

September 26, 2007

To,

All Category - I Authorised Dealer Banks

Madam / Sir,

Overseas Direct Investment- Liberalisation

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to Notification No.FEMA120/RB-2004 dated July 7, 2004, [Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004 as amended from time to time (the Notification) and A. P. (Dir Series Circular) No. 75 dated June 14, 2007. The Regulations governing overseas investments have been further liberalized, with immediate effect, as under :

2. Enhancement of limit for Overseas Direct Investment

In terms of extant provisions under FEMA on overseas investments, the total overseas investment of an Indian party in all its Joint Ventures (JVs) and / or Wholly Owned Subsidiaries (WOSs) abroad engaged in any bonafide business activity should not exceed 300 per cent of its net worth for companies incorporated in India or bodies created under an Act of Parliament and 200 per cent of net worth in the case of registered partnership firms. With a view to provide greater flexibility to Indian parties for investments abroad, the existing limit of 300 per cent of the net worth of the Indian party (200 per cent in case of registered partnership firms) has been enhanced to 400 per cent of the net worth of the Indian party. Accordingly, AD Category – I banks may allow overseas investments under the Automatic Route up to 400 per cent of the net worth of the Indian party, as on the date of the last audited balance sheet.

3. Portfolio Investment by Listed Indian Companies

At present, listed Indian companies are permitted to invest up to 35 per cent of their net worth as on the date of its last audited balance sheet, in the equity of listed foreign companies, which are listed on a recognised stock exchange and having shareholding of at least 10 per cent in Indian companies listed on a recognised stock exchange in India and rated bonds / fixed income securities issued by overseas companies, under the portfolio investment scheme. In order to provide greater opportunities to listed Indian companies for portfolio investments, the existing limit of 35 per cent has been enhanced to 50 per cent of the net worth of the investing company as on the date of its last audited balance sheet. It has also been decided to do away with the requirement of a reciprocal 10 per cent share holding in Indian companies with immediate effect. Accordingly, listed Indian companies are now permitted to invest up to 50 per cent of their net worth as on the date of its last audited balance sheet, in (i) shares and, (ii) rated bonds / fixed income securities, rated not below investment grade by accredited/registered credit rating agencies, issued by listed overseas companies. All other terms and conditions stipulated in Regulation 6B of the Notification shall remain unchanged.

4. AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

5. Necessary amendments to Notification No.FEMA120/RB-2004 dated July 7, 2004, [Foreign Exchange Management (Transfer or Issue of Any Foreign Security)] are being notified separately.

6. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act 1999 (42 of 1999) and is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

Salim Gangadharan
Chief General Manager