

Attracting FDI: The Reform Imperative

There has rarely been a more opportune moment to refocus on foreign flows into India. The evolving geopolitical landscape, the global trade implications of Liberation Day, and rapid developments in artificial intelligence have already begun to reshape capital allocation. In this backdrop, India's external position deserves close scrutiny. The current account deficit remains a concern, the rupee has been under sustained pressure over the past year, and foreign portfolio outflows have continued with little respite.

India has made meaningful progress in reforming its framework to attract Foreign Portfolio Investments (FPI) flows, but the same urgency has not been applied to Foreign Direct Investments (FDI). This distinction now matters more than ever. FPI capital is inherently short term and often reactive, while FDI represents long-term, committed capital that strengthens the economic base. For a US\$4 trillion economy aspiring to scale further, the strategic focus must shift decisively toward attracting durable FDI rather than relying disproportionately on volatile portfolio flows.

This is particularly important because the opportunity is immediate and significant. There is a large pool of global capital waiting to be deployed, and India is firmly on the radar. However, much of this capital is currently sitting on the sidelines, awaiting clearer signals and smoother execution pathways. The timing could not be better. Strategic investors, global buyout funds, private equity players, and sovereign wealth funds are structurally aligned to take long-term positions, and India's fundamentals support that conviction. Growth remains robust, corporate performance is resilient, earnings are broadly in line with expectations, and a combination of currency depreciation and corrected valuations has made entry points more attractive.

At the same time, the scale of available capital is unprecedented. The largest global buyout funds alone have raised, or are in the process of raising, over US\$100 billion for Asia, with the broader pool running significantly higher when including global pool, leverage and co-investment capital. Within Asia, capital allocation is increasingly tilting toward India as private equity interest in China remains muted. Alongside Japan, India is emerging as a primary destination. It is entirely reasonable to expect incremental inflows of at least US\$100 billion from this pool over the next two to three years, which can meaningfully offset continued FPI outflows.

The constraint, therefore, is not the availability of capital but the ease and speed with which it can be deployed. India needs to move from being an attractive destination in principle to an efficient destination in practice. This requires a sharper focus on regulatory simplification and execution certainty.

A key starting point is addressing legacy issues under the FDI regime, particularly those arising from Press Note 3. While there is now greater clarity, several transactions from the past few years remain exposed to post facto approval requirements, even in cases of negligible indirect exposure from restricted geographies. With beneficial ownership now clearly defined, applying this framework retrospectively would remove friction, unlock stuck capital, and send a strong signal of regulatory pragmatism.

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Equally important is the need to revisit pricing norms. Current RBI regulations create an artificial distinction between foreign and domestic investors by restricting foreign investors from transacting below market price. In a market that has otherwise embraced price discovery, this constraint is both inconsistent and counterproductive. Capital flows more efficiently when transactions are governed by commercial judgment between willing buyers and sellers, not by asymmetrical regulatory constraints.

Delisting and take-private transactions remain another underleveraged channel for FDI inflows. The present framework, with its high ownership thresholds and absence of minority squeeze-out provisions, often leads to deal uncertainty and encourages speculative behavior that can derail transactions. For a market of India's maturity, enabling clean and predictable take-private pathways is essential to attracting large-scale strategic capital.

The speed of corporate restructuring is another critical bottleneck. Value creation in such transactions is highly sensitive to time, yet current processes often extend from 18 to 36 months due to multiple layers of regulatory approvals from competition authority, capital market authorities and the courts. This delay erodes value and deters investors. A streamlined, time-bound process that reduces execution timelines to a few months would significantly enhance India's competitiveness as an investment destination.

There are also opportunities in sectors like banking where restrictive foreign ownership is permitted and that too is not fully effective. Aligning voting rights with economic ownership of banks, without necessarily altering foreign investment caps, can attract meaningful incremental foreign capital.

In addition, the current environment warrants calibrated, time-bound regulatory flexibility. Much like during the global financial crisis and the COVID-19 period, targeted relaxations in areas such as minimum public shareholding, block trades, creeping acquisitions, and preferential allotments can accelerate transactions and improve capital formation without compromising governance standards.

Taken together, these measures represent a pragmatic and high-impact pathway to unlocking foreign direct investment at scale. The global environment may appear uncertain, but it also presents a rare window of opportunity. Capital is available, India is well positioned, and investor interest is real. The decisive factor will be how quickly and effectively the system responds. If the right steps are taken, India can not only offset FPI volatility but also secure long-term capital that strengthens its growth trajectory.

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