

Setting up of Factory / Manufacturing Operations in India¹



With the help of 'Make in India drive', India is on a path to become a manufacturing hub in the Asian region. Setting up of a factory in India requires careful study, planning and analysis. In this article, we have captured the main steps involved for setting up a factory / manufacturing operations in India, especially by a foreign company.

1) Key Considerations for setting up a Factory / Manufacturing Plant in India

The first step is to decide the answers to following questions. It is ok to have broad answers at the preliminary stage, a detailed study can follow later.

Question	Purpose / Objective
What should be the Location and Amount of Investment?	To evaluate maximum benefits that can be availed under the central and state laws of India
What should be the Product lines which should be manufactured in India?	To identify the incentives under sector-specific policies of India
What should be the Sales Pattern of the finished products to be manufactured in India, i.e., Export to other countries or Sale within India?	To identify and quantify incentives available under Foreign Trade Policy, Customs laws and State Industrial Policies of India

It is interesting to note that with proper planning and execution, it is possible to get overall benefit of upto 60% to 70% of total project cost for setting up a factory in India.

¹ The information contained in this document is based on our knowledge and experience. No representation or warranty is made to its accuracy, completeness or correctness. The information is only for general guidance and is not meant to be a substitute for professional, technical or legal advice in any manner.

2) Forming Strategy for entry into the Indian market

The next step is to form the strategy for entering the Indian market. The investor should make best possible use of its existing knowledge and relationships.

Objective	Action Required	
	A – Market Study	B – Feasibility Report
<ul style="list-style-type: none"> Formation of 360-degree Entry Strategy for India Customization of the Entry Strategy depending on market opportunities for the specific industry 	<ul style="list-style-type: none"> Assessment of Company's Capability and Preference Evaluation of Market Opportunities Mapping of Company Capabilities and Preferences to Market Opportunities Evaluation and Prioritization of Entry Options based on results achieved above 	<ul style="list-style-type: none"> Introduction, Promoters and Management Project Description Market Potential based on Inputs from Market Study (A) Technical Analysis and Financial Aspects Conclusion and Recommendation

3) Location Assessment for the new factory

The objective of this step is to identify the optimum location for setting up manufacturing facility in India. It consists of the following steps:

- Identification, Evaluation and Assessment of Location options
- Factors to be considered such as availability of land, status of power, water, manpower, facilities, government incentives, climatic condition, proximity to customers, etc.
- Physical visit to shortlisted locations
- Conclusion for most suitable Location option for the Factory in India

4) Forming Legal Entity in India and Post Incorporation Compliances

The objective of this step is to select the right form of legal entity in India from all legal and regulatory aspects, incorporate the entity in India and obtain the necessary registrations such as Income-tax (Permanent Account Number, Tax Deduction Account No.), Goods & Services Tax (GST), Labour laws (Shops & Establishment, Contract labour, Provident Fund, Employees State Insurance, Building & Other Construction Workers), etc.

Action Required		
A – Assessment of Legal Entity options	B – Incorporation of Legal Entity in India	C – Post Incorporation compliances
<ul style="list-style-type: none"> Understanding the company's global organization structure and proposed activities in India Analysis of alternative options to set up legal entity in India including evaluation from legal, tax and regulatory perspective Conclusion for most suitable legal entity structure for the company in India 	<p>1) Non-corporate forms of entities in India (treated as extension of foreign parent company)</p> <ul style="list-style-type: none"> • Liaison Office (LO) / Representative Office • Branch Office (BO) • Project Office (PO) <p>2) Corporate forms of entities in India (treated as separate legal entity in India)</p> <ul style="list-style-type: none"> • Wholly Owned Subsidiary (Private Limited Company) • Limited Liability Partnership (LLP) • Joint Venture (in case of partnership) 	<ul style="list-style-type: none"> • Obtaining the necessary registrations such as PAN, TAN, GST, Import-Export Code, Shops & Establishment, etc. • Opening bank account and reporting to Reserve Bank of India (RBI) (in case of foreign companies) • Preparation of Deputation / Secondment agreements, Employment contracts and Cost Reimbursement Agreements • Accounting, Tax and Regulatory compliances

5) Land Acquisition

Objective	Action Required
<ul style="list-style-type: none"> To acquire Land for construction of factory Documentation for Clear title / Ownership of Land 	<ul style="list-style-type: none"> Due Diligence, Survey, Valuation and Legal Verification of ownership of Land to be acquired Negotiation with seller (in case of private ownership) along with proper documentation Agreement with Government in case of public ownership Execution of legal documents for transfer of ownership

6) Construction of Factory and Project Management

The objective of this step is to appoint a Central Agency to manage the construction as well as external departments engaged during construction, installation and recruitment to ensure seamless execution. It consists of the following steps:

- Overall co-ordination and integration management with departments engaged in the implementation of entire project
- Appointment of a Central Agency to act as company's official representative with clients / suppliers / partners / third party contractors
- Prepare Plans for Project Management, Execution and Risk Management
- Identify and agree upon the Project Control systems necessary for achieving the project goals. Prepare and facilitate their implementation

7) Registrations and Approvals

The objective is to obtain all the legal approvals, licenses and registrations required for smooth functioning of the manufacturing activities. There mainly three stages at which approvals are required:

- Before Construction
- During Construction
- Post Construction and before start of production

On an average, about 15 to 20 approvals, licenses and registrations such as below are required to set up a factory and start production in India.

Approval / License / Registration	Issuing Department	Stage of requirement
In-principle project approval	State Industrial Development Corporation	Before construction of factory
Land Allotment	(for example, Haryana State Industrial & Infrastructure Development Corporation Limited or 'HSIIDC' in the state of Haryana)	After selection of land to be acquired
Labour license <ul style="list-style-type: none"> Contract Labour (Regulation & Abolition) Act, 1970 Building & Other Construction Workers (BOCW) Act, 1996 	Labour Department	Before hiring any labour
Pollution Clearances <ul style="list-style-type: none"> Consent to Establish (CTE) Consent to Operate (CTO) Hazardous Waste Management 	State Pollution Control Board (for example, Haryana Pollution Control Board in the state of Haryana)	<ul style="list-style-type: none"> Before start of construction of factory Before start of production After start of production
Factory Drawings, Maps and Occupancy Certificate ('OC' also known as certificate for completion of construction)	<ul style="list-style-type: none"> Director of Town and Country Planning State Industrial Development Corporation 	Before start of construction of factory and after completion of construction
Fire Clearances <ul style="list-style-type: none"> Fire Scheme approval 	Fire Department	<ul style="list-style-type: none"> Before start of construction of factory

<ul style="list-style-type: none"> • Fire No-Objection Certificate (NOC) 		<ul style="list-style-type: none"> • Before start of production and after installation of fire safety equipment
Hazardous substance storage (such as petrol, diesel, etc.)	Petroleum & Explosives Safety Organization (PESO)	<ul style="list-style-type: none"> • Phase 1 – Prior approval of drawings / plans before storage of petrol / diesel • Phase 2 – Final NOC after start of storage
Electricity <ul style="list-style-type: none"> • Temporary connection • Permanent connection 	Electricity Department	<ul style="list-style-type: none"> • At the time of start of construction of factory • After completion of construction of factory
Water <ul style="list-style-type: none"> • Water connection • Bore well installation 	<ul style="list-style-type: none"> • State Industrial Development Corporation • Ground Water Department 	Before start of construction of factory
Factory License / Registration <ul style="list-style-type: none"> • Building Plan / Stability Certificate • Factory License 	Directorate of Factories	Before start of construction of factory and after completion of construction
Diesel Generation (DG) Set	Chief Electrical Inspectorate Electricity Department	At the time of installation of DG set

Many states in India have set up 'single window clearance' facility to help investors obtain the above approvals, licenses and registrations in a timely and easy manner.

8) Trial Run

The objective of trial run is to identify any issues within the production line before start of final production. It is necessary to ensure that the products are manufactured as per customer's expectations. It helps not only to determine if the product is of sufficient quality, but also whether the manufacturing process is being executed efficiently.

9) Start of final production

After study and implementation of the results of trial run, the factory is ready to start production. Even at this stage, modifications and improvements are made to the manufacturing line.

How We Can Help

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