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

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 July-September 2009 and the half year April-September 2009.

I. India's Outward FDI Proposals[1]

I.1 Magnitude

During the quarter July-September 2009, 1,127 proposals amounting to US$ 4.8 billion were cleared for investments abroad in JVs and WOSs, as against 1,180 proposals amounting to US$ 5.6 billion during the corresponding period of the previous year (Table 1). During the quarter under review, the number of investment proposals registered a decline of 4.5 per cent over the corresponding quarter of the previous year and the amount of proposals showed a decline of 14.4 per cent. Equity accounted for 55.3 per cent of the amount of proposals for investment, followed by loans (29.1 per cent) and guarantees (15.6 per cent). During the corresponding quarter of the 2008-09, equity constituted 51.6 per cent of the amount of proposals for investment, while loans and guarantees formed 29.1 per cent and 19.3 per cent, respectively. Thus, during the second quarter of 2009-10, the share of equity in total amount of investment proposals showed a

* Prepared in the Division of International Trade, Department of Economic Analysis and Policy. The previous issue of the article was published in RBI Bulletin, October 2009.

[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: Proposals Cleared during July-September

Period/Route of Approval	Number of Proposals	Amount of Proposals (US $ million)			
		Equity	Loans	Guarantees	Total
1	2	3	4	5	6
2008-09					
July-September 2008					
I. Approval Route	–	–	–	–	–
II. Automatic Route	1180	2899	1634	1088	5621
Total (I+II)	**1180**	**2899**	**1634**	**1088**	**5621**
2009-10					
July-September 2009					
I. Approval Route	1	Neg.	–	–	Neg.
II. Automatic Route	1126	2659	1397	752	4809
Total (I+II)	**1127**	**2659**	**1397**	**752**	**4809**

Notes: 1. Data are provisional.
2. Neg.: Negligible.

rise, while that of loans remained the same and that of guarantees declined.

During the first half of 2009-10 (April-September 2009), 2,045 proposals amounting to US$ 7.5 billion were cleared for investments abroad in JVs and WOSs, as against 2,000 proposals amounting to US$ 8.9 billion during the corresponding period of the previous year (Table 2). While the number of proposals recorded an increase of 2.3 per cent over the corresponding

Table 2: India's Outward FDI: Proposals Cleared during April-September

Period/Route of Approval	Number of Proposals	Amount of Proposals (US $ million)			
		Equity	Loans	Guarantees	Total
1	2	3	4	5	6
2008-09					
April-September 2008					
I. Approval Route	2	38	–	–	38
II. Automatic Route	1998	5334	2225	1346	8905
Total (I+II)	**2000**	**5372**	**2225**	**1346**	**8943**
2009-10					
April-September 2009					
I. Approval Route	1	Neg.	–	–	Neg.
II. Automatic Route	2044	3868	2104	1554	7525
Total (I+II)	**2045**	**3868**	**2104**	**1554**	**7525**

Notes: 1. Data are provisional.
2. Neg.: Negligible.

period of the previous year, the magnitude of investment proposals showed a decline of 15.8 per cent. Equity accounted for 51.4 per cent of the proposals for investment, followed by loans (28.0 per cent) and guarantees (20.6 per cent). During the corresponding period of the previous year (April-September 2008), equity constituted 60.1 per cent of the proposals for investment, while loans and guarantees formed 24.9 per cent and 15.0 per cent, respectively. This reflects decrease in the share of equity in the financing of investment proposals during the first half of the current financial year as compared to the same period of the previous year.

Route-wise, during July-September 2009, most of the proposals cleared were through automatic route and only one proposal was through approval route[2]. During the corresponding quarter of the previous year, all the proposals cleared for investment were through automatic route and there was no proposal through approval route. Under automatic route, equity had the highest share (55.3 per cent), while under approval route all the proposals were under equity only. During April-September 2009, 99.95 per cent of the proposals involving almost 100 per cent of the amount were through automatic route and the remaining 0.05 per cent of the proposals involving small amount were through approval route. Under automatic route, equity occupied 51.4 per cent of the amount of investment proposals, whereas under approval route, the proposal was through equity only. During April-September 2008, 99.9 per cent of the proposals involving 99.6 per cent amount were through automatic route, while the balance 0.1 per cent of the proposals involving 0.4 per cent amount were through the approval route.

I.2 Sectoral Pattern and Direction

I.2.1 Sectoral Pattern

During the quarter July-September 2009, out of the total amount of outward FDI proposals cleared, 94.1 per cent of the amount was for the investments of US$ 5 million and above. Sector-wise distribution of these investment proposals shows that 41 per cent of the amount of proposals was in manufacturing, followed by non-financial services (8 per cent), trading (3 per cent), financial services (1 per cent) and the balance was in others (Table 3). During the corresponding period of the previous year, 94.4 per cent of the amount of cleared proposals was for investments of US$ 5 million and above, and of these, 46 per cent of the amount was in manufacturing, followed by non-financial services (10 per cent), trading (2 per cent), financial services (0.4 per cent) and the rest was in others. During July-September 2009, within the manufacturing sector, proposals were in the areas like electronic equipments, chemical and related products, cement and cement products, telecom products, software packages, information technology, construction work, power generation, drugs, pharmaceuticals and mining. Proposals in

[2] Indian residents are permitted to make investment in overseas joint ventures and wholly owned subsidiaries under automatic route and approval route. Under automatic route, all proposals are routed through designated authorised dealer banks, and these do not require prior approval from the Reserve Bank. Proposals not covered by the conditions under automatic route require the prior clearance of the Reserve Bank and come under approval route.

trading covered investments in areas such as textiles, gems and jewellery and wood and wood products. Investment proposals in financial services comprised services like those related to shares and securities, while those in non-financial services included shipping. The category of 'others' included miscellaneous activities such as transport equipments, plastic and plastic products, oil exploration and medical services. The pattern of investment proposals in the second quarter of 2009-10 revealed that the shares of manufacturing and non-financial services in the total amount of proposals declined, while those of trading and financial services increased.

The overall investment proposals during April-September 2009 indicated that about 91 per cent of the amount was for investments of US$ 5 million and above. Sector-wise, 43 per cent of the amount of proposals was in manufacturing, followed by non-financial services (10 per cent), trading (6 per cent), financial services (1 per cent) and the balance was 'others' (Table 3 and Chart 1). During April-September 2008, 43 per cent of the amount of proposals was in manufacturing, followed by non-financial services (11 per cent), trading (7 per cent), financial services (1 per cent) and the rest was others. The pattern of investment proposals during April-September 2009 revealed that manufacturing sector maintained its share in the total amount of proposals, while the shares of trading and non-financial services declined.

I.2.2 Direction (Recipient Countries)

Direction of investment proposals indicated that Singapore, Mauritius, Cyprus and the Netherlands together accounted for 64 per cent of the amount of proposals for outward FDI (US$ 5 million and above) during July-September 2009 (Table 4). During the corresponding quarter of the previous year, Mauritius, Singapore, the US and the UK together accounted for 61 per cent of the amount of proposals. Thus, Singapore and Mauritius continued to be the leading destinations for India's outward FDI. During April-September 2009, Singapore, Mauritius, the US, the Netherlands, the UAE and the UK together

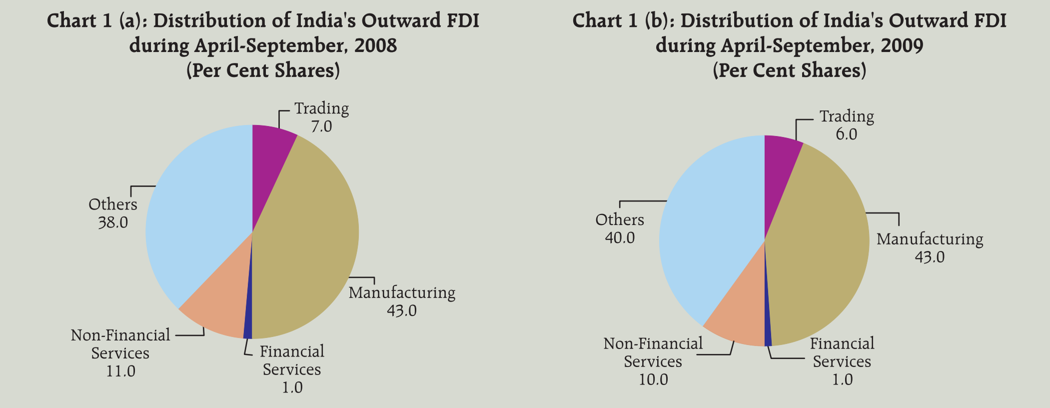
Table 3: Sector-wise Distribution of India's Outward FDI (Cleared Proposals)

(US $ million)

Sectors	2008-09		2009-10	
	July-September	April-September	July-September	April-September
1	2	3	4	5
Trading	122	585	132	422
Manufacturing	2464	3585	1867	2972
Financial Services	20	118	44	54
Non-Financial Services	539	912	369	672
Others	2164	3148	2112	2741
Total	**5309**	**8348**	**4524**	**6861**

Note: Figures relate to investments of US $ 5 million and above.

Chart 1: Distribution of India's Outward FDI (Cleared Proposals)



accounted for 72 per cent of the amount of proposals for outward FDI (US$ 5 million and above) (Table 4 and Chart 2). As against this, during the corresponding period of the previous year, Mauritius, Singapore, the Netherlands, the US, the UAE and the UK accounted for 74 per cent of the proposals. During April-September 2009, the shares of Singapore, Mauritius and the UAE in India's outward FDI have increased while those of the US, the Netherlands and the UK have declined.

Table 4: Direction of India's Outward FDI (Cleared Proposals)

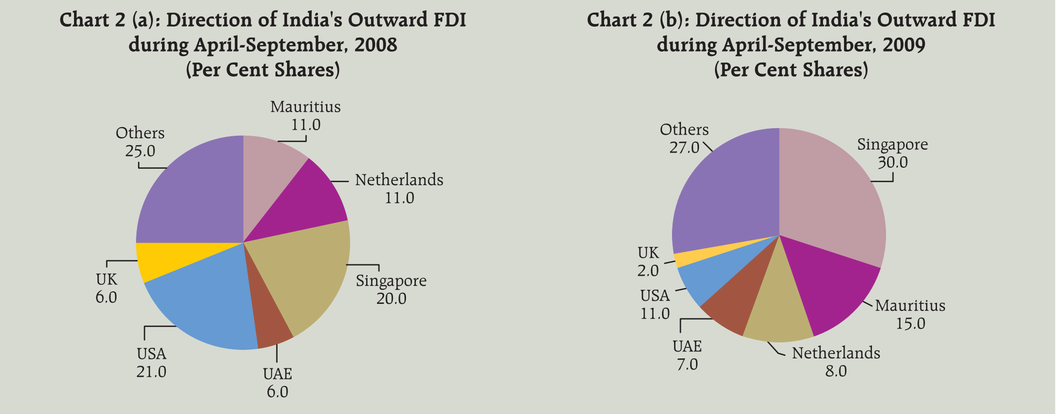
(US $ million)

Country	2008-09		2009-10	
	July-September	April-September	July-September	April-September
1	2	3	4	5
Singapore	684	1708	1680	2160
Mauritius	607	891	509	1060
USA	1422	1775	325	771
Netherlands	209	932	397	547
UAE	185	460	149	495
Cyprus	157	170	404	460
British Virgin Islands	32	82	395	454
UK	477	500	147	164
Switzerland	214	257	42	107
Spain	40	40	97	97
Others	1239	1605	494	862
Total	**5265**	**8420**	**4639**	**7177**

Notes: 1. Figures relate to investments of US $ 5 million and above.

2. The totals in this Table may differ from those given in Table 3 as some of the country-wise proposals having an individual amount of US$ 5 million and above, may involve more than one sector and *vice versa.*

Chart 2: Direction of India's Outward FDI (Cleared Proposals)



II. India's Outward FDI: Actual Outflows[3]

II.1 Magnitude of Outflows

Actual outward FDI in JVs and WOSs during the quarter July-September 2009 stood at US$ 3.3 billion, showing a decline of 7.3 per cent over US$ 3.5 billion during the corresponding quarter of the previous year (Table 5). Outflows under equity showed a decline of 31.3 per cent while those under loans showed a growth of 90.2 per cent. Of the total investment amount, 60 per cent was in the form of equity and the remaining 40 per cent was in loans. There was no invocation of guarantee during the period. During July-September 2008, 80 per cent of the amount of outflows was in the form of equity and the rest was in loans, while there was no invocation of guarantee. Thus, during the quarter under review, the share of equity in actual outward FDI has decreased significantly. Still, equity continued to be the dominant mode of financing the investment proposals. Moreover, during July-September 2009, the proportion of 'actual investment outflows' to 'cleared investment proposals' increased to 68 per cent from 63 per cent a year ago. During the period April-September 2009, the actual outward FDI in JVs and WOSs stood at US$ 5.8 billion, which showed a decline of 16.4 per cent over the investment of US$ 6.9 billion during the corresponding period of the previous year (Table 5). Of the total amount of investments, 67 per cent was in the form of equity, 32 per cent was loans and the rest was invoked guarantees. Against this, during April-September 2008, 79 per cent of the amount of investments was in the form of equity and the remaining

[3] 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 5: India's Outward FDI - Actual Outflows

(US $ million)

Period	Equity	Loans	Guarantees Invoked	Total
1	2	3	4	5
2008-09				
July-September 2008	2830	695	–	3525
April-September 2008	5438	1441	–	6879
2009-10				
July-September 2009	1945	1322	–	3266
April-September 2009	3880	1848	22	5750

Note: Data are provisional.

21 per cent was loans, while there was no invocation of guarantee. Thus, during April-September 2009, the share of equity has gone down in the outward investments with the amount of equity showing a negative growth of 28.6 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

(contd.)

Annex I:
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.