



ABSTRACT

Industries - Sanction of Structured Package of Assistance to M/s. Caterpillar India Private Limited for setting up of expansion projects for manufacture of heavy engineering equipments in Tamil Nadu - Orders - Issued.

INDUSTRIES (MID.1) DEPARTMENT

G.O. (Ms) No.16

Dated: 4.2.2009

Read:

- (1) From the Managing Director, Caterpillar India Private Limited, letter dated 25.3.2008 addressed to the Director, Guidance Bureau.
- (2) From the Director, Guidance Bureau, Letter No.Dir/Inter Deptt./2008, dated 31.3.2008.
- (3) From the Director/ Managing Director, Caterpillar India Private Limited, Letter, dated 24.3.2008, 15.6.2008, 30.6.2008, 22.7.2008 and 24.8.2008

ORDER:

Caterpillar Inc, USA is the world's biggest construction and mining equipment manufacturer with more than 100 plants in over 50 countries employing more than 101,000 employees. During 2007, the Group sales were more than 44.58 billion US Dollars. Caterpillar has already invested significantly in India. The construction equipment, diesel gensets and engine manufacturing facilities of Caterpillar India are located at Thiruvallur and Hosur, respectively. Caterpillar India's revenues for year ended March 2007 was Rs.1,590 Crores.

2. M/s. Caterpillar India Private Limited (shortly called as Caterpillar) has proposed to make a total investment of Rs.800 crores in 4 years for manufacture of heavy engineering equipments such as Backhoe Loaders and related components, Engine and Engine Components, Hydraulic Excavators etc. The manufacture will take place in the existing locations of the Company at Tiruvallur and Hosur apart from a new location near Chennai. The project is expected to provide direct employment to 600 persons and indirect employment to about 1900 persons. Caterpillar has requested the Government to offer an attractive package of support including incentives to implement their projects.

3. The Government carefully examined the request of Caterpillar and signed a comprehensive Memorandum of Understanding (MoU) with Caterpillar on 18.12.2008 incorporating the obligations of Caterpillar with regard to investment, investment period, and employment generation and the obligations of the Government in terms of offer of a package of fiscal incentives and infrastructure support. In the MoU, Caterpillar has committed (i) to invest a total investment of Rs.800 crores at the end of the investment period of 4 years for manufacture of heavy engineering equipments such as Backhoe Loaders and related components, Engine and Engine Components, Hydraulic Excavators etc. out of which not less than Rs.350 crores would be invested in eligible fixed assets in a period of 3 years from 1st December 2008 and (ii) to create direct employment to 600 persons within the investment period. Investment Period is the 4 year period starting from 1st December 2008 and ending on 30th November 2012.

4. Based on the commitments given by Caterpillar as mentioned in the paragraph 3 above and considering the economic benefits that will accrue to this State from the

projects, the Government provide the following structured package of assistance to the Projects proposed by Caterpillar:-

(a) Land use conversion: The Government will facilitate Caterpillar in getting Land use conversion order for about 50 acres of land in Gummidipoondi taluk, Tiruvallur district proposed to be acquired by them privately, subject to the Acts and Rules governing such conversion.

(b) Power Supply: TNEB will provide uninterrupted power supply to Caterpillar at normal terms of TNEB and at normal industrial tariff as fixed by the State Electricity Regulatory Commission. If Caterpillar wants power supply through dual feeders, the cost of second feeder will have to be borne by them, as per the present policy of TNEB.

(c) Exemption from Electricity Tax: Caterpillar will be given electricity tax exemption for a period of 5 (five) years for both TNEB supply and power generated and consumed from captive sources. However, this exemption will not be applicable to the existing units of Caterpillar.

(d) Output VAT+CST related incentives: Caterpillar will be given an Investment Promotion soft loan against the Net Output VAT + CST paid to the State Government for a period of 14 (fourteen) years from date of commercial production or till the cumulative availment of soft loan reaches the quantum of actual investment made in eligible fixed assets in the expansion projects in 3 years from 1st December 2008, whichever is earlier. The incentive related to the output VAT will be eligible for Caterpillar only if the sale is for ultimate use in State of Tamil Nadu. If Caterpillar put captive generators, the cost of that will be counted towards investment made in eligible fixed assets for the purpose of incentives. The quantum of soft loan against the Net Output VAT plus CST paid in a year will be determined as per a sliding scale starting from 95% and reducing 5% every 3 years in the following manner:-

1-3 years	-	95%
4-6 years	-	90%
7-9 years	-	85%
10-12 years	-	80%
13-14 years	-	75%

The soft loan will carry a nominal interest rate of 0.1% per annum. The soft loan paid in the 1st year shall be repaid in full along with interest in the month of April in the 15th financial year; the soft loan paid in the 2nd year shall be repaid in full along with interest in the month of April in the 16th financial year and so on. The Base Volume Principle will be applied as follows:-

- (i) The average of the production by Caterpillar in their existing projects in State of Tamil Nadu during the last three financial years or the existing capacity of these projects in State of Tamil Nadu, whichever is higher would be called the Principal Base Volume (PBV). The Soft Loan based on Net Output VAT + CST will be considered only after fulfilling the PBV and for the production in excess of PBV as specified below.
- (ii) Base Sales Volume (BPV) would be the average of the local sales volume by Caterpillar in State of Tamil Nadu in their existing projects during the last three financial years. After achieving the PBV, if the BSV is also achieved, then the sales from the expansion projects in excess of BSV will be given Soft Loan based on Net Output VAT + CST (The reference here is Output VAT + CST paid to Government).

(e) Capital Subsidy: Caterpillar will be given a back ended capital subsidy of Rs.1.50 crores in terms of the New Industrial Policy, 2007.

(f) Environment Protection Infrastructure Subsidy: If Caterpillar establishes a dedicated Effluent Treatment Plant (ETP) / Hazardous Waste Treatment Storage and Disposal Facility (HWTSDF), then it will be given an Environment Protection Infrastructure

subsidy of Rs.30 lakhs or 25% of capital cost of setting up such ETP or HWTSDf, which ever is less, as per New Industrial Policy 2007.

(g) Training Subsidy: Caterpillar will be given a training subsidy equal to 30% of overseas training cost subject to an overall ceiling fixed at Rs.50 lakhs for a period of 3 years. This subsidy will be given on reimbursement basis and it will be available only for giving overseas training to local people.

(h) GST Compatibility: If any of the existing or current taxes included in the Investment Promotion Soft Loan gets included in the Goods and Services Tax (GST) as and when introduced, then the protection of incentive would be provided to the extent of the current taxes getting realised in the GST by the Government of Tamil Nadu out of Caterpillar's project. However, this will not apply to reduction in incentive due to reduction in tax rates, if any.

(i) Labour law flexibility and Public Utility Status: On an application to the appropriate authority, the projects of Caterpillar will be given Public Utility Status and flexibility in employment conditions (including shorter/longer shift timings), hiring of contract labour, employment of trainees and hiring of apprentices, subject to the relevant Acts and Rules.

(j) Single Window Facilitation: Guidance Bureau will provide Single Window facilitation to Caterpillar for getting various clearances and approvals as a fee based service.

(k) General Conditions:

- (i) The structured package of assistance sanctioned above is contingent on fulfillment of all of the above mentioned two commitments by Caterpillar. In the event of non-fulfillment of the said commitments, the structured package given in this order will become inoperative. In such an event, Caterpillar shall refund all financial incentives with interest as decided by the Government and will not be eligible for other forms of support and the assets of Caterpillar shall stand charged to the Government till the incentives are refunded along with interests.
- (ii) At the end of the investment period, SIPCOT will assess the actual investment made by Caterpillar in eligible fixed assets in the projects and actual direct employment created in this project. SIPCOT will also assess the actual investment in eligible fixed assets within 3 years from 1st December 2008.
- (iii) The VAT + CST related incentives, before the application of sliding scale, sanctioned in this order shall not exceed the actual VAT received by the Government of Tamil Nadu from the Projects.

5. This order issues with the concurrence of Finance Department vide its U.O. No...3065/Ind/09, dated...2.2.2009.

(BY ORDER OF THE GOVERNOR)

M.F. FAROOQUI
PRINCIPAL SECRETARY TO GOVERNMENT

To

M/s. Caterpillar India Private Limited,
Asia Pacific Operations
RMZ NXT Campus
1-A- 3rd Floor,
Whitefield, Bangalore - 560 066
The Chairman and Managing Director,
SIPCOT, Egmore, Chennai -8.

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The Principal Secretary to Government,
Energy Department, Chennai - 9.

The Secretary to Government,
Commercial Taxes & Registration
(2 copies)

The Principal Secretary to Government,
Finance Department, Chennai -9.

~~The~~ Special Commissioner & Commissioner of Commercial Taxes,
Chepauk, Chennai - 5.

The Chairman, Tamil Nadu Electricity Board,
800, Anna Salai, Chennai - 2

The Director, Guidance Bureau, Egmore, Chennai - 8.

Copy to:

Chief Minister's Office, Chennai - 9.

Finance (Industries) Department, Chennai-9.

Public (SC) Department, Chennai - 9.

Industries (MIE.2), (OP.II) Department, Chennai - 9.

Sf/Scs.

// Forwarded / By Order //


SECTION OFFICER