MARCH 2026

Shardul Amarchand Mangaldas
A DECADE YOUNG, A CENTURY STRONG

Key Changes to FDI Policy in relation to Investments from Land Bordering Countries

Introduction

On 10 March 2026, the Union Cabinet of India, chaired by Prime Minister Shri Narendra Modi, approved significant amendments to the Consolidated Foreign Direct Investment Policy dated 15 October 2020 (“**FDI Policy**”) in relation to investments from countries sharing a land border with India, i.e., China, Hong Kong, Macau, Bangladesh, Pakistan, Bhutan, Nepal, Myanmar and Afghanistan (“**LBCs**”). These amendments are intended to revise the framework introduced through Press Note 3 of 2020 (“**PN3**”) read with the amended Rule 6 of Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (“**NDI Rules**”) which was notified on 22 April 2020, to curb opportunistic takeovers and acquisitions of Indian companies during the COVID-19 pandemic.

Key Changes

- **Introduction of definition and criteria for “Beneficial Owner”**: A clear definition and criteria for determination of “Beneficial Owner” has been provided, aligned with the definition under the Prevention of Money Laundering Rules, 2005. The beneficial ownership test is applied at the level of the investor entity.
- **Automatic Route for LBC Beneficial Ownership (up to 10%) not leading to control**: Investors having LBC beneficial ownership of up to 10%, which does not provide them the controlling rights, are now permitted to invest in India under the automatic route, subject to applicable sectoral caps, entry routes, and attendant conditions. Such investments are subject to reporting relevant information/details by the investee entity to the Department for Promotion of Industry and Internal Trade (“**DPIIT**”).
- **Expedited 60-Day Clearance for Select Sectors**: Applications for investments in manufacturing in capital goods, electronic capital goods, electronic components, polysilicon, and ingot-wafer sectors shall be eligible for expedited 60-day clearance.
- **Majority Shareholding and Control Requirement**: For investments processed under the expedited clearance route, the majority shareholding and control of the Indian investee entity must remain with resident Indian citizen(s) and/or resident Indian entity(ies) owned and controlled by resident Indian citizen(s), at all times.
- **Power to Revise Eligible Sectors**: The Committee of Secretaries under the Cabinet Secretary has been authorized to revise the list of sectors specified as eligible for expedited clearance.

Anticipated Benefits

These amendments are expected to yield several meaningful benefits across the Indian investment landscape.

- **Greater Clarity**: These amendments provide enhanced regulatory clarity, which is expected to facilitate greater foreign direct investment inflows, particularly benefiting startups, deep technology ventures, and other minority investment structures. Global funds often have diverse Limited Partners (LPs), some of whom may be from LBCs. The 10% de minimis exemption allows these funds to deploy capital into Indian startups without the "taint" of minor LBC participation stalling the transaction.
- **Faster Collaborations and Technology Access**: The expedited 60-day approval timeline for specified sectors will enable companies to enter into collaborations and joint ventures more efficiently, gaining access to new technologies and integrating with global supply chains at a significantly faster pace.
- **Strengthening the Manufacturing Ecosystem**: The manufacturing sector stands to benefit substantially from these amendments. The expedited clearance route for electronic components, capital goods, and solar cells is designed to leverage and enhance India's competitiveness as a preferred investment and manufacturing destination.

Clarifications Required

While the amendments to PN3 mark a meaningful advancement toward regulatory certainty, their effectiveness will ultimately depend on how they are implemented in practice. Additionally, the following clarifications are required from GOI in this regard:

- These amendments to become legally enforceable, GOI will need to undertake two key implementation steps, i.e., (i) the DPIIT needs to issue a revised press note formally notifying the amendments to the FDI Policy; and (ii) corresponding amendments need to be made to Rule 6 of the NDI Rules. In this regard, the Standard Operating Procedure for Processing Foreign Direct Investment Proposals dated 17 August 2023 issued by DPIIT will also need to be amended.
- While the 60-day approval timeline for investment in specified sectors is a welcome development, it appears that the capital goods intend to cover only electronic components, polysilicon, and ingot-wafer, and it remains unclear as to which other items or activities will fall within the definition of "capital goods". Clarity from the government on the scope of this definition will be essential to ensure that investors and investee entities can accurately assess whether their proposed investments qualify for the expedited approval route.

Conclusion

The amendments to PN3 represent a forward-looking recalibration of India's foreign investment framework, signaling a more nuanced and balanced approach toward investments originating from LBCs. By introducing a clear definition and criteria for beneficial ownership, liberalizing the route for investments not leading to control, and incorporating time-bound approvals for critical manufacturing sectors, the GOI has sought to balance the national security objectives of PN3 with the imperative of attracting global capital, technology, and supply chain integration. These changes are well-suited to India's current economic priorities of boosting manufacturing competitiveness, fostering deep-tech innovation, and positioning the country as a global investment destination.

The amended framework has the potential to instill greater confidence among investors from LBC jurisdictions, assuring them of a more transparent and predictable regulatory environment. Equally significant, these amendments position India to attract investments from technology-driven economies, thereby facilitating access to cutting-edge innovation and advanced manufacturing capabilities. If implemented effectively, the revised PN3 framework can serve as a catalyst for deepening India's engagement with global capital while safeguarding its strategic and national security interests.

Please feel free to address any further questions or request for advice to:

Rudra Kumar Pandey
Partner
rudra.pandey@AMSShardul.com

Natashaa Shroff
Partner
natashaa.shroff@AMSShardul.com

Vishal Nijhawan
Partner Designate
vishal.nijhawan@AMSShardul.com

Jyoti Gautam
Senior Associate
jyoti.gautam@AMSShardul.com