

## ENTRY STRATEGY INTO INDIA FOR FOREIGN BUSINESSES

The foreign investments in India are governed by the rules and policies of FDI, FEMA, RBI and Companies Act 2013. In order to establish its business any foreign entity has the following options:

| As Indian Company   | As Foreign Company  |
|---|---|
| <ul style="list-style-type: none"><li>· Wholly owned subsidiary</li><li>· Joint Venture</li><li>· Limited Liability Partnership (LLP)</li></ul> | <ul style="list-style-type: none"><li>· Setting up Liaison Office</li><li>· Representative office or Project office or A Branch office of the Foreign Company</li></ul> |

### AS AN INDIAN COMPANY



- **Wholly Owned Subsidiaries**
- It's a Company in which a foreign entity makes 100 percent FDI in India through automatic route.
- A Wholly Owned subsidiary Company can be formed as a "*private limited or public limited Company*".
- A Wholly Owned Company has more flexibility to conduct business in India as compared to liaison office or branch office. This is considered as the easiest and the preferred route by the foreign entities for establishment of their business in India.
- It is governed by the Companies Act, 2013. Once a Company has been duly registered and incorporated as an Indian Company they are treated as domestic Company and are eligible for all exemptions, deductions benefits as applicable to any other Indian Company.
- **Joint Venture**

- Foreign Companies can set up their operations in India by forging strategic alliances with Indian partners
- Joint venture is considered best medium to enter sectors where 100 percent FDI is not allowed in India.

### **As Indian Company**

- Wholly Owned Subsidiary
- Joint Venture
- Limited Liability Partnership (LLP)

### **As Foreign Company**

- Setting up a Liaison Office
- Representative Office or a Project Office or
- A Branch Office of the Foreign Company
- The main advantages for any foreign entity to invest in India is that they get an established distribution/marketing setup of the Indian partner, available financial resource of Indian partner and established contacts of the Indian partner which helps to smoothen up the process of setting up their operations.
- **Limited Liability Partnership (LLP)**
- A new form of business structure in India, that combines the advantages of a Company (a separate legal entity having perpetual succession) with the benefits of organizational flexibility associated with a partnership.
- Limited Liability Partnerships have been allowed 100 percent FDI through automatic route in the recent reforms of FDI making it easier for foreign entities to develop their business in India.

### **AS A FOREIGN COMPANY'**

- **Liaison Office**
- The Reserve Bank of India (RBI) is the body that approves establishing a liaison office in India.
- A Representative office acts as a communication channel or liaises between the headquarters or the principal place of business and offshore entities in India.
- Collecting information about business opportunities in the present market and providing information about the parent Company and its products to prospective
- Indian customers.
- The office can not undertake any commercial activity directly or indirectly and therefore cannot have any income/earnings in India.
- It can promote export/import from/to India and also facilitate technical/financial collaboration between parent company and companies in India.

- **Project Office**

- Project offices are temporary project or site offices which are setup by foreign companies to execute specific projects in India.
- Project offices are not allowed to undertake any work other than the work related to the project for which they are established.
- There are certain conditions prescribed by RBI which are required to be fulfilled for setting up of project offices. A foreign company can establishment office without the prior permission from RBI only when they have secured a contract from an Indian company to execute a project in India and
  - it is funded directly by inward remittance from abroad or
  - it is funded by a bilateral or multilateral International Financing Agency or
  - it has been cleared by an appropriate authority or
  - A Company or entity in India providing the contract has been granted Term Loan by a Public Financial Institution or a bank in India for the project

If the above conditions are not met the foreign entity has to approach the RBI for the approval. The project office can repatriate profits earned by it after completing the project once it clears all the payment of taxes in India and fulfils all other conditions.

- **Branch Office**

- Branch office is an extension of a Foreign Company involved in business of trading or manufacturing.
- It can export / import goods, render professional/consultancy and information technology services, carry out research work in line with parent activities, promote technical & financial collaboration, represent the parent company in India, act as buying / selling agent, and render technical support for the products of the parent company.
- A Foreign Company can conduct business activity in India by opening a branch office with the prior approval of RBI;
- The company should be engaged in manufacturing or trading activities.
- It should have a profit in the immediately preceding five financial years and should have a net worth of not less than USD 100,000 in its home country.
- The Subsidiary Company or other if does not fulfil the above condition then they can submit a Letter of Comfort from their Parent Company if Parent Company fulfils the above condition
- It cannot expand its activities or undertake any new trading, commercial, or industrial activity other than that is expressly approved by the RBI.

## **CONCLUSION:**

Based on above description of all the forms in which any foreign entity can establish its business we can conclude that joint ventures, wholly owned subsidiaries and LLPs are the forms of creating a new entity in India through which any Foreign Company can invest and setup its business here whereas the liaison,

branch and project offices are the means through which an already setup brand on the foreign lands can establish it in India also.

Further the entry into India for a business venture via the mode of Registration of Liaison Office, Branch Office or Project Office requires RBI and/or Government approval. Hence, the cost and time taken for registration of liaison office, branch office or project office for a Foreign Company are higher as compared with the incorporation of a Private Limited Company. Also, to open a branch office, liaison office or project office, one has to be an Indian, foreign nationals cannot do so, thus limiting the scope for foreign nationals.