ASSOCIATION FOR
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PROFESSIONALS

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CASH AND TREASURY MANAGEMENT
COUNTRY REPORT

INDIA

Executive Summary

Banking

The Reserve Bank of India (RBI) is fully owned by the Indian government and is charged with maintaining monetary stability by directing lending and deposit rates. In addition, the RBI is responsible for foreign exchange management, currency issuance and regulation of the financial system via the Board for Financial Supervision.

The RBI compiles balance of payments data as required by the Foreign Exchange Management Act. Banks that undertake foreign exchange transactions must submit returns and supporting documents.

Residents and certain non-residents may hold accounts denominated in Indian rupees (INR) or in foreign currency both in India and abroad. However, there are a number of restrictions to the different types of accounts permitted.

India's banking system is dominated by state-owned commercial and development banks, which provide the majority of financing for domestic and foreign companies. Thirty-seven foreign banks have established operations in India, but there are restrictions on acquisitions and the expansion of branch networks.

Payments

As well as a recently upgraded real-time gross settlement (NG-RTGS) system for high-value electronic payments, India operates a number of payment systems for processing paper-based and retail electronic instruments. India's vast geography requires a network of over 10,000 access points to its various payment systems.

Debit cards are the most commonly used cashless payment instrument in terms of volume and credit transfers are the mostly widely used in terms of value. Checks and drafts are also commonly used instruments for commercial transactions in India, but cash is the dominant payment method for medium- and small-value transactions.

Liquidity Management

Although interest is not permitted to be paid on current account balances, a range of short-term investment options – including treasury bills, commercial paper, certificates of deposit and term deposits – are available.

There are a number of regulatory and tax restrictions on liquidity management, particularly for non-resident firms, with the result that most techniques are focused on single-entity, domestic rather than cross-border optimization of cash.

Notional pooling and multilateral netting are not permitted under Indian law.

Trade Finance

Despite government initiatives aimed at increasing exports, Indian regulations on imports and exports remain comparatively complex and bureaucratic. However, 186 special economic zones have been established which offer tax concessions to exporters that include tax holidays for up to 15 years and permit export-oriented firms to be foreign owned.

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PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.
- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.[1]

Economic Updates

Receive regular Economic Updates from our senior economist by going to pnc.com/economicreports.

(1) Information compiled from Freedom of Information Act resources.

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Financial Environment

Country Information

Geographical Information

Capital	New Delhi
Area	3,287,263 km^2
Population	1,267 million
Official languages	English, Hindi
Political leaders	Head of state — President Pranab Mukherjee (since July 22, 2012) Head of government — Prime Minister Narendra Modi (since May 26, 2014)

Business Information

Currency (+ SWIFT code)	Indian rupee (INR)
Business banking hours	Business hours: 09:30–17:30 (Mon–Fri) 09:30–14:00 (Sat) Banking hours: 10:00–15:00 (Mon–Fri), 10:00–13:00 (Sat)
Bank holidays	2017 — February 11, 19*, 24*, 25, March 11, 13*, 25, 28*, April 1, 4*, 8, 9*, 14, 22, May 1, 10*, 13, 27, June 10, 24, 26*, July 8, 22, August 12, 15, 17*, 25*, 26, September 2*, 9, 23, 30*, October 1*, 2, 14, 19*, 20*, 28, November 4*, 11, 25, December 1*, 9, 23, 25. 2018 — January 13, 26, 27, Februray 10, 24, March, 1*, 10, 18*, 24, 29*, 30, April 2, 14, 28, May 1, 12, 26, 29*, June 9, 15*, 23, July 14, 28, August 11, 15, 19*, 22*, 25, September 8, 20*, 22, October 2, 13, 27, November 8*, 10, 20*, 24, December 8, 22, 25 2019 — Jnaury 12, 26, February 9, 23, March 9, 21*, 23, April 1, 6*, 13, 14, 17*, 19, 27, May 1, 11, 18*, 25, June 5*, 8, 22, 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. Source: www.goodbusinessday.com.
International dialing code	+ 91

Country Credit Rating

FitchRatings last rated India on July 22, 2016 for issuer default as:

Term	Issuer Default Rating
Short	F3
Long	BBB -
Long-term rating outlook	Stable

Source: www.fitchratings.com, January 2017.

Economic Statistics

Economics Table

		2010	2011	2012	2013	2014
GDP per capita	(USD)	1,412	1,581	1,474	1,504	1,580
GDP	(INR billion)	77,841	90,097	99,513	112,728	124,882
GDP	(USD billion)	1,702	1,931	1,862	1,924	2,046
GDP volume growth*	(%)	+ 9.3	+ 6.3	+ 5.4	+ 6.3	+ 7.1
BoP (goods, services & income) as % GDP		– 6.3	– 6.4	– 8.4	– 5.9	– 4.5
Consumer inflation*	(%)	+ 12.0	+ 8.9	+ 9.3	+ 10.9	+ 6.6
Population	(million)	1,206	1,221	1,264	1,280	1,295
Unemployment	(%)	NA	NA	NA	NA	NA
Interest rate (discount rate)†	(%)	6.00	6.00	9.00	8.75	9.00
Exchange rate‡	(INR per USD)†	45.726	46.670	53.437	58.598	61.030

		2015		2016		
		Q4	Year	Q1	Q2	Q3
GDP per capita	(USD)	–	1,614	–	–	–
GDP	(INR billion)	–	135,761	–	–	–
GDP	(USD billion)	–	2,116	–	–	–
GDP volume growth*	(%)	+ 7.4	+ 7.2	+ 7.3	NA	NA
BoP (goods, services & income) as % GDP		–	NA	–	–	–
Consumer inflation*	(%)	+ 5.3	+ 4.9	+ 5.3	NA	NA
Population	(million)	–	1,311	–	–	–
Unemployment	(%)	NA	NA	NA	NA	NA
Interest rate (discount rate)†	(%)	7.75	8.19	7.75	7.00	NA
Exchange rate‡	(INR per USD)†	65.924	64.152	67.504	66.891	66.962

*Year on year. †Period average. ‡Market rate. Source: *International Financial Statistics, IMF, December 2016 and 2015 Yearbook.*

Sectoral Contribution as a % of GDP

Agriculture – 17%

Industry – 29.7%

Services – 45%

Major Export Markets

USA (15.2%), United Arab Emirates (11.4%), Hong Kong (4.6%).

Major Import Sources

China (15.5%), United Arab Emirates (5.5%), Saudi Arabia (5.4%), Switzerland (5.3%), USA (5.2%).

Political and Economic Background

Economics

Interest Rate Management Policy

The Reserve Bank's Monetary Policy Department (MPD) assists the Governor in formulating the monetary policy, maintaining monetary stability through the Financial Markets Operations Department (FMOD), which operationalizes the monetary policy, mainly through day-to-day liquidity management operations.

Foreign Exchange Rate Management Policy

The Indian rupee (INR) floats on the foreign exchange market but is subject to intervention by the RBI. The RBI intervenes in the market dealing in USD spot and forward, with authorized dealers.

Major Economic Issues

India has experienced prolonged economic growth, following a period of economic and foreign investment reforms in the mid-1990s. These led to an explosion in information technology and business support services as many global organizations relocated their IT and back office functions to India. GDP growth rose by an average of 8.8% between 2004 and 2008 and, despite a lower growth of 6.7% in the fiscal year 2008–09, rebounded to 8.4% during the financial years 2009–10 and 2010–11. Economic growth since 2011 has been more modest as manufacturing, services and industrial sectors have struggled in the face of slower global economic growth. However, the economy expanded by 7.3% in 2014-15 and then 7.6% in 2015-16 representing an improvement on the previous few years.

Although economic growth in India has brought significant increases in incomes, the benefits are slower to filter through to a population of over one billion, a large proportion of which still work in the agricultural sector. As such, reform of labor laws and infrastructure investment remain key priorities for the government. However, large-scale infrastructure spending in India is hampered by the country's fiscal budget deficit, standing at 3.9% of GDP at the end of the 2015–16 fiscal year. In recent years the World Bank has raised questions about India's fiscal stability and its ability to fund infrastructure projects and social development programs. The World Bank has pledged a number of loans to India to support infrastructure spending and boost social development programs.

In the past few years, India's government has tried to lower India's deficit by raising significant amounts of non-tax revenue, through measures such auctioning the 3G and Broadband Wireless Access spectrum for approximately USD 23.7 billion. However, focusing economic policies on deficit reduction has weakened its ability to orientate reforms towards stimulating economic growth.

As with the 3G auction, India's government hopes to partially fund future infrastructure investment through a series of privatizations, but this is currently limited by the global economy and India's own Common Minimum Program, which commits the coalition government to not divesting more

than 50% of profitable state-owned companies. There is also further scope for reform of foreign investment policies, as tariffs and limits on foreign direct investment still remain in some areas, despite the overall relaxation of controls on foreign trade and investment.

In mid-2009, India's wholesale price index entered into deflation for the first time. High inflation returned from 2010 and was in excess of 9% for much of 2011, partly due to growth in the Indian economy, as well as rising global commodity prices. However, headline inflation, as measured by the wholesale price index has fallen since 2015 and stood at 3.39% in November 2016, compared to the same month in 2015. This is largely due to the impact of falling global oil prices, with India the world's third largest oil importer.

In August 2016, India's finance ministry announced an inflation target of 4% until 2021, with a consumer inflation target between 2% and 6%. This is first time India has set an official inflation target and comes under a new monetary policy framework that has also seen the establishing of a Monetary Policy Committee. At the Monetary Policy Committee's first meeting in October 2016 it cut benchmark interest rates to 6.25%. The main lending rate has been cut six times since the start of 2016.

Politics

Government Structure

India is a federal republic with a central government elected by popular vote every five years. (India is the world's most populous democracy.) The country consists of 28 states, which have a governor appointed by the president, and seven union territories. Central government has more control over the union territories than the states, but some territories have been recently granted more autonomy.

Executive

India's president is chosen every five years by an electoral college made up of elected members of both chambers of the Sansad (India's parliament) and the legislatures of the states. The last election was held in July 2012, when former finance minister and Congress party official Pranab Mukherjee became president.

The prime minister is formally elected by the members of the majority party after elections to the legislature. The last election was held between April–May 2014.

Legislature

India's national legislature is the Sansad, a bicameral parliament.

The upper house is the Council of States (Rajya Sabha), which consists of a maximum of 250 members. The president may appoint up to 12 members of the council; the state and territorial assemblies choose the remainder. All members serve for six years.

The lower house is known as the People's Assembly (Lok Sabha). Elections for 543 of its 545 seats are held every five years; the two remaining seats are filled by presidential appointees.

The last elections to the People's Assembly were held in April–May 2014.

International memberships

India is a member of G-15, the World Trade Organization and the South Asian Association for Regional Cooperation, as well as a dialogue partner in the Association of South Eastern Asian Nations (ASEAN). India is also a member of the Asian Clearing Union (ACU) and the Bank for International Settlements (BIS).

Major Political Issues

One main focus of political debate in India is the pace of economic reform. Following a surprise victory over the incumbent Bharatiya Janata Party (BJP) in the 2004 general election, the Congress Party, led by Manmohan Singh, were keen to press ahead with a package of economic reforms, including changes to labor laws and plans to open up sectors of India's economy to foreign investment. However, political and domestic business opposition to many of proposed changes slowed the pace and reduced the scope of reform. Despite a further general election victory in 2009, the Congress Party failed to gain an absolute majority in parliament and opposition from some coalition partners contributed to its failure to achieve of many of Singh's proposed reforms.

In May 2014, Hindu nationalist Narendra Modi led the BJP to a landslide parliamentary election victory, capitalizing on widespread disappointment at the pace of India's recent economic development. Modi's BJP gained an outright majority in parliament, the first time any political party has done so in India in the past 30 years. Modi's victory was built around his economic record as chief minister in the state of Gujarat and a pledge to revitalize economic reform in India. Economic reform is a controversial issue in India, as it has been blamed for creating a greater economic divide between rural and urban India, resulting in rapid depopulation in some areas.

In September 2016, tens of millions of workers across India took part in a one day strike to protest low wages and some for the current government's economic reforms.

The pace of large-scale industrialization in India in recent years has also caused environmental concerns.

India also faces ongoing issues with the perceived corruption of those in public office. This has been highlighted in recent years by the arrest of officials and a government minister as part of an investigation into the award of mobile licenses, one of a number of corruption scandals relating to government privatizations and India's telecoms sector.

Internationally, India has a historically tense relationship with its Muslim neighbor, Pakistan, mainly due to the disputed territory of Kashmir and competition over nuclear weapons. This tension heightened in November 2008 when a terrorist attack by Pakistani-based Islamic militants on India's financial capital, Mumbai, killed approximately 170 people. India's government has said that it wants to improve relations with its neighbor and is prepared to meet Pakistan "more than halfway" as long as Pakistan actively address its issues with homegrown terrorists.

Taxation

Resident/Non-resident

A company is resident in India in any tax year, if it registered under the Indian Companies Act 1956 or other specified Acts/laws or during the relevant tax year the control and management of its affairs were situated wholly in India.

Tax Authorities

Income Tax Department; Authority for Advance Rulings.

Tax Year/Filing

The corporation tax year is based on earnings during the financial year April 1 to March 31.

Taxes on income in a fiscal year usually paid in the next fiscal year ('assessment' year). Companies must submit a final return by September 30 (November 30 for companies required to file a certificate on international transactions (see 'Transfer pricing')) of the assessment year, stating income, expenses, taxes paid and taxes due for the preceding tax year. Returns for non-corporate taxpayers that are required by law to have their accounts audited also are due on September 30. All other taxpayers must submit a return by July 31. Taxpayers claiming tax holidays or carrying forward tax losses must file their returns on or before the due date.

Companies must make four advance payments of their income tax liabilities during the accounting year on: June 15 (15% of total tax payable); September 15 (30% of total tax payable, cumulative amount 45% of total tax payable); December 15 (30% of total tax payable, cumulative amount 75% of total tax payable) and March 15 (25% of total tax payable, cumulative amount 100% of total tax payable).

Consolidated returns are not permitted and each company must file a separate return.

Corporate Taxation

Resident companies are taxed on their worldwide income. Foreign companies are chargeable to tax on the income derived from Indian sources.

Indian-source income may include capital gains arising from the transfer of any share or interest in a company or entity registered or incorporated outside India if the share or interest directly or indirectly derives its substantial value from assets located in India. Foreign-source income derived by a resident company is subject to corporation tax in the same way as Indian income. A branch of a foreign corporation is taxed as a foreign corporation.

Domestic companies are liable to tax at 30% and foreign companies and branches of foreign companies at 40%. A 25% rate, plus surcharge and cess, may be elected by certain newly set up (incorporated on or after March 1, 2016) resident manufacturing companies, if the company does

not claim certain specified deductions, incentives, etc. The rate is 29%, plus surcharge and cess, for resident companies whose total turnover or gross receipts in the financial year 2014-15 did not exceed INR 50 million.

A 7% surcharge applies to domestic companies whose income exceeds INR 10 million (2% for foreign companies); a 12% surcharge applies if income exceeds INR 100 million (5% for foreign companies). An additional 3% cess is payable in all cases.

Taking into account the surcharge and cess, the highest effective rate is 34.608% for domestic companies and 43.26% for foreign companies.

Dividends paid by a domestic company are subject to dividend distribution tax (DDT) at 15% of the aggregate dividend declared, distributed or paid. The DDT payable is required to be grossed up. The effective rate is 20.3576%, including a 12% surcharge and a 3% education cess. Dividends subject to DDT are exempt from tax in the hands of the recipient; however, where the recipient is a resident firm, an additional income tax of 10% (plus the surcharge and cess) applies on dividend income received on or after April 1, 2016 if the amount of dividends received exceeds INR 1 million per annum on a gross basis.

Dividends received from a foreign company generally are subject to corporation tax, with credit for any foreign tax paid. However, dividends received by an Indian company from a foreign company in which the Indian company holds at least 26% of the equity shares are subject to tax at a reduced base rate of 15% on the gross income. A surcharge and cess also are imposed.

Dividends paid by a domestic company that are liable to DDT may be reduced by:

- The amount of dividends received from a domestic subsidiary company during the financial year, if the subsidiary has paid DDT; and
- Dividends received from a foreign subsidiary company, provided tax is payable on such dividend income by the domestic company at the reduced base rate of 15%.

A Minimum Alternate Tax (MAT) is imposed at 18.5% (plus any applicable surcharge and cess) on the adjusted book profits of corporations whose tax liability is less than 18.5% of their book profits. MAT does not apply to certain income of foreign companies, including capital gains on transactions involving securities, interest, royalties and fees for technical services. A credit is available for MAT paid against tax payable on normal income, which may be carried forward for offset against income tax payable in the following ten years.

Any person other than a corporation (including an LLP) is liable to an alternate minimum tax (AMT) at 18.5% (plus any applicable surcharge and cess) of the adjusted total income where the normal income tax payable is less than the AMT. AMT also is imposed on a person eligible for investment-linked incentives. The adjusted total income is the total income before giving effect to the AMT provisions as increased by certain deductions claimed in computing the total income, including the tax holiday claimed by units in a Special Economic Zone (SEZ). The base for computation of AMT for non-corporate taxpayers therefore differs from that for computing MAT in the case of corporations.

A deduction of up to 200% (restricted to 150% as from financial year 2017-18 and 100% as from financial year 2020-21) is available in respect of capital and revenue expenditure on scientific research conducted in-house by specified industries, and for payments made to specified organisations for scientific research.

A deduction is available for 15% of the cost of new plant or machinery acquired and installed on or before March 31 2017, where the aggregate cost acquired and installed in a year exceeds INR 250 million, in addition to the normal depreciation allowance.

A deduction of 150% is available for expenditure incurred on a "notified" agricultural extension or skill development project.

A deduction of 100% is available for capital expenditure (other than expenditure incurred on the acquisition of land, goodwill or financial instruments) incurred by specified businesses, including laying and operating cross-country natural gas or crude or petroleum oil pipeline networks for distribution (including integral storage facilities); setting up and operating an inland container depot or freight station; housing projects under a slum re-development scheme; building and operating a two-star hotel; bee-keeping and associated activities; setting up and operating a warehousing facility for storage of sugar; laying and operating a slurry pipeline for the transportation of iron ore; and setting up and operating a semi-conductor wafer fabrication manufacturing unit.

A deduction of 150% (reduced to 100% as from financial year 2017-18) is available for capital expenditure (other than expenditure incurred on the acquisition of land, goodwill or financial instruments) incurred by businesses on setting up and operating cold chain facilities or warehousing facilities, building and operating a hospital with 100 beds, investing in housing projects under a scheme for affordable housing or producing fertilizers in India. An investment-linked incentive of a 100% deduction for certain expenditure relating to new infrastructure facilities will be available as from financial year 2017-18.

Capital expenditure incurred either prior or post-commencement of business and actually paid for the right to use spectrum for telecommunications services (spectrum fees for auction of airwaves) will be allowed as deduction over the period of the right to use the spectrum.

A deduction of 100% of the profits derived by an eligible start-up from an eligible business may be elected by the taxpayer for any three consecutive assessment years out of the five years beginning from the year of incorporation (for companies set up on or after April 1, 2016 and before April 1, 2019).

A patent box regime has been introduced with effect from financial year 2016-17. A concessional tax rate of 10% (plus the surcharge and cess) is applicable on gross income arising from royalties in respect of a patent developed and registered in India by a person resident in India. No deduction is allowed for any expenditure or allowance in respect of such royalty income.

Undertakings set up in SEZs are exempt from tax on their export profits, subject to compliance with other conditions. Other tax holidays are available based on industry and region.

Business losses and capital losses may be carried forward for eight years, with short-term losses offsetting capital gains on both long and short-term assets, and long-term losses offsetting only long-term gains. Other than unabsorbed depreciation (which may be carried forward indefinitely), losses may be carried forward only if the tax return is filed by the due date. Unabsorbed depreciation may be offset against any income, whereas business losses may be offset only against business profits.

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 April 1, 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.

Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Other income
Resident companies*	10%	None	10%	10%
Non-resident companies	5%/20%	None	10%	10%

* Plus 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.

Interest paid to a non-resident on an infrastructure debt fund set up in accordance with guidelines prescribed by the government is subject to a 5% withholding tax, plus the applicable surcharge and cess.

Interest paid to a non-resident on debt incurred under a loan agreement or through the issue of long-term bonds including long-term infrastructure bonds issued by an Indian company in foreign currency, is subject to a 5% withholding tax, plus the applicable surcharge and cess, if the loan agreement is approved by the central government and the funds are borrowed between July 1, 2012 and June 30, 2017. The 5% withholding tax (plus applicable surcharge and cess) is also applicable to interest paid between June 1, 2013 and June 30, 2017 on a rupee-denominated bond of an Indian company, or a government security subscribed for by a foreign institutional investor or a qualified foreign investor.

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, unless the foreign taxpayer provides appropriate documentation.

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.

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, unless the foreign taxpayer provides appropriate documentation.

Technical Service Fees

Technical services fees 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.

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 avoidance of double taxation. The law specifically provides that tax treaties will override local tax law wherever they are more beneficial.

The Finance Act 2013 provides that the condition of the certificate containing 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 by resident Indians.

India has exchange of information relationships with 117 jurisdictions through 98 double tax treaties and 20 TIEAs (www.eoi-tax.org, January 2017).

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. November 30.

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. 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. ((See below, for application of the transfer pricing rules to transactions involving jurisdictions that do not effectively exchange information with India.))

Advance pricing agreements (APAs) may be obtained for a maximum period of five future years, with a rollback to the four years preceding the year in which APA becomes effective.

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. Service tax is generally applicable on the upfront 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.

Customs Duty

Customs duty is levied on the import of goods into India, although certain exported goods also are liable to custom duties. Certain incentives (e.g. concessional rates of duty and duty-free transactions) are available under various schemes.

Excise Duty

Excise duty is payable on the manufacture of excisable goods in India. The rate of duty applied to a product depends on its excise tariff classification. The duty is normally levied on the transaction value and in specified cases on the retail sales prices. The standard rate of excise duty is currently 12.5%.

A credit mechanism is available to avoid the cascading effect of central excise duty.

Thin Capitalization

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

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).

Value Added Tax (VAT) and Central Sales Tax (CST)

All Indian states impose a "consumption-type destination-based VAT," driven by the invoice tax credit method, on the sale of most types of movable goods and specified intangible goods (barring a few exempt goods), the list of which varies from state to state.

Sales involving the movement of goods from one state to another are governed by the Central Sales Taxes (CST).

The standard VAT rate in the various states ranges from 12.5% to 15%, depending on the state, with reduced rates of 1% and 5% in most states. Commodities like liquor and petroleum products attract a higher rate in the range of 20% to 30%.

The CST rate is 2% against the submission of specified forms or the applicable local VAT rate.

The turnover limit for compulsory registration for businesses is INR 500,000, although this may vary by state. State VAT laws also specify monetary amounts of sales and/or purchases required for registration.

The Indian government has proposed introducing a comprehensive goods and services tax (GST) involving a single taxable event of "supply". GST is expected to be implemented in 2017.

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). 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. The distributed income is the amount of consideration paid by the company on the buyback of shares, reduced by the amount received by the company on account of the issue of the shares. The shareholders will not be charged for any income arising from the buyback of shares.

General Anti-Avoidance Rules (GAAR) and Disclosure Requirements

To discourage transactions with persons located in jurisdictions that do not effectively exchange information with India, transactions with persons situated in certain jurisdictions designated by the government will be subject to the Indian transfer pricing rules and income paid to persons in those jurisdictions will be subject to a minimum withholding tax of 30%. India has designated Cyprus as such a jurisdiction.

A general anti-avoidance rule is expected to apply to investments after April 1, 2017.

A non-resident with a liaison office in India is required to prepare financial statements, annual activity certificates, etc. on its activities and submit this information to the Indian tax officer within 60 days from the end of the financial year.

Real Property Tax

Each state levies property tax, with rates varying from state to state.

Wealth Tax

The 1% wealth tax was abolished from April 1, 2015.

Transfer Tax

Securities transaction tax (STT) is levied on the purchase or sale of equity shares, derivatives or units in an equity-oriented fund listed on a recognized stock exchange of India.

Service Tax

The effective rate of service tax is 15%, including the education cess and the secondary and higher education cess, on the provision of all taxable services that are not included on the negative list of services. No service tax is payable on services that are specifically exempted (non-taxable services) by notifications issued by the tax authorities

Payroll and Social Security Taxes

There is no payroll tax payable by employers.

The employer generally contributes 12% of eligible wages per month to the Provident Fund. From the employer's contribution, 8.33% of the wages (up to INR 15,000) is applied to the pension fund, with the balance paid to the Provident Fund.

The employer also pays a gratuity to workers who have rendered continuous service for at least five years at the time of retirement, resignation, superannuation, etc., at the rate of 15 days' wages for every completed year of service (up to a maximum of INR 1 million).

The employee contributes 12% of eligible wages per month to the Provident Fund.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2017 (www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

The Reserve Bank of India (RBI) is fully owned by the Indian government and is charged with maintaining monetary stability by directing lending and deposit rates in the country's banking system. In addition to monetary policy, the RBI is responsible for foreign exchange management, currency issuance, and regulation and supervision of the financial system via the Board for Financial Supervision. As part of the central bank's responsibilities for maintaining confidence in the financial system, the RBI evaluates system-wide risks and promotes sound business and financial practices.

In 2005, the RBI established a Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) to strengthen the country's financial infrastructure in line with Reserve Bank of India (Board for Regulation and Supervision of Payment and Settlement Systems) Regulations, 2005.

The Reserve Bank of India Act (1934) and the Banking Regulation Act (1949) provide the legal framework for the central bank's key functions.

Other banking supervision bodies

Banks and non-banking finance companies (NBFCs) operating in India are supervised by the Board for Financial Supervision (BFS), established by the RBI in 1994. Regional Rural Banks (RRBs), Rural Development Banks (SCARDBs) and Cooperative Banks (other than urban or primary cooperative banks) are supervised by the National Bank for Agriculture and Rural Development (NABARD), but the RBI remains the ultimate regulatory body.

Since 2009 banks in India have adopted Basel II capital adequacy framework through the Capital Adequacy Assessment Process (CAAP). Banks started to implement Basel III in April 2013. Full compliance expected by the end of March 2019.

Central Bank Reporting

General

The RBI compiles balance of payments data as part of its responsibilities for foreign exchange policy management. As well as monitoring all foreign exchange transactions conducted via the country's banking system, as required under the Foreign Exchange Management Act (FEMA) of 1999, the RBI also collects data from relevant government agencies and departments, and conducts regular surveys.

Data is compiled in crores of rupees (1 crore = INR 10 million).

What transactions – listed

The FEMA states that all foreign exchange transactions including all foreign direct investment transactions, external commercial borrowing transactions and outward foreign direct investment transactions, must be channeled through the banking system. Banks that undertake foreign exchange transactions are required by the FEMA to submit returns and supporting documents.

Whom responsible

Under the FEMA, only banks are required to provide data. Banks submit data on behalf of entities and individuals.

Additional reporting for liquidity management schemes

There are no additional reporting requirements.

Exchange Controls

Exchange structure

The Indian rupee (INR) floats on the foreign exchange market but is subject to intervention by the RBI. The RBI intervenes in the market dealing in USD spot and forward, with authorized dealers. India imposes a number of controls under the FEMA.

Remittance or repatriation of approved investments, loans or licensing agreements may be occasionally subject to delay.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

Resident and non-resident entities may only enter into forward foreign exchange contracts via authorized dealers, i.e. banks that are licensed to deal in the foreign exchange market. Residents may only deal forward up to an eligible limit, set as the higher of the company's most recent annual turnover and its three-year average import or export turnover. The RBI's Exchange Control Manual details procedures for authorized dealers.

The Export Credit Guarantee Corporation of India (ECGC) offers protection against fluctuations in the rupee's value against AED, AUD, CHF, EUR, GBP, JPY and USD. Cover for payments in other convertible currencies may be offered at the ECGCI's discretion.

Capital flows

Residents are permitted remit up to USD 250,000 each financial year for current and/ or capital transactions. The proceeds from all external commercial borrowing raised abroad for INR expenditures in India are required to be immediately credited into an INR account with an authorized dealer.

Loans, interest and repayments

The majority of non-financial entities may arrange commercial credits, although borrowing in some sectors or borrowing outside average maturity periods is subject to RBI approval.

Resident entities may arrange commercial credits of up to USD 20 million from non-residents, with maturities below three years for capital goods (below one year for non-capital goods). RBI approval is required for credits for import transactions above USD 20 million. Larger commercial credits require RBI permission.

Resident entities are permitted to lend foreign exchange to their subsidiaries or joint ventures abroad, up to a limit of 400% of their net worth.

In November 2015 India liberalized its rules on External Commercial Borrowing by residents from non-residents. Under the automatic route of the new 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.

Under an approval route, upon the submission of documentation to the RBI, companies can borrow higher amounts. No limitations apply to repayments of interest or principal.

External Commercial Borrowing can be raised in any freely convertible currency as well in INR.

The proceeds from all external commercial borrowing raised abroad for INR expenditures in India are required to be immediately credited into an INR account with an authorized dealer.

Royalties and other fees

India applies withholding tax of 10% for resident companies and of between 25.75% and 27.0375% for non-resident companies. Lower rates apply to countries with which India has signed a tax treaty.

Profit remittance

There are no restrictions on the remittance of profits.

Export proceeds must be repatriated within six months of shipment, unless prior permission has been granted by the RBI. Businesses located in Special Economic Zones must also comply with this requirement. Export-oriented entities are permitted to hold 100% of foreign exchange receipts in foreign currency accounts in India.

Bank Account Rules

In general, residents may hold accounts denominated in INR or foreign currency in India and foreign currency accounts abroad. Non-residents can also generally hold accounts denominated in INR in India and abroad but there a number of restrictions on non-residents holding foreign currency accounts in India. For both resident and non-residents, restrictions apply to the different types of accounts permitted.

Resident companies are those registered in India under the Indian Companies Act 1956 (or other specified acts) or controlled or managed wholly from within India during the relevant year. A

non-resident entity is defined as a company, partnership, society or other corporate body that is at least 60% owned (directly or indirectly) by a non-resident or a Non-Resident Indian (NRI), i.e. persons resident outside India that hold Indian citizenship or are of Indian origin.

Residents' foreign currency accounts held outside India may be used to remit up to USD 250,000 (or equivalent) per year, but permission is required for payments that exceed this limit. From April 2012, residents are able to open and maintain foreign currency accounts outside of India for purposes of overseas direct investment without obtaining prior permission from the RBI, subject to conditions. Residents may also use non-interest-bearing Resident Foreign Currency (Domestic) accounts to hold foreign currency resulting from a foreign trip or from services delivered outside India, or acquired from non-residents in India as gifts or payments. Exporters use non-interest-bearing exchange earners' foreign currency (EEFC) accounts for the payment of trade-related expenses.

As well as holding INR accounts locally, NRIs may also hold foreign currency term deposit accounts with maturities between one and five years at local banks. These accounts are available in any convertible currency and may be used to repatriate funds. The RBI permits foreign citizens to use foreign currency accounts to effect overseas payments on their own accounts.

Foreign companies not established in India (those without a registered office) typically cannot hold INR accounts locally without specific permission from the RBI, with the exception of banks and financial institutions, shipping and airline companies, companies governed by the Foreign Exchange Management Act, foreign institutional investors, and foreign companies with project offices in India. Firms outside these categories that wish to open INR accounts must seek RBI approval. Non-resident domestic currency accounts are freely convertible into foreign currency.

Anti-money Laundering Legislation and Counter-terrorist 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 Foreign Contribution (Regulation) Act 2010; the Money Laundering Regulations 2003 and the Unlawful Activities (Prevention) Order 2009, plus associated Reserve Bank of India Rules and Notifications).
- India has established a financial intelligence unit (FIU), the Financial Intelligence Unit – India (FIU-IND) which is a member of the Egmont Group. It reports directly to the Economic Intelligence Council which is headed by the Finance Minister.
- 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).
- 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 100,000 or its equivalent in foreign currency, or a series of transactions aggregating to a value above INR 100,000 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 January 2017

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) March 31, 2016
State Bank of India	448,400
ICICI Bank	138,669
HDFC Bank	110,219
Punjab National Bank	107,582
Bank of Baroda	104,320
Bank of India	93,068
Canara Bank	85,083

Source: www.accuity.com.

Overall Trend

India's banking system is dominated by state-owned institutions, especially the State Bank of India, India's largest bank in terms of assets, in which the government owns a 61.6% share. In recent years the Indian government has announced its intension to revamp struggling state-owned banks and to reduce its stake in some banks as part of general disinvestment plans across various industries. Initiatives to shore up public sector banks include measures in 2015 and 2016 for the provision of capital for banks, the hiring of private sector executives for the first time to run public sector lenders and the creation of an umbrella structure under the Bank Board Bureau to guide policy and the operation of the banks.

In 2016 India's government launched a major plan to consolidate the 26 public sector banks into just six institutions. Under this plan, the remaining institutions would be Canara Bank, Bank of India (BoI), State Bank of India, Punjab National Bank, Union Bank and Bank of Baroda. Government equity in public sector banks is not currently permitted to fall below 50%, although the government is considering lowing this limit.

In order to push for greater competition in the sector, the RBI also declared itself permanently open to applications for banking licenses in 2016, abolishing a previous policy of only issuing new license during sporadic windows.

State-owned commercial and development banks, insurance companies and mutual funds such as Unit Trust of India (UTI) provide the majority of financial services in India, including funding for domestic and foreign companies. While state-owned commercial banks specialize in short-term lending and some medium- to long-term financing services, public sector development banks focus on long-term lending business. Public sector banks provide a full range of banking services across country-wide networks that account for approximately 64% of India's total bank branches.

Until 2000, India's state-owned financial institutions provided commercial banking services through subsidiaries, but the RBI has since permitted parent companies to adopt banking status if certain regulatory requirements are met. Subsequently, ICICI (in 2002) and the Industrial Development Bank of India (2005) merged with their respective commercial banking subsidiaries.

Since 2011 the RBI has opened up India's banking sector to greater private ownership and permitting some large industrial companies operating in India to apply for banking licenses. Foreign investment limits in Indian banks without regulatory approval have also been increased, currently standing at 49%. Banking reforms have also allowed for the RBI to issue new banking licenses.

A total of 44 foreign banks have established 320 branch operations in India to meet the needs of their clients, but they also increasingly provide services to domestic firms, including local and international transaction banking services. Foreign banks can conduct business in India through representative offices rather than establishing a branch presence; there are approximately 45 foreign banks with representative offices in India. Fewer restrictions apply to foreign banks' retail finance operations.

Payment Systems

Overview

As well as a real-time gross settlement (RTGS) system for high-value electronic payments, India operates several systems for processing paper-based and retail electronic instruments. India's vast geography requires a network of over 10,000 access points to its various payment systems.

The RBI operates the RTGS system for urgent electronic credit transfers over INR 200,000. This RTGS system (NG-RTGS) was launched in October 2013, replacing the previous RTGS system.

The position of checks as the main non-cash payment instrument is reflected in the fact that there are a number of separate systems in operation for processing payments. MICR check clearing was discontinued as of mid-2013 in favor of a Check Truncation System (CTS), facilitating the same day settlement of check payments. CTS was launched in the Delhi area from 2008 and has since been rolled out nationally. A High-Value Clearing system for checks and other paper-based debit instruments was also discontinued in 2010 to make way for CTS.

The Electronic Clearing System processes regular electronic bulk credit and debit payments such as salaries and insurance premiums. The National Electronic Funds Transfer (NEFT) system is mainly used to effect one-off electronic payments. The NEFT system has replaced the EFT system for all but government payments. The India Pay platform, which was introduced in 2010, initially processes ATM transactions but will expand to process credit and debit card payments over the coming years.

In 2016 the Bharat Bill Payment System (BBPS) began operations as an electronic GIRO payment system processing payments throughout India. The new system operates under the National Payments Corporation of India (NPCI).

The Aadhaar Payment Bridge System has also been launched under the NPCI and this system connects banks to various government departments to distribute financial benefits via electronic credit transfer.

Under The Payment and Settlement Systems Act 2007, all entities operating payment and settlement systems within India are under the direct supervision of the RBI, which will also be responsible for their regulation, unless they are specifically exempted. The National Payments Corporation of India Ltd (NPCI), an independent body established by the RBI, is an umbrella institution operating electronic retail payment systems in India.

The RBI has led a number of initiatives to increase automation:

- Indian Financial Network (Infinet) – a hybrid network of VSATs and leased lines to provide a communication backbone for all financial transactions;
- Structured Financial Messaging System (SFMS) – standardized financial message formats;
- All transactions of INR 10 million or above must be processed by an electronic payment system.

High-value

Name of system	NG-RTGS
Settlement type	Real-time gross settlement
Settlement cycle	Near real-time. Transactions are settled either on a gross or off-sett basis. Final settlement takes place across accounts held at the RBI.
Links to other systems	NG-RTGS carried out the final settlement of Multilateral Net Settlement Batch (MNSB) files from India's other clearing houses.
Payments processed	High-value and urgent payments.
Currency of payments processed	INR
Value and other limits to processing	All payments must be above INR 200,000.
Operating hours	The service window is open 08:00–20:00 on weekdays and 08:00–15:30 on Saturdays.
System holidays	NA
Cut-off times	Initial cut-off time 16:30 on weekdays and 14:00 on Saturdays. Final cut-off time at 19:45 weekdays and 15:00 on Saturdays.
Participants	160 participants
Access to system	RTGS can be accessed via 127,920 branches in over 30,000 cities, towns or taluka places.
Future developments	Since the launch of the upgraded RTGS payment system NG-RTGS in October 2013 the system has the capability to process multicurrency transactions, although this is yet to be implemented by the RBI.

Low-value

Name of system	CTS
Settlement type	Check Truncation System.
Settlement cycle	T+0 for locally cleared checks. T+1 for inter-city clearing
Links to other systems	NA
Payments processed	Checks
Currency of payments processed	INR
Value and other limits to processing	No minimum threshold.
Operating hours	Monday to Saturday
System holidays	NA
Cut-off times	NA
Participants	209
Access to system	NA
Future developments	NA

Name of system	Electronic Clearing System (ECS)
Settlement type	Deferred net settlement; ECS operates separate sub-systems for credits and debits.
Settlement cycle	T+1
Links to other systems	NA
Payments processed	Bulk credit and debit items, i.e. salaries, insurance premiums.
Currency of payments processed	INR
Value and other limits to processing	No value threshold
Operating hours	NA
System holidays	NA
Cut-off times	NA
Participants	117 banks
Access to system	Payment instructions are made through a central location in Mumbai.
Future developments	NA

Name of system	National Electronic Funds Transfer (NEFT)
Settlement type	Deferred net settlement
Settlement cycle	T+0 or T+1; twelve daily settlement cycles each weekdays. Six on daily settlement cycles each Saturday.
Links to other systems	NA
Payments processed	Low-value electronic credit transfers
Currency of payments processed	INR
Value and other limits to processing	No value threshold for the majority of payments but cash-based remittances and individual transfers to Nepal, are restricted to INR 50,000.
Operating hours	Mon–Fri: between 08:00 and 19:00 Saturday: between 08:00 and 13:00.
System holidays	NA
Cut-off times	15:30
Participants	175 participant banks offer NEFT services at over 133,419 branches across India.
Access to system	Participant branches must link to a central service branch in Mumbai.
Future developments	NA

Payment and Collection Instruments

Overview and Trends

Checks and drafts are both commonly used instruments for commercial transactions in India, but cash is the dominant payment method for medium- and small-value transactions. Although, in terms of volume, debit cards are now the mostly frequently used cashless payment instrument in India, check volumes remain high, partly due to the RBI's investment check clearing technology and the new nationally launched Check Truncation System (CTS), accelerating settlement to same day settlement for locally cleared checks. A "Speed Clearing" system for the collection of outstation checks has also been introduced nationwide, cutting the time for checks cleared in this way to between one and two working days. Use of credit transfers has also increased for commercial payments in recent years and they are now the most commonly used cashless payment instrument in terms of value.

In the retail sector, payment cards, especially debit cards, have increased in popularity recent years. A total of 27.34 million credit cards and 739.27 million debit cards are currently in circulation. Use of payment cards has also increased demand for point of sales (POS) terminals, from which customers have been able to make cash withdrawals since July 2009. In addition, ATM networks have developed rapidly in recent years, offering cash withdrawal or deposit, balance enquiries and additional services. There are around 219,578 ATMs in operation; this number increases by a few hundred each month. In order to further increase ATM use, there have been no ATM inter-transaction charges since 2009.

The RBI has developed a multi-application smartcard that enables users to access banking, insurance and postal services as well as serving as an identity card.

Statistics of Instrument Usage and Value

	Transactions (million)		% change	Traffic (value) (INR billion)		% change
	2014	2015	2015/2014	2014	2015	2015/2014
Checks	1,195.8	1,096.4	-8.3	85,439.3	81,860.8	-4.2
Credit transfers	1,135.7	1,390.2	22.4	815,855.3	908,910.6	11.4
Debit cards	7,872.5	9,247.0	17.5	25,736.8	26,960.6	4.7
Credit cards	619.4	791.7	27.8	1,922.6	2,437.0	26.7
Direct debits	226.0	224.8	-0.5	1,739.8	1,651.5	-5.1
e-Money	310.7	748.0	140.7	212.8	487.6	129.1
Total	**11,360.10**	**13,498.10**	**18.8**	**930,906.60**	**1,022,308.10**	**9.8**

Source: *CPSS – Red Book* statistical update, December 2016.

Paper-based

Checks

Despite falling in volume during 2015, checks remain an important method of payment for commercial transactions in India, accounting for approximately 8.1% of all payments by volume and 8.0% by value in 2015.

As of mid-2013, all checks are cleared by a check truncation system (CTS), which has been rolled out nationally in stages since 2008. This replaces a MICR system, which cleared and truncated retail/low-value checks between banks in the same city. Under CTS, checks are subject to grid based clearing, which has removed the need for individual clearing houses in favor of three centralized clearing areas, or grids, across the whole country. This has enabled the same-day settlement of local checks. Non-local checks can take five days to three weeks to clear depending on the location and number of banks involved. However, "Speed clearing" has been introduced nationwide, speeding up clearing for outstation checks (checks which are presented in a different city from the city where they were issued). Speed clearing removes the need for physical transportation of checks with banks networking their branches via Core Banking Solutions (CBS). Checks drawn on outstation CBS branches of a drawee bank can be processed under the Speed Clearing arrangement if the drawee bank has a branch presence at the local center, allowing them to be cleared within one or two working days.

During 2010, India's High Value Clearing system for checks above INR 100,000 was discontinued to help facilitate greater participation in CTS.

Banks use courier services to collect checks in locations beyond their branch networks and clear these at local clearing houses through their correspondent or partner banks. Banks are required to publish check collection policies and value dates, and must compensate customers for delays.

Electronic

Credit Transfer

Credit transfers are now the dominant cashless payment instrument in terms of value, as they are increasingly used for bulk payments such as pensions and salaries, in addition to high- and low-value one-off payments. The RBI's RTGS system is used for next-day settlement of high-value (i.e. above INR 200,000) credit transfers, while retail credit transfers are cleared via the ECS (largely bulk payments) or NEFT systems.

Although cross-border transactions are limited by official restrictions on the outflow of foreign currency, payments to overseas entities are typically made via a foreign currency demand draft or through SWIFT. Most large banks have SWIFT connections and/or bilateral arrangements with correspondent banks that provide access to high- and low-value EUR and USD clearing mechanisms.

Direct Debits

Consumers and businesses use direct debits for regular bill payments, but they remain a small

proportion of overall cashless payments, although their use is increasing each year. Direct debits may be used for intrabank or interbank transfers. Direct debits are generally cleared by the ECS system on a T+1 basis.

Payment Cards

Card payments, both credit and debit, account for an increasing share of non-cash retail payments. A total of 27.34 million credit cards and 739.27 million debit cards are currently in circulation.

The National Payments Corporation of India Ltd (NPCI) has created a domestic card scheme in India, known as RuPay. A RuPay debit card was launched in March 2012 and at the end of 2015 there were 166.7 million RuPay cards issued in India.

ATM/POS

Use of payment cards in the retail sector has increased demand for point of sales (POS) terminals, with 1.5 million in operation across India. From July 2009, POS terminals have also been used for cash withdrawal, initially by debit cards, with a daily maximum withdrawal amount of INR 1,000. In addition, India's Income Tax Department is working to allow tax payments to be made through ATMs. There around 219,600 ATMs in India that are part of the National Financial Switch (NFS) ATM network. A total of 98 banks and 5 regional rural banks currently participate as members of NFS, with a further 558 participate as sub members. NFS is operated by the National Payments Corporation of India (NPCI) and Corporation of India (CCIL) is the settlement agency for the network's transactions.

Electronic Wallet

The RBI, which has regulatory control of entities issuing prepaid cards in India, has developed a multi-application smartcard that enables users to access banking, insurance and postal services as well as serving as an identity card. In 2015, the RBI permitted prepaid e-money payment instruments to be used on mass transit systems, paving the way for e-money to be used on India's trains and road transport services.

All prepaid payment instruments in India are subject to a maximum value limit of INR 50,000.

Liquidity Management

Short-term Borrowing

Overdrafts

Overdrafts are available. Companies usually pledge receivables or inventories as security for advances.

For borrowing of less than INR 200,000 interest is charged at base rate.

Overdraft facilities are reviewed annually and are usually automatically renewed.

Bank Lines of Credit/Loans

Overdraft and normal working capital credit lines are available. Banks' PLRs vary as a result of competition between banks. The short-term loan minimum element of companies' working capital facilities is usually 80%.

Trade Bills – Discounted

Banks discount trade bills covering purchases of raw materials or holiday of inventory. The most common are 90-day bills, with recourse if the drawer fails to pay.

Non-bank finance companies discount bills, but – except when financing commercial vehicles and government designated "priority sectors" – are unable to rediscount so their rates are more expensive.

Factoring

Factoring has been available in India since 1991.

Factoring is usually undisclosed and can be with, partial or without recourse.

Factoring services are used by mid-sized and large-sized firms as well as small enterprises for whom they were originally aimed.

Commercial Paper

Although commercial paper (CP) was introduced in India in 1990, there are still no market makers and the main investors – banks and mutual funds – usually hold paper until maturity.

CP has tenors ranging from seven days to a year and is issued in multiples of INR 500,000.

Foreign and domestic companies, primary dealers (PDs) and the All-India Financial Institutions (FIs) may issue CP. Companies must have a minimum tangible net worth of INR 40 million, a sanctioned working-capital limit against which outstanding CP does not count, a minimum credit rating of A3 or its equivalent and an account that is classified as a Standard Asset by a bank or financial institution.

CP must be rated by an Indian rating agency, authorized by the RBI.

Bankers' Acceptances

Bankers' acceptances are not permitted in India for domestic trade.

Supplier Credit

Companies mostly supply goods and services on terms of 30 to 45 days, but terms can vary from up-front advance payments to 90 days' credit. Terms depend on industry practices and the negotiating ability of the buyer and supplier.

Intercompany Borrowing

Companies are permitted to make intercompany investments of up to 60% of their paid-up share capital or 100% of their free reserves, whichever is greater. Investments over this limit require shareholders and government approval.

The Indian intercompany loan market has no restrictions on interest rates and terms.

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Interest is not permitted to be paid on current account balances.

Demand Deposits

Resident and non-resident entities may open call deposit accounts in both INR and foreign currency.

Time Deposits

Term deposits are available in INR and foreign currency to resident and non-resident entities. The minimum term is generally seven days, but some non-residents may be required to invest for a minimum of a year. Interest is generally paid quarterly but can be paid more frequently by discounting the quarterly payments. An alternative is offered through inter-corporate deposits, which allow firms to invest in other companies for periods typically no longer than six months.

Certificates of Deposit

Certificates of deposit (CDs) can be issued by all commercial banks in India, with the exception of Regional Rural Banks and Local Area Banks. CDs issued by banks are available for maturities between seven days to not more than one year, but the most common maturity is 91 days. The minimum investment amount for CDs is INR 100,000 and they must be issued in multiples of INR 100,00 thereafter. They can be interest-bearing or issued at a discount. Other financial institutions, authorized by the RBI, can issue CDs for a period of between one and three years.

Treasury (Government) Bills

Treasury bills are issued by the central bank at weekly auctions, held each Wednesday. Maturities are typically three, six and twelve months. The secondary market is generally focused at the longer end of the market.

India's government has also started to issue Cash Management Bills (CMBs), which are similar to Treasury Bills and have maturities of less than 91 days.

Commercial Paper

Commercial paper is issued in tenors from seven days to a year, but the most common maturity is three months. All commercial paper must be issued in multiples of INR 500,000. All commercial paper issued in India must be rated by an Indian rating agency.

Repurchase Agreements

Repurchase agreements (repos) can be arranged against specific instruments without limits on maturity. Only financial institutions sanctioned by the RBI may participate in the repo market.

Bankers' Acceptances

Bankers' acceptances are not permitted for domestic trades.

Liquidity Management Techniques

There are a number of regulatory and tax restrictions on liquidity management, particularly for non-resident firms, so most techniques are focused on domestic rather than cross-border optimization of cash. Increasing use of ERP systems by companies located in India has helped to increase automation of cash management processes in recent years.

Cash Concentration

Sweeping and target balancing are used to concentrate liquidity across multiple accounts within a single entity. Companies can also use sweeps to concentrate balances at multiple entities within the same group, but such arrangements are subject to limits on intercompany borrowing and lending, minimum guidelines on interest payments and related tax issues. Non-resident accounts may participate in a cash concentration structures, but lifting fees may be applied to transfers between resident and non-resident accounts. Participation of resident and non-resident Indian entities in cross-border cash concentration structures is generally rendered ineffective by withholding tax and/or exchange control regulations.

Notional Pooling

Notional pooling and multilateral netting are not permitted under Indian law. Pooling across multi-legal entities is regarded as an intercompany loan and thus subject to withholding tax, despite no physical movement of funds.

Trade Finance

General Rules for Importing/Exporting

Despite government initiatives aimed at increasing exports, Indian regulations on imports and exports remain comparatively complex and bureaucratic. A total of 186 operational special economic zones have been established, which offer certain tax reductions, exemptions and holidays for up to 15 years to exporters. They permit export-oriented firms to be foreign-owned. A Duty Entitlement Pass Book scheme which allowed exporters to offset the impact of import duties on the export price of certain goods was discontinued from October 2011.

India is a member of the South Asian Association for Regional Cooperation (SAARC) with Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, Maldives and Afghanistan. The SAARC countries have signed a South Asia Free Trade Agreement (SAFTA) that aims to eliminate tariffs on most trade between member countries. India signed a free trade agreement (FTA) with ASEAN member nations in August 2009. The deal covered all trade but not services, although it was extended with a further agreement in 2014 to cover services and investment. In February 2011, India signed an FTA with Japan that will eliminate tariffs on 94% of goods within the next 10 years. 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

Documentation Required

Documentation is required to support foreign exchange payments for imports in excess of USD 100,000. For imports with a value below USD 1 million, this can be either a bill of entry or a certificate of confirmation (from the CEO or auditor) if the importer is listed on the National Stock Exchange of India with a net worth of more than INR 1 billion. A certificate of origin, cargo release order, customs import declaration, bill of lading, terminal handling receipts, inspection reports, packing list and a technical standard or health certificate are also generally required.

Import Licenses

The import of certain goods (including aircraft, certain animals, antiques, arms, plants, seeds and meat) requires a license from the Director General of Foreign Trade.

Import Taxes/Tariffs

A wide range of imports are subject to taxation at rates between 2% and 10%. Customs duty on cigars, cheroots and cigarillos is 60%. Many capital goods are exempt under the Export Promotion Capital Goods Scheme.

Financing Requirements

There are no particular financing requirements for imports. Exporters can submit requests to the RBI to 'set-off' export receivables against import payables with respect to the same foreign buyer and supplier. Requests are made via exporter's banks.

Risk Mitigation

There are no specific requirements or arrangements.

Prohibited Imports

Items including tallow, animal fat, rennet, wild animals and ivory may not be imported into India. Restricted items include certain precious and semi-precious stones, seeds, plants, animals, drugs, chemicals and pharmaceuticals.

Exports

Documentation Required

The export of goods and software must be declared irrespective of value. A certificate of origin, bill of lading, commercial invoice, customs export declaration, inspection report, terminal handling receipts and packing list are also generally required. Health certificates or technical standards may be required for certain items.

Export Licenses

Licenses are required for the export of restricted items such as some textiles, animals and animal parts, seeds, silk worms, food industry waste, chemicals, mineral ores and agricultural items. Licenses may also be needed for goods covered by international treaty obligations regarding security and the environment.

Export Taxes/Tariffs

The export of certain animal skins, leathers and hides is subject to taxation at rates from 10% to 60%.

Proceeds

Export proceeds must be repatriated within 6 months of shipment, including business located in SEZs, unless authorized by the central bank. Export-oriented entities are permitted to hold 100% of foreign exchange receipts in foreign currency accounts in India. All proceeds from invisible transactions and current transfers must also be repatriated. Commercial credits from residents to non-residents with maturities of six months are permitted, but approval must be sought longer periods.

Financing Requirements

As well as a short-term export credit program operated by the central bank, the government-owned Export-Import Bank of India (Exim Bank) offers long-term export finance services, including loans for export marketing and pre-shipment credit.

Risk Mitigation

The state-owned Export Credit Guarantee Corporation of India (ECGC) insures export supplier credit, export buyer credit, letters of credit, credit for pre-export financing and outward investment, and insures bank guarantees for exports against political or commercial risks. Similar services are also available from the Export-Import Bank of India.

Prohibited Exports

India prohibits exports in line with UN Security Council policies and other international treaty obligations.

Information Technology

Electronic Banking

Large Indian companies commonly use electronic banking – either a host-to-host connection or internet-based front-end – to upload payment files to their banks. Salary transfers are typically effected by the bank's internal funds transfer capabilities while vendor payments are most commonly presented to suppliers as a check written by the bank on behalf of its client. Some banks also offer same/next-day balance and transaction reporting and electronic invoice presentment and payment (EIPP), as well as services that enable clients to view the clearing status of checks over the internet.

Traditionally private and foreign-owned banks have been the main drivers of electronic, internet-based and mobile banking services in India but technology infrastructure and security issues have limited their reach. However, their usage is now growing rapidly as financial institutions harness their potential for enabling India's large rural and unbanked population to access banking services. In August 2010, the National Payments Corporation of India (NPCI) launched an Interbank Mobile Payment Service (IMPS) pilot project, to help facilitate mobile payments. IMPS is a real-time interbank electronic fund transfer service offered through mobile phones and operates continuously every day. NPCI provides the service through its National Financial Switch (NFS) service. Previously, centrally processed mobile payments were processed in batches by the NEFT payment system during the RTGS operational hours. IMPS was rolled out nationally at the end of 2010. There are 153 banks in India currently participating in the service, with a customer base of approximately 22 million mobile banking subscribers.

In April 2016, NPCI launched the Unified Payments Interface (UPI), an online payment platform allowing users to make, receive and schedule online payments via smartphones. The service currently has 20 live member banks.

By mid-2016 internet penetration was at 36.5% of the Indian population, i.e. approximately 462.1 million, and this is expected to grow rapidly in the next few years, thus expanding the scope of online banking services.

Although India does not currently have one bank-independent standard for all electronic banking, transactions processed by India's NEFT payment system use a standardized financial message format known as the Structured Financial Messaging System (SFMS), which is similar to SWIFT. India's RTGS system uses a proprietary message system and in the past year the RBI has begun the process of developing its message format to an XML based messaging system that conforms to the most recent International Standards Organization (ISO) standards.

External Financing

Long-term Funding

Bank Lines of Credit/Loans

State-owned development banks and financial institutions are the main sources of medium and long-term finance in India.

Tenors vary from less than one year to five years, but longer loans are available for longer projects. Grace periods of between six months and one year are the norm.

Lenders require fixed assets as security for term loans. A maximum 1.5:1 debt/equity ratio requirement is usual, but greater gearing is allowed for capital-intensive investments.

Leasing

Finance and operating leases for movable equipment are available in INR or foreign currencies for imported equipment, but most leases are INR denominated.

Large leases are syndicated.

Bonds

Firms issue corporate bonds to finance investment projects and meet working capital needs.

Issuers require two credit ratings of investment grade and must meet the listing requirements of India's stock exchanges and the Securities and Exchange Board of India (SEBI) disclosure requirements. The SEBI evaluates all prospectuses.

The debentures are either convertible (full or partial) or non-convertible. The latter can be privately placed.

Private Placement

Companies can issue privately placed debt with banks, FIs and mutual funds.

Asset Securitization / Structured Finance

The domestic market in asset securitization began to develop in 2000. Asset classes include receivables on lorry and auto loans, toll road receipts, receivables related to student fees, loans and license fees as well as corporate receivables.

Mortgage-backed securities and collateralized debt obligations are issued.

Infrastructure Financing

There are a number of finance vehicles – the Indian Infrastructure Financing Company, Infrastructure Development Finance and India Development Fund – to help finance infrastructure projects, including public–private partnerships.

Useful Contacts

National Investment Promotion Agency

Invest India — www.investindia.gov.in

Department of Industrial Policy & Promotion — www.dipp.nic.in

Central Bank

The Reserve Bank of India — www.rbi.org.in

Banks

State Bank of India — www.statebankofindia.com

ICICI Bank — www.icicibank.com

Bank of India — www.bankofindia.com

Stock Exchanges

National Stock Exchange of India — www.nse-india.com

Bombay Stock Exchange — www.bseindia.com

Ministry of Finance

Ministry of Finance — www.finmin.nic.in

Chamber of Commerce

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) —

www.assocham.org

Bankers' Associations

Indian Banks' Association — www.iba.org.in

Indian Institute of Banking and Finance — www.iibf.org.in