

*Annual Census on Foreign Liabilities and Assets of Indian Companies: 2012-13**

This article presents the findings of the 2012-13 round of Reserve Bank's Census on Foreign Liabilities and Assets. The results cover 13,291 Indian resident companies which have received Foreign Direct Investment (FDI) and / or made Overseas Direct Investment (ODI). Of the 11,579 companies that reported inward investment, 7,528 were subsidiaries of foreign companies. The results include inward and outward direct investment position at market value and country / sector profile of FDI in India. Sale/purchase (both domestic and export/import) under Foreign Affiliated Trade Statistics (EATS) for subsidiary companies in India are also presented.

I. Introduction

Growing globalisation of markets has resulted in large net financial flows across nations, which are leading to even larger gross financial flows, where direct investment is an important element with investor's lasting management interest of a firm in the recipient economy. FDI, which is critical component of cross-border financial flows and arises when an investor resident in one economy makes an investment that gives control (50 per cent or more equity share) or a significant degree of influence (10 per cent or more equity share) over the management of an enterprise that is resident in another economy.

From a country's Balance of Payments (BoP) point of view, surplus/deficit in current account are financed by other transactions including FDI, which lead to net change in asset ownership for the nation. Large changes in cross-border liabilities / assets have potential to lead to global imbalances and financial stability issues arising out of quicker transmission of localised stress conditions. Accordingly, as a part of the efforts to fill

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information gaps since the onset of the global economic crisis, the International Monetary Fund (IMF) has focused efforts on improving the availability and timeliness of cross-border investment data.

Coordinated Direct Investment Survey (CDIS) is a worldwide statistical data collection effort led by the IMF, which is designed to improve the availability and quality of FDI data, both overall and by immediate counterpart economy. CDIS was introduced by IMF in 2009 and participation of countries is voluntary. In CDIS, countries report their calendar-year-end direct investment position by immediate counterparties broken down between equity and debt – both inward and outward investment – at market value.

India conducted its first census of Foreign Liabilities and Assets as on June 30, 1948, where the information was collected under the International Monetary Fund and Bank Act, 1944 after IMF asked its member countries to provide BoP and international investment position (IIP) data in June 1947. Such data were compiled at different intervals in the subsequent period. Since 1997, the census is being conducted on an annual basis, where participation was not mandatory up to 2010.

India has been participating in the CDIS since its 2010 round, for which, in March 2011, the Annual Return on Foreign Liabilities and Assets (FLA)¹ was made mandatory under the Foreign Exchange Management Act, 1999 for the Indian companies which have received FDI and/or made direct investment overseas in the previous year(s) including the latest year. Since the financial year for India ends in March, the direct investment position is provided for CDIS with March as the reference date. These data are also used as input for India's participation in the

¹ These data are collected as per the Reserve Bank's A. P. (DIR Series) Circular No.45 dated March 15, 2011 under the Foreign Exchange Management Act (FEMA), 1999. The format of Annual Return on Foreign Liabilities and Assets is available on the RBI website (www.rbi.org.in → Forms category → FEMA Forms), and more details are given in the "Foreign Exchange" section under FAQs.

Co-ordinated Portfolio Investment Survey (CPIS) and compilation of IIP and BoP statistics. Detailed data (provisional) on partner country-wise inward and outward direct investment (debt and equity), at market prices, are made available on IMF's web-site <http://cdis.imf.org> for the CDIS-participating countries including India.

While FLA data contain comprehensive information on market value of foreign liabilities and assets of Indian companies arising on account of FDI, ODI and other investments, changes in outstanding position would be different from BoP flows during a year, as the former would also include valuation changes due to price and exchange rate movements. In case of Indian subsidiaries of foreign companies (single foreign investor holding is more than 50% of total equity), information on exports, imports, domestic sales and purchases are also collected as a part of FATS.

II. Coverage

For the 2012-13 round, 14,557 companies submitted FLA return so far, of which 13,291 companies had outstanding FDI / ODI in their balance sheet as at end-March 2013. As some companies may still report, the results presented below are provisional. Of these 13,291 companies, 4.1 per cent had bi-directional direct investment, 83 per cent had only inward and 12.9 per cent had only outward direct investment. Of the total FDI equity stake of ₹2,528.2 billion at face value, 77.5 per cent was in non-financial companies.

11,232 of the 11,579 companies which reported inward direct investment, were unlisted and 7,528 were Indian subsidiaries of foreign companies. As such, at the aggregate level, FDI share in total equity of such companies was high at 70.1 per cent (65.3 per cent for financial and 71.6 per cent for non-financial companies).

III. FDI and ODI: Face Value and Market Value

A direct investor can be an individual, a group of related individuals, an incorporated or unincorporated enterprise (public or private) or a group of related

enterprises, a government, estates, or trusts or other organisations that own enterprises.

Companies report information on equity capital at market value in the FLA return. In case of listed companies, shares are valued at market price on the closing date of the reference period. As nearly 97 per cent of the companies that reported inward direct investment were unlisted, they used Own Fund of Book Value (OFBV) method for market valuation. OFBV of equity investment is the share of non-resident equity holding in the net worth of the company (*i.e.*, sum of paid-up equity capital, participating preference shares, reserves and surplus).

During 2012-13, the market value of FDI stock in India increased by ₹817.5 billion and stood at ₹11,977.9 billion as at end March-2013, of which nearly 94 per cent was held in equity. On the other hand, total ODI stock abroad increased by ₹587.3 billion during the year to ₹4,364.3 billion. Thus, at market value, the ratio of outward to inward direct investment increased from 33.8 per cent to 36.4 per cent and the related gap increased from ₹4,364.3 billion to ₹7,613.6 billion (Chart 1). The ratio of market value of FDI companies' equity to face value stood at 4.4 per cent in March 2013 at aggregate level but it varied across sectors.

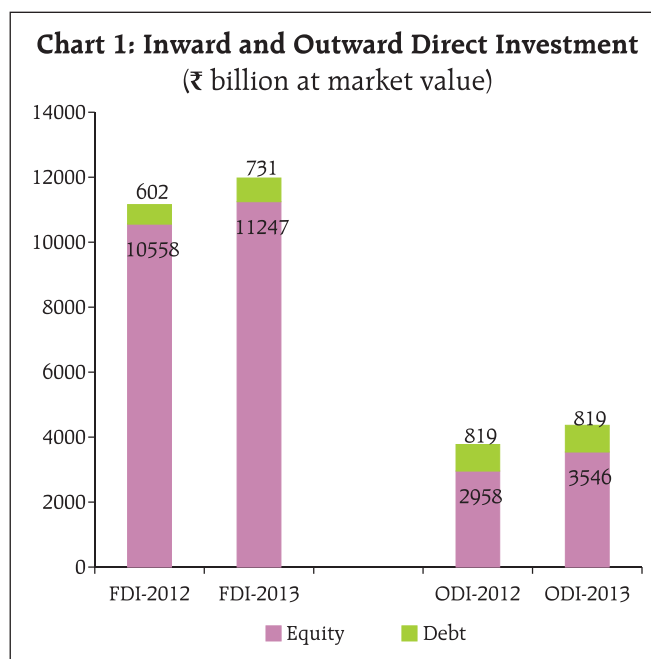


Table 1: Sector-wise Equity Participation of FDI Companies: March 2013
At Face Value (₹ billion)

Activity	Total Equity (Resident & Non-Resident)	FDI Equity Stake
1. Agriculture-related, Plantations & Allied activities	11.5	9.7
2. Mining	88.1	51.4
3. Manufacturing	1,265.8	1,005.8
4. Electricity, gas, steam and air conditioning supply	213.7	121.5
5. Water supply, sewerage, waste management and remediation activities	8.9	8.0
6. Construction	193.4	126.4
7. Services	1,825.4	1,205.5
Total	3,606.8	2,528.2

IV. Sector-wise Distribution of FDI

At face value, the share of services sector (47.7 per cent) in total FDI equity stake of the 11,579 FDI companies was higher than manufacturing sector (39.8 per cent). Within services sector, 'financial & insurance activities' sector had high share, whereas motor vehicles had high share in the manufacturing sector (Chart 2).

Nearly half of the total FDI at market prices was in the manufacturing sector which stood at ₹5,989.3 billion as at end-March 2013 (₹5,868.1 billion a year ago). Information and communication services (15.5 per cent) and financial and insurance activities (13.6 per cent) were other major activities attracting FDI. The sector-wise break-up of FDI at market value is presented in Table 2.

V. Source / Destination of Direct Investment

Mauritius had the largest share (26.4 per cent) in FDI followed by United Kingdom (16.4 per cent) and United States of America (15 per cent). The volume of direct investment by top ten source countries is presented in Chart 3 along with the amount of outward investment, where these were also destinations. These ten countries accounted for 90.8 per cent in FDI and 72.2 per cent in ODI. Singapore was the major ODI destination (26.6 per cent share) followed by Mauritius (14.5 per cent) and Netherlands (13.9 per cent).

VI. Other Investment

Direct investment (DI) companies also report their other financial liabilities and assets separately under 'other investment' in the FLA return. These include claims and liabilities in terms of trade credit, loans, currency and deposits and other receivable and payable

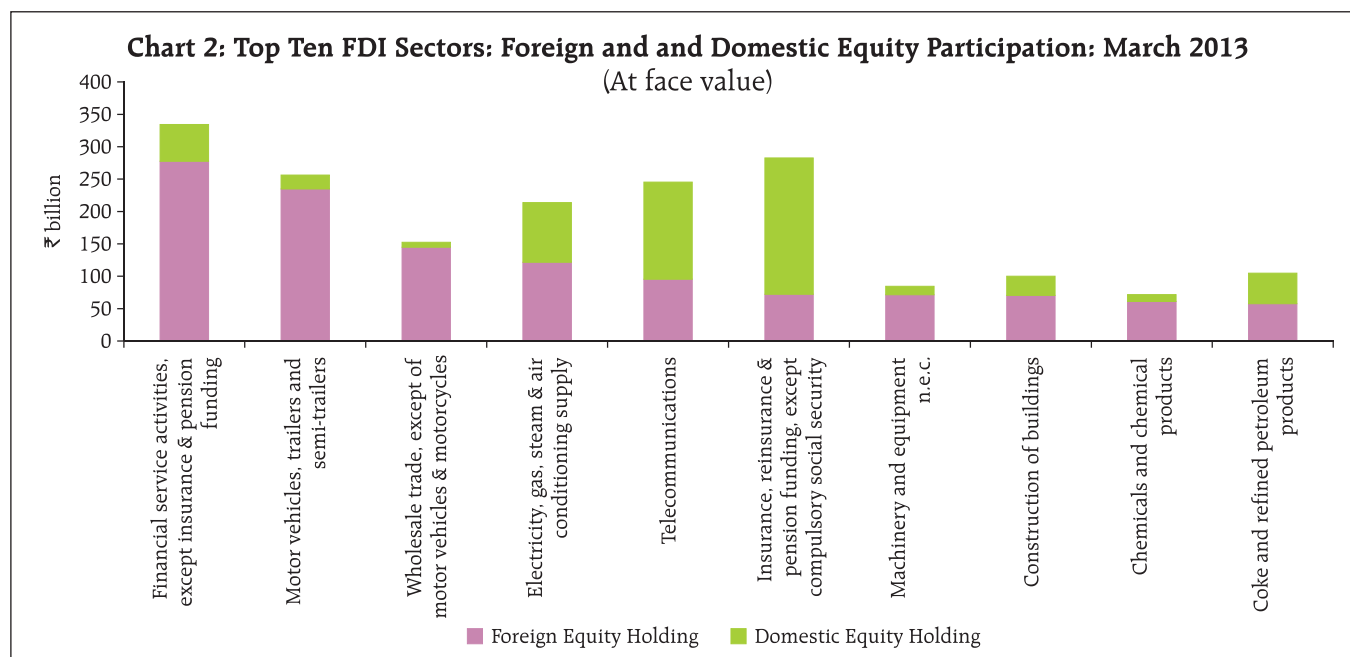


Table 2: Sectors-wise Distribution of FDI Equity & Debt: March 2013

At Market Value (₹ billion)

Activity	Equity	Debt	Total FDI
A. Agriculture-related, Plantations & Allied activities	37.0	0.8	37.8
B. Mining	470.7	4.4	475.1
C. Manufacturing	5,600.8	388.5	5,989.3
<i>of which:</i>			
Chemicals and chemical products	660.7	26.5	687.2
Tobacco products	627.3	0.0	627.3
Pharmaceuticals, medicinal chemical and botanical products	575.2	31.6	606.8
Food products	507.9	14.7	522.6
Machinery and equipment	483.9	23.7	507.6
Electrical equipment	409.3	15.3	424.6
Basic metals	312.5	5.6	318.1
Coke and refined petroleum products	242.7	17.2	259.9
D. Electricity, gas, steam and air conditioning supply	268.6	53.6	322.2
E. Water supply; sewerage, waste management and remediation activities	10.4	0.2	10.6
F. Construction	384.3	76.5	460.8
G. Services	4,474.9	207.2	4,682.1
<i>of which</i>			
Information and communication	1,805.9	47.4	1,853.3
Financial and insurance activities	1,618.3	10.5	1,628.8
Total	11,246.7	731.2	11,977.9

accounts with unrelated (third party) non-resident entities, but exclude inter-company debt transactions (e.g., borrowing and lending of funds between direct investors and subsidiaries, associates, parent companies, sister companies and branches), which are included under direct investment. Loans include

external commercial borrowings, financial leases and repurchase agreements, and other loans and advances. If the reporting DI company is a bank, non-resident deposits as well as any credit balance in VOSTRO accounts and overdue in NOSTRO accounts are included against currency and deposits under the head

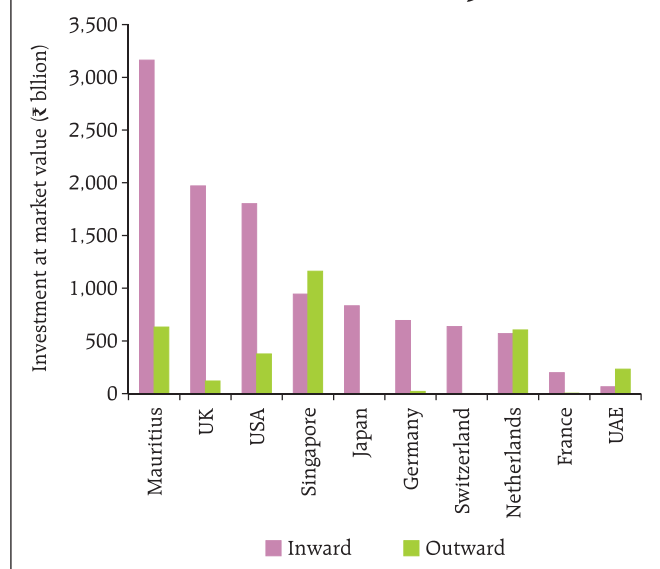
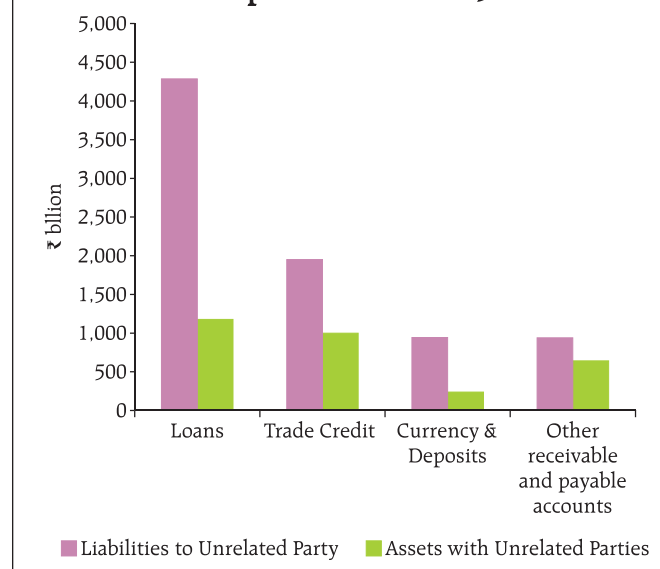
Chart 3: Direct Investment - Major Partner Countries: March 2013**Chart 4: Other Investment of Direct Investment Companies: March 2013**

Table 3: Activity-wise Sale and Purchase of 7528 Subsidiary Companies during 2012-13

(₹ billion)

Activity	Amount		% share in total	
	Sale	Purchase	Sale	Purchase
A. Agriculture-related, Plantations & Allied activities	43.7	27.4	0.4	0.4
B. Mining	148.3	90.9	1.3	1.2
C. Manufacturing	7,307.7	5,501.3	63.7	73.1
<i>of which:</i>				
Food products	401	268.3	3.5	3.6
Coke and refined petroleum products	933.6	893.2	8.1	11.9
Chemicals and chemical products	392.4	224.7	3.4	3.0
Pharmaceuticals, medicinal and chemical products	273.6	156.7	2.4	2.1
Basic metals	319.9	353.7	2.8	4.7
Computer, electronic and optical products	799.5	619.6	7.0	8.2
Electrical equipment	483.2	378.8	4.2	5.0
Machinery and equipment <i>n.e.c.</i>	466.6	295.3	4.1	3.9
D. Electricity, gas, steam and air conditioning supply	72	53	0.6	0.7
E. Water supply; sewerage, waste management and remediation activities	9.9	4.5	0.1	0.1
F. Construction	223.1	126.7	2.0	1.7
G. Services	3,659.2	1,720.9	32.0	22.9
<i>of which:</i>				
Wholesale and retail trade; repair of motor vehicles and motorcycles	949.4	840	8.3	11.2
Transportation and storage	150.1	75.3	1.3	1.0
Information and communication	1,922.3	524.4	16.8	7.0
Financial and insurance activities	129.9	43.3	1.1	0.6
Total	11,463.90	7,524.70	100.0	100.0

* Of the 7,528 subsidiary companies, 6,144 reported sales.

'outstanding liabilities'. Credit balances in NOSTRO accounts and debit balances in VOSTRO accounts are treated similarly under the head 'outstanding claims'. Miscellaneous receivables and payables (*e.g.*, accounts relating to interest payments in arrears, loan payments in arrears, outstanding wages and salaries, prepaid insurance premium, outstanding taxes) are also included here.

Other investment liabilities stood at ₹8,119.9 billion at end-March 2013, of which, loans and trade credit accounted for 52.8 per cent and 24 per cent, respectively. Corresponding overseas assets amounted to 37.6 per cent of these liabilities. Among similar overseas assets, loans and trade credit accounted for 38.5 per cent and 32.7 per cent, respectively.

VII. Sale / Purchase of subsidiary companies in India

Foreign Affiliates Trade in Services (FATS) statistics measure the commercial presence abroad by selling goods or services through foreign affiliates in the local economy. While FDI statistics include all foreign

interests amounting to 10 % or more of the voting power, FATS comprise all affiliates that are foreign-controlled (*i.e.*, single direct investor's holding is more than 50 % of equity). Thus, FDI and FATS reflect two related aspects of the role of multinationals in the global economy. While FDI involves monetary value of investment flows and stocks in companies where foreign investor has lasting interest, FATS relates to economic activity (mainly sales, expenditures, exports and imports) of companies, where foreign investor has majority stake.

7,528 of the 13,291 companies that reported in FLA census 2012-13 were foreign subsidiaries and they had 94.3 per cent FDI share in total equity in March 2013. Some of these companies did not report sale / purchase / export / import, as they could be at incipient stage or due to some other reasons. Exports amounted to 30.6 per cent of total sales whereas imports accounted for 44.1 per cent of total purchase of these companies.

Table 4: Activity-wise Export and Import of 7,528 Subsidiary Companies during 2012-13

(Amount in ₹ billion)

Activity	Amount		Share (per cent)	
	Export	Import	Export in Sales	Import in Purchase
A. Agriculture-related, Plantations & Allied activities	1.7	6.3	3.9	23
B. Mining	6.4	16.6	4.3	18.3
C. Manufacturing	1,539.6	2,642.70	21.1	48
<i>of which:</i>				
Food products	80.2	63.1	20	23.5
Coke and refined petroleum products	312.3	706.5	33.5	79.1
Chemicals and chemical products	84.9	115.3	21.6	51.3
Pharmaceuticals, medicinal and chemical products	91.5	82.3	33.4	52.5
Basic metals	39.8	186.4	12.4	52.7
Computer, electronic and optical products	190.1	492	23.8	79.4
Electrical equipment	90.4	146.9	18.7	38.8
Machinery and equipment <i>n.e.c.</i>	115.9	97.9	24.8	33.2
D. Electricity, gas, steam and air conditioning supply	0.6	6.3	0.8	11.9
E. Water supply; sewerage, waste management and remediation activities	1	0.3	10.1	6.7
F. Construction	24.1	18.5	10.8	14.6
G. Services	1,936.1	625.3	52.9	36.3
<i>of which:</i>				
Wholesale and retail trade; repair of motor vehicles and motorcycles	116.6	395.2	12.3	47
Transportation and storage	50.7	19.5	33.8	25.9
Information and communication	1510	160.5	78.6	30.6
Financial and insurance activities	61.1	5	47	11.5
Total	3,509.50	3,316.00	30.6	44.1

* Of the 7,528 subsidiary companies, 4,470 reported export.

Total sales, including exports, of 7,528 subsidiaries companies increased by 19.3 per cent to ₹11,463.9 billion in 2012-13 (₹9,606.2 billion in 2011-12). The share of manufacturing sector in total sales stood at 63.7 per cent whereas information and communication services accounted for another 16.8 per cent. The total value of their purchase, including imports, increased by 20.1 per cent to ₹7,524.7 billion in 2012-13 (₹6,263.1 billion in 2011-12). As such, their value of purchase to sales ratio remained around 65 per cent (Table 3).

At the aggregate level, exports of the 7,528 subsidiaries companies increased by 19.9 per cent to ₹3,509.5 billion in 2012-13 (₹2,927.6 billion in 2011-12). Information and communication services were the major export-dominated sector which accounted for 43 per cent of total exports of subsidiaries companies during 2012-13. Among major sectors, exports accounted for 78.6 per cent in 'information and communication companies' sales. Their imports

increased by 23.4 per cent to ₹3,316.0 billion in 2012-13 (₹2,686.7 billion in 2011-12). Major importing sectors in manufacturing sector included 'Coke and refined petroleum products' and 'Computer, electronic & optical products' (Table 4).

VIII. Conclusion

FDI in India is rising and Indian companies are also making larger investment abroad. The results presented here are at market value of investment. Since 97 per cent of the reporting companies are unlisted, they have followed OFBV method for arriving at market valuation of their investment. Manufacturing, 'financial and insurance services' and 'information and communication services' in India have major share in inward direct investment. Outward direct investment amounted to more than a third of inward direct investment of the reporting companies. Foreign trade had a substantial share in the business of subsidiary companies.