

Treasury Management in India

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India Framework

India is a geographically large and populous country located between the Middle East and continental Asia.

The unit of currency is the Indian Rupee (INR). It is divided into 100 paise and commonly referred to as the Rupee. Large quantities of Rupee are referred to as lakh (INR 100,000) and crore (INR 10,000,000). The Indian Rupee is freely traded on the foreign exchange market with its value determined by market conditions.

The Reserve Bank of India (RBI) is the central bank and regulates all financial institutions in the country. Central bank and other government reporting requirements have a significant impact on cash management activity and the regulatory environment is strict but liberalizing.

There are four check clearing systems and one electronic payment system in India that relate to cash and treasury management. The systems are evolving rapidly to include electronic payments and an RTGS interbank system. Current systems are all essentially net period settlement systems (NPNS).

1. Traditional check clearing takes place within each clearing house in India. The total number of clearing houses is over 860 of which 840 are managed by the State Bank of India and its affiliates, 14 by the Reserve Bank of India, and the balance by the nationalized banks.
2. The interbank clearing is restricted to banks and is typically used for high value transactions although no minimum or maximum is specified. It is a paper based system and transactions crossing this system are bank to bank transfers for upcountry payments, the INR leg of foreign currency transactions, and inward remittances. Settlement takes place at the end of the day.
3. High value clearing is available in twelve clearing houses plus the four major metropolitan areas of Mumbai, Chennai, New Delhi, and Calcutta. It is a paper based system for amounts over INR 100,000 (1 lakh). Settlement takes place at the end of the day.
4. In addition to intra center high value clearing, inter center – or inter city – clearing also takes place. In this case the four major metropolitan areas send and receive high value settlements while another 10 centers receive settlements only.
5. The Electronic Clearing Service (ECS) is for low value transactions up to a maximum of INR 5,000,000 per instrument. The ECS is principally used by companies to settle high volume, low value transactions with settlement taking place on the 4th working day.

For tax purposes, a company is considered resident if it is incorporated in India or if management and control of the enterprise is in India. Resident companies are taxed on their worldwide income unless exempted by treaty. Non resident companies are taxed on Indian source income only. The current rate of tax for resident corporations is 35% plus a surcharge of 10%

Weblinks

Background information from the [US CIA](#), [US State Department](#), and the [US Department of Commerce](#)

Country profile information from [Ernst & Young](#)

Summary tax information from [DTT World Tax](#)

News and policies of the [Reserve Bank of India](#)

Other national sites including [Securities and Exchange Board of India](#), [Embassy of India](#), [Washington, DC](#), [National Bank for Agriculture and Rural Development](#), [Export-Import Bank of India](#), [State Bank of India](#), and the [Bank of Baroda](#)

Commercial banking websites of [ANZ India](#), [Canarabank](#),

(total 38.5%) and for non resident corporations it is 48%. The complexity of the Indian tax code and the existence of various offsets make competent tax advice in India a wise investment.

Treasury Management

Indian politics has at times placed a high degree of emphasis on self sufficiency, sometimes as the expense of traditional economic efficiency. Combined with restrictions on foreign ownership of assets in India and armed conflicts with immediate neighbors, development of multilateral trade flows similar to those of other Asian countries were slow to develop. As a result India remains a large market but has not developed into a financial or manufacturing hub for the region.

Most common treasury management techniques are prohibited in India; specifically multilateral netting and notional pooling. Leading/lagging is permitted with specific rules on timing and amount. The principal objective of treasury management in India is efficient concentration of cash and prudent management of Rupee exposure with the interface to a regional or global account structure managed on a manual basis.

Strict regulation of the Rupee, and until recently its lack of convertibility, limited the role of the Rupee to bilateral trade. Accordingly, traditional currencies of trade such as the US dollar, Euro, GBP, and Japanese Yen are used in lieu of the Rupee.

Multiple INR accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Sweeping (zero balancing) and concentration are permitted and are common business practice.

Accounts

The basic INR operating account is referred to as a current account and may be held by resident or non-resident corporations. Banks are not permitted to pay interest on current accounts maintained by corporations. Deposit accounts which may also be held by resident and non-resident corporations are used to earn interest but the minimum tenor is 15 days. Overdrafts are permitted subject to mutual agreement with the bank with rates below INR 200,000 set by the RBI.

Resident and non-resident corporations registered in India may hold accounts in India that are denominated in Rupee, US Dollars, and other currencies subject to approval by the RBI.

Overnight interest is not available and deposit accounts have a minimum tenor of 15 days. Additional short term investment options include government securities, treasury bills, inter company lending and investments in Unit Trust of India units.

Overdrafts are permitted, with the amount and rate determined by each bank for amounts above INR 200,000. Loans against receivables and inventory are a more typical form of bank finance which is the principal source of short term credit.

Payments and Receipts

Cash is a traditional way of settling retail obligations while commercial obligations are settled by check. The relatively small denominations of

[Citibank India](#),
[Global Trust Bank Limited](#),
[Union Bank of India\(UBI\)](#), and
[ICICI Group](#)

Securities trading information from [The National Stock Exchange of India](#), [The Stock Exchange, Mumbai \(BSE\)](#), and [Kotak Securities Home Page](#)

Online editions of the [The Times of India](#), [Economic Times](#), [The Statesman](#), [India Informer](#), [Hindustan Times](#), and [India on Internet](#)

Specialist sites [Webindia](#), [Tata Web](#), [India One-Stop](#), [India Business Net](#)

Contact [Global Cash Management Ltd](#)

Rupee banknotes - the current maximum is 500 Rupees makes automated note counting equipment an essential investment. Nationwide, the ECS is available for transactions up to INR 100,000 (1 lakh) per payment.

Lockbox type arrangements are permitted but not common business practice due to the lack of a centralized clearing system. The functional equivalent of a lockbox is the use of correspondents to capture information on receipts and concentrate funds upward to the company's principal bank.

Controlled disbursement is not possible because all clearing systems settle no earlier than the end of the business day. A functional alternative is to have a disbursement account covered by a book transfer from a deposit account at the same bank.

Technology and Marketplace

India has a developing telecommunications system which relies on copper wire with analogue and digital switches. Bandwidth rates are falling and availability is increasing. Large bank branches are computerized but this still represents a small fraction of Indian banks.

India is a large country with more than 65,000 bank branches. The Indian banking system itself consists of several types of financial institutions including the Reserve Bank of India (central bank), scheduled commercial banks in the public sector, private sector banks, regional rural banks, specialized development banks and foreign banks. The banking sector is dominated by state-owned banks but cash management tends to be dominated by foreign banks which network the indigenous bank branches into coherent collection and disbursement structures. Local banks such as Corporation Bank, Bank of Madras, HDFC Bank, Vysya Bank and the State Bank of India offer domestic cash management solutions. Regional banks such as Standard Chartered and ANZ Grindlays can be quite competitive and Grindlays in particular enjoys a large branch network. International banks offering electronic cash management services from India include Citibank, Deutsche Bank (DB Direct), HSBC (Hexagon) and ABN-AMRO (BankStation).

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