



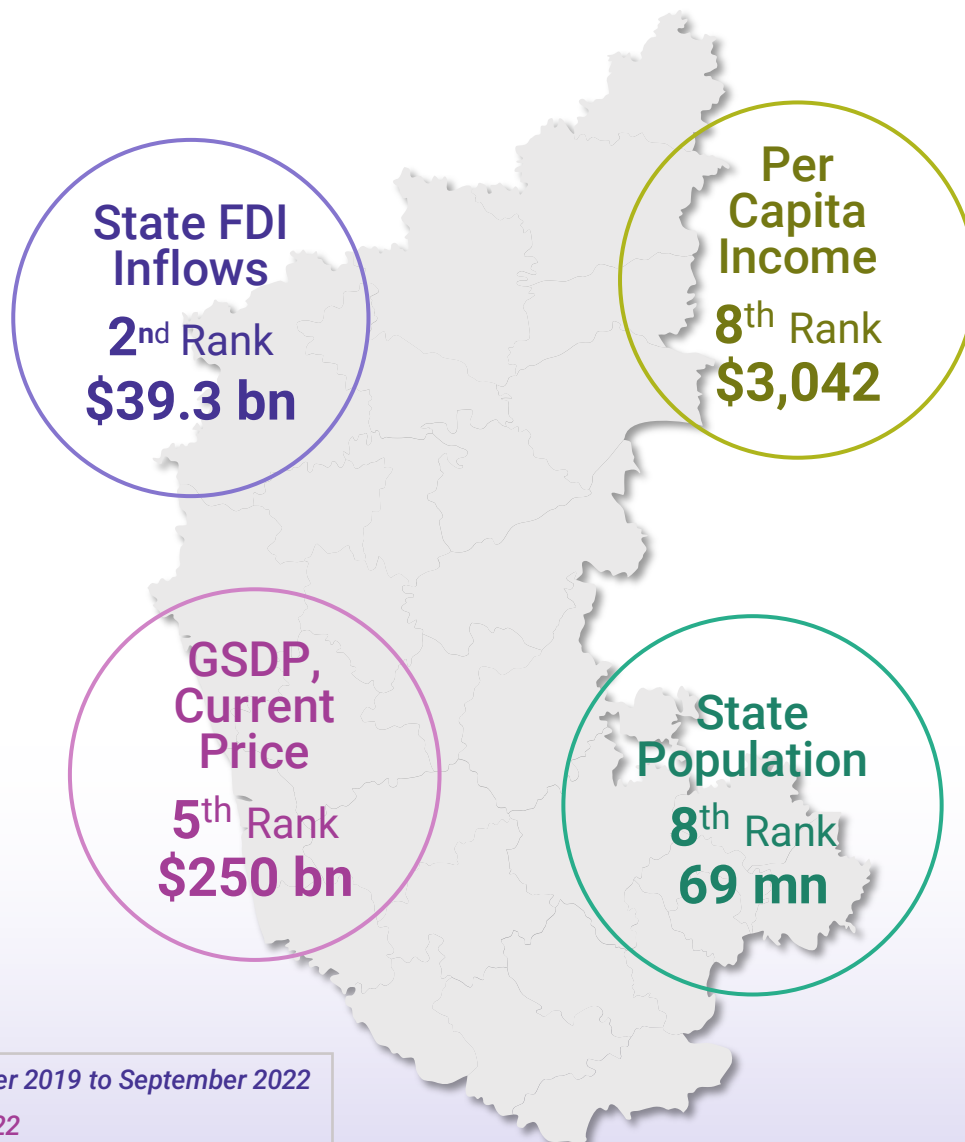
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Incentives for New Manufacturing Set Ups **Karnataka**

Indian State Governments offer varied incentives under their respective state industrial development corporation policies to promote the set-up of new manufacturing units in the state. Such incentives are in the form of capital subsidies, interest subsidies, subsidized electricity tariffs, and more. The purpose of such incentive schemes is to attract investment thereby enabling infrastructure development, generating employment, developing focus sectors, and largely facilitating the overall economic development of the state.

To enable the availability of a quick summary of such general incentives offered by various Indian states, Nexdigm is releasing a series of documents focusing on providing a brief overview of such incentives offered by respective State Governments in India. This document covers information about incentives offered by **Karnataka** under the 'Industrial Policy 2020-2025'.

Key Statistics | Karnataka



October 2019 to September 2022

2021-22

2020-21

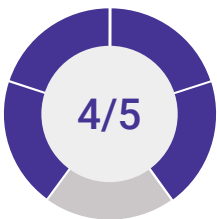
2022

Policy Overview

To facilitate the vision of establishing Karnataka as a competitive and favored investment destination, alongside focusing on investment promotion, the Government of Karnataka has released '**Industrial Policy 2020-25**', valid from 13 August 2020 to 12 August 2025 for all manufacturing industries.

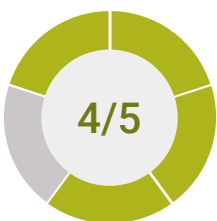
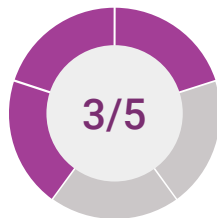
The policy aims to attract investment of ~USD 62 billion by encouraging entrepreneurs to innovate and generate employment for ~2 million people in Karnataka by enhancing manufacturing opportunities.

Nexdigm Ratings and Observations



Policy Structure

Incentive Range & Quantum



Investor Facilitation

State Machinery Digitization



- The industrial policy is framed to attract manufacturers to set up their manufacturing units, especially in developing regions (Zone 1 & 2) of the state, thereby providing higher incentives for such investments.
- This policy comes with notable fiscal, labor, and land reforms that focus on facilitating investments by providing fresh incentives and easing regulatory processes.
- Investment Promotion Subsidy is one of the major incentives provided under the scheme which is linked to the turnover and value of investment.
- The policy places a special emphasis on business growth and development of the Micro, Small, and Medium Enterprises (MSME) and also offers attractive incentives to this sector.

Note: The information/data used for the ratings is subjective based on our assessment of the policy, the experience of Nexdigm professionals in dealing with State Authorities, digitization of select statutory requirements, etc.

Policy Highlights

Industry Classification

Manufacturing enterprises, for the purpose of the scheme, are classified under different categories based on the quantum of investment which has been briefly tabulated below:

Industry	Investment in Plant & Machinery/Fixed Assets
Micro	Investment in Plant & Machinery or equipment up to INR 10 mn and turnover up to INR 50 mn
Small	Investment in Plant & Machinery or equipment up to INR 100 mn and turnover up to INR 500 mn
Medium	Investment in Plant & Machinery or equipment up to INR 500 mn and turnover up to INR 2.5 bn
Large	Investment in Fixed Assets greater than INR 500 mn up to INR 2.5 bn
Mega	Investment in Fixed Assets greater than INR 2.5 bn up to INR 5 bn
Ultra-Mega	Investment in Fixed Assets greater than INR 5 bn a up to INR 10 bn
Super-Mega	Investment in Fixed Assets greater than INR 10 bn

Region Classification

In order to ensure regional balanced growth, Karnataka has been divided into three zones based on the level of industrialization, level of socio-economic development, and locational advantage. The classification is tabulated briefly below:

Zone 1	Comprising of industrially developing areas such as Dharwad, Gadag, Haveri, etc.
Zone 2	Comprising of moderately industrially developed areas such as Ramanagar, Hiriyyur, Malur, etc.
Zone 3	Comprising of fully industrially developed areas such as Bengaluru, Anekal, Yelahanka etc.

Thrust Sectors

Every state encourages select sectors based on its competitive strength and advantage such as geographical location, available resources, raw material availability, existing manufacturing practices and growth potential. Such sectors are known as thrust sectors and are accorded additional benefits in the incentive scheme.

Sectors identified under this policy are mentioned below:

- Automobiles & Auto Components
- Pharmaceuticals & Medical Devices
- Engineering & Machine Tools
- Knowledge-based Industries
- Cement & Steel
- Sugar
- Logistics
- Industry 4.0 (Artificial Intelligence, 3D Printing, Robotics, Nanotechnology, etc.)
- Research & Development
- Intellectual Property Rights
- Renewable Energy
- Aerospace & Defense
- Electric Vehicles
- Healthcare & Wellness
- Higher Education
- Biofuels
- Cluster Development Initiatives
- Sustainable Industrialization
- Technology Adoption & Innovation



Major Incentives

Several incentives are provided to industries based on their investment thresholds and region of set-up in Karnataka. The below table covers a range of incentives depending on the set-up region (**Zone 1 and Zone 2 only**) provided to enterprises basis the classification of industries:

Incentive	MSME	Large	Mega	Ultra Mega	Super Mega
Industrial Promotion Subsidy (IPS) *	<p>Micro 25-30% of VFA*, limited between INR 2 mn and INR 2.5 mn</p> <p>Small 20-25% of VFA, limited between INR 9 mn and 10 mn</p> <p>Medium 2.5% of yearly turnover for 5-6 years, limited to 35-40% of VFA</p>	2.25% of yearly turnover for 6-7 years, limited to 40-45% of VFA	2% of yearly turnover for 7-8 years, limited to 45-50% of VFA	1.85% of yearly turnover for 8-9 years, limited to 50-55% of VFA	1.75% of yearly turnover for 9-10 years, limited to 55-60% of VFA
Stamp Duty Exemption	100%	75-100%			
Electricity Tariff Tax Exemption	100% for a period of 6-7 years	-			
Power Subsidy	INR 1 per unit for a period of 3 years (for micro & small units)	-			

*VFA is Value of Fixed Assets

Important Notes

Minimum direct employment ratio criteria for IPS:

Investment in VFA (INR)	Medium	Large	Mega	Ultra-Mega	Super-Mega
Initial	100 mn: 20	500 mn: 50	2.5 bn: 200	5 bn: 400	10 bn: 750
Additional	100 mn: 7	500 mn: 35	500 mn: 35	500 mn: 35	1 bn: 35

- All new industrial projects (except the MSME sector) are required to hire a minimum of 70% of the total workforce locally to avail the incentives mentioned above. Enterprises unable to provide employment as per the above criteria will have a lower IPS turnover percentage in proportion to the total employment provided
- **Micro & Small Enterprises** can avail IPS to the extent of 10% of their yearly turnover for five years, limited to the maximum extent as mentioned above
- The turnover based IPS is limited to either the specified period or VFA limits, whichever is reached earlier
- The above incentives are not available to manufacturing units situated in Zone 3

Additional Key Incentives

Some other incentives provided under the scheme subject to the prescribed conditions are briefly listed below:

- Industries with a minimum investment of INR 1 bn and direct employment of 75 persons shall be eligible for an additional investment subsidy of INR 70-100 mn if it is set-up in areas with no existing industries (for Zone 1 and Zone 2)
- **Service Sector:** The above incentives and concessions shall also be available to identified service sectors except micro enterprises (covered in Appendix 1) approved at the state/district level single-window clearance committees
- Concessional registration charges at INR 1 per INR 1,000 (for Zone 1 and Zone 2)
- Up to 100% concession on land conversion fee (for Zone 1 and Zone 2)
- Up to 50% subsidy for establishment of Effluent Treatment Plants (ETPs), limited to INR 25 mn (for all Zones)
- Additional incentives will be available for companies focusing on exports, skill development and/or belonging to the thrust sectors
- **For MSMEs**
 - Up to 5% interest subsidy on technology upgradation loans, up to 25% subsidy on technology adoption cost, 50-75% subsidy for quality (ISO/BIS) certification cost, up to 50% subsidy for sustainability programs (rainwater harvesting, ETP set-up, water audit, recycling, etc.)
 - Additional incentives are proposed for special category entrepreneurs such as SC/ ST, women, minorities, physically-challenged, and ex-servicemen

Other Key Policies

Karnataka New Textile & Garment Policy 2019-2024

The policy envisages an ambitious investment outlay of INR 100 bn and aims to generate employment of 0.5 mn people. Major incentives are in the form of a 5% interest subsidy on term-loans for the first five years along with capital subsidy of 10-35% of fixed assets, stamp duty exemption, etc. subject to the prescribed conditions under the policy.

Karnataka Aerospace Policy 2022-2027

This policy aims to position Karnataka as a vibrant aerospace hub of Asia and a globally-recognized aerospace destination by attracting investment of USD 6 bn and aims to generate employment to 60,000 people. Subject to the relevant conditions in the policy, incentives are provided in the form of IPS on the value of fixed assets, stamp duty exemption, reimbursement of land conversion fee, registration charges, etc.

Karnataka Tourism Policy 2020-25

The policy aims to position Karnataka as the most preferred tourism destination that provides a safe and memorable experience for tourists through diverse high-quality tourism offerings. Major incentives available are in the form of capital investment subsidy, exemption on Motor Vehicle Tax, reimbursement of land conversion fee, etc. as per the conditions and terms laid out in the policy.

“Karnataka is one of the most progressive states in India and has innumerable opportunities for innovation and technological growth. It is one of the leading high-tech industrialized states and also one of the top recipients of Foreign Direct Investment (FDI) over the past three years. The Industrial Policy 2020-2025 aims to attract investment of ~INR 5 trillion and generate employment for ~2 million people in Karnataka by enhancing manufacturing opportunities.

Currently, Karnataka is the fourth-largest technology cluster and is home to the third largest start-up ecosystem worldwide. The Government has placed a special emphasis on thrust sectors focusing on state-of-the-art manufacturing for Automobiles, Electric Vehicles, Pharmaceuticals, Industry 4.0 (AI, Robotics, Nanotechnology, etc.), Research & Development, Renewable Energy, and Technology Adoption & Innovation. The industrial policy also provides multiple opportunities for business growth and development of the Micro, Small, and Medium Enterprises (MSMEs).”

Dr Gunjan Krishna

Commissioner for Industrial Development and Director, Department of Industries & Commerce, Karnataka

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Appendix 1

List of service sectors eligible for incentives under Karnataka's Industrial Policy 2020-2025

- Powder coating/chrome plating/industrial electro plating/painting enterprises, industrial paintings engaged in job work
- Weigh bridges set up within the KIADB / KSSIDC industrial areas/estates
- Material/product testing laboratory
- Off-set printing, digital printing (excluding digital photo printing and flex printing)
- Common ETP
- Hazardous industrial waste management facility
- General engineering and fabrication
- Flour mill
- Logistic facilities supporting industries such as dry ports, cold storages, and free trade warehouse zones

Sources:

<https://www.investindia.gov.in/state/karnataka>

<https://dpiit.gov.in/publications/fdi-statistics>

<https://www.rbi.org.in>

<https://www.investkarnataka.co.in>

<https://www.karnataka.com>

About Nexdigm

Nexdigm is an employee-owned, privately held, independent global organization that helps companies across geographies meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise enables us to provide customized solutions for our clients.

We provide integrated, digitally driven solutions encompassing Business and Professional Services, that help companies navigate challenges across all stages of their life-cycle. Through our direct operations in the USA, Poland, UAE, and India, we serve a diverse range of clients, spanning multinationals, listed companies, privately-owned companies, and family-owned businesses from over 50 countries.

Our multidisciplinary teams serve a wide range of industries, with a specific focus on healthcare, food processing, and banking and financial services. Over the last decade, we have built and leveraged capabilities across key global markets to provide transnational support to numerous clients.

From inception, our founders have propagated a culture that values professional standards and personalized service. An emphasis on collaboration and ethical conduct drives us to serve our clients with integrity while delivering high quality, innovative results. We act as partners to our clients, and take a proactive stance in understanding their needs and constraints, to provide integrated solutions. Quality at Nexdigm is of utmost importance, and we are ISO/ISE 27001 certified for information security and ISO 9001 certified for quality management.

We have been recognized over the years by global organizations, like the International Accounting Bulletin and Euro Money Publications.

Nexdigm resonates with our plunge into a new paradigm of business; it is our commitment to **Think Next**.

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