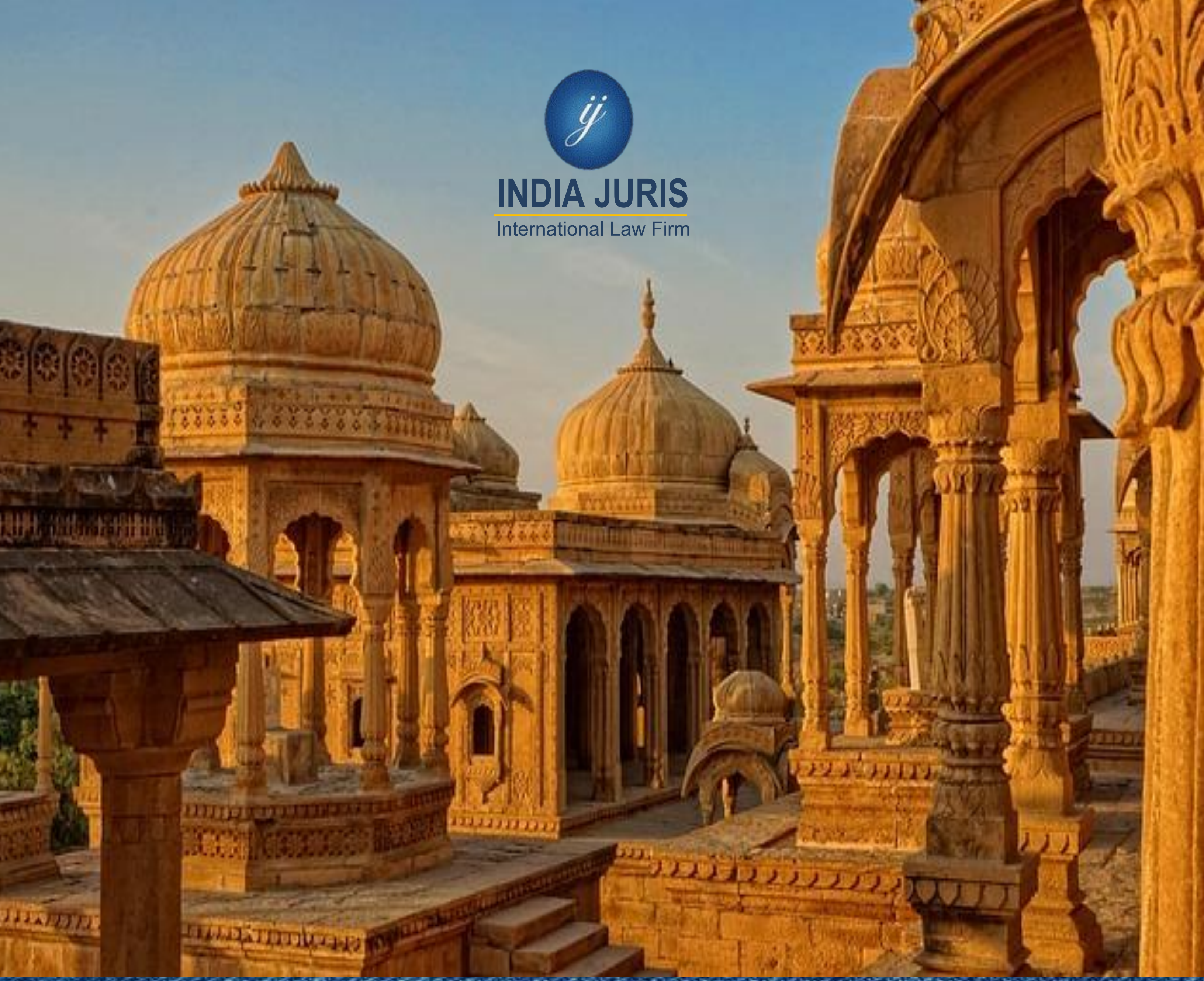

FOREIGN INVESTMENT LANDSCAPE OF INDIA

SEPTEMBER 2025

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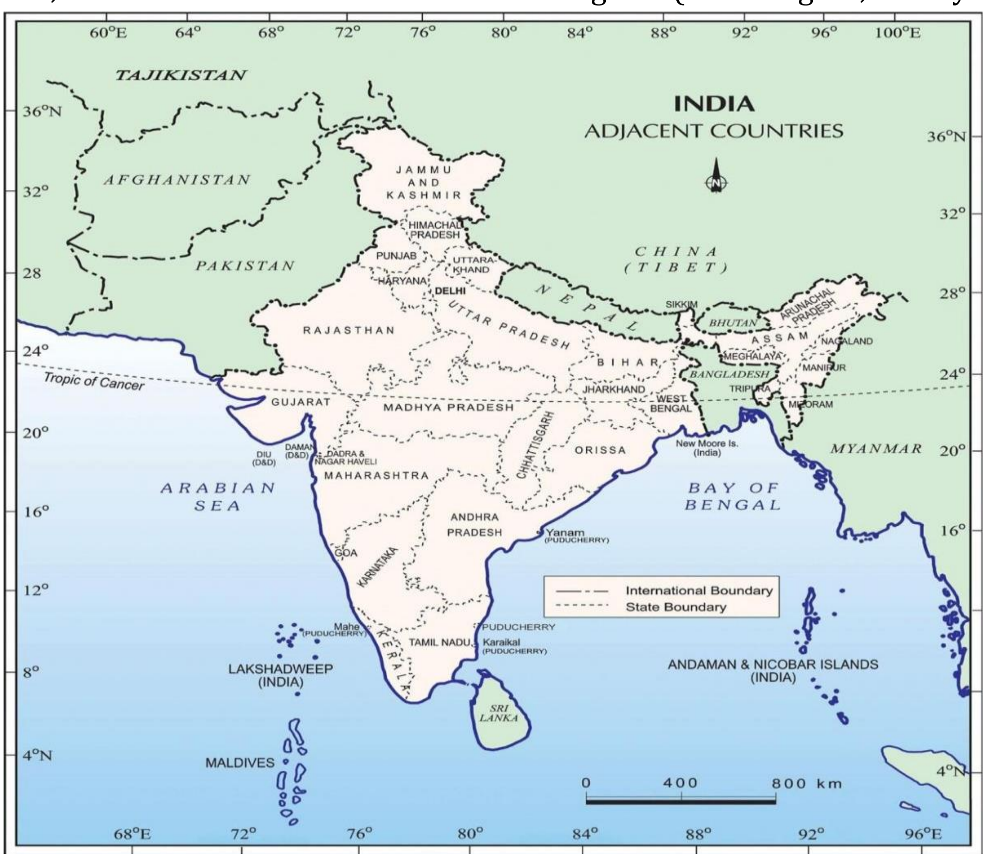
Table of Abbreviation

Abbreviation	Full-Form
AIF	Alternative Investment Fund
AML	Anti-Money Laundering
CCPS	Compulsorily Convertible Preference Shares
CCDs	Compulsorily Convertible Debentures
CFT	Combating the Financing of Terrorism
CTT	Commodity Transaction Tax
DEA	Department of Economic Affairs
DPIIT	Department for Promotion of Industry and Internal Trade
EoDB	Ease of Doing Business
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FOCCs	Foreign-Owned or Controlled Companies
FY	Financial Year
GDP	Gross Domestic Product
GIFT	Gujarat International Finance Tec-City
IFSC	International Financial Services Centre
IFSCA	International Financial Services Centres Authority
IPR	Intellectual Propoerty Rights
KYC	Know Your Customer
MAT	Minimum Alternate Tax
NDI	Non-Debt Instruments
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
STT	Securities Transaction Tax

A Brief History of India

India is strategically located in South Asia, occupying a vast area between latitudes 8°4′N and 37°6′N and longitudes 68°7′E and 97°25′E, giving it significant connectivity across Eurasia and the Indian Ocean region. The country spans 3,287,263 square kilometers, making it the seventh-largest nation globally, and boasts a coastline of 7,516.6 km touching the Arabian Sea, Bay of Bengal, and Indian Ocean. India shares land borders with China, Nepal, Bhutan, Bangladesh, Myanmar, and Pakistan, and its maritime boundaries connect it to Sri Lanka, the Maldives, and Southeast Asia, creating unique trade and investment opportunities driven by its advantageous geographical position. India has 28 States and 8 Union Territories with its national capital being New Delhi.

Mineral wealth is a defining asset of India, supporting robust industrial and economic growth. The Chhota Nagpur Plateau (Jharkhand, Odisha, West Bengal) is particularly rich in iron ore, coal, manganese, bauxite, and mica, while the central and southwestern regions (Chhattisgarh, Madhya Pradesh, Telangana, Andhra Pradesh, Maharashtra, Karnataka, Goa) supply significant amounts of limestone, marble, copper, zinc, and other industrial minerals. Culturally, India is celebrated for its pluralism, tolerance, and deep-rooted heritage, anchored in harmonizing spiritual and material life, social structures such as joint families, and enduring traditions like religious diversity and linguistic multiplicity.



Executive Summary

India today represents one of the most attractive destinations for Foreign Direct Investment, combining the advantages of strong macroeconomic fundamentals, a vast and evolving consumer base, and a steadily liberalized policy framework. With GDP growth of 6.5% in FY 2024–25, record exports of USD 824.9 billion, and inflation reduced to a six-year low, the economy has demonstrated resilience even amid global headwinds. Since the landmark liberalization of 1991, India has moved away from protectionist policies to create a transparent and rules-based FDI regime under the Foreign Exchange Management Act, 1999, overseen jointly by the Department for Promotion of Industry and Internal Trade and the Reserve Bank of India. More than 90% of FDI inflows now come through the Automatic Route, while sensitive sectors such as defence, media, and multi-brand retail require government approval, and investments from land-border countries are carefully scrutinized under Press Note 3 of 2020.

Sectoral reforms have further expanded opportunities: 100% FDI is permitted in medical devices, renewable energy, space technology, and insurance intermediaries, while defence allows up to 74% automatically and 100% with approval. Meanwhile, prohibited sectors remain limited to areas such as gambling, tobacco, and certain real estate activities. Structural initiatives like the Jan Vishwas Acts, the National Single Window System for digital approvals, and the creation of GIFT City as a global financial hub reflect India's commitment to ease of doing business and competitive federalism. For foreign investors, India's market is not only large but also increasingly diverse, shaped by rising middle-class consumption across both metros and smaller cities, requiring localized entry strategies. With policy predictability, digital compliance systems, and a reform-oriented governance agenda, India offers long-term, sustainable opportunities for investors seeking growth, scale, and alignment with one of the world's fastest-growing economies.

CHAPTER 1

The India Advantage: A Global and Domestic Perspective

1.1. Setting the Global Context: Repositioning of Global Capital

In a period marked by global economic uncertainty, India has emerged as a beacon of economic stability and growth. The nation's performance in fiscal year (FY) 2024 - 25 set it apart from its major counterparts, with a GDP growth rate of 6.5%, cementing its position as the fastest-growing major economy in the world. This robust performance is not an anomaly; it is a continuation of a steady and confident pace of expansion. The Reserve Bank of India (RBI) expects this momentum to persist, forecasting a similar growth rate for FY 2025 - 26. This sustained economic vigor is supported by strong macroeconomic fundamentals, including a decline in inflation to 2.82% in May 2025, the lowest level in over six years.

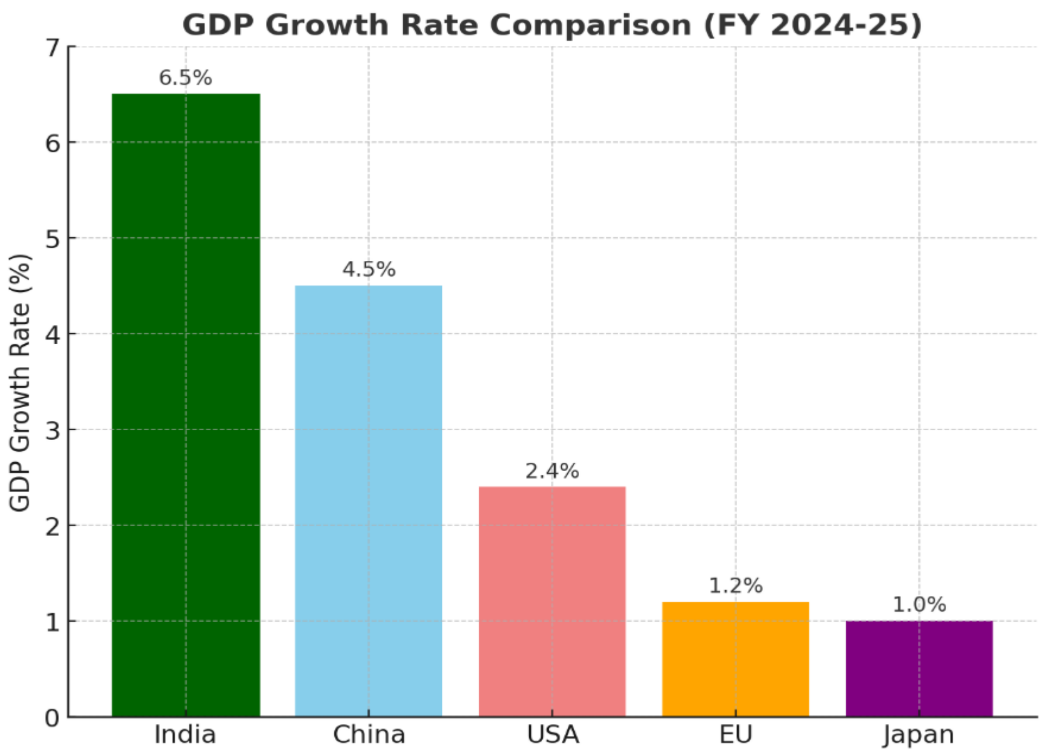


Figure 1 displays GDP growth rate of different countries

Complementing its domestic strength, India's external trade performance has also reached new heights. Total exports, encompassing both merchandise and services, touched a record USD 824.9

billion in 2024 - 25, representing a 6.01% increase from the previous year. This decade-long trend of sustained export momentum underscores the country's rising competitiveness in global markets. For foreign investors, this economic picture presents a compelling proposition. India's consistent performance offers a degree of reassurance that is increasingly scarce in the global economy, providing a foundation of stability for long-term, non-debt creating foreign capital inflows that are vital for technology transfer, skill enhancement, and employment creation.

1.2. Why India, Why Now? A Confluence of Economic and Consumer Fundamentals

Beyond the headline economic figures, the rationale for investing in India is rooted in a fundamental transformation of its domestic market. The country's growth story is multifaceted, driven not only by robust macroeconomic indicators but also by a dynamic and evolving consumer base. The services sector, for instance, has demonstrated exceptional resilience and growth, attracting 19% of the total FDI in FY 2024 - 25 and growing by 40.77% compared to the previous year. The manufacturing sector is also witnessing a resurgence, with FDI inflows increasing by 18% to USD 19.04 billion in FY 2024 - 25. These trends reflect a broad-based economic vitality that extends across diverse sectors.

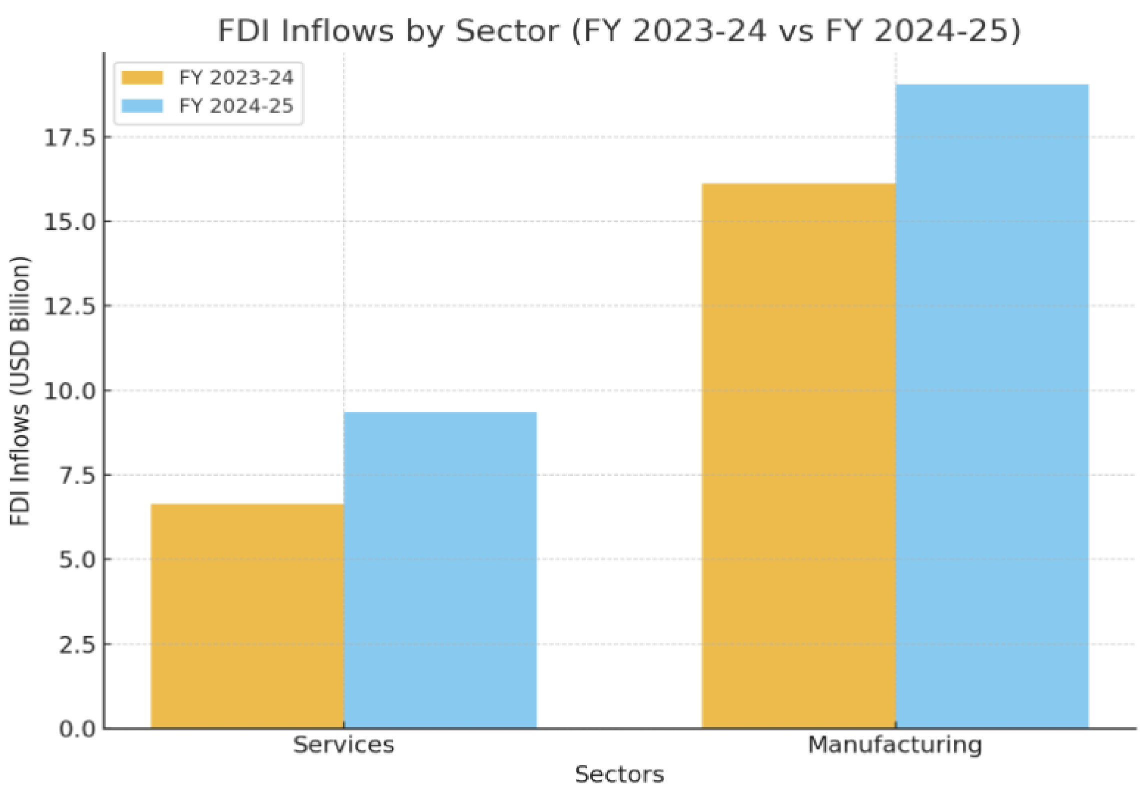


Figure 2 displays FDI inflow in India

A closer look at the Indian consumer reveals a significant shift in market dynamics. The traditional model of a mass-market, price-sensitive consumer is rapidly being replaced by a more sophisticated and aspirational cohort. The new Indian consumer is wealthier, globally aware, and digitally connected, with a growing willingness to pay a premium for personalized products and unique experiences. This demand for individuality is not confined to the country's major metropolitan areas; it is rapidly spreading to smaller cities and towns, often referred to as "tier-2 and 3 cities". A telling statistic is the quadrupling of credit card spending from these smaller urban centres compared to their metropolitan counterparts, signalling a powerful surge of aspiration and economic activity beyond the traditional hubs.

This evolution has created a dualistic market structure. On one hand, large multinational corporations and national conglomerates have long dominated the consumer goods sector. On the other, the demand for hyper-localization has fuelled the rise of nimble, regional brands that can cater to specific geographical tastes, customs, and price points in a way that large firms, with their standardized offerings and slower innovation cycles, cannot. This market reality suggests that a "one-size-fits-all" entry strategy for foreign investors may be suboptimal. Success in this environment often requires a tailored approach, such as joint ventures, strategic acquisitions of local players, or the development of highly localized product offerings to connect with consumers at a cultural level and capture the growth in smaller markets.

1.3. The Policy-Driven Investment Push

India's economic performance is inextricably linked to a series of strategic policy interventions designed to create a conducive investment climate. The "Make in India" initiative, launched in 2014, is a cornerstone of this effort, built on four core pillars: New Processes, New Infrastructure, New Sectors, and a New Mindset. The policy aims to facilitate investment, foster innovation, and transform India into a global manufacturing and design hub. The government's role has fundamentally shifted from a regulator to a facilitator, actively working to de-license and de-regulate the business environment. This is evident in various measures, from relaxing prior experience and turnover requirements for startups participating in government tenders to providing them with financial assistance and IPR benefits.

A recent and highly significant example of this policy-driven facilitation is the nationwide initiative for the complete digitalization of land records. Land acquisition has historically been a major challenge for developers, fraught with issues of disputed titles and costly litigation. By digitizing nearly all land records and cadastral maps, the government has addressed a critical bottleneck, which is expected to "significantly enhance" foreign investment in the real estate sector, particularly for large-scale projects like office complexes and data centres. This move, bringing India in line with international standards, bolsters investor confidence by introducing greater transparency and reducing legal and operational risks. Further policy measures announced in the Union Budget 2025, such as the introduction of a new "Investment Friendliness Index of States" and the "Jan Vishwas 2.0" initiative, continue this commitment to competitive federalism and a trust-based economic governance model.

CHAPTER 2

The Evolution of India's FDI Policy: From Protectionism to Facilitation

2.1. The Pre-1991 Era: A Restrictive Past

Prior to 1991, India's approach to foreign investment was largely characterized by a cautious and selective policy, designed primarily for the regulation of domestic capital. The legal and constitutional framework was a complex and restrictive amalgamation of legislative enactments, resulting in a low and fluctuating level of FDI inflows. This protectionist stance, rooted in the political and economic ideologies of the time, saw FDI as a tool to be meticulously managed rather than as a catalyst for growth. As a result, the total FDI inflow during the 1980s was inconsistent, reaching a peak of only USD 252 million in 1989 before declining. The bulk of this investment was concentrated in a few select sectors, such as industrial machinery, chemicals, and electrical engineering, and was dominated by a small number of countries. This era stands in stark contrast to the modern-day policy, underscoring the monumental shift that was to come.

2.2. The Watershed Moment of 1991: The Great Liberalization

The year 1991 marked a profound and irreversible turning point in India's economic history. Faced with a severe balance of payments crisis, the government embarked on a series of radical economic reforms. The 1991 Union Budget explicitly articulated a vision to dismantle a "system of extensive controls" and move towards a more transparent, less complex, and open market framework. This liberalization was a colossal undertaking, yet it was managed with far less disruption than in many other countries that underwent similar reforms.

The impact on foreign investment was immediate and transformative. Since 1991, FDI inflows into India have grown by more than 165 times, with a Compound Annual Growth Rate (CAGR) of 24.28% in the post-liberalization period, significantly higher than the 19.05% CAGR of the pre-reform era. This dramatic increase demonstrates that liberalization had a demonstrably positive impact on foreign capital inflows. The reforms paved the way for a major reduction of tariffs and the simplification of a previously complex quota regime, making India a far more attractive destination for foreign capital and technology.

2.3. The Modern Framework and its Pillars: 1991 to 2025

The economic reforms initiated in 1991 were not a singular event but the beginning of a continuous, non-partisan policy journey. The modern FDI framework, which has been consistently refined by "every Government that came to power," has been built on the foundational principles of enhancing efficiency, promoting exports, and fostering technological advancement. The "Make in India" program, with its focus on "New Processes, New Infrastructure, New Sectors, and New Mindset," has accelerated this evolution, fundamentally altering the government's relationship with industry from a regulator to a partner and facilitator.

This commitment is evidenced by the development of Industrial Corridors, which aim to create greenfield industrial areas with state-of-the-art infrastructure. Furthermore, a series of regulatory reforms, including the simplification of tender processes and exemptions from earnest money deposits for startups, has been undertaken to reduce the compliance burden and improve the business environment. This strategic push is reinforced by the announcement in the Union Budget 2025 to launch an "Investment Friendliness Index of States". By creating a competitive cooperative federalism among states, this initiative aims to incentivize local governments to further improve their business climate and directly attract FDI.

2.4. A Critical Case Study: Press Note 3 of 2020

While India's FDI policy has largely moved in the direction of greater liberalization, the introduction of Press Note 3 in April 2020 stands as a significant, albeit nuanced, inflection point. Issued to "curb opportunistic takeovers/acquisitions of Indian companies due to the COVID-19 pandemic," fundamentally changed the entry route for investments from countries sharing a land border with India.

Under this amended policy, any investment from an entity of a country that shares a land border with India, or where the beneficial owner is a citizen of or situated in such a country, is automatically routed to the Government Approval route, regardless of the sector. This policy applies to countries including Pakistan, Bangladesh, China, Nepal, Myanmar, Bhutan, and Afghanistan. The rationale behind this policy is a clear prioritization of national security and economic sovereignty.

The implications of Press Note 3 are complex and far-reaching, extending beyond direct investments from these countries. The policy also covers indirect transfers of ownership at an offshore level if they result in the beneficial ownership falling within the purview of the restriction. This means that a fund incorporated in a non-land-border country, such as the United States, must still obtain government approval for an investment in India if it has a limited partner from a land-border country who meets the beneficial ownership criteria. This complexity necessitates a high degree of due diligence from all foreign investors.

The implementation of Press Note 3 has introduced certain legal ambiguities. The lack of a uniform and clearly defined threshold for "beneficial ownership" across different legal frameworks in India presents a significant challenge. While the Companies Act, 2013, and Prevention of Money Laundering Rules, 2005, prescribe different thresholds (10% and 15%/25% respectively), there is a lack of legislative clarity on which definition applies in the context of Press Note 3. This regulatory uncertainty adds a layer of legal risk for investors and underscores the necessity of engaging expert legal counsel to navigate the compliance landscape. The government's strategic focus on national security, while understandable, has thus introduced a new variable into the investment calculus, demanding a more meticulous approach to structuring cross-border transactions.

CHAPTER 3

Regulatory Architecture Governing Foreign Investment in India

3.1. Reserve Bank of India (RBI):

The RBI is empowered to administer the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019, interpret them, and issue necessary directions, circulars, instructions, and clarifications for effective implementation. The RBI issues directions to Authorized Persons under FEMA, 1999, outlining how foreign exchange business must be conducted. Its responsibilities include stipulated payment of inward remittances and reporting requirements. For instance, the RBI sets reporting requirements for investments in India by persons resident outside India through the Single Master Form on the Foreign Investment Reporting and Management System platform.[1]

3.2. Department for Promotion of Industry and Internal Trade (DPIIT):

Part of the Ministry of Commerce & Industry, the DPIIT is responsible for making policy pronouncements on FDI through the Consolidated FDI Policy Circular, Press Notes, and Press Releases. These pronouncements are then notified by the DEA, Ministry of Finance, as amendments to the Foreign Exchange Management (NDI) Rules, 2019. The DPIIT also plays a crucial role in identifying the appropriate Administrative Ministry/Department when there is ambiguity regarding the competent authority for government approval. It formulates the Consolidated FDI Policy, which details sector-specific conditions and caps on investments.

3.3. International Financial Services Centre (IFSC)

IFSC, at GIFT City in Gujarat, has been established as a crucial gateway for investment into India and a hub for global financial services. The International Financial Services Centres Authority (IFSCA), a unified regulator created in April 2020, oversees financial institutions, services, and products within the IFSC, aiming to streamline operations and provide a globally competitive regulatory environment. This strategic development positions India as a global financial center, designed to attract international capital and engage the Indian diaspora worldwide. The IFSC offers extensive opportunities across various financial sectors, including banking, insurance, capital markets, and asset management, along with support services like aircraft leasing and FinTech. IFSCA aims to provide an internationally comparable regulatory framework under a

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[1] Reserve Bank of India, *Master Direction – Foreign Investment in India,* January 25

special offshore status within India. To attract global innovators and businesses, the IFSC offers a competitive tax regime, which includes 100% tax exemption for 10 out of 15 years, a Minimum Alternate Tax of 9%, and no CTT/STT/GST/Stamp Duty. Furthermore, it provides no Capital Gain Tax and a 4% withholding tax on interest paid on Debt Instruments listed on IFSC Exchanges, along with a competitive AIF tax regime[2]. The regulatory environment within the IFSC is committed to ensuring financial stability, protecting investor interests, and is fully FATF compliant with strong AML and CFT measures.

3.4. Decoding the Legal Framework: The Roles of DPIIT and RBI

The legal and regulatory framework governing foreign investment in India is a multi-layered system overseen by two principal government bodies: DPIIT and the RBI. Each plays a distinct yet collaborative role in ensuring a transparent and compliant investment ecosystem.

The DPIIT, under the Ministry of Commerce and Industry, is the primary government body responsible for formulating and implementing India's FDI policy. The department issues the Consolidated FDI Policy Circular, which is the foundational document that provides comprehensive guidelines on sectors open for FDI, applicable caps, and the investment process. The DPIIT's role is to ensure a conducive environment for foreign investors and to act as the nodal point for all government-route FDI applications.

The RBI is entrusted with the administration of the FEMA, 1999. While the DPIIT sets the policy, the RBI provides the operational guidelines for foreign exchange transactions related to investments. It issues "Master Directions" that detail the modalities for authorized persons, such as banks, to conduct foreign exchange business and ensure compliance with the rules. The RBI's framework is crucial for all financial aspects of an investment, including capital account transactions, repatriation of funds, and reporting requirements.

3.5. The Automatic Route: The Principal Gateway

The Automatic Route is the predominant and most favoured pathway for foreign investment into India. It is a testament to the government's commitment to creating an "investor-friendly" policy environment. The defining characteristic of this route is that it does not require any prior approval from the Government of India or the RBI for an investment to be made. This streamlined process has been highly successful, with over 90% of the FDI inflow into India received through this channel.

For an investment to qualify for the Automatic Route, it must fall within one of the sectors specified in the Consolidated FDI Policy Circular and must adhere to any prescribed sectoral caps and conditions. While no pre-investment clearance is necessary, the process is not without its compliance obligations. The non-resident investor or the Indian investee company is still required

[2] International Financial Services Centres Authority, *IFSCA Overview Brochure*,(2020), https://www.ifsca.gov.in

to fulfil specific post-investment reporting requirements. These include informing the RBI of the investment within a certain timeframe, ensuring all transactions are routed through designated bank channels, and complying with the pricing guidelines outlined in the FEMA regulations. This balance between liberalized entry and mandatory reporting ensures transparency and accountability within the framework.

3.6. The Government Approval Route: A Strategic and Scrutinized Pathway

For certain sectors and in specific circumstances, foreign investments require prior approval from the Government of India. This is known as the Government Approval Route (or Government Route) and applies to strategically important sectors where the government seeks to maintain a higher degree of control or oversight. This route is also the default pathway for investments from countries that share a land border with India, as stipulated by Press Note 3 of 2020. The process for obtaining government approval is a structured and multi-step procedure. The foreign investor must initiate the process by submitting a formal proposal to the DPIIT via the Foreign Investment Facilitation Portal (FIFP). The DPIIT then processes the application and coordinates with the relevant administrative ministry or department-the "Competent Authority"-which has domain expertise for the specific sector of the investment.

A notable procedural change in recent years has been the abolition of the Foreign Investment Promotion Board. Its functions have been integrated into the relevant ministries and departments; a move intended to streamline and decentralize the approval process. For proposals involving a significant investment amount, such as those exceeding INR 50 billion (approximately 775 million USD), the recommendation is placed before the Cabinet Committee on Economic Affairs for final approval. The government's review of these applications is comprehensive, considering national security, economic impact, and the reputation of the foreign investor. The overall process, from application submission to approval, is estimated to take between 8 to 10 weeks, providing a degree of procedural predictability for investors.

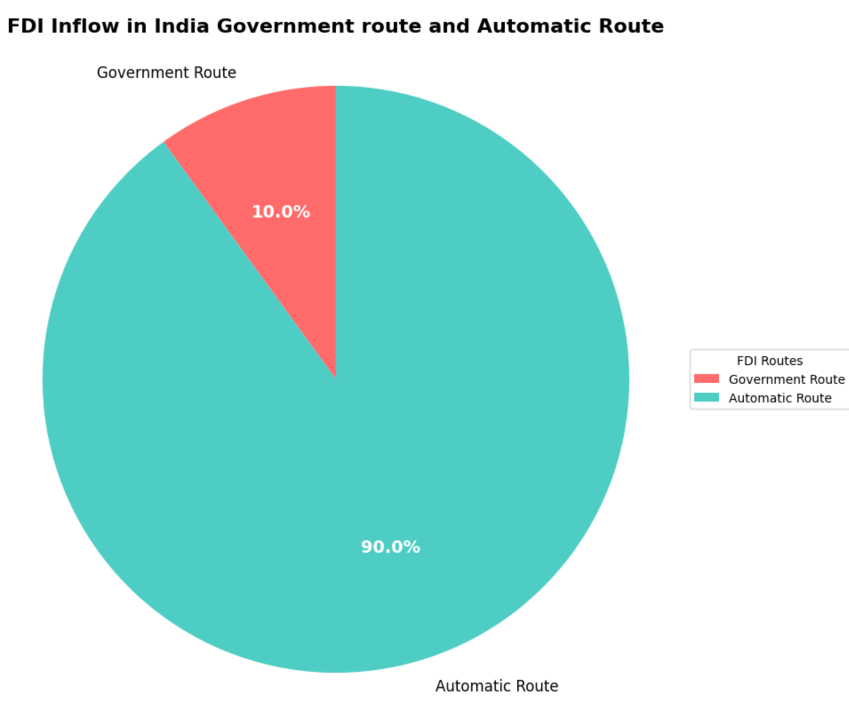

Figure 3

displays FDI inflow via Automatic route & Government route

3.7. Sector-Specific Ministries:

For foreign investments requiring prior Government approval specific Administrative Ministries or Departments act as the "Competent Authority". These ministries consider proposals and stipulate conditions for investment under their purview. Examples of such ministries and their respective sectors include:

- Ministry of Information & Broadcasting for Broadcasting, Print Media, and Digital Media.
- Ministry of Civil Aviation for Civil Aviation.
- Department of Space for Satellites.
- Ministry of Home Affairs for Private Security Agencies.
- DPIIT itself for Trading (Multi Brand Retail Trading and Food Product retail trading).
- Department of Economic Affairs for financial services not regulated by a specific financial sector regulator or cases with unclear regulatory oversight.
- Department of Financial Services for Banking (Public and Private).

CHAPTER 4

Understanding FEMA: India's Umbrella Law Governing Foreign Exchange and Cross-Border Deals

Foreign Direct Investment is recognized as a vital non-debt financial resource for India's economic development, contributing significantly to technology transfer, the growth of strategic sectors, innovation, competition, and employment creation. Since economic liberalization, FDI flows into India have consistently increased, infusing long-term sustainable capital into the economy.[3] The Government of India aims to attract and promote FDI to supplement domestic

The Foreign Exchange Management Act, 1999 (FEMA), is the overarching legislation that governs foreign investment in India. It provides the legal framework for cross-border capital and current account transactions. FEMA, along with the rules and regulations framed thereunder, Consolidated FDI Policy Circulars, Press Notes, Press Releases, and Clarifications, constitutes India's comprehensive regulatory framework for foreign investment[4]. All transactions relating to foreign investment in India must be undertaken through banking channels and are subject to the payment of applicable taxes and other duties in India.

4.1. FEMA (Non-debt Instruments) Rules, 2019:

These rules, issued by the Ministry of Finance, Department of Economic Affairs, govern foreign investment in equity instruments issued by Indian companies. This includes equity shares, preference shares, and convertible debentures. The framework also extends to investments in Limited Liability Partnerships, Investment Vehicles, and Indian Depository Receipts. These rules consolidate regulations for both Foreign Direct Investment and Foreign Portfolio Investment into a single framework and specify conditions for issuing and transferring these instruments to non-residents.

4.2. FEMA (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019:

This companion regulation, issued by the RBI, primarily prescribes the method of payment and the reporting requirements for all transactions covered under the Non-debt Instruments Rules. It

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[3] Department for Promotion of Industry & Internal Trade, Ministry of Com. & Indus., Government of India, *Consolidated FDI Policy*, ch. 1 (2020), https://dpiit.gov.in/sites/default/files/FDI-PolicyCircular-2020-29October2020_0.pdf

[4] *Supra* note 1

specifies how the consideration for investment should be received and details the various forms (e.g., Form FC-GPR for reporting share issuance) and timelines for reporting transactions to the RBI.

4.3. Navigating FEMA's Nuances: Beyond FDI Routes

The FEMA is the overarching legislative framework that governs all foreign exchange transactions in India, including those related to FDI. While the DPIIT's policy sets the broad parameters for investment, FEMA, particularly the Foreign Exchange FEMA (NDI Rules), provides the detailed guidelines that investors must adhere to.

Recent amendments to the NDI Rules have been introduced to further liberalize and clarify the investment landscape. For instance, in August 2024, amendments were made to simplify cross-border share swaps, which are crucial for mergers, acquisitions, and the global expansion of Indian companies. Another significant development came in June 2025, when the DPIIT and the DEA clarified that Indian companies can issue bonus shares to existing non-resident shareholders even in sectors where FDI is prohibited, a move that regularized a previously ambiguous area of compliance.

The RBI's updated Master Directions, issued in January 2025, also brought much-needed clarity on downstream investments made by FOCCs. The new rules align FOCC downstream investments with direct FDI regulations, simplifying complex corporate structures and allowing for greater flexibility in deal structuring, such as through equity swaps and deferred consideration arrangements.

A critical area that still requires nuanced navigation is the concept of "beneficial ownership," which is central to both Press Note 3 and broader compliance obligations. The Indian legal framework currently lacks a single, uniform definition, with various regulations prescribing different ownership thresholds. The Companies Act, 2013, for example, defines a Significant Beneficial Owner with a minimum threshold of 25% ownership, whereas the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, and certain SEBI guidelines use a 10% or 15% threshold. This legislative inconsistency creates legal confusion and can lead to regulatory uncertainty. It demonstrates a growing focus on transparency and the alignment with international standards, but it also places a significant burden on investors to perform enhanced due diligence and carefully structure their investments to avoid compliance pitfalls.

CHAPTER 5

Compliance and Reporting Framework

The Indian foreign investment framework emphasizes adherence to clear guidelines at both the entry and post-investment stages, with strict consequences for non-compliance. At the entry stage, compliance requirements are:

5.1. KYC of foreign investor:

The remittance receiving AD Category-I bank must conduct a Know Your Customer (KYC) check when sale consideration for equity instruments purchased by a person resident outside India is remitted into India through normal banking channels. If the remittance receiving bank is different from the bank handling the transfer transaction, the KYC report must be submitted by the customer to the latter.

5.2. Pricing guidelines:

The price of shares issued to persons resident outside India must not be less than the price worked out in accordance with SEBI guidelines for listed companies, or the fair valuation by a SEBI registered Merchant Banker or a Chartered Accountant using internationally accepted pricing methodology on an arm's length basis for unlisted companies. For convertible instruments, the price/conversion formula must be determined upfront, and the conversion price should not be lower than the fair value worked out at issuance. In the case of transfer of shares from a resident to a non-resident, the price must not be less than the prescribed fair value. For transfer from a non-resident to a resident, the price must not be more than the minimum price at which a resident can transfer shares to a non-resident. For investments in LLPs, capital contribution or profit shares must be at a fair price determined by a Chartered Accountant, Cost Accountant, or approved valuer. These pricing guidelines are generally not applicable for investments made on a non-repatriation basis or where SEBI regulations prescribe pricing.

5.3. Permissible instruments:

Indian companies can issue equity shares, fully, CCDs, and fully, compulsorily and CCPS to persons resident outside India. These instruments must be fully paid, and their price/conversion formula must be determined upfront. Other types of preference shares or debentures that are non-convertible, optionally convertible, or partially convertible are considered debt and are subject to External Commercial Borrowing norms.

CHAPTER 6

A Sectoral Deep Dive: Caps, Opportunities, and Restrictions

India's FDI policy is a dynamic matrix of opportunities, with the government strategically opening or regulating sectors to balance economic growth with national interests. The following analysis provides a detailed overview of the key sectors and their respective FDI caps and entry routes.

6.1. Sectors Permitting 100% FDI Under the Automatic Route

The government has fully liberalized several high-growth, high-opportunity sectors, allowing for 100% FDI under the Automatic Route. This reflects a clear policy signal to attract foreign capital and technology without prior government screening.

a) **Medical Devices & Healthcare:** The medical devices sector in India is projected to grow to USD 50 billion by 2025, driven by a large population and changing healthcare preferences. To fuel this growth, the government permits 100% FDI under the Automatic Route for both the manufacturing of medical devices and the hospital sector. The sector is further incentivized by schemes like the Production-Linked Incentive (PLI) program, which offers financial incentives for domestic manufacturing.

b) **Renewable Energy & Electric Vehicles (EVs):** India's ambitious green energy goals have led to a full liberalization of the renewable energy sector. Companies can receive 100% FDI under the Automatic Route for solar and wind energy projects. The government has also introduced a new Scheme for Manufacturing of Electric Cars (SMEC) to attract foreign investment in EV manufacturing. This scheme allows automakers to initially import EVs at a reduced import duty of 15% while they commit to investing at least 500 million USD and achieving a minimum domestic value addition of 50% over three years.

c) **Space Technology:** A major area of recent liberalization, the Indian government has amended its FDI rules to open the space sector to private players. FDI up to 100% is now permitted under the Automatic Route for certain sub-segments of the space sector. This policy change aims to provide "rocket fuel" for India's burgeoning spacetech startup ecosystem, which has raised over USD 285 million since 2016 and is projected to reach USD 77 billion by 2030. The policy is a direct response to ambitious national goals, such as launching 50 rockets per year and creating five spacetech unicorns in the next five years.

d) **Fintech & Blockchain:** The government has taken a progressive stance by permitting 100% FDI under the Automatic Route for fintech companies developing blockchain-based solutions. This positions India as a potential hub for fintech innovation. However, a crucial point of consideration for investors is that the digital payments and fintech sectors are subject to strict regulations regarding data localization and cybersecurity, which must be complied with as per RBI guidelines and the Personal Data Protection Act.

6.2. Strategically Regulated Sectors

The following sectors have specific FDI caps and entry routes, reflecting a strategic approach to attracting foreign capital while maintaining a degree of control.

a) **Defence:** The FDI cap in the defence manufacturing sector has been increased to 74% under the Automatic Route for companies seeking new industrial licenses. FDI up to 100% is also permissible under the Government Approval Route for proposals that bring access to "modern technology". This policy shift aims to reduce the country's dependence on imports and encourage technology transfer from global players.

b) Insurance: The Union Budget 2025 announced a significant policy change for the insurance sector, proposing an increase in the FDI cap from 74% to 100%. This enhanced limit is contingent on the condition that the foreign-owned company invests its "entire premium in India". This is a major move to attract fresh capital, foster product innovation, and strengthen the solvency of the industry.

c) Broadcasting and Print Media: The media sector is highly regulated to manage foreign influence over domestic news and public opinion.

- **Print Media:** FDI is capped at 26% under the Government Approval Route for the publishing of newspapers and periodicals dealing with news and current affairs. However, 100% FDI is permitted for publishing scientific/technical magazines and for bringing out facsimile editions of foreign newspapers, subject to government approval.
- **Broadcasting:** The FDI limit is 49% under the Government Route for terrestrial broadcasting of FM radio and for up-linking news and current affairs TV channels. In contrast, 100% FDI is permitted under the Automatic Route for up-linking non-news channels and for services like Direct to Home (DTH) and Mobile TV.

d) **Multi-brand Retail Trading:** This sector serves as a prime example of a regulated pathway that has proven challenging for foreign investors. While the federal government has a policy that permits 51% FDI under the Government Approval Route, this is subject to numerous conditions, including a minimum investment of USD 100 million and sourcing 30% of manufactured or processed products from Indian micro, small, and medium-sized industries. Critically, the implementation of this policy is dependent on individual state approval, a condition that has limited its practical application and made it a difficult sector to enter.

e) **Prohibited Sectors:** A select number of sectors are entirely closed to FDI, reflecting core legislative and policy prohibitions. These include lottery businesses, gambling and betting (including casinos), chit funds, Nidhi companies, real estate business (with limited exceptions), and the manufacturing of tobacco or tobacco substitutes.

CHAPTER 7

Recent reforms, trends and Practical Guidance

India has been actively undertaking reforms to liberalize its FDI policies, stimulate economic growth, and improve the ease of doing business. Over the last three decades, the government has worked to create a policy framework that is **transparent, predictable, and comprehensible**, making India one of the most attractive destinations for foreign investors. Today, more than 90% of FDI inflows are routed through the **Automatic Route**, which allows foreign investment without prior government approval in most sectors signalling a low-friction, investor-friendly environment.

7.1. Key Reforms and Sectoral Liberalization

- **Push for 100% FDI in newer sectors:**
  - **Space:** Up to 100% FDI is permitted under the government route for the establishment and operation of satellites, subject to guidelines of the Department of Space/ISRO.
  - **Renewable Energy & Power:** Electricity generation, transmission, and distribution (excluding atomic power) allow 100% FDI under the automatic route.
  - **Insurance Intermediaries:** The sectoral cap has been progressively raised from 49% to 74% under the automatic route, with a further increase to 100% announced in the Union Budget 2025 for companies that reinvest premiums domestically.
- **Defence Sector:** FDI up to 74% is now permitted under the automatic route for companies seeking new industrial licenses (up from 49% earlier). Beyond 74%, investment requires government approval.

7.2. Ease of Doing Business and Governance Initiatives

The Government of India has complemented sectoral liberalization with broader measures to improve the investment climate. The **Jan Vishwas (Amendment of Provisions) Act, 2023** decriminalized 183 provisions across 42 central laws to reduce compliance burdens. A forthcoming **Jan Vishwas 2.0** aims to deepen these reforms. Other initiatives include:

1. **National Single Window System:** A digital platform for single-window clearances, reducing procedural delays.

2. **Business Reforms Action Plan & LEADS Reports:** State-level rankings and logistics performance assessments that foster healthy competition among states to attract investment.

3. **Investment Friendliness Index of States (2025):** A new measure to encourage cooperative federalism and highlight investor-ready regions.

7.3. Strategic Guidance for Foreign Investors

While the overarching framework is designed to be straightforward, its practical application requires careful navigation:

1. **Due Diligence is Crucial:** Investors must pay particular attention to regulations concerning *beneficial ownership*. Thorough analysis of ownership structures and funding sources is vital to ensure compliance.

2. **Partnering with Local Entities:** India's consumer market is highly diverse, with strong regional variations. In complex sectors such as defence or multi-brand retail, joint ventures with established local players can provide market access, regulatory insights, and distribution networks.

3. **Engage Expert Counsel Early:** Given the multi-layered nature of Indian regulations under the FEMA, 1999, and sector-specific policies, working with legal and compliance specialists is essential. Expert advisors can assist in deal structuring, obtaining approvals, and ensuring ongoing compliance, thereby reducing risks and optimizing returns.

CHAPTER 8

Concluding Insights and Strategic Recommendations

8.1. Synthesizing the Landscape: A Predictable and Transparent Framework

The analysis presented in this report confirms that India's FDI policy is a robust, dynamic, and progressively liberalized framework. The government's strategic intent to attract foreign capital is clear, demonstrated through a continuous reform agenda spanning over three decades. This commitment is embodied in a policy that is largely "transparent, predictable, and easily comprehensible". The overwhelming majority of FDI inflows, exceeding 90%, are channelled through the Automatic Route, signalling a low-friction entry for foreign investors in most sectors. The government's focus on improving the "Ease of Doing Business" is further reinforced by recent legislative amendments, such as the simplification of cross-border share swaps and the rationalization of FDI in key sectors. The move towards digitalization and single-window clearance platforms, such as the National Single Window System (NSWS), also underscores a clear, forward-looking trend to reduce procedural barriers and enhance the investor experience.

8.2. Navigating the Complexities: Practical Guidance

While the overarching policy framework is transparent, its practical application requires a nuanced and multi-layered approach. The following strategic recommendations are vital for any foreign entity considering an investment in India:

- **Recommendation 1: Due Diligence is Paramount.** The legal landscape, while clear in principle, can be complex in application. The policy's nuances, particularly regarding "beneficial ownership" in the context of Press Note 3 and other regulations, necessitate meticulous legal due diligence. A thorough analysis of an investor's corporate structure and funding sources is essential to mitigate potential compliance risks and legal ambiguity.
- **Recommendation 2: Partnering with Local Entities is a Proven Strategy.** The dual nature of the Indian consumer market, with the rise of hyper-localized and regional brands challenging national giants, presents a significant strategic challenge. For sectors with complex regulations, such as defence and multi-brand retail, joint ventures with experienced local partners can be the most effective entry strategy. This approach can balance foreign capital and technology with invaluable local market knowledge, distribution networks, and a deep understanding of regional consumer preferences.

- **Recommendation 3: Engage with Expert Counsel Early.** Given the complexities of FEMA regulations, the multi-ministerial nature of the Government Approval Route, and the need for meticulous reporting, engaging specialized legal and compliance experts is not a luxury but a necessity. A law firm with a deep understanding of India's regulatory frameworks can provide tailored advice on deal structuring, assist with securing necessary approvals, and ensure ongoing compliance, thereby mitigating risks and optimizing the investment's legal and financial outcomes.

India’s FDI policy has evolved into a robust and progressive framework, underpinned by FEMA and managed by key regulators such as RBI and DPIIT. The government’s consistent efforts ranging from strategic sectoral liberalization to comprehensive ease-of-doing-business reforms reflect a clear intent to attract high-quality foreign capital.

For international investors, India today offers not just a large market and growth opportunities, but also a regulatory ecosystem that encourages transparency, efficiency, and innovation. By combining global capital and expertise with India’s evolving policy environment and vast consumer base, foreign investors can expect not only to participate in India’s growth story but also to multiply value through sustainable, long-term investments.

The appendices below provide a consolidated reference for the most critical data points discussed in this report, serving as a quick guide for strategic reference.

Appendix I: Table of Key FDI Sectoral Caps & Entry Routes (2025)

Sector	FDI Limit	Entry Route & Remarks
Agriculture	100%	Automatic. Includes floriculture, horticulture, seeds, and animal husbandry.
Broadcasting Content Services (News & Current Affairs TV Channels)	49%	Government Route
Broadcasting Content Services (Non-News TV Channels)	100%	Automatic Route.
Civil Aviation (Airports)	100%	Automatic Route for both greenfield and brownfield projects.
Construction Development	100%	Automatic Route.
Defence Manufacturing	74%	Automatic Route for new industrial licenses. Up to 100% under Government Route for access to modern technology
Electric Vehicles (EV) Manufacturing	100%	Automatic Route. Subject to investment commitment and local value-addition under SMEC.
Fintech (Blockchain Solutions)	100%	Automatic Route. Subject to data localization and other regulations.
Healthcare (Hospitals)	100%	Automatic Route.
Insurance	Up to 100%	Automatic Route. Announced in Union Budget 2025 with the condition to invest the entire premium in India.
Manufacturing	100%	Automatic Route.
Medical Devices Manufacturing	100%	Automatic Route.
Mining	100%	Automatic Route for metal and non-metal ores.
Multi-brand Retail	51%	Government Route. Subject to numerous conditions and state-by-state approval.
Print Media (News & Current Affairs)	26%	Government Route.
Space Technology (Sub-Segments)	Up to 100%	Automatic Route. Applies to certain segments such as satellite manufacture.
Telecom Services	100%	Automatic Route.

Appendix II: Timeline of Major FDI-FEMA Reforms (1991-2025)

Year	Milestone & Policy	Description
1991	Economic Liberalization	India initiates sweeping economic reforms, moving from a restrictive regime to a more open, market-oriented system.
2014	Launch of "Make in India"	The government introduces a landmark initiative to transform India into a global manufacturing and design hub, with a focus on ease of doing business and infrastructure.
2020 (April)	Press Note 3	In response to the COVID-19 pandemic, the government mandates that all FDI from countries sharing a land border with India must follow the Government Approval Route, regardless of the sector.
2024 (August)	NDI Rules Amendment	The Foreign Exchange Management (Non-debt Instruments) Rules are amended to simplify cross-border share swaps, facilitating global expansion for Indian companies.
2025 (January)	RBI Master Directions Update	The RBI introduces significant updates to its foreign investment master directions, clarifying rules for downstream investments by Foreign-Owned or Controlled Companies (FOCCs).
2025 (Union Budget)	Insurance & Space Sector Reforms	The Union Budget announces a proposal to increase the FDI cap in the insurance sector to 100% and to liberalize FDI in the space sector.
2025 (June)	Clarification on Bonus Shares	The government clarifies that Indian companies in prohibited sectors can issue bonus shares to existing non-resident shareholders, providing statutory backing to this practice.

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