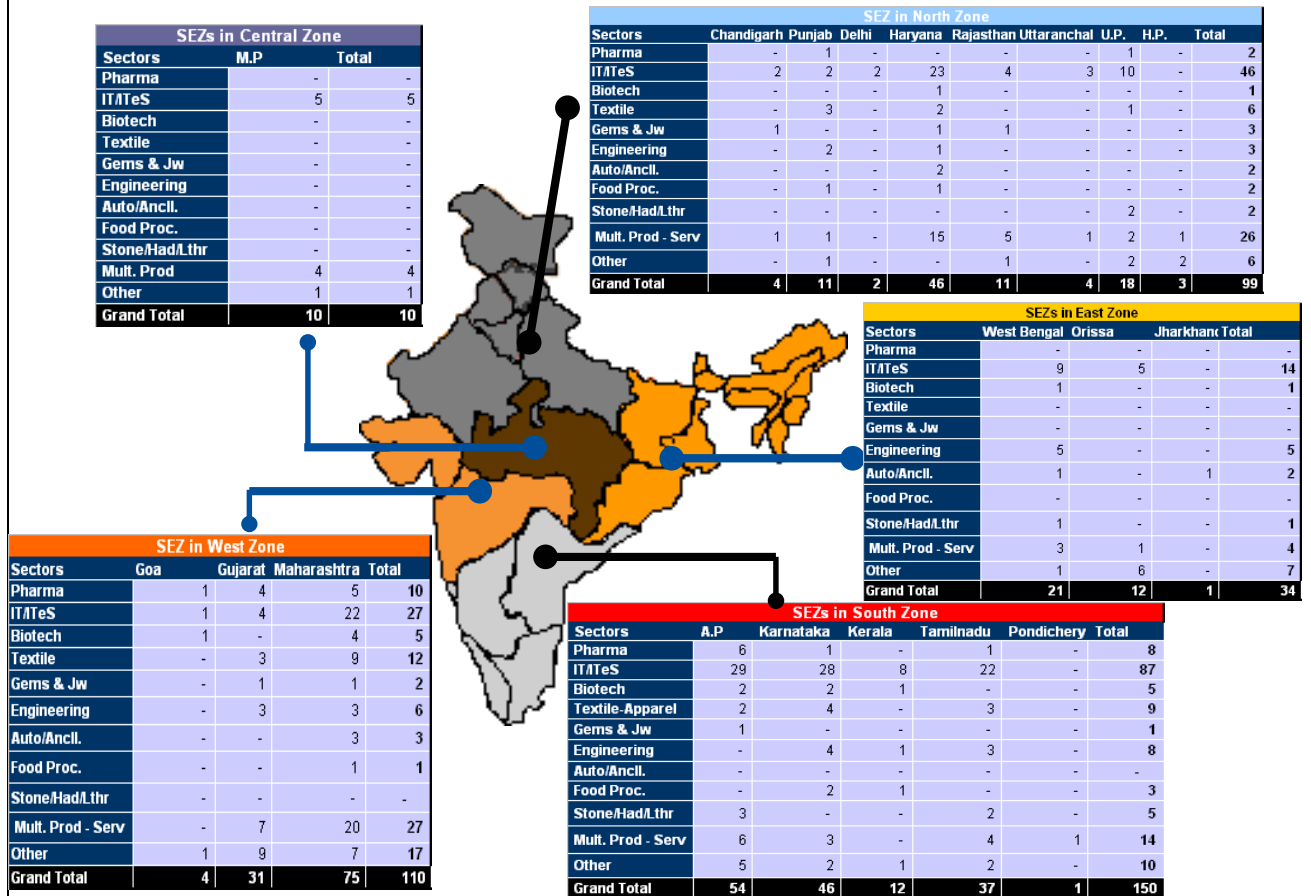
The financial performance of existing SEZs in the country has been depicted in the following graph.



Four EPZs (Export Processing Zones) were converted to SEZs w.e.f. 1st November, 2000. These are – Kandla (Gandhidham-Kachh, Gujarat), Santacruz (SEEPZ, Mumbai), Kochi (Cochin, Kerala) and Surat (Gujarat). Subsequently, EPZs at Chennai, Falta (West Bengal), NOIDA and Visakhapatnam (AP) were also converted into SEZ w.e.f. 30.01.2003.

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Present status of all SEZs in the Country has been mapped in the following figure.



Why Madhya Pradesh?

Madhya Pradesh offers the following value proposition for the multi-product SEZ.

- MP has one of the lowest labour costs
- MP dominates the talent pool needed for different industries
- MP's talent pool is capable of meeting global standards
- ITO helped develop delivery model and vendor base to support offshoring
- MP has a vibrant and expanding supply base to support offshoring
- MP is one of the fastest growing market
- MP's geographic position offers the possibility of 24-hour cycle
- MP offers an economic of scale for capacity
- MP offers highly skilled labour pool

- Government of MP is working on incentives to attract FDI

Location Analysis:

Jabalpur has been earmarked as location of choice for developing the envisaged multi-product SEZ due to following key factors:

- ✓ High quality of life.
- ✓ Availability of commercial and social infrastructure.
- ✓ Ample availability of cost effective land.
- ✓ Availability of skilled manpower.



Government Support:

FISCAL INCENTIVES FOR DEVELOPERS/ SEZ UNITS

▪ Direct Tax Incentives for SEZ Developers

- Deduction of 100% of profits derived from business of developing SEZ available for a period of any 10 consecutive years out of 15 years from the beginning of the year in which SEZ is notified.
- Exemption on interest and capital gains available to investors in SEZ developers
- No Dividend Distribution Tax (DDT) payable on dividends declared, distributed or paid on or after April 1, 2005 out of current income.
- Exemption from Minimum Alternate Tax (MAT) on income accruing or arising on or after April 1, 2005 from business carried on or services rendered.

▪ Direct Tax Incentives for SEZ Units

- Deduction available to units commencing manufacturing or producing articles or things which start providing services from April 1, 2005 as follows:

Quantum of Deduction	SEZ units set up on or after April 1, 2002 but before March 31, 2005	SEZ units set up on or after April 1, 2005
100% of Export profits	First 5 years starting from the year in which manufacture/provision of services commences	First 5 years starting from the year in which manufacture/provision of services commences

50% of Export profits	Next 2 years	Next 5 years
Upto 50% of Export profits transferred to SEZ Reinvestment Reserve Account, subject to conditions	Next 3 years	Next 5 years

Quantum of deduction = Profits of the business of the undertaking X Export turnover of unit / Total turnover of business of the assesses

(For units set up on or after April 1, 2005)

- Exemption from capital gains arising on transfer of assets (machinery, plant, building, land or any rights in land or building) on shifting of industrial undertaking from an urban area to an SEZ.
- Exemption from MAT on income accruing or arising on or after April 1, 2005 from business carried on or services rendered.
- No tax payable on interest received by non-residents and not-ordinary residents on deposits made with an OBU in SEZ on or after April 1, 2005.

▪ **Indirect Tax Incentives**

SEZ developers and entrepreneurs are eligible for the following benefits for authorized operations:

- Exemption from customs duty on goods/services imported or exported.
- Exemption from excise duty on goods procured from DTA.
- Drawback or any other admissible benefits on goods bought or services rendered from DTA.
- Exemption from service tax on taxable services subject to 'export of services' rules.
- Exemption from Central sales tax on inter-state sale or purchase of goods except for newspaper.
- Removal of goods into DTA subject to prescribed conditions and on payment of all applicable customs duty levied on import of such goods into India.
- Detailed terms and conditions prescribed for availing the above exemptions/concessions.

Proposed Investment:

Investments of USD 1.5 bn to USD 1.7 bn or INR 7,000-8,000 Crores

Returns:

Expected IRR: 30-35%

Coordinating Agency:

Madhya Pradesh Industrial Development Corporation