

Other Hotline

July 04, 2014

RBI RESTORES OVERSEAS INVESTMENT LIMIT TO 400% FOR INDIA INC.

OVERSEAS DIRECT INVESTMENTS

By issuing the A.P. (DIR Series) Circular No. 23 dated August 14, 2013 ("**Circular 23**"), the Reserve Bank of India ("**RBI**") had reduced the overseas direct investment ("**ODI**") limit for the India Inc. from 400% to 100% of the net worth of the Indian entity as per its last audited balance sheet, under the automatic route. In a positive move for the globalizing Indian corporates, the RBI has now issued an A.P. (DIR Series) Circular No. 1 dated July 3, 2014 ("**Circular 1**") whereby the said limit has been restated to 400% of the net worth as per the last audited balance sheet of the Indian entity.

Circular 1 is a welcome change for the Indian corporates that wish to get a strong foothold overseas; however, the same comes with a caveat *i.e.*, any ODI or financial commitment of more than USD 1 billion in a particular financial year will require prior approval of the RBI, even if such ODI or financial commitment is within the eligible ODI limit of 400%.

LIBERALIZED REMITTANCE SCHEME

Simultaneously with Circular 23, RBI had also issued an A.P. (DIR Series) Circular No. 24 on August 14, 2013 ("**Circular 24**") which brought down the threshold of remittance by resident individuals outside India under the liberalized remittance scheme ("**LRS**") to USD 75,000 from the erstwhile applicable limit of USD 200,000 per financial year. Keeping an eye on the stabilizing Indian rupee, RBI had issued an A.P. (DIR Series) Circular No. 138 on June 3, 2014 ("**Circular 138**") under which the said limit for overseas investments by resident individuals was raised to USD 125,000 from USD 75,000.

The detailed impact of Circular 23 and Circular 24 was analyzed by us [here](#).

EFFECT OF THE CHANGE

Increased opportunity for India Inc. to Globalize: With increased investment limits under Circular 1, Indian corporates can better diversify their existing overseas holdings, de-risk their investment portfolios and also access new technology and innovations overseas. This will also be coupled with all the incidental benefits of globalizing domestic businesses and help the ever expanding business plans of the Indian corporates.

Option to secure finance overseas: Due to relatively lower cost of borrowing overseas, Indian corporates prefer that their overseas subsidiaries raise finance overseas for their business operations or for making specific acquisitions. Usually, the loan procured by a subsidiary overseas is secured by a guarantee provided by the Indian parent entity. Considering that the ability to provide guarantees was limited due to the changes introduced by Circular 23, raising finance overseas was impacted. However, Circular 1 has again relaxed this route of securing alternate funding overseas for Indian corporates.

CONCLUSION

Increased foreign investment due to a stable government in the Indian parliament and increase in foreign exchange reserves has improved the Indian macroeconomics in the recent past. Circular 1 is a welcome response from RBI to the stimulus provided by this improvement. These changes would significantly impact outbound investments by Indian corporates.

On the one hand, the restoration of ODI limits indicates that RBI is supporting domestic businesses to expand globally and on the other, RBI is also taking steps to ensure an increase in the foreign investments into India. RBI had attracted criticism with the reduction in ODI and LRS limits under Circular 23 and Circular 24, respectively, when it tried to arrest the downfall in the Indian rupee in 2013 by introducing these capital controls in India. However, Circular 1 and Circular 138 can be seen as the right steps to restore RBI's image as a business friendly regulator. As a next welcome change, RBI may consider restoring the remittance under LRS to its original limit of USD 200,000 per each financial year.

– Shreyas Bhushan, Mukul Aggarwal & Sambhav Ranka
You can direct your queries or comments to the authors

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US

Research Papers

From Capital to Impact: Role of Blended Finance

June 15, 2024

Opportunities in GIFT City

June 14, 2024

Start-up Governance Essentials

May 30, 2024

Research Articles

Private Client Insights - Sustainable Success: How Family Constitutions can Shape Corporate Governance, Business Succession and Familial Legacy

January 25, 2024

Private Equity and M&A in India: What to Expect in 2024?

January 23, 2024

Emerging Legal Issues with use of Generative AI

October 27, 2023

Audio

Why is the ad industry unhappy with MIB's self-declaration mandate?

June 18, 2024

Incorporation of arbitral clause by reference: Position in India and other Asian Jurisdictions

June 12, 2024

Third-Party Funding: India & the World

April 27, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

[Click here to view Hotline archives.](#)

Video

Future of India-Mauritius tax treaty – Impact of new Protocol on M&A deals and Private Equity structures

April 23, 2024

responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

**Q&A 2024 Protocol to the Mauritius
India Tax Treaty**

April 22, 2024

**Boost to India's Space Potential:
India Liberalizes Foreign Direct
Investment**

April 03, 2024