



# Staging a comeback

**With the roll-out of the 'Make in India' week, the Maharashtra government gets an opportunity to regain its position as the economic and industrial powerhouse of India**

**O**n 13 February 2016, Prime Minister Narendra Modi is slated to flag-off the 'Make in India' initiative of the government of India in Mumbai, the financial capital of the country. Over 100 CEOs, both Indian and many from across the globe, as also almost half-a-dozen heads of state and their representatives, are expected to be at

the event, which is jointly organised by various stakeholders, including the Department of Industrial Policy & Promotion (DIPP), the ministry of commerce & industry, and the Central and the state governments.

"This initiative primarily involves attracting investments into the state and expanding manufacturing, emulating the goals, targets and the vision envisaged by the Central government

for the 'Make in India' programme. During the week we would be announcing five major policies for sectors like electronics and retail," explains the 45-year-old Devendra Gangadhar Fadnis, chief minister, Maharashtra. In the last 14 months since he took charge, Fadnis, the second youngest to occupy the CM's chair in Maharashtra, has embarked on a mission to get the state back into the leading position, as a destination for the manufacturing and industrial landscape of the country. Given Maharashtra's position, the success of the 'Make in India' programme would be to a large extent contingent on the progress made in



We are focussing on sector-wise development, while setting up new industries like IT, wine, textile, food and pharma parks,” he adds.

Historically, Maharashtra has attracted a large amount of investments and is known for its business- and investor-friendly environment. “However, in recent years, the state has been witnessing a steady decline in the growth of new investments, in part due to the slowing of the overall economic growth in the country and also on account of the investor-friendly policies of other states,” explains S.P. Jain, CMD, Sun Capital Advisory services, a Mumbai-based financial intermediary, working with medium- and small-scale enterprises (MSE) players, drawing attention to the hard numbers. “Besides, there has also been a lack of political will in the state.”

**Steady decline**

During the tenure of the previous government, in five years (2009-14), the growth in new investments in Maharashtra had seen a steady decline by about 76 per cent – from ₹1,54,357 crore to ₹35,667 crore, says a report from the Centre for Monitoring Indian Economy (CMEI). In comparison, the drop in new investments in its neighbour Gujarat was only about 33 per cent – from ₹1,56,106 crore to ₹1,04,993 crore. However, this was a period when many other states also were on a downhill, with new investments in Karnataka and Tamil Nadu, for instance, dwindling by 94 per cent and 67 per cent respectively. “The overall investment climate was indeed bad”.

Similarly, during the same five-year period, Maharashtra had registered an increase in the number

**IT & ITes Policy 2015**

As per the guidelines, the state has declared 37 Public IT Parks. Out of this, 33 are IT parks being developed by MIDC.

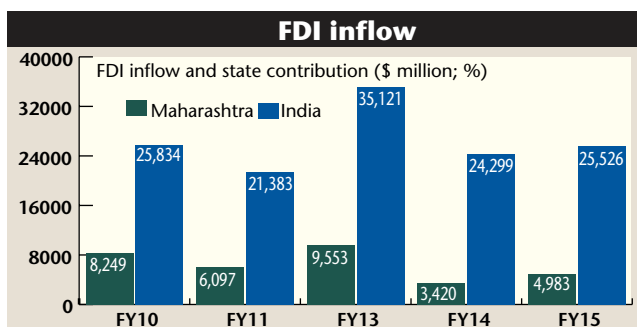
- ♦ Exemption from stamp duty (public IT parks: 100 per cent; private parks: 75 per cent); also, 100 per cent exemption from payment of electricity duty;
- ♦ Double Floor Space Index (FSI) for units in IT Parks;
- ♦ Exemption from payment of Octroi/ Entry Tax;
- ♦ Unlimited Captive Power generation;
- ♦ Permission for three shifts a day;
- ♦ Relaxation in curbs on employing women workers at night hours;
- ♦ ITes/BPO units to be treated as essential services;
- ♦ Property taxes reduced for IT/BPO units just like residential rates;
- ♦ Animation visual effects, gaming & comics (AVGC) rules relaxed with regard to keeping extra records of attendance and payment of wages.
- ♦ As much as 25 per cent concession in the cost of land to develop for IT units in specific undeveloped areas like Nashik, Aurangabad & Nagpur.

of stalled (abandoned) investments, which has risen from ₹8,338 crore to ₹61,101 crore in 2013-14, while for Gujarat it was only from ₹7,436 crore to ₹11,713 crore.

In terms of foreign direct investments (FDIs), Maharashtra has always been a preferred investment destination. Over the last few years, the share of FDI inflow to Maharashtra has also declined – from \$12,431 million in 2008-09 to a mere \$3,657 million in 2014-15 (April-November). Maharashtra’s share in the total FDI equity inflows into the country also declined from 45.5 per cent in 2008-09 to only 19.4 per cent in 2014-15, while Gujarat’s share in the FDI equity inflows diminished only from 10.3 per cent in 2008-09 to 3.4 per cent in 2014-15.

Maharashtra’s manufacturing and investment space.

“For long, Maharashtra has been number one in industrial development in the country,” says Subhash Desai, minister for industries, Maharashtra. “We are aiming at a ₹5 lakh crore industrial investment and 2 million new job creation across the state in the next five years. Industrialists from Germany, Belgium and many other countries have already agreed to make fresh investments in the state, while foreign companies also are willing to set up industries.





Desai: focussing on sectorwise development

The loss of Maharashtra and Gujarat has benefited the National Capital Region (NCR: including New Delhi, parts of Haryana and parts of UP) and Tamil Nadu the most. While the NCR witnessed an expansion in its share from 6.8 per cent in 2008-09 to 17.2 per cent in 2014-15 (April-November), Tamil Nadu increased its share in the pie from 6.3 per cent to 13.9 per cent during the same period.

These declining numbers led Maharashtra to face stiff competition from neighbouring states, which had captured a lion's share of the investments which Maharashtra had lost. These states have been offering better infrastructure to industry, while they were also easier to do business with.

It was against this backdrop that Fadnavis took charge as the CM of

Maharashtra in November 2014. In an effort to stem the state's slide, he adopted proactive policy measures to create a pro-business environment and a climate conducive to healthy investment. Fadnavis' plan was to ensure ease of business functioning by essentially cutting down inordinate delays, caused by complex procedures and multiple rules, which often were invariably overlapping. Specific reforms were essential to ensure inclusive socio-economic development, he felt.

And so he went about changing the state's business scenario. In a short span of time (14 months), the new government of Maharashtra, under his stewardship, has already initiated various measures to boost Maharashtra's industrial growth and trigger an

## Can BKC Mumbai be a financial centre?

There are strong reasons to promote Mumbai as an international finance centre (IFC), which emanate from its historical background and a typical socio-cultural and institutional fabric that keeps the city bubbling with activity. Not only is Mumbai the largest metropolis and home to over 22 million people, but its contribution (in terms of the revenue it generates and contribution it makes towards the GDP, employment, investment and growth) to Maharashtra and rest of India is immense. It is truly the financial, commercial and industrial capital of India.

"Clearly, there are strong fundamentals that have led this city to such glorious heights. It is strategically located, with links to not only other important cities in India but to the globe as well – be it by the sea, rails, roads or air. But, that is not the only point of importance. The climate of Mumbai – tropically wet and dry – is conducive too. It is moderately hot, with high

level of humidity. Its coastal and tropical location ensures that temperatures won't fluctuate much through the year," explains Lalit Kumar Dangi, chairman, Libord group of companies, which is engaged in financial activities.

Besides, there are a large number of companies and businesses, with professionals based in Mumbai to run them. Many commercial banks have their head offices in Mumbai. Hence, Mumbai accounts for a major chunk of the deposit mobilisation and deployment of credit of the banks. A majority of the money market and foreign exchange transactions take place in Mumbai. All major stock exchanges are at Mumbai and, therefore, a majority of the turnover and market capitalisation at the stock market is recorded at Mumbai. Nearly 90 per cent of mutual funds are registered in Mumbai. The Reserve Bank of India and the Securities and Exchange Board of India, the High Court and the Company Law Board are also

headquartered in Mumbai. No wonder there is a plethora of locally available investment bankers, broking houses, chartered accountants, company secretaries, lawyers, financial and research analysts and other professionals.

"The aim of the Maharashtra government to develop Mumbai into an international financial district is a natural progression for India's domestic financial capital," says Aparajita Basak, manager, economic research, Frost & Sullivan. "The state hosts some of the biggest Indian financial players and is home to many multi-billion-dollar corporations. It also has a large pool of sought-after skilled personnel of global standards. India is certainly the hottest global economy to watch, and investors are keen to partake in the action".

### Key ingredients of an IFC

IFCs are typically countries and territories with low tax rates and other features that make them attractive

investment locations. "If Mumbai is developed as an international financial centre, its contribution to investment, employment, and the efficient functioning of markets is likely to increase manifold, as the basic ingredients of a well-developed financial infrastructure is already existent in Mumbai. Not only will Mumbai but the country as a whole and the nearby cities in particular shall benefit by this move, since Mumbai contributes significantly to the state and the national exchequer. Moreover, an increased flow of foreign investment stimulated by Mumbai as an IFC may boost domestic investments too, as it will be easier for the Indian companies to raise capital and access funds from abroad at lower cost, if they play host. Besides, the financial services offered by Mumbai as an IFC may even lead to greater competitiveness of financial markets in the country," argues Dangi.

However, to become a world class IFC, Mumbai needs to address several sticking points. "First, it needs to formulate a stable and



overall revival of the economy.

"This is evident from the announcements made by the state government to retain the state's position as the preferred investment destination – for the manufacturing as well as the service sectors," states a FICCI-CARE Ratings report on Maharashtra. It has taken several measures to help infrastructure development. It has also brought in land reforms and eliminated roadblocks that have been hindering the industrial growth in the state. "In an effort to simplify procedures, the state government intends to reduce the number of requisite approvals and licences from the current 70 to 25," adds the report. It also plans to boost development across sector-specific zones and industrial clusters.

attractive taxation and regulatory framework," says Basak. "The mantra and the guiding mandate should be 'simple and straight forward'. Providing competitive rates, tax breaks, a robust system to transact in local and foreign currency and speedy processes will help it to compete with the likes of Singapore and Dubai. Also, regulations for insurance and commodity trading companies will have to be different from domestic companies".

"Mumbai can do more to promote a thriving start-up financing ecosystem and provide greater avenues for angel investment, VC funding, seed funding, crowd funding, grants etc – in line with the 'Start-up India' campaign. Easing of regulations, tax codes, etc, is key; so is access to capital. More needs to be done in establishing the SME Exchange as a viable option for capital building & exit," adds Basak.

The actual physical infra-



structure reflecting a world-class, investor-friendly ecosystem is something the city has to work towards. Clean environs, uninterrupted power, smooth traffic, flood-proof drainages, high-speed and reliable telecom and information technology infrastructure, etc, that can withstand shocks to business continuity should be designed, built and maintained. An integrated transport system encompassing highways, railways,

"Although there is stiff competition from other states, Maharashtra has already begun to regain lost ground," explains Aparajita Basak, manager, economic research, Frost & Sullivan. "The state's success last year in bagging the \$5 billion Foxconn deal against domestic and international competitors and investments from General Motors (GM), and Posco are testimony to the course correction that is in process. The state has consistently bagged about a fifth of all inward foreign direct investment and the outlook still remains strong".

#### Examples are aplenty.

- ♦ The world's largest contract manufacturer Foxconn has made Maharashtra its destination in India;
- ♦ GM has decided to shut its Halol



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*Dogra: develop untapped regions*

a thriving financial city and its allied support services (hospitality, retail, lifestyle, etc). The proposed 60 acres of land is potentially smaller than what may be required to support a thriving financial centre and will require efficient planning and space utilisation". Most importantly, Mumbai being the face of Maharashtra, it needs special attention. The city's infrastructure needs an immediate upgrading, for which projects must be

completed in a time bound and cost effective manner. There is also a need for bringing in substantial improvement in the overall standard of living in the city. Affordable housing solutions are required for the development of slums. Adequate public health facilities and sanitation projects are required to be created. Implementation of the development plans that are already on the anvil is critical to convert Mumbai into a vibrant metropolitan city. ♦



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Dangi: the city has strong fundamentals

plant in Gujarat and consolidate operations at its existing unit at Talegaon, Maharashtra, with an investment of \$1 billion;

- ♦ Microsoft, the global IT major, which already has two data centres in Maharashtra, is working with the state government to develop Maharashtra's first smart village at Harisal in Amravati;
- ♦ Blackstone group, financier and investor, has shown interest to invest ₹5,000 crore to set up an IT park in Hinjewadi, Pune, as also in central

Mumbai, besides projects in the special economic zones (SEZs) coming up in the state.

These are just a few investments that have already been lined up, which are part of the ₹1 lakh crore investment proposals received by Maharashtra in the last 14 months.

The FDI inflow to Maharashtra alone has gone up to \$4,983 million in 2014-15. The state contributes a lion's share (43.98 per cent) of the country's total FDI worth \$6.27 billion, followed by Gujarat (19.25 per cent), Karnataka (10.9 per cent), Telangana (6.86 per cent) and Tamil Nadu (3.85 per cent) – the top five contributors to the nation's total FDI.

On the policy front, the industrial scene in Maharashtra was governed by the Industrial Investment and Infrastructure Policy, 2006 (for 2006-11), before the new policy came into effect in 2013. The objective of the 2006 policy was to focus on achieving 'higher and sustainable economic growth, with emphasis on balanced regional development and employment generation through greater private and public investment in industrial and infrastructure development'. The policy was defined by certain main targets – a growth

rate of 10 per cent for the industrial sector; and additional employment generation of 2 million.

While the targets of the 2006 Industrial Policy were nearly achieved, there was little impact or change in real terms in the industrial scenario of the state. So, a New Industrial Policy was released in January 2013 to address the issues such as the deadlock in policy formulation due to lack of consensus, particularly on contentious matters relating to land acquisition, which had kept the new industrial policy of the state in a limbo for more than a year.

The new government has decided to attain the targets set in the industrial policy for 2013-18, that is expand the industrial sector growth rate to 13 per cent per annum, achieve a share of 28 per cent in gross state domestic product (GSDP) with a goal of attracting investments of ₹5 lakh crore and create another 2 million jobs. However, with the industrial growth at 8.8 per cent in 2013-14 and Maharashtra's GSDP reaching ₹9 lakh crore (15.6 per cent of India's GDP), the state government has to walk an extra mile to achieve its goal.

"While the aggregate investment target of the new industrial policy

## Need for speed – compared to peers ♦ As per the Planning Commission findings:

♦ In states like Andhra Pradesh, Gujarat, Kerala, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal, it takes less than a week's time to get an EM I (Entrepreneur Memorandum I). In Maharashtra, it takes about three weeks. The average time taken to get EM II, is 15 days in other states while, in Maharashtra, it is about a month.

♦ While it takes on an average 1.5-3 months for registration/renewal of licence related to

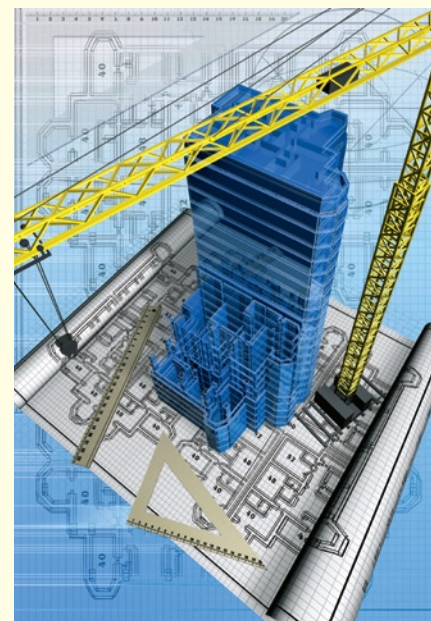
**Factories Act** in Bihar, Goa, Gujarat, Kerala, and Tamil Nadu and less than 1.5 months in Uttarakhand, the process takes more than three months in Maharashtra.

♦ In states like Chhattisgarh, Gujarat, Haryana, Madhya Pradesh, Nagaland, Rajasthan, Tamil Nadu and Uttarakhand, it takes less than 45 days to issue a new **water connection**, but in Maharashtra it takes around three

months.

♦ To get a **fire NOC & licence**, on an average, it takes less than 45 days in Bihar, Chhattisgarh, Haryana, Himachal Pradesh, Karnataka, Kerala, Odisha and Tamil Nadu. In Maharashtra, it takes about two months.

♦ The average time for **VAT registration** for states like Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Tamil Nadu and Uttarakhand is about 15 days. The same for Maharashtra is 33 days. While the online registration facility is available in Maharashtra,





has been retained at ₹5 lakh crore, as in the previous policy, the focus of the policy has now changed to the development of micro, small and medium enterprises (MSMEs). The provisions of the new policy are based on a pragmatic approach of defining, rooted in size of industrial activity and across regions (357 talukas classified in regions A to D, D+ naxalism affected areas and no industries districts)", states the FICCI-CARE Ratings report, pointing out that Maharashtra is credited with being one of the leading states in India for encouraging SMEs. Under the Prime Minister's Employment Generation Programme (PMEGP), the number of MSME units assisted stood at 35,607 in 2011-12. Of these, 1,533 units are from Maharashtra, which accounts for 4.3 per cent of the total all-India assistance.

"In fact, the government of Maharashtra has been promoting the SMEs with the objective of generating a vast employment base and creating a source of regular income for the labour class, as also for improving and deepening the supply chain in the state". As per the economic survey (2013-14), Maharashtra comprised 181,117 MSME units, employing close to 2.34 million individuals

as on 31 December 2013. A majority of the MSME units are located in Pune (41.5 per cent), followed by the Konkan region, excluding Mumbai (16.3 per cent), Nashik (11.9 per cent), Mumbai at 10.1 (per cent), Nagpur at 9.5 (per cent), Aurangabad at 6.6 (per cent) and Amravati at 4.1 (per cent).

**Balanced industrial growth**

Being the most industrialised state, Maharashtra has a clear competitive advantage over its peers, given its diverse nature of industries and resources at hand. However, its industrial activities have been limited only to specific belts within the state. The industries are largely concentrated in areas like Mumbai, Thane, Pune and Nashik, mainly due to the easy availability of the requisite infrastructure and raw materials.

"Incidentally, the scale of development has historically been inclined towards the Mumbai-Pune region," says D.R. Dogra, MD, CARE Ratings. "Districts such as Beed, Jalna, Buldhana, Nanded, Hingoli, Gadchiroli and Gondia have not received adequate industrial space and remain underdeveloped in that context. There remain several other untapped regions of the state where industrial



Jain: favourable policies needed

clusters can be developed. It is pertinent to have a well-balanced and uniform industrial development in the state, to avoid concentration and stagnation of industry in particular regions. This would in turn serve as an incentive to attract further investments and promote new industries in the state".

"With a vision to bring about balanced industrial growth across all the regions in the state and boost the industrial sector, we are making efforts to move to other regions,"

the entrepreneurs still have to visit the department to submit hardcopies of the required documents.



**Recent initiatives**

The Fadnavis government has announced a series of measures with a view to improve the ease of doing business in the state. They include:

- ♦ Reduction in the number of licences required from 76 to 25;
- ♦ Reduction in time taken to grant approvals for construction and power

connections;

- ♦ Exemption for MIDC from certain regulations relating to the approval of 70-80 per cent land owners required for land acquisition;

- ♦ Simplification of procedures in MIDC, to make them industry-friendly;
- ♦ Rendering of land allotment system transparent, with a fixed time limit for land allotment procedure;
- ♦ Constitution of a high-level

committee before March 2015, to expedite inter-departmental consultations and approvals;

- ♦ Setting up of 'Maharashtra Industries Trade and Investment (MAITRI) Facilitation Cell' for permissions and other facilities – companies investing more than ₹100 crore will have the facility of single-window clearance under this arrangement.

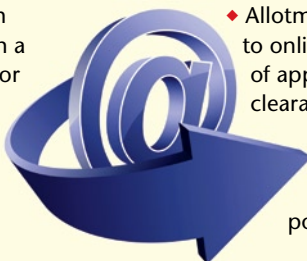
- ♦ Allotment of priority to online processing of approvals and clearances by all the concerned departments – a high-powered

committee may be constituted for streamlining and reduction of processes in investment approvals;



- ♦ Modifications in river regulatory zones;
- ♦ Development of three major business hubs (IT Hub in Andheri, finance hub in Lower Parel and a mega business district (similar to Nariman Point and BKC) near the Navi Mumbai Airport Influence Notified Area (NAINA) to re-instill the confidence in the Mumbai Metropolitan Region (MMR).

(SOURCE FICCI-CARE REPORT- 2015)



## MIHAN ♦ Multi-Modal International Hub Airport Nagpur

MIHAN is being set up to remove the development backlog of the Vidharbha region and harness the potential of the existing Dr Baba Saheb Ambedkar Airport at Nagpur. The government of Maharashtra, with the co-operation of the ministry of civil aviation has taken steps to develop Nagpur as

a multi-modal international passenger and hub airport, and multi-product SEZ adjacent to the airport. Nagpur is the second capital of Maharashtra and has a strategic central location in India. The MIHAN project is spread over about 4,300 hectare comprising an airport and SEZ, besides residential and commercial

spaces. This project is in the fast lane and the Maharashtra Airport Development Company (MADC), which is the nodal agency, has already leased about 510 hectares to various IT companies like Infosys, TCS, Tech Mahindra, Kolland, Hexaware, etc, to develop IT parks; and manufacturing industries like



Tal and Lupin, and an aircraft MRO facility of Air India and Boeing combined.♦

says Desai, looking at developing clusters. “The state government is planning to develop new industrial estates in Dindori, Malegaon and Yeola in the district to provide land to new industries. The small industries get developed when any large or mother industry is set up. Considering the non-availability of land for the new industries, we are planning to develop the new industrial areas at Dindori, Malegaon and Yeola. We are acquiring land and will make efforts that at least one mother unit comes up there,” he adds.

At present, five cluster projects are approved and work is in progress – auto cluster at Pune, textile at Ichalkaranji, engineering at Nashik, automobile at Aurangabad and foundry & engineering at Kolhapur. The state has also identified a few sectors, which have the potential to boost manufacturing and industrial growth, as also attract investments (domestic as well as global) and thereby aid in the Central government’s ‘Make in India’ initiative. These sectors include auto and auto components, pharmaceuticals, gems & jewellery, biotechnology, food processing, etc. “Industrial clusters, especially in high value industrial sectors such as defence and electronics, should be given special attention,” explains Basak. “Given the state’s robust industrial and service sector base, a better investment climate has the ability to create jobs for trained personnel and alleviate pressures on agriculture.”

“Maharashtra has a lot of potential in the service sector too, which

includes tourism, information technology (IT) and information technology-enabled services (ITeS), which provide avenues for investments and thereby contribute to overall growth,” says Fadnavis, who recently released the IT & ITeS Policy 2015 (*see box*), besides announcing the setting up an empowered committee to facilitate a single window clearance system. “More such measures are in the pipeline. The aim is to increase the number of industries and facilitate them with the essential infrastructure for growth. This would undoubtedly provide a fillip to the state’s manufacturing sector, as also the overall industrial and investments in the coming future”.

### Retaining leadership position

However, despite being regarded as a land of limitless opportunities, Maharashtra is being increasingly pressured by competing peer states, which are fast catching up, threatening to displace Maharashtra from its leadership position. There are various issues that have been curtailing growth and the state needs to address these for it to retain its leading position. “Some of these relate to land acquisition, procedural delays and complicated legal frameworks, high rental charges, less than optimal infrastructure and complicated procedures for enforcing contracts or closing of business. Favourable policies and timely implementation of the same have become necessary to improve the productivity in the industrial sector, which alone will help Maharashtra attract higher

levels of investment, provide investment-friendly environment and cement its position as an industrial hub,” suggests Jain of Sun Capital.

“There are areas where the state can improve further – uninterrupted power and simple and straight forward regulations are the needs of the hour. Another such area is the ease of doing business. In the World Bank’s ‘Ease of doing business’ ranking for Indian states, Maharashtra was at eighth position. The state has already brought down the time and procedures required for some business processes. For instance, the time taken to get an electricity connection has gone down from 67 days to seven days,” says Basak of Frost & Sullivan, who recommends labour law reforms, online environmental approval system and ushering in of industry-friendly processes and initiatives to the lower level bureaucracy, to strengthen the state’s infrastructure backbone. Quick implementation of construction projects such as the airport at Navi Mumbai and the Nagpur–Aurangabad–Mumbai Express Highway too will help the process.

To hold a prime position in the industrial space and continue as the preferred destination for investments in the country, Maharashtra will have to make concerted political efforts to sustain economic growth. And the hard selling has to be followed, in letter and spirit, by speedy implementation of the reforms and policies announced.

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