

SEZ – THE NEW ECONOMY BOOSTER

GAA
ADVISORY



QUOTES related to SEZs

“ Make in India is the biggest brand India has ever created. ”

-Prime Minister Narendra Modi's speech
at launch of Make in India Week

“ We recognize that SEZs are a useful tool for industrial development, especially in areas where infrastructure is lacking. ”

-P Chidambaram (Former Finance Minister)

“ SEZs are here to stay. ”

-Former Prime Minister
Dr. Manmohan Singh

“ We should be bolder in reform, be more innovative and open wider to make SEZs distinctly special. ”

-Li Hongzhong (Chinese Leader)

“ SEZs are as magnet and glue. Magnet to attract FDI and glue to identify and bind strategies that will benefit a large number of People and organisation. ”

-Mr. Murasoli Maran
(Former Union Minister for Commerce and Industry)

INTRODUCTION

Definition:

Special Economic Zones (SEZs) are specifically demarcated duty-free areas deemed to be foreign territory for the purposes of trade operations, duties and tariffs.

	Type	Description
Specifications	Logistics Hubs	<ul style="list-style-type: none">• Commercial, Warehousing and logistics services• Trade Facilitation services for shipping at airports, seaports, etc• Can be located next to or within larger industrial estates
	Multi-activity SEZs	<ul style="list-style-type: none">• General industrial development, non - specialized
	Specialized SEZs	<ul style="list-style-type: none">• Focused on sectors (e.g. services, resources or agricultural based)• Focused on industries (e.g. pharmaceutical, electronics, etc
	Innovation driven SEZs	<ul style="list-style-type: none">• Focused on industrial upgrading and automations (e.g. high-tech zones, biotech zones, ecozones



5400+
SEZs
Across
147
Countries

TIMELINE OF SEZS



India established its first
EPZ in Kandla (Gujarat)

Announcement of Special
Economic Zone Act 2005

1958

1984

2019

1965

2005

Export Processing Zone
(EPZ) was first coined to
identify the Shannon
Zone set up in Ireland

EPZs were established
in
Cochin, Kolkata, Madras,
Noida

240 Operational SEZs in
different Indian states. Highest
in Tamil Nadu followed by
Maharashtra and other states.

Main Objectives of SEZs

Introduction of new technologies in India enhancing foreign relationships

1

Promotion of exports of goods and services

2

Promotion of investment from domestic and foreign sources

3

Creation of employment opportunity

4

Development of infrastructure facilities

5

Generation of additional economic activity

6

Incentives & Facilities for Setting up SEZs in India

1

Single window clearance for all state and central level approvals

2

Exemption in electricity duty and tax on sale of electricity by certain states in India

3

Exemption from the Goods and Services Tax (GST) and taxes imposed by state government

4

Presence of customs officer in the SEZs to facilitate and expedite the trade processes

5

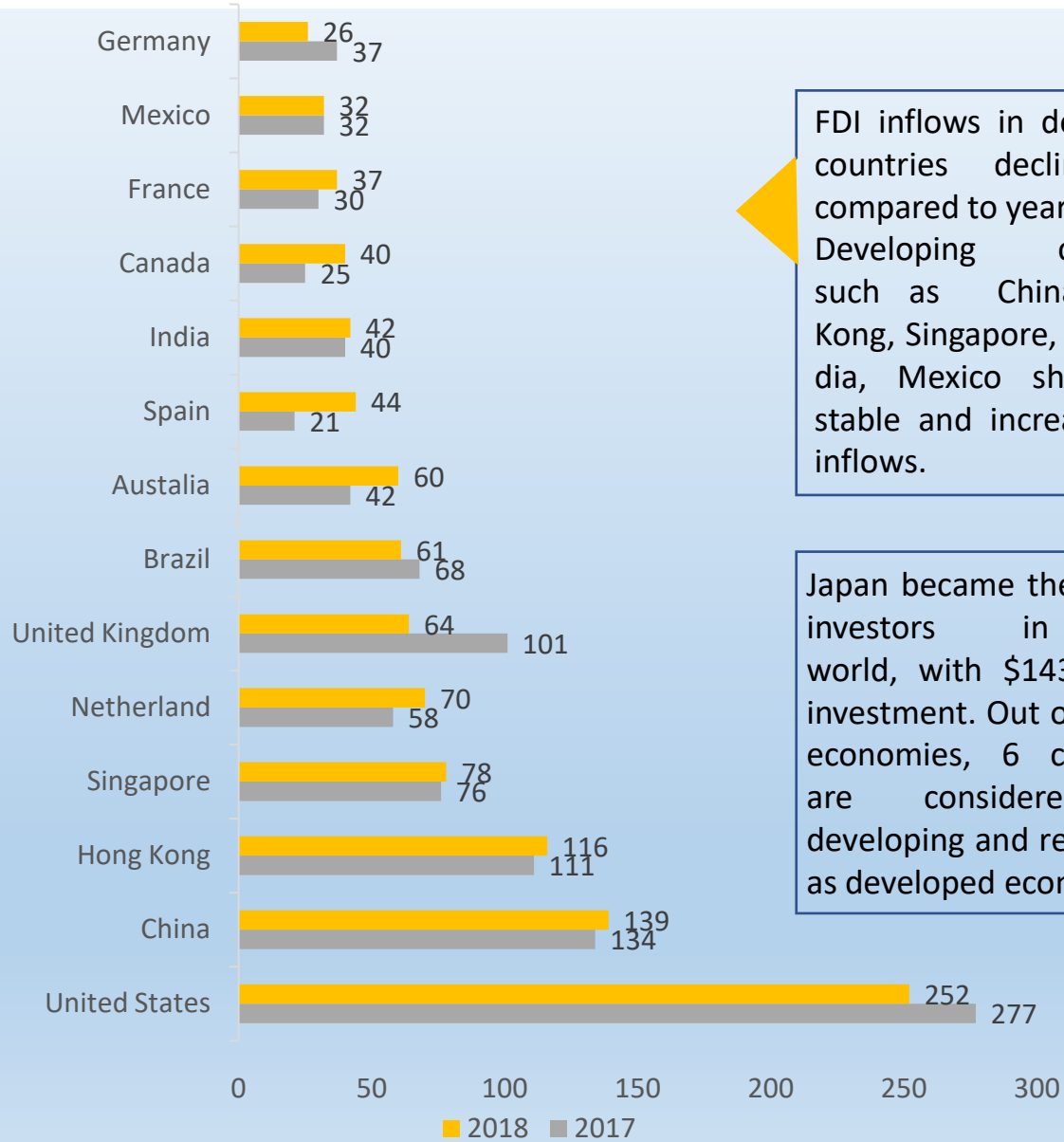
Land to SEZ developers at concessional rates to promote industrial growth

6

Duty free import and domestic procurement of goods for the development, operation, and maintenance of company

FDI Inflows, top 15 economies

(Billions of Dollar)

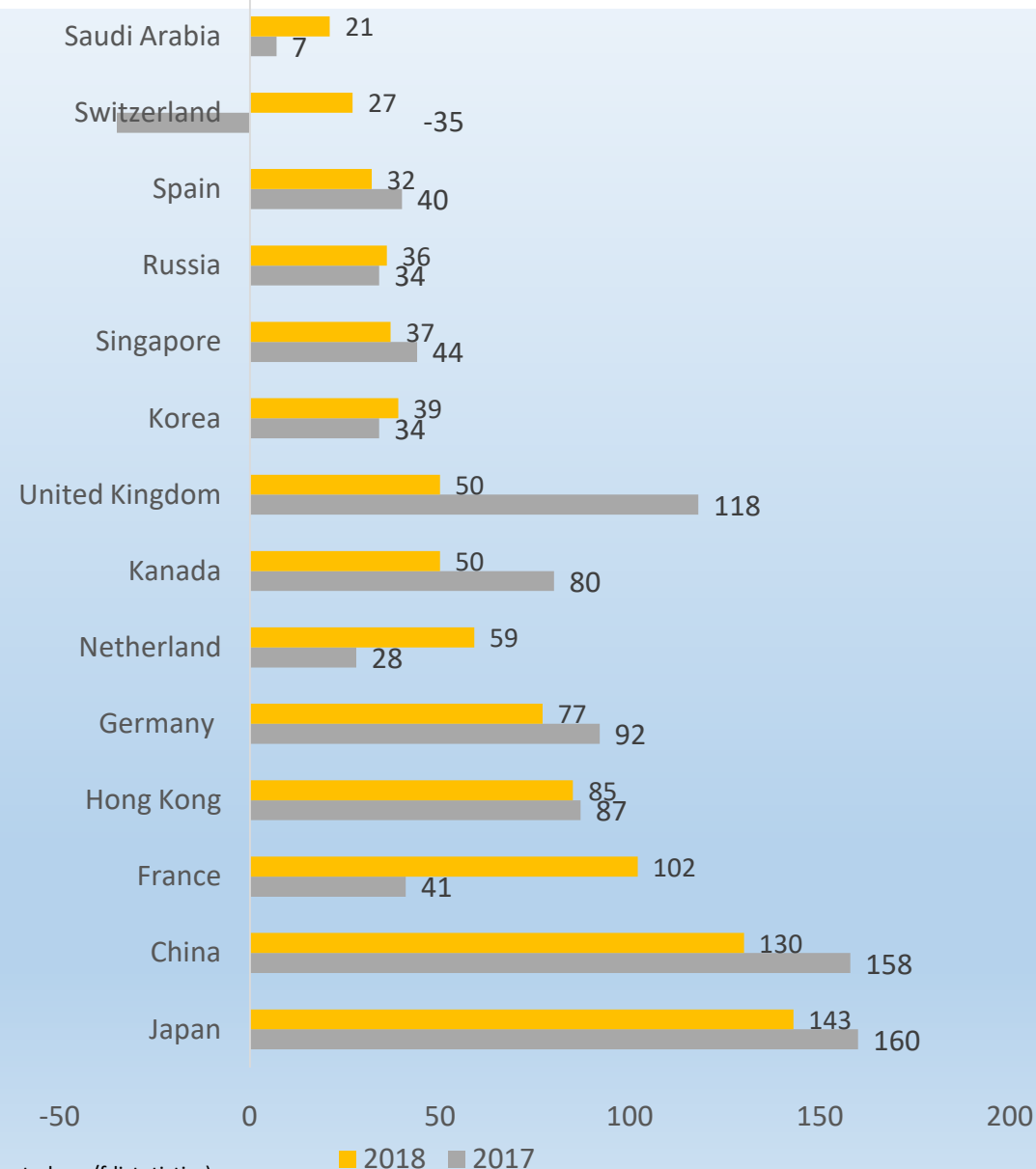


FDI inflows in developed countries declined as compared to year 2017. Developing countries such as China, Hong Kong, Singapore, Brazil, India, Mexico showed a stable and increased FDI inflows.

Japan became the largest investors in the world, with \$143 billion investment. Out of top 15 economies, 6 countries are considered as developing and remaining as developed economies.

FDI outflows, top 15 economies

(Billions of Dollar)



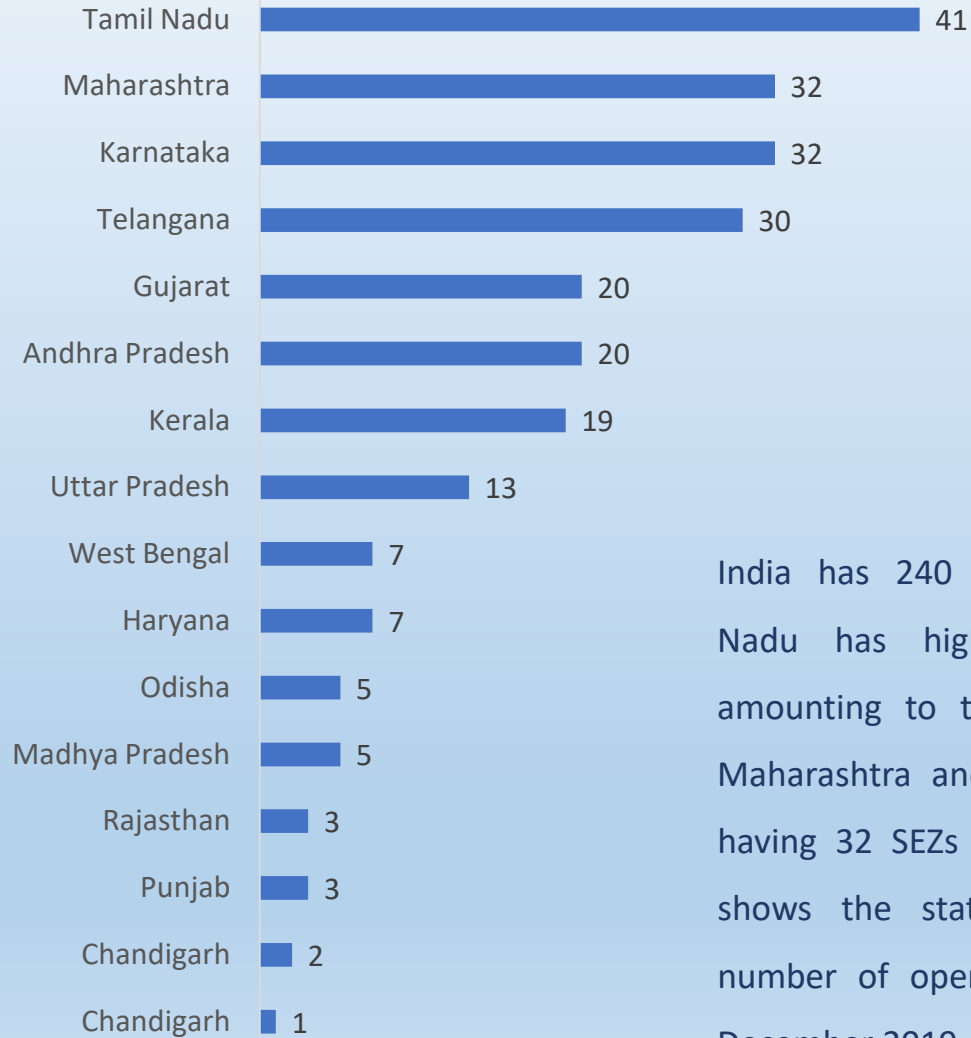
COMPARISON OF CHINESE AND INDIAN SEZ

Issue	China	India
Size	Generally in hundreds of hectors	Even 10 hectors of land parcel will also do
Location	Generally located on coastal area	Have presence in whole country
Labour Laws	Relaxed	Absence of flexibility
Policy Regime	Experimental in liberal policies	Based on fiscal activities
Investors	Generally foreigners	Mix match of foreigners and locals
Commencement	In 1979	In 1965



- Hainan Province (34,000 Sq. km)
- Shantaou Guangdong Province (234 Sq. km)
- Zhuhai Guangdong Province (2420 Sq. km)
- Shenzhen Guangdong Province (395.81 Sq. km)
- Kashgar SEZ (50 Sq. km)(20,000 employment)
- Xiamen Fujian Province (131 Sq. km)

Operational SEZs in India



India has 240 operational SEZs. Tamil Nadu has highest number of SEZs amounting to total of 41 followed by Maharashtra and Karnataka both states having 32 SEZs respectively. The graphs shows the state wise distribution of number of operational SEZs as on 31st December 2019

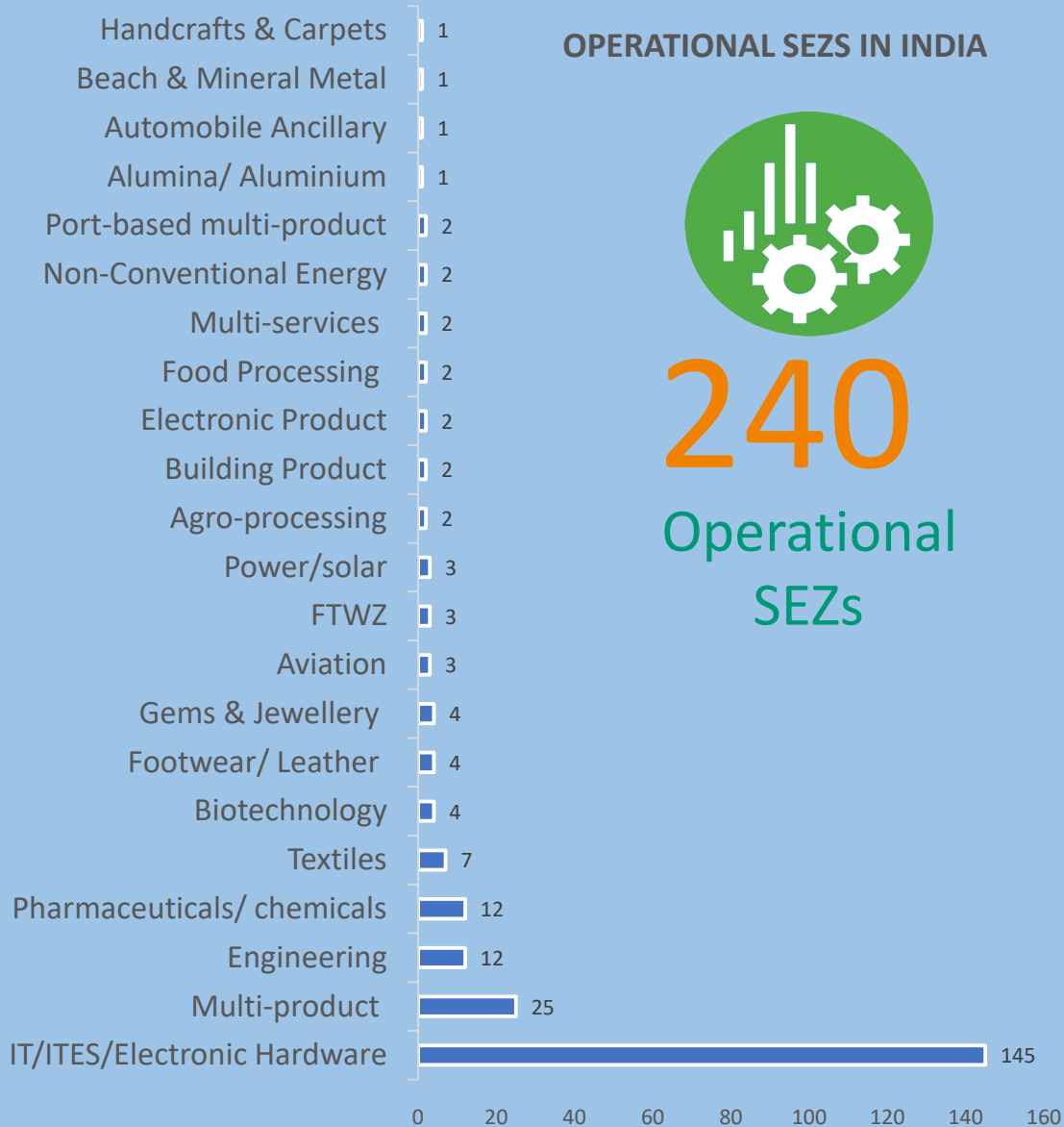


Sector-wise SEZs in India

OPERATIONAL SEZS IN INDIA



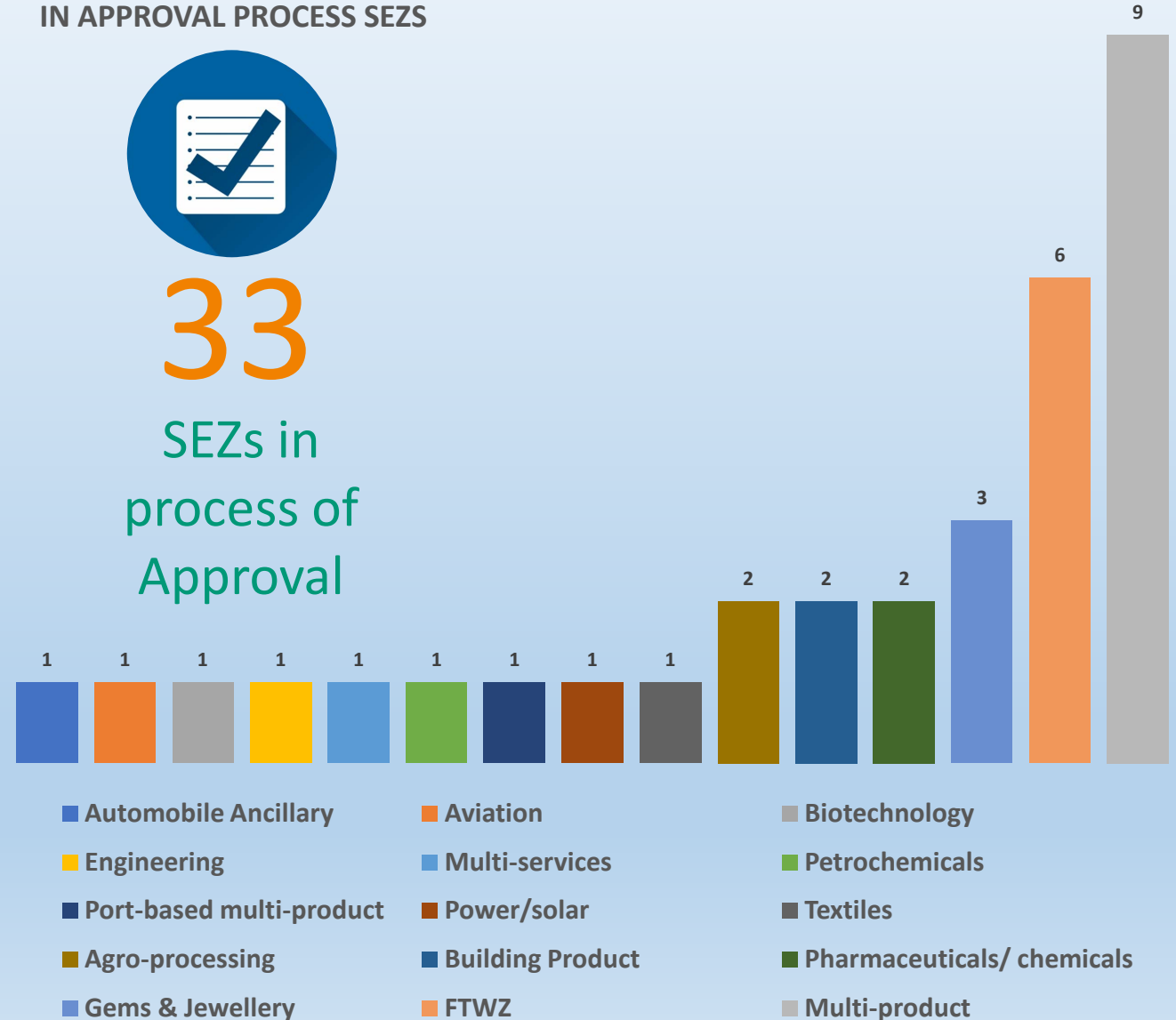
240
Operational
SEZs



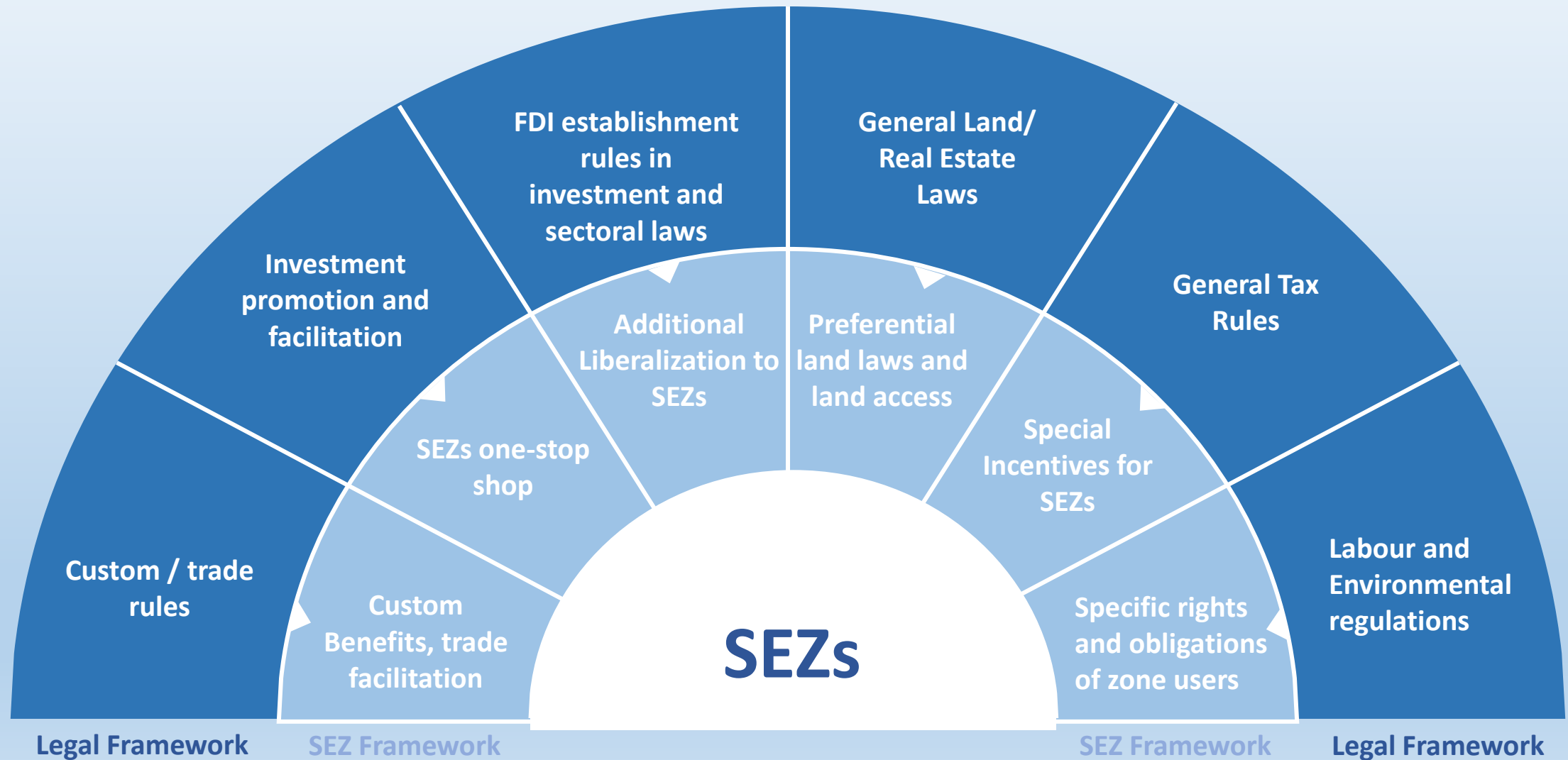
IN APPROVAL PROCESS SEZS



33
SEZs in
process of
Approval



ADVANTAGE OF SEZ OVER GENERAL LAWS



LAND ALLOTMENT TO SEZs

- As per the government records, land area under SEZs is 47,990.78 Ha.
- Multi-sector SEZ has minimum requirement of 1000 hectares of land.
- Free Trade and Warehousing Zone (FTWZ) has minimum 40 hectares requirement.
- IT/handcraft/bio-technology, gems and jewellery SEZs has minimum 10 hectares of land requirement.
- As on 31st December 2019, units which are in operation in India are around 5,258.

Land For SEZs (As on 29-02-2020)

SEZs notified before
SEZ Act

2,185.76 Ha

Notified SEZs under
SEZ Act, 2005

40,347.16 Ha

Total Notified SEZs
Area

42,532.92 Ha

Total Area
47,990.78 Ha

Formally Approved
SEZs

5,457.86 Ha

SIGNIFICANT SEZ REQUIREMENT

Following are the important requirement for stakeholders such as Developer and Unit Holder as per SEZ Act 2005 for setting up of a SEZ in India.

Developer

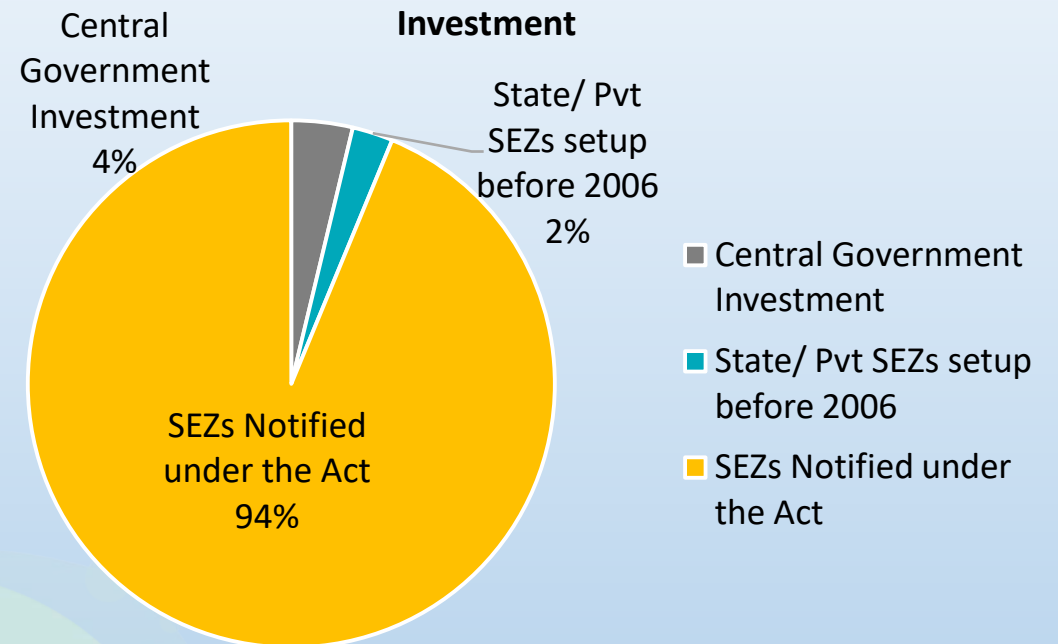
- No minimum land area requirement
- Minimum Built up area requirement is 1 Lac sq. m for Category A cities
- Minimum Built up area of 25,000 – 50,000 sq. m for Category B and Category C cities

Unit Holder

- Has to be located only within notified area
- A unit holder's Net Foreign Exchange Earnings should be positive cumulatively for 5 years
- Operations need to commence within a period of one year or within an approved extended period only
- Land title should be clear
- Performance will be monitored based on the guidelines of the Unit Approval Committee

INVESTMENT ON SEZS IN INDIA

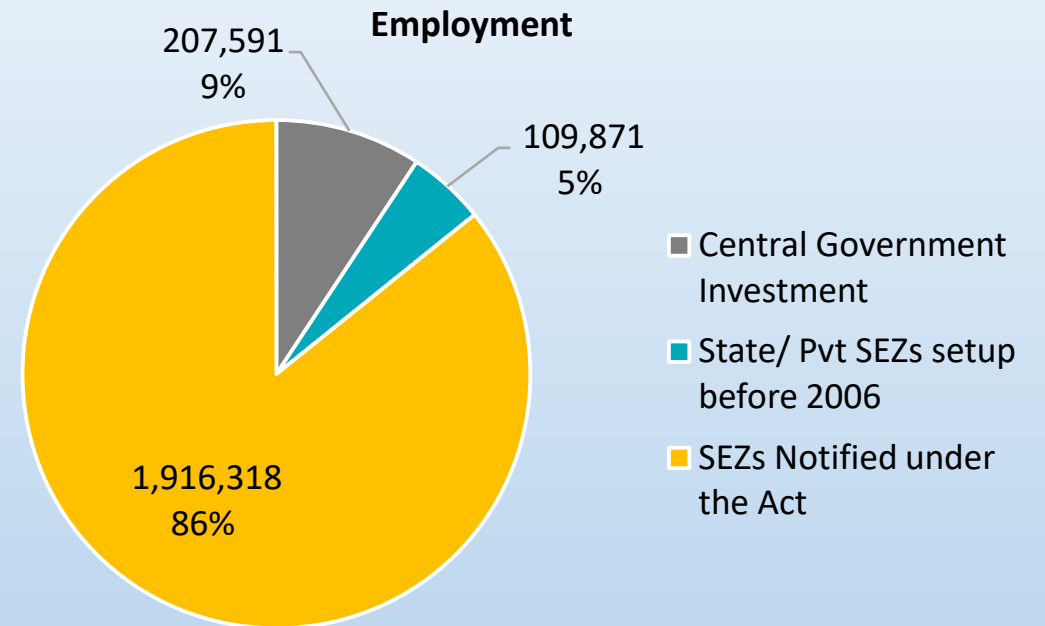
- As on 31st December 2019, the total investment stood at Rs. 5,37,657.67 Cr.
- Economic activity in SEZs grew several times in terms of investment since the year 2005.
- Central government zones also witnessed a robust increase in economic activity after the Act was enacted.
- It is noted that incremental change investment after the Act came into force was several times higher than that during the preceding five years.
- The graph shows the Investment done by Central government, State/ private SEZs and SEZs notified under SEZ 2005 Act.



Particular	Total Investment (till 31-12-19) (In Rs. Cr)
Central Government Investment	20,190.67
State/ Pvt SEZs setup before 2006	13,440.57
SEZs Notified under the Act	504026.43
Total	5,37,657.67

EMPLOYMENT DUE TO SEZS

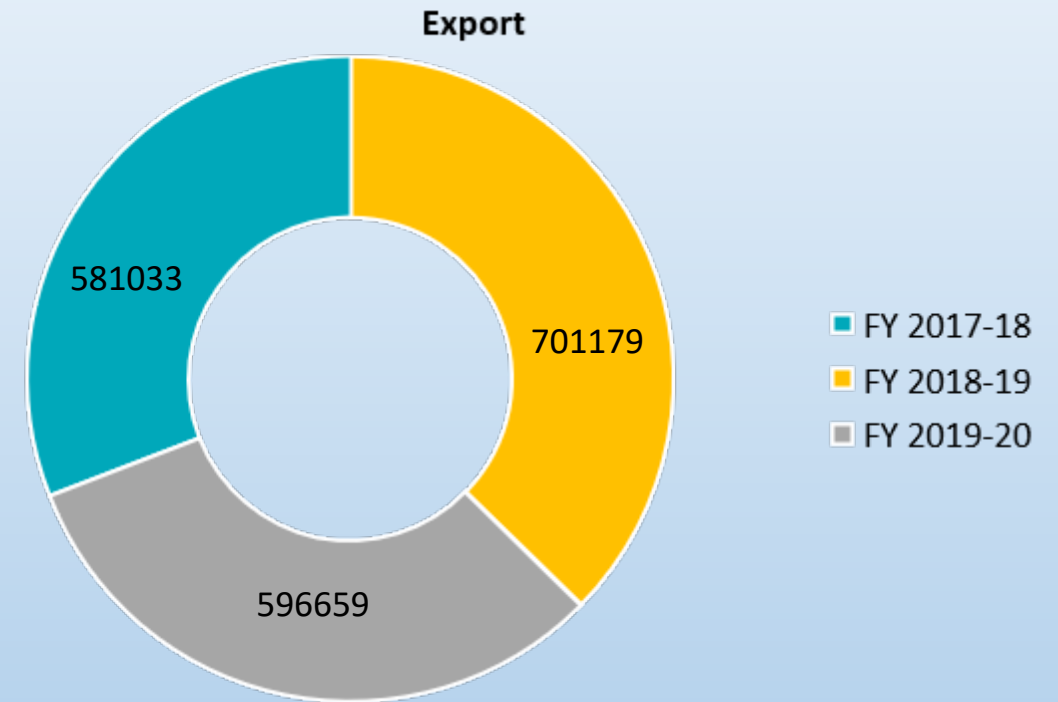
- As on 31st December 2019, the direct employment in SEZs stood at 22,33,780 persons.
- The employment activity in SEZs between 2000 and 2019 also grew several times.
- It is also interesting to note that incremental change in employment during the 4 years time after the Act came into force was several times higher than that during the preceding five years.



Particular	Total Employment (till 31-12-19)
Central Government Investment	2,07,591
State/ Pvt SEZs setup before 2006	1,09,871
SEZs Notified under the Act	19,16,318
Total	22,33,780

EXPORT THROUGH SEZs IN INDIA

- The amount of exports from SEZ has increased many folds when compared with the initial years of SEZ in India.
- As per the SEZ Department of Government of India, total export worth of Rs. 5,96,659 Cr has been carried out in the year 2019-20.
- The graph shows total export conducted to in last 3 years in Rs. Cr.



Particular	Amount (In Cr.)
FY 2017-18	5,81,033
FY 2018-19	7,01,179
FY 2019-20	5,96,659

INITIATIVES/STRATEGIES BY GOVERNMENT



Online approvals for construction works:

Introduction of online approval system such as Common Application Form (CAF), digital signatures, auto-scrutiny of building plans has drastically reduced the time required to receive the approvals.



Insolvency Bankruptcy Code 2016:

As per the IBC 2016, the Fast-track Corporate Insolvency Resolution Process (CIRP) is to be completed in 90 days with maximum extension of 45 days.



Online approvals for construction works:

Connection of electricity is provided within 7 days to companies which are setting up new plants if no Right of Way (RoW) is required. In case of requirement of RoW, electricity connection is provided within 14 days.



Enforcing contracts and Judicial Support:

The establishment of Commercial Court, Commercial Division in High Court of Mumbai and Delhi has been set up by government.



Online tax filing and GST System:

Introduction of GST and IT infrastructure has resulted in ease of business. Return filling for employee insurance and provident fund has also eased in paying taxes.



Improvement in Trade Reforms:

Government has reduced the mandatory documents for import/ export to 3, online application system and risk management system has been introduced. All these has drastically reduced the time and cost.

CHALLENGES FACED BY SEZS

- Issue of maintaining attractiveness of the SEZ scheme in face of changed fiscal regime.
- Large number of states do not have there own SEZ policy to enable provision of benefits under SEZ Act.
- Inadequacy in the timely and adequate provision of infrastructure related to connectivity, public utility services, etc.
- Issue of effectiveness of Single Window Clearance Mechanism and coordination across departments of Central and State government.
- Slow pace of development of infrastructure within SEZs
- Unattractiveness in SEZ incentive packages.
- Availability of essential factors such as skilled and unskilled labours, availability of adequate land, infrastructure facilities.
- Increase in number for de-notification of SEZs





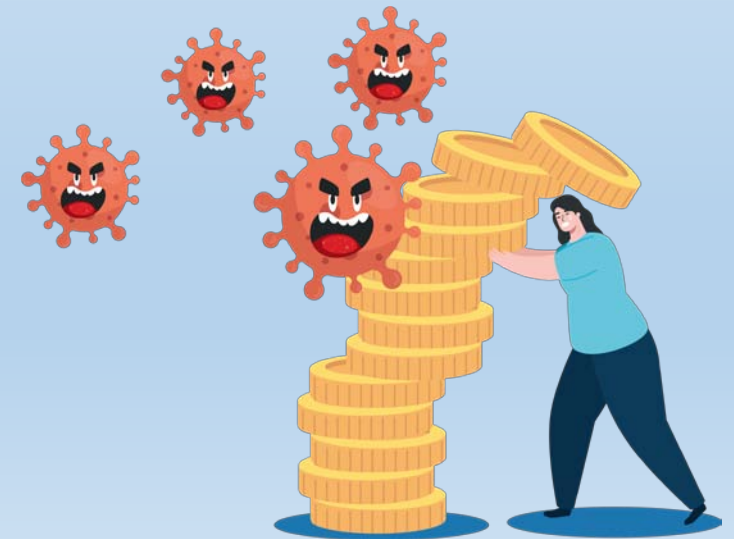
A WAY FORWARD AFTER COVID-19 PANDEMIC

POSITIVE AFFECT DUE TO COVID-19

- Exemption from duties on all imports for project, excise / VAT on domestic sourcing of capital goods for project development.
- 10% FDI allowed through the automatic route for all manufacturing activities.
- Procedural ease and efficiency for speedy approvals, clearances and customs procedures and dispute resolution
- AEZ initiative “Co-operation and Partnership between state and Centre” will be successful in creating well-paying jobs.
- Government initiate Rs. 20 Lakhs Crores Package for boosting up current covid-19 scenario. Although, small scale industry takeout this beneficiary for empowering India.
- Japan announced \$2 billion financial aids for its companies to shift production out of china which is expected to benefit India.
- A shoe manufacturing company VON WELLX announced that company will be setting up new manufacturing industry near Agra with investment of Rs. 110 Cr.
- Disruption in supply chain from China, US and Europe economics taking a hit. So, many MNC will looking for cheaper alternative destination to meet their manufacturing which is beneficiary for India.
- The parliament passed SEZs Amendment Bill, 2019: which opens up the possibility for all types of trusts to operate from SEZs- public charitable trusts, private trusts run by big and small corporate houses, business trusts like the real estate investment trusts and infrastructure trusts and port trusts run by the government.

NEGATIVE IMPACT DUE TO COVID-19

- Migration of labours to their home town due to COVID-19 may effects operation of companies working in SEZs.
- The economy will suffer in FY 2020, which started in April, due to COVID-19 making weaker demand and growth projection for India to 1.9% from 5.8% projected in January.
- India's manufacturing PMI fell to 27.4 in April 2020 from 51.8 in the previous month.



COVID-19 pandemic may be good news for India's economy or may be bad for China?

COVID-19 pandemic may be good news for Indian as the government providing incentives and other advantages for foreign investors

"Make in India" initiative has the potential to turn the Indian economy upside down

FDI in India increased by \$2873 Million in February of 2020 and could be expected to 4000 Million by the end of this quarter.

FLYING HIGH!!!

"WELCOME IN INDIA FOR INVESTMENT"

WHY OUR ECONOMY DROWNING?

China official index of manufacturing purchasing slipped to 50.8 in April from 52.0 in March

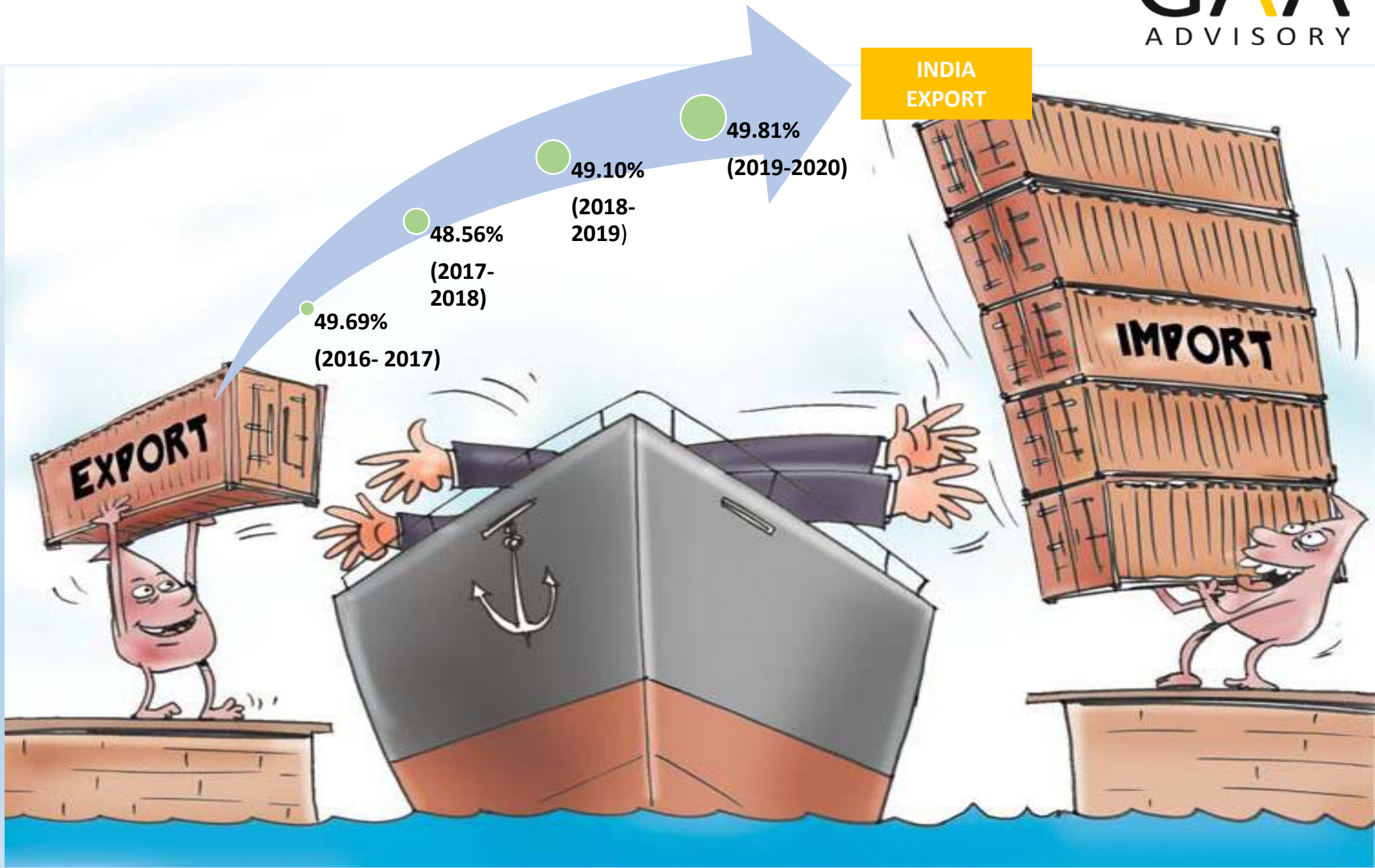
Due to Covid-19, first quarter of 2020, FDI (Foreign Direct Investment) fell to 10.8%, Whereas, first quarter of 2019 grew 5.8%

China official index of manufacturing purchasing slipped to 50.8 in April from 52.0 in March

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INDIA'S IMPORT AND EXPORT

For India, China is the biggest trading partner, India imports \$480 Billion valued product from around the world, in which \$68.16 Billion valued of products from China, where India exports \$322.786 Billion valued product to the world and exports to China \$16.96 Billion valued products in 2019.



RELAXING NORMS, SEEKING INVESTMENT ₹

- Agro based food processing SEZs to be introduced following demands by agrarian states

10 Hectares

- Minimum area for electronic hardware and agro-based food processing SEZs

20%

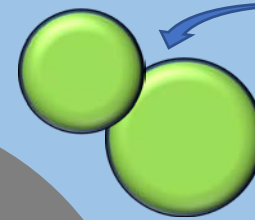
The Capital Subsidy that electronic hardware SEZs would get

- Investors** will be able to setup both software and hardware facilities on same premises.
- Developers** can use land with some prior minor construction as a vacant land for SEZs.
- Multi-Services** SEZs will be treated on a par with single- product SEZs with the minimum area being slashed to half from 100 hectare
- Developers** will be allowed to add another product on a contiguous 50 hectare in case of multi-product SEZs.



THE MINIMUM LAND AREA REQUIREMENTS OF SEZs CUT BY HALF

Multi-product SEZs minimum land requirement



Minimum area requirement for IT SEZs scrapped

Exit norms for SEZs allowed transfer of ownership of SEZ units



500 hectare from 1000 hectare



SINGLE PRODUCT SEZs MINIMUM LAND REQUIRED CUT TO 50 HECTARES FROM 100 HECTARES

FLASHBACK

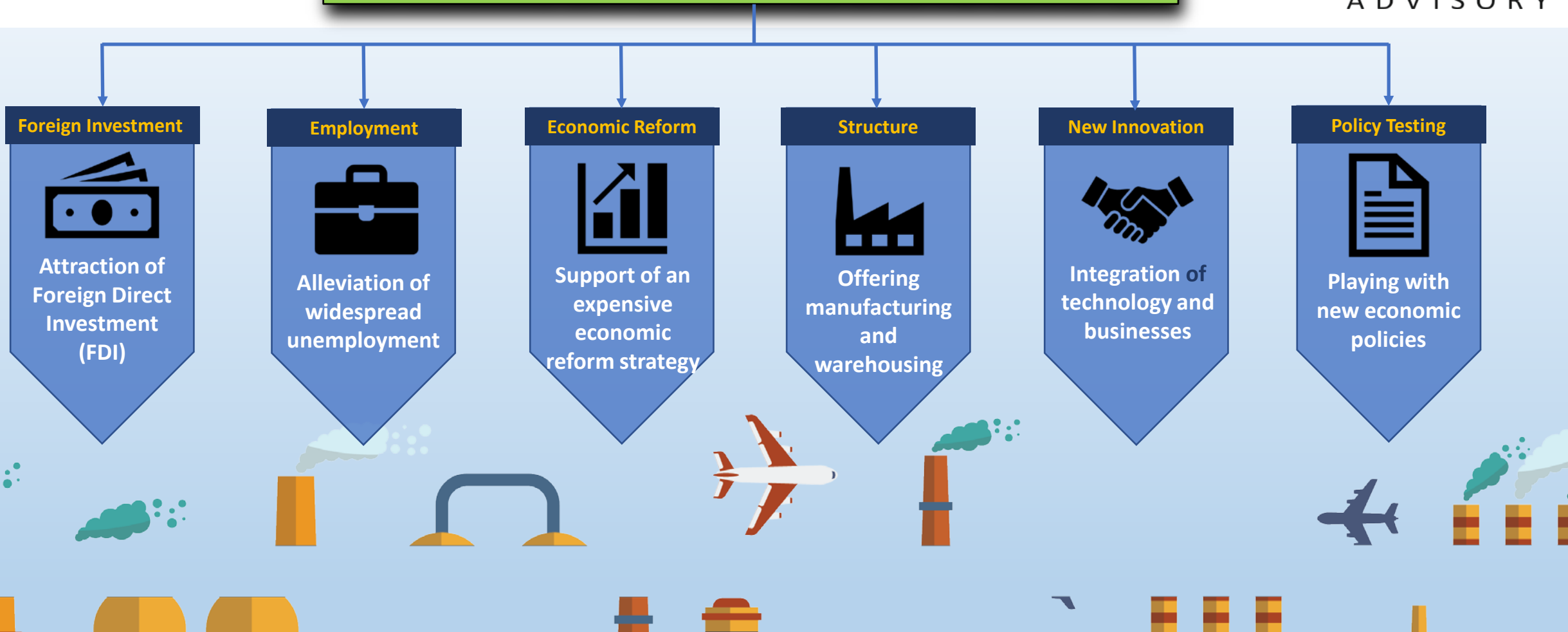
- In April, govt reduced minimum land for multi-product SEZs to 500 hectare from 1000 hectare
- It scrapped minimum requirement for IT SEZs

1,074,904

JOBS GENERATED BY SEZs

Benefits such as duty-free imports and 100% I-T exemption for the first five years will only apply to the land where construction takes place after it gets notified as SEZ

UPCOMING OPPORTUNITIES DUE TO COVID-19



**SPECIAL ECONOMIC ZONES
(SEZs)**

VALUATION

Business & Business Interests

- Business & Equity Valuation
- Valuation of Start-up / IPO / REIT / M&A, Leverage Buyout Valuation
- Valuation of ESOPs and Sweat Equity
- Valuation for Tax, Capital Gain, Transfer Pricing
- Valuation for Financial Reporting, Fairness Opinion, Purchase Price Allocation (PPA) for M&A
- Determination of Swap Ratio under Merger and Demerger
- Valuation of Inventory / Stocks and Debentures / Receivables
- Litigation and Dispute Support

Intangible Assets

- Valuation of Brands, Goodwill, Trademark, Copyright, Patents, Other Intangible Assets & Intellectual Property
- Valuation for Financial Reporting, Fairness Opinion, Purchase Price Allocation (PPA) for (M&A)
- Impairment Studies of Intangible Assets

Financial Instruments

- Valuation of Financial Securities, Instruments & Derivatives
- Valuation for M&A Transaction, under Insolvency & Bankruptcy Code

Immovable Assets (Real Estate)

- Valuation of Land, Building Residential / Commercial / Industrial Estates
- Valuation of Infrastructure Assets, Expressways / Toll Ways & Specialized Assets
- Valuation for Capital Gain Tax, Stamp Duty, Litigation & Dispute
- Impairment Studies for Financial Reporting, PPA, Cash Generating Units
- Mines, Mineral Advisory and Valuation
- Valuation under Insolvency & Bankruptcy Code (IBC)

Movable Assets (Plant & Machinery)

- Valuation of Industrial Assets and Plant & Machinery
- Valuation of Infrastructure Assets & Specialized Assets, Power Plants
- Fairness Opinion, Purchase Price Allocation for M&A
- Impairment Studies for Financial Reporting, Cash Generating Units
- Valuation under Insolvency & Bankruptcy Code (IBC)

Transaction Advisory

- Buy side due diligence and closing due diligence
- Vendor due diligence and vendor assistance
- Sale Purchase agreement (SPA) and Business Transfer Agreement (BTA)
- Assistance in deal negotiation

SERVICES

RISK CONSULTING

Strategic & Risk Advisory Services

- Techno Economic Feasibility Studies
- Economic Viability & Financial Appraisal
- Business Plan Review

Technical Support Services

- Lender's & Investor's / Independent Engineer Services
- Technical Due Diligence, Technical Opinions
- Chartered Engineers Opinion & Certification
- Project Cost Investigations
- Project Appraisal & Monitoring

Agency for Specialized Monitoring (ASM)

- Term Loan Monitoring
- Working Capital Monitoring
- Cash Flow Monitoring

Financial & Treasury Risk Advisory

- Assessment Of Credit Risk, Market Risk & Interest Rate Risk
- Assets Quality Review & Stress Testing
- Assessment of Expected Credit Loss
- Assessment of Asset Liability Management & Liquidity Risk

INVESTMENT BANKING

- M&A Advisory:
 - Sell Side, Buy Side
 - Domestic & Cross Border
- Partner, Joint Venture & Strategic Alliances
- Government Disinvestment & Privatization
- Fund Raising – Equity, Mezzanine, Structure Finance & Debt
- Distress Investment Banking – One – Time Settlement, Priority and Interim Funding, Rescue Financing and Buyouts

DISPUTE & LITIGATION SUPPORT

- Valuation Services
- Damages & Loss of Profit Assessment
- Independent Expert Testimony
- Anti – Trust & Competition Advisory
- Post – Acquisition Disputes, Joint Venture & Shareholder Disputes
- Civil & Construction Disputes, Real Estate Disputes
- Intellectual Property Rights Dispute

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