Foreign Investment in Textile Sector in India

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Types of Foreign Investment

- Foreign Investment in an Indian Company can be in two forms –

  A] Share capital (equity and compulsorily convertible instruments) - Foreign Direct Investment

  B] Commercial loans and bonds (optionally and partially convertible into equity) - External Commercial Borrowings

Foreign Direct Investment (FDI)

- Foreign Investment Promotion Board **("FIPB")** is a regulator of all FDI into India

- Automatic approval is available for investment in most sectors - certain sectors require prior approval of FIPB whereas FDI is completely prohibited in certain other sectors.

- The sector-specific policy for foreign investment is promulgated under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000.

Conditions for eligible FDI

- Eligibility for investment in India
  - A person resident outside India or an entity incorporated outside India, can invest in India, according to the FDI Policy
  - Non Resident Indians are permitted to invest on repatriation basis, subject to the condition that the amount of consideration for such investment shall be paid only by way of inward remittance in free foreign exchange through normal banking channels.

- Type of instruments
  - Equity shares, fully and mandatorily convertible debentures/ preference shares and warrants - subject to the pricing guidelines / valuation norms and reporting requirements.

- Eligible Investee Entities
  - Companies registered under the provisions of the Companies Act, 1956/ 2013

FDI in Textile Sector

FDI in textile sector can be into –

- Manufacturing – 100% FDI permitted under automatic route, Manufacturer is permitted to sale its products manufactured in India through wholesale and/ or retail, including through e-commerce without government approval
- Single brand retail trading – 100% - Automatic up to 49%. Government route beyond 49% subject to the prescribed conditions.
- Multi-brand retail trading – Automatic upto 51% , beyond 51% - Government route subject to the prescribed conditions

Application seeking permission of the Government for FDI exceeding the prescribed % in a company which proposes to undertake single/multi brand retail trading in India would be made to the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion

Investment Routes –Automatic

Issue/ Transfer of Shares of an Indian Company to/ by a Person Resident Outside India/ NRI/ NR– <u>On repatriation basis</u>

- Transfer of shares of an Indian company whose activities fall in permitted sectors by a person resident in India to a non-resident (NR) and vice versa is permissible under <u>automatic route</u> subject to compliance with pricing guidelines, documentation and reporting requirements.

- The price per share arrived at should be certified by a Chartered Accountant.

- Form FC-TRS is required to be filed with the Authorized Dealer for such transfer of shares

- Non-resident (NR) includes, inter alia, a foreign national, NRI, and incorporated non-resident entity (as specified in the FDI Policy)

Investment Route – With Prior Permission

Prior permission of the Reserve Bank is required in certain cases for acquisition / transfer of security

- Transfer of shares/ convertible debentures from residents to non-residents by way of sale, where the non-resident acquirer proposes deferment of payment of the amount of consideration

- A person resident in India, who intends to transfer any security, by way of gift to a person resident outside India

- Transfer of shares from NRI to NR

Investment by NRIs on Non-Repatriation basis

Acquisition of Securities or units by a NRI <u>on Non-Repatriation basis</u>

- A NRI, including a company, a trust and a partnership firm incorporated outside India and owned and controlled by NRIs
- Permitted to acquire and hold, on non-repatriation basis, equity shares, convertible preference shares, convertible debenture, warrants or units, which will be deemed to be domestic investment at par with the investment made by residents
- Investment without any limit either on the stock exchange or outside it
- A NRI may contribute, on non-repatriation basis, to the capital of a partnership firm, a proprietary firm or a Limited Liability Partnership without any limit
- Consideration for investment - by way of inward remittance through normal banking channel from abroad or out of funds held in Non Resident External /Foreign Currency Non Resident /Non Resident Ordinary account maintained with a bank in India.
- The sale/maturity proceeds (net of applicable taxes) of the securities or units acquired shall be credited only to NRO account
- The amount invested and the capital appreciation thereon is not allowed to be repatriated abroad.

External Commercial Borrowing ("ECB")

- **Meaning -** commercial loans raised by eligible resident entities from recognised non-resident entities

- **Available Routes –** Automatic and with prior approval of RBI

- **Minimum Maturity and limits prescribed under Track I, II and III**
    - **Track I**: Medium term foreign currency denominated ECB with minimum average maturity period of 3 years for ECB upto USD 50 million (approx. INR 335 crores) or its equivalent,

      5 years for ECB beyond USD 50 million or its equivalent,

      In case of FCCBs and FCEBs – 5 yrs irrespective of amt. of borrowing.
    - **Track II**: Long term foreign currency denominated ECB with minimum average maturity of 10 years irrespective of the amount.
    - **Track III**: Indian Rupee (INR) denominated ECB with minimum average maturity of 3/5 years. Amount and maturity period same as prescribed under Track I.

ECB - Provisions

- **Forms of ECB**

    - Loans including bank loans;
    - Securitized instruments (e.g. floating rate notes and fixed rate bonds, nonconvertible, optionally convertible or partially convertible preference shares / debentures);
    - Buyers' credit;
    - Suppliers' credit;
    - Foreign Currency Convertible Bonds (FCCBs);
    - Financial Lease; and
    - Foreign Currency Exchangeable Bonds (FCEBs)

- While the first six forms of borrowing, mentioned, can be raised both under the automatic and approval routes, FCEBs can be issued only under the approval route.

ECB-Provisions

- **Eligible borrowers**

  - Track I- Companies in manufacturing, units in SEZs, holding companies, etc.
  - Track II – Entities listed under Track I, etc.
  - Track III- Entities listed under Track II, companies engaged in R&D, training, logistics etc.
  - Trusts (other than those engaged in Micro-finance activities) and Non-Profit making organizations are not eligible to raise ECB

ECB-Provisions

- **<u>Recognised Lenders/ Investors</u>**

  - Foreign equity holders, suppliers of equipment, International Banks, International Capital Markets, Multilateral Financial Institutions (such as, IFC, ADB, etc.) / regional financial institutions and Government owned (either wholly or partially) financial institutions and export credit agencies For Track I financing, overseas branches and subsidiaries of Indian banks are also recognised subject to prescribed conditions.

  - The term 'Foreign Equity Holder' means –
    - (a) direct foreign equity holder with minimum 25% direct equity holding by the lender in the borrowing entity,
    - (b) indirect equity holder with minimum indirect equity holding of 51%, and
    - (c) group company with common overseas parent.

ECB - Provisions

- **All-in-Cost ceilings**
  - Includes rate of interest, other fees, expenses, charges, guarantee fees whether paid in foreign currency or Indian Rupees (INR) but will not include commitment fees, pre-payment fees / charges, withholding tax payable in INR.
  - In the case of fixed rate loans, the swap cost plus spread should be equivalent of the floating rate plus the applicable spread.
  - For Track I - 300 basis points per annum over 6 month LIBOR or applicable bench mark for the respective currency
  - For Track II - 450 basis points per annum over 6 month LIBOR or applicable bench mark for the respective currency
  - For Track III - should be in line with the market conditions
  - Penal interest, if any, for default or breach of covenants should not be more than 2% over and above the contracted rate of interest (applicable for both the Track I and II). The maximum spread over the benchmark will be 500 basis points per annum.

ECB-Provisions

- Currency of ECB
  - Any freely convertible foreign currency as well as Indian Rupees

- End use prescriptions, inter alia, include -
  - Track I- For capital expenditure in the form of import of capital goods, payment of technical knowhow, and license fees, New project, modernization, overseas investment in JVs/WOS, refinancing of ECBs and existing trade credits raised for import of goods, general corporate purpose(subject to prescribed conditions)
  - Track II- All purposes permitted under Track I, holding companies can lend to their infrastructure SPVs
  - Track III- All purposes permitted under Track I

- Restricted Purposes
  - Real estate activities
  - Investing in capital market
  - Using the proceeds for equity investment domestically
  - On-lending to other entities with any of the above objectives
  - Purchase of land

ECB-Provisions

Individual Limits

- Indian company registered under the Indian Companies Act, 1956/ 2013 involved in manufacturing sector can avail of ECBs up to USD 750 million (approx. INR 5000 crs) or equivalent or upto USD 500 Million or equivalent (approx. INR 3350 crs) for the remaining entities, during a financial year under the automatic route under either Track I or Track II subject to 100% hedging.

- ECB proposals beyond aforesaid limits will come under the approval route.

- If ECB is raised from direct equity holder, aforesaid individual ECB limit will also subject to ECB liability: equity ratio requirement (Automatic Route 4:1, and approval route 7:1) This ratio will not be applicable if total of all ECBs raised by an entity is up to USD 5 million (INR 33 crs) or equivalent.

ECB - Provisions

- Hedging
  For ECB raised under track I and II the guidelines for hedging issued, if any, by the concerned sectoral or prudential regulator in respect of foreign currency exposure are required to be followed.

- Security creation
  Creation of charge on immovable assets, movable assets, financial securities and issue of corporate and/ or personal guarantees in favour of overseas lender / security trustee, permitted subject to fulfillment of prescribed condition

- Parking of ECB proceeds
  Can be parked abroad as well as domestically in the manner prescribed in the ECB Guidelines

- Debt Servicing
  General permission available to AD to make remittances of installments of principal, interest and other charges in conformity with the ECB guidelines

ECB - Provisions

- Conversion into Equity –permissible subject to
  - Activity of the borrowing co. is covered under automatic route or under FIPB approval route, if applicable, has been obtained for equity participation
  - Foreign equity holding after such conversion is within the applicable sectoral cap
  - Pricing guidelines are complied with

- Reporting Requirements
  - Loan registration number
  - Changes in terms and conditions of the ECB, if any
  - Reporting of actual transactions
  - Conversion into equity

FDI Trends In India

Inflow Of Foreign Direct Investment In India At A Glance - (January 2000 to June 2015)*

(Amount in billion)

Item	Amount of FDI Inflow	
	Rs.	**USD**
Cumulative amount of FDI inflows (Jan 2000 to June 2015)	12961.69	258.69
Cumulative amount of inflow of FDI equity in Textile sector (including Dyed, Printed) (Jan 2000 to June 2015)	89.58	1.75 (1.85 upto March 2016)
Percentage inflow of FDI in Textile Sector (From Jan 2000 to June, 2015)	0.7	0.7

Data Source: Economic Division Updated on: 7th Oct., 2015

Initiatives taken by Govt. to attract Investment

- **Policy Level Initiatives**

- The Union Cabinet has cleared a INR 6,000 crore (US$ 889.44 million) package for the textile sector, aimed at attracting investments worth INR 74,000 crore (US$ 10.95 billion) generating 10 million jobs and increasing textile exports by US$ 30 billion in the next three years.
- The Department of Handlooms and Textiles, Government of India, has tied up with 9 e-commerce players and 70 retailers to increase the reach of handlooms products in the Indian market
- The Government of India has started promotion of its brand 'India Handloom' initiative on social media like Facebook, Twitter and Instagram with a view to connect with customers, especially youth, in order to promote high quality handloom products.
- The Government of India is proposing to announce a new National Textiles Policy. The new policy aims at creating 35 million new jobs by way of increased investments by foreign companies

Initiatives Taken by Govt. to Attract Investment

- **Legal Reforms**

- Draft Code on Industrial Relations Bill, 2015 (“**Bill**”), one of the initiative of the government to **subsume 44 labour laws into five broad codes,** dealing with industrial relation, wages, social security, industrial safety and welfare.
- Maternity Benefit (Amendment) Bill, 2016, Factories (Amendment) Bill, 2016 and The Employee’s Compensation (Amendment) Bill, 2016, have been introduced in Rajya Sabha in the month of August, 2016.

Recent Investments in Textile Sector

The industry (including dyed and printed) attracted FDI worth US$ 1.85 billion during April 2000 to March 2016. Some of the major investments in the Indian textiles industry are:

- Trident Group - entered into a partnership with French firm Lagardere Active Group, to launch a premium range of home textiles under the renowned French lifestyle brand Elle Décor in India.
- Raymond Group - signed a MoU with Maharashtra government for setting up a textile manufacturing plant with an investment of Rs1,400 crore (US$ 207.53 million) in Maharashtra's Amravati district.
- Reliance Industries Ltd (RIL) plans to enter into a joint venture (JV) with China-based Shandong Ruyi Science and Technology Group Co. The JV will leverage RIL's existing textile business and distribution network in India and Ruyi's state-of-the-art technology and its global reach.
- Giving Indian sarees a 'green' touch, Dupont has joined hands with RIL and Vipul Sarees for use of its renewable fibre product Sorona to make an 'environment-friendly' version of this ethnic ladies wear.
- Grasim Industries has invested Rs 100 crore (US$ 14.82 million) to develop its first fabric brand, 'Liva', which it will distribute through 1,000 outlets as part of a plan to stay in sync with changing consumer behaviour.
- Snapdeal has partnered with India Post to jointly work on bringing thousands of weavers and artisans from Varanasi through its website.
- Welspun India Ltd (WIL), part of the Welspun Group has unveiled its new spinning facility at Anjar, Gujarat - the largest under one roof in India. The expansion project reflects the ethos of the Government of Gujarat's recent 'Farm-Factory-Fabric-Fashion-Foreign' Textile Policy, which is aimed at strengthening the entire textile value-chain.
- American casual fashion retailer Aéropostale, Inc. has inked a licensing agreement with Arvind Lifestyle Brands Ltd to open standalone stores in the country. Aéropostale will open 30 stores and 25 shop-in-shop locations over the next three years.

Thank You

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