

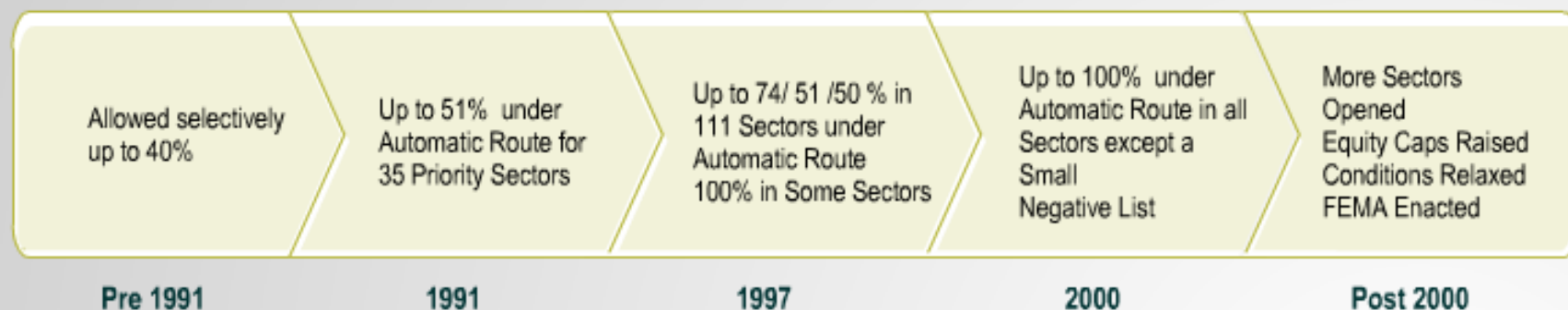
INVESTING IN INDIA

Foreign Direct Investment

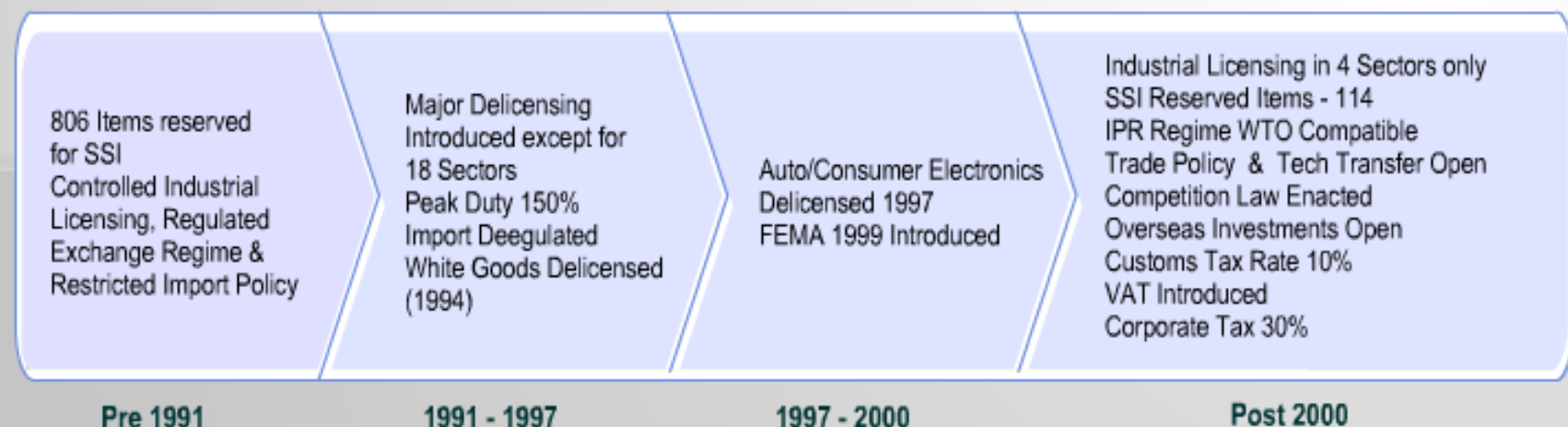
FDI Policy Framework

Liberal Policy Framework....

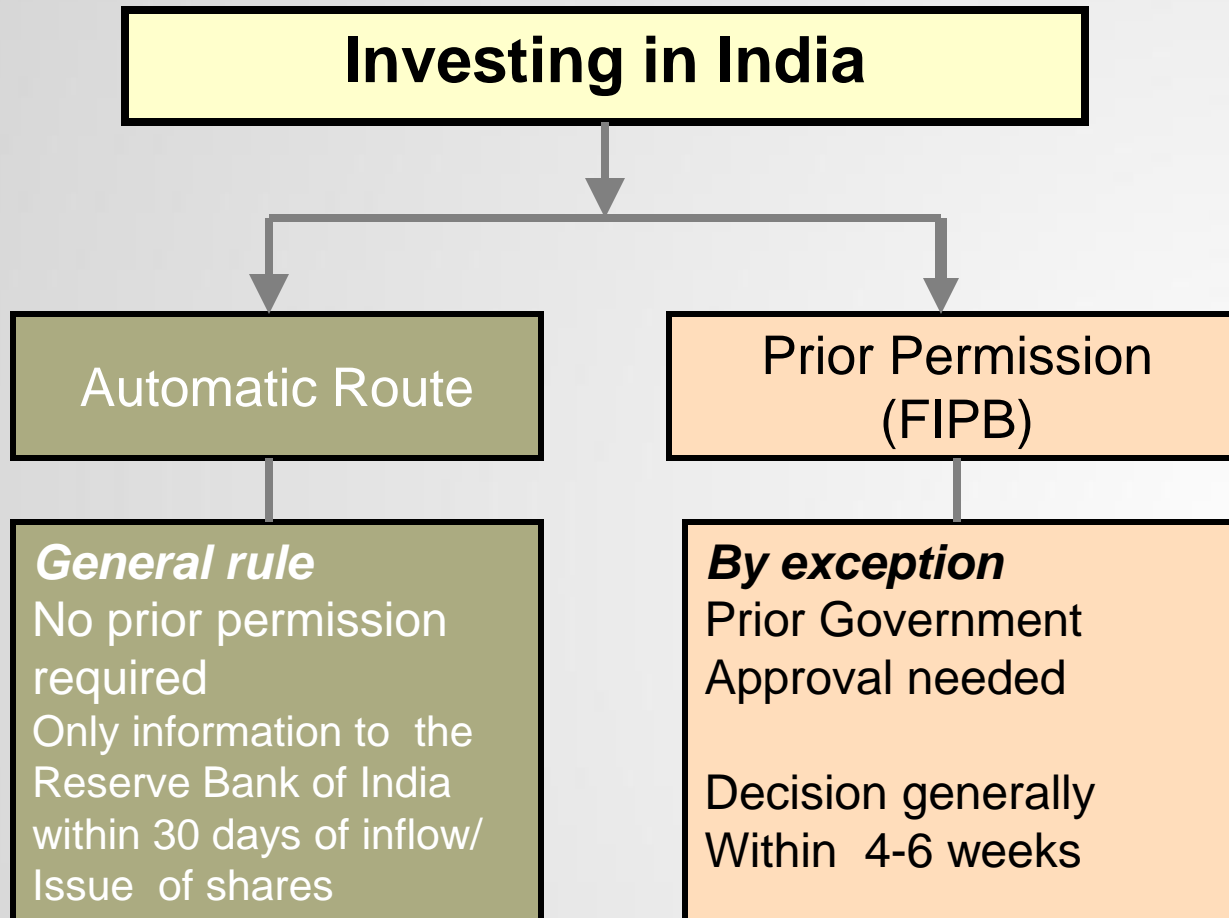
FDI Policy Liberalisation Path



Industrial Policies Liberalisation



Investing in India – Entry Routes



FDI Policy for Industry Sector... Fully permitted

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 26% under automatic route
 - FDI beyond 26% - **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-Infrastructure.... Largely Permitted

- **Roads & Highways-** 100% FDI permitted under automatic route

- **Airports**
 - Greenfield Projects- 100% FDI permitted under automatic route
 - Existing Airports- 100% FDI, beyond 74% requires FIPB approval
 - Air Transport- up to 49% FDI under automatic route, 100 % NRI

- **Telecom**
 - Basic and cellular, Unified Access Services, National/International Long Distance etc.- 74% (Including FDI, FII, NRI, beyond 49% under FIPB route)
 - ISP without gateway, Infrastructure provider providing dark fibre, right of way, duct space, tower (Category-I), Electronic mail and voice mail- 100%, beyond 49% requires FIPB approval

FDI Policy for Service Sector-Infrastructure.... Largely Permitted

- **Shipping and Ports** -100% FDI under automatic route
- **Railways**- Rolling stocks open for FDI, Railway transport reserved for Public sector.
- **Industrial Parks**- 100% FDI under automatic route
- **Hospitals**- 100% FDI under automatic route
- **Hotels & Tourism** (include restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. Tourism related industry include travel agencies, tour operating agencies and tourist transport operating agencies)- 100% FDI under automatic route

SPECIAL ECONOMIC ZONES- Fuelling India's Economic Growth

- **FDI-** 100% permitted under automatic route
- **Objectives-** Development of infrastructure facilities, Investment Promotion, Promotion of exports of goods and services, Generation of employment opportunities etc.
- **Establishment Procedure-** SEZ can be established either by the Central Government, State Government or any other entity.
- **Requirements-** Minimum area requirements for different class of SEZs, every SEZ is divided into a processing area(for units) and the non-processing area (for supporting infrastructure).
- **Simplified Procedure-** Single window clearance for setting up SEZ as well as units within SEZ

SEZ – Current Status

- **396 SEZs formally approved:**
 - 19 Multi Product SEZs;
 - 6 Port based Multi Product SEZs;
 - 132 Sector Specific SEZs;
 - 249 EH/IT/ITES SEZs

- **169 valid in-principle approvals;**

- **151 SEZs notified; over 45 SEZs functional**

- **2006-07 Exports at US\$8.3 billion (Rs. 34,787 Crores)**

- **Growth in exports 52% over 2005-06**

- **Projected exports–2007-08– US\$15 billion(Rs.67,088 crores)
(200% increase in two years)**

Incentives for SEZ Developers

- **Exemption from customs/excise duties for development of SEZs approved by the BOA.**
- **Income Tax exemption on export income for a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.**
- **Exemption from dividend distribution tax under Section 115O of the Income Tax Act.**
- **Exemption from Central Sales Tax (CST).**
- **Exemption from Service Tax**

Incentives and facilities for the units in SEZ

- **Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units**
- **100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.**
- **External commercial borrowing by SEZ units upto US \$ 500 million in a year without any maturity restriction through recognized banking channels.**
- **Exemption from Central Sales Tax.**
- **Exemption from Service Tax.**
- **Exemption from State sales tax and other levies as extended by the respective State Governments.**

Real Estate- Policy and conditions

- **FDI is not permitted in the business of buying and selling of property**
- - **FDI up to 100% under the automatic route in townships, housing, built-up infrastructure and construction-development projects including housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure) subject to following conditions:**
 - Minimum area to be developed under each project would be 10 hectares for development of serviced housing plots and 50,000 sq.mts in case of construction-development projects.
 - Minimum capitalization of US\$10 million for wholly owned subsidiaries and US\$ 5 million for joint ventures with Indian partners.
 - Original investment cannot be repatriated before a period of three years

Real Estate in India

- **Second largest employer next only to agriculture**
- **US \$ 12 billion industry**
- **Growing at about 30% per annum**
- **Housing sector contributes to 5% of the country's GDP**
- **FDI Inflows: (from 1991 to June 2007)**
 - Housing & Real Estate: US\$1123 million
 - Construction Activities (Including Roads & Highways): US\$1875 million

Indian Real Estate- Catalyst for Growth

- **With Indian economy growing strongly, requirements of housing, commercial and industrial infrastructure bound to rise.**
- **More than 367 Million Sq. Ft. of additional office space needed by 2012-13 (Estimated by Ernst & young)**
- **4.7 million housing units would have to be completed by 2030 (Estimated by Deutsche Bank)**
- **Asian Development Bank estimates requirements of 10 million units by 2030**
- **Indian Ministry of Tourism forecasted requirements of 2.9 and 6.6 Million hotel rooms to meet the tourism and business by 2010 and 2020.**
 - **Fast growing Medical tourism will become US\$2 billion industry by 2012 and will require huge investment in Health Services sector.**
 - **Booming retail trade sector needs 13 Millionsq. Ft. of space by 2008 end in top eight large cities in India**

Real Estate Development- Incentives

Tax Holidays;

- **Exemption from tax on 100% for profits derived by an undertaking engaged in developing/operating/maintaining an Industrial Park.**
- **Exemption from tax on 100% for profits derived by an undertaking engaged in developing and building housing projects.**
- **Exemption from tax on 100% for profits derived by an undertaking engaged Development, operation and maintenance of an SEZ.**

Major Foreign Developers in India

INVESTOR	COUNTRY	PROJECT LOCATION
Emmar Group	Dubai	Hyderabad
Kontur Bintang/Westport	Malaysia	Gurgaon
Singapore Housing Board	Singapore	Hyderabad/Chennai
Keppel Land	Singapore	Banglore
Salim Group	Indonesia	Kolkata
Lee Kim Tah holdings	Singapore	Chennai/Mumbai

FDI Policy for Service Sector-Other than infrastructure.... 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**

FDI Policy for Service Sector.... Largely permitted

Upto 74%

- Private sector banks - **Automatic**

Upto 100%

- Publishing scientific magazines - **FIPB**
- Courier services - **FIPB**
- NBFC - **Automatic**

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.

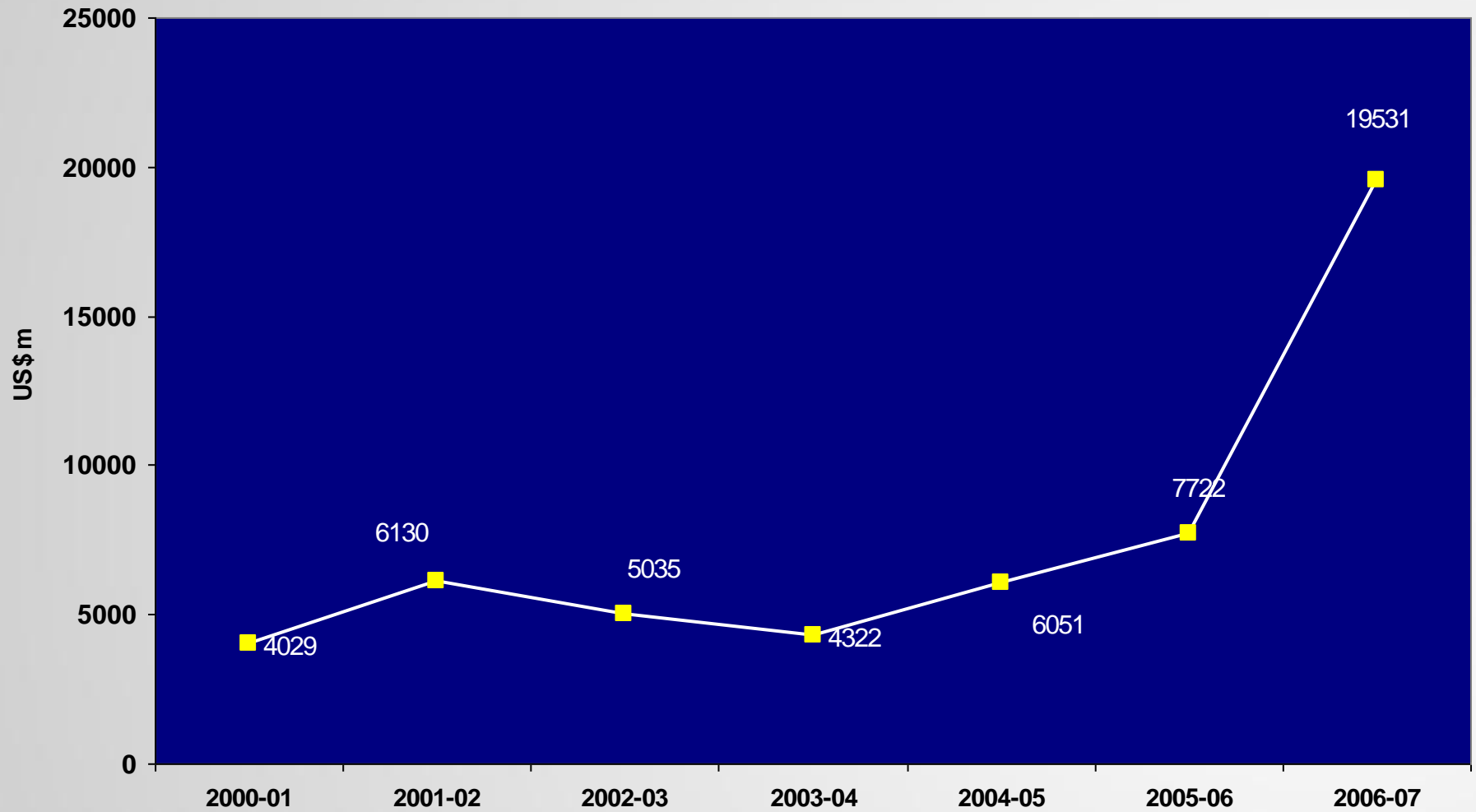
FDI Policy Prohibited activities

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

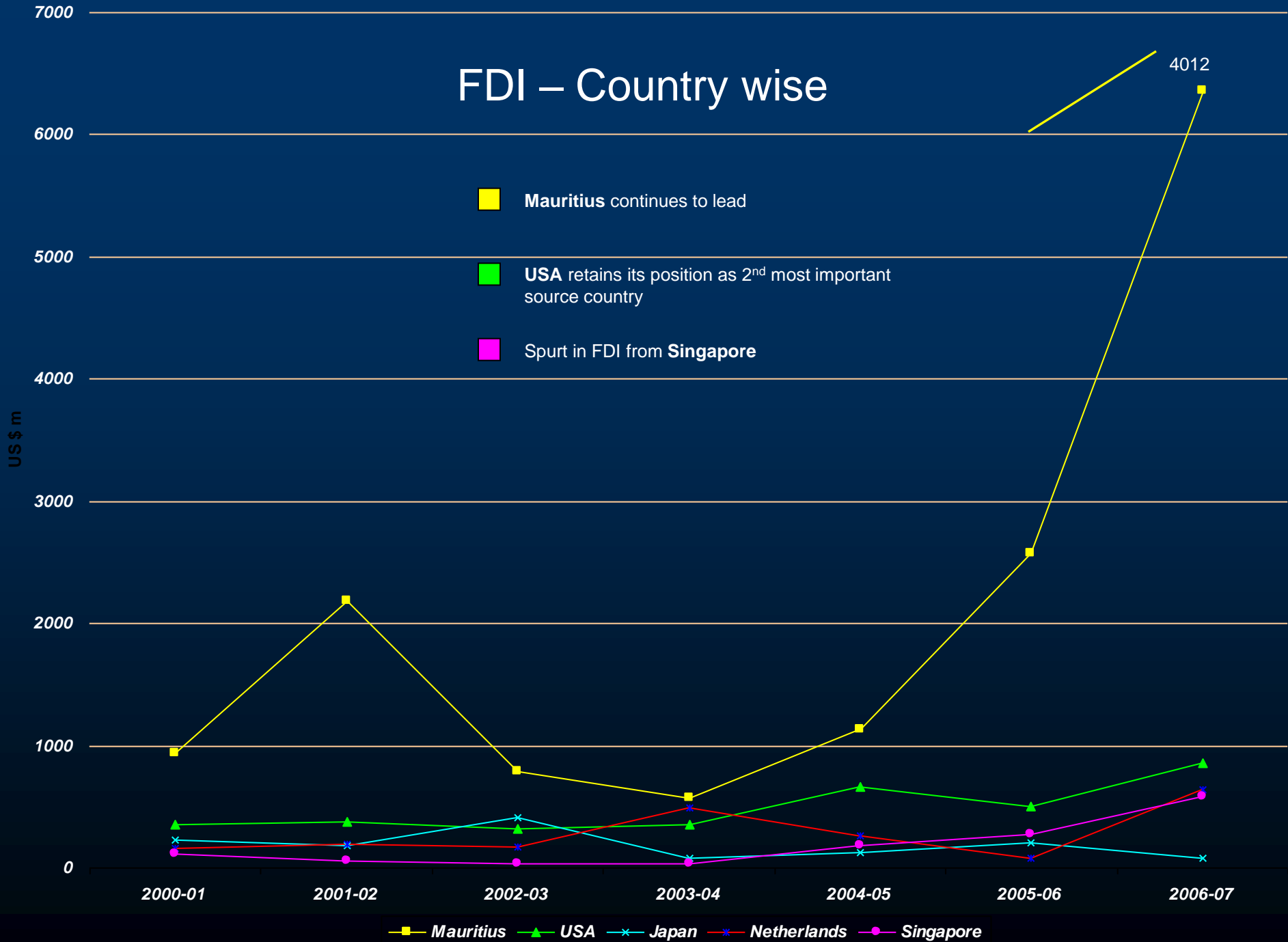
Foreign Direct Investment

FDI Data Analysis

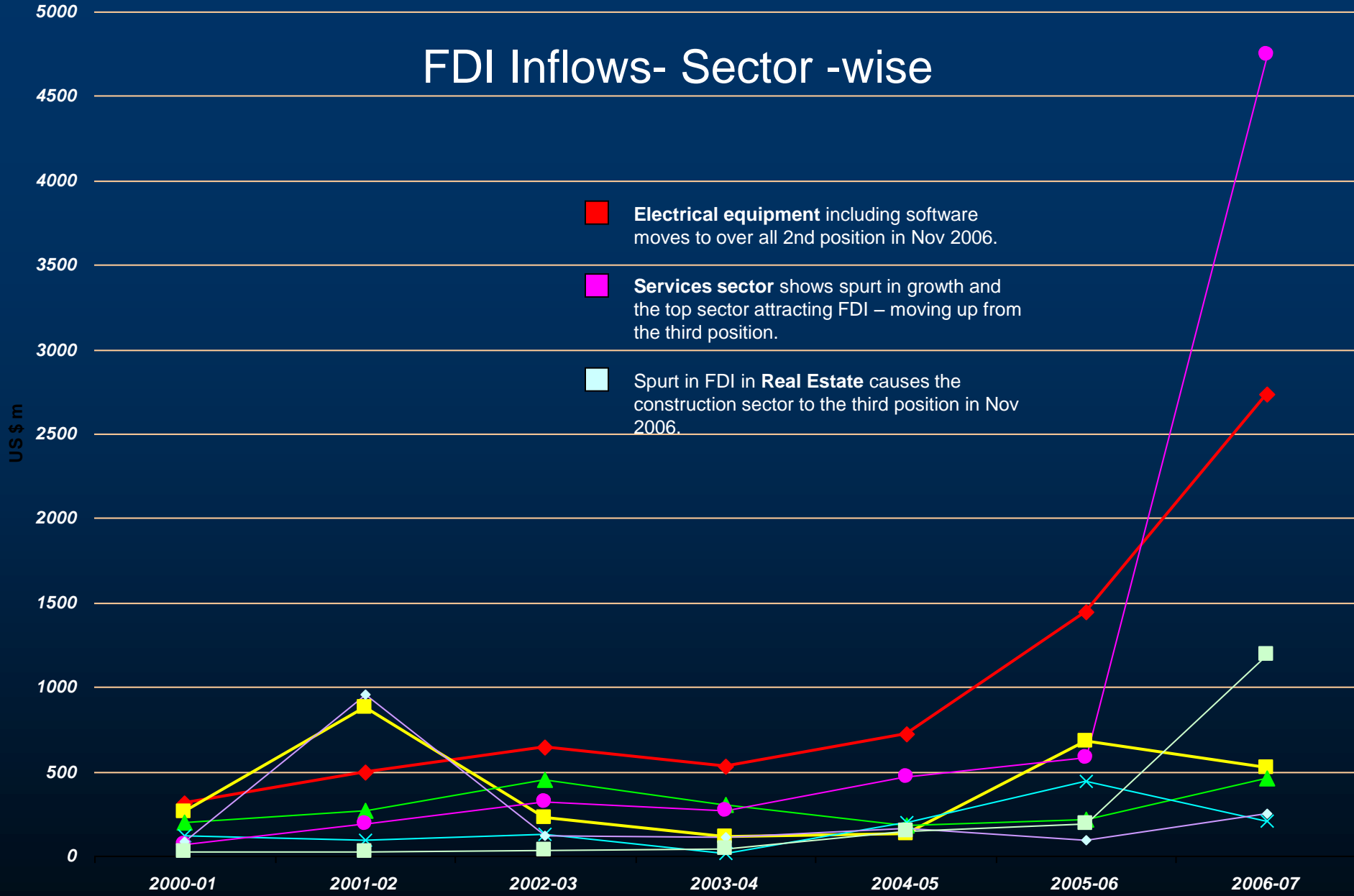
FDI Inflows....Robust Growth



FDI – Country wise



FDI Inflows- Sector -wise



Electrical equipment including software moves to over all 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.



INVESTMENT AGREEMENTS

■ **Important features of Bilateral Investment Promotion Agreement (BIPA) :**

- National Treatment for foreign investment;
- MFN treatment for foreign investment and investors;
- Free repatriation/ transfer of returns on investment;
- Recourse to domestic disputes resolution and international arbitration for investor-State and State-State disputes;
- Nationalization / expropriation only in public interest on a non-discriminatory basis and against compensation etc.

INVESTMENT AGREEMENTS

- Government of India have, so far, signed BIPAs with 68 countries out of which 50 BIPAs have already come into force.
- To name a few; Australia, Austria, Belgium, Denmark, France, Germany, Israel, Kuwait, Malaysia, Mauritius, Netherlands, S. Korea, Switzerland, Thailand, UK and like.
- Countries with whom BIPA has been signed and will come in force shortly: Turkey, S. Arabia, Bahrain, S. Arabia, China, Mexico etc.
- Countries with whom negotiations are on: Brazil, Colombia, Japan, Canada etc.
- India has signed Comprehensive Economic Co-operation Agreement (CECA) with Singapore only, which is an integrated package comprising a free trade agreement, a bilateral agreement on investment promotion and protection, an improved double taxation avoidance agreement and a work programme for cooperation in healthcare, education, media, tourism, customs, e-commerce, intellectual property, and science and technology.

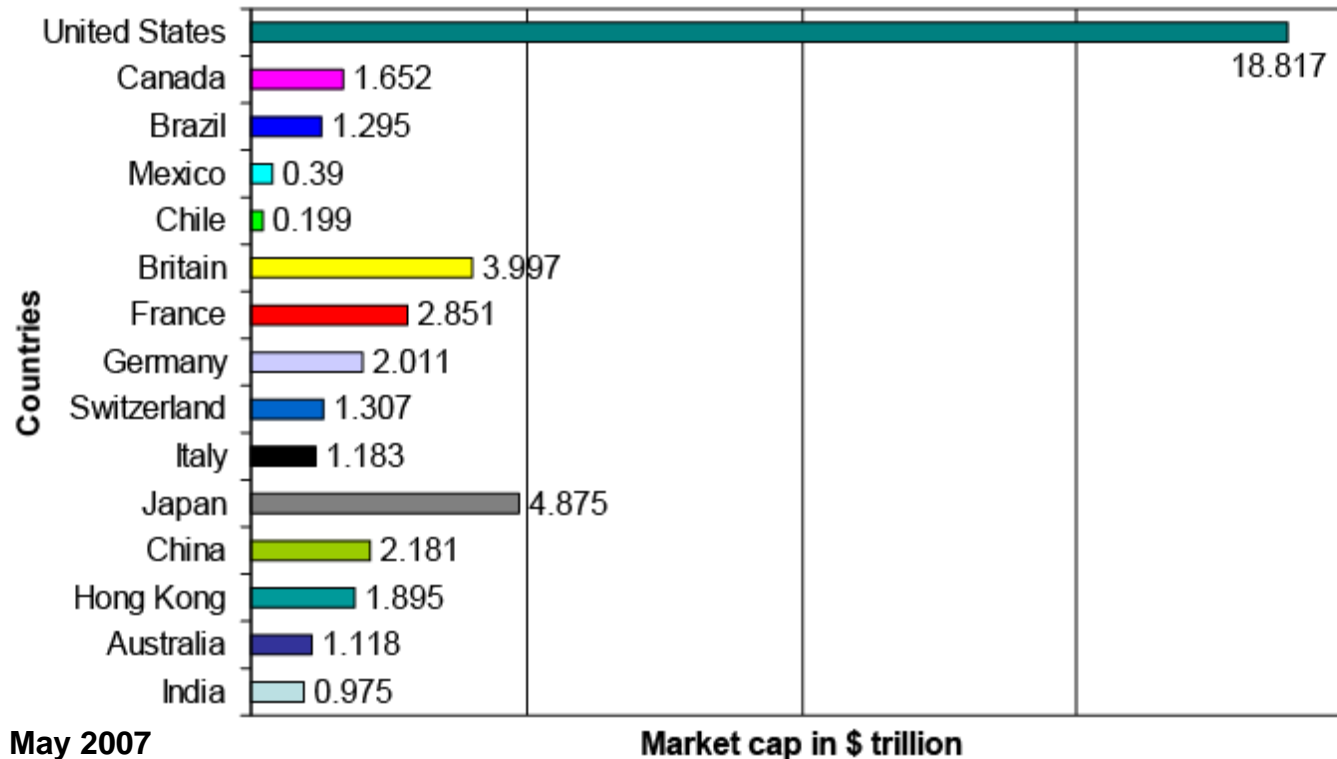
Portfolio Investment

Investing in India

■ **Main features of the policy on investment by FII are:**

- FIIs are required to allocate their investment between equity and debt instruments in the ratio of 70:30.
- It is also possible for an FII to declare itself a 100% debt FII
- FIIs can buy/ sell securities on stock Exchanges.
- No individual FII/ Sub-account can acquire more than 10% of the paid up capital of an Indian company
- FII and their sub-accounts cannot acquire more than 24% ceiling to the Sectoral Cap / Statutory Ceiling as applicable by passing a resolution by its Board of Directors, followed by passing a special Resolution to that effect by its General Body.
- More than 1100 registered FIIs with more than 3800 sub accounts

India's Equity Capital Markets



**Market cap
of major
countries**

- Market Cap of both BSE and NSE crossed US\$ 1trillion in July 2007
- India first BRIC country with Market Cap of above GDP and joins select group of countries
- The Bombay Stock Exchange is one of the oldest stock exchanges in the world and has more than 5,000 listed companies.
- The National Stock Exchange of India Limited (NSE) is third largest in terms of volume of trade.
- Electronic screen-based trading systems. Early adopters of satellite communication and T+2 Rolling Settlement.

Debt and Foreign Exchange

DEBT

- Bond market US\$340 bn (95% domestic, over 75% sovereign/ municipal dept). Well established and on of the largest bond market in Asia (NSE, RBI & Prime database).
- Tenor of instruments range from overnight to 20 years by Government, Corporates and Financial Institutions.
- Strong and liquid derivatives market. Volume in OTC derivatives market are US\$1.4 bn.
- Booming growth expected with securitization market and infrastructure financing poised for takeoff.
- Country foreign currency debt rating upgraded by S&P in 2007 to BBB-/A-3 with a stable outlook. Moody's and Fitch have upgraded to investment grade in 2004 and 2006.

Forex

- Foreign exchange management practices “among the best” (IMF).
- INR partially convertible on capital account, subject to progressive relaxation.
- Large demand for OTC derivatives with corporates using sophisticated swap and option structures in local and foreign currency.
- Highly sophisticated and broad based interest rates derivatives market (World Bank/RBI)

Investing in India

- **A foreign company to set up business operations in India has the following options:**
 - Incorporation of company (governed by the Companies Act, 1956)
 - Liaison office/ Representative office
 - Project office
 - Branch office
 - Branch office on “stand-alone basis” in special economic zone