

2010

2009

**FOREIGN CAPITAL  
RECORD  
INFLOWS**



Capital inflows into India, in terms of foreign direct investment and foreign institutional investment, are expected to cross the US\$ 50 billion-mark in the current fiscal, making it one of the few economies in the world to record such healthy inflows, writes

**N. B. Rao.**

**W**ITH India's economy expected to expand by a robust 7 to 7.5 per cent in financial year 2009-2010 (among the fastest growth rates for a large economy), it is not surprising that foreign investors find the country to be a secure destination for investment.

Net capital inflows into India – which includes foreign direct investment (FDI), net portfolio inflows from foreign institutional investors (FIIs) and external commercial borrowings (ECBs) – are expected to cross the US\$ 50 billion-mark for the current fiscal, which ends on March 31, 2010, according to Dr C Rangarajan, chairman, Prime Minister's Economic Advisory Council (PMEAC).

"Capital flows have started picking up. Perhaps, in the later part of the fiscal, one would see a larger pick-up," Rangarajan said at a symposium organised by the Organisation for Economic Cooperation and Development (OECD) and the Indian

## FDI EQUITY INFLOWS: 2000-2009

1	Cumulative amount of FDI inflows (from April 2000 to March 2009)	Rs. 3,93,126 crore	US\$ 89,840 million
2	Amount of FDI inflows during 2009-10 (from April 2009 to October 2009)	Rs. 85,273 crore	US\$ 17,644 million
3	Cumulative amount of FDI inflows (updated up to October 2009)	Rs. 4,78,399 crore	US\$ 107,484 million

**Note:** FDI inflows include amount received on account of advances pending for issue of shares for the years 1999 to 2004.

## FDI EQUITY INFLOWS DURING CALENDAR YEAR 2009

Calendar Year 2009		Amount of FDI inflows*	
		(In Rs. Crore)	(In US\$ mn)
1	Jan-09	13,346	2,733
2	Feb-09	7,329	1,488
3	Mar-09	10,023	1,956
4	Apr-09	11,708	2,339
5	May-09	10,168	2,095
6	Jun-09	12,335	2,582
7	Jul-09	17,045	3,516
8	Aug-09	15,796	3,268
9	Sep-09	7,326	1,512
10	Oct-09	10,895	2,332
Year 2009 (up to October 2009)		115,971	23,821
Year 2008 (up to September 2008)		127,815	30,589
Percentage growth over last year		( - ) 09	( - ) 22

**Note:** \* Figures are provisional, subject to reconciliation with RBI, Mumbai.

Source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry



Gross inflows have been US\$ 44 billion, but we have to account for ECB repayments and outward FDI also. Total net capital inflows could be US\$ 50 billion this year.

**C Rangarajan,**  
chairman, Prime Minister's Economic  
Advisory Council

Council for Research on International Economic Relations (ICRIER) in Delhi in December 2009. "So far the gross inflows have been US\$ 44 billion, but we have to account for ECB repayments and outward FDI also. The total net capital inflows could thus be US\$ 50 billion this year."

During the first three quarters of the fiscal (April-December), net FII inflows added up to US\$ 19 billion, according to the Securities and Exchange Board of India (SEBI), the capital market watchdog. In contrast, FIIs had pulled out more than US\$ 15 billion in fiscal 2008-09.

According to figures compiled by the Department of Industry Policy and Promotion (DIPP), Union Ministry of Commerce and Industry, FDI inflows added up to US\$ 19.38 billion during the first eight months of the fiscal (April-November 2009). In November 2009, FDI inflows were US\$ 1.74 billion, a 60 per cent growth over the year-ago figure. The previous month, October 2009, also saw a 56 per cent year-on-year growth in FDI inflows.

A recent survey conducted by the UN Conference on Trade and Development (UNCTAD) – the World Investment Prospects Survey – revealed that India was the third-most attractive location for FDI among prospective investors. Another survey of Japanese investors by the Japan Bank for International Cooperation ranks India as the second-most promising

## SHARE OF TOP INVESTING COUNTRIES: FDI EQUITY INFLOWS (FINANCIAL YEAR-WISE)

Amount Rupees in crores (US\$ in million)							
Rank	Country	2006-07 (April- March)	2007-08 (April- March)	2008-09 (April- March)	2009-10 (April- October '09)	Cumulative Inflows (April '00 to October '09)	Percentage to total Inflows (in terms of rupees)
1	MAURITIUS	28,759 <b>(6,363)</b>	44,483 <b>(11,096)</b>	50,794 <b>(11,208)</b>	36,572 <b>(7,550)</b>	197,845 <b>(44,415)</b>	44
2	SINGAPORE	2,662 <b>(578)</b>	12,319 <b>(3,073)</b>	15,727 <b>(3,454)</b>	6,456 <b>(1,335)</b>	40,307 <b>(9,146)</b>	9
3	US	3,861 <b>(856)</b>	4,377 <b>(1,089)</b>	8,002 <b>(1,802)</b>	6,359 <b>(1,322)</b>	34,318 <b>(7,657)</b>	8
4	UK	8,389 <b>(1,878)</b>	4,690 <b>(1,176)</b>	3,840 <b>(864)</b>	1,636 <b>(340)</b>	24,541 <b>(5,567)</b>	5
5	NETHERLANDS	2,905 <b>(644)</b>	2,780 <b>(695)</b>	3,922 <b>(883)</b>	3,224 <b>(670)</b>	19,076 <b>(4,260)</b>	4
6	JAPAN	382 <b>(85)</b>	3,336 <b>(815)</b>	1,889 <b>(405)</b>	4,590 <b>(950)</b>	15,815 <b>(3,481)</b>	3
7	CYPRUS	266 <b>(58)</b>	3,385 <b>(834)</b>	5,983 <b>(1,287)</b>	5,557 <b>(1,155)</b>	15,607 <b>(3,428)</b>	3
8	GERMANY	540 <b>(120)</b>	2,075 <b>(514)</b>	2,750 <b>(629)</b>	2,160 <b>(449)</b>	11,648 <b>(2,622)</b>	3
9	FRANCE	528 <b>(117)</b>	583 <b>(145)</b>	2,098 <b>(467)</b>	1,119 <b>(234)</b>	6,601 <b>(1,461)</b>	1
10	UAE	1,174 <b>(260)</b>	1,039 <b>(258)</b>	1,133 <b>(257)</b>	2,591 <b>(537)</b>	6,597 <b>(1,457)</b>	1
TOTAL FDI INFLOWS *		70,630 <b>(15,726)</b>	98,664 <b>(24,579)</b>	122,919 <b>(27,329)</b>	85,273 <b>(17,644)</b>	478,399 <b>(107,484)</b>	—

Note: (i) \*Includes inflows under NRI Schemes of RBI, stock swapped and advances pending for issue of shares.

(ii) Cumulative country-wise FDI inflows (from April 2000 to October 2009) – Annex-'A'.

(iii) Percentage worked out in rupees terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route+ acquisition of existing shares only.

Source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry



# New India Assurance

**Largest General Insurance Company in India**

## SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:

Amount Rupees in crores (US\$ in million)							
Rank	Sector	2006-07 (April-March)	2007-08 (April-March)	2008-09 (April-March)	2009-10 (April-October '09)	Cumulative Inflows (April '00 to October '09)	Percentage to total Inflows (in terms of rupees)
1	SERVICES SECTOR (financial & non-financial)	21,047 <b>(4,664)</b>	26,589 <b>(6,615)</b>	28,411 <b>(6,116)</b>	15,087 <b>(3,121)</b>	99,541 <b>(22,369)</b>	22
2	COMPUTER SOFTWARE & HARDWARE	11,786 <b>(2,614)</b>	5,623 <b>(1,410)</b>	7,329 <b>(1,677)</b>	2,392 <b>(495)</b>	41,888 <b>(9,449)</b>	9
3	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	2,155 <b>(478)</b>	5,103 <b>(1,261)</b>	11,727 <b>(2,558)</b>	10,277 <b>(2,109)</b>	38,345 <b>(8,485)</b>	9
4	HOUSING & REAL ESTATE	2,121 <b>(467)</b>	8,749 <b>(2,179)</b>	12,621 <b>(2,801)</b>	9,950 <b>(2,056)</b>	33,733 <b>(7,569)</b>	7
5	CONSTRUCTION ACTIVITIES (including roads & highways)	4,424 <b>(985)</b>	6,989 <b>(1,743)</b>	8,792 <b>(2,028)</b>	7,496 <b>(1,565)</b>	29,673 <b>(6,756)</b>	7
6	POWER	713 <b>(157)</b>	3,875 <b>(967)</b>	4,382 <b>(985)</b>	5,851 <b>(1,207)</b>	19,862 <b>(4,397)</b>	4
7	AUTOMOBILE INDUSTRY	1,254 <b>(276)</b>	2,697 <b>(675)</b>	5,212 <b>(1,152)</b>	4,444 <b>(922)</b>	19,511 <b>(4,311)</b>	4
8	METALLURGICAL INDUSTRIES	7,866 <b>(173)</b>	4,686 <b>(1,177)</b>	4,157 <b>(961)</b>	1,342 <b>(278)</b>	12,847 <b>(3,001)</b>	3
9	PETROLEUM & NATURAL GAS	401 <b>(89)</b>	5,729 <b>(1,427)</b>	1,931 <b>(412)</b>	1,062 <b>(214)</b>	11,239 <b>(2,607)</b>	2
10	CHEMICALS (other than fertilizers)	930 <b>(205)</b>	920 <b>(229)</b>	3,427 <b>(749)</b>	921 <b>(192)</b>	10,488 <b>(2,326)</b>	2

Note: Cumulative Sector-wise FDI inflows (from April 2000 to October 2009) - Annex-'B'.

Source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry

country for overseas business operations after China.

The Geneva-based UNCTAD, in its World Investment Report 2009, has projected a sharp fall in global FDI inflows – from US\$ 1.7 trillion in 2008 to less than US\$ 1.2 trillion in 2009 because of the global economic crisis. In 2010, global FDI inflows are expected to rise to US\$ 1.4 trillion, accelerating further to US\$ 1.8 trillion in 2011.

India – along with China, the US, Brazil and Russia – figures among UNCTAD's top-five, most attractive locations for FDI between 2009 and 2011. In fact, FDI equity inflows into India as a percentage of GDP have risen from 0.75 in 2005-06 to 2.49 per cent in 2008-09.

Cumulative FDI inflows into India between 2000 and 2009 topped the US\$ 100 billion-mark; up to October 2009, it added up to US\$ 107.48 billion, according to DIPP figures.

**Capital inflows are coming on the back of India's potential. In the medium term, our task is to improve the absorptive capacity of the economy.**

**D Subbarao,**  
governor, Reserve Bank of India

"Today, India is a preferred destination for equity investors across the world as is evident from FII and FDI inflows this year," remarks Madhabi Puri-Buch, managing director and ceo, ICICI Securities.

D Subbarao, governor, Reserve Bank of India (RBI), the country's central bank, points out that capital inflows reflect investor confidence in the Indian economy. "Capital inflows are coming on the back of India's potential," says Subbarao. "In the medium term, our task is to improve the absorptive capacity of the economy."

But the RBI maintains a close watch on capital inflows to ensure that it does not lead to an asset price bubble. "Capital inflows are in line with the country's requirement and there is no concern over an asset price bubble," remarks Subbarao. "If there is too much liquidity, it has the potential to create an asset price build-up. However, every asset price build-up need not necessarily result in a bubble. If and

## RUPEE RECOVERS FROM A LOW

THE record inflows of foreign capital during 2009 saw the Indian rupee strengthen significantly – the Indian currency has risen 7.5 per cent against the US dollar since the start of the current fiscal (April 1, 2009), though on a year-on-year basis, its rise was a modest 4.5 per cent during calendar year 2009.

The rupee emerged as the third top-performer in Asia in 2009, next to the Indonesian rupiah and the South Korean won. In March 2009, when Indian stock indices had plunged sharply, the rupee had hit a lifetime low of 52.2 against the US dollar.

But with foreign institutional inves-

tors (FIIs) ploughing money into the stock markets, the rupee began climbing rapidly; it ended the year at 46.527 against the dollar. Currency traders and analysts expect the rupee strengthen in 2010 as well.

With the dollar becoming the favourite currency for the carry trade – where investors borrow in a low-cost currency and invest in high-yielding assets, such as Indian stocks – the rupee gained substantially against the American currency.

Huge remittances from non-resident Indians (NRIs), both in the developed world and in the Gulf region, also helped the Indian currency gain substantially.

NRI deposits had fallen from US\$ 43.6 billion in April 2008 to US\$ 41.55 billion at the end of March 2009. However, they began climbing again in 2009-10, and topped US\$ 45.3 billion by the end of July 2009, according to the Reserve Bank of India.

India's foreign exchange reserves gained 11 per cent during 2009, after declining by 8 per cent in 2008. Foreign exchange reserves added up to US\$ 283 billion in December 2009, a gain of US\$ 29 billion.

According to analysts, the fairly large capital inflows into the economy have boosted the reserves.



## RECORD FII INFLOWS INTO CAPITAL MARKETS

FOREIGN institutional investors (FIIs), or portfolio investors, poured in record amounts into the Indian capital markets in 2009, even as the stock markets saw a smart rally, doubling investor wealth.

Net FII investments added up to a whopping US\$ 17.9 billion during 2009, as against a net outflow of US\$ 11.35 billion in the previous calendar year, according to the Securities and Exchange Board of India (SEBI), the capital market regulator. Foreign investor inflows bettered all previous records (in rupee terms), including the previous one of more than US\$ 15 billion in 2007.

Total FII holdings in Indian stock markets now add up to nearly US\$ 73 billion. Foreign investors also raised their holdings in government and corporate debt by over US\$ 900 million in 2009.

Market capitalisation on Indian bourses doubled to US\$ 1.29 trillion on the back of all-round increase in share valuations. The Sensex – the benchmark index on the Bombay Stock Exchange (BSE) – jumped by 81 per cent in 2009, making it one of the top-performing indices globally. India emerged as the third-best performing market in 2009, next to Russia and Brazil.

Interestingly, the number of FIIs registered with SEBI also

rose from 1,594 in December 2008 to 1,704 a year later.

Deutsche Bank AG of Germany continues to be the leading FII in India, with a portfolio valued at US\$ 7.11 billion in September 2009. An analysis of FIIs in India by financial daily *Mint* revealed that the combined holdings of top-10 FIIs gained 92 per cent in 2009. The analysis was based on the quarterly shareholdings data provided by the BSE of investors having a stake of at least 1 per cent in listed firms.

Deutsche Bank was followed by HSBC Holdings Plc (with a portfolio worth US\$ 5.32 billion) and Citigroup (US\$ 3.16 billion). This is the third consecutive year that Deutsche Bank has emerged as the top foreign portfolio investor in India.

Vikas Angnihotri, chief executive officer, Religare Macquarie Wealth Management Ltd, believes that FII investments will continue to chase stocks in the Indian markets in 2010 as well. "The growth rates in emerging markets are much higher," remarks Angnihotri. "India is among the few economies expected to continue to grow over the next few years."

While FIIs continue to enhance their holdings in Indian equities, the really big players in the markets are domestic institutions such as state-owned Life Insurance Corporation (LIC), which has a portfolio worth nearly US\$ 50 billion.



## TAPPING THE PRIMARY MARKETS

IT was not just foreign capital inflows – both portfolio and direct investment – that ensured abundant liquidity in the Indian market in 2009. Companies raised funds through public issues, both to Indian and international investors.

According to data compiled by Prime Database, a leading primary markets research firm, 21 companies raised US\$ 4.22 billion through initial public offers (IPOs) and follow-on public offers (FPOs). This was a 16 per cent rise over figures for 2008.

“The average deal size rose dramatically to US\$ 201.16 million in 2009, up from US\$ 96.15 million in 2008 and US\$ 92.05 million in 2007,” notes Prithvi Haldea, managing director, Prime Database. “In fact, the 2009 average deal size was the highest ever.”

According to Haldea, there were five issues, each of more than US\$ 215 million. “This year only large- and medium-sized companies came out with IPOs,” points out Haldea. “Smaller companies stayed away from the primary market.”

Many of the companies that tapped the primary markets for funding were in the infrastructure sector, especially power. State-owned companies have also started coming out with IPOs and FPOs, as the government seeks to dilute a part of its stake to raise funds for its social schemes.

Overall, Indian companies raised about US\$ 32 billion through IPOs/FPOs, placements with qualified institutional investors (QIPs) and private equity funds. According to international consultancy Grant Thornton, QIPs and private equity investors funded 221 deals worth US\$ 11.17 billion during 2009.



when there is excess of capital flows, we will have to respond to that situation.”

K C Chakrabarty, deputy governor, RBI, notes that India needs capital to ensure growth.

“Capital flow is going to facilitate our growth, provided it comes within our terms,” points out Chakrabarty. “We have to manage capital inflows and that is an integral part of monetary policy.”

Rangarajan believes that capital inflows of US\$ 50 billion, expected in the current fiscal, are manageable. In fact, he feels that the economy can absorb capital inflows of up to US\$ 100 billion, before restrictive measures are initiated to curb the inflows, especially of speculative funds.

The RBI did tweak its policies relating to capital inflows in December 2009 by tightening norms for ECBs, in view of the buoyant inflows of foreign funds during the year. The central bank reintroduced the ceiling on overseas borrowings and

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decided to disallow buyback of foreign currency convertible bonds (FCCBs). However, telecommunications companies accessing funds abroad for acquisition of third generation (3G) spectrum and companies lending funds to infrastructure projects have been exempted from the new rules.

In November 2009, Indian companies got approval for raising US\$ 2.35 billion through ECBs – as against US\$ 1.7 billion a year earlier and US\$ 2.58 billion a month earlier. ECBs, FCCBs and overseas issues through American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) are other sources of capital inflows from abroad.

With the Indian economy projected to return to the 9-plus per cent growth rate next fiscal, foreign capital inflows are expected to remain buoyant over the next few years, especially since many developed economies are still to come out of the recession. 🌱