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kcmGuide

Corporate Laws

**Gujarat Industrial Policy
2020**

**FAQs on Large Industries
and MSMEs**

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Background & Coverage

The ripples of the ongoing pandemic have been felt by all the economies of the world and India has not been immune to it either. In such precarious times, the Indian government has made efforts to boost the economy by announcing a significant economic stimulus package under the Atmanirbhar Bharat scheme. Pursuant to the vision of making India self-reliant, state governments in India have swung into action to incentivise investment and capitalize on the opportunity offered by the pandemic, wherein several businesses are considering relocation to alternative manufacturing bases.

The Gujarat government, on 07 August 2020, announced the new Gujarat Industrial Policy 2020 (GIP 2020), with an expected average annual outlay of up to ₹8,000 crore with focus on bringing investments for job creation, value-addition, adoption of state-of-the-art technology, increasing productivity with Industry 4.0 manufacturing, and creating an innovation-driven ecosystem.

Under the GIP 2020, the Gujarat government has released the following schemes to cover a broad spectrum of industries:

Scheme for Capital Subsidy to Large Industries and Thrust Sector which de-links incentives from state GST and provides for upto 12% of fixed Capital investment to large industries for setting up manufacturing operations in the state in the form of capital subsidy. Gujarat for the records becomes the first state to do so.

Scheme for Assistance to MSMEs which focuses to promote MSMEs with an aim to make domestic MSMEs globally competitive by offering capital & interest subsidy to MSMEs engaged in manufacturing sector. The scheme also provides interest subsidy to certain service sector MSMEs in the state including those engaged in Financial Services, Healthcare Services, Audio Visual services, Construction related engineering services, Environmental services etc.

This publication seeks to highlight the features of both the above listed schemes in the form of FAQs. Our responses to these FAQs do not constitute our professional advice and the facts of each case would need to be examined for this purpose. Please reach out to the KCM team with your specific queries.

FAQs on Scheme for Capital Subsidy to Large Industries and Thrust Sector

On 07 August 2020, the Gujarat Government had released a Press Note on the Gujarat Industrial Policy 2020 ('GIP 2020'). In furtherance to the same, the government on 01 September 2020 has passed the Government Resolutions wherein the incentive policies, as mentioned in the Press Note, have been passed which elaborate on the eligibility conditions, quantum & procedures linked to the incentives.

Previously, under the Gujarat Industrial Policy, 2015, incentive was provided vide Scheme for Incentives to Industries ('Old Scheme') wherein industries were provided reimbursement of Net VAT (later substituted by SGST) payable by the industries. However, vide GIP 2020, the incentive has been delinked from SGST & instead provided by way of Capital subsidy. Under this incentive policy, known as Scheme for Capital Subsidy to Large Industries and Thrust Sector ('New Scheme'), the Government has provided a capital subsidy up to 12% of the investment made.

Earlier publication of KCM, KCM Flash dated 17th August 2020, titled "Gujarat Industrial Policy 2020 – A new Sunrise in Gujarat, the preferred investment destination", gave an insight into the Press Note, we have drawn out the characterizing highlights of the New Scheme through these FAQs.

1. Which sectors are covered under the New Scheme?

The New Scheme is applicable to all industries engaged in the manufacture, production, processing, or job work. Further, to provide additional support to certain sectors, the Manufacturing sectors have been bifurcated into Thrust Sectors & General Sectors. Thrust sectors are the sectors which have the most potential and need additional support to empower them for global competitiveness. The New Scheme lists 15 such Thrust sectors which are as under:

Thrust Sector	
Core Sectors	Sunrise Sectors
- Electrical Machinery & Equipment	- Industry 4.0 manufacturing
- Industrial Machinery and equipment	- Electric Vehicle and its components
- Auto and Auto Components	- Waste management projects
- Ceramics	- Green Energy (Solar & Wind Equipment)
- Technical Textiles	- Eco-friendly compostable material (substitutes to traditional plastics)
- Agro and Food Processing	- 100% export-oriented units, irrespective of sector
- Pharmaceuticals and Medical devices	
- Gems and Jewellery	
- Chemicals (in designated area)	

Key Observation

Please note that clarity on the scope & specifics of the sectors included above are still awaited. The designated areas for chemical industries or the scope of waste management project or the standards required to be met for eco-friendly compostable material are some instances of sectors which will require clarifications from the government.

2. What is the incentive offered by the Gujarat Government under GIP, 2020?

The quantum of subsidy is defined as a percentage of the Fixed Capital Investment ('FCI') and the amount available shall depend on the location and the sector. The said details are tabulated below:

Taluka Category	General Sectors	Thrust Sectors
Category 1	10% of eligible FCI (excluding land)	12% of eligible FCI (excluding land)
Category 2	8% of eligible FCI (excluding land)	10% of eligible FCI (excluding land)
Category 3	4% of eligible FCI (excluding land)	6% of eligible FCI (excluding land)

Please note that industrial undertaking located within the municipal corporation limits of Ahmedabad, Bhavnagar, Gandhinagar, Jamnagar, Junagadh, Rajkot, Surat, and Vadodara will

not be eligible for capital subsidy. Under the Old Scheme, undertakings located at Gandhinagar & Junagadh were eligible to avail the SGST reimbursement. However, under the New Scheme undertakings located in these 2 cities have been excluded from claiming the benefits.

Key Observation

This New Scheme is especially beneficial to those industries which have an inverted duty structure i.e. the duty on output is less than the duty on inputs. A few examples of industries having inverted duty structure include textile, footwear, solar modules, e-commerce, mobile phones etc. These industries may not have net SGST payable and thus they were unable to claim the benefit of the Old Scheme where eligible units were able to avail reimbursement of Net SGST payable. Further, the Old scheme only incentivized the undertakings which sold products within Gujarat itself as the reimbursement of only SGST could be availed. Now, under the New Scheme, units engaged in exports & inter-state sales will also be benefitted.

On the downside, the quantum of subsidy that was available to eligible entities under the Old Scheme has been reduced. As we know, under the Old Scheme eligible units could avail net SGST reimbursement up to 100% to 70% of their FCI. Thus, there were industries which were able to recover up to 100% of their FCI by way of SGST reimbursement. We can see that under the New Scheme, the maximum benefit available to an industry is kept at 12% of the FCI. This may be discouraging to new industries which

will have a significant net SGST payable as the benefit to them under the Old Scheme could have been higher.

It seems that the objective of the New Scheme was to broaden the overall scope of the incentive so as to enable more industries to take advantage of the State government incentives.

3. Has the category list of Taluka been announced?

The category list of Talukas has been announced vide separate Resolution dated 02 November 2020. The said list is available at the end of these FAQs as Annexure I.

There has been significant change in the Taluka list notified in the new scheme as compared to the list of Taluka under the old scheme. We can see that there is a significant difference between the incentive available under Category 1 & Category 3, this will undoubtedly promote more development in the backward areas.

4. Are there industries which are specifically excluded from claiming the benefit of the new Scheme?

It is pertinent to note that under the Old Scheme, 19 industries were listed as Industries which were not be eligible to claim the benefits of the erstwhile scheme. This list included industries engaged in manufacture of beverages, Jewelry, Cement, Tobacco, Units located in SEZs etc. However, the New Scheme has not listed any Ineligible industry, thereby widening the scope of the policy.

However, similar to the Old Scheme, any industrial undertaking which has availed the benefit under any other state incentive is not eligible under this scheme.

5. What do you mean by an "industrial undertaking"?

Industrial Undertaking means a legal entity such as company, partnership firm including LLP, society, trust, industrial cooperative society, or proprietary concern engaged or to be engaged in the manufacture, production, processing, or job work of articles.

6. Which units will be able to benefit from the New Scheme?

The benefits of this scheme can be availed by a *new industrial unit*, or an *existing industrial unit* that undertakes *expansion or diversification* and which commences commercial production after 07 August 2020 but before 06 August 2025 i.e. during the operative period of the scheme will be eligible to apply under the scheme.

7. What do the terms 'new industrial unit', 'existing industrial unit', 'expansion' & 'diversification' mean?

The terms have been separately defined in the New Scheme which state that:

New Industrial Unit means a new industrial project set up by an *industrial undertaking* which satisfies the following conditions:

- It should have Separate Letter of Intent or a Letter of Approval or has filed IEM or Entrepreneur Memorandum (EM)/Udhyog Aadhar/ Udhyaam Registration as prescribed by the Government of India has been obtained
- It should have separately identifiable FCI. i.e. the new plant and machinery should be housed in separate premises/ building and has to maintain separate books of accounts. It has been clarified

that the new project will not lose its eligibility, if the utilities of an existing project, such as for water, electricity, steam, gas, pollution control facilities etc. are utilized.

Existing Industrial Unit means an industrial project that is in production before initiating the expansion/diversification in the same premise.

Expansion means where an existing industrial unit increases its investment in gross fixed capital('GFCI') by:

- at least 50% of its existing project in the same premises, of which at least 60% of investment is made in plant and machinery, and
- increases its *installed capacity* by at least 50% of existing products for which expansion is carried out.

Expansion will be eligible only if the existing industrial unit has reached 75% utilization of existing installed capacity in any one of the preceding 3 financial years. The policy also states that the capacity utilization for the year 2020-21 (due to COVID - 19) will not be considered for the purpose of capacity utilization, however the industrial undertaking may opt to consider the same.

Diversification means where an existing industrial unit diversifies its production line with:

- an increased GFCI by at least 50% of its existing project, at the same premise, of which at least 60% of investment is made in plant and machinery.

Please note that unlike *Expansion*, increase in capacity utilization is not a parameter for *Diversification*.

Key Observation

For the purpose of *expansion & diversification*, one eligibility condition relates to increased GFCI by 50% of 'existing project'. No clarity is provided as to how the value of the existing project would be derived i.e. would it be calculated on the basis of the gross block of assets or net block. We believe that since this condition related to "Gross Fixed capital investment", in order to maintain parity, the value of the existing project should be determined on the basis of the gross block of assets itself.

8. What is meant by Gross Fixed Capital Investment or GFCI referred to in the above definitions?

Gross Fixed Capital Investment ('GFCI') means the investment made in land, building, plant and machinery, utilities, tools and equipment, and other assets required to manufacture the end product. Please note that only the assets *acquired and paid* (term discussed later) during permissible period of execution/completion of the project under the New Scheme shall be considered for determining the gross fixed capital investment.

9. What is meant by 'installed capacity'?

Installed Capacity, as referred to in the definition of *Expansion*, means the optimum production capacity of the plant. In case of company, the installed capacity stated in the latest annual report will be considered as the installed capacity. In case of other legal entities, the installed capacity as mentioned in the appraisal report prepared by a bank or financial institution will be considered as the

installed capacity. Where no such appraisal is available, the production capacity as worked out by the Industries Commissioner, or by an officer authorized by him, will be considered as the installed capacity.

Key Observation

Over the past few years, the Government has done away with the requirement of disclosing installed capacity in the Annual Report and thus, even companies may have to resort to appraisal report prepared by a bank or financial institution for determining the installed capacity. The IEM also has a field which displays the installed capacity of the unit which could be used for the purpose of proving the installed capacity. For industrial undertakings to which Cost audit is applicable, the Cost audit report can also be taken as a base.

10. Within how much time should the eligible FCI must be made?

The consideration of investment period for eligible FCI will be, for the assets which are *acquired and paid* from 07 August 2020 and before the time period as specified below ('investment period'):

MSME project	12 months from DOCP ¹
Gross capital Investment up to 1000 cr.	18 months from DOCP
Gross capital Investment up to 5000 cr.	24 months from DOCP
Gross capital Investment up to 10000 cr.	30 months from DOCP
Gross capital Investment above 10000 cr.	36 months from DOCP

Key Observation

The term Gross capital Investment has not been defined in the scheme. However, we can refer to the definition of GFCI for this purpose.

11. On which amount will the subsidy be calculated? i.e. What is Eligible FCI?

Eligible FCI means investment made on or after 07 August 2020 and up to the date of completion of the investment period / (Investment period as discussed earlier) It includes 5 elements:

➤ New Building

Particulars	Cost to be considered
Factory building, building for R&D activities, in-house testing facilities, storage facilities, and other buildings related to the manufacturing process	Actual expenditure incurred
Other Buildings for the project including administrative building	Actual cost or the Schedule of Rates of the relevant year of the R&B department whichever is lower

¹ Date of Commercial Production

The following are excluded from the scope of New Building:

- Building acquired under lease or on rental basis, except GIDC sheds
- Cost incurred on acquisition of old building, or the expenditure incurred on repairing a building, will not be considered as eligible FCI.

➤ **Other Construction**

means construction such as compound wall and gates, security cabins, internal roads, bore well, water tank, internal pipeline network for water and gas, and other related constructions.

➤ **Plant and Machinery**

This includes the following Plant and machinery:

- New plant and machinery
- Imported second-hand plant and machinery having usable life for at least *further* ten years which is duly certified by Chartered Engineer,
- Utilities, dies and moulds, including cost of transportation, foundation, erection, installation and electrification, capitalized under the head of plant and machinery. The electrification cost will include the cost of sub-station and transformer installed by the industrial unit.

(Please also refer to Q.13 below)

➤ **Project related Infrastructure**

Certain expense on infrastructure for starting the manufacturing activities as well as for developing the area around the industrial unit will be considered as FCI. For instance, expenditure on residential colony, hospital, school or sports facilities created for workers and staff of the industrial unit, Feeder road to the industrial unit, Dedicated facilities created for carrying water, gas, raw material required by the project etc. will be considered as Eligible FCI. A detailed list of such allowable projected related infrastructure is included in the New Scheme.

Please note that expenditure up to 20% of the total project related infrastructure shall be considered for inclusion in the final eligible FCI

➤ **Technology, Design and Drawings, Patents**

The cost incurred in acquiring technology, design and drawings, patents, limited to 10% of the project cost.

Key Observation

A major departure from the previous position is that under the Old Scheme, Land was included as a part of Eligible FCI while under the New Scheme Land & its development Cost have been kept out of the definition of Eligible FCI.

12. In case part payment has been made for acquiring certain eligible asset before 07 August 2020 and part payment is made after. Will this form a part of the Eligible FCI?

The New Scheme states that the consideration of investment period for eligible FCI will be, for the assets *acquired and paid* during the *Investment Period* i.e. after 07 August 2020 but before the timelines as discussed at FAQ 10 (above).

Please note that while the term “acquired & paid” has not been defined under the New Scheme, this will pose practical difficulty in determining Eligible FCI. For instance, an eligible industrial unit has started the construction of its manufacturing facility before 07 August 2020 which gets completed in FY 2021-22, in this case, would the factory be considered as “*acquired*” as on the date of completion of construction & thus clarity would be required as to whether the construction before 07 August 2020 be considered as Eligible FCI (assuming the payment is also done after 07 August 2020).

13. Are only Plant and Machinery related to manufacturing allowed?

In addition to Plant and Machinery used for manufacturing purposes following types of Plant and Machinery are also specifically included as Eligible FCI:

- Plant for non-conventional energy.
- Vehicles used for transportation only within the premises of the industrial unit, and material handling equipment exclusively used in transporting goods within such premises.

- Plant for captive power generation/co-generation.
- Plant for desalination of sea water or purification of water.
- Plant for pollution control measures, including facility for collection, treatment, disposal of effluent or solid/ hazardous waste.
- Diesel Generating sets of capacity not more than 50% of the connected electric load or 25 MW, whichever is less.

14. Are there any specific exclusions for Capital Expenditure?

The following expenditure shall not be considered for calculating the eligible FCI:

- Land and Land development cost
- Working capital
- Preliminary and pre-operative expenses
- Indigenous second-hand plant and machinery
- Power generation, except for captive use
- Goodwill
- Royalty
- Rented or leased property
- Interest capitalized

Please also note that any investment made by an existing industrial undertaking for renovation, modernization, rehabilitation, or rationalization will not be eligible for incentive under this resolution.

15. Are there any special provisions for industries which are relocating from other countries?

The New Scheme states that under special circumstances, in the event of need as may arise in a particular case or cases, or for certain categories like relocations of projects in the state from other countries regarded as priority, the Chief Minister's Cabinet Committee for Industrial Promotion & Monitoring (CCCIPM) may sanction:

- Customized package or
- Make suitable changes in the terms and conditions of the incentives and/or
- May sanction additional incentives than that provided under this scheme.

Thus, it may be possible for large units, who are willing to relocate their Unit from another country to Gujarat, to negotiate with the government on the terms of this policy and get the same modified as per their requirements.

16. Is there any ceiling limit to the amount of subsidy that can be received?

It is note-worthy that the New Scheme does not have a unit specific ceiling limit. In other words, the total capital subsidy which an eligible industrial unit can avail does not have any upper limit. The New Scheme does have a yearly ceiling limit which is discussed in the next question.

17. In how many installments will the capital subsidy be disbursed?

The mechanism for disbursement of the capital subsidy would be as under:

- Capital subsidy will be disbursed over a period of 10 years
- The ceiling for an entity has been fixed at INR 40 Crores per year
- If the period of 10 years is not sufficient to disburse the entire subsidy due to the upper limit of INR 40 Crores, an additional period of 10 years will be provided with the same per annum ceiling
- If the period of 20 years is still not sufficient, then the total subsidy will be disbursed via equal installments over a period of 20 years (without a ceiling limit)

Key Observation

Under the Old Scheme, the reimbursement was only provided over a period of 10 years (with no extension similar to that described above). Further, the Old Scheme also prescribed the maximum benefit that could be obtained by an eligible Unit each year. The resultant impact was that there was an industry specific ceiling limit under the Old Scheme.

18. Is there any production linked condition which has to be complied with?

The New Scheme provides that the average production of an Eligible Unit for the 3 consecutive years after the completion of *Investment Period* should be at least 50% of actual *installed*

capacity. In case this condition is not met, the consequences would be as under:

- For the year when such average production is less than 50% of the *installed capacity*, the incentive amount for such year will be reduced to 50% of the total eligible incentive for that particular year.
- If the average production consistently remains less than 50% of the *installed capacity* for 3 consecutive years, the incentive amount will be discontinued till the average production reaches 50% of *installed capacity*. For such period where the incentives are discontinued, the industrial undertaking will not be entitled to claim any arrear and / or extension of incentive period.

19. For how long must the entity remain in operation?

An industrial undertaking shall be required to remain in production continuously till the expiry of the eligible period of incentive. However, in unavoidable circumstances, the sanctioning authority may condone the period for which production is discontinued after due verification of details and reasons of discontinuation of production and after satisfying itself of the same.

20. Can an industrial undertaking, change/add products, after availing incentives?

The industrial undertaking will be allowed to add new products or change any of its products, during the period for availment of incentive granted to it under the resolution. However, any fresh

investment made for the same will not be eligible for consideration as eligible FCI. The undertaking shall have to inform to the Industries Commissioner/ General Manager District Industries Centre.

21. Can other State & Central incentives be availed?

An option has been provided wherein an industrial undertaking can either opt to avail of the benefit of the New scheme or any other incentive scheme of the State Government. However, if any industrial undertaking is availing incentive under any other State Government scheme, it will not be eligible under this scheme.

The industrial undertaking may avail incentives under any scheme of Central Government. However, the total incentives received from state and central government scheme should not exceed the approved project cost.

Further, SMEs are entitled to opt for this scheme subject to condition that it will not be eligible for capital subsidy and interest subsidy under the incentive scheme of MSME under GIP 2020.

22. What are the employment-linked conditions, applicable to Eligible Industrial Units?

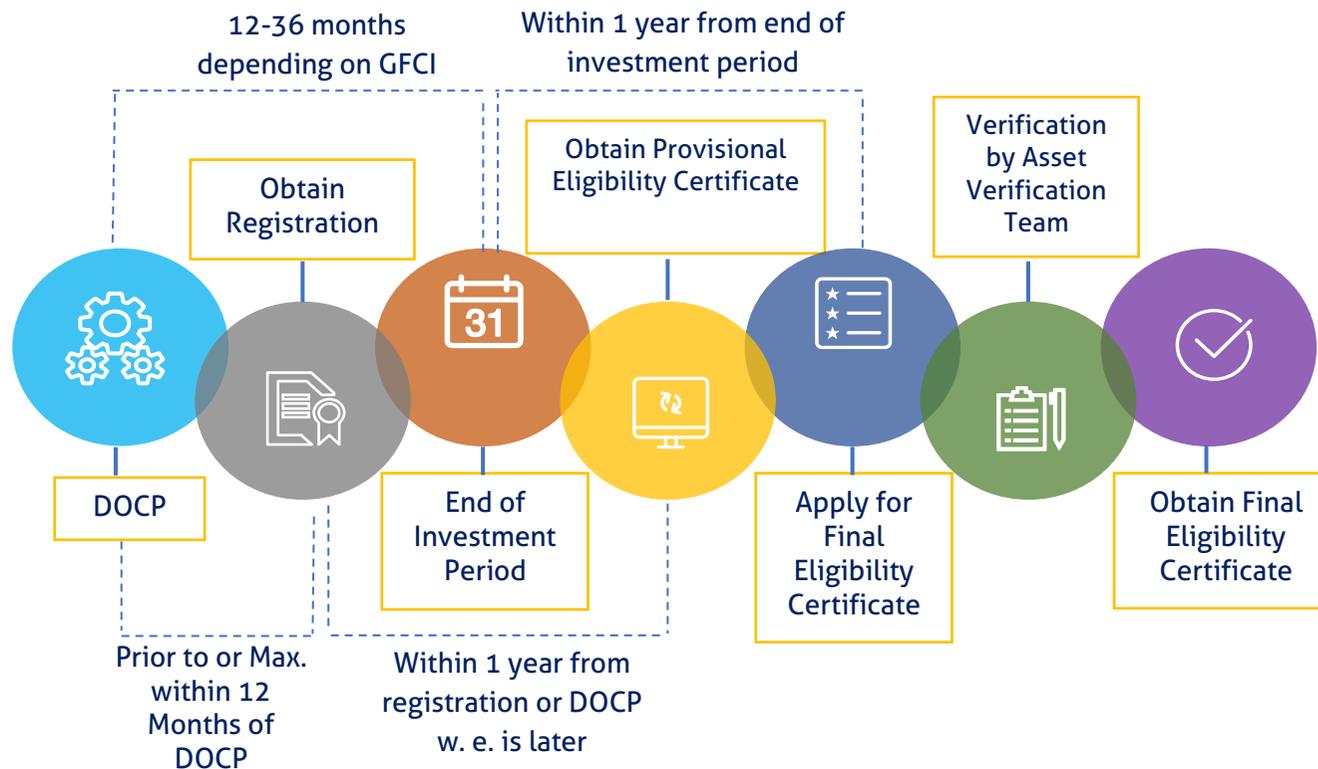
In order to ensure that the local population of the state is benefitted from the industrial development, certain employment related conditions are also placed on the eligible industrial units which state that:

- At least 85% of its total number of employees in general & at least 60% of the managerial and supervisory should be domiciled in Gujarat.

- A list of persons employed, and such other information required for verification of having satisfied this condition to be submitted before the sanction of incentives under the scheme.
- Particulars of local employment and the applicable certificate from GPCB to be submitted to the Industries Commissioner.
- Information regarding production and employment for each financial year to be furnished within 60 days of the close of the financial year to the prescribed authorities.

23. What is the overall process for obtaining the capital subsidy?

The following is the step plan which briefly describes the procedure as laid down in the scheme:



The timelines mentioned above are subject to change based on the facts of each Industrial Unit. For instance, if the investment gets completed on the DOCP itself, then the unit can apply for FEC directly instead of PEC. The above process is discussed in further detail in the later questions.

24. When & How to get registered with the government to claim benefits of this Scheme?

An Eligible industrial undertaking shall apply for registration, maximum within one year from the DOCP, to the Industries Commissioner in the prescribed format documents such as registration documents, IEM/ Udyog Aadhar/Udhyam Registration, Land related documents, Consent to Establish from GPCB (if any) & a detailed project report.

After the scrutiny and verification of relevant documents registration certificate will be issued by the Industries Commissioner. Please note that currently the policy does not state the time within which the registration will be granted to the undertaking after making the application.

25. When & how to apply for the Provisional Eligibility Certificate ('PEC')?

Undertakings having registration shall submit an application for PEC within 1 year, from the DOCP or from the date of issuance of the registration certificate, whichever is later.

The application would be scrutinized and the PEC for capital subsidy will be issued by the Industries Commissioner based on the certificate of Chartered Accountant and Chartered Engineer for the eligible investment made and work completed till the DOCP.

26. When & how to apply for the Final Eligibility Certificate ('FEC')?

Time of Completion	Application for FEC
Project gets completed as on the DOCP	Apply for FEC directly instead of PEC
Project gets completed within eligible investment period	Either apply for PEC or directly apply for FEC with requisite details. Please note that if the investment is completed within the <i>investment period</i> but after 1 year from DOCP, then the undertakings will have to obtain PEC first.
Project is not completed within eligible investment period	Application for FEC within 1 year from the end of investment period

An asset verification team will be formed to verify the investment details and the final entitlement of capital subsidy will be calculated based on assets verification report. The report shall be placed before the sanctioning authority for final sanction of Capital Subsidy for approval. The FEC for availing capital subsidy shall be issued by the Industries Commissioner post the approval of the sanctioning authority.

In case of late application for FEC, the incentive period and eligible quantum of incentive shall be reduced proportionately to the extent of delayed period.

27. What is the procedure for receiving Capital Subsidy Claim?

An industrial undertaking shall submit the claim application for Capital Subsidy, at interval of 6 months, to Industries Commissioner in prescribed Pro forma. The detailed procedure and guidelines are yet to be issued by Industries Commissioner.

Based on Eligible investment made during the investment period, Annual instalment of capital subsidy will be proportionately rescheduled/restructured for the incentive period. The capital subsidy already paid or payable will be deducted accordingly.

28. What would be the consequences in case of breach of any conditions?

In case of any breach of one or more of these conditions, the incentives given shall be liable to be recovered as an arrear of land revenue or in any other appropriate manner the government may deem fit.

FAQs on Incentive Schemes for the MSME Sector

India's MSME sector forms the lifeline to India's bustling economy, contributing ~30% of India's GDP and ~40% of the total exports. Even though the MSME sector occupies such an important space in the Indian economic ecosystem, the sector is constantly facing a barrage of difficulties and problems such as lack of credit and liquidity, delays in payments from vendors, lack of access to proper quality testing facilities, no platform for showcasing / pitching their products / services and many such issues.

The Central Government being aware of the importance of MSME sector and the problems being faced by them came out with the biggest package of 3 lac crores out of the 20 lac crores announced under the "Aatmanirbhar Bharat Abhiyan" package in the form of Emergency Credit Line Guarantee Scheme. Taking cues from the Central Government, the Government of Gujarat has also brought about far reaching initiatives for the MSME sector in Gujarat in the Gujarat Industrial Policy (GIP) 2020, which has grown by 60% from 2014-2015 onwards and has over 3.5 million MSMEs operating and providing a valuable source of employment.

Some of the initiatives which have already taken root in the State of Gujarat are as follows:

- Institutionalization of MSME Commissionerate
- Implementation of Gujarat Micro, Small and Medium Enterprises (Facilitation of Establishment and Operation) Act, 2019
- Establishment of MSME facilitation desks in 11 districts
- Online sanction of incentives

Vide GIP, 2020, the Gujarat Government has provided various incentives to MSMEs ranging from Capital investment subsidy to assistance in quality certification. KCM Guide dated 15th September 2020, titled "*MSMEs – Engines of Growth*" was released as a detailed guide to MSME. This document lays down the defining features of this scheme for MSMEs in the form of FAQs.

1. What is the Incentive Scheme to MSMEs under the Gujarat Industrial Policy 2020?

Under the Gujarat Industrial Policy 2020 (GIP 2020), a special Scheme has been carved out for the MSME sector known as the "*Scheme for Assistance to Micro, Small and Medium Enterprises (MSME)*" henceforth termed as "*the Scheme*".

The operative period of the Scheme shall be from 07/08/2020 to 06/08/2025.

2. Which sectors are covered under the Scheme?

The Scheme is applicable to all entities in the Manufacturing sector. Though the Manufacturing sector has not been defined, it may be considered that the entities engaged in the manufacture, production, processing, or job work will qualify for the benefits under the Scheme¹. In addition to the Manufacturing Sector, selected areas / activities in the Service Sector have also been identified under *Annexure A and Annexure B* to the scheme. Please refer to list of areas / activities under the Annexure II at the end of the FAQs.

¹ For more information, assistance of District Industries Commissioner (DIC) should be sought.

Key Observation

Please note that there are specified conditions to be fulfilled under both categories of Service sector for availing the incentives, which shall be elaborated in the subsequent FAQs.

3. What is the Capital Investment Subsidy offered under the Scheme?

The Capital Investment Subsidy is available only to the Manufacturing sector.

The quantum of subsidy is defined as a percentage of the Fixed Capital Investment ('FCI') and the amount available shall depend on the location and the sector. The said details are tabulated below:

Category	Capital Subsidy
Category I Taluka	25% of the Term loan amount; Ceiling of 35 lakhs. If eligible FCI > 10 Cr, additional subsidy of 10 Lakhs.
Category II Taluka	20% of the Term loan amount; Ceiling of 30 lakhs. If eligible FCI > 10 Cr, additional subsidy of 7.5 Lakhs.
Category III Taluka (including Municipal Corporation areas)	10% of the Term loan amount; Ceiling of 10 lakhs. If eligible FCI > 10 Cr, additional subsidy of 5 Lakhs

Key Observation

The classification of category wise talukas is available at the end of the FAQs at Annexure I. In the Scheme, Gross Fixed Capital Investment (GFCI) has been defined whereas for determining the subsidy based in Talukas, FCI has been stated. We understand that both these terms can be used interchangeably and imply the same meaning.

4. What is the Interest Subsidy offered under the Scheme?

The Interest Subsidy is available to both the Manufacturing and Services sectors. Please refer to Annexures for areas covered under the Services sector for benefits under this Scheme:

Category	Interest Subsidy
Category I Taluka	7% of interest on term loan; ceiling of INR 35 Lakhs p.a.; available for 7 years.
Category II Taluka	6% of interest on term loan; ceiling of INR 30 Lakhs p.a.; available for 6 years
Category III Taluka	5% of interest on term loan; ceiling of INR 25 Lakhs p.a.; available for 5 years

In addition to the Interest subsidy, additional interest subsidy and interest subvention scheme have also been introduced for specified persons / activities:

Particulars	Category	Benefits available to
Additional 1% Interest Subsidy	All categories	<ul style="list-style-type: none"> - Physically challenged/ women/ SC& ST/ young entrepreneurs [below 35 years of age]. - Registered Start Ups in manufacturing sector
Interest Subvention (one time)	All categories	Existing enterprises installing solar power plant or other renewable energy plant for captive power. [Note: This is in addition to the interest subsidy as stated above]

Key Observation

Gross Fixed Capital Investment (GFCI) means investment made in building, plant and machinery, utilities, tools and equipment, and other assets (excluding Land) required for manufacturing the end product, whereas for the Service GFCI on the term loan on new machinery, equipment and furniture / fixture is included (exclusions land and building)

5. Are there any industries which are specifically excluded from claiming the benefit of the new Scheme?

No negative list of industries in the manufacturing sector have been specified. Other than the areas / activities specified in Annexures to the Scheme (available at the end of the FAQs as Annexure II), the services carried under other heads in the Services sector are expressly disallowed from availing the benefits under the Scheme.

6. What do you mean by an "Micro, Small and Medium Enterprise"?

Any Enterprise which satisfies the conditions of Micro, Small and Medium Enterprises as per the definition under the MSME Development Act, 2006 as amended from time to time by Government of India and has obtained "Udyog Aadhaar Memorandum / Udyam Registration".

7. Are the benefits applicable to only new Units or to Existing Units as well?

The benefits of this scheme can be availed by a new enterprise, or an existing enterprise undertakes expansion, including forward integration, backward integration, or diversification. The enterprises have to undertake expansion or commence commercial production on after 07 August 2020 but before 06 August 2025 i.e. during the operative period to be eligible to apply under the scheme.

Enterprises which have taken their first disbursement of Term Loan on or before 07/08/2020 but have yet to start commercial production can avail incentive either under the Previous Scheme (*declared wide Resolution No.MSM-102017-688-Ch dated 24.10.2017*) or they can opt for the new Scheme (*to the extent to Term Loan disbursed during the policy period*). Such Enterprises have to commence commercial production on or before 31/03/2021.

8. What do the terms 'new enterprise', 'existing enterprise', 'pipeline enterprise', 'expansion' & 'forward integration, backward integration and diversification' mean?

The terms have been separately defined in the New Scheme which state that:

New Enterprise an MSME which has filled Udyog Aadhar / Udyam Registration as prescribed by the Government of India and commences commercial production during the operative period of the scheme.

Existing Enterprise means an MSME which has commenced commercial production before the date of announcement of the scheme.

Pipeline Enterprise means an Enterprise which has obtained first disbursement of term loan as effective step and could not start commercial production on or before 07/08/2020 (being the operative date of the new Scheme 2020).

Expansion means where an existing / New Enterprise increases its investment in gross fixed capital by at least 50% (*out of which at least 60% of investment is made in plant and machinery for which expansion is carried out*) of its existing gross FCI on the date of initiating expansion and compared with the date of commencing production during the operative period of the scheme.

Forward Integration means an investment made in GFCI for further value addition in the end product of the enterprise.

Backward Integration means an investment made in GFCI for product which is raw material of the enterprise.

Diversification means an investment made in GFCI for the product other than the end product of the enterprise.

Key Observations

Under the Old Scheme, the existing industrial units could only avail the benefit in case of expansion / diversification. However, diversification has been expanded with separate definition for forward and backward integration.

Pipeline Enterprise has also been defined to include the benefits to such enterprises which have availed Term Loan but yet to start commercial production before the operating date of the Policy.

9. What are the conditions for availing Capital and Interest Subsidy?

Some of the important conditions for the purpose of availing the benefits under Capital and Interest subsidy are as follows:

- Only Loans sanctioned and disbursed by a Bank or a Financial Institution as per RBI guidelines will be eligible for incentive. Loans disbursed by NBFCs shall not be eligible.
- Only new building, new plant machinery /equipment and second-hand imported machinery will be eligible for incentive scheme.
- 85% of the total employment of which 60% has to be of supervisory and managerial staff, shall have to come from local persons to meet the eligibility criteria.
- From reporting perspective, an Enterprise shall have to furnish information regarding production, sales, turnover, and

employment etc. annually to concerned District Industries Commissioner (DIC) before end of September each year.

- An Enterprise will have to remain in production for 7 years from the date of commercial production failing which the amount of capital investment subsidy disbursed will be recovered by way of arrears of land revenue.

Key Observation

As against Enterprises carrying out Expansion of the existing facilities wherein, increase in investment of gross fixed capital by at least 50% (out of which at least 60% of investment is made in plant and machinery for which expansion is carried out) of its existing GFCI on the date of initiating expansion qualify for incentive, those Enterprises carrying out an activity of Forward Integration, Backward Integration and Diversification with an investment more than 25% (out of which minimum 60% investment should be in Plant & machinery) of GFCI will be eligible. Thus, the Government seems keen on promoting enterprises which are working towards fully integrated production facilities.

10. What are the various, Quality related Certification benefits, available under the Scheme?

Benefits available to: Manufacturing sector only

The benefits under quality related certification / assistance to the MSME sector provided under this Scheme are as follows:

- ERP Assistance in the form of reimbursement @65% of the capital cost for installing the Enterprise Resource Planning

(ERP) system subject to a maximum amount of INR 1,00,000/-. The benefit shall be applicable on the cost of installation of ERP software including installation charges, software and annual service cost.

- 50% of the Fees payable for National / International Certification (BIS / ISI / WHO / GMP / Hallmark etc.) and 50% cost of testing equipment and machinery required for such certification subject to a maximum amount of INR 10 lacs.
- Subsidy of 50% on all charges for availing ZED Certification (*net of any assistance received from Govt. of India*), up to a maximum amount of INR 50,000 with a view to promote Zero Defect and Zero Effect (ZED) manufacturing.

Key Observation

These benefits shall be of great help to MSMEs for improving their quality of manufacturing and help in generating more business from larger corporates and even lead to export-based growth.

11. Are there any incentives for implementation of technology by the MSMEs?

The benefit available under technology implementation for the MSME sector are as follows:

Equipment used for Information Communication Technology, as a medium of communication and for accessing cloud computing will be eligible for subsidy @65% of the capital expenditure related to ICT facilities, maximum up to INR 5,00,000.

Key Observation

The benefit is primarily from the perspective of promoting MSMEs to communicate more with their target audience and use the latest technology like cloud-based applications, Internet of things (IOT) to give them an edge in this fast-changing business environment.

12. What incentives are available for acquisition of technology or undertaking Patent registration by the MSMEs?

The MSMEs have been given benefits both for acquisition of technology as well as well applying for patents for self-developed products.

- **Technology Acquisition:** Assistance of 65% of the cost payable, subject to a maximum of INR 50 lakh, for acquisition of technology from recognized Institutions during the operative period. The benefit shall include royalty payments as well for the first two years. Patented Technology acquired from Indian Companies/foreign companies will also qualify for benefit under the Scheme.
- **Patent Registration:** 75% of cost / expenditure incurred for any number of patent applications, subject to maximum INR 25 lakh per applicant/Enterprise for obtaining patent registration of developed product / process during policy period. Maximum fee for attorney for national patent shall be capped at INR 50,000 for domestic patents and INR 2,00,000 per country for international patent within the overall cap of 75% of the cost/expenditure of patent registration shall also be available.

Key Observation

These benefits are again with the objective to ensure that the MSME sector keeps their technology updated and manufacturing processes are based on the latest technologies available. In addition, the MSMEs are also being encouraged to register their patents so that their products are not only recognized but difficult to replicate by low cost manufacturers.

13. Whether any assistance will be provided by the Government for saving in consumption of Energy and Water?

Any enterprise, whether new or existing, will be eligible for assistance in case of savings in consumption of energy and water. The assistance is as under:

- 75% cost of energy / water audit maximum upto INR 50,000 will be reimbursed only once during the operational period of the scheme.
- 25% cost of equipment maximum up to INR 20 lacs recommended by the Auditing Authority as a one-time assistance. The assistance is subject to condition that saving in energy / water minimum by 10% of average monthly consumption of previous 12 months before audit.

Key Observation

As compared with the Old Scheme, there is no change in the quantum of the assistance proposed to be provided by the government.

14. The Government is encouraging listing of MSME on SME Exchange. Whether any assistance is provided for the same?

- 25% of the expenditure incurred on raising the fund by equity through SME Exchange, maximum up to INR 5 lacs. The said assistance will be provided once only after successful raising of equity as per the Scheme approved by SME Exchange.
- The time period to apply for the assistance is only one year from the listing date in SME Exchange.

Key Observation

In Old Scheme, only 20% of the expenditure incurred on raising the fund by equity subject to INR 5 lacs was proposed. However, no specific time period was mentioned (like one year from listing date mentioned in new scheme).

15. What assistance is provided for Credit Guarantee Fund Trust for Micro & Small Enterprise (CGTMSE) fees?

The Central Government had instructed financial institution to sanction collateral free loan up to INR 2 crores by charging additional fees on such loan.

100% annual service fees paid to Bank / Financial Institution for availing collateral free loan under CGTMSE shall be reimbursed, for a period of 5 years subject to specified certain conditions.

The enterprise under service and trading activity will not be eligible for the said assistance.

Key Observation

The assistance is only for reimbursement of annual service fees and no other fees / charges levied by Bank / Financial Institutions.

16. What incentives are provided for Rehabilitation of Sick Enterprise?

50% cost of preparing Draft Rehabilitation Scheme (including Diagnostic Report from expert / expert agency and expenditure thereto) subject to INR 1 lac to Sick Enterprise.

17. What assistance is provided for Power Connection Charges?

Any MSME, not located in GIDC / approved Industrial Park, which has paid charges to distribution licensee, during the operational period of this Scheme, for new connection or to get additional load for existing consumer or for shifting of connection or service line, will be eligible to get reimbursement @ 35% of charges paid to distribution licenses for LT / HT service lines maximum up to INR 5 lacs.

However, eligible MSME have to apply for reimbursement within one year from the date of payment of charges to Distribution licensee for the service line.

18. What is the quantum of assistance provided to MSME towards rent?

The enterprise paying rent / lease towards setting up of manufacturing activities will be eligible for reimbursement @ 65% of rent paid maximum up to INR 1 lac per annum, for the period of five years subject to certain specified conditions.

However, service activity and trading activity will not be eligible.

- 19. If MSME is entitled to avail benefits under this Policy, whether it will be eligible to get benefits for the same component of other department of State Government?**

No, the enterprise which has availed benefits under this Schemes, will not be entitled to get the benefits for the same component of other department of State Government, unless and otherwise specified under that Scheme. However, the enterprise can avail benefit under such Schemes of Central Government.

- 20. Whether an eligible MSME can avail all the benefits under the various Schemes of this Policy?**

Yes, the enterprise will be eligible for all the schemes if it fulfills all the provisions of the relevant scheme.

Annexure I

Sr. No.	District	Category I	Category II	Category III
1	Ahmedabad	Dholera Detroj- Rampura Dhandhuka	Viramgam	Daskroi, Bavla Dholka, Sanand Mandal Ahmedabad City
2	Amreli	Khambha, Dhari Lilia, Savar Kundla, Babra Kunkavav Vadia Lathi	Rajula, Bagasara, Amreli	Jafrabad
3	Anand	Tarapur, Anklav Sojitra	Umreth, Khambhat, Borsad, Petlad	Anand
4	Arvalli	Dhansura Malpur	Meghraj, Bayad Bhiloda, Modasa	
5	Banas Kantha	Lakhani, Amirgadh Suigam, Danta Dhanera, Vav, Kankrej, Vadgam, Tharad Deodar, Dantiwada	Deesa, Bhabhar Palanpur	
6	Bharuch	Netrang	Amod, Jambusar Valia	Jhagadia, Bharuch Vagra, Anklesvar Hansot

Sr. No.	District	Category I	Category II	Category III
7	Bhavnagar	Jesar, Umralla Vallabhipur, Gariadhar, Palitana, Talaja Ghogha	Mahuva Sihor	Bhavnagar
8	Botad	Ranpur, Gadhada Barwala, Botad		
9	Chhota Udepur	Chhota Udepur Kavant, Nasvadi		
9	Chhota Udepur	Sankheda Bodeli*, Jetpur Pavi		
10	Devbhumi Dwarka	Kalyanpur Bhanvad	Okhamandal	Khambhalia
11	Dahod	Dhanpur, Sanjeli Limkheda, Dahod Fatepura, Jhalod Singvad, Garbada Devgadbaria		
12	Gandhinagar		Mansa	Kaloi, Dehgam Gandhinagar
13	Gir Somnath	Gir Gadhada Talala	Una, Kodinar Sutrapada Veraval	

Sr. No.	District	Category I	Category II	Category III
14	Jamnagar	Jodiya	Jamjodhpur Kalavad, Dhrol	Lalpur Jamnagar
15	Junagadh	Bhesan Mendarda	Visavadar Malia-Hatina Mangrol, Vanthali Manavadar, Keshod	Junagadh Junagadh City
16	Kachchh	Rapar, Nakhatrana Lakhat, Mandvi	Abdasa, Bhachau Bhuj	Mundra, Anjar Gandhidham
17	Kheda	Galteshwar Matar, Vasa Mahudha	Mehmedabad Kathlal, Thasra Kapadvanj	Kheda Nadiad
18	Mehsana	Satlasana Jotana, Kheralu Becharaji, Vadnagar	Unjha, Vijapur Visnagar	Kadi Mehsana
19	Mahisagar	Khanpur, Kadana Virpur	Lunawada Balasinor Santrampur	
20	Morbi	Maliya	Halvad	Wankaner Morbi, Tankara
21	Narmada	Garudeshwar Dediapada Tilakwada Sagbara	Nandod	

Sr. No.	District	Category I	Category II	Category III
22	Navsari	Khergam	Bansda, Chikhli Jalalpore, Gandevi	Navsari
23	Panch Mahals	Ghoghamba Morwa (Hadaf) Jambughoda Shehera	Godhra	Halol Kalol
24	Patan	Sarasvati Santalpur Shankheshwar Sarni, Radhanpur Harij	Sidhpur Chanasma Patan	
25	Porbandar	Kutiyana	Porbandar Ranavav	
26	Rajkot	Vinchhiya Jamkandorna	Jasdan, Upleta Dhoraji, Jetpur Gondal	Paddhari Lodhika, Rajkot Kotda Sangani
27	Sabar Kantha	Poshina Vijaynagar Khedbrahma	Talod, Vadali Idar, Prantij Himatnagar	
28	Surat	Umarpada Mahuva	Mandvi Bardoli	Mangrol Kamrej, Palsana Chorasi Olpad Surat City

Sr. No.	District	Category I	Category II	Category III
29	Surendranagar	Lakhtar Chuda, Muli Sayla, Limbdi Dasada, Chotila	Thangadh Dhrangadhra	Wadhwan
30	Tapi	Kukarmunda Uchchhal Nizar, Dolvan Songadh	Valod	Vyara
31	The Dangs	Subir, Waghai Aahva		
32	Vadodara	Sinor Desar	Dabhoi	Vaghodia Karjan, Padra Savli, Vadodara
33	Valsad	Kaprada Dharampur		Valsad Pardi Vapi Umbergaon
Total		119	76	56

Annexure II - List of Service sector MSMEs entitled to avail benefits under the MSME Schemes:

Annexure A

- Logistics facilities such as Container Freight Station Operators/Warehouses/Cold Storages etc.
- Material Testing Centre
- Start-ups and Incubation Centre
- HallMark certification Centres
- Technical testing and analysis servicing
- Maintenance and repair of machineries and equipments
- Repair of Computers / Communication and Electronics equipments / Household Goods
- Maintenance and repair of Utility Projects
- Packaging services
- Industrial reuse / disposal services
- Apparel/Cutting & Stitching job work (other than retail tailoring)
- Printing, Scanning, Digitalization & Lamination
- Weigh bridges
- Color labs
- Steam & Air conditioning supply
- Waste collection, treatment and disposal activities
- Electrical, plumbing and other installation activities
- Maintenance and repair of Motor vehicles
- Motion pictures, Video and Television production, Sound Recording and Music publishing activities
- Activities of internet Access by the Operator of the wireless / Satellite infrastructure
- Web hosting activities
- Specialize design activities - Fashion design related to Textile/ Apparel/ Jewellery/ Furniture/ Fashion goods/ Graphic design etc.

Annexure B

- Financial Services
- Health Services
- Transport and logistics Services
- Audio Visual Services
- Construction related Engineering Services
- Environmental Services

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