



## Report

# CREATING THE INDIAN MNC

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Prepared by

**CRISIL Centre for Economic Research**

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## **Chapter 1: The Methodology**

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Data on FDI coming into India is reasonably comprehensive both in terms of the investing countries as well as the sectors in India that attract these investments. However, information on outbound investments from India is relatively sparse. This study attempts to fill this lacuna and identify the sectors and companies from which investments are flowing abroad and the markets that are hosting these investments. Thus the first section of the study is based on a systematic analysis of the financial statements of a large sample of domestic companies. The detailed methodology is given below.

The second section of the study looks at the regulatory and institutional issues in facilitating overseas investments from India. This is based on an analysis of the regulations as well as interactions with Indian companies that have investments abroad, regulatory agencies as well as institutions like EXIM Bank that help in funding these overseas investments.

### **Sectors and Destinations: The Approach**

In terms of the specific approach, the study of investing sectors and investment destinations follows a 'bottom-up' approach and uses company financial statements, by and large, to identify investments in foreign affiliates or subsidiaries. The data is drawn mostly from a sample of about 600 companies maintained by Global Data Services, a CRISIL subsidiary, and from other sources such as news reports. While the sample is by no means complete, it is comprehensive enough to identify the critical trends.

The study considers investments in equity of foreign subsidiaries and affiliates of Indian companies as on March 31, 2006 and defines this as the FDI of Indian companies. For each company the amount of investments and their destination is quantified. These are then aggregated to find sector-wise totals as well as the total quantum flowing to each destination.

Joint ventures with overseas companies and strategic investments are defined as investment in affiliates. Investment made by the overseas subsidiaries in subsidiaries, affiliates and other companies along with the foreign investment by domestic subsidiaries of Indian companies is also added to the parent companies' investments. All investments are gross of 'provision for diminution' in value of investments.

## **Chapter 2: Introduction and Trends**

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### **Introduction**

Winds of globalisation are sweeping across the Indian corporate sector. Indian firms are on an aggressive buying spree abroad as part of the strategy to establish 'Brand India' across the globe. The buyers were not limited to just a couple of sectors but spread, instead, across a wide spectrum of industries ranging from pharmaceuticals to telecom, automobiles and ancillaries to IT. The geographic spread was just as varied spanning the US, Europe, Africa, China and the CIS countries. However, this was not a sudden spurt – the acceleration in investment activity abroad is the culmination of a long-term trend towards the creation of the 'Indian MNC', a trend that has gathered momentum over the last few years.

The government, particularly the Reserve Bank of India (RBI), has played an accommodative role in this strategy of 'internationalisation' of the Indian corporate sector. As foreign exchange reserves have piled up, (forex reserves stand at over US\$ 165.33 billion as of August, 2006), the RBI has progressively relaxed the controls on outbound investments, making it easier for Indian companies to acquire or invest abroad. A slew of amendments to the RBI guidelines have effectively raised permissible investment limits and streamlined processes.

This study tracks this creation of the Indian multinational. It investigates the strategic imperatives that have driven Indian investments overseas and the future course that these strategic moves are likely to take. It then identifies the key sectors from which the investment flows are taking place and the markets that these investments are seeking. It also reviews the policy environment in which these investments are flowing abroad, the changes that have taken place and the constraints that remain. The ultimate objective is to identify the way forward to satisfy the global aspirations of Indian companies, the policy and regulatory framework that facilitates and the institutional apparatus that can foster these investments.

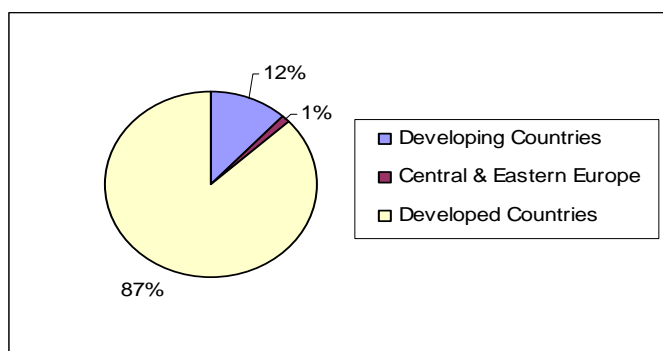
### **International Trends in Overseas Investment**

Cross-border investments and overseas acquisitions have existed for the last few centuries. The first instance of cross-border corporate investments would be the European colonial enterprises such as the British and Dutch East India Companies. The mid-nineteenth century saw a flurry of investment activity in the Far-East with European companies like Swire and Jardine making large investments in

Hong Kong. Transnational investment gathered steam in the second half of the twentieth though they were entirely dominated by the developed countries such as the US and Europe. However, the 1990s saw the slow emergence of transnational companies from developing economies.

Turning to more recent history, the 1995-2000 period saw a dramatic rise in overseas investment flows across the globe after which they tapered off. Global investment flows rose from US\$ 334 billion in 1995 to US\$ 1.3 trillion in 2000. By 2003, Global FDI inflows fell to US\$ 633 billion while during 2004 Global FDI inflows increased marginally to US\$ 648. However, FDI outflows rose significantly to US\$ 730 billion in 2004 from US\$ 616 billion in 2003, which suggests that a recovery is under way in 2005. A few large cross-border mergers and acquisitions (M&As) may make all the difference, and they are impossible to predict.

**Figure 1: Global FDI Outflows**



Source: World Investment Report 2005, UNCTAD

Not surprisingly, developed economies remain the major contributor to foreign direct investments, given their historical dominance. In 2004, they had a 87 per cent share in total outflows (Figure 1). They are also the biggest recipients of foreign investment, that is, intra-nation flows within the developed world are robust. While developing countries receive around 36 per cent of total inflows, the developed nations receive nearly 59 per cent of the total inflows (Table 1). The Central and the East European countries account for the remaining 5 per cent share.

**Table 1: FDI Inflows (US\$ billion)**

	2002	2003	2004
<b>World</b>	716	633	648
<b>Developed countries</b>	548	442	380
<b>Developing countries</b>	156	166	233
<b>Central and Eastern Europe</b>	12	24	35

Source: World Investment Report 2005, UNCTAD

Amongst the developed nations, the US, and the UK occupy the position of the top sources of global foreign investments. In one of the most significant developments in 2004, China with an FDI inflow of US\$ 61 billion overtook Luxembourg as one of the top destinations of global investments (Table 2). In 2002 and 2003, Luxembourg was the most preferred destination of global FDI. Much of the inward FDI into Luxembourg is being driven by tax considerations. In 2004 also, the US remained the world's largest FDI source (Table 3).

**Table 2: Top Five Destinations of Global Investments (US\$ billion)**

Rank	2002		2003		2004	
1	Luxembourg	117	Luxembourg	91	United States	96
2	United States	71	United States	57	United Kingdom	78
3	China	53	China	54	China	61
4	Germany	51	France	43	Luxembourg	57
5	France	49	Belgium	32	Australia	43

Source: World Investment Report 2005, UNCTAD

**Table 3: Top Five Sources of Global Investments (US\$ billion)**

Rank	2002		2003		2004	
1	United States	135	United States	119	United States	229
2	Luxembourg	126	Luxembourg	101	United Kingdom	65
3	France	50	United Kingdom	66	Luxembourg	59
4	United Kingdom	50	France	53	Spain	54
5	Spain	36	Netherlands	38	France	48

Source: World Investment Report 2005, UNCTAD

Among the developing countries, Asia is the biggest recipient of foreign direct investment, driven largely by the flows that China receives (Table 4). India's performance is relatively poor, with FDI of just US\$ 5.3 billion in 2004 compared to a whopping US\$ 61 billion received by China.

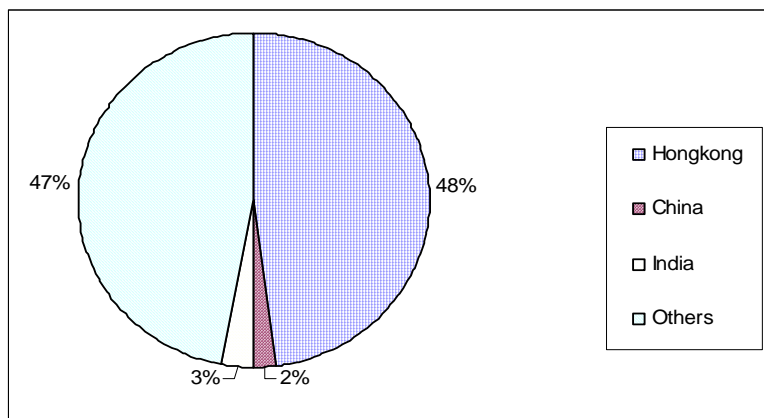
**Table 4: FDI Inflows into the Developing Countries (US\$ billion)**

	2002	2003	2004
Developing countries	156	166	233
Africa	13	18	18
Latin America and the Caribbean	50	47	68
Asia	92	101	148
China	53	54	61
Hong Kong	10	14	34
India	3	4	5
South Korea	3	4	8
Singapore	6	9	16
Thailand	1	2	1

Source: World Investment Report 2005, UNCTAD

India fares marginally better than China on the tally of investing economies from the developing world (Figure 2). However, of the US\$ 83 billion that firms from Asian developing countries invested abroad in 2004, Indian investments were just a little over US\$ 2 billion.

**Figure 2: Investment flows from Asia (% shares)**



Source: World Investment Report 2005, UNCTAD

### **Chapter 3: Drivers of Foreign Investment: An Analytical Perspective**

The rising tide of Indian investment overseas reflects the imperatives of operating in a globalised market place. Given rising competition, Indian firms are now driven by the need to seek the cheapest resource mix and locate operations where these are available. Globalisation also entails that they seek larger markets that transcend geographical barriers. Both factors translate into a strategy of larger overseas investments. Changes in the international regulatory environment, particularly developments in the intellectual property rights (IPR) regimes, as we find later, are also critical drivers for India Inc's forays abroad.

We try to place these trends in an analytical framework and review the large body of research on overseas investments to identify the critical drivers. Broadly, these are:

- 1) **Market distortions:** In a world without tariffs and other 'distortions', exports and local production would be perfect substitutes. Location of production facilities that entail foreign investment in another country would not offer the investing economy any particular advantage. However, in the real world, distortions do exist and provides an incentive for firms to locate production facilities abroad.

The most common form of distortion is the existence of high import tariffs that block exports and effectively provides a protected market for firms that choose to produce within that market (tariff hopping). Another form of distortion that is particularly relevant to Indian companies is the regulatory regime. Indian pharmaceutical firms who wish to sell drugs in the 'regulated' markets need clearance from drug regulators. Clearance procedures are often complex and Indian firms wishing to either bypass these regulations or gain regulatory expertise may prefer to acquire an established foreign firm instead of starting afresh.

- 2) **Access to resources:** Access to low cost resources has been another important reason behind foreign direct investments. In a number of instances, the availability of cheap, skilled labour has been an important driver --- a good example would be Japanese and South Korean investments in the auto-ancillaries sector in India to exploit the relatively cheap, skilled labour-base.

Resource seeking investments from India is largely geared to the oil and gas sector where investment is driven largely by the need to explore new oil reserves. Here destination of FDI is determined by the location of oil fields.

- 3) **Market access:** The penetration of large markets often entails physical proximity of a firm to these markets, a condition that a pure export strategy fails to satisfy. Firms, for instance, need marketing and distribution assets to access market and often the optimal strategy for successful penetration is to acquire a local marketing company or set up a marketing subsidiary. Indian pharmaceutical companies are following exactly this strategy, particularly in unregulated markets.

For Indian software companies, the need for market access has entailed locating facilities in major markets to acquire domain knowledge of clients and setting up 'disaster recovery centers' in case of systems failure.

While these describe the motivations for a country to invest abroad, there are significant gains for host countries that receive foreign investment. There are two aspects of these 'linkage effects' of foreign direct investment that the literature highlights: technology transfer and local employment. Clearly, the magnitude of the linkage effects would depend on the size of the investment. Majority of Indian investments are relatively small in size and hence the linkage effects maybe somewhat small compared to investments by developed economies. However, they are by no means insignificant.

ONGC's venture in Brazil of roughly US\$ 410 million, to take an example, involves a significant degree of exploration at this stage and is labour intensive. Thus the employment gains for the domestic economy are likely to be considerable. Pharmaceutical and IT investments abroad will mean a significant quantum of technology transfer.

## **Chapter 4: The Indian Experience: Results of the CRISIL Study**

Our analysis of outbound investments during 2005-06 and 2006-07 (till mid-September) from Indian companies throws up a number of interesting patterns and trends. For one, the source of investments is not confined to a small number of sectors. Companies across a wide range of industries have set up facilities abroad. The same variation can be seen for destinations – the shopping spree of Indian companies has spanned a large number of countries across continents, finding their way into both developed and developing markets. The size of investments also varies considerably.

### **Trends: 2005-06**

Investment from pharmaceutical companies, specially Dr. Reddy's Laboratories Ltd, tops the list of destinations. This is reflected in the sector tally (Table 5). This sector is not very concentrated in terms of investing firms. Our analysis has identified as many as 20 firms in the sector that have invested abroad. Also there is significant variation in the size of investments. The average size of the investment was roughly US\$ 61 million with the largest investment being US\$ 777 million and the smallest being US\$ 1.32 million.

The banking sector comes second on the list of foreign investment. In this sector, a single entity, State Bank of India, accounts for the bulk of the investments. The State Bank of India made its investments in Mauritius, Indonesia, and Kenya.

Information Technology (IT) comes third on the list of investments though it is much less concentrated in terms of investing firms. This sector shows a pattern similar to pharmaceuticals. The study identified 21 domestic companies that have investments abroad with an average investment of about US\$ 31 million. The range was not very large compared to pharmaceuticals with the largest quantum being US\$ 207 million and the smallest a paltry US\$ 0.75 million. Metals comes fourth, powered by the steel giant Tata Steel's foray into Thailand.

**Table 5: The sector tally (US\$ Million)**

Sector	2005-06	2006-07
Pharmaceuticals	1580.36	321.79
Banking	1180.33	
IT	786.09	346.49
Metals	777.63	
Energy	630.89	855.09
Telecom	308.37	
Consumer durables	289.20	
Tea & Coffee	265.52	677.00
Chemicals	235.14	40.00
Automobiles	205.05	4.5
Auto Ancillaries	158.99	3.93
Fertilizers & pesticides	152.96	
Petrochemicals	119.37	
Diversified	100.00	168.30
Hotels	77.92	
Tyre & tube	71.73	
FMCG	62.23	
Paints	27.22	
Textiles	19.63	109.71
Refractory	16.1	

Source: CRISIL, company annual report, news report.

In terms of destination, the US emerges as the biggest destination because of the large investments from software, pharma, and telecom. The United Kingdom comes second on the list followed by Belgium and Germany. In United Kingdom several companies belonging to different sectors made their investments. In Belgium energy and pharmaceutical sectors made bulk of the investments. Investment in Germany was dominated by Dr. Reddy's Laboratories.

In terms of investor, State Bank of India emerges as the top investor abroad because of its foray into Mauritius, Indonesia, and Kenya (Table 7). Dr. Reddy's Laboratories Ltd comes second. Suzlon Energy comes next on the list followed by Tata Steel, Ranbaxy Laboratories, Videocon International Ltd, etc.

**Table 6: The top 20 destinations of Indian investments overseas (US\$ Million)**

Country	2005-06	2006-07
United States	1054.49	803.77
United Kingdom	815.48	205.82
Belgium	799.94	319.79
Germany	657.79	
Thailand	486.74	
China	375.99	
Romania	343.50	
Singapore	192.34	22.42
Australia	187.28	
Netherlands	171.33	
Canada	117.87	168.30
Cyprus	89.10	
Mauritius	76.48	
South Africa	73.59	4.5
Sweden	65.25	
Mexico	59.05	
Austria	56.44	
Korea	55.01	
Morocco	37.27	
Bermuda	35.56	

Source: CRISIL, company annual report, news report

An interesting development is the emergence of China as a major investment destination for Indian companies. Indian investments in China rose to US\$ 376 million. The investment was dominated by consumer durables industry, accounting for over 77 per cent of total investments made in China by Indian companies (Table 8).

**Table 7: The top 10 overseas investors**

Investor	Sector	2005-06	2006-07
State Bank of India	Banking	1179.11	
Dr.Reddy's Laboratories Ltd	Pharmaceuticals	777.18	
Suzlon Energy	Energy	565.00	
Tata Steel Ltd	Metals	553.83	
Ranbaxy Laboratories Ltd	Pharmaceuticals	324.00	
Videocon International	Consumer durables	289.20	
Videsh Sanchar Nigam Ltd	Telecom	254.37	
Matrix Laboratories Ltd	Pharmaceuticals	252.70	319.79
Tata Consultancy Services	IT	207.24	
Wipro Ltd	IT	154.08	43.60

Source: CRISIL, company annual report, news report

**Table 8: Major Indian Investments in China during 2005-06**

Company	Sector	US\$ Million
Videocon International Ltd	Consumer durables	289.20
Gail India Ltd	Energy	31.00
Matrix Laboratories Ltd	Pharmaceutical	18.00
Aditya Birla	Chemicals	8.50
Dr.Reddy's Laboratories Ltd	Pharmaceuticals	7.62
Tube Investments of India Ltd	Tyre & tube	6.72
Orchid Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	5.30
Infosys Technologies Ltd	IT	5.16
Satyam Computer Services Ltd	IT	3.57

Source: CRISIL, company annual report, news report

**Trends: 2006-07—so far**

During 2006-07 (till mid-September), investment from the energy sector, dominated by Aban Loyd Chiles Offshore Ltd, tops the list (Table 5). This company invested about over US\$ 445 million in Norway. Apart from this company, our analysis has identified one more company, ONGC Ltd, in this sector that has invested abroad. Investment from tea & coffee comes second on the list. Tata Tea, the world's second largest tea company, has recently made acquisition in the US.

The IT sector comes third on the list of FDI. As mentioned earlier, this sector is not very concentrated in terms of investing firms. Five companies from this sector, so far in 2006-07, have

invested abroad. Pharmaceutical comes next on the list of investments powered by Matrix Laboratories Ltd.

In terms of destination, the United States emerges as the biggest destination during 2006-07 (until mid-September), driven largely by massive investments from tea & coffee sector (Annex Table A.6). Norway comes next driven by substantial investment from energy.

In terms of investor, during 2006-07 (until mid-September), Tata Tea Ltd tops the list powered by its investments in the United States as part of the globalization of its beverage business (Annex Table A.6). Aban Loyd Chiles Offshore Ltd comes second driven by the investment in Norway. ONGC comes next on the list on account of its substantial investments in Brazil.

## Case Studies

Here we look at some of the key investing sectors and the corresponding investors. It tries to analyze how the specific needs and imperatives of each sector have driven its investment strategy and how this relates to the larger analytical framework that we have discussed earlier. The sectors have not been chosen according to the size of investments coming from them but rather due to the diversity of their driving factors and the complexity of challenges that globalisation poses. Here we look at a few diverse sectors - pharmaceuticals, IT, energy, auto & auto ancillaries, telecom, metals, and tea & coffee.

### Pharmaceuticals:

**Table 9: The pharma top few (US\$ million)**

Company Name	2005-06	2006-07
Dr.Reddy's Laboratories Ltd	777.18	
Ranbaxy Laboratories Ltd	324.00	
Matrix Laboratories Ltd	252.70	319.79
Jubilant Organosys Ltd	45.80	
Nicholas Piramal India Ltd	31.34	
Opto Circuits Ltd	26.30	
Sun Pharmaceutical Ltd	23.2	
Orchid Chemicals & Pharmaceuticals Ltd	20.89	3.00
Torrent Pharmaceuticals Ltd	16.84	
Cadila Healthcare Ltd	16.81	

Source: CRISIL, company annual report, news report

To understand the factors driving foreign investments from the Indian pharmaceuticals sector, it is necessary to understand the structure of the domestic and global pharmaceuticals industries. Broadly, there are three categories of pharmaceutical products:

- Bulk drugs – These are the basic chemical ingredients that go into the manufacture of drugs. Like other basic chemicals, they are fairly homogenous across manufacturers and since there is no significant product differentiation, no manufacturer has any pricing power.
- Generic drugs – These are drugs that have come off patent in the Western markets and can be produced and marketed by other manufacturers, subject to regulatory clearances.
- Patented drugs – These are drugs in which companies hold patents and have exclusive marketing and distribution rights over them.

Earlier Indian manufacturers can produce a drug that has a patent abroad as long as its manufacturing process is different ('reverse engineering'). The government introduced the product patent regime in India through an ordinance on January 01, 2005. Indian pharmaceutical companies' strategy of diversifying into foreign markets is really a response to the challenges that the new intellectual property rights regime (IPR) of 2005 has ushered in. With the implementation of the product patent regime in India, Indian companies will be unable to continue their traditional practice of re-engineering patented drugs. With this move, there has been a general apprehension about MNCs pricing new molecules at higher rates and the general direction of prices moving upwards.

The strategic response of Indian manufacturers has been to focus on two sets of markets:

- The regulated markets – With a number of drugs going 'off-patent' in the Western markets, the emerging 'generics' markets presents a large opportunity for domestic manufacturers. However, the introduction of a generic drug requires regulatory clearance that involves a cumbersome legal process (average clearances take between 2 to 3 years). To handle this, Indian firms are either setting up subsidiaries or acquiring foreign companies that have regulatory clearance.
- The unregulated markets – Indian companies are also seeking larger markets for the existing pipeline of drugs (unaffected by patents) in unregulated markets. Of these, China and the CIS countries stand out. Indian companies are also making forays into Latin America, particularly Brazil. FDI into these countries is flowing essentially into marketing networks.

Recently, companies like Dr. Reddy's, and Ranbaxy Laboratories have been working towards setting up their own marketing network in the regulated markets by establishing subsidiary companies. Ranbaxy has invited Indian companies to use Ranbaxy's marketing network, instead of partnering with foreign companies. Apart from these initiatives, Indian companies have also been going in for marketing tie-ups with their US counterparts for introducing generic drugs into the regulated markets. Another strategy being followed by the Indian companies is to go in for contract manufacturing. The European generics market is as attractive an option for the Indian companies as the US markets. Considering the fact that the lifestyle and the disease pattern in Europe would be similar to that in the US and with similar opportunities in drugs going off patent, the focus segments for companies in Europe should be the same as that in the US markets. Indian companies like Dr. Reddy's and Nicholas Piramal India Ltd have already set up marketing networks in the fast-growing European countries like United Kingdom and Germany. Dr. Reddy's has built a visible and growing branded formulation presence across all its markets in Asia, and other countries. Indian companies are also making forays into Brazil and Mexico. Most of the major Indian companies like Dr Reddy's Laboratories, Torrent Pharmaceuticals Ltd, Ipca laboratories, etc., have already made investments for manufacturing or marketing in Brazil. With several patented products going off-patent in near future, the Indian drug entities are set to tap growing opportunities and investing large funds for establishing there strong foothold.

The details of the three major investor companies in pharmaceuticals are given below.

**Table 10: Major Pharma Investors and Destinations** (US\$ million)

<b>Dr. Reddy's Laboratories Ltd</b>		<b>Ranbaxy Laboratories Ltd</b>		<b>Matrix Laboratories Ltd</b>		
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>2006-07</b>
Germany	570.29	Romania	324.00	Belgium	234.70	319.79
Cyprus	88.61			China	18.00	
Mexico	59.00					
United States	15.06					
United Kingdom	14.74					
Cape Verde	14.73					

Source: CRISIL, company annual report, news report

### **Information technology:**

The worldwide information technology industry, comprising hardware, software and IT services, are estimated to have aggregate revenues of US\$ 1,452 billion in 2005, according to IDC. Of this, IT

services (inclusive of BPO) accounted for the biggest chunk, with a share of 58 per cent. It was followed by hardware and software with 28 per cent and 14 per cent, respectively. The software industry primarily comprises packaged software products such as operating systems (Windows, Unix), office automation applications (Microsoft Office) and database applications (Oracle, Sybase). The IT services industry comprises distinct service lines such as:

- Custom software development and maintenance
- Application maintenance/management outsourcing
- Package implementation and support
- Systems integration and support
- IT consulting
- Network management
- Network consulting and integration

**Table 11: The IT top 10**

Company Name	2005-06	2006-07
Tata Consultancy Services	207.24	
Wipro Ltd	154.08	43.60
Scandent Ltd	120.00	
WNS Global Services Ltd	63.00	
Teledata Informatics Ltd	57.40	
Satyam Computer Services Ltd	54.74	
Infosys Technologies Ltd	40.57	
3i Infotech Ltd	20.41	
NIIT Technologies Ltd	13.95	
KPIT Cummins Infosystems Ltd	10.89	

Source: CRISIL, company annual report, news report

According to IDC, the global IT services industry is expected to grow at a CAGR of 8.4 per cent in the next 4 years. Most of this growth will be driven by outsourcing engagement.

The size of the Indian IT industry, which includes software products, IT services, engineering and R&D services, IT-Enabled Services, and hardware, is estimated to increase to US\$ 36.4 billion in 2005-06 from US\$ 28.4 billion in 2004-05. However, India continues to be close to the bottom or the middle of the value addition chain and has been facing downward pressures on 'billing rates'. This is largely attributed to:

- Increased competition: Domestic companies are facing increased competition from global IT and services companies who have established bases in India.
- Inadequate industry specific knowledge.
- Lack of widespread awareness in western markets about Indian software companies.

The key to continued growth in IT services lies in the ability of Indian companies to move up the value chain in Western markets and move into areas like IT consulting and system integration as well as targeting new industries such as healthcare and retailing. Given the perceived drawbacks of the sector, the way forward would be to get a better understanding of client needs and a closer relationship. Physical proximity to clients becomes critical to this – thus the need to invest abroad to relocate facilities.

Technological imperatives have also driven Indian FDI— ‘backup’ or ‘disaster recovery centres’ also need to be located close to client sites –hence investments have to be made in these facilities. Most Indian companies with significant exposure to western clients have invested in these centres.

Finally, a number of Indian companies are exploring the business process outsourcing business (BPO), also referred to as ITES. This is the fastest growing area in the IT segment. While India has a marked comparative advantage in this area (that makes it profitable for foreign firms to locate facilities in India), factors such as local language skills make it necessary to locate facilities abroad.

The global IT service environment looks encouraging. However, Indian vendors need to improve operational efficiencies, move the offshore delivery model to a truly global delivery model and progress to higher-end service lines in order to enhance revenues and maintain margin levels in the medium to long term. The Indian IT services industry derives majority of its revenues from exports. Within exports, it derives around 70 per cent of its revenues from the US.

The details of the few major investor companies in software are given below.

**Table 12: Major IT Investors and Destinations** (US\$ million)

Tata Consultancy Services		Wipro Ltd			Scandent Ltd	
Country	2005-06	Country	2005-06	2006-07	Country	2005-06
United States	105.69	United States	68.36		United States	120.00
United Kingdom	51.73	Mauritius	28.89			
Chile	29.70	Finland		43.00		
Singapore	7.53					
Sweden	4.23					
Netherlands	3.53					
South Africa	1.95					
Canada	1.35					

Source: CRISIL, company annual report, news report

Given the slowdown in the US economy over the past couple of years, Indian companies have focused on developing markets in the European and Asia-Pacific regions. For example, Tata Consultancy Services has acquired Financial Network Services, a Sydney-based core banking solutions vendor to enhance its range of asset-based solutions for the banking industry.

### **Energy:**

India's large investments in the energy sector come largely on the back of GAIL and ONGC's investments overseas. The objective is to supplement domestic resources and move towards self-sufficiency in oil and gas, given the likely imbalance in the demand-supply scenario going forward. This growing gap between growth in production and consumption calls for more oil discoveries to maintain, if not improve, the country's import dependence.

**Table 13: Major Energy Investors and Destinations** (US\$ million)

Suzlon Energy Ltd		GAIL (India) Ltd		Aban Loyd Chiles Offshore Ltd		ONGC	
Country	2005-06	Country	2005-06	Country	2006-07	Country	2006-07
Belgium	565	China	31.00	Norway	445.09	Brazil	410.00
		Bermuda	30.56				
		Egypt	2.17				
		Singapore	2.16				

Source: CRISIL, company annual report, news report

Recently, wind energy major Suzlon Energy Ltd has made acquisition of Hansen Transmissions International NV, a leading wind turbine gearbox manufacturer in Belgium. Hansen engaged in business of design, development, manufacturing and supply of industrial and wind turbine generator

gear boxes. With this Suzlon has got indirect ownership of Hansen's subsidiaries in the United Kingdom, Australia, Brazil, the United States and South Africa. In order to capitalise the company's vast experience in natural gas and related business and to make maximum utilisation of the untapped business potential, GAIL has entered into equity participation in Beijing Gas Company and Beijing Jianggang Gas for implementation of the CNG projects in Beijing City. GAIL has made a strategic investment in China Gas Holdings Limited, which has already secured concessions on exclusive basis for operation and management of natural gas including compressed natural Gas and City Gas in China.

**Automobiles:**

**Table 14: The Automobiles - top few (US\$ million)**

Company Name	2005-06	2006-07
Tata Motors Ltd	147.86	4.5
TVS Motor Company Ltd	27.38	
Mahindra and Mahindra Ltd	27.13	

Source: CRISIL, company annual report, news report

The Indian automobile industry is at this point, somewhat crowded with 14 players vying for shares in a market of over 1 million passenger cars and utility vehicles. The passenger car sector is at its nascent stage and thus the penetration potential and likely growth in market size is high. Today, there are around six cars per 1000 people in India. This is one of the lowest car penetration ratios in the world. Even Pakistan and Sri Lanka have doubled the car penetration ratio compared to India. In the US and Europe, it is several hundred cars per 1000 people. However, while the passenger car industry has large growth potential, the commercial vehicle (CV) segment is somewhat more saturated. The segment is also prone to sharp cyclical ups and downs. Both factors have driven Indian CV manufacturers to look outside and seek markets that provide more customers as well as a hedge against the vagaries of the Indian market.

Among CV manufacturers, Tata Motors, Mahindra and Mahindra, and Eicher are the key overseas investors. These companies are market leaders in the domestic market and leverage their low cost advantages by exporting to new markets and diversifying their revenues. There are three key reasons behind their strategy of international diversification:

- 1) **Acquiring new models and expanding product mix:** Companies acquire to obtain a new product mix or to acquire products that will otherwise require huge investments and a long time to manufacture indigenously. For instance, Tata Motors acquired Korean Daewoo Commercial Vehicle Co (DWCV) Korea, the truck-making arm of Daewoo. With this deal Tata Motors Ltd. gets access to Daewoo's 93 models in cargo, dump, mixer and tractor categories that it can introduce in other markets. DWCV produces around 20,000 heavy-duty trucks in the 200-400 Horse Power range.
  
- 2) **Access to global markets:** Companies acquire to gain direct access to markets and to locate themselves closer to other target markets. Tata Motors' deal with DWCV gives it a direct market access of 26 per cent in South Korea. It also brings it closer to other Asian markets such as Thailand, Malaysia and particularly China, which has witnessed one of the most buoyant cars and commercial vehicles boom in recent years. It also serves as a base to increase its presence in Europe, Africa, and West Asia. In South Africa, the next few years are likely to see 100,000 taxis being replaced by 18 and 35 seater buses by Tata Motors.
  
- 3) **Averting domestic cycles:** The cyclicity in the CV segment earlier saw manufactures reel under losses during downturns. Diversification of markets helps companies' hedge against the domestic cycles.

Recently, Tata Motors has acquired a truck assembly unit from Nissan Motors in South Africa for about US\$ 4.5 million. The objective of Tata Motors is to establish a wider presence in the republic. The South Africa plant would help Tata Motors to sell their vehicles in other African countries.

### **Auto-ancillaries:**

**Table 15: The Auto-ancillaries - top few (US\$ million)**

<b>Company Name</b>	<b>2005-06</b>
Bharat Forge Ltd	103.72
Ucal Fuel Systems Ltd	22.61
Sundaram Fasteners Ltd	13.80

Source: CRISIL, company annual report, news report

The domestic auto ancillaries industry is highly fragmented and characterised by significant overcapacity. Ancillary producers also face the twin threats of increasing cyclicity in the demand for automobiles and the likely increase in the imports of auto ancillaries into India that would result in an

increase in the competition levels in the industry. Thus, their survival lies in being able to sell substantially in international markets.

This cannot be through exports alone. For one, most of the global component manufacturers are unaware of Indian companies or do not trust their quality. As a result, breaking into these markets gets difficult for Indian companies. By acquiring overseas component companies that are currently servicing these global producers, Indian companies can acquire customers and expand their export business much faster. For instance, the objective of Sundaram Fasteners' acquisition in Germany is to bring other customers into its portfolio.

Finally, a foreign presence is also essential to a successful export strategy. Indian component makers, especially the large ones, are exploring new markets to export their product. Acquiring local companies in their target markets will help in setting up a marketing presence in those markets. They can thus leverage their low cost manufacturing operations in India and export to the target markets. For instance, Bharat Forge's (another big name in Indian auto ancillary segment) acquisition of Federal Forge Inc of the United States is to enhance the company's market presence in the United States.

Though Indian companies are low cost manufacturers, the manufacture of certain components requires technology that is not available to the Indian companies. By acquiring companies abroad, they also acquire advanced manufacturing technologies that further help reduction in the cost of production. For instance, Amtek's deal with GWK, provides it such an edge. While Amtek manufactures connecting rods, gear assemblies, crankshafts, transmission and suspension components, GWK manufactures engine components, drive trains, suspension system and axle assembly. With this deal, Amtek plans to shift labour intensive machining business to India while GWK plants would be re-organized to produce high-value sub-assemblies.

**Telecom:**

**Table 16: Telecom - top few (US\$ million)**

Company Name	2005-06
Videsh Sanchar Nigam Ltd (VSNL)	254.37
Mahindra British Telecom Ltd	54.00

Source: CRISIL, company annual report, news report

The investment in the telecom sector was dominated by the aggressive foray of VSNL. The company has bought a stake in US-based Teleglobe International--a telecom network services company. This acquisition makes VSNL the third biggest global player in the international voice market. The acquisition will also give VSNL a massive leap in terms of international Internet connectivity.

**Metals:**

The investment in the metal sector was powered by Tata Steel’s foray into Thailand and Singapore. In a significant move to globalise its steel business, the Tata Steel has acquired the steel business of Millennium Steel, Thailand. It will augment the company's position in the South-East Asian market. Millennium Steel, with a capacity of 1.7 million tonnes per annum producing long products for construction and engineering steel for auto industries, is the largest player in the Thai steel space.

**Table 17: Metals - top few** (US\$ million)

Company Name	2005-06
Tata Steel Ltd	553.83
Hindalco Industries Ltd	108.29
Essar Steel Ltd	100.40

Source: CRISIL, company annual report, news report

**Tea & Coffee:**

**Table 18: Beverages-top few** (US\$ million)

Company Name	2005-06	2006-07
Apeejay Tea Ltd	139.52	
Tata Tea Ltd	126.0	677.00

Source: CRISIL, company annual report, news report

Tata Tea started its major overseas investment venture by acquiring the internationally known tea brand Tetley in 2000. Recently, the company has acquired a 30 per cent stake in US-based Energy Brands Inc, which markets the hugely popular water brand, Glaceau. It is country’s one of the largest acquisition of a foreign firm by a private Indian group. Tata Tea has a relatively minor presence in the US market and this will enable the company to expand its beverage business both in the US, and elsewhere.

Another group, the Apeejay Surrendra Group, better known as Apeejay, has acquired the entire tea business of the UK-based Premier Foods plc, including the company's well-known brands such as Typhoo, London Fruit & Herb, Lift and other associated brands. This will also enable the company to own Premier's label contracts and the Moreton tea manufacturing facility.

## Chapter 5: The Policy Framework

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### The International Experience

**History:** The imperatives of globalisation have forced most economies to liberalise norms for overseas investments to allow their domestic companies to establish an international presence. Currently, most developed economies have virtually no curbs on overseas investments and actively encourage them through a combination of tax-breaks and institutional support. Some emerging economies continue to have curbs, but over the years these have reduced considerably.

Taiwan, for instance, had fairly stringent restrictions on overseas investments until the late eighties. This was followed by a massive dose of liberalisation of norms for overseas investments. A large part of this was motivated by the “look south” policy of the government in which Taiwanese firms were encouraged to locate operations in the South-East Asian economies to exploit their labour - cost advantage.

China, too, had extensive controls till the early 1990s. Investments were restricted to opening ‘show windows’ abroad for Chinese products. Subsequently, Chinese firms have been allowed to invest in factories abroad, go in for transnational mergers, equity transfers, international listings and setting up industrial projects. Today, Chinese enterprises have extended their investments to 160 countries. Thailand has shown similar aggression in liberalisation and establishing a presence for Thai companies abroad.

Of the Asian economies, Malaysia has the most stringent controls and firms have to take clearance from the ‘exchange control division’ to invest overseas. There is also a cap on the quantum of loans that domestic firms can provide.

**Incentives and institutional support:** A number of countries have actively encouraged overseas investments through a combination of tax breaks and institutional mechanisms. Two elements of the US tax code, for instance, encourages US investments overseas:

- Foreign tax credit allows corporate taxes paid to foreign governments to be credited against US corporate tax liabilities.

- Foreign tax deferral allows any remaining tax liability to be postponed until the foreign subsidiary remits its earnings back to the US parent.

Additionally, the government provides insurance for non-commercial risk to US MNCs through the Overseas Private Investment Corporation (OPIC) that insures US MNCs against political violence, currency inconvertibility and nationalization.

In a similar vein, the Singapore government has introduced a number of measures to promote foreign investments under the Overseas Investment Incentive Scheme (OII) and the Overseas Enterprise Incentive (OEI) Scheme. Under the OEI scheme, the enterprise that ventures abroad can enjoy tax exemption on income derived from approved projects and investment for ten years.

An interesting institutional innovation is the concept of the Overseas Investment Promotion Agency of which the UK is a good example. This agency is nested within the UK government's department of trade and investment and provides a wide range of services to UK firms wishing to invest abroad. We list some of the services that the agency provides since it can serve as a model for India:

- Market research services that provides background research about a specific destination's potential. These are available at different levels. There are broad country profiles provided by country teams as well as tailor-made reports prepared by commercial officers working on-site (in about 200 locations) giving specific advice on sectors.
- The trade and investment information centre provides extensive public research facility for companies who want to be informed of opportunities abroad.
- The 'sales leads' service that provides information about specific opportunities abroad. Over a hundred investment opportunities a month are advertised including direct investment, partnering and manufacturing under licenses.
- Investment insurance: This is done through the Export Credit Guarantee Department that is similar to the OPIC and insures overseas investors against the main political risks of expropriation, war restrictions on remittances and breach of government undertakings.
- Investment agreements: The agency also promotes long term bilateral treaties between the UK and other nations that fosters investor confidence by setting high and recognised standards of investor protection applicable in international law. The UK government has over 80 such agreements in place, largely with developing countries.

## **The Indian experience**

Initially, guidelines governing Indian investments abroad were drawn up in line with the recommendations of the Kalyan Banerji Committee report in the early nineties. A limited quantum of overseas investment was permitted, subject to stringent scrutiny and an elaborate process of obtaining government clearance.

These norms have been liberalised quite dramatically over the last couple of years in two specific ways:

- Most investment overseas is now allowed through the 'automatic route', not subject to RBI approval.
- The RBI has sanctioned the use of innovative modes of investment or acquisitions like share-swaps through the automatic route subject to some minimal compliance with some basic guidelines.

In December 2003, an important set of amendments was announced, which comprehensively addresses some of the residual concerns of the Indian companies. Here, we list the key guidelines:

- From 2003-04, there is no overall cap for Indian investments in joint ventures and wholly owned subsidiaries abroad.
- Indian firms can freely invest in JVs/WOS up to 100 per cent of their net worth provided the investment is not in real estate. Such payments can be made out of Export Earners Foreign Currency (EEFC) accounts, ADR/GDR proceeds or drawals made from authorised dealers (ADs).
- The new amendments allow investments in JVs/WOS through the medium of a special purpose vehicle (SPV) also through the automatic route. SPVs allow investing companies a sufficient amount of flexibility in setting up subsidiaries and also get tax credit under the double taxation avoidance treaty (DTAA).
- The amendments also foster investments abroad by way of share swaps through the automatic route. However, authorised dealers (ADs) have to take prior approval of the FIPB for the inward leg of the investment. These swap transactions have to be in accordance with the valuation norms prescribed by a Category I Merchant Banker registered with the appropriate regulatory authority.

- Indian financial service companies wishing to invest in financial sector companies abroad have to take clearance from the concerned regulatory authorities both in India and abroad.
- Indian companies which hold 50 per cent or more of the paid up capital of an overseas entity are now allowed foreign investment through the automatic route if it wishes to diversify activity, set up a step-down subsidiary or alter the shareholding pattern in the overseas entity.
- Partnership firms (registered under the Indian partnership Act 1932) with a good track record can make investments of upto 100 per cent of its net worth or US\$ 10 million (whichever is less) in one financial year.
- The RBI has permitted the sale of shares of JV/WOS to another Indian party or to a person resident outside India without RBI clearance provided the terms of sales meet certain minimal eligibility criteria.
- Indian corporates and registered partnership firms are now allowed to undertake agricultural activities including purchase of land incidental to this activity either directly or through overseas offices through the automatic route i.e upto 100 per cent of their net worth.

The extensive liberalisation of these norms reflects two distinct phenomena:

1. The large build-up of foreign exchange reserves over the last couple of years that makes the government comfortable with larger capital outflows.
2. Indian companies need to globalize and compete successfully in international markets.

In the beginning of 2004, the policy for overseas investment has been liberalised to allow Indian corporates/registered partnership firms to invest in JVs/ WOSs overseas upto 100 per cent of their net worth without any separate monetary ceiling. The earlier policy required applicants to obtain specific approval from the Reserve Bank of India for making investment exceeding US\$ 100 million (US\$ 10 million for partnership firms) even when their net worth exceeded the monetary ceiling.

It has also been decided to allow Indian corporates/registered partnership firms to undertake agricultural activities either directly or through an overseas branch. Such investments were so far permitted only through an overseas joint venture or wholly owned subsidiary. The liberalisation announced will enable the Indian companies to take advantage of global opportunities and also to acquire technological and other skills for adoption back home in India.

In February 2004, eligible resident corporates have been permitted to raise external commercial borrowings (ECB) for overseas direct investment in JV/ WOS. This will include mergers and acquisitions of overseas companies. With a view to enable Indian corporates to become global players by facilitating their overseas direct investment, permitted end-use for ECB is enlarged to include overseas direct investment in JV/ WOS. This would facilitate corporates to undertake fresh investment or expansion of existing JV/WOS including mergers and acquisitions abroad by harnessing resources at globally competitive rates.

RBI's decision to allow banks to fund overseas acquisitions by Indian companies is thumping endorsement of Indian industry's globalisation drive. It is expected to encourage more Indian overseas buyouts.

During 2005, and 2006 (until June), the following regulatory developments have occurred in the overseas investment area.

- The limit of overseas investment in any bona fide business activity, under the automatic route, has been raised from 100 per cent of net worth of the Indian entity to 200 per cent of its net worth, as on date of its last audited balance sheet.
- The scope of guarantees under the automatic route for overseas investment has been enlarged and Indian entities are now allowed to offer other forms of guarantee – corporate or personal/primary or collateral/ guarantee by the promoter company/guarantee by group company, sister concern or associate company in India – subject to certain conditions.
- In order to enable companies to have operational flexibility, the automatic route of disinvestment has been further liberalised by allowing following categories of companies to divest, without prior approval of the Reserve Bank, subject to reporting requirement: (i) cases where JV/ WOS are listed in the overseas stock exchanges, (ii) cases where the Indian promoter company is listed on a stock exchange in India and has a net worth of not less than Rs.100 crore, and (iii) cases where the Indian promoter is an unlisted company and the investment in overseas venture does not exceed US \$ 10 million.
- With a view to enabling recognised star exporters with a proven track record and consistently high export performance to reap the benefits of globalisation and liberalisation, proprietary/ unregistered partnership firms, satisfying certain eligibility criteria, have been allowed to set up a JV/WOS outside India with prior approval of the RBI.
- AD banks have been permitted to allow remittance for expenses of branch offices opened abroad up to 10 per cent for initial and up to five percent for recurring expenses of the

- average annual sales/income or turnover during last two accounting years subject to the existing terms and conditions.
- AD banks have been allowed remittances for acquiring shares under ESOP schemes, irrespective of the method of the operationalisation of the scheme, subject to certain specific conditions.

### ***The corporate response: regulations***

Our interactions with corporates who have acquired companies abroad or are interested in doing so shows that the revised norms are fairly liberal and there are very few substantive issues that need to be addressed.

Specifically, companies had two key concerns earlier both of which have been dealt with through the December 2003 amendments. Earlier, 'step down' investments in subsidiaries, that is, setting up a subsidiary that would invest in other companies was not allowed without prior clearance from the RBI. This, as we have mentioned, was made automatic under the revised guidelines.

Again, there was demand from Indian companies holding 50 per cent or more in foreign subsidiaries to be allowed to alter shareholding without prior approval from the RBI. This has been permitted under the December 2003 guidelines.

There is one specific mode of investment that remains outside the ambit of the automatic route. These are investments made in foreign companies through the 'convertible route', that is by providing loans to foreign entities that can then be 'converted' to equity at a predetermined rate. This is particularly attractive for small acquisitions in sectors like IT.

Another demand from Indian companies is that dividends from foreign subsidiaries be made tax free instead of the full rate that they are taxed at currently. This creates an anomaly since dividends from domestic inter-corporate investments bear zero tax.

### ***The corporate response: institutional changes***

While the regulatory environment has been amended to accommodate the changing needs of Indian companies, some critical institutional changes are warranted to facilitate overseas investments. These

include changes in both the banking system in India and other supporting agencies. Some of the problems specific to the Indian banking system are:

- Very little equity support is available from Indian banks for overseas ventures of Indian companies.
- Even for loans for overseas ventures, the FEMA prescribes strict guidelines for Indian banks that limits their exposures to these investments.

Indian companies, therefore, mostly turn to foreign banks for funding support for their overseas ventures. This is not only a constraint for companies but also presents major lost opportunity for Indian banks. It is perhaps true that Indian banks lack the ability to evaluate international projects independently – a sensible way to enter this market is to be a part of larger consortia that includes foreign banks.

Almost all companies we spoke to pointed out the need for an institution like the UK's trade and investment department that can provide various kinds of assistance. Specifically, companies want a combination of broad information about legal framework, political regime etc as well as sector-specific information. Companies also felt the need for an agency to help them in terms of distress particularly in the event of political crises or legal complications. Others highlighted the need for an agency that can establish norms or best practices under which overseas investments can be made.

## Chapter 6: The Way Forward

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Overseas investment from India, as we have seen, is gathering steam. Both the geographical spread and the diversity of investing sectors is increasing. As the demands of operating in a global environment mount, the momentum is likely to increase. For a strategy of international diversification to succeed, India needs a conducive environment both domestically and in the global arena.

We have seen that Indian regulators have met this challenge and have tried to remove the barriers to outbound investments. This is perhaps the area where the central bank has been most aggressive in reducing capital controls. However, much remains to be done in creating a supportive institutional environment. The basic problem is the non-availability of proper information and sufficient data on outbound investments from India in the public domain. Reasonably comprehensive information on inbound investments is easily available. At the government of India level, there are departments/organisations who handle the data on inbound investments. However, to handle data on overseas outflows from India there are no such departments or agencies at the government level. Therefore, the government of India should create a department or give responsibility to one of its existing departments to handle information on outbound investments. This organisation would not only keep track of overseas outflows from India but also make them available to the Indian firms, institutions, researchers, industry associations, etc. Based on our survey of companies and agencies involved in the outbound investment process, we recommend the following milestones in the way forward:

- Making dividends from overseas subsidiaries tax free instead of imposing the full corporate tax rate.
- The creation of an apex agency, perhaps under the aegis of the EXIM Bank to help Indian banks assess the viability of international ventures of Indian firms and fund these ventures.
- The creation of an agency similar to the UK department of trade and investment to provide both country level as well as sector specific information to Indian firms. There is specific need for information on the legal framework and political risks.
- Efforts need to be made to establish internationally acceptable investment norms under which Indian firms can invest abroad. This can be done either through bilateral negotiation or as part of a consortium of such agencies. For instance, Indian, Singaporean and Thai agencies can collaborate in negotiating best practice norms for investing in China, for

instance. These have to be made uniform across markets and given more operational muscle.

- Setting up an agency on the lines of OPIC to provide insurance against non-financial risks.
- Indian companies also need to be more transparent about their international operations. There is a need for greater disclosure in financial statements about the performance and profitability of foreign ventures.

### ***About suggested organisation***

In view of the emerging interest of the Indian companies to tap overseas market, there is a need for an institution, at this juncture, meant to provide a business scenario and facilities to equip Indian companies in their forays abroad since the policy framework is, by and large, in place. In order to encourage more overseas investments the institution or agency should provide a wide range of services to the Indian firms wishing to invest abroad. This agency would develop a system for focussed attention, on a continuous basis, on the issues perceived to be critical from the standpoint of these Indian companies. Initially, a cell in one of the big industry associations like CII, headed by a CEO, staffed with specialised personnel, with a clear mandate, can be created.

The functions of the proposed agency would be as follows:

- Market research services that provides background research about the potential of possible investment destination.
- Information services about legal framework, political regime and opportunities abroad related to trade and investment.
- Investment insurance assistance.
- Promotion of long-term bilateral treaties, along with the government departments, between India and other countries.
- Maintenance of constant dialogue, horizontally and vertically with departments/ institutions having related responsibilities in India and abroad.
- Scanning global market and production conditions continuously for identified product/ service.
- To remain abreast of the policy changes related to investment abroad and analyse their implications for the domestic firms wishing to invest abroad.

## Annexure

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### **A1. Sector wise Overseas Investment** (US\$ Million)

<b>Sector</b>	<b>2005-06</b>	<b>2006-07</b>
Pharmaceuticals	1580.36	321.79
Bank	1180.33	
Software	786.09	346.49
Metals	777.63	
Energy	630.89	855.09
Telecom	308.37	
Consumer durables	289.20	
Tea & Coffee	265.52	677.00
Chemicals	235.14	40.00
Automobiles	205.05	4.50
Auto Ancillaries	158.99	3.93
Fertilizers & pesticides	152.96	
Petrochemicals	119.37	
Diversified	100.00	168.30
Hotels	77.92	
Tyre & tube	71.73	
FMCG	62.23	
Paints	27.22	
Textiles	19.63	109.71
Refractory	16.10	
Cement	13.58	
Electrical Equipment	13.45	
Foam	12.10	
Packaging	10.70	
Media and Entertainment	5.20	
Gem, Jewellery and Watches	5.14	
Abrasives	2.30	
Engineering	2.23	22.42
Paper		261.00

Source: CRISIL, company annual report, news report

**A2. Top 20 destination countries for Indian investment** (US\$ million)

Country	2005-06	2006-07
United States	1054.49	803.77
United Kingdom	815.48	205.82
Belgium	799.94	319.79
Germany	657.79	
Thailand	486.74	
China	375.99	
Romania	343.50	
Singapore	192.34	22.42
Australia	187.28	
Netherlands	171.33	
Canada	117.87	168.30
Cyprus	89.10	
Mauritius	76.48	
South Africa	73.59	4.5
Sweden	65.25	
Mexico	59.05	
Austria	56.44	
Korea	55.01	
Morocco	37.27	
Bermuda	35.56	

Source: CRISIL, company annual report, news report

**A3. The top 10 overseas investors** (US\$ million)

Investor	Sector	2005-06	2006-07
State Bank of India	Bank	1179.11	
Dr.Reddy's Laboratories Ltd	Pharmaceuticals	777.18	
Suzlon Energy	Energy	565.00	
Tata Steel Ltd	Metals	553.83	
Ranbaxy Laboratories Ltd	Pharmaceuticals	324.00	
Videocon International Ltd	Consumer durables	289.20	
Videsh Sanchar Nigam Ltd	Telecom	254.37	
Matrix Laboratories	Pharmaceuticals	252.70	319.79
Tata Consultancy Services	Software	207.24	
Wipro Ltd	Software	154.08	43.60

Source: CRISIL, company annual report, news report

#### **A4. Top Company-wise Investors**

##### **Top Overseas Energy Investors (US\$ million)**

<b>Suzlon Energy Ltd</b>		<b>GAIL (India) Ltd</b>		<b>Aban Loyd Chiles Offshore Ltd</b>		<b>ONGC</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>
Belgium	565	China	31.00	Norway	445.09	Brazil	410.00
		Bermuda	30.56				
		Egypt	2.17				
		Singapore	2.16				

Source: CRISIL, company annual report, news report

##### **Top Overseas IT Investors (US\$ million)**

<b>Sector</b>	<b>2005-06</b>	<b>2006-07</b>
Tata Consultancy Services	207.24	
Wipro Ltd	154.08	43.60
Scandent Ltd	120.00	
WNS Global Services	63.00	
Teledata Informatics Ltd	57.40	
Satyam Computer Services Ltd	54.74	
Infosys Technologies Ltd	40.57	
3i Infotech Ltd	20.41	
NIIT Technologies Ltd	13.95	
KPIT Cummins Infosystems Ltd	10.89	
I-Flex Solutions Ltd	8.30	122.60
Sonata Software Ltd	7.75	
Subex Azure Ltd	6.90	133.18
I-GATE Global Solutions Ltd	5.53	
Polaris Software Lab Ltd	4.52	
Geometric Software Solutions Ltd	2.70	
Virinchi Technologies Ltd	2.66	
California Software Co.Ltd	2.09	

Source: CRISIL, company annual report, news report

##### **Top Overseas Metal Investors (US\$ million)**

<b>Company Name</b>	<b>2005-06</b>
Tata Steel Ltd	553.83
Hindalco Industries Ltd	108.29
Essar Steel Ltd	100.40

Source: CRISIL, company annual report, news report

**Top Overseas Pharmaceutical Investors (US\$ million)**

Company Name	2005-06	2006-07
Dr.Reddy's Laboratories Ltd	777.18	
Ranbaxy Laboratories Ltd	324.00	
Matrix Laboratories Ltd	252.70	319.79
Jubilant Organosys Ltd	45.80	
Nicholas Piramal India Ltd	31.34	
Opto Circuits Ltd	26.30	
Sun Pharmaceutical Ltd	23.2	
Orchid Chemicals & Pharmaceuticals Ltd	20.89	3.00
Torrent Pharmaceuticals Ltd	16.84	
Cadila Healthcare Ltd	16.81	

Source: CRISIL, company annual report, news report

**Top Overseas Automobile Investors (US\$ million)**

Company Name	2005-06	2006-07
Tata Motors Ltd	147.86	4.5
TVS Motor Company Ltd	27.38	
Mahindra and Mahindra Ltd	27.13	

Source: CRISIL, company annual report, news report

**Top Overseas Auto-ancillaries Investors (US\$ million)**

Company Name	2005-06
Bharat Forge Ltd	103.72
UCAL Fuel Systems Ltd	22.61
Sundaram Fasteners Ltd	13.80

Source: CRISIL, company annual report, news report

**Top Overseas Chemicals Investors (US\$ million)**

Company	2005-06	2006-07
Tata Chemicals Ltd	148.47	
GHCL Ltd	73.00	40

Source: CRISIL, company annual report, news report

### Top Overseas FMCG Investors (US\$ million)

Company	2005-06
Godrej Industries Ltd	47.96
ITC Ltd	7.32
Dabur India Ltd	5.19

Source: CRISIL, company annual report, news report

### Top Overseas Hotel Investors (US\$ million)

Company	2005-06
The Indian Hotels Company Ltd	64.24
Oriental Hotels Ltd	11.48

Source: CRISIL, company annual report, news report

### Top Overseas Textiles Investors (US\$ million)

Company	2005-06	2006-07
SRF Limited	19.63	
Welspun India Ltd		28.71

Source: CRISIL, company annual report, news report

### Top Overseas Petrochemicals Investors (US\$ million)

Company	2005-06
Rain Calcining Ltd	112.08
Thirumalai Chemicals Ltd	4.10
Reliance Industries Ltd	2.36

Source: CRISIL, company annual report, news report

### Top Overseas Electrical Equipment Investors (US\$ million)

Company	2005-06
Crompton Greaves Ltd	7.64
Thermax Ltd	4.26

Source: CRISIL, company annual report, news report

### Top Overseas Consumer Durables Investors (US\$ million)

Company	2005-06
Videocon International Ltd	289.20

Source: CRISIL, company annual report, news report

### Top Overseas Telecom Investors (US\$ million)

Company Name	2005-06
Videsh Sanchar Nigam Ltd	254.37
Mahindra British Telecom Ltd	54.00

Source: CRISIL, company annual report, news report

## **A5. Sector-wise top destinations for investment**

### **I. Energy (US\$ million)**

<b>Suzlon Energy Ltd</b>		<b>GAIL (India) Ltd</b>		<b>Aban Loyd Chiles Offshore Ltd</b>		<b>ONGC</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2006-07</b>	<b>Country</b>	<b>2006-07</b>
Belgium	565	China	31.00	Norway	445.09	Brazil	410.00
		Bermuda	30.56				
		Egypt	2.17				
		Singapore	2.16				

Source: CRISIL, company annual report, news report

### **II. Auto ancillary (US\$ million)**

<b>Bharat Forge Ltd</b>		<b>UCAL Fuel Systems Ltd</b>		<b>Sundaram Fasteners Ltd</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>
Sweden	61.02	United States	22.61	Germany	13.80
Germany	37.96				
United States	4.75				

Source: CRISIL, company annual report, news report

### **III. IT (US\$ million)**

<b>Tata Consultancy Services</b>		<b>Wipro Ltd</b>			<b>Scandent Ltd</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>2006-07</b>	<b>Country</b>	<b>2005-06</b>
United States	105.69	United States	68.36		United States	120
United Kingdom	51.73	Mauritius	28.89			
Chile	29.70	Finland		43.00		
Singapore	7.53					
Sweden	4.23					
Netherlands	3.53					
South Africa	1.95					
Canada	1.35					

<b>WNS Global Services Ltd</b>		<b>Teledata Informatics Ltd</b>		<b>Satyam Computer Services Ltd</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>
United States	63.00	Thailand	43.20	United States	28.08
		United States	14.20	United Kingdom	18.60
				China	3.57
				Singapore	3.30
				Japan	1.19

Source: CRISIL, company annual report, news report

**IV. Metals (US\$ million)**

<b>Tata Steel Ltd</b>		<b>Hindalco Industries Ltd</b>		<b>Essar Steel Ltd</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>
Singapore	155.00	Australia	108.29	United Kingdom	100.40
Thailand	398.50				

Source: CRISIL, company annual report, news report

**V. Pharmaceuticals (US\$ million)**

<b>Dr. Reddy's Laboratories Ltd</b>		<b>Ranbaxy Laboratories Ltd</b>		<b>Matrix Laboratories Ltd</b>		
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>2006-07</b>
Germany	570.29	Romania	324.00	China	18.00	
Cyprus	88.61			Belgium	234.70	319.79
Mexico	59.00					
United States	15.06					
United Kingdom	14.74					
Cape Verde	14.73					
China	7.62					
Russia	3.23					
Brazil	2.18					
Hong Kong	1.30					
Netherland	0.40					
France	0.03					

<b>Jubilant Organosys Ltd</b>		<b>Nicholas Piramal India Ltd</b>		<b>Opto Circuits Ltd</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>
United States	45.80	United Kingdom	16.94	United States	13.30
		Canada	5.00	Germany	13.00
		Mauritius	0.80		
		Switzerland	8.59		

Source: CRISIL, company annual report, news report

### VI. Automobiles (US\$ million)

Tata Motors Ltd			TVS Motor Company Ltd		Mahindra and Mahindra Ltd	
Country	2005-06	2006-07	Country	2005-06	Country	2005-06
Korea	57.30		Netherlands	20.54	Mauritius	0.51
United Kingdom	90.30		Singapore	6.84	South Africa	0.56
South Africa		4.5			United Kingdom	6.91
					United States	19.16

Eicher Motors Ltd		Ashok Leyland Ltd		Hindustan Motors Ltd	
Country	2005-06	Country	2005-06	Country	2005-06
United States	2.44	Sri Lanka	0.13	United States	0.10

Source: CRISIL, company annual report, news report

### VII. Chemicals (US\$ million)

Tata Chemicals Ltd		GHCL Ltd		
Country	2005-06	Country	2005-06	2006-07
Morocco	37.26	US	53.50	
United Kingdom	111.20	Romania	19.50	
		United Kingdom		40.00

Source: CRISIL, company annual report, news report

### VIII. FMCG (US\$ million)

Godrej Industries Ltd		ITC Ltd		Dabur India Ltd	
Country	2005-06	Country	2005-06	Country	2005-06
United Kingdom	26.57	Singapore	5.73	British Virgin Islands	5.19
Netherlands	10.99	Nepal	1.58		
United States	9.69				

Source: CRISIL, company annual report, news report

### IX. Hotels (US\$ million)

The Indian Hotels Company Ltd		Oriental Hotels Ltd	
Country	2005-06	Country	2005-06
Australia	36.00	Hong Kong	11.48
Hong Kong	21.24		
Nepal	0.26		
Sri Lanka	4.20		
United States	2.54		

Source: CRISIL, company annual report, news report

**X. Textiles (US\$ million)**

SRF Limited		Welspun India Ltd	
Country	2005-06	Country	2006-07
United States	19.63	United Kingdom	28.71

Source: CRISIL, company annual report, news report

**XI. Petrochemicals (US\$ million)**

Rain Calcining Ltd		Thirumalai Chemicals Ltd		Reliance Industries Ltd	
Country	2005-06	Country	2005-06	Country	2005-06
United States	112.08	Malaysia	4.10	United Arab Emirates	1.47
				United Kingdom	0.88

Source: CRISIL, company annual report, news report

**XII. Electrical Equipment (US\$ million)**

Crompton Greaves Ltd		Thermax Ltd	
Country	2005-06	Country	2005-06
Netherlands	7.64	Mauritius	3.27
		Others	0.99

Source: CRISIL, company annual report, news report

**XIII. Banking (US\$ million)**

State Bank of India	
Country	2005-06
Mauritius, Indonesia, Kenya	1179.11

Source: CRISIL, company annual report, news report

**XIV. Tea & Coffee (US\$ million)**

Apeejay Tea Ltd		Tata Tea Ltd		
Country	2005-06	Country	2005-06	2006-07
United Kingdom	139.52	United Kingdom	112.24	
		Uganda	11.21	
		Sri Lanka	2.48	
		United States		677.00

Source: CRISIL, company annual report, news report

**XV. Fertilizers & Pesticides (US\$ million)**

<b>United Phosphorus Ltd</b>		<b>Coromandel Fertilizer Ltd</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>
Netherlands	121.50	South Africa	6.04
Argentina	11.00		
Spain	14.10		

Source: CRISIL, company annual report, news report

**XVI. Tyre & Tubes (US\$ million)**

<b>Apollo Tyres Ltd</b>		<b>Tube Investments of India Ltd</b>	
<b>Country</b>	<b>2005-06</b>	<b>Country</b>	<b>2005-06</b>
South Africa	65.01	China	6.72

Source: CRISIL, company annual report, news report

**XVII. Paints (US\$ million)**

<b>Asian Paints (India) Ltd</b>	
<b>Country</b>	<b>2005-06</b>
Mauritius	27.22

Source: CRISIL, company annual report, news report

**A6. Some Key Investments: 2006-07 – so far (US\$ million)**

<b>Company</b>	<b>Sector</b>	<b>Country</b>	<b>2006-07</b>
Aban Loyd Chiles Offshore Ltd	Energy	Norway	445.09
Adiya Birla	Diversified	Canada	168.30
Ballarpur Industries Ltd	Paper	Malaysia	261.00
GHCL Ltd	Chemicals	United Kingdom	40.00
I-Flex Solutions Ltd	Software	United States	122.60
Matrix Laboratories Ltd	Pharmaceutical	Belgium	319.79
ONGC Ltd	Energy	Brazil	410.00
Orchid Chemicals & Pharmaceuticals Ltd	Pharmaceutical	United States	3.00
Punj Lloyd Ltd	Engineering	Singapore	22.42
R Systems International Ltd	Software	United States	1.17
Sasken Communications Technologies Ltd	Software	Finland	44.94
Spentex Industries Ltd	Textiles	Uzbekistan	81.00
Subex Systems Ltd	Software	United Kingdom	133.18
Suprajit Engineering Ltd	Auto ancillary	United Kingdom	3.93
Tata Motors Ltd	Automobiles	South Africa	4.5
Tata Tea Ltd	Tea & coffee	United States	677.00
Welspun India Ltd	Textiles	United Kingdom	28.71
Wipro Technologies Ltd	Software	Finland	43.60

Source: CRISIL, news report