Govt eases foreign investment rules, banks likely to gain most

FDI, FPI, NRI funding clubbed together, move to attract overseas investments, improve ease of doing biz.

In a move that will attract more overseas inflows and improve the ease of doing business in India, the government on Thursday simplified foreign investment rules by bringing together different categories.

The Cabinet Committee of Economic Affairs (CCEA), chaired by Prime Minister Narendra Modi, introduced a composite cap for all kinds of overseas inflows, including foreign direct investment (FDI), foreign portfolio investment (FPI) and investments by non-resident Indians (NRIs).

The decision, which was first announced by finance minister Arun Jaitley in the Budget, boosted stocks of banks, which will now find it easier to attract foreign capital up to 74%. Banks are already reeling under the pressure of rising bad loans and need billions of dollars to meet capital requirements.

Besides banks, credit information firms, commodity and power exchanges, and defence and other retail companies among others, will also benefit from the policy.
"One of the most important decisions in relation to the investment is the introduction of composite caps for simplification of foreign direct investments," Jaitley said after the Cabinet meeting.

The policy will allow any sort of foreign investment up to 49% without government nod, i.e., through the automatic route. However, investments that are subject to government approval will continue to come under the Centre's purview. The same will apply to sectors which allow 49% FDI. In case of companies seeking to rejig their portfolio of investors within the 49% cap, it can be done through the automatic route, except in banking and defence, where the FPI limit has been capped at 49% and 24%, respectively, subject to government nod.

In sectors with 49% cap, the policy remains the same, and any sort of foreign investment can be brought in subject to the government's existing policy.

"It will speed up foreign exchange flows in India," said Mehul Modi, senior director, Deloitte India.

However, investments made through foreign currency convertible bonds and depository receipts would not be treated as foreign investment unless the debt is converted into equity.

(Hindustan Times)