

INDIAN INVESTMENT ABROAD - OVERSEAS DIRECT INVESTMENT BY INDIAN COMPANIES

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Introduction

Outbound investments from India have undergone a considerable change not only in terms of magnitude but also in terms of geographical spread and sectorial 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

India has emerged as one of the strongest performers in the deal-street across the world in mergers and acquisitions. M&A activity in India more than doubled year-on-year to reach US\$ 61.26 billion in 2016-17.

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\$ 867.53 million in the month of February 2017 as against US\$ 1.81 billion in January 2017 and US\$ 2.21 billion in February 2016.

Investments

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:

- Intas Pharma has announced purchase of two companies in UK and Ireland, Actavis UK Ltd and Actavis Ireland Ltd, from Israeli pharma major Teva Pharmaceutical Industries Ltd, for an

enterprise value of GBP 600 million (US\$ 754.14 million).

- India-focused private equity firm Everstone Group, through its Singapore arm Everise Services, has agreed to buy C3, a US-based global CRM solutions provider, for an estimated deal value of US\$ 150 million.
- India's third largest software services firm Wipro will be spending US\$ 500 million to acquire US-based cloud services firm Appirio.
- Adani Enterprises has announced plan to develop 1,000 megawatt (MW) of solar power projects in Australia over the next five years.
- Sun Pharmaceutical Industries Ltd, India's largest drug maker, has entered into an agreement with Switzerland-based Novartis AG, to acquire the latter's branded cancer drug Odomzo for around US\$ 175 million.
- WNS Global Services, the Mumbai-based business process management company, has announced its plans of acquiring Denali Sourcing Services, a US-based business process outsourcing company, for US\$ 40 million.
- Aurobindo Pharma has bought Portugal based Generis Farmaceutica SA, a generic drug company, for EUR 135 million (US\$ 146.67 million).
- Motherson Sumi Systems Ltd, an automobile components manufacturer, has acquired Finland-based truck wire maker PKC Group Pic for EUR 571 million (US\$ 620.36 million).
- Piramal Enterprises Ltd has acquired a portfolio of spasticity and pain management drugs from UK-based specialty biopharmaceutical company Mallinckrodt Pharmaceuticals, in an all-cash deal for Rs 1,160 crore (US\$ 178.22 million).
- Cipla Limited, one of India's leading pharmaceutical firms, plans to invest around Rs 600 crore (US\$ 89 million) to set up a biosimilar manufacturing facility in South Africa for making affordable cancer drugs and growing its presence in the market.
- Reliance Industrial Investments and Holdings, a wholly-owned subsidiary of Reliance Industries Limited (RIL), has invested Rs 108 crores (US\$ 16 million) in compulsorily convertible preferred shares of US-based technology start-up NetraDyne.
- Tech Mahindra, one of the largest IT (information technology) firm in India, has agreed to acquire UK-based Target Group, a business process outsourcing and software solutions provider, through a deal worth Rs 1,100 crore (US\$ 163 million).
- Indian pharmaceutical major Lupin has completed the acquisition of US-based GAVIS Pharmaceuticals in a deal worth US\$ 880 million, which is expected to enhance its product pipeline in dermatology, controlled substances and high-value speciality products.
- Ashok Leyland Limited, India's second largest commercial vehicle manufacturer, has announced to expand its unit in Ras Al Khaimah (RAK) in the United Arab Emirates (UAE) by

investing US\$ 10 million which will help the company nearly double its bus production capacity at the unit.

Government initiatives

- 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.
- The Union Cabinet has approved a proposal to provide US\$ 150 million credit from Export Import Bank of India (EXIM Bank) for the development of Chabahar Port in Iran, which will also help India to facilitate the growing trade and investment with Iran and other countries in the region.
- The Union Cabinet chaired by the Prime Minister, Mr Narendra Modi, has given its approval for the framework of inter-governmental memorandum of understanding (MoU) which will be finalised by the Government of India and Iran.
- The RBI has relaxed norms for foreign investment by Indian corporates by raising the borrowing limit. The financial commitment to be undertaken by an Indian party will be limited to within 400 per cent compared to the earlier 100 per cent of the company's net worth.
- The RBI has also allowed limited liability partnership (LLP) firms to undertake financial commitment to/ on behalf of JV or wholly owned subsidiaries of Indian companies abroad.
- The Indian government is making efforts to integrate the country's economy with the rest of the world. To help the country's firms raise capital abroad, the government will facilitate unlisted Indian companies to list on foreign markets without having to be publicly traded on domestic exchanges.

Road ahead

Overseas investment is one of the foremost steps to enter the global marketplace and in recent times, India has taken necessary steps to make its presence felt in the global arena. Investment

