FDI & FEMA:

Reinforcing Indian Economy
MESSAGE

India received $1.1 billion of foreign direct investment (FDI) in December 2013, unchanged from the level in the same month a year earlier (According to data from DIPP). During the first nine months of this financial year, the highest FDI came in services ($1.59 billion), followed by pharmaceuticals ($1.26 billion), construction development ($914 million) and automobiles ($871 million). The sharp surge in FDI flow into India during the first quarter of the fiscal year to $5.9 billion is a good news. This figure, representing more than double the inflows for the similar period of 2006-07 ($2.5 billion), is a reflection of the growing confidence of the global community in the country’s long-term growth story. Particularly so, as the inflows are being sustained after the near three-fold increase in FDI flow in the last fiscal year to $19.5 billion. Seen in the context of inflows last year, and greater interest shown by investors from countries such as Japan, the government's target to attract FDI inflow of $30 billion in the current fiscal appears achievable. The country needs foreign investment to help regain its growth momentum. India’s economic growth slowed to a decade’s low of 4.5 per cent in 2012 - 13. India is estimated to require about $1 trillion between 2012 - 13 and 2016 - 17, the 12th Five Year Plan period, to fund infrastructure projects.

The FDI flow is having capacity to bring domestic investment in “back up portion” and generation of Agricultural, Multi model Transport, Cold Storage chain, Food Processing industries to give more employment generation. This leads to overall growth of the National Development.

ASSOCHAM’s Conference at this juncture on FDI is a welcome initiative and I send my good wishes and hope the deliberations will be of interest to my Ministry and other agencies of GOI.

(Dr. E.M. Sudarsana Natchiappan)
Foreign Direct Investment (FDI) in India is regulated by certain Rules and Regulations and is subject to pre-defined limits in different sectors. The range varies from 20% to 100%. There are also some sectors in which FDI is not allowed. The FDI Limits are reviewed by the Government from time to time and as a result FDI is allowed in new sectors where the limits of investment in the existing sectors are modified accordingly. In order to have a fresh look on FDI Limits to attract more foreign investment in India, the Union Government constituted Arvind Mayaram Committee headed by the Economic Affairs Secretary. On 16th July, 2013, the Government approved the recommendations of the Committee to increase FDI limits in 12 sectors out of the proposed 20 sectors, including crucial ones such as defense and telecom. Some of the sectors in which FDI limits were expected to be increased but did not, were, civil aviation, airport, media, multi-brand retail and pharmaceuticals.

In order to liberalize Foreign Investment in India and to attract more number of foreign Investors the Government attempts to maintain a practice to continuously review the Foreign Investment policy. The acceptance of the recommendations to increase the Foreign Investment Limits in the respective sectors will not only attract Foreign Investment in India but will also provide growth opportunities to Indian Companies who can collaborate with Foreign Companies to start business in various new sectors. The withdrawal of requirement of Government Approval for Investment in different sectors will also act as an incentive to initiate various business prospects and will expedite the launch of new projects.

ASSOCHAM’s Roundtable on “Debating FEMA & Need for FDI in India” is a very timely attempts to highlight the issues which will interest both the Govt. and the Industry and create a right environment which satisfy the concerns of all stakeholders. The team of Resurgent India Ltd deserves all our appreciation for bringing-out an excellent Study Report titled: FDI & FEMA: Reinforcing the Indian Economy.

D. S. Rawat
Secretary General
The Associated Chamber of Commerce and Industry of India (ASSOCHAM)
Foreign investment in India is governed by sub-section (3) of Section 6 of the Foreign Exchange Management Act, 1999 read with Notification No. FEMA 20/2000-RB dated May 3, 2000, as amended from time to time.

FDI in-flows to India witnessed significant moderation in 2010-11 while other economies in Asia and Latin America received large in-flows. This had raised concerns in the wake of widening current account deficit in India beyond the perceived sustainable levels during April-December 2010. This also assumes significance as FDI is generally known to be the most stable component of capital flows needed to finance the current account deficit. Moreover, it adds to investible resources, provides access to advanced technologies, assists in gaining production know-how and promotes exports.

A perusal of India’s FDI policy vis-à-vis other major emerging market economies reveals that though India’s approach towards foreign investment has been relatively conservative to begin-with, it progressively started catching up with the more liberalised policy stance of other economies from the early 1990s onwards, inter alia in terms of wider access to different sectors of the economy, ease of starting business, repatriation of dividend and profits and relaxations regarding norms for owning equity. This progressive liberalisation, coupled with considerable improvement in terms of macroeconomic fundamentals, reflected in growing size of FDI flows to the country that increased nearly 5 fold during first decade of the present millennium.

The Government of India on April 1, 2011 announced some additional measures to liberalise the policy to promote FDI inflows to India. These measures, inter alia included (i) allowing issuance of equity shares against non-cash transactions such as import of capital goods under the approval route, (ii) removal of the condition of prior approval in case of existing joint ventures/technical collaborations in the ‘same field’, (iii) providing the flexibility to companies to prescribe a conversion formula subject to FEMA/SEBI guidelines instead of specifying the price of convertible instruments upfront, (iv) simplifying the procedures for classification of companies into two categories – ‘companies owned or controlled by foreign investors’ and ‘companies owned and controlled by Indian residents’ and (v) allowing FDI in the development and production of seeds and planting material without the stipulation of ‘under controlled conditions’.

How far these measures helped us in achieving our national objectives is something which the ASSOCHAM’s Conference on Debating FEMA and Need for FDI in India will deliberate and come-up with recommendations to be placed before various agencies of GOI for their consideration.

I wish the Conference a great success

R K Handoo
Chairman
ASSOCHAM’s National Council on Legal Affairs
Handling matters regarding FDI lands the government in a catch 22 situation. On the one hand is the crying need for developing the economy while on the other hand is the opposition from various quarters alleging all sorts of ills and perils that the country would face if FDI was permitted.

The importance of FDI in the growth of the economy cannot be underestimated. Besides attracting scarce capital, FDI also brings with it the latest technology. This also acts as a multiplier as with FDI come increased jobs, ancillaries, supply chains. It also brings indirect employment as the increased job opportunities attract migrant labour who need places to stay, eat, buy their day to day needs etc. All this has a big impact on the growth of the GDP of the country.

However there are views which are at the other end of the spectrum which propound the theory that with the advent of FDI the country would be going back to the days of imperialism. Such people are of the view that in the medium term bringing FDI would gobble up jobs available locally, create a monopoly for goods produced/traded, increase the price of goods and services being dealt with and so on and so forth.

However the fact remains that FDI is a necessity which no country could do without. To attract FDI in good numbers the government needs to tread on a thin line which on the one had makes the country as a favorable destination for FDI and on the other hand takes care of social issues if any. Further the FDI policy should be such that change of the political set up either at the centre or in the states does not materially hamper the flow of FDI into the country.

Prior to 1999 any violation of the law relating to dealings in foreign exchange was considered as a criminal offence. This was because under the then law every person was considered as guilty unless and until proved otherwise. This was against the general premise that every person is innocent until proved otherwise.

Looking at the negative sentiments prevailing against the then law the government enacted a more ‘humane’ law under which in lines with the other laws of the land every person was treated as innocent unless and until proved otherwise. FEMA as the new act was known replaced FERA. Like any other act there needs to be a constant review and improvement in tune with the need of the hour.

Jyoti P Gadia
Managing Director
Resurgent India Limited
# Round Table

**“Debating FEMA and Need for FDI in India”**

Friday, 21st March, 2014                        New Delhi

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<td><strong>10:00 am – 11:00 am</strong></td>
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| Welcome Address: Shri. S C Aggarwal  
Chairman & Managing Director, SMC Group  
(ASSOCHAM's Sr. Managing Committee Member) |
| Industry Perspective: Mr. Jyoti Prakash Gadia,  
Managing Director, Resurgent India Limited |
| Special Address: Dr. Shamsuddin (Additional Director)  
Enforcement Directorate, Govt. of India |
| Key Note Address: Shri. R K Handoo (Chairman, ASSOCHAM National council of Legal affairs) |
| Address by Guest of Honor: Ms. Rita Singh, Chairperson cum Managing Director MESCO STEEL Ltd.  
Dr. E.M. Sudarsana Natchiappan  
Hon’ble Minister of State for Commerce & Industry  
Department of Industrial Policy & Promotion  
Govt. of India  
“Release of Study Paper” |
| Vote of Thanks: Shri R K Bhasin  
Joint Director, (Projects), ASSOCHAM |
| **11:00 am – 11:30 am** | Networking Tea/ Coffee |
| **11:30 am – 2:00 pm** | Technical Session |
| Theme: FDI  Current scenario, pitfalls & issues for the GOI to address |
| Session Chairman: Mr. Suresh Chandra, Legal Advisor, Railway Board Ministry of Railways, Govt. of India |
| Session Co-Chairman: Mr. R K Handoo, Chairperson, ASSOCHAM National Council on LEGAL AFFAIRS |
| **Topics** | **Distinguished Speakers** |
| **Aviation** | Dr. Shamsuddin (Additional Director)  
Enforcement Directorate, Govt. of India |
| **Defence** | Prof. (Dr.) Saurabh Agarwal  
Vice-Chairman  
Indian Institute of Finance |
| **Infrastructure** | Mr. Tabrez Ahmad  
Secretary General, OPPI |
| **Education** | Mr. Kaushik Guha Thakurta  
Director, Resurgent India Ltd |
| **Pharmaceutical** | Mr. Amber Dubey  
Partner and Head Aviation  
KPMG Advisory Service Private Limited |
| **FEMA &Beyond** | **Question & Answer Session, followed by Lunch** |
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FDI

Executive Summary

The importance of FDI in the growth of the economy cannot be underestimated. This is equally true for developed economies as well as emerging economies. Of course the importance for the latter would be much more than that of the former. Besides attracting scarce capital FDI also brings with it the latest technology. This also acts as a multiplier as with FDI come increased jobs, ancillaries, supply chains. It also brings indirect employment as the increased job opportunities attract migrant labour who need places to stay, eat, buy their day to day needs etc. All this has a big impact on the growth of the GDP of the country.

As with everything else there are contrarians views to what have been stated above. Such views portray FDI as a devil in disguise who in the medium term would gobble up jobs available locally, create a monopoly for goods produced/traded, increase the price of goods and services being dealt with and so on and so forth.

However the fact remains that FDI is a ‘necessary evil’ which no country could do without. However one of the downside of FDI is attracting such investments in economic downturn. In the ongoing global economic downturn FDI has dried up more particularly to emerging economies.

To attract FDI in good numbers the government needs to tread on a thin line which on the one had makes the country as a favorable destination for FDI and on the other hand takes care of social issues if any. Further the FDI policy should be such that change of the political set up either at the centre or in the states does not materially hamper the flow of FDI into the country.
Need for FDI

India needs to grab more FDI

India’s elite has welcomed the British prime minister’s calls for commercial “special partnership”. In private, however, these advances are all too often greeted with a mildly disinterested shrug.

India appears to be losing, as global investors balk at its unfortunate mix of slowing growth and red tape.

The figures are stark. India’s current account deficit has never been higher, hitting a record 5.4 per cent of gross domestic product in the quarter at the end of September FY12. India’s current account deficit was 4.8% in FY13. Leading rating agency Moody’s has warned that a balance of payment crisis is likely in the next five years, if matters don’t improve.

Part of the problem is cyclical: slowing global growth has cut demand for exports at a time when domestic appetite for oil remains strong.

But it is also structural: Indian exports are relatively feeble even at the best of times, while the economy sucks in even more from abroad as it expands.

India’s leaders are aware of this, of course, and say they can roughly halve the deficit over the next five years.

Target of GDP growth is high. By historical standards, it will be impossible without major increases in FDI upto $18 bn a year, as per the data with the Planning Commission.

At the precise moment the country needs a lot more foreign money, it faces ever greater problems finding it.

FDI is declining globally in the aftermath of the financial and Eurozone crisis, with overall flows falling 15% in 2012 as per Meckinsey report.
But India appears also to be losing relative to other emerging economies, as global investors balk at its unfortunate mix of slowing growth and bureaucratic dithering.

Grabbing more investment from countries such as the UK is not always an unqualified good thing, with some research suggesting that FDI can act to displace local businesses, without doing much to boost growth.

On balance, though, most academic evidence shows that higher FDI brings considerable economic benefits, not least an improvement in industrial productivity through the transfer of technology and management skills.

Getting more of this in India will not be easy, although the government has at least made a good start by liberalizing investment in retail and airlines – and soon, hopefully, in insurance and pensions too.

Now further steps are needed to create a predictable investment climate in which major investment projects are not mired in delays or menaced by changeable tax rules.

**FDI hot spot in cooling world**

FDI is one of the key economic growth engines that help in fixing some of the core growth issues facing nations. FDI is perhaps the key source that can mitigate any developing nations’ current account deficit, inflation and currency valuations.

FDI creates jobs: Half of our population is under the age of 25, and 60 per cent is under the age of 30.

It transforms the local economy into an export led zero capital cost. FDI also brings with it expertise which is as much important as the capital itself. Since, it is the multinationals, which are at the leading edge of the FDI led exports they ensure free access to global markets. For
example Suzuki Motors FDI in the domestic auto industry in India gave a boost to the industry it also created a whole eco system of SME ancillary auto component manufacturers. India’s auto component exports stand at over $4.5 billion today. In addition, MNC auto makers exported close to 3 million finished vehicles in FY 2011-12. What started with a single FDI made India a global auto hub.

As the exports grow, the nations brand popularity grows. The consumer nations start to trust the quality and reliability of the supply. This gives continuity to the economic growth by attracting newer players.

**Need for FDI for transitioning toward a more open and innovative economy**

India is the fourth destination country for FDI in terms of projects.

This is despite a global economic growth that had not fully recovered from the financial crisis of 2008–09 and has begun to slow again, from over 5% in 2010 down to a projected 3.3% through 2012.

Investors came to India to find growth opportunities for their business and the possibility to operate at lower cost. India’s massive and growing domestic market is the number one draw and a highly cost-competitive location.

China is India’s direct competitor. Fifty five percent of investors perceive the other rapid-growth giant as the primary competitor, which is confirmed by FDI facts: India is the fourth destination country for FDI in terms of projects, behind the US (first), China (second) and the UK (third). However, in terms of FDI value, India is the third destination, behind China (first) and Brazil (second).
India’s inward FDI activity is specialized on large industrial and back office operations. The country received 288 large scale manufacturing projects, creating an estimated 142,235 new jobs, mostly in the automotive, industrial equipment and metal industries in a year.

India also received 238 large back-office and business process outsourcing projects creating 30,269 new jobs, mainly in the IT service industry.

**Emphasis on the battle - for & against FDI**

**Why does a country seek FDI?**

Primarily for two reasons:

1) Technological advances brought by the MNC
2) Capital brought by the MNC

What is the final aim to seek FDI?

Primarily for development:

Here the term development would mean –

1) Development is not just growth of GDP/GNP. As Mahboob –ul-haq and Amartya Sen have indentified Development must mean development in nutrition, education and health in addition to economic development.

2) In the current situation development has been defined as consisting of three concepts:
   a) Economic vitality
   b) Ecological Sustainability
   c) Social Equity
Why should FDI not be allowed in India?

Our regulatory regime is very weak and buckles under pressure too easily. For example GAAR has been postponed, even though it was known that it was a necessary measure to curb abuse of various provisions, just because it was sending a wrong signal to Foreign Investors. Here one would like to ask whether FDI is for India or India is for FDI.

Now it is well documented that Multi National Companies just like Companies of yore have not changed their technique of using all means – fair and foul to gain access to vital re-sources.

Money Drain: Off-course it is nobody’s concern but it is also a fact that hefty amount of profit and salary etc. will go outside India.

The economy is under strain, accepted but any development pattern with focus on only 3-4% of the population will ultimately remain flimsy. India has huge capability to grow with internal resources. We have to educate people, provide dwellings to them and provide employment opportunities to them. If we try to focus on these aspects we would not need FDI for growth.

The aim is not just economy in operations but also peace in the society. MNCs have the dubious nature of capturing the whole market and thereby discouraging local entrepreneurship.
FDI: Bird Eye view

FDI inflows into India contracted by 38% to $22.42 billion in 2012-13 compared with $35.12 billion of FDI inflows the country witnessed in 2011-12, as per the data released by the department of industrial policy & promotion.

The top six sectors which received large FDI inflows during 2013-14 were: services ($4.83 billion), Hotel & tourism ($3.26 billion), Automobiles ($1.54 billion), Metallurgical ($1.47 billion), construction ($1.33 billion) and Pharmaceuticals ($1.12 billion).

Mauritius remains the largest source country in terms of value of FDI inflows into India. In all, India received FDI worth $9.49 billion from Mauritius. That was followed by the UK ($7.87 billion), Singapore ($5.25 billion), Japan ($2.97 billion) and the US ($1.11 billion).

Comparative view in global context

Globally, India is at third rank in terms of FDI value and at fourth for the rank in terms of FDI projects. In terms of FDI value India is behind China (first), Brazil (second) and ahead of US & UK. In terms of FDI projects, US, UK & China are ahead of India.

Un-employment & rising inflation are major roadblocks in boosting investor’s confidence. Govt. has taken major steps to drain excess liquidity from the financial system to curb inflation. Further, the Govt. is working for increasing employment in private and public sectors.

China is the top most competitor of India

China’s economy is export driven compared to domestic consumption driven Indian economy.

China has great exposure to economic shocks. Chinese manufacturers face rising wages and production costs. China is the largest competitor in terms of attractiveness.
Like India, China has same economic size, low cost production, and accesses to international market.

**Contribution in FDI projects from sourced countries**

Investments from US, Germany, UK & France contribute more than 50% in total FDI projects. Asia, Japan & UAE contribute around 15% in total FDI projects.

USA remains the leading investor with 30% share. Leading companies such as General Electric, Citi group & Honeywell have expanded their operations in India.

Japan is the second highest in terms of FDI projects. Companies such as Toyota, Suzuki have made their presence in India.

UK is at third position with the share of 9%. Large British companies such as Vodafone, Marks & Spencer have made presence in India.

**Investment in India - Function wise**

In India, approx 70% goes into manufacturing sector, approx 20% goes in to services, 3% goes into strategic functions & remaining in others.

**Scenario on India’s GDP growth**

India’s growth is expected to slip to 4.8% in FY14; to improve next year

India’s economic growth rate in the current fiscal (FY14) is expected to slide to 4.8% and the prospects for 2014-15 which currently appear to be bright, hinge on the stability of the new govt. as per Crisil.

Growth is expected to be 6% for FY15-16, up from 4.8% estimate for 2013-14. Pickup will be added by implementation of stalled projects, debottlenecking of the

### Countries Contribution (%)

<table>
<thead>
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<th>Country</th>
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<tbody>
<tr>
<td>US</td>
<td>30%</td>
</tr>
<tr>
<td>Japan</td>
<td>12%</td>
</tr>
<tr>
<td>UK</td>
<td>9%</td>
</tr>
<tr>
<td>Germany</td>
<td>9%</td>
</tr>
<tr>
<td>France</td>
<td>3%</td>
</tr>
<tr>
<td>Sweden</td>
<td>3%</td>
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<td>Switzerland</td>
<td>3%</td>
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<td>Spain</td>
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<tr>
<td>UAE</td>
<td>2%</td>
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<td>Finland</td>
<td>2%</td>
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Source: FDI Intelligence
mining sector and a recovery in industry on higher external demand. Normal monsoons, reforms & global recovery would aid the growth process.

The outcome of general elections in May could swing the medium term growth outlook either way. Political uncertainty is, therefore a huge weight on the economy at this juncture.

Policy bottlenecks and a fragile political outcome could further delay long-pending critical reforms and will completely dent investment sentiment and derail growth. Recovery in investments would be largely driven by clearance of stalled projects.

New projects can hit the ground only in 2015-16 and only if there is a stable policy environment after the elections along with a sustainable recovery in demand.

As the economy recovers, investment and consumption goods’ imports will pick up. A pick up in domestic growth is also expected to push oil imports higher due to higher volume demand.

**GDP Growth to see modest improvement**

With a recovery in manufacturing activities, economic growth is expected to pick this year.

Structural bottlenecks, slow policy movement, stubborn interest rates on account of high inflation, declining exports, low non-food credit growth, declining industrial growth and subdued demand for both consumption and investment has led to the systematic decline in the overall economic growth of the country in FY13.

The uptick in growth would be driven by a gradual revival in industrial production, stable agri-sector activity and steady services sector growth. Supply side constraints would ease to some extent as investments shelved in the
last year (both government & private) begins to churn and flow into the economic cycle.

Capital markets in a more investment-favorable environment are also expected to receive the much required boost. Performance of the agricultural and industrial sectors, banking and capital markets, fiscal thoughts and external sector scenarios are likely to emerge.

Industry to revive

Industrial activity is expected to improve with the increase in consumption demand and higher capital investments.

Industrial activity is expected to pick up in FY14 and grow by 4-5% with mining projected to grow by about 2%, electricity by 7% and manufacturing activities in the range of 4-5%.

This improvement in industrial sector would be aided by an increase in Govt. approvals for project investments that are currently in the pipeline and recovery in exports as global demand picks. Also the two successive low base years will provide some modicum of buoyancy.

Impact of recent FDI announcements

Relaxing FDI norms in various sectors is a welcome step. The country’s strategy of opening up the economy in a calibrated manner will have a long term benefit as has been seen in the past.

However, majority of economists felt that impact of recent announcements related to raising & revising the FDI cap in sectors like telecom, retail, defense etc. will have a little impact in near term. It will have a positive impact in the medium to long term if regulations and guidelines are
followed in true spirit and implementation at the ground level is improved.

Majority of economists opined that a lot will depend on administration of the schemes and that economic reforms cannot be successful until the country removes procedural bottlenecks and improves ease of doing business.

Current view on Inward capital flows

Inward capital flows to be robust

Domestic fundamentals in the Indian economy are likely to strengthen restoring investor confidence and long-term growth prospects along with foreign funds seeking to arbitrage gains.

Despite, the retail and aviation sectors having been opened up to FDI, they are likely to attract very limited new sectoral investment flows.

In terms of further policy changes in FDI norms, especially in the pension and insurance segment, no further news is expected in FY14.

Net FDI could be expected to be between US$ 25-30 bn based on the current dispensation relating to FDI policies.

With economic uncertainty prevailing in advanced economies, emerging market economies led by India would benefit from opportunistic gains of movement of funds away from the former to the latter.

India’s net FDI inflows grew 50% in Q1 FY’14

Driven by the government’s recent reform measures, India’s net foreign direct investment inflows recorded over 50% growth during the April-July quarter of the current fiscal.

<table>
<thead>
<tr>
<th>Foreign Capital Flows (US$ bn)</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13 (April-Dec)</th>
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<tr>
<td>Gross FII</td>
<td>-13.9</td>
<td>32.4</td>
<td>31.5</td>
<td>17.4</td>
<td>17.2</td>
</tr>
<tr>
<td>Net FII</td>
<td>-14</td>
<td>32.4</td>
<td>30.3</td>
<td>17.2</td>
<td>16.4</td>
</tr>
<tr>
<td>Gross FDI</td>
<td>41.9</td>
<td>37.7</td>
<td>34.8</td>
<td>46.6</td>
<td>30.4</td>
</tr>
<tr>
<td>Net FDI</td>
<td>22.3</td>
<td>18</td>
<td>11.3</td>
<td>22</td>
<td>15.3</td>
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Source: Care Research
Net FDI inflows rose to USD 8.2 billion during the period April-July 2013 from USD 5.4 billion during the corresponding period of the previous year.

Increase in net FDI inflows is attributed to the recent reforms undertaken by the Govt. in the FDI policy regime where it opened up various sectors of the economy to foreign investors.

Despite effects of global economic crisis, the country’s foreign investments recorded a healthy growth in post – Lehman period (FY2009-13) as the volumes of FDI and FII inflows rose sharply.

FDI inflows stood highest at around USD 198 billion in FY 2009-13 periods as against about 77 billion in FY2004-08, about USD 21 billion in FY1999-03 and around USD 10 billion in FY1994-98.

India’s FDI investment reduce in Q2 of FY’14

Foreign direct investment into the country declined by about 38% (YoY) to $2.91 billion in September as per the department of industrial policy and promotion.

In September 2012, the country had attracted foreign investment worth $4.67 billion.

During the April-September period of 2013-14 fiscal, FDI has thus dipped by 11% to $ 11.37 billion from $12.84 billion in the first half of 2012-13.

Decline in FDI in sectors like telecoms, services and metallurgical industries have lowered the inflows.
View on FDI in key sectors

Pharma

Cabinet Committee on Economic affairs (CCEA) allowed 100% FDI in both Greenfield (new) and Brownfield (existing) segments.

FDI in the Pharma sector grew 115% to $1.25 billion during April-Nov of the current financial year over the same period last year. FDI in drugs and Pharmaceuticals was $581 million during April – Nov 2012 as per the latest data available with Department of Industrial Policy Promotion (DIPP).

The Commerce & Industry ministry debates on lowering the FDI cap to 49% in the Brownfield segment, keeping in mind the affordability of medicines and takeovers of domestic drug making companies by multinational giants.

FDI in retail is highly debatable but the same in the pharma sector will only trigger the economy to newer heights and also ensure a remarkable growth in Technology and medical advancements. In order to rub shoulders with its American and European counterparts, the Indian pharma industry desperately needs foreign aid, only to boost its already blooming credibility.

Investors from abroad like to invest in newer ventures in India because the country is cast effective right from finances that are needed to invest to kick start a project to efficient manpower, cheap, and efficient labour, renowned scientists & research personnel.

Contrary to this, there is concern over the price rise of generic drugs. Following the number of takeovers of Indian pharma companies by the MNCs, even the Health ministry is showing concern over the price issue of generic drugs. There are apprehensions expressed by some of the drug making lobbyists from the domestic industry about the arrival of MNCs to monopolize the Indian Pharma sector,

In spite of various challenges faced by the industry, the Pharma and Biotech sectors have grown phenomenally. FDI has added to the growth substantially.
particularly after the six famous acquisitions. Only time would tell how much of the apprehensions were correct or otherwise.

**Telecom**

In a major reform push, government approved 100 per cent FDI in the telecom sector, meeting a key demand of the fund-starved industry.

It has been decided to increase FDI cap in telecom to 100 per cent from 74. Up to 49 per cent would be through the automatic route & through FIBP beyond that.

All telecom services including Telecom Infrastructure Providers Category-I, viz. Basic, Cellular, Unified Access Services, Unified license(Access services), Unified License, National/ International Long Distance, Commercial V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS), All types of ISP licences, Voice Mail/Audiotex/UMS, Resale of IPLC, Mobile Number Portability services, Infrastructure Provider Category – I (providing dark fibre, right of way, duct space, tower) except Other Service Providers come under this category.

This is subject to observance of licensing and security conditions by licensee as well as investors as notified by the Department of Telecommunications (DoT) from time to time.

**Education**

Government, of the Ministry of Commerce and Industry (department of Industrial Policy and Promotion) has allowed FDI up to 100% through the automatic route in
the Education Sector, subject to the sectoral rules/regulations as may be applicable.

Ever since, the Government of India has allowed foreign direct Investment (FDI) up to 100 per cent through the automatic route, many people find it convenient and profitable to invest in education sector.

Some of the initiatives taken by the Government for the infrastructural development of the sector and to increase the business opportunity in education are:

- For the year 2012-13, Rs 25,555 crore (US$ 4.63 billion) have been allotted for RTE-SSA (Right to Education – Sarva Shiksha Abhiyan) which represents an increase of 21.7 per cent over the previous year allotment in 2011-12
- 6,000 schools have been proposed to be set up at block level as model schools in the Twelfth Five Year Plan (2012-17)
- Rs 3,124 crore (US$ 566.69 million) have been provided for the RMSA (Rashtriya Madhyamik Shiksha Abhiyan), which is an increase of 29 per cent over 2011-12
- India and Republic of Korea have signed a memorandum of understanding (MoU) for cooperation in the field of education
- Prime Minister’s fellowship scheme for doctoral research has been launched in New Delhi by Mr S Jaipal Reddy, Union Minister for Science and Technology, according to Confederation of Indian Industry (CII)
- The Government of India plans to set up an Indian Institute of Agricultural Biotechnology at Ranchi with an investment of Rs 287.50 crore (US$ 52.15 million). The Institute will be a deemed university and will have

Source: Department of Industrial Policy and promotion
different schools to import knowledge in genomics, bioinformatics, genetic engineering, nanobiotechnology, diagnostics and prophylactics and basic and social sciences and commercialization.

Traditionally education is considered to be non-tradable; the govt. used to fund education through domestic resource mobilization and channelization. In higher education a period of 1990 to 2000 is the decade of deficiency of funds on secondary, higher and technical institutions.

This resource crunch adversely affected both, public and private sector at all levels of education. To raise funds in the education sector it may be argued that FDI may be used as a resource of investment at least in some selected areas.

Against this view academia in education argue that foreign investment in education sector might lead to cultural imperialism. Therefore education should be national agenda purely funded through domestic resources.

Quality Issue on FDI in education:

Argument in favor of FDI in education is that foreign institutions can bring quality programs with market orientation. Besides, updated curricula, teaching-learning processes, evaluation of processes may be internalized within educational institution in India. It may also reap the benefits of improved managerial and organizational skills to run the institutions.

It is also argued that FDI could promote competitiveness in the education system as a whole.

The critics maintain that the quality could be maintained in certain specific sectors, where FDI takes place, whereas in mass education sector the spillover effect of quality may
not take place. In fact, it might lead to dualism in education. Hence, critics maintain that there should be no liberal FDI policy in education.

At last it is not wrong to state that India badly needs foreign funds for the development of the education sector as it is beyond the capacity of the country to cater the need of finance.

In order to tackle this situation 100% FDI has been allowed by the Govt. Besides its advantages it is having certain severe disadvantage which needs strict action on the part of the govt.

A regulatory body should be formed otherwise India might face some consequences in context of culture and autonomy of foreign education providers.

**Aviation**

FDI cap has been unchanged in 2013 up to 49% level. The govt. has deferred the decision on increasing the cap in civil aviation from 49% to 74%.

**Facts:**

Asserting that India has taken significant steps in making air travel affordable, Civil Aviation Minister wanted for more foreign direct investment from America which now offers immense business opportunities.

The Indian Government has taken a number of measures to make affordable air connectivity to remote and interior areas of the country in Tier II and Tier III cities of India.

The Indian airport system is poised to handle 360 million of domestic and 85 million international passengers by 2020. This will make India the third largest aviation market. This includes construction of new airports,
expansion and modernization of existing airports and development of low cost airports.

India has made a number of policy changes to attract foreign direct investment.

One of the most important decisions in this direction is to allow 49 percent FDI by foreign airlines in Indian carriers. The results of these policies are already visible as two airlines and expected to start their services in the near future.

Indian aviation is experiencing a dramatic growth across the board, from the emergence of new carriers to a growing middle class ready to take travel by air. Recent changes to the regulatory environment are another encouraging sign.

The investment will be allowed under the approval route up to a maximum of 49%. In addition to this, any investment in the aviation sector must also comply with the relevant regulations of Securities Exchange Board of India such as the Issue of Capital and Disclosure Requirements Regulations/Substantial Acquisition of Shares and Takeovers Regulations, as well as other applicable rules and regulations.

There are some conditions which form the basis for permitting FDI up to 49% by a foreign airline. Firstly, for a Company (in which 49% FDI has been allowed) to obtain a scheduled operator's license, its principal place of business and registered office must be in India, the Chairman and at least two-thirds of the directors of the company must be Indian citizens and substantial ownership and effective control should be in the hands of Indian nationals. Secondly, any foreign national who will be associated with Indian scheduled or non-scheduled operations, i.e. who will be appointed to the board of the Indian airline which has received FDI, must also go through and obtain security clearance, before beginning any work in India. Lastly, the
Committee has also mentioned that all import of technical equipment as a result of the investment under the 49% limit must be approved by the Ministry of Civil Aviation.

**Hotel & Tourism**

100% FDI is permissible in the sector through the automatic route.

The term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. Tourism related industry include travel agencies, tour operating agencies and tourist transport operating agencies, units providing facilities for cultural, adventure and wild life experience to tourists, surface, air and water transport facilities to tourists, leisure, entertainment, amusement, sports, and health units for tourists and Convention/Seminar units and organizations.

For foreign technology agreements, automatic approval is granted if

i. up to 3% of the capital cost of the project is proposed to be paid for technical and consultancy services including fees for architects, design, supervision, etc.

ii. up to 3% of net turnover is payable for franchising and marketing/publicity support fee, and up to 10% of gross operating profit is payable for management fee, including incentive fee.

According to the data from the Department of Industrial Policy and Promotion (DIPP), the hospitality industry had received $3.25 billion in 2012-13, second only to the services sector in getting foreign direct investment (FDI).

The Indian tourism industry is interwoven with the country’s monetary development. As GDP continues to mature, it increases deals in fundamental infrastructure.
like transportation systems, which is necessary to support the tourism industry.

The hotel industry is directly connected to the tourism industry in India. Over the last decade, India has transformed into one of the most popular tourism destinations in the world, largely as a result of the government’s “Incredible India” campaign which showed India in a new light to overseas tourists. In 2005, the appearance of global tourists improved by 16 percent, leading the resurgence of Indian tourism.

As new destinations extend the tourist entry is likely to rise. Numerous improvements have been taken in infrastructure, which will attract Indian hospitality for overseas guests.

Under the automatic route, 100 percent FDI is allowed in hotels and tourism. Travel and tourism is a US$32 billion business in India with an input to 5.3 percent of Indian GDP. Many worldwide hotel groups are setting up their businesses in India and many global tour operators are establishing operations in the country.

With a view to stimulate domestic and international investments in this sector, the government has permitted 100 percent FDI through the automatic route – allowing full FDI into all construction development projects including construction of hotels and resorts, recreational facilities, and city and regional level infrastructure. 100 percent FDI is now allowed in all airport expansion projects subject to the condition that FDI for upgradation of existing airports requires Foreign Investment Promotion Board (FIPB) approval beyond 74 percent.

A five year tax holiday has been given to organizations that set up hotels, resorts and convention centers at specific destinations, subject to fulfillment of the agreed conditions. Some international hospitality majors such as Hilton, Accor, Marriott International, Berggruen Hotels,
Cabana Hotels, Premier Travel Inn (PTI) and InterContinental Hotels group have already announced major venture plans in India in recent years.

It is expected that the hospitality division is expected to see an additional US$11.41 billion in inbound investments over the next two years.

**Infrastructure**

Automatic clearance for foreign investment (not requiring the approval of the FIPB) was first introduced for infrastructure sectors like power and roads.

As India’s FDI experience shows, a 100% open FDI regime can be meaningless if the underlying operating environment is politically and economically unviable. More FDI has gone into Indian telecom despite a continuing FDI cap, than to 100% open sectors such as power, ports and roads.

Not only are sectoral reform and robust regulation key to attracting more FDI in infrastructure, they, most importantly, strengthen domestic firms, which tie-up with foreign players to radically improve infrastructure quality and managerial talent. India’s unique political and regulatory environment also appears to be prompting infrastructure multinationals to employ market entry and operating strategies distinct from those used in other developing countries. This is fueling the global integration and competitiveness of Indian infrastructure firms.

Finally, the Indian government needs to invest more in public consultation, communication and transparency to facilitate greater inflows of FDI in infrastructure.

The GOI is aggressively focusing on minimizing India’s infrastructure deficit and trying to boost investor’s confidence.
International players such as Toyo engineering, Jacobs H&G, Uhde, Aker solutions have made their presence in India.

Some challenges like land acquisition, environment clearances issues, high inflation, high interest rates, India’s regulatory environment etc. are major road blocks for foreign investors.

Retail

Indian Retail Reforms

Until 2011, the government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.

The government announced on 24 November 2011 that India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalization reform passed by an Indian cabinet in years; single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent; both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers; all multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;

Multi-brand retailers must have a minimum investment of US$100 million with at least half of the amount invested in back end infrastructure, including cold chains,
refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers; the opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure., a Wall Street Journal article claims that fresh investments in Indian organized retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.

**Single-brand retail reforms approved**

On 11 January 2012, India approved increased competition and innovation in single-brand retail.

The reform seeks to attract investments in operations and marketing, improve the availability of goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises through access to global designs, technologies and management practices. In this announcement, India requires single-brand retailers, with greater than 51% foreign ownership, to source at least 30% of the value of products from Indian small industries, village and cottage industries, artisans and craftsmen.
FEMA

Executive Summary

Prior to 1999 any violation of the law relating to dealings in foreign exchange was considered as a criminal offence. This was because under the then law every person was considered as guilty unless and until proved otherwise. This was against the general premise that every person is innocent until proved otherwise. There was a perception that under that law someone could be booked for reasons which could ultimately fail the test of law.

Looking at the negative sentiments prevailing against the then law the government enacted a more ‘humane’ law under which in lines with the other laws of the land every person was treated as innocent unless and until proved otherwise. FEMA as the new act was known replaced FERA. The emphasis was now on ‘management’ of foreign exchange rather than ‘regulation’ as was the case in the earlier law.

FEMA is governed by rules and regulations and guidelines that are discussed elsewhere in the report. After the enactment of FEMA dealing in foreign currency has become much easier devoid of much red tape as long as the rules are followed. Like any other act there needs to be a constant review and improvement in tune with the need of the hour.
Main Features

Activities such as payments made to any person outside India or receipts from them, along with the deals in foreign exchange and foreign security is restricted. It is FEMA that gives the central government the power to impose the restrictions. Restrictions are imposed on people living in India who carry out transactions in foreign exchange, foreign security or who own or hold immovable property abroad subject to exceptions enumerated in the following paragraphs.

Without general or specific permission of the FEMA transactions involving foreign exchange or foreign security and payments from outside the country to India should be made only through an authorized person. Deals in foreign exchange under the current account by an authorized person can be restricted by the Central Government, based on public interest.

People living in India will be permitted to carry out transactions in foreign exchange, foreign security or to own or hold immovable property abroad if the currency, security or property was owned or acquired when he/she was living outside India, or when it was inherited by him/her from someone living outside India.

Switch from FERA to FEMA

FERA, in place since 1974, did not succeed in restricting activities such as the expansion of transnational corporations (TNCs). The concessions made to FERA in 1991-1993 showed that FERA was on the verge of becoming redundant.

After the amendment of FERA in 1993, it was decided that the act would become the FEMA. This was done in order
to relax the controls on foreign exchange in India, as a result of economic liberalization.

**Need for this Management Act**

The buying and selling of foreign currency and other debt instruments by businesses, individuals and governments happens in the foreign exchange market.

Apart from being very competitive, this market is also the largest and most liquid market in the world as well as in India.

The management of foreign exchange market becomes necessary in order to mitigate and avoid the risks.

Whether under FERA or FEMA’s control, the need for the management of foreign exchange is important. It is necessary to keep adequate amount of foreign exchange from Import Substitution to Export Promotion.

**FEMA- Rules & Regulation**

**Current account transactions**

Any person may sell or draw foreign exchange to or from an authorized person if such sale or drawal is a current account transaction. The central Government may, in public interest and in consultation with the Reserve Bank, impose such reasonable restrictions for current account transaction as may be required from time to time.

Payments due in connection with foreign trade, other current business, and services and short term banking and credit facilities in the ordinary course of business, payments due as interest on loans and as net income from investments & remittances for living expenses of parents, spouse and children residing abroad, and expenses in connection with foreign travel, education and medical care

*All current account transactions are permitted unless otherwise prohibited.*

*All capital account transactions are prohibited unless otherwise permitted.*
of parents, spouse and children come under current account transaction.

Some of the transactions like payments for import of goods, remittances of interest on investment made and funds borrowed from abroad after tax deductions, remittances of dividend if the investment was allowed without any condition, bookings with airlines/shipping, salary/remuneration to foreign directors subject to restrictions in any other law.

**Capital account transaction**

Capital account transaction means a transaction which alters the assets or liabilities, including contingent liabilities, outside India of persons resident in India or assets or liabilities in India of persons resident outside India, and includes transactions like Changes in Assets /Liabilities, transfer /issue of security, borrowing/lending, export, import or holding of currency or currency notes, giving guarantee.

Capital account transactions are deemed to be prohibited unless permitted and current account transactions are deemed to be permitted unless prohibited.

**Export of goods and services**

Every exporter of goods shall furnish to the Reserve bank or to such other authority a declaration in such form as may be specified, containing true and correct material, including the amount representing the full export value, if the full export value of goods is not ascertainable at the time of export, the value which the exporter, having in regard to the prevailing market conditions, expects to receive on the sale of the goods in the market outside India; furnish to the Reserve bank all information as may be required by the Reserve Bank for the purpose of ensuring the realization of export proceeds by such exporter.
Applicability of this act

The FEMA, is applicable-

1) To the whole of India
2) Any branch, office and agency, which is situated outside India, but is owned or controlled by a person resident in India.

Broadly speaking, FEMA covers three different types of categories, and deals differently with them.

a) Person
b) Person resident in India
c) Person resident outside India

Legal Provision of foreign exchange management act

Prohibited Transactions:

Foreign transactions are prohibited for the transactions specified in Schedule I i.e. remittances out of lottery winnings, remittances of Income from racing/riding etc. payment related to call back services, a travel to Nepal and/or Bhutan, a transaction with a person resident in Nepal or Bhutan.
Transactions which require prior approval of the Central Govt.

<table>
<thead>
<tr>
<th>Purpose of Remittances</th>
<th>Ministry /department of govt.</th>
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<tr>
<td>Cultural Tours</td>
<td>Ministry of Human Resource Development</td>
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<td>Advertisement in foreign print media exceeding USD 10,000</td>
<td>Ministry of Finance</td>
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<tr>
<td>Remittance of prize money/sponsorship of sports activity abroad by a person other than international/national/state level sports bodies, if the amount involved exceeds USD 100,000</td>
<td>Ministry of human resource development</td>
</tr>
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Transaction which require approval of RBI

Remittance for maintenance of close relatives abroad exceeding net salary of a person who is resident but not permanently resident in India and is a citizen of a foreign state other than Pakistan, is a citizen of India, who is on deputation to the office or branch or subsidiary or joint venture in India of such foreign company, exceeding USD 100,000 per year, per recipient, in all other cases needs to take approval from RBI.

Contravention of FEMA

Any person, contravening FEMA, shall be liable, upon adjudication, to a penalty up to three times the sum involved in such contravention, where such amount is quantifiable, Up to rupees two hundred thousand, where the amount is not quantifiable.

In addition, where such contravention is a continuing one, the person will be liable to further penalty, which may extend to rupees five thousand for everyday after the first day, during which the contravention continues.
About ASSOCHAM

THE KNOWLEDGE ARCHITECT OF CORPORATE INDIA

Evolution of Value Creator

ASSOCHAM initiated its endeavour of value creation for Indian industry in 1920. Having in its fold more than 400 Chambers and Trade Associations, and serving more than 4,00,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country. Today, ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of ‘Knowledge Based Economy’. ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally. ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

VISION

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrier less technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

MISSION

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, Health, Corporate Social responsibility and environment to be the critical success factors.

MEMBERS – OUR STRENGTH

ASSOCHAM represents the interests of more than 4,00,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a Chamber with a difference. Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Corporate Social Responsibility, Environment & Safety, HR & Labour Affairs, Corporate Governance, Information Technology, Biotechnology, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Mergers & Acquisitions, Tourism, Civil Aviation, Infrastructure, Energy & Power, Education, Legal Reforms, Real Estate and Rural Development, Competency Building & Skill Development to mention a few.

INSIGHT INTO ‘NEW BUSINESS MODELS’

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian Corporate, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders Value, Government Policies in sustaining India’s Development, Infrastructure Development for enhancing India’s Competitiveness, Building Indian MNCs, Role of Financial Sector the Catalyst for India’s Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chambers of Commerce & Industry, Cochin: Indian Merchant’s Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi and has over 4 Lakh Direct / Indirect members.

Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.
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<td>608, 6th Floor, SAKAR III</td>
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<tr>
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<td>Chief Representative</td>
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<tr>
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About Resurgent India

Equity I Debt I Advisory

Resurgent India is a full service investment bank providing customized solutions in the areas of debt, equity and advisory. We offer independent advice on capital raising, mergers and acquisition, business and financial restructuring, valuation, business planning and achieving operational excellence to our clients.

Our strength lies in our outstanding team, sector expertise, superior execution capabilities and a strong professional network. We have served clients across key industry sectors including Infrastructure & Energy, Consumer Products & Services, Real Estate, Metals & Industrial Products, Healthcare & Pharmaceuticals, Telecom, Media and Technology.

In the short period since our inception, we have grown to a 100 people team with a pan-India presence through our offices in New Delhi, Kolkata, Mumbai, and Bangalore. Resurgent is part of the Golden Group, which includes Ginesys (an emerging software solutions company specializing in the retail industry) and SNC Associates (a full service accounting firm, specializing in taxation, auditing, management consultancy and outsourcing).

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