Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries: 2009-10 (April-March) *

The article on Indian investment abroad in joint ventures (JVs) and wholly owned subsidiaries (WOSs) is brought out along with the quarterly release of India's balance of payments (BoP) statistics. This article reviews India's outward foreign direct investment (FDI) in JVs and WOSs during the quarter January-March 2010 and during 2009-10 (April-March).

India's Outward FDI[1]

1. Magnitude of Actual Outflows

During the last quarter of 2009-10, actual outward FDI in JVs and WOSs stood at US$ 1.9 billion, showing a decline of 52.7 per cent over the corresponding quarter of the previous year (Table 1). During the quarter under review, there was an increase in outflows financed through loans while outflows financed through equity experienced a sharp deceleration. The share of FDI outflows financed through loans stood at 58.9 per cent of total outward FDI during January-March 2010 as against a share of 13.6 per cent in the corresponding quarter of last year. There was no invocation of guarantees. During the quarter under review, loans emerged as dominant mode of financing the outward investment.

During the year 2009-10, the actual outward FDI in JVs and WOSs stood at US$ 10.3 billion, which was 36.5 per cent lower than the investment made during the previous year (Table 1). During 2009-10, the

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[1] India's outward FDI in this review refers to Indian investment abroad in joint ventures (JVs) and wholly owned subsidiaries (WOSs) by Indian public and private limited companies, registered partnership firms and remittances in respect of production sharing agreements for oil exploration.

Table 1: India's Outward FDI

(US $ million)

	Equity*	Loan	Guarantee Invoked	Total
1	2	3	4	5
2009-10	6611 (64.1)	3671 (35.6)	24 (0.2)	**10306**
2008-09	13146 (81.0)	3082 (19.0)	-	**16228**
January-March 2010	798 (41.1)	1144 (58.9)	-	**1942**
January-March 2009	3548 (86.4)	557 (13.6)	-	**4105**

-: Nil.

* The equity data do not include equity of individuals and banks.

Note : Figures in brackets relate to percentage share in total outward FDI for the period.

investment financed through loans registered a growth of 19.1 per cent over the previous year whereas the investment financed through equity decelerated sharply and was placed at almost half of the level of 2008-09. The share of equity in total outward FDI financing decreased whereas the share of loan in financing[2] the outward FDI increased during 2009-10 in comparison to 2008-09.

2. Sectoral Pattern and Direction

2.1 Sectoral Pattern

The sector-wise distribution of India's outward FDI data reveals that during January-March 2010, 33 per cent of the amount of outward FDI was in 'manufacturing', followed by 'financial, insurance, real estate and business services' and 'wholesale and retail trade and restaurants and hotels' (Table 2). During the corresponding quarter of the previous year, around 50 per cent of the total outward FDI was in 'agriculture, hunting, forestry and fishing', followed by 'manufacturing' and 'financial insurance, real estate and business services'. During January-March 2010, within the 'manufacturing' sector, investment was mainly in the areas like 'manufacture of drugs, medicines and allied products'; 'manufacture of refined petroleum products'; 'manufacture of made-up textile articles, except apparel'; and 'manufacture of steam engines and turbines'. The larger part of investment in 'financial, insurance, real estate and business services' covered areas such as 'data processing, software development and computer consultancy services'; 'architectural and engineering and other technical consultancy activities'. Major part of investment in 'wholesale and retail trade and restaurants and hotels' included 'wholesale trade in electronic equipment and accessories', *etc.* The category of 'others' included 'agriculture,

[2] Financing of outward FDI by Indian entities is broadly in the form of equity, loan and guarantee. These include sources, such as drawal of foreign exchange in India, capitalisation of exports, funds raised through external commercial borrowings, foreign currency convertible bonds and ADRs/GDRs, and also through leveraged buyouts by way of setting up of special purpose vehicles (SPVs). The equity data presented in this review do not include equity of individuals and banks, and the SPVs set up for funding overseas investment, while BoP statistics, in addition, include the equity of banks (unincorporated banks' branches operating abroad).

Table 2: Sector-wise Distribution of India's Outward FDI

(US $ million)

Sectors	2008-09		2009-10	
	January-March	April-March	January-March	April-March
1	2	3	4	5
Manufacturing	1309	8181	640	4443
Financial, Insurance, Real Estate and Business Services	321	3217	629	2895
Wholesale and Retail Trade and Restaurants and Hotels	182	887	305	1174
Construction	98	470	43	722
Others	2195	3473	325	1072
Total	**4105**	**16228**	**1942**	**10306**

hunting, forestry and fishing'; 'community, social and personal services'; 'electricity, gas and water'; 'transport, storage and communication services' and other miscellaneous activities. The pattern of investment in the last quarter of 2009-10 revealed that the shares of 'manufacturing'; 'financial, insurance, real estate and business services' and 'wholesale and retail trade and restaurants and hotels' increased while that of 'construction' decreased in comparison to January-March 2009.

During the year 2009-10, on a sectoral basis, almost 43 per cent of the amount of outward FDI was in 'manufacturing', followed by 'financial, insurance, real estate and business services' and 'wholesale and retail trade and restaurants and hotels' (Table 2 and Chart 1). The shares of 'financial, insurance, real estate and business services'; 'wholesale and retail trade and restaurants and hotels' and 'construction' increased while that of 'manufacturing' declined during the year.

2.2 Direction (Recipient Countries)

The direction of outward FDI indicated that Mauritius, Singapore, the US and the Netherlands together accounted for almost

Chart 1: Sector-wise Distribution of India's Outward FDI (Share in Per cent)

Chart 1 (a): During April-March (2008-09)

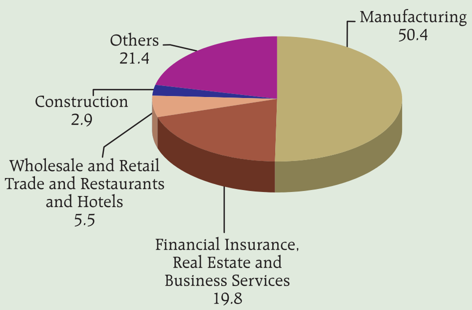


Chart 1 (b): During April-March (2009-10)

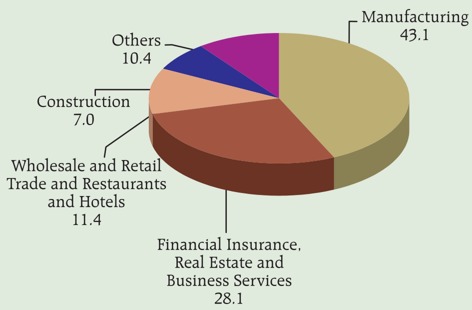


Table 3: Direction of India's Outward FDI

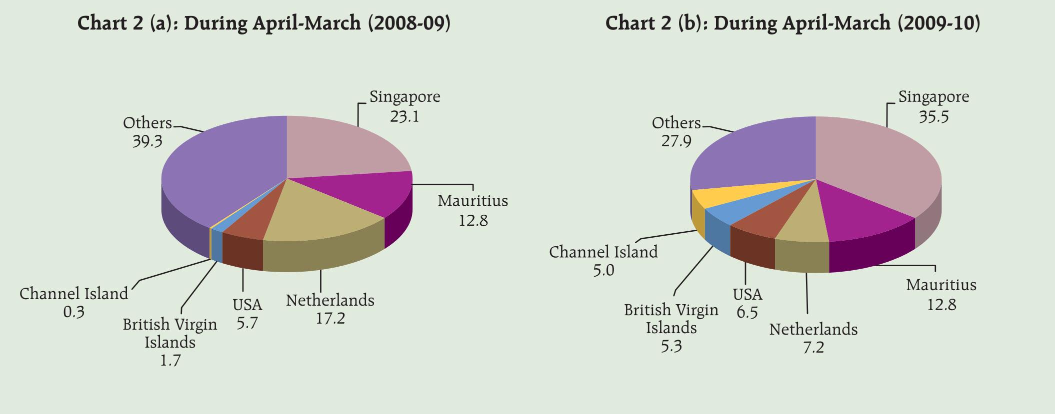
(US $ million)

Country	2008-09		2009-10	
	January-March	April-March	January-March	April-March
1	2	3	4	5
Singapore	242	3747	368	3654
Mauritius	473	2072	533	1315
Netherlands	93	2788	164	737
USA	205	925	179	667
British Virgin Islands	54	268	41	542
Channel Island	19	44	0	516
UAE	165	599	72	484
Cyprus	2007	2289	94	436
Indonesia	1	23	3	265
UK	36	343	42	219
Others	810	3130	446	1471
Total	**4105**	**16228**	**1942**	**10306**

64 per cent of the total outward FDI during January-March 2010 whereas during the corresponding quarter of the previous year, Cyprus, Mauritius, Russia and Singapore together accounted for around 76 per cent of the amount (Table 3). Thus, Singapore and Mauritius continued to be the leading destinations for India's outward FDI.

During 2009-10, Singapore, Mauritius, the Netherlands, the US and the British Virgin Islands together accounted for 67 per cent of the total outward FDI (Table 3 and Chart 2). As against this, during the previous year, Singapore, the Netherlands, Cyprus, Mauritius, and the US accounted for 73 per cent of the total outward FDI. During 2009-10, the shares of Singapore, the British Virgin Islands, the US and the UAE in India's outward FDI increased while that of the Netherlands declined.

Chart 2: Direction of India's Outward FDI (Share in Per cent)



Annex I: India's Overseas Investment – Major Liberalisation Measures since 2000

The introduction of FEMA in 2000 brought about significant policy liberalisation. The limit for investment up to US$ 50 million, which was earlier available in a block of three years, was made available annually without any profitability condition. Companies were allowed to invest 100 per cent of the proceeds of their ADR/GDR issues for acquisitions of foreign companies and direct investments in JVs and WOSs.

Automatic route was further liberalised in March 2002 wherein Indian parties investing in JVs/WOSs outside India were permitted to invest an amount not exceeding US$ 100 million as against the earlier limit of US$ 50 million in a financial year. Also, the investments under the automatic route could be funded by withdrawal of foreign exchange from an authorised dealer (AD) not exceeding 50 per cent of the net worth of the Indian party.

With a view to enabling Indian corporates to become global players by facilitating their overseas direct investment, permitted end-use for ECB was enlarged to include overseas direct investment in JVs/WOSs in February 2004. This was designed to facilitate corporates to undertake fresh investment or expansion of existing JV/WOS including mergers and acquisitions abroad by harnessing resources at globally competitive rates.

In order to promote Indian investment abroad and to enable Indian companies to reap the benefits of globalisation, the ceiling of investment by Indian entities was revised from 100 per cent of the net worth to 200 per cent of the net worth of the investing company under the automatic route for overseas investment. The limit of 200 per cent of the net worth of the Indian party was enhanced to 300 per cent of the net worth in June 2007 under automatic route (200 per cent in case of registered partnership firms). In September 2007, this was further enhanced to 400 per cent of the net worth of the Indian party.

As a simplification of the procedure, share certificates or any other document as an evidence of investment in the foreign entity by an Indian party which has acquired foreign security should not be submitted to the Reserve Bank. The share certificates or any other document as evidence of investment where share certificates are not issued would be required to be submitted to and retained by the designated AD category–I bank, which would be required to monitor the receipt of such documents to ensure *bona fides* of the documents so received.

The Indian venture capital funds (VCFs), registered with the SEBI, are permitted to invest in equity and equity-linked instruments of off-shore venture capital undertakings, subject to an overall limit of US $ 500 million and compliance with the SEBI regulations issued in this regard.

The Liberalised Remittance Scheme (LRS) for Resident Individuals was further liberalised by enhancing the existing limit of US$ 100,000 per financial year to US$ 200,000 per financial year (April-March) in September 2007.

The limit for portfolio investment by listed Indian companies in the equity of listed foreign companies was raised in September 2007 from 35 per cent to 50 per cent of the net worth of the investing company as on the date of its last audited balance sheet. Furthermore, the

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India's Overseas Investment – Major Liberalisation Measures since 2000 *(Concld.)*

requirement of reciprocal 10 per cent shareholding in Indian companies has been dispensed with.

The aggregate ceiling for overseas investment by mutual funds, registered with SEBI, was enhanced from US$ 4 billion to US$ 5 billion in September 2007. This was further raised to US$ 7 billion in April 2008. The existing facility to allow a limited number of qualified Indian mutual funds to invest cumulatively up to US$ 1 billion in overseas Exchange Traded Funds, as may be permitted by the SEBI would continue. The investments would be subject to the terms and conditions and operational guidelines as issued by SEBI.

Registered Trusts and Societies engaged in manufacturing/educational sector have been allowed in June 2008 to make investment in the same sector(s) in a Joint Venture or Wholly Owned Subsidiary outside India, with the prior approval of the Reserve Bank.

Registered Trusts and Societies which have set up hospital(s) in India have been allowed in August 2008 to make investment in the same sector(s) in a JV/WOS outside India, with the prior approval of the Reserve Bank.

The on-line reporting system for Overseas Direct Investment has been operationalised, in a phased manner, with effect from March 2, 2010, to simplify the existing reporting framework. The new system would enable on-line generation of the Unique Identification Number (UIN), acknowledgment of remittance/s and filing of the Annual Performance Reports (APRs) and easy accessibility to data at the AD level for reference purposes.