India's Investment Environment – March 2008

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I. Introduction

The Government of India has further liberalised foreign direct investment (FDI) norms for various sectors (see table below). The Government has opened up new areas like credit information, commodity exchanges and aircraft maintenance for foreign investors and also hiked the ceiling for FDI in public sector oil refineries. However, contrary to expectations, the Government has not reviewed FDI regulations in the retail sector. The expected hike in FDI ceiling in the insurance sector has also been kept on hold.

II. Recent Changes in FDI Regulation

Table: Recent Changes in FDI Regulation

S No.	Sector	FDI limit (in percent)	Route	Activity Details	Remarks
1	Civil Aviation	74	Automatic	Non scheduled, chartered and cargo airlines	No foreign airline will be allowed to pick up equity, even indirectly, in air transport services, which will be reclassified for the first time as 'Domestic Scheduled Passenger Airlines'. (Press Note No.4/2008)
		100	Do	Maintenance Repair and Overhaul facilities, Helicopters and Sea plane services, Flight Training institutes, Ground Handling, and Technical Training	

S No.	Sector	FDI limit (in percent)	Route	Activity Details	Remarks
2.	Petroleum refining by public sector undertakings (PSUs)	49	Foreign Investment Promotion Board (FIPB)		Requirement for 26 percent compulsory divestment in favour of Indian partner/public within five years of trading and marketing of petroleum products waived. (Press Note No.5/2008)
3.	Titanium mining	100	FIPB		
4.	Credit information companies	49 (including FII up to 24)	Automatic		Permission of Reserve Bank of India (RBI) is necessary. Credit Reference Agencies have been deleted from the list of non banking finance companies and have been permitted to avail of 100 percent financing through FDI in the automatic route. (Non-banking Financial Companies). (Press Note No.1/2008)
5.	Commodity exchanges	49 (including Foreign Institutional Investor up to 23)	do		No single foreign investor can own more than 5 percent. (Press Note No.2/2008)
6.	Industrial parks	100	do		Restrictions such as minimum capitalisation and three year lock in waived. Investors exempted from the provisions of Press note 2 (2005). The Note put certain restriction in terms of size of land, built up area and minimum capitalisation. (Press Note No.3/2008)

The domestic airlines industry has been incurring huge losses and the industry as well as the Planning Commission is emphatic that the Government should allow foreign-owned airlines to participate in domestic aviation. But the Government has stuck to the old policy of not allowing such airlines to acquire a stake either directly or indirectly in Indian passenger airlines which have been reclassified as 'Domestic Scheduled Passenger Airlines'. However, the decision of liberalising maintenance repair and overhaul facilities, ground handling, and cargo airlines are likely to generate substantial interest among foreign investors.

The decision to raise FDI cap from 26 to 49 percent in petroleum refining by PSUs would ease the entry of foreign players in this sector in partnership with PSUs. The Government has not allowed the expected Foreign Institutional Investor (FII) in pre-initial public offer (IPO) placements of Indian real estate companies. This will mar the hopes of real estate companies eyeing funds through this route. These companies are already hemmed in by rising home loan rates and curbs on external commercial borrowing and issuing of convertible preferential shares.

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