

FTA Doesn't Equal Fewer Controls

The New Compliance Playbook for EU Companies Operating in India

A Strategic Guide to Compliance, Governance and Risk in a Post-FTA Environment





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1. Introduction: Opportunity Meets Obligation

The anticipated Free Trade Agreement between the European Union and India is shaping up to be one of the most consequential shifts in bilateral trade relations in decades. With commerce between the two economies already exceeding €100 billion annually, the FTA is designed to deepen market access, slash tariffs across key industrial sectors, enhance regulatory cooperation, and create stronger frameworks for investment protection. For many EU businesses, the timing feels right — India's economy is expanding rapidly, its middle class is growing fast, and the country's manufacturing ambitions under initiatives like Make in India and the Production-Linked Incentive scheme are creating new demand for European technology, machinery, components, and expertise.

But here is the critical misconception that this playbook exists to correct: the FTA does not simplify the compliance environment. In fact, for many EU companies, greater trade flows will bring greater regulatory scrutiny — not less.

Entering or scaling in India post-FTA is not simply about capturing tariff advantages. It requires a well-structured, proactive compliance architecture. India's domestic regulatory framework is layered, technology-driven, and actively enforced. Penalties for non-compliance can be significant, and in areas such as tax, customs, and data protection, enforcement appetite is growing year on year.

The FTA opens the door. Compliance determines whether you can stay in the room.

This playbook provides a structured, practical guide to navigating compliance in India in a post-FTA environment — helping EU companies move from reactive box-ticking to strategic governance.



2. What the EU-India FTA Changes — and What It Doesn't

Before building a compliance strategy, it is essential to understand both the scope and the limits of the FTA.

The agreement is expected to deliver meaningful progress across a range of areas:



Tariff reduction or elimination across key industrial and agricultural sectors

Regulatory cooperation frameworks in digital trade and sustainability

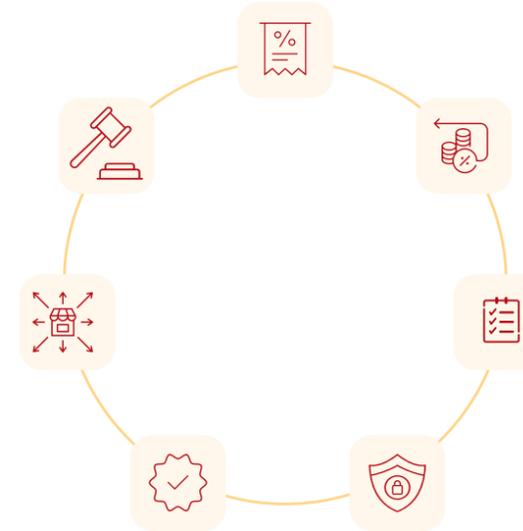
Streamlined customs procedures and faster border clearance

Improved access to public procurement markets

Clearer, standardised rules of origin

Intellectual property protections aligned with international standards

Strengthened investment protection mechanisms





These are meaningful gains. But the FTA does not override domestic Indian law, and it does not reduce a company's obligations under India's regulatory framework. EU companies will still be fully subject to:



Indian corporate law and statutory governance requirements



Direct and indirect taxation, including GST



Sectoral licensing and foreign investment restrictions



Data protection legislation



Environmental and safety standards



Employment and labour codes



Anti-corruption statutes

The FTA creates commercial opportunity. Domestic compliance determines operational sustainability. Confusing the two is one of the most common – and costly – mistakes EU companies make when entering India.



3. Choosing the Right Entry Structure

Before a single invoice is raised or a single employee is hired, the most consequential compliance decisions involve structure. How a company establishes its legal presence in India determines its tax profile, its reporting obligations, its regulatory exposure, and its operational flexibility.



EU companies typically choose from four main structures:



Wholly Owned Subsidiary (WOS)

A private limited company incorporated under the Companies Act, 2013. This is the most common structure for EU companies with substantive operations in India. It offers full operational flexibility, limited liability, and the ability to repatriate profits — subject to applicable taxes and exchange control regulations.



Joint Venture (JV)

A partnership with an Indian entity, valuable for local market knowledge and navigating sector-specific restrictions. However, joint ventures introduce governance complexity. Disputes over management control, profit-sharing, and exit rights are common. Governance agreements must be carefully drafted from day one.



Branch Office

Permitted in limited sectors and subject to Reserve Bank of India approval. Branch offices can undertake commercial activities but carry a higher tax burden than subsidiaries and offer less structural flexibility.



Liaison Office

Restricted to representative and promotional activities. A liaison office cannot generate revenue or undertake commercial operations. Useful for market exploration, but not for substantive business.

Structural decisions should be driven by long-term strategic intent, not short-term tax optimisation. Restructuring after the fact is expensive, time-consuming, and disruptive. Companies that take a rushed approach to entry structure frequently pay a disproportionate compliance price later.

DBSL Practitioner Insight

EU companies setting up in India often underestimate how significantly the entry structure shapes the finance operating model from day one. At DBSL, we frequently see clients who chose a liaison or branch structure for speed of entry, only to face costly restructuring when they need to scale. We recommend that the finance and accounting infrastructure — chart of accounts, intercompany policies, GST registration strategy, and transfer pricing framework — be designed in parallel with the legal entity decision, not after it.



4. Corporate Governance and Statutory Compliance

Once established, EU companies must operate within India's corporate governance framework, which has been significantly tightened over the past decade. The Ministry of Corporate Affairs has invested heavily in digital compliance infrastructure, and non-compliance is increasingly detected quickly.

Core statutory obligations include:



Appointment of at least one resident director



Maintenance of statutory registers and records



Statutory audits under Indian Accounting Standards (Ind AS)



Board meetings, quorum requirements, and shareholder resolutions



Annual filings with the Registrar of Companies



Secretarial audit (mandatory beyond certain turnover thresholds)

Non-filing penalties can be substantial, and in cases of persistent non-compliance, directors may face personal liability. For EU boards accustomed to different governance frameworks, aligning global standards with India's statutory requirements demands deliberate coordination between headquarters and local management.

Indian governance law is detailed and procedural. Filings have hard deadlines. Missing them, even inadvertently, creates legal exposure that can be difficult and expensive to remediate.

DBSL Practitioner Insight

Record-to-Report is where statutory compliance becomes a daily operational reality. DBSL R2R teams manage month-end close, Ind AS financial statement preparation, intercompany reconciliations, and statutory filing calendars for EU-owned subsidiaries in India. A common gap we encounter is the disconnect between what headquarters expects in group reporting and what Indian statutory accounts require — the two are not always identical, and managing that difference requires a structured reconciliation process that many companies do not build until after their first audit cycle.



5. Direct and Indirect Taxation

Corporate Income Tax and Transfer Pricing

Foreign-owned Indian subsidiaries are taxed as domestic Indian companies. Depending on whether a company opts into India's concessional tax regime, applicable rates will vary. What does not vary is the complexity of India's transfer pricing framework.

All cross-border transactions between an Indian subsidiary and its EU parent — whether relating to management fees, royalties, loans, goods, or services — must be priced at arm's length and supported by contemporaneous documentation. Transfer pricing remains one of the most heavily litigated areas in Indian tax law, and disputes can drag on for years. EU companies should invest early in transfer pricing policies and annual documentation. Retroactive reconstruction is far more expensive than getting it right upfront.

Goods and Services Tax (GST)

India's GST regime replaced a fragmented system of central and state indirect taxes with a unified structure. While this has simplified the overall landscape considerably, GST compliance is technology-intensive and documentation-heavy.

Companies must actively manage:



Timely GST registration across all relevant states



Input tax credit reconciliation with vendor filings



Monthly or quarterly return filings depending on turnover



Vendor GST compliance validation



E-invoicing mandates applicable beyond specified turnover thresholds



A key post-FTA point: preferential customs treatment under the agreement may reduce or eliminate import duties on qualifying goods — but GST will still apply at the point of importation. The tariff benefit does not remove the indirect tax obligation.



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GST is where the gap between policy intent and operational reality is sharpest. Our P2P and O2C teams manage GST return filing, e-invoicing integration, and input tax credit reconciliation for clients across multiple Indian states. The single most common issue we see is input tax credit leakage — credits that should be claimed but are lost due to vendor non-compliance or reconciliation mismatches. For a company doing significant volumes in India, this leakage can run into tens of millions of rupees annually. Automated reconciliation against the GSTN portal, with systematic vendor follow-up, is not optional — it is a financial control.

On the O2C side, e-invoicing requirements have also transformed how companies manage customer billing. IRN (Invoice Reference Number) generation, QR code embedding, and real-time GSTN integration must be built into the order-to-cash workflow, not bolted on as an afterthought.



6. Customs Compliance and Rules of Origin

The most immediate economic benefit of the FTA lies in tariff reductions. However, these benefits are not automatic — they depend entirely on meeting origin requirements and maintaining the documentation to prove it.

Rules of origin determine whether a product qualifies for preferential tariff rates. Getting this wrong is not a minor administrative issue. It can result in substantial retrospective duty demands, penalties, and loss of preferential status for affected shipments.

To claim FTA benefits correctly, EU companies must:



Track supply chain inputs and their geographic origin



Maintain valid certificates or declarations of origin



Document and demonstrate value addition thresholds



Ensure accurate HS code classification



Retain supporting documentation for the required audit period

Incorrect classification or insufficient documentation is one of the most common triggers for customs audits and retrospective duty demands. The financial exposure can quickly outweigh the tariff savings gained.

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Customs documentation sits at the intersection of P2P and O2C processes. On the procurement side, our P2P teams ensure that import documentation — including origin certificates, HS classifications, and customs duty accounting — is captured and reconciled accurately in the AP workflow. On the sales side, our O2C teams ensure that export documentation supports origin claims for customers looking to benefit from the FTA in reverse. EU companies that treat customs as a logistics function separate from finance tend to accumulate reconciliation gaps that only surface during a customs audit.



7. Data Protection and Digital Regulation

India's Digital Personal Data Protection Act (DPDPA) has introduced a modern data protection framework that broadly aligns with global privacy standards. For EU companies, this creates a dual compliance reality that must be managed simultaneously.

GDPR governs the processing of EU data subjects' personal data regardless of where that processing occurs. India's DPDPA applies to the processing of Indian data subjects' personal data. Both frameworks must be addressed, and they are not always aligned.

Key areas requiring active compliance management include:

-  Establishing lawful bases for data processing under both frameworks
-  Consent management systems meeting the requirements of both GDPR and DPDPA
-  Data localisation requirements for certain categories of data under Indian law
-  Data breach detection and mandatory reporting timelines
-  Cross-border data transfer safeguards and standard contractual mechanisms
-  Data processing agreements with vendors and outsourcing partners

Data governance is no longer a technology department issue. It is a board-level risk with regulatory, reputational, and financial consequences. For EU companies outsourcing finance processes to India-based providers, ensuring that those providers operate within compliant data governance frameworks — with appropriate contractual protections, security certifications, and audit rights — is a non-negotiable due diligence requirement.





8. Employment and Labour Framework

India's labour landscape is a complex mosaic of central legislation and state-specific regulations. The consolidation of labour laws into four Labour Codes is underway, but implementation varies by state, and companies must stay abreast of which rules apply where.

Employment compliance areas include:



Employment contracts compliant with applicable state and central rules



Provident fund registration and monthly contributions



Employee State Insurance where applicable



Gratuity obligations accruing from the first day of employment



Minimum wage compliance — varying by state, sector, and skill level



Working hour limits and overtime regulations



Statutory leave entitlements



Workplace safety and health standards

Termination procedures require particular care. Unlike many EU jurisdictions, termination without documented cause and proper process can expose companies to employment litigation that is time-consuming and reputationally sensitive. HR policies must reflect Indian law — not simply adapted versions of European policies.

For EU companies bringing expatriate staff to India, visa and immigration compliance adds a further layer: work permits, residential compliance, and social security obligations under applicable bilateral treaties must all be managed.

9. Anti-Corruption and Ethical Governance



India has significantly strengthened anti-corruption enforcement, particularly in sectors involving public procurement, infrastructure, licensing, and government-facing contracts. The Prevention of Corruption Act extends liability to companies — not just individuals — and enforcement activity has increased substantially.

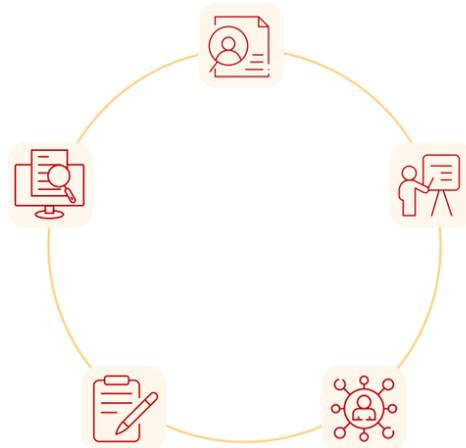
EU companies must ensure compliance not only with Indian law but also with EU anti-bribery regulations, the UK Bribery Act where applicable, and the US Foreign Corrupt Practices Act where a US nexus exists.

The risk areas are predictable: intermediary relationships, government-facing contracts, licensing and regulatory approvals, and customs interactions. A credible anti-corruption programme must be operational — not symbolic.

Key elements include:

Robust third-party due diligence before engaging intermediaries

Regular internal audit reviews of high-risk functions



Anti-bribery training for all relevant employees

Written gift and hospitality policies with defined approval thresholds

Clear and accessible whistleblower channels

Regulators in both India and the EU are increasingly looking not just at whether violations occurred — but whether adequate controls were in place to prevent them. A documented, operational programme is itself a form of regulatory protection.

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From a P2P perspective, the procure-to-pay process is one of the highest-risk areas for corruption exposure — particularly in vendor onboarding, three-way matching exceptions, and approval override patterns. DBSL P2P teams build systematic controls into the AP workflow: segregation of duties, automated three-way matching, exception reporting, and vendor master governance. These are not just efficiency measures — they are anti-corruption controls that provide an auditable record of process integrity. EU companies whose AP processes rely on manual approvals and informal sign-off chains carry significantly higher exposure than those with structured, technology-enabled P2P workflows.

10. Environmental and ESG Compliance

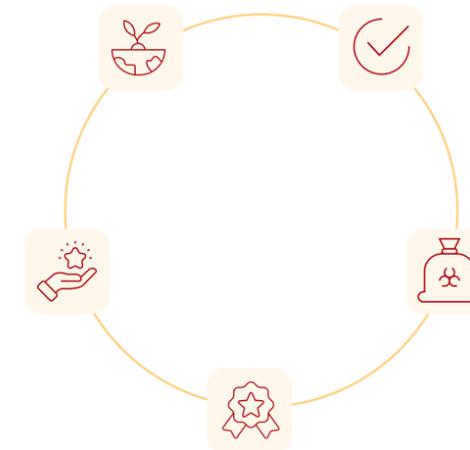
Environmental compliance in India is sector-specific but increasingly rigorous. Companies in manufacturing, chemicals, automotive, energy, and related industries must navigate a framework of environmental clearances, pollution control requirements, and factory safety norms actively enforced at both central and state level.



Key obligations include:

Environmental Impact Assessments for applicable projects

Extended Producer Responsibility obligations for relevant product categories



Consent to Establish and Consent to Operate from State Pollution Control Boards

Hazardous waste management and disposal compliance

Factory safety certifications and periodic inspections



ESG disclosure expectations are also expanding. SEBI's Business Responsibility and Sustainability Reporting framework is cascading disclosure obligations through supply chains, meaning EU companies supplying to or partnering with large Indian corporates may face indirect ESG reporting requirements. EU companies already subject to the Corporate Sustainability Reporting Directive should ensure their Indian operations are integrated into their global ESG governance frameworks — not treated as an exception.



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ESG compliance is increasingly intersecting with the finance function. At DBSL, we are seeing EU clients request that R2R and FP&A processes incorporate ESG data capture — tracking sustainability-related costs, carbon liability provisioning, and supply chain ESG metrics alongside traditional financial KPIs. As CSRD reporting requirements mature, the finance team will be expected to produce ESG disclosures with the same rigour and audit trail as financial statements. Building that capability into the Indian finance operation now, rather than retrofitting it under regulatory pressure, is one of the clearest opportunities we see for forward-thinking EU companies.



11. India as a Shared Services and GCC Hub: The Compliance Dimension

Beyond market entry, the post-FTA environment is accelerating another trend: EU companies establishing Global Capability Centres (GCCs) or Shared Services Centres (SSCs) in India to centralise finance, accounting, and business process functions. India is already home to over 1,600 GCCs operated by multinational companies, and the pipeline of new setups is growing rapidly. Finance and accounting is consistently among the first functions to migrate.

The appeal is clear: access to a large, highly educated, English-speaking finance talent pool; significant cost advantages; and mature outsourcing and technology infrastructure. But the compliance implications of the GCC or SSC model are distinct from those of a pure market-entry play, and they are often underestimated.



Transfer Pricing for Shared Services

When an Indian GCC or SSC provides services to EU group entities, every inter-company service charge becomes a transfer pricing transaction. The Indian entity must charge an arm's length fee for the services it provides — which means cost-plus analysis, benchmarking studies, and contemporaneous documentation become annual requirements. Many companies underestimate the volume and complexity of transfer pricing documentation a GCC model generates.



GST on Inter-Company Services

Services provided by an Indian entity to overseas group companies are generally treated as exports and may be zero-rated for GST purposes — but only if the conditions for export of services are correctly met. Getting the contract structure, payment flows, and place of supply analysis wrong can convert a zero-rated export into a taxable domestic supply, with significant GST implications.



Employment Compliance at Scale

A GCC or SSC will typically employ hundreds of finance professionals in India. At that scale, employment compliance — provident fund, ESI, gratuity provisioning, minimum wages, and the emerging obligations under the Labour Codes — becomes a material financial and operational risk in its own right. Payroll compliance must be automated, auditable, and regularly reviewed.



Data Governance Across Borders

A GCC processing financial data for EU group entities is, by definition, a cross-border data processor. GDPR obligations attach to every data flow from EU entities to the Indian GCC. Data processing agreements, security standards, and audit rights must be properly documented and maintained — not just at setup, but on an ongoing basis.

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DBSL has supported multiple EU companies in designing, transitioning, and operating India-based finance shared services. The companies that struggle are those that replicate their European finance processes in India without adapting them to Indian regulatory requirements — and then discover the gaps during their first statutory audit or GST assessment.

For EU companies evaluating whether to build a captive GCC or partner with an established FAO provider, the compliance risk profile is a material factor in that decision. A specialist provider brings pre-built compliance infrastructure, regulatory expertise, and technology platforms that a captive centre would need years to develop. For many EU companies at the early stages of India engagement, a managed service model — with a clear path to captive transition if the business case matures — offers both compliance resilience and operational speed.



12. FP&A and the Compliance Cost Equation

Compliance is not just a legal obligation — it has a financial cost that must be planned, monitored, and optimised. For EU companies operating in India, the Financial Planning & Analysis function plays a critical role in making compliance visible as a financial variable rather than an invisible overhead.

The post-FTA environment introduces specific FP&A requirements that many companies have not yet built into their planning frameworks:



Tariff Impact Modelling

The FTA will reduce or eliminate duties on qualifying goods in phases. FP&A teams need to model the financial impact of these changes across the product portfolio — accounting for rules of origin requirements, transition timelines, and the interplay with GST obligations. The savings from tariff reductions will not automatically flow to the bottom line without active management.



Scenario Planning for Regulatory Change

India's regulatory landscape evolves rapidly. FP&A teams supporting Indian operations should build scenario models that capture the financial impact of plausible regulatory changes — new GST rates, transfer pricing adjustments, changes to sectoral FDI limits, or shifts in customs classification. Regulatory surprise is not inevitable — it is a planning failure.



Compliance Cost Budgeting

Statutory compliance, transfer pricing documentation, GST reconciliation, data protection programmes, and environmental clearances all carry direct costs. FP&A teams should build a compliance cost centre into the India operating budget — making compliance costs visible, benchmarkable, and manageable rather than buried in general overheads.

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At DBSL, our FP&A practice works with EU clients to build India-specific financial models that capture compliance costs as a managed variable. We have found that companies with robust FP&A support for their India operations are significantly better positioned to respond to regulatory changes quickly — because they have already modelled the scenarios, understood the financial exposure, and identified the levers available to them. In a post-FTA environment where the commercial opportunity is real but the regulatory complexity is persistent, FP&A is not a back-office function. It is a strategic navigation tool.





13. Building a Practical Compliance Framework Equation

The shift from reactive filing to strategic governance does not happen by accident. It requires deliberate investment in people, processes, and technology. A practical compliance framework for EU companies in India operates across four interconnected layers:



Governance Layer

Appoint a local compliance officer with clear authority and direct reporting lines to headquarters. Establish a compliance committee or nominated board-level owner for India-specific risks. Ensure periodic board reporting on compliance matters — not just when problems arise.



Process Layer

Build and maintain a compliance calendar covering all statutory deadlines across tax, corporate, employment, and regulatory filings. Establish a process for tracking regulatory changes. Document standard operating procedures for key compliance activities so that compliance does not depend on any one individual.



Technology Layer

Invest in compliance dashboards, automated GST reconciliation tools, e-invoicing systems, contract management platforms, and risk registers. In India's digitally-driven regulatory environment, technology is not optional — it is infrastructure. Manual compliance is not just inefficient; it is increasingly unreliable.



Monitoring Layer

Conduct regular internal audits across compliance functions. Test controls periodically. Build a process for tracking and remediating findings. Compliance without monitoring is simply hope.

14. A Risk-Based Approach to Compliance Investment

Not all compliance risks carry equal weight. A risk-based approach ensures that investment and management attention are directed proportionately across the compliance landscape.

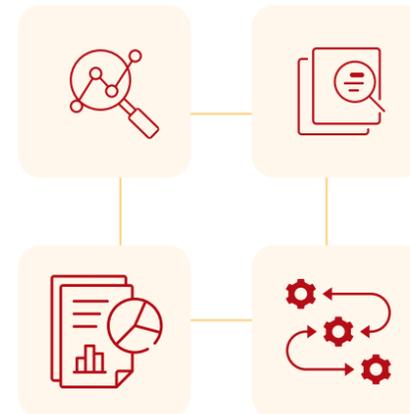
The four stages of an effective compliance risk programme are:

Risk Identification — map regulatory exposure across every function: tax, customs, employment, data, environment, anti-corruption

Continuous Monitoring — review compliance metrics on a rolling basis, with formal quarterly reviews and an annual programme-level assessment

Risk Assessment — rank identified risks by their potential financial, operational, and reputational impact, and by the likelihood of a control failure

Control Design — implement preventive controls to stop violations before they occur, and detective controls to identify them quickly if they do



A risk-based approach prevents both over-investment in low-impact areas and under-investment in genuinely critical exposures. It also provides a defensible record of due diligence in the event of a regulatory enquiry.



15. Preparing for Continuous Regulatory Evolution

India's regulatory landscape moves quickly. New rules, amended regulations, and revised enforcement priorities emerge with regularity across tax, data, environment, and corporate law. Standing still is not a compliance option.

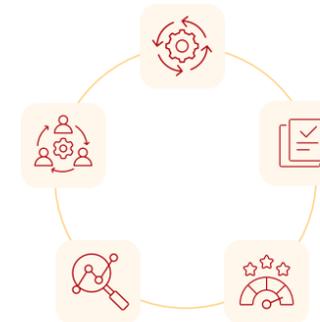


EU companies operating in India should build the following into their operational rhythm:

Subscribe to regulatory update services covering key legislation areas

Maintain ongoing advisory relationships with local legal and tax specialists

Review and update internal policies annually — not just when prompted by a crisis



Conduct annual compliance health checks across all regulatory domains

Benchmark compliance practices against industry peers operating in similar sectors

The FTA itself may evolve over time, with review mechanisms and additional protocols added as the relationship matures. Cross-border enforcement cooperation between EU and Indian regulators may also intensify as trade integration deepens. What is best practice today may become a regulatory requirement tomorrow.



16. From Compliance Burden to Competitive Advantage

The EU–India FTA represents a genuine and significant opportunity for European companies seeking growth in one of the world's most dynamic major economies. India's scale, its expanding infrastructure, its growing consumer class, and its ambitions for manufacturing leadership create a compelling case for deeper engagement.

But success in India will not be defined by tariff advantages alone. The companies that thrive over the long term will be those that build operational discipline into their foundation — not those that treat compliance as an afterthought to be dealt with once problems arise.

Companies that view compliance as a strategic enabler — rather than a procedural obligation — will gain a genuine competitive

advantage. They will face fewer disruptions, build stronger relationships with regulators and partners, and be better positioned to scale.

India rewards long-term commitment. It rewards companies that invest in understanding its regulatory environment, that build local governance capacity, and that operate with consistency and transparency. The compliance burden is real — but it is navigable, and for companies that get it right, it becomes a barrier to entry that protects them from less disciplined competitors.

The new compliance playbook is not just about avoiding penalties. It is about building sustainable, scalable, and responsible operations in a complex but opportunity-

rich environment — and doing so in a way that turns regulatory rigour into a source of organisational strength.



17. How Datamatics Business Solutions Can Help

Datamatics Business Solutions works with EU companies at every stage of their India journey — from initial market entry through to full-scale shared services operations. Our Finance and Accounting Outsourcing practice covers the full process spectrum:



Order-to-Cash — credit management, billing, e-invoicing, collections, and cash application in compliance with Indian GST and GSTN requirements



Procure-to-Pay — vendor onboarding and due diligence, purchase order management, three-way matching, GST input tax credit management, and AP compliance controls



Record-to-Report — month-end close, Ind AS financial statements, intercompany reconciliation, statutory filing support, and transfer pricing documentation assistance



Financial Planning & Analysis — India-specific budgeting and forecasting, tariff impact modelling, compliance cost analysis, and regulatory scenario planning



Shared Services and GCC Advisory — operating model design, compliance architecture, transition management, and ongoing managed service delivery

We bring pre-built compliance infrastructure, India-specific regulatory expertise, and technology platforms that reduce the cost and complexity of operating in India. Whether you are taking your first steps into the Indian market or building a large-scale captive finance operation, DBSL provides the operational foundation that lets you focus on growth.

To explore how DBSL can support your India compliance and finance operations:

www.datamaticsbpm.com



About Datamatics Business Solutions:

Datamatics Business Solutions delivers scalable, AI-powered finance and accounting outsourcing services to global enterprises. With 50+ years of expertise and GDPR-compliant, ISO/SOC-certified operations, we help businesses reduce costs, improve compliance, strengthen decision-making, and scale growth.



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