

# Consolidated FDI Policy of DIPP



## About the FDI Policy of DIPP:

The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry released its consolidated FDI policy through the Press release on August 28, 2015.

This present Circular subsumes all the press releases and circulars released by DIPP and it took immediate effect from August 28, 2017. This consolidation will remain in force until any amendment is made.

## Contents of the policy circular 2017:

The consolidated policy circular is comprised of the following details:

## General conditions on FDI:

Eligible investors

Eligible investee entities

- Indian Company
- Partnership Firm/Proprietary Concern
- Trusts
- Limited Liability Partnerships (LLPs)
- Investment Vehicle
- Startup Companies

## Procedure for Government Approval

The Competent Authorities for grant of approval for foreign investment in sectors/activities requiring Government approval.

Cases which do not require Fresh Approval

Online Filing of Applications for Government Approval

## Sector Specific Conditions on FDI:

### **Prohibited Sectors:**

FDI is prohibited in:

1. Lottery Business including Government/private lottery, online lotteries, etc.
2. Gambling and Betting including casinos etc.
3. Chit funds
4. Nidhi company
5. Trading in Transferable Development Rights (TDRs)
6. Real Estate Business or Construction of Farm Houses 'Real estate business' shall not include the development of townships, construction of residential /commercial premises, roads or bridges and Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations 2014.
7. Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
8. Activities/sectors not open to private sector investment  
e.g.(I) Atomic Energy and (II) Railway operations

### **Permitted Sectors:**

In the sectors/activities, which the circular listed, FDI up to the limit indicated against each sector/activity is allowed, subject to applicable laws/regulations; security and other conditions. In sectors/activities not listed, FDI is permitted up to 100% on the automatic route.

## Other Highlights:

Introduction of Startup companies in the policy

Startups can issue convertible notes to a person resident outside India subject to the following conditions:

1. A person resident outside India (other than an individual who is citizen of Pakistan or Bangladesh or an entity which is registered/incorporated in Pakistan or Bangladesh), may purchase convertible notes issued by an Indian startup company for an amount of twenty-five lakh rupees or more
2. A startup company engaged in a sector where foreign investment requires Government approval may issue convertible notes to a nonresident only with the approval of the Government.
3. A person resident outside India may acquire or transfer, by way of sale, convertible notes, from or to, a person resident in or outside India, provided the transfer takes place in accordance with the pricing guidelines as prescribed by RBI.
4. The start-up company issuing convertible notes shall be required to furnish reports as prescribed by Reserve Bank of India.

## Glossary:

**'FDI'** (Foreign Direct Investment) means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.

**'Convertible Note'** means an instrument issued by a start-up company evidencing receipt of money initially as debt, which is repayable at the option of the holder, or which is convertible into such number of equity shares of such start-up company, within a period not exceeding five years from the date of issue of the convertible note, upon occurrence of specified events as per the other terms and conditions agreed to and indicated in the instrument.

**'Indian Venture Capital Undertaking'** (IVCU) means an Indian company:

- (i) whose shares are not listed in a recognized stock exchange in India;
- (ii) which is engaged in the business of providing services, production or

manufacture of articles or things, but does not include such activities or sectors which are specified in the negative list by the SEBI, with the approval of Central Government, by notification in the Official Gazette in this behalf.

Investment Vehicle shall mean an entity registered and regulated under relevant regulations framed by SEBI or any other authority designated for the purpose and shall include Real Estate Investment Trusts (REITs) governed by the SEBI (REITs) Regulations, 2014, Infrastructure Investment Trusts (invites) governed by the SEBI.

**‘Venture Capital Fund’** (VCF) means a Fund registered as a ‘venture capital fund’ under SEBI (Venture Capital Funds) Regulations, 1996

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