INVESTMENT SCENARIO IN INDIA & GOVERNMENT INITIATIVE

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ABSTRACT

Emerging strong even during the scariest phase of global financial meltdown, India has become one of the favorite investment destinations for the foreign investors across the globe. The investment scenario in India is getting better and better with each passing day due to high confidence level of the investors. Today, India is considered the 4th biggest economy in the world. Its impressive GDP rate, especially in the field of purchasing power, has catapulted it to second position among all the developing nations[1.]

Keywords: *Foreign Direct Investment (FDI), Foreign Institutional Investment (FII), Domestic Investment, Indian Investments.*

Objective: *To analyse thoroughly the Investment scenario of the country both in term,s of the current status as well as the proposed, various Government Initiatives regarding the same and the positive as well as negative impacts of the same.*

INTRODUCTION

INVESTMENT IN INDIA

Over the years, India has emerged as one of the fastest growing economies in the world and an attractive investment destination driven by economic reforms and a large consumption base. It was the fastest growing major economy in 2017-18 with its GDP growing 7.2 per cent and reaching Rs 170.95 trillion (US$ 2.47 trillion). It is expected to grow at 7 per cent in 2018-19. A host of factors has enabled this growth, which includes a highly developed financial system, infrastructure requirements and proactive government regimes. Domestic and foreign investments both have had made an impact on the country’s growth. Between April 2000 and FY 2018, India has received equity inflows of US$ 409.15 billion through foreign direct investments (FDI). Foreign Portfolio/Institutional Investors (FPI/FII) have invested around Rs 12.51 trillion (US$ 171.81 billion) in India between FY02-18.

- Proceeds through Initial Public Offers (IPO) in India reached US$ 5.5 billion in 2018 and US$ 0.9 billion in Q1 2018-19.
- The country is on a fast pace growth and is expected to become a US$ 5 trillion economy by 2022. Going by the estimates of Government of India, the country will need investments of US$ 4.5 trillion to build sustainable infrastructure by 2040.
- Exchange Rates Used: INR 1 = US$ 0.0154 USD as in March, 2018

MAIN COMPONENTS

- Foreign Direct Investment
- Foreign Institutional Investment
- Domestic Investments
- Indian Investments

FOREIGN DIRECT INVESTMENT (FDI)

Foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government's favorable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

Current stats:

According to Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows in India in 2018-19 stood at US$ 44.37 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

Data for 2018-19 indicates that the services sector attracted the highest FDI equity inflow of US$ 9.16 billion, followed by computer software and hardware – US$ 6.42 billion, trading – US$ 4.46 billion and telecommunications – US$ 2.67 billion. Most recently, the total FDI equity inflows for the FY 2018-19 touched US$ 3.60 billion.

During 2018-19, India received the maximum FDI equity inflows from Singapore (US$ 16.23 billion), followed by Mauritius (US$ 8.08 billion), Netherlands (US$ 3.87 billion), USA (US$ 3.14 billion), and Japan (US$ 2.97 billion).

Investments/ developments

India emerged as the top recipient of Greenfield FDI Inflows from the Commonwealth, as per a trade review released by The Commonwealth in 2018.
Some of the recent significant FDI announcements are as follows:

- In March 2018, VMware, a leading software innovating enterprise of US has announced investment of US$ 2 billion in India between by 2023.
- In August 2018, Bharti Airtel is expected to receive approval of the Government of India for sale of 20 per cent stake in its DTH arm to an America based private equity firm, Warburg Pincus, for around $350 million.
- In June 2018, Idea's appeal for 100 per cent FDI is expected to be approved by Department of Telecommunication (DoT) followed by its Indian merger with Vodafone making Vodafone Idea the largest telecom operator in India
- In May 2018, Wal-Mart may acquire a 77 per cent stake in Flipkart for a consideration of US$ 16 billion. .
- In February 2018, Ikea announced its plans to invest up to Rs 4,000 crore (US$ 612 million) in the state of Maharashtra to set up multi-format stores and experience centre's.
- Kathmandu based conglomerate, CG Group is looking to invest Rs 1,000 crore (US$ 155.97 million) in India by 2020 in its food and beverage business, stated Mr. Varun Choudhary, Executive Director, CG Corp Global.
- International Finance Corporation (IFC), the investment arm of the World Bank Group, is planning to invest about US$ 6 billion through 2022 in several sustainable and renewable energy programmers in India.

Government Initiatives

As of February 2018, the Government of India is going to start working on a road map to achieve its goal of US$ 100 billion worth of FDI inflows.

In February 2019, the Government of India will be releasing the Draft National e-Commerce Policy which encourages FDI in the marketplace model of e-commerce. Further, it states that the FDI policy for e-commerce sector has been developed to ensure a level playing field for all participants.

Government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds.

In December 2018, the Government of India will be revising the FDI rules related to e-commerce. As per the rules 100 per cent FDI is allowed in the marketplace based model of e-commerce. Also, sales of any vendor through an e-commerce marketplace entity or its group companies have been limited to 25 per cent of the total sales of such vendor.

In September 2018, the Government of India will be releasing the National Digital Communications Policy, 2018 which envisages increasing FDI inflows in the telecommunications sector to US$ 100 billion by 2022.

In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval. The investment cannot exceed 49 per cent directly or indirectly.

No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services. In September 2017, the Government of India asked the states to focus on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.

The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of Department of Revenue and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application. The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defense under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment. In January 2018, Government of India allowed 100 per cent FDI in single brand retail through automatic route.

FOREIGN PORTFOLIO/INSTITUTIONAL INVESTORS (FPI/FII)

FPI/ FII have been one of the biggest drivers of India's financial markets and have invested around Rs 12.51 trillion (US$ 171.81 billion) in India between FY02-18. Highly developed primary and secondary markets have attracted FIIs/FPIs to the country. Investments by FIIs/FPIs in India are regulated by the Securities and Exchange Board of India (SEBI) while the ceilings on such investments are maintained by the Reserve Bank of India (RBI). Following are the few types of FIIs investing in India:

- **Hedge Funds**
- **Foreign Mutual Funds**
- **Sovereign Wealth Funds**
- **Pension Funds**
- **Trusts**
- **Asset management Companies**
- **Endowments, University Funds, etc**.

The total market capitalization (M-cap) of all the companies listed on Bombay Stock Exchange (BSE) rose to a record high level of Rs 142.25 trillion (US$ 1.95 trillion) in 2017-18.

Recent Developments/Investments

Some of the recent significant FII/FPI developments are as follows:

- By March 2019, initial public offer (IPO) of India's first real estate investment trust (REIT) is expected to be subscribed more than 2 times.
- In February 2019, net inflows from foreign portfolio investors (FPI) in India is expected to reach a 15-month high of approx.Rs 17,000 crore (US$ 2 billion).
- Union Bank of Switzerland (UBS) will be maintaining its Nifty target at 9,500 by March 2019.
- Morgan Stanley expects the BSE Sensex to reach 42,000 by December 2019 end.
- In September 2018, Embassy Office Parks has planned to file the papers for India's first Real Estate Investment Trusts (REIT).

Government/Regulatory Initiatives

- A report will be filed by a panel appointed by the Securities and Exchange Board of India (SEBI) on December 04, 2018 that will propose the direct overseas listing of Indian companies and other regulatory changes.
- By September 2018, the Securities and Exchange Board of India (SEBI) is expected to relax the Know-Your-Client (KYC) requirement for Foreign Portfolio Investors (FPIs).
- By September 2018, SEBI is supposed to allow Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) to start commodity derivate segments.
- SEBI has also allowed foreign entities to participate in the commodity derivatives segment of Indian stock exchanges, to help them hedge their exposures. It has also proposed to allow Non Resident Indians (NRIs) to invest through FPI route after meeting specific KYC norms.
- In August 2018, SEBI will be reducing the timeline for public issue of debt securities from 12 days to six days.
- Foreign Portfolio Investors are also allowed to invest up to 25 per cent in Category III Alternative Investment Funds (AIF) in India. Different types of funds such as hedge funds, Private Investment in Public Equity (PIPE) funds, etc. are operating in India as Category III AIFs.
- Investments by FPIs have also been allowed in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trust (InvITs).

DOMESTIC INVESTMENT

The Government of India has taken significant initiatives to strengthen the economic credentials of the country and make it one of the strongest economies in the world. India is fast becoming home to start-ups focused on high growth areas such as mobility, e-commerce and other vertical specific solutions - creating new markets and driving innovation.

Rise in domestic investments has been one of the biggest contributors to the India growth story and the public and private sector have both enabled and sustained these investments. Following are the various investors driving the domestic investments in the country:

- **Government/Public Sector Enterprises' Capital Expenditure**
- **Private Sector Enterprise**
- **Banks/Financial Institutions/Domestic Institutional Investors**
- **Retail Investors**

Market Activity

India's Gross Fixed Capital Formation at constant prices was Rs 40.88 lakh crore (US$ 561.44 billion) in 2017-18. The Government of India forecasts capital expenditure to increase by 30 per cent from Rs 3 lakh crore (US$ 41.2 billion) in 2017-18 to Rs 3.9 lakh crore (US$ 53.6 billion) in 2019-20. Investments by Domestic Institutional Investors (DIIs) reached Rs 97,739.02 crore (US$ 14.00 billion) in 2018. The total number of investor accounts with active mutual fund houses in India is expected to rise to a record 81.7 million at the end of February 2019, according to the data from Association of Mutual Funds in India (Amfi).

India has emerged as one of the strongest performers in terms of deals related to mergers and acquisitions (M&A). The M&A activity in India reached record US$ 129.4 billion in 2018 while private equity (PE) and venture capital (VC) investments reached US$ 20.5 billion.

Investments/developments

With the improvement in the economic scenario, there have been quite a few investments in various sectors along with M&A in India. Some of them are as follows:

- Assets under management (AUM) by mutual funds in India is expected to reach Rs 23.01 trillion (US$ 334.20 billion) in February 2019.
- Indian automobile industry start-ups received investments of US$ 491 million in 2018, led by Essel Green Mobility's US$ 300 million investment in Zipgo.
- As by March 2019, the Oil and Natural Gas Corp (ONGC) is planning to invest over US$ 500 million in its flagship asset, Mumbai High.
- By March 2019, the Tata group will enter the airports sector in India by agreeing to invest Rs 8,000 crore (US$ 1.16 billion) in the GMR group along with two other investors.
- Oyo Rooms will invest about US$ 200 million towards capital expenditure, technology and leadership in its India and South Asia business over 2019.
- Proceeds through Initial Public Offers (IPO) in India reached US$ 5.5 billion in 2018 and US$ 0.9 billion in Q1 2018-19.
- Total number of deal activity in India reached 1,640 in 2018.
- Mergers and acquisitions (M&A) activity in the country has reached US$ 71.3 billion in 2018.
- Companies in India have raised around US$ 5.52 billion through Initial Public Offers (IPO) in between 2017-2018.
- In November 2018, assets managed by mutual funds is expected to reach a high of Rs 24.03 trillion (US$ 344.31 billion).
- Investments by Alternative Investment Funds (AIFs) increased 90 per cent year-on-year between Jan-Mar 2018 to Rs 74,893 crore (US$ 10.26 billion).
- Reliance Industries Limited (RIL) is planning to invest over Rs 10,000 crore (US$ 1.37 billion) in Uttar Pradesh and Rs 5,000 crore (US$ 687 million) in West Bengal over the next three years.
- Vedanta Resources Plc is planning to invest about US$ 9 billion in India over the next few years to expand its hydrocarbons and metals and mining businesses.
- Coal India (CIL) plans to invest US$ 20-25 billion in next five years to achieve annual output of 1 billion tonnes by 2019-20.
- Reliance Industries Ltd (RIL), along with its partner BP plc, has decided to invest US$ 6 billion for the development of new R-series gas fields in the KG-D6 block.

Government Initiatives

The Government of India has taken several initiatives in various sectors to improve the overall economic condition in the country. Some of these are:

- In February 2019, the Government of India will approve the National Policy on Software Products – 2019, to develop the country as a software hub.
- The National Mineral Policy 2019, National Electronics Policy 2019 and Faster Adoption and Manufacturing of (Hybrid) and Electric Vehicles (FAME II) will also be approved by the Government of India in 2019.
- In November 2018, the Government of India will launch a support and outreach programme for the Micro, Small and Medium Enterprises (MSME) sector. It involves 12 key initiatives which will help the growth,

expansion and facilitation of MSMEs across the country.

- In September 2018, the National Digital Communications Policy (NDCP) is planned to be approved by Government of India with the objectives of attracting US$ 100 billion in investments, improved broadband connectivity and generation of four million jobs in the telecom sector.
- Securities and Exchange Board of India (SEBI) doubled the maximum investment by angel funds in venture capital undertakings to Rs 10 crore (US$ 1.37 million).
- The Government of India has decided to invest Rs 2.1 trillion (US$ 28.8 billion) to recapitalise public sector banks over the next two years and Rs 7 trillion (US$ 95.9 billion) for construction of new roads and highways over the next five years.
- India and Japan have joined hands for infrastructure development in India's north-eastern states and are also setting up an India-Japan Coordination Forum for Development of North East to undertake strategic infrastructure projects in the northeast.
- Union Ministry of Shipping plans to raise US$ 15.8 billion in dollar equivalents at the interest rate of three per cent, for developing ships, building ports and improving inland waterways.
- Ministry of environment and forests has granted environment clearance for 35-km coastal road connecting south and north Mumbai. The coastal road project is part of the US$ 9.52 billion transport infrastructure projects being undertaken by the state government and is expected to require an investment of US$ 1.34 billion.
- The Government of India will provide soft loan of US$ 1 billion to sugar mills to help them clear part of their US$ 3.33 billion dues to farmers. The money shall be directly credited to the farmer’s bank accounts through the Pradhan Mantri Jan-Dhan Yojana.

INDIAN INVESTMENT ABROAD

Outbound investments from India have undergone a considerable change not only in terms of magnitude but also in terms of geographical spread and sartorial composition. Analysis of the trends in direct investments over the last decade reveals that while investment flows, both inward and outward, were rather muted during the early part of the decade, they gained momentum during the latter half.

There has been a perceptible shift in Overseas Investment Destination (OID) in last decade or so. While in the first half, overseas investments were directed to resource rich countries such as Australia, UAE, and Sudan, in the latter half, OID was channeled into countries providing higher tax benefits such as Mauritius, Singapore, British Virgin Islands, and the Netherlands.

Indian firms invest in foreign shores primarily through Mergers and Acquisition (M&A) transactions. With rising M&A activity, companies will get direct access to newer and more extensive markets, and better technologies, which would enable them to increase their customer base and achieve a global reach.

Market size

According to the data provided by Reserve Bank of India (RBI), India’s outward Foreign Direct Investment (OFDI) in equity, loan and guaranteed issue stood at US$ 11.33 billion in 2017-18 and is expected to be around US$ 1.69 billion in February 2019.

Investments/Developments

In a recent development, UK announced that India has become the third largest source of FDI for them as investments increased by 65 per cent in 2015 leading to over 9,000 new and safeguarded jobs. Some of the major overseas investments by Indian companies were:

- In March 2019, Infosys is planning to announce that it would acquire 75 per cent stake in ABN AMRO’s subsidy.

- In March 2019, Sun Pharmaceuticals will raise its stake Russia's PJSC Biosintez to 96.96 per cent.
- In February 2019, auto components major JBM Group is expected to purchase a majority stake in Linde-Wiemann, a German structural components and assemblies producer.
- Hospitality start-up Oyo is planning to invest US$ 1.2 billion for its expansion.
- Ashok Leyland has set up a new facility in Dhaka, Bangladesh in a joint venture with IFAD Autos. The sales, service and spares facility is spread over 138,000 square feet and is going to cater to the entire range of Ashok Leyland vehicles.
- Indian IT major Infosys is going to set up a technology and innovation hub in Texas and hire 500 American workers by 2020.
- Tyre Manufacturer Balkrishna Industries is going to set up a US$ 100 million production facility in US. The plant will have an annual production capacity of 20,000 MT and will serve the entire American region.
- Pharmaceutical major Cipla's subsidiary, Cipla Maroc, opened a manufacturing plant for metered-dose inhalers in Ain Aouda in the Rabat region in Morocco. The facility is spread over a total area of 4,000 square meters and has a capacity of 1.5 million HFA metered-dose inhalers.
- Apollo Tyres has commenced commercial production of its truck tyres at its facility in Hungaria. This is the company's second facility in Europe and has an installed capacity of 14,000 passenger car tyres a day and 1,200 truck tyres a day.
- Pidilite Lanka Pvt Ltd, ahesives manufacturer Pidilite's joint venture (JV) company with Macbertan Pvt Ltd, unveiled a new world class manufacturing plant in Sri Lanka. The plant is spread over an area of four acres and will help the company enhance its market share in the country.
- India's cinema companies are planning to foray into the Middle East and North Africa (MENA) region. Carnival Cinema's is planning to open 500 screens in Saudi Arabia over the next five years. Also, PVR Cinemas has signed a memorandum of understanding (MoU) with Dubai-based Al-Futtaim Group to explore opportunities for entering the cinema business in the MENA region.
- Thirumalai Chemicals' subsidiary in Malaysia is going to enhance its Maleic Anhydride production capacity to 65,000 tons per year. Further, Thirumalai Chemicals is exploring the possibility of setting up a Greenfield facility for production of food ingredients in US, which will serve the North American and European markets.

Government initiatives

- Government of India's Public Sector Undertakings (PSUs) have invested over US$ 15 billion in Russia's oil and gas projects and are planning to undertake more investments in the country's oil and gas fields.
- The RBI, encouraged by adequate forex reserves, has relaxed the norms for domestic companies investing abroad by doing away with the ceiling for raising funds through pledge of shares, domestic and overseas assets. In addition to joint ventures (JVs) and wholly owned subsidiaries (WOSs), the central bank has announced similar concessions for pledging of shares in case of step down subsidiary.
- The RBI also liberalised/ rationalised guidelines for foreign investments abroad by Indian companies. It raised the annual overseas investment ceiling to US$ 125,000 from US$ 75,000 to establish JV and wholly owned subsidiaries. The government's supportive policy regime complemented by India Inc.'s experimental outlook could lead to an upward trend in OFDI in future.

- The Union Cabinet has permitted ONGC Videsh to acquire 11 per cent stake in Russian oil company JSC Vankorneft from Rosneft Oil Co. for US$ 930 million.

CONCUSION

The rate of gross domestic investment in the Indian economy, measured by the ratio of gross capital formation (GCF) to GDP at current prices had risen to a peak of 39.8 per cent in 2010-11 before a prolonged slowdown set in taking it down to 30.9 per cent in 2016-17. A modest recovery took hold in the following year. Although data on gross domestic investment are not yet available for 2018-19, movement in its constituents suggest that the uptick could not be sustained. While the ratio of real gross fixed capital formation (GFCF) to GDP increased to 32.3 per cent in 2018-19 from 31.4 per cent in 2017-18, this upswing that started in (Quarter 3:2017-18) may have been a bounce-back from the transient impact of demonetisation and uncertainties related to the implementation of the GST that lasted for five consecutive quarters. However, growth in fixed investment is feared to be collapsed to a fourteen-quarter low in Q4:2018-19 as production of capital goods registered a sharp contraction and imports nosedived in a coincident manner

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