

Foreign Direct Investment: H1 FY21

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While the economy continued to grapple with technical recession in the first half of fiscal year 2020-21, a positive development has been an increase in Foreign Direct Investment (FDI) inflows in the country during the first half of 2020-21. For the past few years, India has been a recipient of the FDI inflows. In the nearly past two decades, the total FDI inflows in India have increased from US \$ 4 billion in FY01 to US \$ 74 billion in FY20. Further in the first half of FY21, India has received 15% higher investment inflows when compared with the same period last year, despite subdued global economic and investment environment, which was hampered on account of coronavirus pandemic that brought economies to a near halt by the lockdown.

Over the past couple of years, the government has been undertaking various measures to attract the foreign investment in India. With such measures, in the World Bank's Doing Business 2020 ranking, India moved up 14 places to get 63rd rank among 190 nations, from the earlier 77th rank owing to latest reforms in the areas of starting a business, dealing with construction permits, trading across borders and resolving insolvency. India also figured among the top 10 performers on the list for the third time in a row. Optimism on India growth story among foreign investors combined with ample liquidity in the global market has aided flows into India. In addition, performance linked incentives have gained traction under the Atmanirbhar Bharat initiative undertaken by the Government of India to boost manufacturing sector. India might have also benefitted from the global anti-China sentiments as investors strategized to tap alternative supply chains.

In the ensuing study, we have assessed the inflows of the foreign direct investment in India in the first half of the fiscal year 2020-21. The analysis also covers the sectoral assessment, region wise overview and country-wise FDI investment during the first half of the ongoing fiscal year.

Key highlights

- During April 2000-September 2020, the cumulative FDI inflows amounted to US \$ 722 billion while FDI equity inflows aggregated US \$ 500 billion.
- In H1 FY21, the equity inflows amounted to US \$ 30 billion, which was highest in the comparable periods in the past 5 years.
- The higher inflows in H1 FY21 can be ascribed to surge in the computer software and hardware sector that piped services sector and garnered the highest US \$ 15.5 billion worth FDI inflows. The sector has benefitted during the pandemic times on account of work from home policies and greater engagement in digital channels.

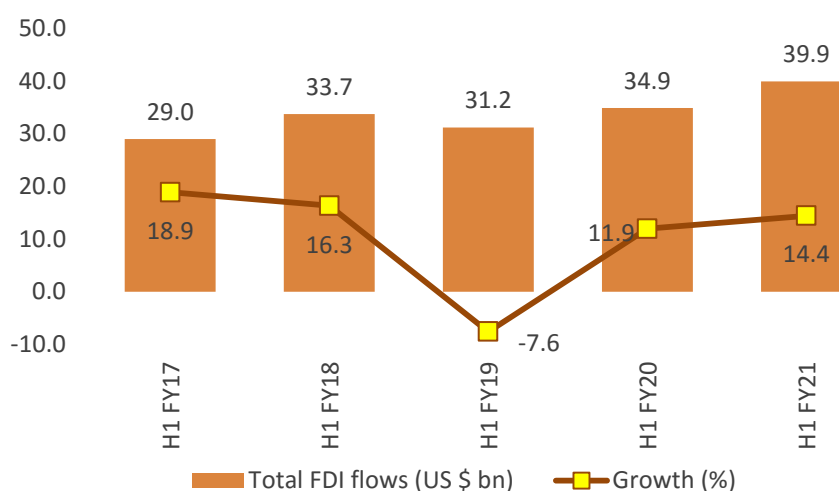
- Gujarat surpassed Delhi, Karnataka and Maharashtra to gain top position in H1 FY21 compared with its 4th rank in H1 FY20.
- While Singapore retained its top position, the US emerged the second highest source of FDI in H1 FY21 replacing Mauritius indicating stronger ties between the two countries and confidence of the investors on Indian economy.

Cumulative FDI investment- April 2000-September 2020

- During April 2000-September 2020, the cumulative FDI inflows (inclusive of equity inflows, re-invested earnings and other capital) amounted to US \$ 722 billion.
- During this period, the FDI equity inflows aggregated US \$ 500 billion, which is equivalent to RS. 29.6 lakh crore.
- In terms of cumulative equity inflows from countries during April 2000 – September 2020, top 10 countries accounted for nearly 86% of total equity inflows. Mauritius dominated with 29% share followed by Singapore 21% and USA 7.38%
- During April 2000 – September 2020, 63 sectors received FDI equity inflows with highest inflows in the services sector (17%), computer software and hardware (12.5%), Telecom (7.5%). Top 10 sectors namely, trading, construction development, automobile, chemicals (except fertilizers), construction (infra) activities, Drugs and Pharma and hotel and tourism along with aforementioned top 3 accounted for 66% of the total FDI equity inflows.
- Gujarat has seen highest cumulative inflows of FDI worth US \$18.6 billion, accounting for nearly 35% of the total FDI inflows followed by Maharashtra (20% share) and Karnataka (15% share).

Trends in total FDI inflows

Chart 1: Total FDI Inflows

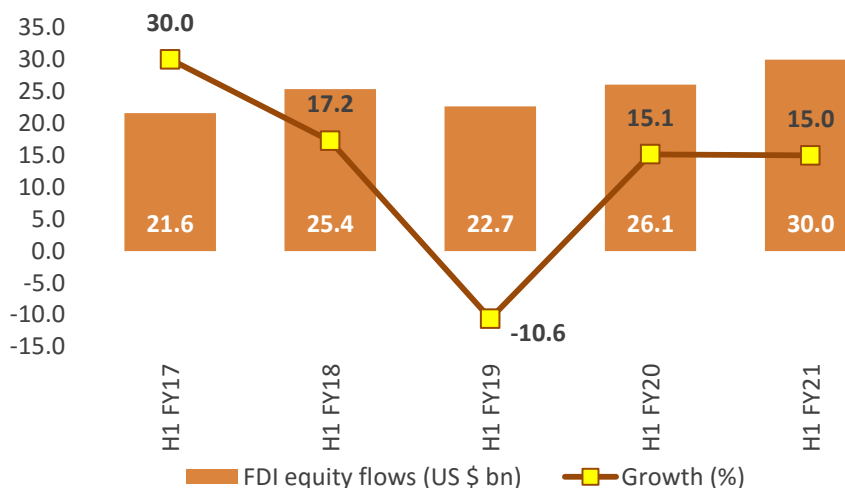


Source: DPIIT

- During the first half of FY21, the total FDI inflows comprising FDI equity inflows, re-invested earnings and other capital was the highest in same period in the past 5 years. Considering the first half of the past 5 years, the total inflows have grown at a CAGR of 8% per annum during H1 FY17-H1 FY21.
- In H1 FY21, the aggregate total FDI inflows amounted to US \$ 39.9 billion, 14% higher than US \$ 34.9 billion in H1 FY20. In terms of annual growth barring H1 FY19, all first half of fiscal years since FY17 have registered double digit growth with highest year on year growth witnessed in H1 FY17 (18.9%).

Overview of FDI equity inflows

Chart 2: FDI Equity Inflows



Source: DPIIT

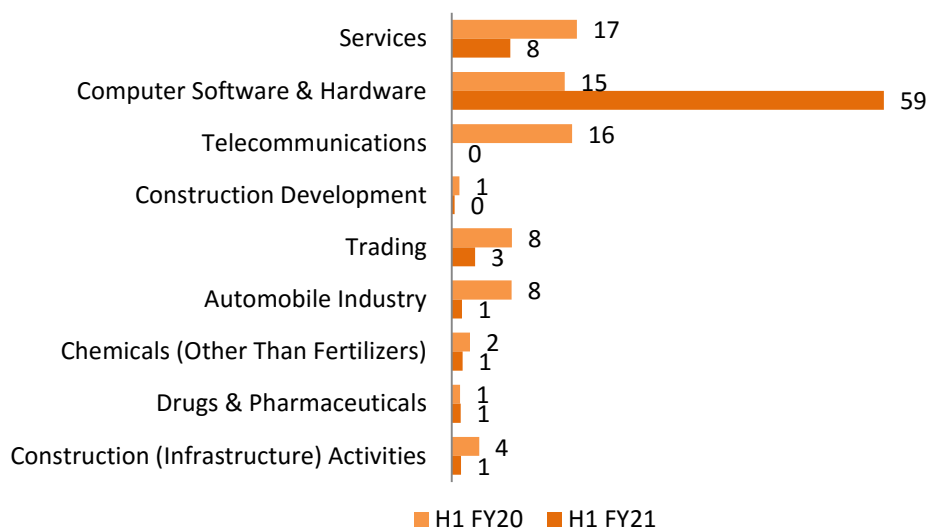
- FDI equity inflow is a main component of the total FDI inflows. It accounts for nearly 75% of the total FDI inflows in the country.
- India has witnessed sustained FDI equity inflows. In terms of annual inflows, the FDI equity inflows have grown considerably from US \$ 2.4 billion in FY01 to US \$ 50.0 billion in FY20.
- During the first half of the past 5 years i.e., from H1 FY17 to H1 FY21, the FDI equity inflows have grown at annual pace of 9% (CAGR).
- In H1 FY21, the equity inflows amounted to US \$ 30 billion, which was highest in the comparable periods in the past 5 years.
- In terms of annual growth, the FDI equity flows grew by 15% in H1 FY21, near stable growth from H1 FY20 (15.1%).
- The surge in the FDI equity inflows can in part be attributed to the opening of the various sectors by the government and allowing 100% FDI investment via automatic route, which eased the process of investment in the country.

a. Sector-wise assessment

- Top 9 sectors, as shown in the Chart 3, accounted for over 75% of the total FDI equity inflow in H1 FY21.
- While historically services sector dominated in terms of FDI inflows, the computer software and hardware sector outperformed services sector and garnered US \$ 15.5 billion worth FDI inflows, which was 59% of the total FDI inflows received by the country in H1 FY21.
- Services sector slipped to a second position, with US \$ 2.3 billion worth investments followed by trading (3% share or US \$ 949 million).
- In H1 FY21, among the top 9 sectors most sectors witnessed double digit contraction in FDI equity inflows barring computer software and hardware and drugs and pharma, the sectors which had gained importance during the pandemic times.

- Sectors like Telecom (-100% growth), services (-49% growth), construction development (-55%) automobiles (-80%) construction (infra) activities (-61%) were some of the sector registering contraction in FDI inflows.
- The sharp fall in FDI in telecom sector from US \$ 4.2 billion in H1 FY20 to mere US \$ 7 million in H1 FY21 can be ascribed to inherent stress, high regulation along with intense competition in the sector.

Chart 3: Sector-wise FDI equity inflows (% Share)



Source: DPIIT

b. Regional break-up

Table 1: Top 10 State-wise FDI Equity Inflows

US \$ mn	H1 FY20	H1 FY21	% share
Gujarat	3,461	16,005	53
Karnataka	4,649	3,660	12
Maharashtra	3,617	3,619	12
Delhi	7,171	2,663	9
Tamil Nadu	1,348	938	3
Jharkhand	0.6	792	3
Haryana	303	682	2
Telangana	NA	668	2
West Bengal	418	261	1
Uttar Pradesh	5	225	1
FDI equity inflows	26,096	30,004	100

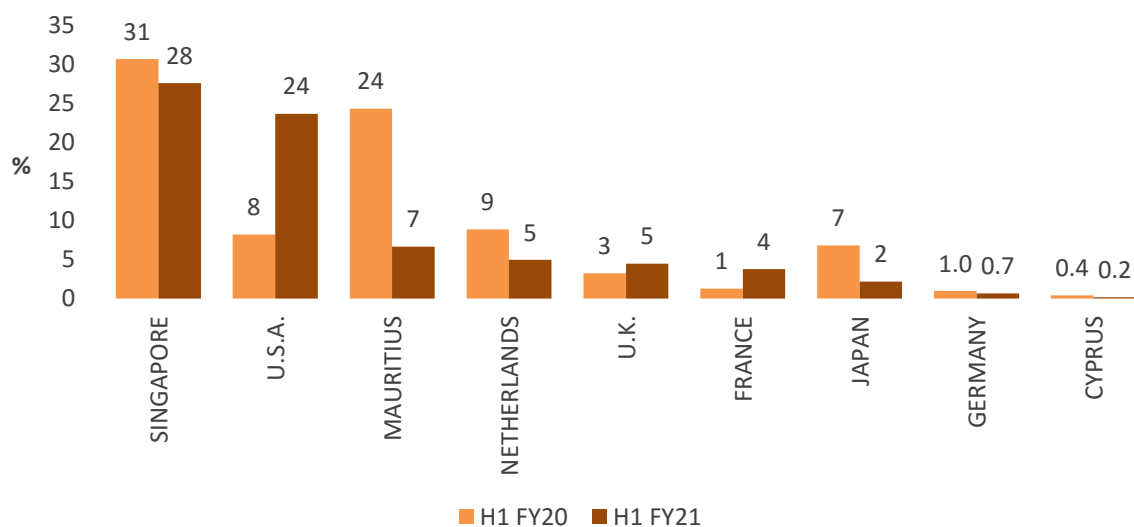
Source: DPIIT

- In H1 FY21, Maharashtra, Delhi, Karnataka, and Gujarat accounted for more than 85% of the total FDI equity inflows.
- Gujarat surpassed Delhi, Karnataka, and Maharashtra to gain top position in H1 FY21 compared with its 4th rank in H1 FY20. The inflows surged from US \$ 3.5 billion in H1 FY20 to US \$ 16 billion, accounting for 53% of total FDI equity inflows in H1 FY21.
- Delhi, which was the highest recipient of FDI equity inflows in H1 FY20 slipped to 4th position, with 63% decline in FDI equity inflows in in H1 FY21 compared with the corresponding period of last year.

- Karnataka and Maharashtra retained their second and third positions respectively in H1 FY21. However, Karnataka received 21% lower inflows when compared with H1 FY20 while Maharashtra received near stable inflows aggregating US \$ 3.6 billion in the first half of FY20 and FY21.
- While Tamil Nadu received 30% less FDI equity inflows in H1 FY21, Jharkhand received considerably higher FDI inflows in H1 FY21 compared with the same period of FY20.

c. Top investing countries

Chart 4: Country-wise FDI equity inflows (% share)



Source: DPIIT

- The top 9 countries depicted in the Chart 4, accounted for around 75% of the total FDI equity inflows in H1 FY21.
- Singapore remained the top source of FDI equity inflows in India with US \$ 8.3 billion inflows in H1 FY21, 4% higher than the same period of FY20. During this period, it accounted for nearly 28% of the total FDI equity inflows. The inflows from Singapore have gone up as many Indian firms are getting incorporated in Singapore's jurisdiction since last year.
- Interestingly, US emerged the second highest source of FDI in H1 FY21 (24% share), replacing Mauritius which slipped to 3rd position. In H1 FY21, the inflows from the US increased over 3 times to US \$ 7.1 billion compared with US \$ 2.2 billion in H1 FY20.
- Mauritius accounted for 7% of inflows in H1 FY21, much lower than its 24% share in H1 FY20 as the inflows fell by 69% in H1 FY21 over the corresponding period of last year despite its tax haven status and Double Taxation Avoidance Agreement (DTAA) with India.
- Inflows from France increased by nearly 3.5 times over to US \$ 1.1 billion in H1 FY21 (US \$ 334 million in H1 FY20).
- With regards to other sources of FDI inflows, the flows from the UK increased by 58% year on year in H1 FY21 while rest other countries reported lower inflows in the country; Japan (-63% yoy), Netherlands (-36% yoy), Germany (-22% yoy) and Cyprus (-56% yoy). Together these countries accounted for 13% of total FDI equity inflows, lower than cumulative 20% share in H1 FY20.

Concluding remarks

Despite headwinds amidst the pandemic the FDI inflows remained robust in India supported by liquidity surplus in the global market and confidence amongst the investors. Going ahead, ease in investments led by various measures undertaken by the government is expected to further propel inflows in India. Higher foreign investment is expected to kick-start the private investment cycle. For the year 2020-21, the FDI equity inflows could be expected to be around \$ 70 bn.

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