# Foreign companies pulling more money out of India, says Nomura

Foreign direct investment, the sort of sticky long-term money India craves to fund its current account deficit and build up its infrastructure, may not be so stable after all.

According to a Nomura report, multinational companies have been pulling money out of India at an accelerating rate, moving $10.7 billion out of the country in 2011, up from $7.2 billion in 2010 and just $3.1 billion in 2009.

Outward flows are bad news for a country that this week saw its rupee currency hit a new record low as investors worry about its hefty fiscal and current account shortfalls, slowing economic growth and policy gridlock.

Still, corporate funds continue to enter India even as existing investors exit. Inbound foreign direct investment surged 88% to a record $36.5 billion in the fiscal year that ended in March, according to official data.

"Global deleveraging may have forced companies to sell their Indian assets and repatriate funds to their home country," Nomura analysts wrote in the Friday note.

"At the same time, domestic push factors such as slowing potential growth, the high cost of doing business and regulatory uncertainty have weakened the investment climate, likely causing this erosion. This is not a good sign."

Telecom companies Etisalat of Abu Dhabi and Bahrain Telecommunications Co are leaving India after their mobile phone licences were among those ordered cancelled by the Supreme Court amid a corruption probe.

New York Life recently exited its 26% stake in an Indian insurance venture with Max India for $530 million, while US mutual fund giant Fidelity Worldwide Investment recently struck a deal to unload its India unit to local company L&T Finance Holdings.

Foreign companies have been increasingly frustrated by regulatory uncertainty and a lack of reforms. Rules that would allow foreign companies into the supermarket and airline industries are stalled.

Vodafone, the world's biggest mobile carrier, has repeatedly clashed with authorities in India, which is trying to collect more than $2 billion in taxes from it through a retroactive law change, even after the Supreme Court ruled in the company's favour.

Vodafone, the biggest overseas corporate investor in India, has said it will not walk away.

The Nomura report said the services, manufacturing and real estate sectors probably saw “the maximum outflow”.

*(Livemint.com)*