Foreign Direct Investment in India

February 7, 2007
Confidence Indices....

Secular Trend of Increase
India has progressively moved ahead in ranking and is presently the 2nd most attractive FDI location in the world.
Attractive Location Across All Broad Sectors....

Highly attractive location for Manufacturing

Source: A.T. Kearney
Indian companies had a higher Return on Equity than other countries in Asia

Source: JP Morgan
Operations in India ........ Profits

FICCI FDI Survey 2005 on the basis of response from 102 Companies having their operations in India.

- 70% Making profits in operation
- 69% Achieve profitability targets
- 83% Utilize 70% of capacities
## Indian Subsidiaries Outshine Overseas Parents....

- Better financial performance & accounting for a greater proportion of global revenues
- Trends visible in many sectors – IT, Auto, Pharma, Consumer Durables & FMCG

**Few examples:**

<table>
<thead>
<tr>
<th>Overseas’ Parent</th>
<th>Sales Growth (%)</th>
<th>Indian Subsidiary</th>
<th>Sales Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unilever</td>
<td>8.6</td>
<td>Hindustan Lever Ltd</td>
<td>11.6</td>
</tr>
<tr>
<td>Siemens Germany</td>
<td>14</td>
<td>Siemens India</td>
<td>56</td>
</tr>
<tr>
<td>ABB</td>
<td>2.5</td>
<td>ABB India</td>
<td>32</td>
</tr>
<tr>
<td>Colgate</td>
<td>4.5</td>
<td>Colgate India</td>
<td>26</td>
</tr>
</tbody>
</table>

MNCs consolidating shareholding in their Indian subsidiaries
Gains in World’s Stock Exchanges....
Liberal Policy Framework

FDI Policy Liberalisation Path

Pre 1991
- Allowed selectively up to 40%

1991
- Up to 51% under Automatic Route for 35 Priority Sectors

1997
- Up to 74/51/50% in 111 Sectors under Automatic Route
- 100% in Some Sectors

2000
- Up to 100% under Automatic Route in all Sectors except a Small Negative List

Post 2000
- More Sectors Opened
- Equity Caps Raised
- Conditions Relaxsed
- FEMA Enacted

Industrial Policies Liberalisation

Pre 1991
- 806 Items reserved forSSI
- Controlled Industrial Licensing, Regulated Exchange Regime & Restricted Import Policy

1991 - 1997
- Major De-licensing Introduced except for 18 Sectors
- Peak Duty 150%
- Import De-egulated
- While Goods De-licenssed (1994)

1997 - 2000
- Auto/Consumer Electronics De-licenssed 1997
- FEMA 1999 Introduced

2000
- Industrial Licensing in 4 Sectors only
- SSI Reserved Items - 326
- IPR Regime WTO Compatible
- Trade Policy & Tech Transfer Open
- Competition Law Enacted
- Overseas Investments Open
- Customs Tax Rate 12.5%
- VAT Introduced
- Corporate Tax 30%
Investing in India – Entry Routes

Investing in India

Automatic Route

**General rule**
- No prior permission required
- Only information to the Reserve Bank of India within 30 days of inflow/issue of shares

Prior Permission (FIPB)

**By exception**
- Prior Government Approval needed
- Decision generally within 4-6 weeks
FDI Policy .... Prohibited activities

- Retail except single brand retailing allowed upto 51% with FIPB approval
- Atomic energy
- Lottery business
- Betting and Gambling
**Manufacturing**

- 100% FDI permitted in all activities under automatic route except:
  
  - Cigar and cigarettes of tobacco - **FIPB**
  
  - Products reserved for Small Scale Sector
    
    - FDI less than 24% under automatic route
    - FDI beyond 24% - **FIPB** subject to export obligation
  
  - Defence products
    
    - FDI upto 26% - **FIPB** subject to licensing of Arms and Ammunitions
FDI Policy for Industry Sector..... Fully permitted

Mining
• Coal – FDI upto 100% as per Coal Mines (Nationalization) Act 1977
• Diamond, Gold, Silver, Minerals – upto 100% under automatic route as MMRD Act
• Atomic minerals – upto 74% in JV with PSUs – FIPB

Electricity
• FDI upto 100% under automatic route in Generation, Transmission, Distribution and Power Trading as per Electricity Act 2003
FDI Policy for Service Sector.... Largely permitted

**Upto 26%**
- FM Broadcasting (20%) - FIPB
- Uplinking News and CATV Channel - FIPB
- Print Media – News Papers & Periodicals - FIPB
- Insurance - Automatic

**Upto 49%**
- Broadcasting - Cable Network, DTH, Setting up hardware - FIPB
- Stock Exchanges - FIPB
- Air Transport Services - Automatic
FDI Policy for Service Sector…. Largely permitted

Upto 74%

• Telecommunication - FIPB (Beyond 49%)
• Private sector banks - Automatic

Upto 100%

• Development of existing airports - FIPB (Beyond 74%)
• Publishing scientific magazines - FIPB
• Courier services - FIPB
FDI Policy for Agriculture Sector… Largely Restricted

- Floriculture, Horticulture, Development of seeds, Animal husbandry, Pisciculture, Cultivation of vegetables, Mushrooms under controlled condition allowed 100% under automatic route

- Tea plantation – 100% with FIPB and divestment of 26% in 5 years

- Other activities not allowed.
FDI Inflows…Robust Growth
FDI Inflows- Sector-wise

- **Electrical equipment** including software moves to overall 2nd position in Nov 2006.
- **Services sector** shows spurt in growth and the top sector attracting FDI – moving up from the third position.
- Spurt in FDI in **Real Estate** causes the construction sector to the third position in Nov 2006.
FDI – Country wise

- Mauritius continues to lead
- USA retains its position as 2nd most important source country
- Spurt in FDI from Singapore
Investment Promotion and Facilitation

**Promotion**
- Holding ‘Destination India’ and ‘Invest India’ events abroad. Events were held at France, Japan, UK, Finland, Taiwan, Italy, USA, and Davos this year.
- Publications, Chat room and Website

**Facilitation**
- Country Focus Desks
- Foreign Investment Implementation Authority
- Policy review comprising of review of route, Equity caps and procedures.
India Japan Investment Relations

• Japan 4th largest investor: US$ 2.18 billion (November 2007)
  – US$ 168 million in 2005
  – US$ 104 million in 2006 (Jan - Sept)
• Top sectors
  – Transportation (55%), Electrical Equipment (7%),
• About 350 Japanese companies present in India.
• Japan Global Investments
  – US$31 billion in 2004
  – US$46 billion in 2005
  – Around US$10 billion in East Asia
• Japan cell set up in to facilitate establishment and operation of Japanese investments.
Japanese Companies in India
<table>
<thead>
<tr>
<th>Company Name</th>
<th>FDI (US$ million)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maruti Udyog</td>
<td>699</td>
<td>New factory for car production &amp; diesel engine plant</td>
</tr>
<tr>
<td>MCC PTA</td>
<td>364</td>
<td>Increasing capacity of Haldia plant</td>
</tr>
<tr>
<td>Toyota Motor Corporation</td>
<td>128</td>
<td>Increasing its capacity</td>
</tr>
<tr>
<td>Honda</td>
<td>214</td>
<td>Increasing its capacity and building new factory</td>
</tr>
<tr>
<td>Sakata Inx</td>
<td>54</td>
<td>Increasing its capacity</td>
</tr>
</tbody>
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