

Investing in India: Principal Routes for Foreign Investors

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Introduction

Incredible India! This tourism catchphrase also signifies India's investment proposition, which is supported by strong economic growth, favorable demographics and long-term expansion potential. India's real GDP growth was 7.7% in FY 2025-26. With a population exceeding 1.4 billion, India's median age is 29.2, compared with 40.6 in China and 38.7 in the US. As of 11 August 2026, India's P/E ratio was 22.74¹, and its share of global GDP is projected to increase from 3.7% in 2025 to 7% by 2050.

Beyond these headline indicators, India's investment case rests on several reinforcing pillars: policy continuity, including the availability of 100% foreign direct investment ("FDI") under the automatic route in most sectors; a unified national market supported by the Goods and Services Tax and a digitized payments infrastructure centered on the Unified Payments Interface ("UPI"); insolvency resolution and restructuring under the Insolvency and Bankruptcy Code ("IBC"); and a maturing capital-market ecosystem that increasingly accommodates sophisticated deal

structures and exit strategies.

India remains a highly regulated jurisdiction, and foreign capital enters and exits within an established exchange-control framework. The investment route determines the instruments that may be acquired, the applicable pricing requirements and the mechanisms for repatriation. These choices should be made at the outset because they can materially affect the feasibility, cost and timing of an investment and its eventual exit.

In practice, private equity investors rarely rely on a single route. Combination structures may be necessary to accommodate equity and debt financing, optimize cash flows and distributions, access particular sectors or preserve exit options. This article provides a concise overview of the principal pathways available to foreign investors deploying capital in India.

Principal routes for private equity investment in India

Foreign investment in India is governed by the Foreign Exchange Management Act, 1999 ("FEMA"), which is admin-

istered by the Reserve Bank of India ("RBI") and the Government of India. The framework for equity and equity-like investments comprises FEMA, the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 ("NDI Rules") and the Consolidated Foreign Direct Investment Policy (the "FDI Policy") issued by the Department for Promotion of Industry and Internal Trade (DPIIT). The schedules to the NDI Rules set out the principal routes described below. Debt investments are governed by separate regulations issued by the RBI under FEMA, as well as other regulations/directions issued by RBI and Securities and Exchange Board of India ("SEBI").

FDI route

Investment through equity instruments by non-residents in an unlisted Indian company or an investment of 10% or more in a listed Indian company is classified as FDI and must comply with the FDI Policy and, in the case of listed securities, applicable securities regulations issued by SEBI. Except for a limited number of prohibited sectors, including gambling and real estate business, most sectors permit 100%

¹ Global P/E Ratios by Country, as of 11 August 2026.

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FDI under the FDI Policy. FDI may be made only through equity shares or equity-linked instruments (for example, compulsorily convertible debt instruments) and is subject to entry and exit pricing requirements. It may be made by subscription (the primary route) or acquisition (the secondary route). Non-residents must also consider situations subject to additional conditions. For example, investments in holding companies and FDI by investors or entities from countries that share a land border with India (such as China)², regardless of sector, require prior approval from the Government of India.

India's FDI inflows increased approximately 20-fold between FY01 and FY26. According to DPIIT, total FDI inflows in FY26 were USD94.52b, of which FDI equity inflows accounted for USD58.84b. India attracted USD60.7b across 1,475 private equity and venture capital deals in 2025 — an 8% increase in value and the highest deal count on record. Financial services, infrastructure, real estate, technology and e-commerce together accounted for 72% of total investment value. Exit activity was similarly robust: 257 exits in 2025 generated USD32.9b in value. Strategic exits increased 211% to USD16b, or 48% of total exit volume, as domestic and global corporates re-entered the market as acquirers. This underscores the depth of the buyer pool available to sponsors seeking to monetize investments.

Foreign Portfolio Investor route

An investment of less than 10% of the paid-up equity capital of a listed Indian company is permissible if the investor or investing vehicle is registered with the SEBI as a Foreign Portfolio Investor ("FPI") under the SEBI (FPI) Regulations, 2019. Aggregate invest-

ment by all FPIs in a listed company is permitted up to the applicable sectoral cap under the FDI Policy. Private equity funds assessing private investment in private equities (PIPE) opportunities may therefore choose between the FDI and FPI routes, depending on the stake they intend to acquire in the listed entity. The FPI route also provides access to debt and structured debt opportunities. These include investments in listed or unlisted non-convertible debentures ("NCDs"), government securities, securitized debt through pass-through certificates issued by a securitization trust, and security receipts issued by asset reconstruction companies, subject to applicable conditions. FPIs may also invest through

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investment vehicles such as real estate investment trusts (REITs), infrastructure investment trusts (InvITs) and Category III alternative investment funds ("AIFs"). Credit funds and buy-out funds typically access Indian securities through the FPI route or a combination of the FDI and FPI routes.

Foreign Venture Capital Investment route

A non-resident registered with SEBI as a Foreign Venture Capital Investor ("FVCI") under the SEBI (FVCI) Regulations, 2000 may invest in equity

and debt instruments of Indian companies operating in specified sectors, including biotechnology, information technology relating to hardware and software development, nanotechnology, research and development of new chemical entities in the pharmaceutical sector and infrastructure³. The FVCI route is a special route because an FVCI can acquire or transfer the securities at a price that is mutually acceptable to the buyer and seller/issuer, rather than being subject to the pricing methodologies stipulated under the FDI Policy. Further, investments in debt securities by a FVCI are not subject to the conditions otherwise applicable to FPIs. Additionally, FVCIs are not subject to lock-ins that otherwise apply to non-promoter shareholders (including FDI investors) in an IPO of an investee company, thereby providing an earlier path to liquidity.

Alternative Investment Funds route

An alternative investment fund ("AIF") is a pooled investment vehicle established in India and registered with SEBI under the SEBI (AIF) Regulations, 2012 ("AIF Regulations"). An AIF may be constituted as a trust, company or limited liability partnership. Category I AIFs cover venture capital funds, infrastructure funds and special situation funds; Category II AIFs cover private equity and debt funds; and Category III AIFs cover hedge funds and funds that invest exclusively in listed securities. Each category and sub-category is subject to conditions, including diversification norms and restrictions on leverage. An AIF manager must be an Indian entity — an individual, company or limited liability partnership — and 100% FDI is permitted in an AIF manager. Downstream investments by a Category I or Category II AIF are subject to the FDI Policy's conditions,

² Press Note 3 of 2020, read with Press Note 2 of 2026, which sets out the applicable approval and reporting requirements and prescribes the relevant formats.

³ The term 'Infrastructure Sector' covers the sub-sectors listed in the Harmonized Master List of Infrastructure Sub-sectors, as notified by the Government of India from time to time.

including those relating to permissible sectors, instruments and pricing, if the AIF's manager or sponsor is majority-owned or controlled by non-residents. A Category III AIF that receives foreign investment can invest only in instruments eligible for FPI investment.

Assets under management ("AUM") in India's managed-funds industry, including mutual funds, are projected to reach USD476.8b by 2030, representing 2.1 times the level in March 2025 and 4.9 times the level in March 2020. The share of alternative investments in managed-funds AUM is expected to increase from approximately 7% in 2020 to approximately⁴ 12% in 2030.

GIFT City and the IFSC framework

India has established its first International Financial Services Centre ("IFSC") at Gujarat International Finance Tec-City ("GIFT City"), Gujarat, which is regulated by the International Financial Services Centres Authority ("IFSCA"). It is a fast-growing pathway for making inbound (India) and outbound (non-India) investments. Strategic location and connectivity, financial regulations benchmarked to global standards, single-window clearances and approvals, plug-and-play infrastructure, access to a skilled workforce and service providers, a growing and stable Indian economy, attractive tax incentives, regulatory certainty, and ease of doing business, a 22-hour operational stock exchange and a liberalized foreign exchange regime facilitating transactions in 15 freely convertible currencies ensure that GIFT City is well-positioned to become a leading global hub for financial services, tech-

nology and allied support services. The broader ecosystem includes banking, capital markets, fund management, insurance, bullion, finance companies, aircraft and ship leasing, global in-house centers, fintech, foreign universities and related services. GIFT City is treated as a deemed foreign jurisdiction for specified legal and regulatory purposes, and tax incentives are available depending on the relevant entity, activity and applicable conditions. These features may make the IFSC relevant to the structuring of cross-border funds and financial

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transactions; the appropriate use of GIFT City will depend on the proposed investment, investor profile and applicable regulatory requirements.

As of mid-2026, GIFT City hosted 217 registered Fund Management Entities operating 360 active schemes. Aggregate commitments were USD39b, compared with USD26.3b in September 2025.

Conclusion

As discussed above, investors may access opportunities in India through a single route or a combination of routes. The Government of India and Indian regulators continue to facilitate market access through initiatives such as GIFT City, the SWAGAT and GARUDA frameworks, the proposed Securities Market Code and amendments to the NDI

Rules, while also strengthening contract enforcement and dispute-resolution mechanisms through reforms to the Arbitration Act, the Specific Relief Act and the IBC.

A brief cheat sheet for Indian deals is as follows:

- Well begun is half done: adequate attention at the planning stage is required including proactive engagement with regulators, if necessary, to identify any regulatory concerns as well as obtain clarity on deal certainty.
- Due care during diligence and documentation: drafting protects the deal; character protects the relationship. Investment documents should allocate risks clearly, establish appropriate protections and support an effective working relationship among the parties
- for indirect investments: partner with or invest through capable local managers and experienced investment and operating teams with demonstrated expertise in the relevant sector and a strong understanding of the Indian regulatory and commercial environment.

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⁴ The Ascent of Alternatives, CRISIL report (2026).