

Overseas investment by India in FY21

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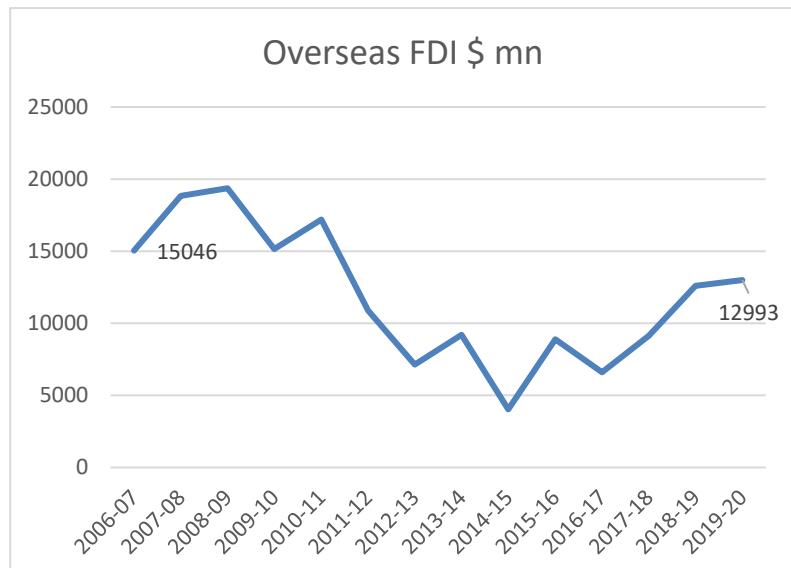
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FDI into the country has been a subject of interest as it strengthens the balance of payments. In FY20 gross inflows were \$ 76 bn which after adjusting for repatriation of around \$ 18 bn meant \$ 56 bn of foreign direct investment. This was the highest achieved in any year.

On the other side Indian companies too have been active in making overseas investment which in turn has been quite volatile in the last decade or so. In FY20 around \$ 13 bn was invested which was the second successive year of double-digit overseas investment since FY13. However, such investment had peaked at \$ 18-19 bn in FY08 and FY09. Therefore, there has not been any clear pattern of such investment which is dependent on both the opportunities in other countries as well as the expansion plans of the domestic companies.



Source: RBI

As can be seen in the graph above, there has been a tendency for overseas foreign investment to decline post FY11 and has again increased post FY17. The standard arguments which go as motivations for such investment are:

- Market access in reverse where emerging market players make inroads into developed countries.
- Horizontal or vertical integration
- Access to technology
- Provision of services to wider geography especially in the context of IT related activities.
- Access to natural resources in countries in Africa for instance.
- Leveraging local strengths to grow business.

- Host country policies being conducive to foreign investment. Several nations especially in the developing world have been focusing on improving their doing business environment.

Overseas investment in 8M-FY21

Total investment under both the approval and automatic routes was \$ 12.25 bn for the first 8 months of the year, which has been in sync with steady outflows witnessed in the last couple of years. The interesting observation here is that of this total of \$ 12.25 bn, the actual outflow would be \$ 6.35 bn - \$ 2.97 bn through equity and \$ 3.38 bn in loan commitments while the balance \$ 5.90 bn would be in the form of guarantees. The latter would result in an outflow only in case of a default and hence will be a contingent liability on the books of the investing company.

Where does the investment typically go?

In the current financial year, there was concentration in three sectors:

- Financial, insurance and business services (\$ 3.89 bn)
- Manufacturing (\$ 3.45 bn)
- Agriculture and Mining (\$ 1.90 bn)
- Wholesale, retail trade and restaurants and hotels (\$ 1.73 bn)

These 4 segments accounted for around 90% of total overseas investments. The only other sector to register proposals of above half a billion was agriculture and mining.

Also, in terms of **country distribution** there was concentration in certain geographies. The dominant destinations were:

- USA (\$ 2.36 bn)
- Singapore (\$ 2.07 bn)
- Netherlands (\$ 1.50 bn)
- British Virgin Islands (\$ 1.37 bn)
- Mauritius (\$ 1.30 million)

These five countries accounted for nearly 70% of total investment.

Further, the total of \$ 12.25 bn was largely in wholly owned subsidiaries (WOS) at \$ 9.25 bn with a share of 76% while the balance was in joint ventures (\$ 3.0 bn)

The leading companies in terms of investment are listed below. As can be seen below, 11 companies each with investment of above \$ 200 mn had a sum of \$ 6.18 bn in this eight-month period which is around 50% of the total.

Top overseas investors (\$ mn)

Name	Investment
ONGC Videsh	1852
JSW Steel	865
Haldia Petrochemicals	599
HCL Technologies	587
Mahindra & Mahindra	551
Adani Properties	391
Lupin	382
Piramal Enterprises	312
Cadila Healthcare	222
Infosys	221
Tata Steel	200

Source: RBI

Concluding remarks

The trend towards internationalization of Indian investment has picked up and will continue to grow in the coming years as companies seek to look for opportunities in overseas markets. Investing in overseas markets helps to diversify business revenue and hence seen to complement domestic efforts. The performance so far this year has been impressive given the pandemic as it does reflect that India Inc has continued with its global investment plans. The volume of such investments has never exceeded \$ 20 bn and hence from the balance of payments angle should not be a concern. In fact, such outflows on a regular basis will help to stabilize the appreciating rupee in the near term.

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