

INDIAN STATES
Economy and Business
Karnataka



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CONTENTS

Karnataka - A Snapshot	4
Socio-Economic Profile	5
INFRASTRUCTURE	
Physical infrastructure	6
Airports	6
Telecommunications Infrastructure	7
Key Industrial Clusters	8
POLICIES & INITIATIVES	
New Infrastructure Policy	10
Millennium Biotech Policy	11
Tourism Policy	11
BUSINESS OPPORTUNITIES	
IT Enabled Services	13
Biotechnology	13
Textile & Apparel Industry	14
Profile of key players	15
DOING BUSINESS	
Approval process	20
Key approvals required	21
Average cost of doing business	22

A report by Ernst & Young for IBEF

STATE ECONOMY & SOCIO ECONOMIC PROFILE

Karnataka – A Snapshot



Located in the southern part of India, Karnataka has a population of 52.85 million (as per 2001 Census), making it India's ninth most populated state.

Divided into 29 districts, it occupies an area of 191,791 sq km, accounting for about 5.83 per cent of India's geographical area. The state is bordered by the Arabian Sea to the west, Goa to the northwest, Maharashtra to the north, Andhra Pradesh to the east, Tamil Nadu to the southeast, and Kerala to the southwest.

The administrative and financial capital of the state is Bengaluru, which together with Hubli-Dharwad, Mysore, Gulbarga, Belgaum and Mangalore, is among the large cities in the state in terms of population.

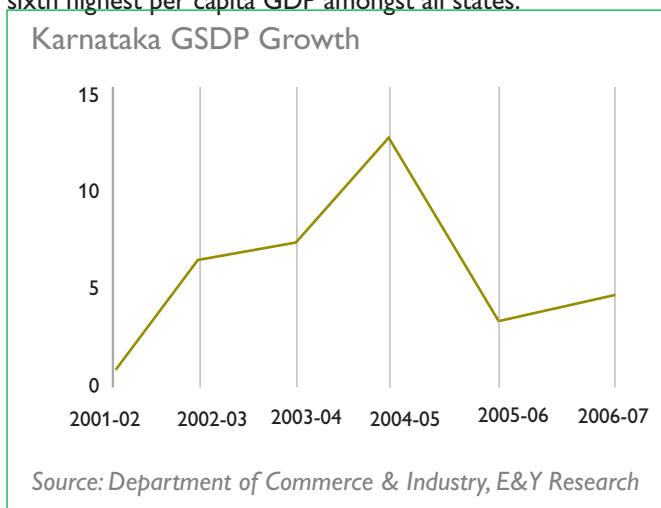
Economic profile

Karnataka, which had a Gross State Domestic Product GSDP of \$47.32 billion in 2006-2007, is India's most economically progressive states. It registered a GSDP growth rate of 9.2 per cent in 2006-2007.

Parameters	Karnataka
Capital	Bengaluru
Geographical Area	191,791 Sq Km
Administrative Districts	29 districts
Population Density	275 persons/ Sq Km
Population	52.73 million
Male	26.85 million
Female	25.87 million
Sex Ratio	964
Decadal Population Growth Rate 1991-2001	17.25%
Projected Population (2008)	57.39 million
Literacy Rate	67.04%
Male	76.29%
Female	57.45%
Average Life Expectancy	64 years

Source: Census of India, 2001

Karnataka's contribution to India's GDP stood at 5.2 per cent in 2004-05. Over the past decade, it has emerged as one of India's fastest growing states with respect to parameters of GDP and per capita GDP. With decadal GDP growth of 56.2 per cent and per capita GDP growth of 43.9 per cent, Karnataka now has the sixth highest per capita GDP amongst all states.



The tertiary sector was the largest contributor to GSDP in 2005 (constant prices: 1993-94) at 55 per cent, followed by the secondary and primary sectors at 25 per cent and 20 per cent, respectively.

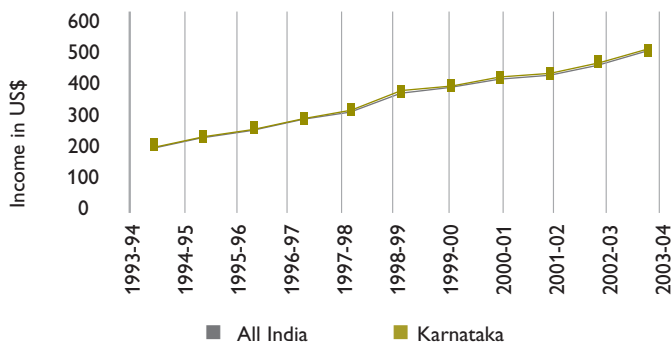
SOCIO-ECONOMIC PROFILE

At the end of 2004, the unemployment rate in Karnataka was 4.94 per cent, as compared to the national average of 5.99 per cent. For fiscal year 2006-07, inflation rate in Karnataka was 4.4 per cent, compared to the national average of 4.7 per cent. As of 2004-05, Karnataka had estimated poverty of 25 per cent, less than the national average of 27.5 per cent.

- o Bengaluru – the largest metropolis of the state
- o Mysore – emerging as an alternative destination to Bengaluru in service and tourism sectors
- o Mangalore – with its ports, educational institutions, hospitals and banks, is a fast emerging hub for services, logistics and manufacturing

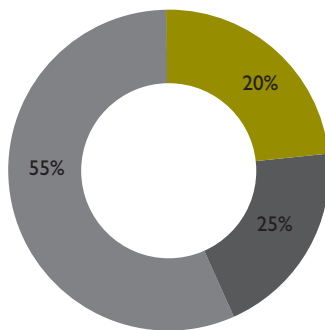
Source: City Skyline Data, E&Y Analysis

Per Capita Income in Current Prices



Source: Department of Commerce & Industry, E&Y Research

Sectoral Contribution to GSDP-2005 (At constant 1993-94 prices)



- Primary Sector (Agriculture, Forestry and Mining)
- Secondary Sector (Manufacturing, Construction, Utilities)
- Tertiary Sector (Trade, Logistics, Real Estate, Communication, Finance)

Source: Department of Commerce & Industry, E&Y Research

Socio-Economic profile – Urban

The three major cities of Karnataka - Bengaluru, Mysore and Mangalore - contribute to over 40 per cent of the urban population.

Cities	Average Annual Household Income (\$)	Average Annual Household Savings (\$)	Households Electrified (%)	Internet Users (Nos.)	Households with Four Wheelers
Bengaluru	211	84	95	579,000	10%
Mysore	180	58	93	91,000	9%
Mangalore	180	50	91	95,000	6%

Source: City Skyline Data, E&Y Analysis

Infrastructure Status

Physical Infrastructure

Road Network

Karnataka has 3,843 km of national highways (NH), 28,311 km of state highways (SH) and 19,801 km of district roads. The state is well connected to six neighbouring states and other parts of India through 14 NHs, which account for six per cent of total NH network in India. The district centres are connected to each other with 114 SHs. The total road network of NH, SH and district roads is about 52,000 km.

Per Capita Income in Current Prices

Road Type	Road Length (Km)
National Highway	3,843
State Highway	28,311
District Roads	19,801

Source: Government of Karnataka website, NHA; E&Y Research

Public Private Partnerships are prevalent in road development projects in Karnataka. The Tumkur-Neelamangala road, elevated expressway to Electronics City and Bengaluru-Maddur road, are among those projects that have been developed on Build-Operate-Transfer (BOT) and Annuity models.

Ports

Karnataka's coastline, along the eastern shore of the Arabian Sea, stretches 300 km between Mangalore in Dakshina Kannada district and Karwar in Uttara Kannada district. The state has two major and eight minor ports.

The major ports of the state are:

- o New Mangalore Port
- o Karwar Port

The minor ports are:

- o Tadri
- o Honnavar
- o Bhatkal
- o Kundapur
- o Hangarkatta
- o Malpe
- o Padubidri
- o Old Mangalore

The National Highways Authority of India (NHA) Port connectivity project to the New Mangalore Port is in the imple-

mentation stage. It comprises four-laning of the 37.9-km stretch between Bantwal Cross Road along NH-48 and Suratkal-Nantur section on NH-17. The project is expected to be completed in 2008.

New Mangalore Port (2006-2007)

Total Traffic handled	32.04 MTA
Total Imports handled	17.92 MTA
Total Exports handled	14.12 MTA
Number of Vessels	1,015
Cruise Vessels	18

Karwar Port (2006-07)

Total cargo handled	1.16 MTA
Total Imports & Exports	6 MTA
Revenue	US \$ 2.7 million
25 Private Liquid Cargo Tanks	75,000 million tonnes

Airports

Bengaluru and Mangalore are the only two airports in Karnataka with international flights. The new Bengaluru International Airport, which opened at Devenahalli, has good international connectivity. Airlines including Lufthansa, British Airways, Air France, Singapore Airlines and Malaysian Airline operate out of the airport. International flights from Mangalore are operated to the Middle East.

New minor airports have been proposed for Hassan, Mysore and Gulbarga, and are at various stages of approval and completion.

Bengaluru HAL Airport (2006-07)

Capacity	8.12 million pax p.a.
Aircraft Movements	63,500
4th busiest Airport in India (after Mumbai, Delhi & Chennai)	

Bengaluru International Airport

Area	4,000 acres
Capacity	11 million pax. per annum
Commissioning	April 2008

Source: www.bialindia.com, E&Y Research

The government and the private sector are also proposing low-cost airports - costing \$4.8 million each - at multiple locations in the state.

The old Hindustan Aeronautics Ltd (HAL) airport at Bengaluru had a capacity of 8.12 million passengers per annum and was the fourth busiest airport in India after Mumbai, Delhi and Chennai. It had 63,500 air movements in 2006-07. The new airport at Devenahalli has a designed capacity of 11 million passengers per annum and is spread over 4,000 acres.

Rail

The total rail track length in Karnataka is over 3,000 km. The South Western Zone, headquartered at Hubli, was created in 2003. Several parts of the state now come under this zone with the remaining area under Southern Railways. Coastal Karnataka is covered under the Konkan railway network, a project that is regarded as one of the major feats of Indian engineering; it included the construction of a 2.02-km-long bridge across the Sharavathi at Honnavar, and a 2.96-km-long tunnel at Karwar.

Other Related Projects

Urban transport
<ul style="list-style-type: none"> • Metro rail and Mono-rail projects in Bengaluru underway • Mysore Metro Rail Project - preliminary feasibility considered
Tourism
<ul style="list-style-type: none"> • Luxury tourist train on lines of Palace on Wheels (in Rajasthan) - expected to roll-out in January 2008

Ongoing Projects

<ul style="list-style-type: none"> • Hassan – Sakhleshwar – Mangalore line gauge conversion, under progress • Key connectivity projects, doubling of Mysore – Bengaluru railway line, Gadag – Bagalokot, Bengaluru – Hassan to be taken up in near future

Source: South West Zone Railways, BMRCL, KSTDC, E&Y Research

Bengaluru is extensively connected with inter-state destinations. However, intra-state rail connectivity, especially on the key lines for passenger and freight movements, needs to be augmented.

Public private partnerships (PPP) are the most preferred route for railway infrastructure development in Karnataka.

Key rail projects being developed under the PPP model

K-RIDE (a Special Purpose Vehicle with participation of the state government, Railways and other investors) has been incorporated for expeditious development of key railway line projects such as gauge conversion of Hassan-Mangalore freight line and Hubli-Ankola line.

Telecommunications infrastructure

Leading companies operate telecommunications networks, basic telephony services (both wired and wireless) and networking services for telecommunication equipment.

Active Telecom Service Providers in Karnataka

BSNL
Bharti Airtel
Reliance Communication
Vodafone Essar
Spice Communication
Tata Teleservices

Key Statistics (2007)

Cellular Subscribers	About 10 million
Internet / Broadband	
Subscribers	About 0.8 million
Telecom towers	About 14,000

Source: Department of Telecommunication, E&Y Research

Karnataka has about 10 million cellular subscribers, 800,000 Internet subscribers and 14,000 telecom towers.

The state is networked by Optic Fibre Cables (OFC) by the state-run BSNL, as well as private companies like Bharti Airtel, Reliance, VSNL and Tata Teleservices. Last mile access is provided by BSNL, Tata Teleservices, Bharti and Reliance.

Telecom service providers include BSNL, Bharti Airtel, Reliance Communication, Vodafone Essar, Spice Communication and Tata Teleservices.

Industrial infrastructure

The Commerce and Industry Department, Karnataka Industrial Area Development Board and Karnataka State Industrial Investment Development Corporation (KSIIDC) has spearhead industrial infrastructure development in the state.

SEZ in Karnataka

Formal Approvals	36
In principle Approvals	17
Notified SEZ (as on 3rd Oct 2007)	17(2 IT/,11 IT/ ITeS, 2 Biotech,1 High Tech Engg.,1 Food Processing)

Source: www.sezindia.nic.in
www.kumbangalore.com

The Directorate of Commerce and Industries has set up district and taluk industrial centres. The government of Karnataka is promoting growth of Special Economic Zones (SEZs) including a Textile SEZ at Hassan, a Coastal SEZ at Mangalore and several sector-specific SEZs for pharma and biotech, food processing and agro-based industries at various locations in the state.

Key industrial clusters

- o IT/ITES cluster in Electronic City and Whitefield, Bengaluru
- o Biotech Park/ cluster at Electronic City, Bengaluru
- o Machine Tool cluster at Peenya Industrial Estate
- o Textile cluster at Doddaballapur
- o Foundry cluster at Belgaum
- o Industrial Valve cluster at Hubli-Dharwad
- o Auto Component cluster at Shimoga
- o Coir clusters at Hassan
- o Handicrafts cluster at Channapatna
- o Coffee Production and Processing cluster at Madekeri

Social infrastructure – Education

Karnataka has 11 universities, 133 medical colleges, 134 engi-

Karnataka Primary Education Statistics

Karnataka State Literacy Rate	67.04%
In principle Approvals	76%
Female Literacy	57%
Primary School Provision	Population of 200 people
School Enrollment	Class 5-7 increase by 5% (1991-2002)
School Dropout Rate	Classes 1-4,27% in 1992,10.5% in 2001
Teacher Student Ratio	34 (year 2000)

Source: educationbangalore.com

neering colleges, 712 general colleges, 199 diploma colleges, 68 master of computer applications (MCA) colleges, 61 master of business administration (MBA) colleges, two universities of agricultural sciences at Bengaluru and Dharwad and the Kannada University at Hampi.

Premier institutes in Karnataka

Most premier institutes are located in Bengaluru:

- o Indian Statistical Institute (1978)
- o Indian Institute of Science (1911)
- o Indian Institute of Management (1972)
- o National Law School of India University (1987)
- o Institute for Social and Economic Change (1972)

Social infrastructure - Health

Karnataka has 293 hospitals, out of which 176 are government-owned. The state has 1,297 primary health centres, 622 primary health units/ dispensaries, 7,793 sub-centres and over 50,000 beds. The average life expectancy in the state is 65 years.

The government initiatives include:

- o Three-tier health infrastructure comprising primary health centres, health units, community health centres and sub-centres
- o The government policy is to establish a primary health centre for an average of 30,000 people, a dispensary for 15,000-20,000 people and a sub-centre for 5,000 people.

'Health City' is a fast emerging concept in the state. The health-care landscape in Karnataka is changing rapidly with corporate and international hospitals offering high-quality healthcare facilities and services.

The Health City concept – such as Narayana Health City – is gaining acceptance; it includes specialised and scalable healthcare infrastructure, emphasis on medical research, collaboration with other operators and a self-sustaining health cluster including hospital, wellness, recreation and residential facilities.

Premier/ Super Specialty Hospitals in Karnataka

- o Narayana Hrudayalaya, Bengaluru
- o MS Ramaiah Hospital, Bengaluru
- o Manipal Hospital, Bengaluru
- o Sagar Apollo Hospital, Bengaluru
- o HOSMAT Hospital, Bengaluru

- o Vittal Mallya Hospital ,Bengaluru
- o Columbia Asia, Bengaluru
- o Shri Satya Sai Hospital, Bengaluru
- o Apollo Hospital, Mysore
- o Basappa Memorial Hospital, Mysore
- o Vikram Hospital, Mysore
- o Kasturba Hospital, Manipal

Health Infrastructure in State

293 (176 Government) Hospitals
1,297 Primary Health Centres
622 Primary Health units/dispensaries
7,793 Sub-centres
More than 50,000 beds
Life expectancy: 67 years

Premier/Super Specialty Hospitals

Narayana Hrudayalaya, Bengaluru
MS Ramaiah Hospital, Bengaluru
Manipal Hospital, Bengaluru
Sagar Apollo Hospital, Bengaluru
HOSMAT Hospital, Bengaluru
Vittal Malya Hospital, Bengaluru
Columbia Asia, Bengaluru
Shri Satya Sai Hospital, Bengaluru
Apollo Hospital, Mysore
Basappa Memorial Hospital, Mysore
Vikram Hospital, Mysore
Kasturba Hospital, Manipal

Source: Status of Infrastructure in Primary Health Centres in the States of India, Facilities Survey, 2003, E&Y Research

State Policy and Incentives

New Industrial Policy (2006-11)

Industrial policies in Karnataka

Karnataka is among the top five industrialised states in the country. It was one of the first to introduce a state Industrial Policy in 1982-83.

The state Industrial Policy for 2001-2006 saw 1,009 proposals being approved, with an investment of \$33 billion, offering potential employment to 1.6 million people.

The new Industrial Policy for 2006-2011 aims to achieve a GSDP growth rate of nine per cent per annum and 12 per cent average annual growth over the policy period in the industrial sector, which accounts for 18 per cent of GSDP.

The key thrust areas under the new Industrial Policy are aerospace, engineering, automobile, machine tools, steel, cement, pharmaceuticals, food processing, apparels and textiles, electronics, IT and biotechnology.

Incentives and concessions under the New Industrial Policy

- o Capital investment subsidy to small scale industries (SSI) in all areas
- o Exemption of electricity duty on captive power plants
- o Exemption of stamp duty and reduction of registration charges in thrust areas
- o Waiver of conversion fee for up to 50 acres in thrust areas
- o Reduction of 18 per cent on land acquisition charges through Karnataka Industrial Areas Development Board (KIADB) in thrust areas
- o Subsidy of up to \$200,000 for setting up of effluent treatment plant in any area
- o Entry tax concessions for 3/5 years on capital goods/ raw materials in thrust areas

New Infrastructure Policy, 2007

The main objective is to provide a fair and transparent policy framework to facilitate the process of economic growth and encourage Public Private Partnerships (PPP) in the infrastructure sector.

- o The policy is being anchored through a PPP cell in the Infrastructure Development department
- o Introduction of 'Swiss Challenge' framework for bidding

- o Single window agency under the Infrastructure Development department to approve PPP projects of value up to \$1.2 million

The focus sectors under the New Infrastructure Policy are agri-infrastructure, education, energy, health care, industrial infrastructure, irrigation, public markets, tourism, transportation and logistics, urban and municipal infrastructure.

The incentives and concessions under the 'New Infrastructure Policy' are as follows:

- o Facilitation: Land acquisition, approval process and utility arrangements at project site
- o Asset-based support : Government land at concessional rates, viability-based land acquisition support
- o Fiscal : Exemption from entry tax, special entry tax for three years; concession on stamp duty and conversion rates in thrust areas
- o Contingent guarantees : 'Take-or-pay' or 'supply-or-pay' type of guarantees in select cases
- o Financial support : Sponsor for central viability gap funding and additional state viability gap funding for projects

Millennium IT Policy, 2000

Karnataka is considered the Silicon State, and Bengaluru, the IT Capital of India. It was one of the first states to announce an IT policy in 1997. The thrust areas under Millennium IT Policy are IT in rural development, human resource development and e-Governance.

Millennium IT Policy, 2000 - Highlights

- o IT to be used as a tool to track beneficiaries for providing rural credit through Women Self Help Groups.
- o IT to be applied in rural development projects such as provision of drinking water, computerising Village Panchayats, building Management Information Systems for Zilla Panchayat etc.
- o IT sector in Karnataka is estimated to provide employment to 1 million people
- o Schemes to train people in IT to be implemented at different levels
- o Government has progressed on computerisation of teachers' payroll accounting system, students' details, admissions and examinations for higher education, village land records, land registration, Government treasury etc.
- o 140 taluks (out of 175) are connected through a Fibre Optic Network.

Incentives and Concessions under Millennium IT Policy

The various incentives and concessions under the Millennium IT policy are as follows:

- o Fiscal: Exemption to IT companies from payment of entry tax on certain capital goods, concession on stamp duty and registration charges, rebate on cost of land
- o Power: Continuous and uninterrupted supply of power at industrial rates
- o Simplified procedures/ laws: Pollution control clearances, urban planning/ zonal regulations, relaxation in labour laws, facilitation through single window agency
- o Financial Support: Venture capital from government for start-ups
- o Infrastructure Support: IT Parks, Electronic City, Export Promotion Industrial Park, Software Technology Park

Millennium Biotech Policy, 2000

The key highlights of the policy are as follows:

- o Government to set up Biotech Parks in Bengaluru and Dharwad; Marine Biotech Park in Karwar
- o Biotech Corridor to be developed in Bengaluru
- o Other institutions such as Centre for Human Genetics, Institute of Agri-Biotechnology have been planned
- o Measures to accelerate human resource development through scientific computing and electronic education
- o Strengthening of institutional framework for promoting biotechnology by setting up Karnataka Biotechnology Development Council, Karnataka Biodiversity Committee

Thrust areas under Millennium Biotech Policy

The key thrust areas under the Millennium Biotech Policy are as follows:

- o Genomics
- o Bio-fuels
- o Bio-informatics
- o Contract Research

Incentives and concessions under the Millennium Biotech Policy

- o Fiscal: Exemption from entry tax on certain capital goods, concession on stamp duty and registration charges, rebate on cost of land, exemption from electricity tax for five years on captive generation
- o Power: Continuous and uninterrupted supply of power at industrial rates
- o Simplified procedures/ laws: Urban planning/ zonal regula-

- tions, relaxation in labour laws, single window agency
- o Financial Support: Encourage setting up of venture capital funds (VCs) for biotech industries

Millennium BPO Policy, 2002

The policy primarily aims at creating an investor-friendly environment for the Business Process Outsourcing (BPO) sector, utilising human resource potential and generating employment opportunities. The Board for IT Education Standards (BITES) was established to enhance quality of manpower in IT and BPO sectors. It assists in training manpower with skills required by BPOs by selecting trainers, vendors and syllabi. The Karnataka Government is undertaking initiatives to market non-metro cities in the state as potential BPO destinations. A high-powered cell would be created in Karnataka Biotechnology & Information Technology Services (KBITS) to provide relevant information to potential BPO investors.

Incentives and concessions under Millennium BPO Policy

The incentives and concessions under Millennium BPO Policy are as follows:

- o Fiscal: Exemption to BPO companies from payment of entry tax on certain capital goods for three years, 50 per cent exemption on stamp duty and registration charges (100 per cent exemption for units established by SSI outside city limits), waiver of land conversion fee to units employing 100 persons and above outside BMRDA limits
- o Simplified procedures/ laws: Exemption from certain requirements under labour laws, facilitation through single window agency, relaxation in procedural requirements
- o Incentives to companies providing basic infrastructure to BPO sector
- o Additional incentives offered for anchor companies

Karnataka Tourism Policy, 2002-2007

The thrust areas under the policy are as follows:

- o Upscale tourism, heritage tourism, ecotourism, conventions and conferences, exhibitions, cruises and theme parks
- o The State Tourism Council, State Level Coordination Committee & District Tourism Council to facilitate implementation of tourism policy
- o Department of Tourism (DoT) to prepare a comprehensive development plan for development of major tourist spots and infrastructural plans, at an outlay of \$30 million, for providing connectivity and common facilities
- o Encourage private participation in all tourism-related activities

- o Promote eco-tourism, adventure sports
- o Development of travel circuits like Badami-Aihole-Pattadakal circuit and coastal circuit in North Canara
- o Bengaluru to be developed as a major tourist destination through adventure sports and high-end accommodation

Incentives and concessions under Karnataka Tourism Policy:

Some of the key incentives and concessions under the Karnataka Tourism Policy are as follows:

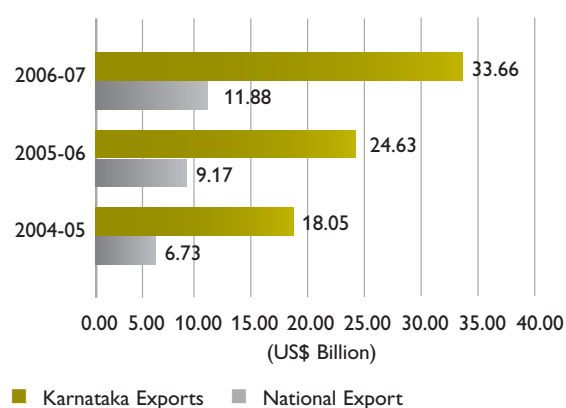
- o Concessions available under Industrial Policy (2002-07 and now 2007-11) to be made available for private investment in tourism
- o Fiscal: Entry tax exemption during implementation for three years, waiver of land conversion fee, luxury tax charged on actual room tariff paid above \$9 with a cap of 10 per cent, entertainment tax exemption of 100 per cent for first three years and 75 per cent for next two years for I-Max theatres, tax on aviation turbine fuel reduced to four per cent, underwriting of 50 per cent of tickets of private airlines for an initial period of three years, motor vehicle tax on interstate tourist vehicle to be rationalised on reciprocal basis, 50 per cent exemption on stamp duty for investment below \$12 million and 100 per cent exemption for above \$12 million, concessional registration charges
- o Asset-based support: Government land offered at 50 per cent of market value

Business Opportunities in Karnataka

Information Technology (IT) & IT enabled Services (ITeS)

Karnataka has been the forerunner in the IT/ ITeS space owing to an appropriate ecosystem for knowledge-driven industries including proactive government, sector-friendly policy and large pool of skilled manpower. Bengaluru is among the five largest technology hubs in the world.

Karnataka V/S National Software Exports



Source: STPI, Bengaluru, E&Y Research

Karnataka's share in national exports is more than 35 per cent, IT/ ITeS export growth rate is at about 30 per cent and the state had over 1,200 operational companies in the IT/ ITeS space (2006) employing over 400,000 professionals. Karnataka's contribution to national software export remained almost constant between 2004 and 2006, with an average of nearly 36 per cent.

Almost all the leading IT companies in the world including Infosys, Wipro, TCS, Oracle, Dell, IBM, Microsoft, Accenture and Cognizant are present in the state, while about 50 per cent of the world's SEI CMM Level 5 certified companies are located in Bengaluru itself.

Apart from Bengaluru, the other emerging IT destinations in Karnataka are Mangalore, Mysore and Hubli.

Emerging IT Destinations

Mysore	49 STPI registered companies with a export of US\$ 185 million during 2006-2007, which is a 250% growth against the exports in 2004 - 05.
Mangalore	24 STPI registered companies with exports of US\$ 166 million during 2006-07
Hubli	13 STPI registered companies with an export of about US\$2.1 million

- o Mysore has 49 Software Technology Parks of India (STPI) registered companies with exports of \$185 million in 2006-2007, a 250 per cent growth over the previous.
- o Mangalore has 24 STPI registered companies with exports of \$166 million in 2006-07
- o Hubli has 13 STPI registered companies with exports of about \$2.1 million.

Biotechnology

Karnataka was home to 55 per cent of biotechnology-related companies in India (as of June 2006) and offers immense opportunities in this sector.

Select Major Biotech companies in Karnataka

Accelrys Inc.
Advanta India Ltd.
AstraZeneca
Avestha Gengraine Technologies Pvt. Ltd
Aurigene Discovery Technologies Ltd.
Biocon
ReaMetrix India Pvt. Ltd
Strand Genomics
Syngene International
Xcyton

- o Bengaluru has the largest bio-cluster in India with total revenues of \$341 million and 158 of the 320 biotechnology companies in India operating out of the city
- o Karnataka has a headcount of over 6,800 scientists involved in biotech research
- o India's largest biotech company, Biocon, is based in Bengaluru
- o Presence of premier Life Sciences institutions such as Indian Institute of Science, National Centre for Biological Science and Jawaharlal Nehru Centre for Advanced Scientific Research.
- o Favourable institutional framework – Vision Group on Biotechnology to advise government on policy issues, 17 task forces for biotech-related areas.
- o Availability of venture capital funds for developments in these sectors further enhances the investment attractiveness of Karnataka.

Some of the major biotech companies in Karnataka are Accelrys Inc, Advanta India Ltd, Astra Zeneca, Avestha Gengraine Technologies Pvt Ltd, Aurigene Discovery Technologies Ltd, Biocon, ReaMetrix India Pvt Ltd, Strand Genomics, Syngene International and Xcyton.

Some of the major upcoming projects in the state are:

- o Bengaluru Helix, a world-class Biotech Park, involving an investment of over \$24.4 million is being developed under a PPP framework.
- o Three SEZs for Biotechnology – two in Bengaluru and one in Mysore.
- o An SEZ spread over 700 acres for pharma and biotechnology at Hassan (presently at concept stage of development).

Engineering Industry

Karnataka has a strong engineering base with several public sector units, large and medium privately owned units and widely dispersed small-scale units

Engineering exports increased from \$ 243 million in 2002 to over \$500 million in 2005 and constituted about four per cent of exports from the state.

Bharat Earth Movers Ltd, Hindustan Machine Tools Ltd and Bharat Heavy Electricals Ltd are among the leading companies in this sector; the combined turnover of the three companies is in excess of \$5 billion.

Electronics Industry

Karnataka is a leader in the electronics and telecommunications industry, boasting of as many as 300 top international companies. Several public sector electronics companies and defense research institutions are based in Bengaluru.

- o Excellent telecom infrastructure with 140 out of 170 towns connected by OFC network.
- o Hardware exports increased by 40 per cent to \$605 million in 2005-06 from \$432 million a year ago.
- o A 1,200-acre Hardware Technology park is proposed at Devanahalli near the International Airport and a similar park has been proposed at Mysore.

Automobile & Auto Components Industry

Karnataka has a vibrant auto industry with investments of over \$713 million and annual turnover of \$ 489 million. Of the 201

listed auto ancillary firms in India, 10 are based in Karnataka. In 2003-04, revenues from the state's auto sector stood at \$604 million.

The state government has set up Auto Parks at Bidadi, Bengaluru, Shimoga and Dharwar, housing automobile ancillary and servicing units. General Motors has invested \$21 million in a technical centre in Bengaluru.

Toyota, Volvo and TVS Motors have set up vehicle manufacturing units in Karnataka, which has led to growth of ancillary units involved in tyre manufacturing, bearings and other auto spare parts.

Textile & Apparel Industry

Karnataka produces 70 per cent of India's silk and is also a major apparel sourcing destination for the global market. Companies such as Gokaldas Exports, Bengaluru, supply apparels to all the major global fashion labels.

- o Textile exports stood at \$1.6 billion, which is 20 per cent of the country's exports
- o With exports of over \$860 million in 2003-04, the state was the second largest garments exporter in India.
- o There are about 1,800-2,000 textile and garment units in Bengaluru and nearby centres and textile clusters.
- o The Apparel Park at Dodaballapur near Bengaluru and mega Textile Parks in other parts of the state herald a promising future for the sector.
- o Bellary district, where a 175-acre apparel park is coming up, is an emerging centre for textiles, specialising in denim-based garments.

Agro & Food Processing

Several leading multinational food companies like Unilever, Britannia, ITC, Nestle, Nissin, Pepsi, Coco-Cola and Heinz have manufacturing facilities in Karnataka. The state promoted a special purpose vehicle (SPV), Food Karnataka Ltd (FKL) in 2004 to attract private investments in six proposed food parks across the state.

Karnataka accounts for 70 per cent of the country's coffee production (206 million tonnes in 2006-07) and ranks second in the production of flowers; it is also one of the leading producers of fruits and vegetables.

Horticulture accounts for over 40 per cent of the state's agricultural income and contributes 17 per cent to GSDP.

Profile of Key Players in Karnataka

IT/ ITeS Industry

Infosys

The company was set up in 1981 and operates in the areas of IT consulting, modular global sourcing, process re-engineering and BPO services. It has operations in Australia, China and the US and has marketing and technological alliances with FileNet, IBM, Intel, Microsoft and Oracle.

Infosys has operations at Bengaluru and Mysore with a 60,000-plus-seat capacity, and is in the process of adding another 30,000 seats. Its 2006 revenues were about \$2.3 billion.

Wipro

Established in 1945, the company is into IT services, product engineering, technology infrastructure services, BPO and other consulting solutions.

Based out of Bengaluru, the company has 54 development centres and 30 offices spread across India, North America, the Middle East and Europe. It provides application development, deployment and maintenance and business intelligence services. The company's revenue for 2006 was about \$2.6 billion.

Genpact

Formerly known as GE Capital International Services, the company was set up in 1997.

It offers a wide range of business process, technology and knowledge services, including finance & accounting, collections & customer relations, insurance, procurement & supply chain, analytics, software, and IT infrastructure.

Presently, the company employs about 20,000 professionals and the Bengaluru centre has about 1,500 employees. The company recorded a turnover \$600 million in 2006.

Accenture

Accenture India, the wholly owned subsidiary of the \$16.65 billion global management consulting and outsourcing firm, was set up in 1997.

The Bengaluru operations of Accenture comprise three centres with a headcount of around 8,000.

It has 35,000 employees; 10,000 in the BPO (business process outsourcing) space and the remaining in the business consulting and systems integration and technology divisions to serve global clients.

Biotechnology/ Pharmaceuticals

Biocon

Biocon is a leader in bio-pharmaceuticals and bio-services, and manufactures active pharmaceutical ingredients (API) and branded formulations under biologics like Insulin and non-biologics segment like Acarbose.

Incorporated in 1978, the company produces industrial enzymes and has a healthy pipeline of R&D in bio-generics and proprietary molecules. Biocon has an integrated biotech hub, and plans to set up an SEZ at Annekal in Bengaluru. Its 2006 revenues were to the tune of about \$200 million.

Astra Zeneca

Established in 1979, the company is involved in the manufacture of bulk drug chemicals, liquid formulations, tablets and capsules, injectibles and ointments for various disease segments such as cardiovascular, respiratory and maternal healthcare. The company has a manufacturing plant over a 70-acre plot at Yelahanka in Bengaluru and a million sq ft R&D centre in Bengaluru.

The revenues from its Indian operations were \$ 73 million in 2006.

Himalaya Drug Company

Founded in 1930, Himalaya Drug Company is the first Ayurvedic facility to get Good Manufacturing Practices (GMP) certification in the country.

Its health and personal care products are available in 60 countries; it had a turnover of about \$35 million in 2006-07. The company set up a manufacturing plant in 1975 at Makali in Bengaluru.

Avesthagen

Avesthagen, established in 1998, is a discovery-based life sciences company focusing on achieving convergence between food, pharmacy and population genetics, leading to preventive personalised medicine.

It has around 200 employees in Bengaluru and has established a world-class, state-of-the-art laboratory at the International Tech Park in Bengaluru.

Electronics/ Telecommunication/ Software

Siemens India

Incorporated in 1957 in India, Siemens is involved in electrical and electronics engineering. Its products include switchgears, electric motors, generators, control boards and X-ray equipment.

In Karnataka, Siemens has a unit manufacturing switchgear and a subsidiary, Siemens Information Systems Ltd at Bengaluru, for system integration services.

The revenues from the Indian operations were over \$1.2 billion in 2006. Based out of Mumbai, the company has plants in Aurangabad, Nashik, Kalwa, Vadodara and Goa.

Philips Software

Philips Software, a wholly owned subsidiary of Philips Electronics NV – and known as the Philips Innovation Campus – was set up at Bengaluru in 1996. It is involved in various capacity augmentation programmes of other Philips group companies in Singapore, Austria, Belgium and Holland.

The company is involved in software development activities related to consumer electronics, medical systems, intellectual property, applied technology and business application services.

Texas Instruments

A subsidiary of Texas Instruments, USA, it set up its office in India in 1985. It was the first MNC to set up an R&D facility in India and has the highest number of patents to its name. Presently, the company has a headcount of around 1,200 and a turnover of over \$100 million.

IBM

IBM initially set up operations in India in 1939; it re-entered in 1992. IBM's operations in India comprise two wholly-owned

subsidiaries, IBM India and IBM Global Services, contributing revenues of over \$350 million

It provides integrated hardware, software, business consulting and IT solutions. The company has around 50,000 employees across various centres in India, with around 15,000 employees working across five centres in Bengaluru.

Public Sector Undertakings

Bharat Electronics Ltd (BEL)

Bharat Electronics Ltd (BEL), a multi-product, multi-unit and multi-technology company was incorporated in 1954. The government has an over 75 per cent stake in the company. It had revenues of about \$1 billion in 2006-07.

The company, which manufactures defence and non-defence products, has its registered office in Bengaluru. BEL plants are located in different parts of Karnataka and other states.

The units in Karnataka are primarily focused on professional-grade electronics equipment.

Hindustan Machine Tools (HMT)

Established in 1953, Hindustan Machine Tools manufactures bearings, watches, tractors, food processing machines and heavy machine tools. HMT has plants in Karnataka, Punjab and Haryana and has a turnover of about \$25 million.

Bharat Earth Movers Ltd (BEML)

Set up in 1954, BEML manufactures a wide range of products. Its registered office is in Bengaluru and its other units are at Kolar Gold Fields and Mysore.

BEML exports equipment to Europe, Africa and the Middle East has revenues of \$634 million.

Bharat Heavy Electricals Ltd (BHEL)

Incorporated in 1964, Bharat Heavy Electricals Ltd (BHEL) is a central government undertaking. It is one of the largest engineering and manufacturing enterprises in India in the power and industrial machinery segment.

The company registered revenues of around \$4.8 billion in 2006-07. BHEL manufactures electric metres and power devices at Bengaluru. It has 14 manufacturing divisions, four power sector regional centres, eight service centres and 18 regional offices.

Manufacturing/ Processing

ABB-Asea Brown Boveri

Incorporated in 1949, the company offers a wide range of products and services within the power and automation technologies segment including Control Systems. Its registered office is in Bengaluru and plants are located in Bengaluru, Faridabad, Mumbai, Nashik, and Vadodara.

ABB manufactures switchgears, turbochargers, motors and transformers in Bengaluru. The revenues added up to \$ 1.12 billion in 2006.

JSW Steel

Incorporated in 1994, JSW Steel is a fully integrated steel plant producing pellets to colour-coated steel. Based in the rich iron ore belt of Bellary-Hospet in Karnataka, it manufactures galvanised steel products.

JSW Steel has plants at Toranagallu in Karnataka and Vasind and Tarapur in Maharashtra. The Karnataka plant has a capacity of hot-rolled coils of over 2.5 million tonnes. It had revenues of \$2.31 billion in 2006-07.

Mangalore Refineries and Petrochemicals Ltd (MRPL)

Mangalore Refineries and Petrochemicals was set up in 1988 and acquired by ONGC in 2003-04. It is engaged in oil refining and manufacturing of petroleum products like furnace oil, air turbine fuel, motor spirit, naphtha and LPG.

MRPL commenced commercial operations at its Mangalore refinery, with a capacity of three million metric tonnes per annum (mmta). Today, it has a capacity of 9.7 mmta and plans to expand capacity to 15 mmta.

The fifth largest refinery company in India, MRPL had a turnover of \$8.15 billion in 2006-07.

United Breweries

The United Breweries (UB) group, Bengaluru, is India's largest brewer and the second largest in the world; it has around 2,000 employees.

The group's brands include Kingfisher, London Pilsner and UB Premium Ice; it has a distillery with a capacity of 235 million litres.

The UB group has also floated Kingfisher Airlines and Mangalore Chemicals and Fertilizer Ltd is also a part of the group.

The company had a turnover of about \$25 million in 2005-06.

Investments in Karnataka

Overall Investments and Implementation Ratios in Karnataka

Karnataka is one of the major investment destinations for industrial and infrastructure projects.

- o Major investments have flown primarily in IT/ ITeS, steel, petrochemicals, engineering, electronics, textiles & apparels, transport & urban infrastructure
- o About 148 mega projects with investments of \$28 billion have been approved during 2001-06
- o 66,092 small and medium projects (up to \$12 million of investment per project) with investments of about \$5 billion were approved during 2001-06
- o The state has been ranked fourth in terms of total projects investment in India
- o There has been an outstanding investment of \$38.52 billion in 1,308 projects under various stages of planning and implementation, towards end of 2006
- o The state has an implementation ratio of 43.3 per cent, comparable to the national average of 44 per cent

Foreign Direct Investment (FDI) scenario in Karnataka

- o Healthy FDI inflow over the years primarily in sectors related to IT/ITeS, automobile & auto-components, engineering & electronics
- o 2,726 proposals (8.7 per cent of all FDI) with investments of over \$6.2 billion estimated to be approved by the state
- o \$1.2 billion of FDI (17.5 per cent of FDI in India) approved for Karnataka in 2006-07

Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

Under the Jawaharlal Nehru National Urban Renewal Mission programme, 16 projects worth \$346 million have been approved in 2006-07 for development of urban and tourism infrastructure.

\$1.2 billion was earmarked for 2007-2008 to be approved based on merits of proposals from the state government.

Recent Investment Approvals (2006)

The Karnataka State High-Level Committee had cleared 40 large industrial proposals with total investment potential of \$15.33 billion, including nine new SEZs for IT & ITES, taking the total SEZ tally in Karnataka to 34.

The committee had, till August 2006, cleared 285 projects proposing total investments of \$1.31 billion.

Latest approvals:

- o New and expansion projects of MRPL
- o Cement plants by Jaykaycem, ACC, JSW and Ultratech
- o \$17 million inter-modal logistics plan by Shipco Infrastructure
- o A \$50 million centre for SME development and training at Dharwad proposed by JSS Mahavidya Peetha

Key clearances in 2006

- o Proposals by MRPL: \$7.32 billion for new refinery at Surathkal and \$1.94 billion for expansion
- o Adarsh Prime Projects: \$1.44 billion IT/ITES SEZ in Bengaluru
- o Shapoorji Pallonji: \$1.41 billion for IT hardware SEZ in Bengaluru
- o Bagamane Developers: \$380 million for two IT/ITES SEZs in Bengaluru
- o Total Environment: \$630 million for IT SEZ in Bengaluru
- o ITASCA Software: \$280 million for IT/ITES SEZ in Bengaluru
- o JSW Cement: \$100 million for cement plant in Bellary
- o ACC: \$240 million for two cement plants
- o QuEST: \$30 million for IT SEZ in Hubli
- o Heritage Golf: \$60 million for golf course cum hotel in Mysore

Recent Investment Approvals (2007)

The Government of Karnataka approved Infrastructure and industrial projects up to \$15.51 billion in 2007.

Other projects cleared by the state high-level committee on investments:

- o 10 IT/ ITES (IT enabled services) Special Economic Zones (SEZs)
- o 16 IT/ BT (biotech) Parks
- o 7 Sugar Mills
- o 5 Steel Projects
- o 4 Tourism Projects
- o 1 Electronics Hardware SEZ

Proposed investments in textiles, aviation, cement sectors and co-generation of power:

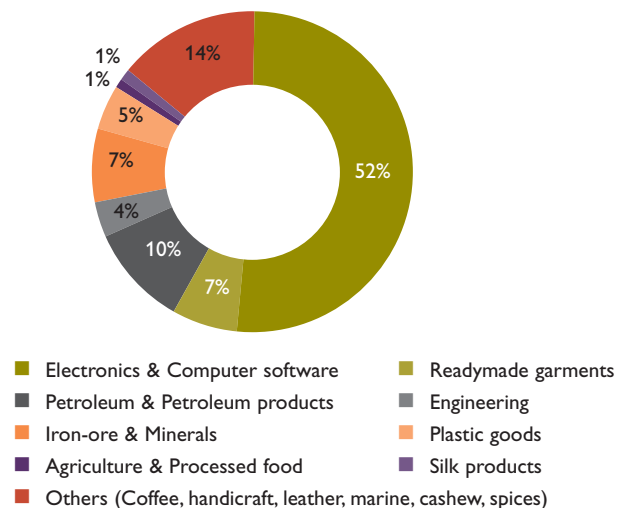
- o 59 industrial and infrastructure projects expected to create employment for about 1 million skilled and semi-skilled youth
- o Jupiter Aviation to set up an aviation training academy and inland container depot at Hassan - investment of \$150 million.
- o Arihant Ispat Ltd to set up a 100,000-tonne steel plant in Bellary district at a cost of \$60 million.
- o Srirama Steel Holdings to invest \$110 million in a sponge iron plant in Bellary district.
- o Dhruvadesh Metal Steels Ltd to set up a mini steel plant in Koppal district with an investment of \$40 million.

Surge in Real Estate/ Large Integrated Townships in Karnataka

- o \$6.1 billion investment in 11 integrated townships for IT, BT and ITES sectors in progress in Bengaluru
- o Green signal to 11 local, national and international developers to set up mega townships
- o IT-related real estate proposals spread over 100 and 200 acres each to be set up at Sarjapur Road, Bengaluru.
- o Several projects at Whitefield, Magadi and Bidadi, with an estimated spend of \$490 – 730 million have been cleared by the state high-level committee

Exports Profile of Karnataka

Typical Export Segments: Illustration of year 2004-05

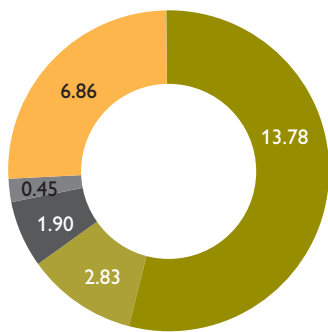


Karnataka IT/ ITeS Exports: 2006-07

- o Total exports from Karnataka (2006-07) of \$25.82 billion, registering a growth rate of over 30 per cent over the previous year
- o IT/ ITeS exports account for over 50 per cent of the exports from the state at about \$14.27 billion
- o Petroleum products worth \$2.83 billion were exported in 2006-07 and gems and jewelry exports touched \$1.9 billion

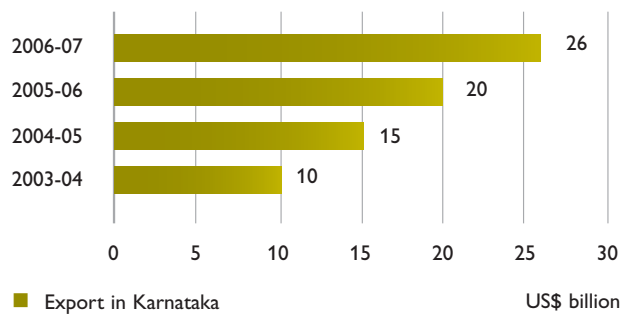
Exports Profile

Exports (2006-07) US\$ Billion



- IT/ITes
- Petroleum products
- Gems & Jewellery
- Basic chemicals, Pharma and Cosmetics
- Others

Export Trends in Karnataka



■ Export in Karnataka

US\$ billion

Doing Business in Karnataka

The key approval contacts required for setting up business in Karnataka have been listed below.

Department of Industries and Commerce (DIC)

- o Anchor department for development/ establishment of industries in Karnataka
- o Responsible for formulation and implementation of industrial policies in the state

District Industries Centres

- o Nodal agencies for approval of projects at district level
- o Jurisdiction for approval includes projects with expected project value less than \$730,000

District Level Single Window Clearance Committee (DLSWCC)

- o Functions under chairmanship of respective deputy commissioners for industrial projects for investments < \$730,000

Other Concerned Departments

Other departments responsible for sectoral growths in the state are:

- o Department of Tourism
- o Department of Information Technology and Biotechnology

- o Department of Food Processing
- o Department of Textiles
- o Department of Mines & Geology

State High Level Clearance Committee (SHLCC)

SHLCC functions under the chairmanship of the chief minister with representations from ministers and officers of all concerned departments for projects involving investment of more than \$12.2 million.

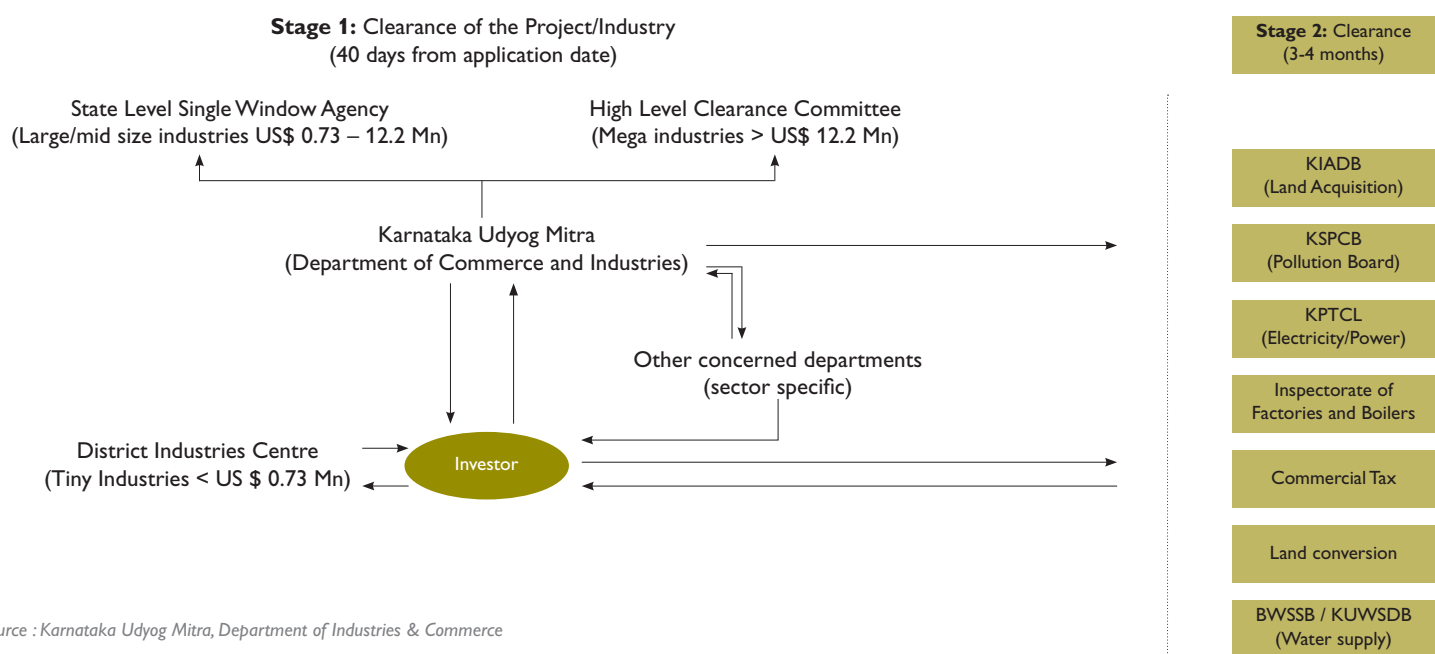
State Level Single Window Clearance Committee (SLSWCS)

SLSWCS functions under the chairmanship of principal secretary (DIC) with representations from key departments (\$730,000 to \$12.20 million).

Karnataka Udyog Mitra (KUM)

- o Single point contact for investors in the state
- o Considers/ forwards proposals to concerned agencies and communicates status to investors
- o Monitors implementation of approved projects
- o Single point contact for information on various aspects including, land availability, statutory approvals and coordination

Approval Process



Source : Karnataka Udyog Mitra, Department of Industries & Commerce

Key Approvals Required

List of Approvals and Clearances Required	Departments to be Consulted
Prior to setting up the unit	
Registration	Commerce & Industries Department, Karnataka Udyog Mitra (Single Window Agency)
Allotment of Land/Shed	Karnataka Industrial Areas Development Board
Permission for Land Use	District Authorities
No Objection Certificate under Water & Air Act	Karnataka State Pollution Control Board
Approval for Construction Activity and Building Plan	Development Authority/Urban Local Body
No Objection Certificate	Fire Department & Directorate of Factories & Boilers
Provisional Trade Tax Registrations	Central and State Excise Departments
Registration under Central Sales Tax Act	Central and State Excise Departments
Before commencement of production	
No Objection Certificate under of Water & Air Act	State Pollution Control Board
No Objection Certificate	Fire Department & Directorate of Factories & Boiler
Permanent Trade Tax Registration under	Central and State Excise Departments
Registration under Central Sales Tax Act 1956	Central and State Excise Departments
After Commencement of Production /Activity	
Registration	Commerce & Industries Department and respective sector departments such as IT/BT/Tourism etc.

Karnataka – Business Climate

Proven track record

- o Among the highest FDI inflows
- o Positive investments and conversion ratios
- o Proactive sector polices
- o Optimal mix of opportunities – services, manufacture, mining and agriculture.

Presence of vibrant eco-system for industry

- o Skilled manpower for knowledge-based industries and other processing sectors
- o Among the highest technical/ medical institutes in the country
- o Strong backbone of research institutions across sectors with efficient industry interface
- o Investor friendly government and favourable policies
- o Pleasant and salubrious weather and ample tourism opportunity

Continuously expanding industrial and urban infrastructure

- o Industrial estates/ SEZs and sector-based Parks
- o Commuter infrastructure and basic urban infrastructure

New opportunities

- o Large-scale integrated townships
- o Various infrastructure and industrial projects under Public Private Partnership framework

The Karnataka Advantage

Karnataka has very strong credentials as an appropriate state for investment and doing business.

- o Leads the information technology industry with IT and ITeS exports of over \$12.6 billion in 2006-07
- o Science capital of India with more than 100 R&D centres

Average Cost of Doing Business

Sector	Cost
Manufacturing Bengaluru	
Industrial Land Price (US\$/sq mt)	40 – 60
Labor (US\$/man year)	1,200 – 1700
Lease Rent (US\$/sq. mt./month)	4 – 7
Average Electricity (US cents)	
Commercial	9 per kWh
Industrial	8 per kVAh
Office space rent (US\$/sq mt/month)	6 – 15
Residential rent (US\$/3 bedroom flat/month)	200 – 750
5-star hotel room (US\$ per night)	200 – 450

- o Produces largest number of doctors, engineers and medical technicians in the country
- o Preferred destination of multinational corporations with more than 150 companies
- o Contributes to over 5.5 per cent of country's GDP
- o Contributes 70 per cent of coffee production and 70 per cent of silk production in India
- o Major source of processed food products with exports worth \$408.16 million
- o Produces over 20 per cent of India's electronic hardware
- o Major apparel sourcing centre with exports worth \$714.28 million
- o Accounts for 50 per cent of the seed production of the country
- o Leads the Indian biotechnology industry

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