FOREIGN INSTITUTIONAL INVESTORS: A STUDY OF INDIAN FIRMS & INVESTORS

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Abstract : This conceptual paper indicates and emphasizes on analysis of investor & Indian firms on foreign institutional investors. The Indian government gives an open enticement to individuals, companies and other institutions to invest directly or indirectly in India by adopted New Economic Policy in 1991 and they started investing in various financial instruments of money market, capital market, forex market and capital assets of real estates and production activities directly. The investment made in the financial securities directly or indirectly by investors is termed as foreign institutional investors and investment in capital securities by investors known as foreign direct investment. The study analyses the inter-firm differences in the foreign institutional investors' portfolio investment with respect to the Indian firms. These two types of foreign investment play an important role in attracting the foreign capital with in the country. The purpose of this paper is to analyze the role of foreign institutional investors in the development of economy. The net investments made by investors in the proportionate share of gross purchases and gross sales is collected for the period of 1992 to 2014 to check the compound annual growth rate of FIIs. To check the significant level of calculated CGR, the method of t-value is used. It founds that the calculated values are significant and reliable to use. The other attempt made to check the future predictions of net investment in their proportionate share that depicts the positive attitude of foreigners toward India. This paper also revealed that SEBI & RBI are the major institutes to regulate & control the FIIs. The Indian government always tries to attract more foreign capital by providing more safety & transparency to investors with the measures suggested by these apex institutes. The percent increase to previous year method is used to check the proportion and flows of Gross Investments, Direct Investments, and Net foreign Direct Investment & Net Portfolio Investment in FIIs investment. The suggestion has given to the government to work hard on this concept and make it more attractive by providing various opportunities and cutting investment limits to pump more foreign capital in India. The firm specific characteristics studied are promoters' shareholding, firm size, systematic risk, price to book ratio, return on equity, dividend yield and export sales. Measuring foreign institutional investors' shareholding as a percentage of the total outstanding shares or as a percentage of the total outstanding shares available for investment by the non-promoters category does not alter the results.

Research design and Methodology: This is a concept paper and the researcher has adopted the method of reviewing different research articles, research journals, and case studies, to collect data about foreign institutional investors which is consequently incorporated as a concept paper drafted by the researcher.

Key Words: Foreign Institutional Investors, Foreign Capital, Financial Securities, Gross Purchases, Gross Sales, Index & Stock Market.

INTRODUCTION

The Indian economy has continuously recorded high growth rates and has become an attractive destination for investments. India's growth offers many opportunities for mutually beneficial cooperation. "Today India is among the most attractive destinations globally, for investments and business and FDI had increased over the last few years.

Economies like India, which offer relatively higher growth than the developed economies, have gain favour among investors as attractive investment destinations for foreign institutional investors (FIIs). Investors are optimistic on India and sentiments are favorable following government's announcement of a series of reform measures in recent months.

According to a poll conducted by Bank of America Merrill Lynch (BofA-ML) recently, in which 50 investors participated, India was the most favorite equity market for the global investors for the year 2015 at 43 per cent, followed by China at 26 per cent. The global investment bank is of the view that India remains to be in a structural bull market.

India is poised to become the second biggest ecosystem option after the US in the next two years on account of the on-going high growth rates. Several technology based start-ups have received over US$ 2.3 billion in funding since 2010, while over 70 private equity (PE) and venture capital (VC) funds remain active in the segment.

Ever since Foreign Institutional Investors allowed investing in Indian financial markets since September 1992, there have been extensive deliberations on the impact of such flows. It has said that portfolio flows from FIIs inject global liquidity into the capital markets, raise the price-to-earnings ratios, thereby reducing the cost of capital. This, in turn, leads to further issues of equity capital and stimulates investment growth in the host economy, apart from bringing in best international corporate governance practices.

Objectives of the Research: Following are the objectives of the research:

1. To study the trend in FDI inflow in India.
2. To study sectoral trend of FDI inflow in India.
3. To study trend in share of top investing countries in India.
4. To know scenario of Investments in India during 2015-16
5. To identify the investment conditions and restrictions for FIIS & Government Initiative towards Strong FDI.
6. To study Growth trends of FDI in India & tentative Forecasting for 2020

REVIEW OF LITERATURE

Dr. K. Lakshmi , Professor, King Saud University, Kingdom of Saudi Arabia- " Foreign Institutional Investors and Firm Characteristics – A study of Indian firms" (APRIL 2010) analysis on The firm specific characteristics studied are promoters' shareholding, firm size, systematic risk, price to book ratio, return on equity, dividend yield and export sales. The analysis shows that foreign institutional investors prefer large firms and firms with less promoters' shareholding. Measuring foreign institutional investors' shareholding as a percentage of the total outstanding shares or as a percentage of the total outstanding shares available for investment by the non-promoters category does not alter the results.

Shaminder Kaur , Gurloveleen Kaur -" **Foreign Institutional Investors: Trends & Inflows In Indian Stock Market"** The purpose of this paper is to analyse the role of foreign institutional investors in the development of economy. The net investments made by investors in the proportionate share of gross purchases and gross sales is collected for the period of 1992 to 2013 to check the compound annual growth rate of FIIs. To check the significant level of calculated CGR, the method of t-value is used. It founds that the calculated values are significant and reliable to use.

Mukherjee, Bose and Condo (2002) examined that the dependence of net FII flows on daily return of the domestic equity market is suggestive of foreign investors return – chasing behavior, their decisions seem to get affected also by the recent history of market returns & its volatility in International & domestic markets as well. They said that the set of factors affecting FII sale & purchases were not the same but it appeared that some factor would affect purchase or sale decision of foreign investors, but not the corresponding net FII flows. They suggested the prime focus should be on regaining investors' confidence in the equity market to strengthen the domestic investor base of the market.

Bose and Coondoo (2004) in their paper "The Impact of FII Regulations in India: Time Series Intervention Analysis of Equity Flows", studied the impact of FII policy reforms on FIIs portfolio flows to the Indian stock markets. FIIs investment in India, which began in January 1993, gave the new directions to financial sector reforms in India. The authors have assessed the effect of several policy decisions related to FIIs investment during the period of January 1999 to January 2004 by using the multivariate GARCH regression model. It was found that liberalization policies have put strong effect on the working of FIIs in India. The preventive actions targeted at achieving better control over FIIs flows did not show any significant negative impact on the net inflows. Thus, authors ultimately concluded that FIIs investments were more sensitive to the domestic market returns.

Batra(2003) in her paper "The Dynamics of Foreign Portfolio Inflows & Equity Returns in India", has made an attempt to build up an understanding of investment decisions, trading strategies and behaviour of the FIIs in Indian equity market. This paper is based on positive feedback trading tested the hypothesis that net equity demand by FIIs had been driven by recent returns in the equity market of the host country. The author scrutinized the daily & monthly data to investigate the trading behaviour of FIIs & their impact on the stability of stock market. She found that the positive feedback investors and trend chasers of FIIs on the basis of daily data analysis but no evidence of positive feedback trading while analysed data on monthly basis.

Dhingra (2004) in her paper, " Equity Market Vs Capital Account Liberalization: A Comparison Of Growth Effects of Liberalization Policies In Developing Countries", studied about the comparative advantages of alternate economy liberalization strategies that developing countries could implement to improve their economic performance. Initially author tested the impact of different categories of capital floes, that is, equity flow and debt flow on output growth of a country.

CONCEPTUAL OVERVIEW OF FOREIGN INVESTMENT / FOREIGN DIRECT INVESTMENT

Foreign investment refers to the investments made by the residents of a country in the financial assets and production process of another country. The foreign investment is necessary for all developing nation as well as developed nation but it may differ from country to country. The developing economies are in a most need of these foreign investments for boosting up the entire development of the nation in productivity of the labour, machinery etc. The foreign investment or foreign capital helps to build up the foreign exchange reserves needed to meet trade deficit or we can say that foreign investment provides a channel through which developing countries gain access to foreign capital which is needed most for the development of the nations in the area of industry, telecom, agriculture, IT etc. The foreign investment also affects on the recipient country like it affects on its factor productivity as well as affects on balance of payments. Foreign investment can come in two forms: foreign direct investment and foreign institutional investment. Foreign direct investment involves in direct production activities and in a long and medium term nature. As far as the FIIs concern it is the short term nature and short term investments. FIIs invest in financial markets such as money markets, stock markets and foreign exchange markets.

ENTRY ROUTES FOR INVESTMENTS IN INDIA

Under the Foreign Direct Investments (FDI) Scheme, investments can be made in shares, mandatorily and fully convertible debentures and mandatorily and fully convertible preference shares[1] of an Indian company by non-residents through two routes:

➢ **Automatic Route**: Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for the investment.

➢ **Government Route**: Under the Government Route, the foreign investor or the Indian company should obtain prior approval of the Government of India (Foreign Investment Promotion Board (FIPB), Department of Economic Affairs (DEA), Ministry of Finance or Department of Industrial Policy & Promotion, as the case may be) for the investment.

CONCEPTUAL OVERVIEW OF FII [Foreign Institutional Investors]

According to the Securities and Exchange Board of India (SEBI), Foreign Institutional Investor (FII) means an institution established or incorporated outside India which proposes to make investment in securities in India. They are registered as FIIs in accordance with Section 2 (f) of the SEBI (FII) Regulations 1995. The organizations that pool huge amount of money from the investors and invest it in securities, real property and other investment assets are termed as Foreign Institutional Investors. The investors include banks, insurance companies, retirement or pension funds, hedge funds, investment advisors and mutual funds. Their position in the economy is to act as highly specialized institutions who invest on behalf of others.

FIIs can invest their own funds as well as invest on behalf of their overseas clients registered with the SEBI. The client accounts are known as 'sub-accounts' which may include foreign corporate, individuals, funds etc. A domestic portfolio manager can also register as FII to administer the funds of sub-accounts. FIIs registered with the SEBI are of two types: regular FIIs and 100 per cent debt-fund FIIs. Regular FIIs are those who are required to invest not less than 70 per cent of their investment in equity-related instruments and up to 30 in non-equity instruments. Those who are allowed to invest only in debt instruments are known as 100 per cent debt-fund FIIs. The honorable Finance Minister announced on February 28, 2013, it is proposed to follow the International practice and lay down a broad principle that, where an investor has a stake of 10 percent or less in a company, it will be treated as FII.

INVESTMENT IN LISTED INDIAN COMPANIES

A. FIIs

(a) **An Individual FII/ SEBI approved sub accounts** of FIIs can invest up to a maximum of 10 per cent of the total paid-up capital or 10 per cent of the paid-up value of each series of convertible debentures issued by the Indian company. The 10 per cent limit would include shares held by SEBI registered FII/ SEBI approved sub accounts of FII under the PIS (by way of purchases made through a registered broker on a recognized stock exchange in India or by way of offer/private placement) as well as shares acquired by SEBI registered FII under the FDI scheme.

(b) **Total holdings of all FIIs / SEBI approved sub accounts of FIIs** put together shall not exceed 24 per cent of the paid-up capital or paid-up value of each series of convertible debentures. This limit of 24 per cent can be increased to the sectoral cap / statutory limit, as applicable to the Indian company concerned, by passing of a resolution by its Board of Directors, followed by a special resolution to that effect by its General Body which should necessarily be intimated to the Reserve Bank of India immediately as hitherto, along with certificate from the Company Secretary stating that all the relevant provisions of the extant Foreign Exchange Management Act, 1999 regulations and the Foreign Direct Investment Policy, as amended from time to time have been complied with.

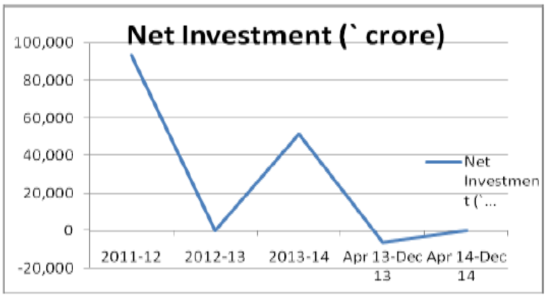
Trends in FPI Investment for Portfolio Investment Fig-1.1

Year/Month	Gross Purchases	Gross Sales	Net Investment
	(` crore)	(` crore)	(` crore)
2010-11	9,92,596	8,46,158	1,46,438
2011-12	9,21,285	8,27,562	93,725
2012-13	9,04,845	7,36,481	1,68,364
2013-14	10,21,010	9,69,361	51,649
Apr 13-Dec 13	7,28,296	7,34,375	-6,078
Apr 14-Dec 14	11,14,567	9,16,083	1,98,483

1. With the commencement of FPI (Foreign Portfolio Investors)Regime from June 1, 2014, the erstwhile FIIs, Sub Accounts and QFIs are merged into a new investor class termed as"Foreign Portfolio Investors (FPIs)". All existing FIIs and SAs are deemed to be FPIs till the expiry of their registration.

2. * Conversion rate: The daily RBI reference rate as on the trading day has been adopted. (If the trading day is a bank holiday, immediately preceding day's reference rate has been used).

FPI IMPACT ON NET INVESTMENT

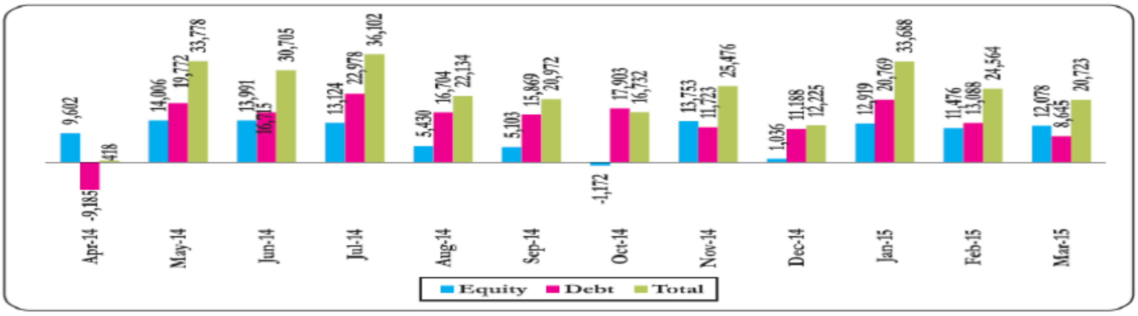


Handbook of Statistics on Indian Security Market, 2014

Interpretation-: Fig-1.1 depicted the flow of foreign investment in the proportionate share of gross investments, direct investment, net foreign direct investment and net portfolio investment annually During the period, turnover in gross purchases grew significantly in the year (2013-14) i.e Rs. 10,21,010(in crore) as compared to base year of (2010-11) i.e Rs. 9,92,596 (in crore) at cumulative net investment of Rs. 180,405/- ..

In the year (2010-11) Gross Sales amounting to Rs.8,46,158 (in crore) which was shows downward movement upto (in crore) Rs. 7,36,481 (in crore). India saw the growth in Gross Sales Rs. 9,16,083(in crore) .

TRENDS IN INVESTMENT BY FOREIGN PORTFOLIO INVESTORS (FPIS) (`In Crore) Fig-1.2

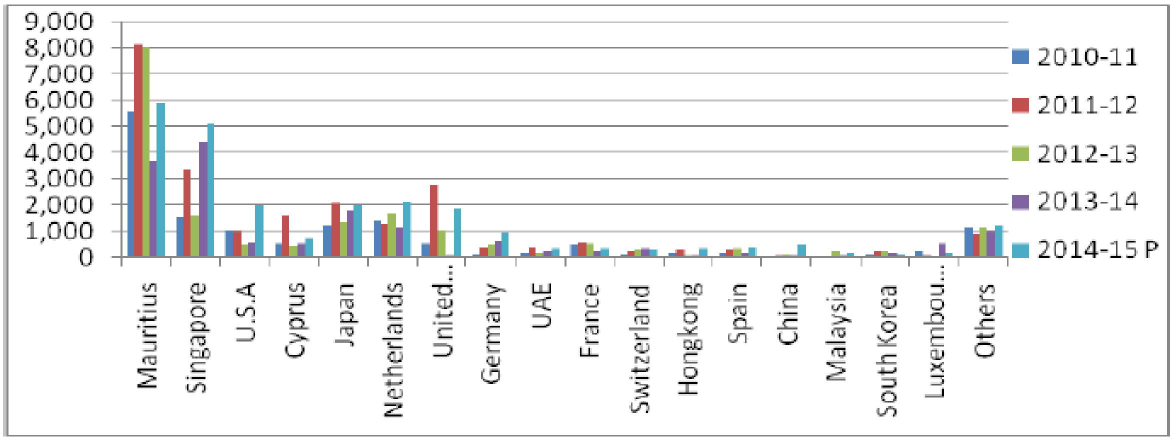


Interpretation(Fig-1.2)-: With the commencement of Foreign Portfolio Investor (FPI) Regime from June 1, 2014, the erstwhile FIIs, Sub Accounts and QFIs are merged into a new investor class termed as "Foreign Portfolio Investors (FPIs)".There was a net inflow of ` 20,7 23 crore in March 2015 by FPIs compared to net inflow of `24,564 crore in February 2015. FPIs invested `12,078 crore in equity in March 2015 as compared to inflow of `11,476 crore in February 2015. Further they invested `8,645 crore in debt market in March 2015 as compared to `13,088 crore invested in February 2015. The assets under custody of FPIs at the end of March 2015 stands at `24,11,810 crore, out of which the value of Offshore Derivative Instruments including ODIs on derivatives is `2,72,078 crore, constituting 11.3 percent of the total asset under custody of FPIs.

Sources - April. SEBI Bulletin. 2015

FOREIGN DIRECT INVESTMENT FLOWS TO INDIA: COUNTRY-WISE AND INDUSTRY-WISE

A. FOREIGN DIRECT INVESTMENT FLOWS TO INDIA: COUNTRY-WISE Fig-1.3



Analysis of the FDI According To Country-Wise (Fig-1.3) -: If you focus on the flow of investment from different countries, then Mauritius is having highest 23% of contribution to total FDI 24,748 for the year ended 2014-15. Respectively having highest % of contribution for last two years 2013-14, 2012-13 i.e. 23.01%, 44.07%. next to Mauritius is Singapore which is second highest investment in India for the year 2014-

15,2013-14 is 20.74% , 27.50% , third country in the list is Netherlands and fourth one is Japan is remarkable investment in India is a part of FDI.

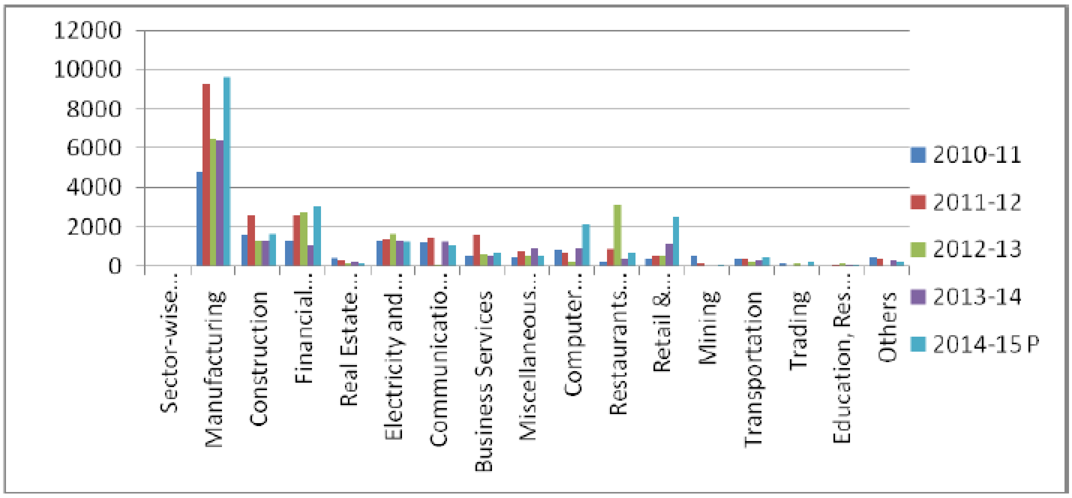
Foreign direct investments into India are regulated and taxed. According to the tax treaty between India and Mauritius, capital gains can only be taxed in Mauritius, the same treaty exist with 16 other countries. But with only 3% of capital gains tax, the quality of its service and regulatory framework, its pool of professionals, geographical proximity, cultural affinities and long historical ties with India, Mauritius is the most attractive conduit for investments into India. This is often called the Mauritius route.

However this spot held by Mauritius for over 10 years has been replaced by Singapore on fears that the new government will revise the tax treaties with various countries especially in the light of the recent hu-ha about the Mauritius Vodafone's purchase of Essar limited came to light and With the controversial General Anti Avoidance Rules provision, which seeks to check tax avoidance by investors routing their funds through tax havens, will come into effect from April 1, 2016 in India.

The India –Mauritius DTAA is being revised with the aim that Mauritius is being used for round-tripping of fund into India even though that country has always maintained that there has been no concrete evidence of any such misuse. FDI crucial for India which need about USD of 1 trillion by the end of March 2017. This helps brings overall growth in infrastructure such as ports, airports and highways.

Overall FDI into India grew by 27% year-on–year to USD 30.93 Billion in 2014-15. Other nations where foreign Inflows are increasing are include **Japan**, the **Netherlands**, the **US** , **Germany** , **France** and the **UAE** during last financial year.

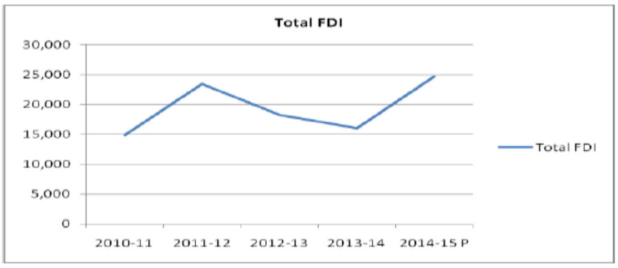
B. SECTORAL TREND OF FDI INFLOW IN INDIA Fig-1.4



Analysis of the FDI According to sector-wise inflows (Fig-1.4) -: If you focus on the flow of investment according to sector wise then manufacturing sector was the highest contribution of 39% to total FDI 24,748 for the year ended 2014-15. Respectively having highest % of contribution for last two years 2013-14,2012-13 i.e is 40% & 37%. The second highest investment made by Financial Services sector is of 12.45%. Other promising sectors are Retail & Wholesale Trade sector, , Computer Services sector , construction sector i.e 10.30% , 8.70%, 6.62%.

Manufacturing sector has been attracting the highest percentage of FDI in all the studying years. Financial services, construction industry, electricity and other energy generation, distribution & transmission, communication services are the other sectors having major share in receiving FDI. Real estate activities, business services, miscellaneous services, computer services and restaurants and hotels are the sectors which are successful in attracting a small portion of FDI. Retail and wholesale trade, mining, transport, trading, education, research and development and others are the sectors which has attracted a very small portion of FDI over the years.

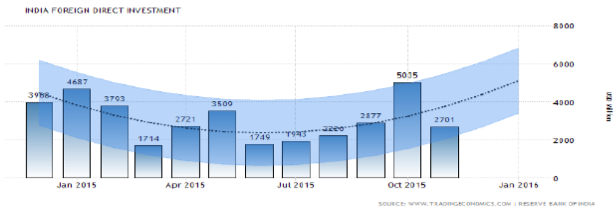
GROWTH TRENDS OF FDI IN INDIA FROM LAST FIVE YEARS (2010-11 to 2014-15) Fig-1.5



Interpretation (Fig-1.5)-: **The growth in FDI has been significant after the launch of Make in India initiatives in September 2014, with 48 percent increase in FDI equity inflows during October 2014 to April 2015 over the corresponding period last year. In 2014-15, country witnessed unprecedented**

growth of 717 percent, to US $ 40.92 billion of Investment by Foreign Institutional Investors (FIIs). The FDI inflow under the approval route saw a growth of 87% during 2014-15 with inflow of US$ 2.22 billion despite more sectors having been liberalized during this period and with more than 90 percent of FDI being on automatic route. These indicators showcases remarkable pace of approval being accorded by the government and confidence of investors in the resurgent India. If we look at the trends of FDI in India for last five year i.e. (in US $ million) 14939, 23473, 28286, 16054, 24,748 from 2010-11 to 2014-15.

Forecast on FDI in India by 2020 Fig-1.6



Interpretation (Fig-1.6)-: **Foreign Direct Investment in India is expected to be 3488.08 USD Million by the end of this quarter, according to Trading Economics global macro models and analysts expectations. Looking forward, we estimate Foreign Direct Investment in India to stand at 3239.51 in 12 months time. In the long-term, the India Foreign Direct Investment is projected to trend around 3237.38 USD Million in 2020, according to our econometric models.**

Forecast	**Actual**	**Q1/16**	**Q2/16**	**Q3/16**	**Q4/16**	**2020**	**Unit**
Foreign Direct Investment-	**2701**	**3488**	**3177**	**1593**	**3240**	**3237**	**USD Million**

India Foreign Direct Investment Forecasts are projected using an autoregressive integrated moving average (ARIMA) model calibrated using our analysts expectations. We model the past behaviour of India Foreign Direct Investment using vast amounts of historical data and we adjust the coefficients of the econometric model by taking into account our analyst's assessments and future expectations.

Sources-: http://www.tradingeconomics.com/india/foreign-direct-investment/forecast

ROAD FOR FII IN INDIA

Investment Conditions and Restrictions for FIIs:

A Foreign Institutional Investor may invest only in the following:-

a) Securities in the primary and secondary markets including shares, debentures and warrants of companies, unlisted, listed or to be listed on a recognized stock exchange in India.

b) units of schemes floated by domestic mutual funds including Unit Trust of India, whether listed or not listed on a recognized stock exchange.

c) Dated Government securities.

d) Derivatives traded on a recognized stock exchange.

e) Commercial paper.

f) Security receipts.

The total investments in equity and equity related instruments (including fully convertible debentures, convertible portion of partially convertible debentures and tradable warrants) made by a Foreign Institutional Investor in India, whether on his own account or on account of his sub- accounts, should not be less than seventy percent of the aggregate of all the investments of the Foreign Institutional Investor in India, made on his own account and on account of his sub-accounts. However, this is not applicable to any investment of the foreign institutional investor either on its own account or on behalf of its sub-accounts in debt securities which are unlisted or listed or to be listed on any stock exchange if the prior approval of the SEBI has been obtained for such investments. Further, SEBI while granting approval for the investments may impose conditions as are necessary with respect to the maximum amount which can be invested in the debt securities by the foreign institutional investor on its own account or through its sub-accounts. A foreign corporate or individual is not eligible to invest through the hundred percent debt route. Even investments made by FIIs in security receipts issued by securitization companies or asset reconstruction companies under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 are not eligible for the investment limits mentioned above. No foreign institutional should invest in security receipts on behalf of its sub-account.

Prohibitions on Investments

Foreign Institutional Investors are not permitted to invest in equity issued by an Asset Reconstruction Company. They are also not allowed to invest in any company which is engaged or proposes to engage in the following activities:

- Business of chit fund

- Nidhi Company
- Agricultural or plantation activities
- Real estate business or construction of farm houses (real estate business does not include development of townships, construction of residential/commercial premises, roads or bridges).
- Trading in Transferable Development Rights (TDRs).

Market Size

FII's net investments in Indian equities and debt have touched record highs in the past financial year, backed by expectations of an economic recovery, falling interest rates and improving earnings outlook. FIIs have invested a net of US$ 89.5 billion in 2014-15— expected to be their highest investment in any fiscal year. Of this, a huge amount—US$ 57.2 billion—was invested in debt and it is their record investment in the asset class, while equities absorbed US$ 32.3 billion.

India continues to be a preferred market for foreign investors. India-focused offshore equity funds contributed US$ 0.5 billion, whereas India-focused ETFs added a much higher US$ 1.2 billion of the total net inflows of about US$ 1.7 billion into the India-focused offshore funds and ETFs during the quarter ended June 2015.

India companies signed merger and acquisition (M&A) deals worth US$ 31.16 billion in January-November 2015. The total M&A transaction value for the month of November 2015 was US$ 2.97 billion involving a total of 47 transactions.

In Private Equity, a total of 91 deals worth disclosed value of US$ 1.43 billion were reported in November 2015.

GOVERNMENT INITIATIVES

Government of India has accepted the recommendation of A.P. Shah Committee to not impose minimum alternate tax (MAT) on overseas portfolio investors retrospectively for the years prior to April 01, 2015, thereby providing significant relief to foreign portfolio investors (FPIs).

The RBI has also allowed a number of foreign investors to invest, on repatriation basis, in non-convertible/redeemable preference shares or debentures issued by Indian companies listed on established stock exchanges in India. The investment should be within the overall limit of US$ 51 billion allocated for corporate debt. Long-term investors registered with SEBI will also be deemed as eligible investors. The Government of India is also planning to relax some of the safe harbour rules set for offshore fund managers, in order to allow private equity investors to shift their base to India without attracting a tax on capital.

The People's Bank of China (PBoC) has invested US$ 500 million in Indian bonds for the first time since the Indian government eased restrictions on foreign investors.

CURRENT SCENARIO - : INVESTMENTS IN INDIA DURING 2015-16

The ruling NDA government in the centre has announced a lot of relaxations for FDI and the business done under the FDI umbrella in India. The Union Budget presented in the Lok Sabha (the Lower House of the Parliament) by Finance Minister Arun Jaitley mentioned that the procedures through which the corporate houses attract foreign investment into India will be simplified and made uncomplicated. From now onwards, there will hardly be any difference between 'Portfolio Foreign Investment' and 'Foreign Direct Investment'. The composite cap has replaced the concept of individual cap; for instance, there is now a composite cap of 49 percent foreign investors allowed in the insurance sector.

The Indian government, during the 2014-15 fiscal year, announced that it would allow FDI worth US$ 14.65 billion into the railways infrastructure. Some of the most expensive and largest railway projects will be carried out under these investments.

During the next three years, ADAMA **Agrochemicals, an Israeli firm**, has set its targets to spend US$ 50 million in India. The company plans to enhance R&D and manufacturing facilities in India to grow at a better rate than the current industry growth rate. Hundred percent FDI into the health sector will be allowed by the Department of Industrial Policy and Promotion (DIPP) to enable indigenous manufacturing and reduce imports of medical devices. By the next fiscal year, the value of medical devices in the world market will be worth US$ 400 billion. The equity investment in the real estate is expected to go twofold as the Indian government has allowed 100 percent FDI into the construction sector. As per the real estate experts' beliefs, the demand from foreign property buyers will rise. Currently valued at US$ 1.5 billion, the real estate equity will reach a value of US$ 3 billion in a few years, the experts and analysts opine.

- See more at: http://business.mapsofindia.com/fdi-india/#sthash.RMW0yGlQ.dpuf

Findings of this paper:

1. A growing trend is shown by FDI in India up to 2007-08, after which a fluctuating trend is seen. Year 2007-08 has reported the highest amount of FDI since post liberalization year i.e. 1990-91.
2. Manufacturing sector has been attracting the highest percentage of FDI.
3. Financial services, construction industry, electricity and other energy generation, distribution &

transmission, communication services are the other sectors having major share in receiving F

4. Real estate activities, business services, miscellaneous services, computer services and restaurants and hotels are the sectors which are successful in attracting a small portion of FDI.

5. Retail and wholesale trade, mining, transport, trading, education, research and development and others are the sectors which has attracted a very small portion of FDI over the years.

6. India is among the few markets where interest rates are expected to drop with fair visibility, which would attract flow from FIIs.

7. Mauritius is the biggest investor in the form of FDI in India. Singapore is the second biggest source of FDI inflow in India.

8. The FDI from U.S.A. is decreasing over the years whereas that from Japan and Netherlands is increasing.

CONCLUSION

FDI is an important source of capital for India. In the recent years, it has shown an Increasing trend which is a good sign for Indian economy. The Foreign Policy Magazine in its present analysis on a vast number of parameters has rated India as the No.1 destination in the world. Frost & Sullivan, a US based agency has on number of indicators selected the Make in India initiative as the best initiative to drive manufacturing.

Industrial studies have revealed that as foreign investors' confidence in the Indian government will increase, their levels of investment in India will also go up. In the 2015-2016 fiscal years, it is expected that FDI will exceed 60 billion US dollars. In the 2013-14 fiscal years, the aggregate foreign investment amounted to 29 billion dollars.

More and more attractive policies must be formulated by the Government to attract more and more FDI. Over the years, manufacturing sector has attracted a major part of FDI in India followed by financial services, construction industry, electricity and other energy generation, distribution & transmission, communication services. Mauritius is the biggest investor in India followed by Singapore. The FDI from U.S.A. is decreasing over the years, which is not a good indicator for India. Investment from Japan and Netherlands is increasing which is a good sign for India.

India stands committed to have a FDI policy and regime which is investor friendly and also promotes investment leading to increased manufacturing, job creation and overall economic growth of the country.

ANNEXURE

1. foreign direct investment flows to india: country-wise and industry-wise

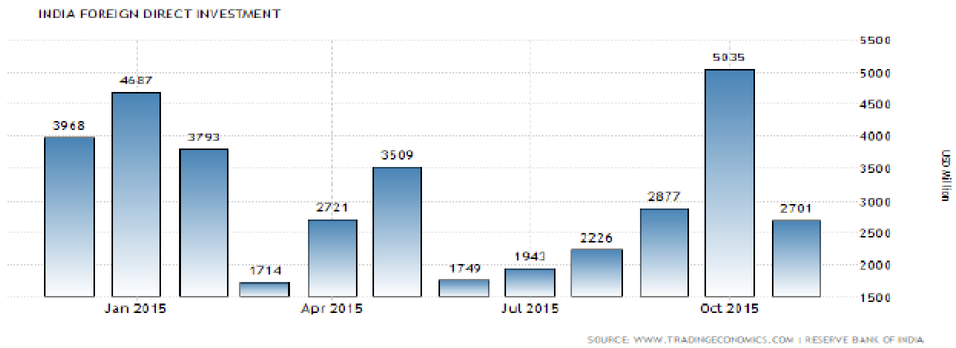
FOREIGN DIRECT INVESTMENT FLOWS TO INDIA: COUNTRY-WISE AND INDUSTRY-WISE					
(US $ million)					
Source/Industry	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15 P**
1	**2**	**3**	**4**	**5**	**6**
Total FDI	**14,939**	**23,473**	**18,286**	**16,054**	**24,748**
Country-wise Inflows					
Mauritius	5,616	8,142	8,059	3,695	5,878
Singapore	1,540	3,306	1,605	4,415	5,137
U.S.A	1,071	994	478	617	1,981
Cyprus	571	1,568	415	546	737
Japan	1,256	2,089	1,340	1,795	2,019
Netherlands	1,417	1,289	1,700	1,157	2,154
United Kingdom	538	2,760	1,022	111	1,891
Germany	163	368	467	650	942
UAE	188	346	173	239	327
France	486	589	547	229	347
Switzerland	133	211	268	356	292
Hongkong	209	262	66	85	325
Spain	183	251	348	181	401
China	2	73	148	121	505
Malaysia	40	18	238	113	219
South Korea	136	226	224	189	138
Luxembourg	248	89	34	539	204
Others	1,142	892	1,154	1,015	1,250

Sector-wise Inflows					
Manufacturing	4,793	9,337	6,528	6,381	9,613
Construction	1,599	2,634	1,319	1,276	1,640
Financial Services	1,353	2,603	2,760	1,026	3,075
Real Estate Activities	444	340	197	201	202
Electricity and other Energy Generation, Distribution & Transmission	1,338	1,395	1,653	1,284	1,284
Communication Services	1,228	1,458	92	1,256	1,075
Business Services	569	1,590	643	521	680
Miscellaneous Services	509	801	552	941	586
Computer Services	843	736	247	934	2,154
Restaurants and Hotels	218	870	3,129	361	686
Retail & Wholesale Trade	391	567	551	1,139	2,551
Mining	592	204	69	24	129
Transportation	344	410	213	311	482
Trading	156	6	140	0	228
Education, Research & Development	56	103	150	107	131
Others	506	419	43	293	232
P: Provisional.					
Note : Includes FDI through SIA/FIPB and RBI routes only.					

2. Forecast India Foreign Direct Investment (2016-2020)

India Trade	Last	Q1/16	Q2/16	Q3/16	Q4/16	2020
Balance of Trade	-11664	-17112	-19200	-19000	-11096	-10115
Exports	22297	25000	26000	26500	21479	28847
Imports	33961	42112	45200	45500	32945	38963
Current Account	-8200	-4878	-5337	-5506	-5768	-4457
External Debt	483151	496619	504020	510947	517667	614535
Current Account to GDP	-1.4	-1.24	-1.37	-1.5	-1.63	-1.12
Terms of Trade	57.9	61.36	63.83	66.3	68.77	76
Capital Flows	4.18	17.92	9.03	-10.57	0.95	7.14
Foreign Direct Investment	2701	3488	3177	1593	3240	3237
Remittances	10828	12324	11556	11656	12528	15691
Tourist Arrivals	913000	702899	601973	685184	703997	762403
Gold Reserves	558	558	558	558	558	558
Crude Oil Production	771	768	768	768	768	768
Terrorism Index	7.75	7.73	7.72	7.71	7.71	7.64

3. India Foreign Direct Investment - actual data



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