

Cross-Border Capital Flows and the Indian Corporate Sector



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FOR RESEARCH IN ACADEMICS**



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“Cross-Border Capital Flows and the Indian Corporate Sector”

SRI-VIPRA

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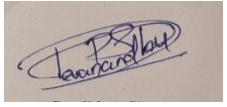

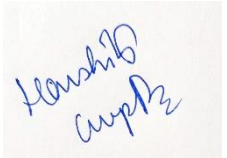
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Title: Cross-Border Capital Flows and the Indian Corporate Sector

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Cross-Border Capital Flows and the Indian Corporate Sector

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This is to certify that the aforementioned students from Sri Venkateswara College have participated in the summer project SVP-2527 titled “Cross-Border Capital Flows and the Indian Corporate Sector”. The participants have carried out the research project work under my guidance and supervision from 1st July 2025 to 30th September 2025. The work carried out is original and carried out in an online/offline/hybrid mode.


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TABLE OF CONTENTS

S.No	Topic	Page No.
1	Introduction	10
2	Indian Trade Flows	11
3	Cross-Border Capital Flows	46
4	Jet Airways: From Take-off to Turbulence	88
5	Videocon: A case study	113

Figure 1-1 Contribution of Merchandise and Invisibles in Current Account (Net)	14
Figure 1-2 Components of Invisibles	17
Figure 1-3 India's Trade Balance	17
Figure 1-4 Time Based Movements in Exports and Imports	19
Figure 1-5 India's Annual Trade Balance 2000-2025 (in US\$ MM)	21
Figure 1-6 Annual rate of growth of exports since 2000(in US\$ millions)	24
Figure 1-7 Annual rate of growth of imports (in US\$ Millions)	25
Figure 1-8 Rate of merchandise trade to GDP from 2000 (in percentage)	26
Figure 1-9 Exports, Imports and Trade balance from 2000 to 2024 (US\$ millions)	27
Figure 1-10 Direction of Indian Exports by Sectors (in USD figures)	28
Figure 1-11 Composition of Principal Exports by Sectors (in per cent)	29
Figure 1-12 Composition of Principal Exports of Manufactured Goods by Sectors (in per cent)	31
Figure 1-13 Oil and Non-Oil Imports (in US\$ millions)	32
Figure 1-14 Share of Various Components of Capital Goods Imports in Total Imports (in per cent)	35
Figure 1-15 India's Oil Exports (in US\$ millions)	36
Figure 1-16 Transport Equipment Imports (in US\$ millions)	38
Figure 1-17 India's Trade Surplus in Drugs and Pharmaceuticals (in US\$ millions)v	40
Figure 1-18 Real Effective Exchange Rate	42
Figure 2-1 India's FDI Inflows (in US\$ millions)	48

Cross-Border Capital Flows and the Indian Corporate Sector

Figure 2-2 Percentage share of various sectors in total FDI Equity Inflow	49
Figure 2-3 State-wise distribution of FDI inflows in India	52
Figure 2-4 Outward Remittances under the Liberalised Remittance Scheme for Resident Individuals	53
Figure 2-5 Change in usage pattern of outward remittances from India	54
Figure 2-6 External Assistance flows (in US\$ millions).....	55
Figure 2-7 India's FDI flows	56
Figure 2-8 FPI Flows in India.....	58
Figure 2-9 Various NRI deposit schemes over the years.....	64
Figure 2-10 FCNR(B) & Total deposits	65
Figure 2-11 NR(E)RA and Total Deposits	66
Figure 2-12 NRO and Total Deposits	66
Figure 2-13 Mutual Fund Companies - Foreign Liabilities & Assets	69
Figure 2-14 Mutual Fund Companies - Non-Resident Holding of Foreign Liabilities	70
Figure 2-15 Mutual Fund Companies - Foreign Assets	71
Figure 2-16 Share of Assets and Liabilities	72
Figure 2-17 Net Liabilities over the years	73
Figure 2-18 Net IIP Trend of India from 2005 to 2020	75
Figure 2-19 Assets versus Liabilities across the years	76
Figure 2-20 Asset Composition of India.....	78
Figure 3-1 Market Share (%) in terms of Domestic Market Demand (RPK) in 2018-19	92
Figure 3-2 COMPARISON OF PASSENGER LOAD FACTOR (PLF) AND BREAK-EVEN LOAD FACTOR (BELF), 2017-18.....	93
Figure 4-1 Close Price of Videocon's publicly traded shares from 1994 to 2022	118

Introduction:

In recent decades, connectivity amongst all countries has strengthened because of the movement of capital across borders. For a developing country like India, it is crucial to study our cross-border capital flows to gain an understanding of the past, present and future. Cross-border capital flows influence how trade is financed, how firms access resources, manage risks and pursue growth opportunities beyond their home country. Therefore, understanding these flows and their impact on the corporate sector is essential for analysing India's broader economic path and trajectory.

In this report, we will be exploring cross-border capital flows by looking at both capital and trade flows. We will begin with trade flows, where we will analyse the trends and growth in overall imports and exports, look at certain essential sectors such as oil and pharmaceuticals, and changes in the overall Balance of Payments.

The second section will focus on capital flows, where we will be analysing the trends in FDIs, by conducting a sectoral and country-wise analysis. By analysing how capital enters and leaves the economy, we can better understand both the opportunities and vulnerabilities that firms encounter.

To ground our cross-border flow analysis, we will be looking at concrete examples from the Indian corporate sector of two companies, Jet Airways and Videocon. These cases will illustrate how cross-border flows of capital can shape corporate strategies, financial health, and ultimately even question of the survival of firms in certain cases. Jet Airways reflects the challenges of managing debt and international financing in a highly competitive industry, while Videocon demonstrates the risks of overexpansion and exposure to global credit markets.

By combining broad analysis with specific case studies, the report aims to present a balanced picture of how cross-border capital flows interact with the Indian corporate sector. It highlights both the potential for growth and innovation that foreign capital can provide, as well as the risks of instability and dependence that must be carefully managed. In doing so, the report contributes to a deeper understanding of the forces that are shaping India's corporate landscape in an increasingly interconnected world.

Chapter 1 : Changing Composition of Current Account of India: 2000-25

India's Overall Balance of Payments: Implications on Trade Flows

The Balance of Payments (BOP) is one of the most important indicators of the health of a country's external sector, as it captures all monetary transactions between the residents of a country and the rest of the world. This section deals with long term trends of persistent current account deficits covered by capital account surpluses, which together determine the overall position of the balance of payment.

The current account has remained predominantly negative, reflecting India's high dependence on imports of crude oil, gold, and electronic goods, coupled with a relatively slower growth of merchandise exports.

The capital account, on the other hand, is largely positive and has consistently played a major role in narrowing down the divide created due to deficits in the current account. This shows the heavy dependence of the Indian economy on capital inflows from the Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), external commercial borrowings to sustain its current account balances. This section does a thorough study on the state of India's BOP and the factors which have a cause-and-effect relationship.

One such striking drop in India's current account can be seen starting from 2003-04 when the current account balance had fallen to USD -2470 million and fell to USD -88163 million at its peak in 2011-12. This can be attributed to several factors, which include a surge in global oil prices, high gold imports, rapid domestic growth (which led to a rise in demand of foreign goods, especially capital goods), and failure of exports to keep up with the rising imports.

Factors responsible for fluctuations and decline in the current account till 2010-11

Surge in price of Crude Oil:
The mid-2008 surge in global crude oil prices is one of the most dramatic events in the world economy leading up to the financial crisis. As per World Bank commodity prices

data, the highest level of crude oil prices ever recorded was in July 2008 at \$147 per barrel. For India, which imports more than 70 percent of its crude oil, the oil shock had profound implications for the external sector. The import bills for petroleum, oil, and lubricants (POL) import bill, according to the RBI Annual Report 2007-08, alone surged by more than 25% compared to the previous year. This directly translated into a wider current account deficit (CAD), as India's merchandise exports could not keep pace with the ballooning cost of oil imports.

The oil shock was coupled with slowing capital inflows amid global financial crises and investment tightening. This led to a sharp amplification of India's Balance of payment vulnerabilities.

1. **High Gold Imports:**

Rising global uncertainties increased the demand for gold as a safe-haven asset. Alongside the global financial crisis, India witnessed a notable surge in gold demand. Both international and domestic factors drove this. Internationally, investors turned to gold as a "safe haven" asset amid the collapse of major financial institutions and heightened uncertainty in global markets. Gold prices rose steadily, making it one of the most sought-after commodities. India's cultural preferences for gold as India's cultural preference for gold as a store of value and as a hedge against inflation further fueled demand.

2. **Rapid domestic growth:**

The year 2007–08 marked one of the strongest phases of India's economic growth since liberalisation. Real GDP growth reached around 9.3% making India the second-fastest-growing large economy in the world at the time. This rapid growth was fueled by booming investment, a surge in consumption demand, and strong performance across manufacturing, construction, and services sectors. The expansion, however, also had important consequences for India's external balances, particularly the current account deficit (CAD). Strong economic growth meant a surge in domestic consumer demand for imports. As industrial and infrastructural investment expanded, India's requirements for capital goods, machinery, raw materials, intermediate products all increased and consumer spending rose. Since imports grew faster than exports, even though the exports of IT services and some manufactured goods continued to grow, the current account balance remained negative.

In the years following the global financial crisis, India's current account deficit (CAD) rose sharply, reaching record levels in 2010–11. This surge was mainly driven by a steep increase in crude oil and gold imports, while exports were unable to keep pace. However, after 2010-11, the situation gradually began to improve. A mix of global and domestic factors-including falling international commodity prices, government measures to curb gold imports, and stronger growth in services exports-helped reduce the deficit and bring greater stability to India's external sector. During this period, the services sector, particularly information technology and software exports, continued to act as a strong pillar of support. Along with steady remittances from Indians working abroad, these earnings provided a reliable cushion to the current account, even as merchandise trade continued to run deficits. Another important factor was the depreciation of the rupee during the 2013 "taper tantrum" episode, which made Indian exports more competitive on the global market and contributed to narrowing the gap.

We now move forward to the years when India witnessed not just an economic crisis but also a public health and social crisis. The financial year 2020-21 when not only India but the whole world saw an increase in restrictions in movement, when even basic interactions were restricted, let alone trade and business. Restrictions on movement led to a severe decrease in output, investments, and overall trade balances.

Factors leading to an increase in value of BOP:

Gold

Import

Restrictions:

During 2011–12, India witnessed a surge in gold imports, which placed immense pressure on the current account deficit. Gold had traditionally been a popular investment choice and cultural preference in India, but the rising demand began to distort the balance of payments. Recognising the risk, the government and the Reserve Bank of India stepped in with higher import duties and strict restrictions in 2012 and 2013. These measures successfully curbed the inflow of gold, reduced the burden on the current account, and helped bring greater stability to India's external sector.

Strong

Services

Exports:

India's services sector emerged as one of the strongest supports for the current account in the years after 2010–11. In particular, IT and software exports continued to expand at a steady pace, creating a significant surplus. This surplus became crucial in offsetting the persistent merchandise trade deficit. The consistent strength of services exports demonstrated India's competitiveness in the global digital economy and turned the sector into a key pillar of external stability.

High

Remittances:

Another steady source of support for the current account was the inflow of remittances

from Indians working abroad. India has long been among the world's largest recipients of such remittances, and these transfers provided a reliable cushion against trade imbalances. Unlike volatile capital flows, remittances are relatively stable, and their contribution offers the Indian economy a dependable stream of foreign exchange during times of external pressure.

Global Commodity Price Correction:
Alongside the fall in crude oil prices, the global decline in the prices of commodities such as coal, metals, and certain food products after 2012–13 offered further relief. These declines lowered the cost of India's imports across several sectors, reducing the strain on the current account. As a result, the improvement was not limited to oil alone but reflected a broader correction in global commodity markets that worked in India's favour.

Policy Adjustments:
The government also played a proactive role in stabilising the current account through domestic policy measures. Restrictions on non-essential imports-most notably gold-were paired with initiatives to encourage more sustainable trade practices. These steps demonstrated a deliberate effort to control vulnerabilities in the external sector and signaled a stronger commitment to long-term economic stability.

Rupee Depreciation (2013):
The sharp depreciation of the rupee during the 2013 "taper tantrum" episode initially created challenges for the economy, particularly by fuelling inflation. However, this fall in the rupee's value also had a positive effect by making Indian exports cheaper and more competitive in global markets. Over time, the weaker currency helped to support export growth, which contributed to narrowing the current account deficit and easing external pressures

1. Merchandise trade: Imports fell sharply due to a weak domestic demand and disruptions in supply chains both globally and domestically, leading to an increase in costs of trade and production. Just as domestic demand had fallen, the demand for domestically manufactured goods, globally, had fallen sharply, leading to a heavy decrease in exports along with imports. Import of crude oil also dropped drastically due to a collapse in demand, as roads turned void of vehicles and industries shut. Overall, the merchandise fell to USD - 189459.3 million, with current account balance being USD -38765.5 million.

2. Services trade: Services trade played a stabilising role in India's external sector during FY 2020–21, even as merchandise trade and overall economic activity were disrupted by the COVID-19 pandemic. Unlike goods exports, which fell sharply due to lockdowns and supply chain disruptions,

services exports remained resilient and even grew in certain segments, providing a steady surplus to the current account. In FY 2020-21, invisibles traded were worth USD 150694 million, which included services worth USD 107515.7, transfers worth USD 80447.3 million and income worth USD -37269.2 million.

Composition of merchandise and invisibles in current account over the years

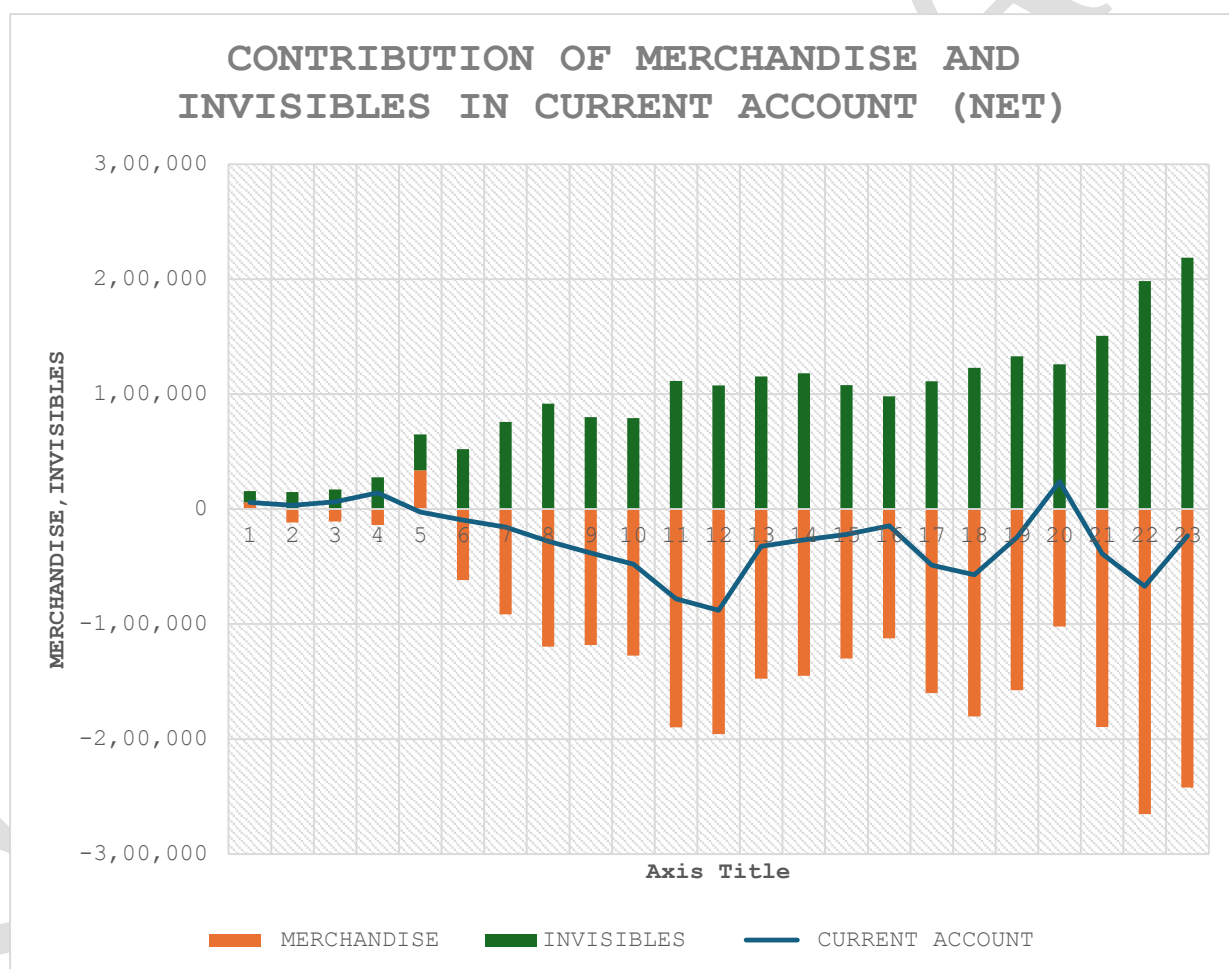


Figure 1-1 Contribution of Merchandise and Invisibles in Current Account (Net)

The current account in the Balance of Payments records all transactions in goods, services, primary income (investment income, interest, dividends), and secondary income (remittances, transfers). As is visible, and has already been mentioned, the merchandise trade has always been negative. Since 2001-02, the merchandise trade balance has never been positive.

Among these, merchandise trade (goods) and services trade form the backbone of India’s external sector, and they move in opposite directions: merchandise trade is

usually in deficit, while services trade is consistently in surplus. India has a structural merchandise deficit due to heavy reliance on other countries for imports of goods such as oil, machinery, gold etc.

This graph shows the year wise movement in net movements in trade of merchandise and invisibles. As can be seen, the invisible component of the current account has shown steady increase over the years, from USD 9,794 million in 2000-01 to USD 2,18,778 million in 2022-23.

India's external sector performance manifested in services trade has been quite remarkable, which has consistently expanded over the past two decades and has emerged as a critical stabilizer for the Balance of Payments for the Indian economy. Unlike merchandise trade, which is often vulnerable to global fluctuations and import pressures, services trade has generated a surplus every year, cushioning the current account and enhancing foreign exchange reserves.

Since the early 2000s, India's services exports have grown at a robust pace, outstripping merchandise exports in terms of growth rate. Between 2000–01 and 2020–21, invisibles trade (net) rose from USD 9794 million to USD 1,50,694 million by a magnitude of USD 1,40,900 million.

This expansion has been driven primarily by the IT-BPM sector (Information Technology and Business Process Management), which has become globally competitive.

The invisible component of India's BOP has three major components, which are 1.services 2.transfers 3.income. Over the years, services and transfers have shown net positive outcomes whereas income component has consistently shown a negative outcome. With all this in mind, let us now study these components and their movement across the years in more detail.

Components of Invisibles: services, transfers and income

1. Services

Services trade has become the most dynamic component of India's invisible account, showing strong growth since the 1990s. The liberalisation of the economy in 1991 manifested to India an opportunity where it could make use of its comparative advantage in information technology, software services, and business outsourcing. From mere . This expansion has been largely driven by IT and IT-enabled services, which account for more than 40% of total services exports. In addition, professional,

consultancy, and financial services have steadily gained prominence as global demand for knowledge-based outsourcing has increased.

Alongside exports, imports of services such as transport, travel, royalties, and business services have also grown, reflecting India's rising integration into global production and consumption chains. However, exports have consistently exceeded imports, resulting in a sizeable net surplus in services trade. This surplus has often cushioned the large merchandise trade deficit, contributing positively to the current account. Even during global disruptions such as the 2008 financial crisis or the COVID-19 pandemic, India's services sector demonstrated resilience, with IT exports sustaining growth, thereby stabilising the overall BoP.

2. Transfers

Private transfers, especially remittances from overseas Indians, form another crucial component of invisible trade. India has been one of the world's largest recipients of remittances for decades, benefiting from its vast diaspora, particularly in the Gulf countries, the United States, and Europe. In the 1990s, remittances averaged around \$10–12 billion annually, but they grew significantly to over \$80 billion by 2020–21, according to World Bank data. These inflows provide a steady and relatively stable source of foreign exchange, supporting households and boosting the current account balance.

The growth of remittances is linked to factors such as the expansion of skilled and semi-skilled Indian workers abroad, favourable exchange rate movements, and the establishment of efficient banking channels for money transfers. Even during times of global slowdown, remittances to India have remained resilient, unlike portfolio flows or capital investments, which are more volatile. In particular, remittances from the Gulf have acted as a reliable counterbalance to fluctuations in merchandise trade, making them a key stabiliser of India's BoP.

3. Income

The income component of invisible trade covers investment income (interest, dividends, profits) and compensation of employees. Historically, India has recorded a net deficit in income flows, largely because outward remittances on account of profits and interest payments have exceeded inward flows. As India opened up to foreign investment post-1991, outflows in the form of dividends and interest on external

Cross-Border Capital Flows and the Indian Corporate Sector

commercial borrowings grew steadily. For instance, while income inflows were modest, outflows expanded rapidly with rising foreign investment, resulting in a net negative income balance in the BoP.

Despite this persistent deficit, the composition of income has gradually evolved. On the inflow side, Indian companies have increased outward foreign direct investments (FDI), generating income from overseas ventures. Similarly, interest receipts on reserves and compensation of Indian workers abroad have added to inflows. However, the scale of outflows due to the repatriation of profits by multinational corporations and rising external debt servicing obligations has generally outweighed inflows. Thus, the income account continues to exert pressure on the current account, although the impact is moderated by the surpluses in services and transfers.

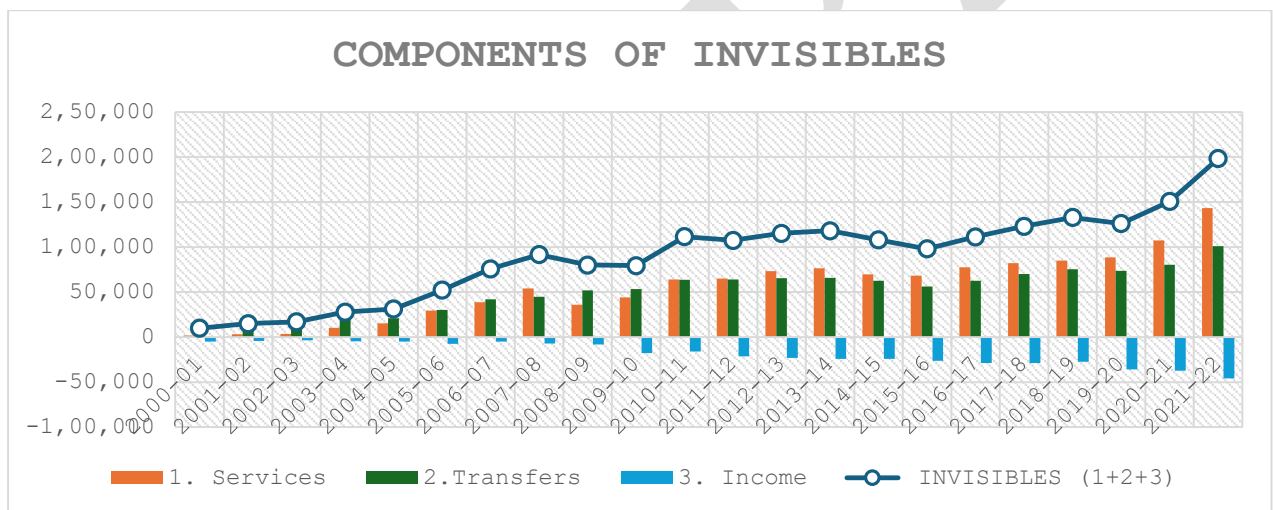


Figure 1-2 Components of Invisibles

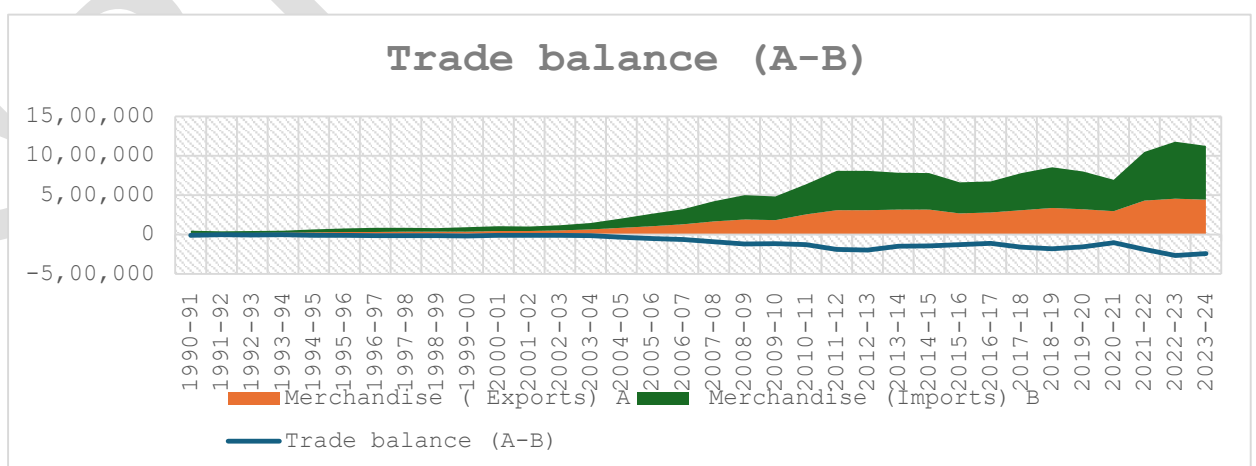


Figure 1-3 India's Trade Balance

The above graph deals with trade balances of merchandise from 1990-91 up until year 2023-24. In absolute numbers, the volume of imports and exports have steadily increased over the years, while the imports touched the USD 2,00,000 in 2005-06 and

kept on growing ever since, exports, lagging imports, touched the USD 2,00,000 mark much later in 2007-08. This shows how, in the Indian economy, volume of imports has significantly outpaced the volume of exports making India an (as has been mentioned several times) import heavy nation, putting pressure on its foreign exchange, and domestic currency value. Let us now do a detailed analysis of the trend depicted in the graph.

The early phase: In the early 1990s, during the initial years of economic reforms, India's trade volumes were relatively smaller as compared to the latter years, and the trade deficit was narrower. Liberalisation policies, such as tariff reductions, industrial deregulation, and exchange rate reforms, encouraged both imports and exports. However, imports were higher due to India's dependence on other countries for essential commodities such as oil, capital equipment, and industrial inputs. The economy was opening up, but the imbalance in trade started becoming evident even at this stage where exports constantly fell short against imports.

Mid 2000s: By the mid-2000s, India witnessed a huge upsurge in trade volumes. Around 2005-06, imports crossed the USD 200 billion mark for the first time, reflecting the country's rapid GDP growth, rising energy demand, expanding industrial base and a sheer increase in productivity. Exports also grew strongly, but they continued to lag behind imports. By 2007-08, exports touched the USD 200 billion mark, but the trade deficit had already widened significantly. This phase shows how India's domestic growth momentum fueled import demand far beyond the capacity of its export sector to keep pace.

Global Financial Crisis: The financial crisis of 2008-09 briefly interrupted the trajectory of export and import growth. Both imports and exports declined sharply due to collapse in both global and domestic demand and interruption in trade flows. However, by 2011-12, imports had surged once again, creating one of the largest trade deficits in India's history. This is due to factors such as high prices of crude oil, rise in gold imports, and increase in energy imports. This period put immense pressure on the current account balance and weakened the rupee, underscoring the vulnerability of India's trade sector to global commodity price fluctuations. In the years that followed, i.e. 2013 onwards, India's trade flows moderated due to declining oil prices that helped ease the import bill, while government measures such as restrictions on gold imports also had major contributions. However, exports couldn't be increased during this period due to weak global demand and challenges from manufacturing giants such as China in the international market.

Pandemic years: The most recent years highlight the impact of the COVID-19 pandemic and subsequent recovery. In 2020, both imports and exports contracted

sharply due to global supply chain disruptions and reduced economic activity. However, as recovery gained pace in 2021–22 and beyond, imports rebounded much more strongly than exports. By 2022–23 and 2023–24, imports had reached record highs, driven largely by oil, electronics, and industrial raw materials. Exports also grew during this time but were insufficient to close the gap, resulting in a continued widening of the trade deficit.

Movement in invisibles across the years

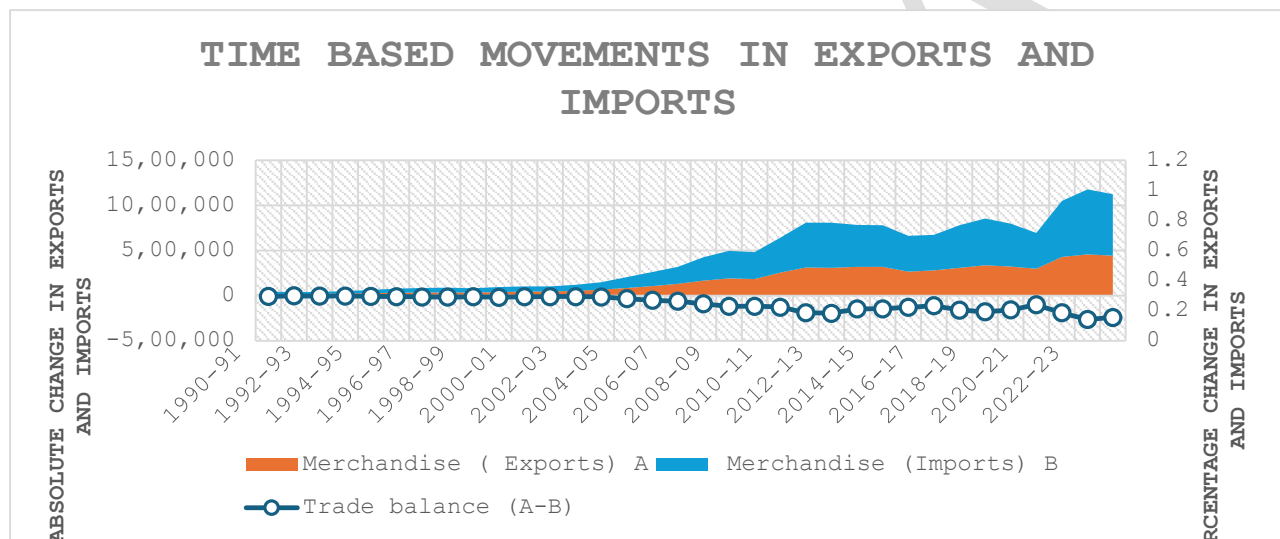


Figure 1-4 Time Based Movements in Exports and Imports

Since invisibles form an integral part of India's current account, it becomes important to analyse the trends in changes in imports over the years.

The graph illustrates the trends in different sectors of invisible flows, which are as follows: non-factor services, income, private transfers, official transfers, and overall net invisibles from years 1990–91 to 2023–24. In the Indian economy, invisibles play a critical role in balance of payments as they cover merchandise trade deficits, and do not let the current account fall significantly. The data in the graph highlights both the growing importance of invisibles and the structural dynamics shaping India’s external sector.

Non-factor services: During the 1990s, invisibles were relatively modest, with sectors such as Non-factor services like software exports, income flows, and private transfers were small, while official transfers (such as foreign aid) contributed slightly to inflows. Over time, the graph shows a remarkable upward trend: Non-factor services like software exports, income flows, and private transfers were small, while official transfers (such as foreign aid) contributed slightly to inflows.

Private Transfers: Another striking observation is the steady and strong growth in private transfers, represented by the blue segment. These transfers mainly consist of remittances from overseas Indians, especially from the Gulf and North America. India has consistently been one of the world's largest recipients of remittances, and this trend has provided substantial support to the current account. The rise in remittances is particularly evident after the 2000s, as overseas migration increased and global demand for Indian workers, especially in healthcare, construction, and IT, strengthened.

Income(net): The green segment, representing income (net), shows a persistent negative trend. This indicates that income outflows—such as repatriation of profits, dividends, and interest payments on external debt—have consistently outweighed inflows. This is a structural feature of the Indian economy as foreign investment and borrowing generate returns that must be sent abroad. Over time, this negative income balance has widened, which offsets some of the gains from services and remittances.

Official transfers: shown in a thinner segment, the official transfers have been relatively insignificant compared to other categories and have declined in importance over time. This reflects India's transition from being a major aid recipient in the 20th century to a more self-reliant economy, and more recently, even a donor in certain contexts.

Overall, the graph highlights how invisibles have become a key stabilising force in India's balance of payments. While merchandise trade deficits have widened over the years, rising inflows from services and remittances have helped finance these deficits and reduce vulnerability to external shocks. Without these strong invisible inflows, India's current account imbalances would be far more severe, putting pressure on foreign exchange reserves and the rupee. However, the persistent negative income balance is a reminder that reliance on foreign capital carries long-term repayment obligations.

In summary, the movement of invisibles over the last three decades reflects India's global integration, the strength of its service exports, and the importance of its diaspora. As the graph shows, the rapid growth in non-factor services and private transfers has transformed invisibles into a backbone of India's external stability, even as merchandise trade remains heavily in deficit.

Cross-Border Capital Flows and the Indian Corporate Sector

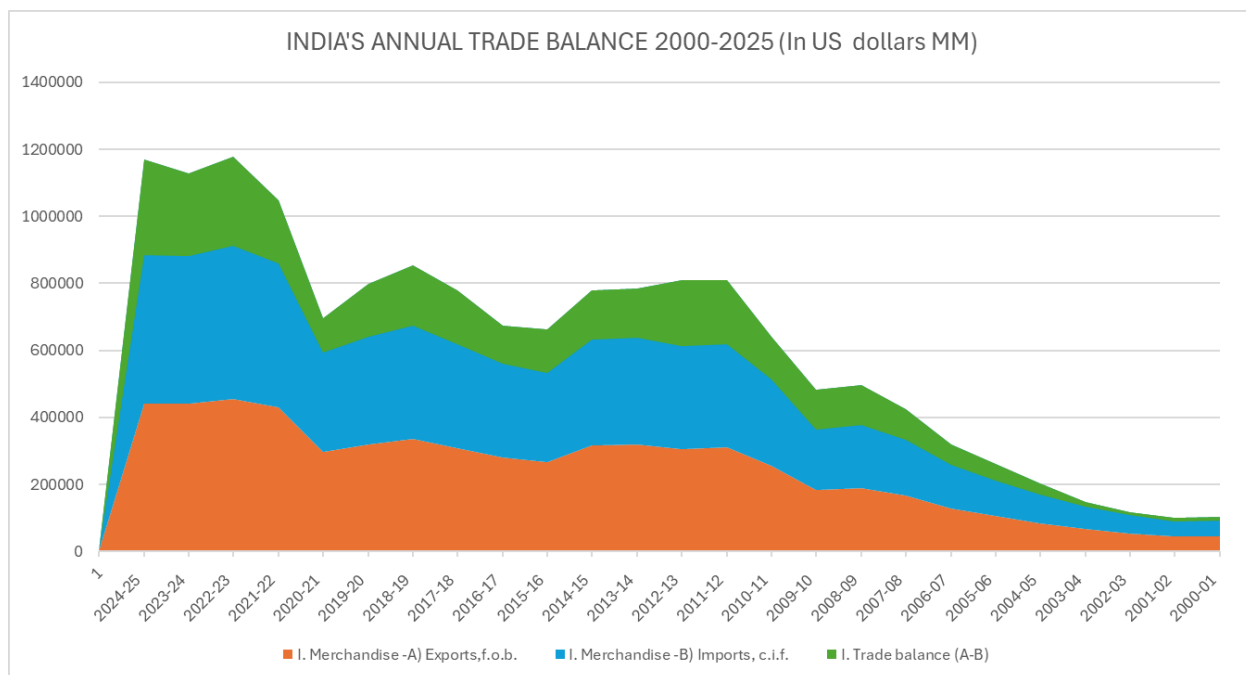


Figure 1-5 India's Annual Trade Balance 2000-2025 (in US\$ MM)

Following the 2008-9 global crisis, India's export growth slowed down significantly. While exports growth recovered from 2010-11 (crossing the US\$ 200 billion mark in value terms for the first time), it declined sharply in the most recent period due to the continuing recession in the US and the Eurozone crisis. India's imports, US\$370 billion in 2010–11 to US\$ 489 billion in 2011-12, with no sign on the other hand, have continued to rise, going up sharply from reversal in the first nine months of 2012–13. As a result, the trade deficit has increased further, rising from US\$ 118.6 billion in 2010-11 to US\$183.4 billion in 2011-2012.

Introduction to Indian Trade Flows

India has consistently shown a remarkable link between local development objectives, global market trends, and policies by its trade balance and the constant flows that make up its global

trade. A key metric for assessing the external economic health, resilience, and future outlook of a nation is the trade balance, which is a measure of the value difference between imports and exports. Complex variations in sectoral output and the challenges of incorporating millions of manufacturers and consumers into global supply chains are both reflected in India's trade balance. With trade flows changing into a wide variety of merchandise, services, and international transactions over decades, the growth and

intensification of trade relations influenced India's growth as a rapidly expanding economy and a major global influencer.

Changes in domestic production, shifting demand worldwide, and major policy reforms have all impacted India's trade balance trajectory in recent years. India often recorded more imports than exports, leading to a regular deficit in balance, despite various attempts to increase exports and reduce import dependency. In addition to being the result of an expanding economy's demand for inputs, this continuing deficit also highlights how common foreign goods, energy resources, electronic devices, and industrial machinery are among Indian consumers and businesses. Mostly due to stabilizing oil prices and focused policies encouraging the growth of high-value exports and services, major trade statistics for 2025 revealed a merchandise deficit of \$26.49 billion, which is slightly better than in previous years.

India's trade flows' sectoral composition indicates its ongoing growth, the country's biggest exports include software, engineering, mining, textiles, energy, and agriculture. Crude oil, minerals, modern electronics, and the capital equipment necessary for infrastructure and manufacturing, on the other hand, dominate the import basket. IT, corporate outsourcing, technological consulting, and financial services are the primary drivers of India's services sector, which has developed into an anchor that brings in foreign exchange and offsets merchandise shortfalls. This duality, which is characterized by a surplus of services but a deficit of goods, reflects deeper changes in the worldwide organization of labor and innovation in technology in addition to changes in comparative advantage.

With significant trade flows that link the country to China, the US, the UAE, Saudi Arabia, Singapore, and the member nations of ASEAN, India has an international network of trading partners. The direction and long-term viability of the trade balance are determined by each partnership, which also affects international import and export volumes. For example, the United States is a top destination for IT and engineering exports, while China is India's primary source of imports, particularly electronic goods and raw materials. Also, regional and international trade partnerships, like the Comprehensive Economic Partnership Agreement between the United Arab Emirates and India, improve market accessibility and encourage the continuous expansion of trade flows across products and services.

India's trade flows have gotten more complex due to the structural shifts brought about by liberalization of the economy in the 1990s. Added to the traditional supremacy of textiles and agricultural products, export baskets now include advanced equipment, IT,

pharmaceuticals, and cars. This expansion has been facilitated by investments in infrastructure and output-related incentive programs, which have improved India's image globally and increased its involvement in high-value supply chains. Unresolved problems with import dependency for crucial sources of energy and electronic parts are encouraging new policy discussions and strategic planning focused on resource conservation and localization.

Recent trends in exports and imports

In the early 1980s India started gradual opening up of the economy for foreign trade by removing trade restrictions. The 1991 Liberalisation, Privatisation and Globalisation measures opened up the economy further keeping some strategic industries reserved for the public sector.

By the end of the 1990s and early 2000s tariffs on manufactured consumer goods were considerably reduced. The structural changes in the external sector fueled the economic growth of the country.

In the early 2000s quantitative restrictions on the imports of a number of agricultural commodities like rice, pulse, wheat and wheat products and groundnut oil were removed.

Following the removal of quota tariffs became the primary tool of regulating trade.

With the reduction in import tariffs, the weighted average of import tariffs in the Indian economy had fallen from 130 % in 1991-92 to 20% in 2004 and further to below 7% by 2008.

Cross-Border Capital Flows and the Indian Corporate Sector

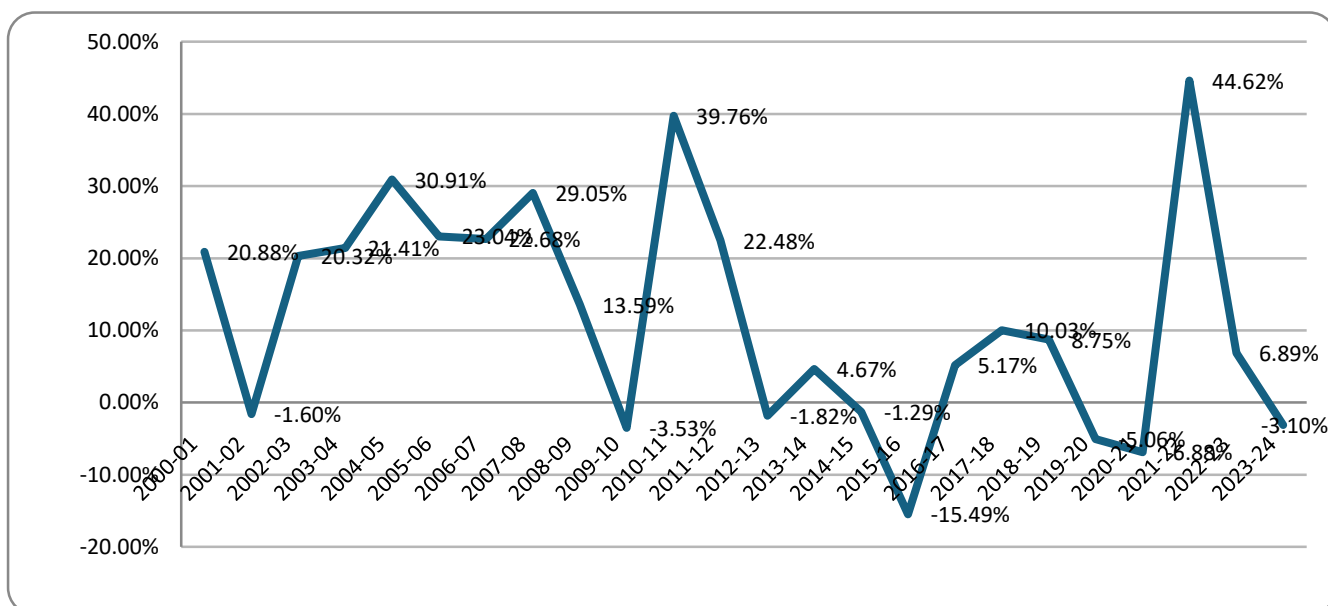


Figure 1-6 Annual rate of growth of exports since 2000(in US\$ millions)

Source: Directorate General of Commercial Intelligence and Statistics

In 2022 the weighted average tariff was 4.6% .

The first decade of 2000, particularly from 2002 to 2007, known as the “golden era of Indian economy”, was marked by rapid growth of exports consistently above 20% annual growth (see figure 1.1). At the time of the global financial crisis 2008, the growth in exports fell to negative and was marked by a sharp V-shaped recovery. Post 2008, the growth rate was not consistent and showed severe volatility, negative growth rates during 2014-15 due to global slowdown and in the 2019,2020 and 2021 period due to covid-19 pandemic. The value of total exports was around US\$ 44.5 billion in 2000-01, and it grew to US\$ 250 billion in 2010-11 and further to US\$ 437 billion in 2023-24.

The growth rate of imports is more volatile than the growth rate of exports. During the “Golden era” it was consistently above 20% per year and turned negative during the global financial crisis followed by a V-shaped recovery similar to exports. In the global slowdown of 2014-15 and covid-19 pandemic of 2019-21, the growth rate touched double digit negative growth (see figure 1.2). The value of imports was always greater than the value of exports and the trade deficit worsened in recent times.

Cross-Border Capital Flows and the Indian Corporate Sector

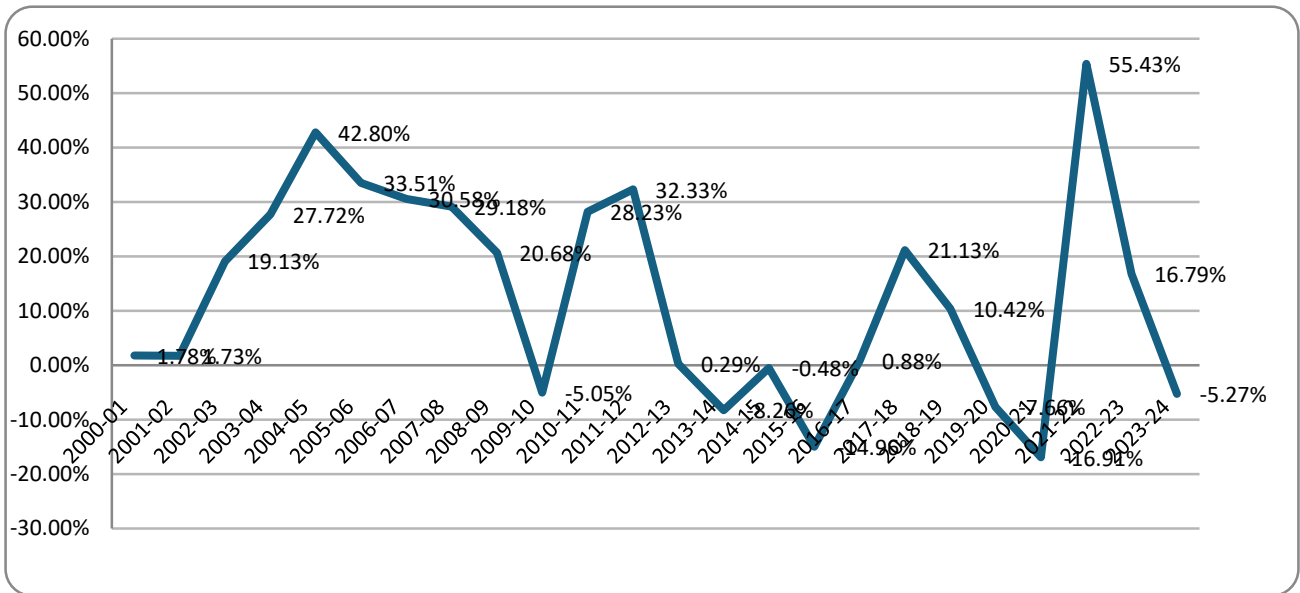


Figure 1-7 Annual rate of growth of imports (in US\$ Millions)

Source: Directorate General of Commercial Intelligence and Statistics

The value of imports was US\$ 50.5 billion in 2000-01 which grew to US\$ 369.7 billion in 2010-11 and further US\$ 678.2 billion in 2023-24

Between 2000-1 and 2007-8, India's total merchandise exports even increased faster from US\$ 45 billion to US\$ 167 billion. India's imports grew even faster in 2000-1, increasing (in value terms) from US\$ 51 billion to US\$ 258 billion in 2007-8. This resulted in significant increases in the trade-GDP ratio. Meanwhile, the trade deficit reached extraordinarily high levels, increasing more than sevenfold from US\$ 13 billion to US\$ 92 billion in 2007-8 in just four years.

Cross-Border Capital Flows and the Indian Corporate Sector

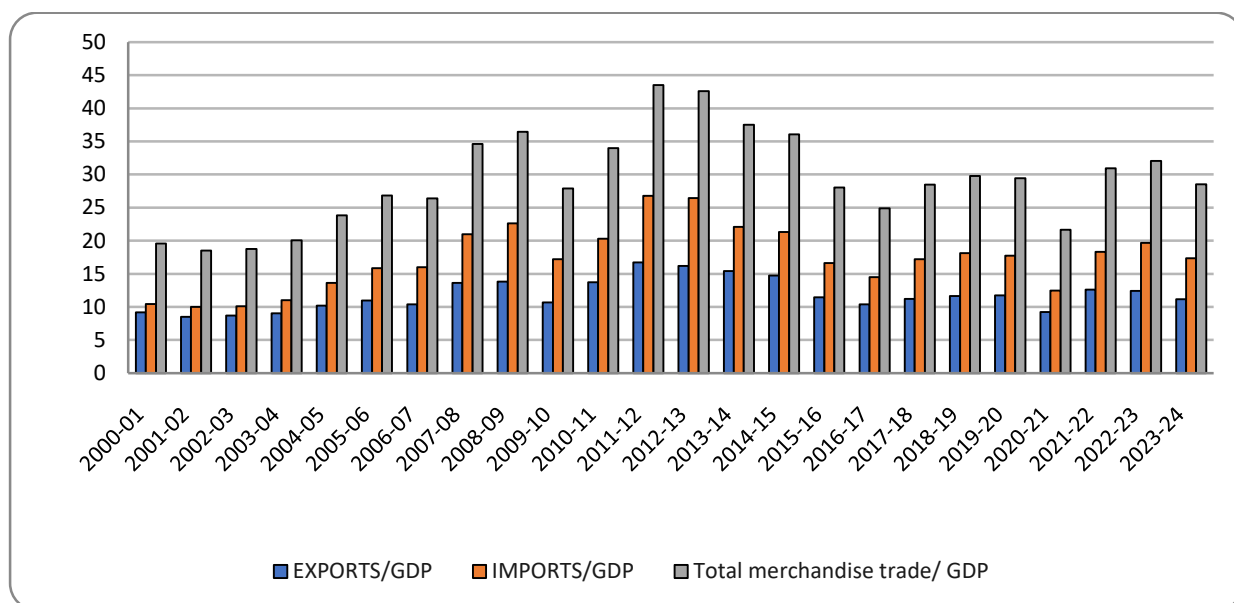


Figure 1-8 Rate of merchandise trade to GDP from 2000 (in percentage)

Source: Directorate General of Commercial Intelligence and Statistics

Following the 2008-9 global crisis, India's export growth slowed down significantly. While exports growth recovered from 2010-11 (crossing the US\$ 200 billion mark in value terms for the first time), it declined sharply in the most recent period due to the continuing recession in the US and the Eurozone crisis. India's imports, US\$370 billion in 2010-11 to US\$ 489 billion in 2011-12, with no sign on the other hand, have continued to rise, going up sharply from reversal in the first nine months of 2012-13. As a result, the trade deficit has increased further, rising from US\$ 118.6 billion in 2010-11 to US\$183.4 billion in 2011-2012.

Further there was severe volatility in the trade deficit in the following years. In the following years after 2011-12 the trade deficit started reducing till 2016-17 financial year to \$108.5 billion. This was mainly due to the large inflow through the capital account, in 2014-15 India had a positive \$89.2 billion in current account balance and \$26.8 billion as current account deficit.

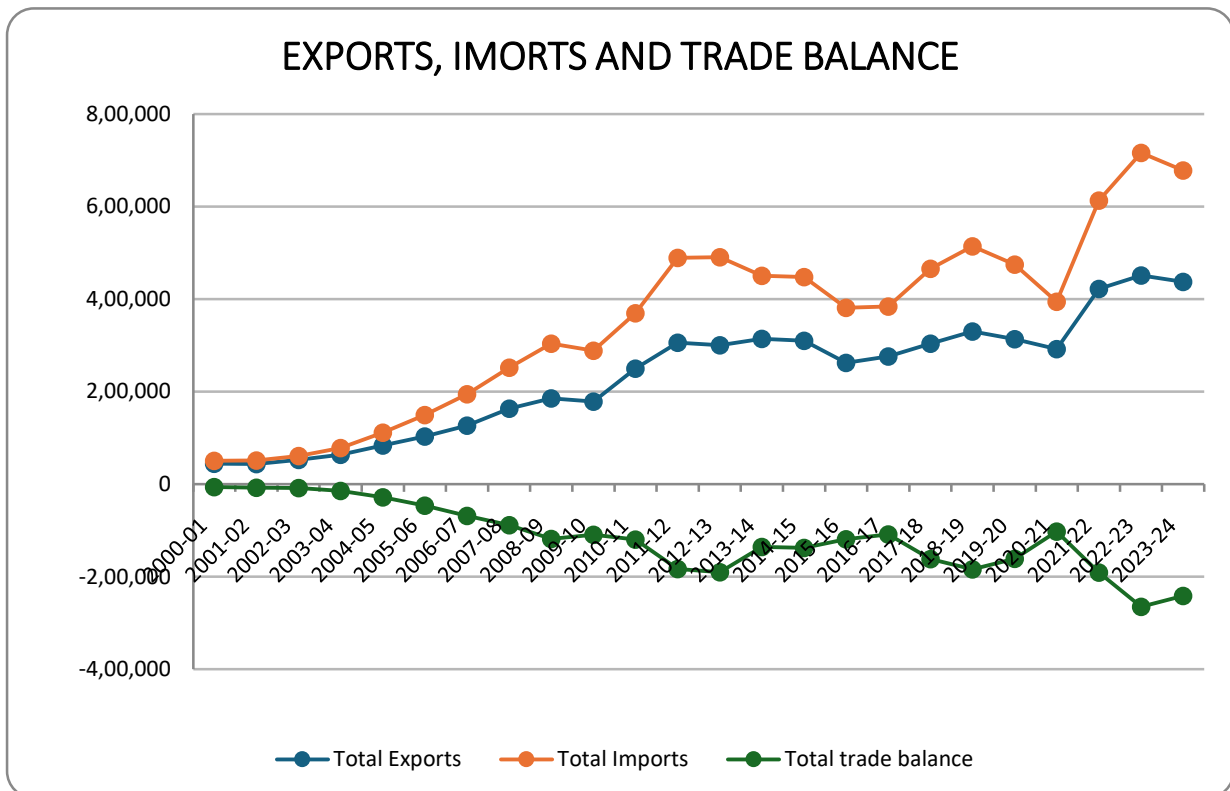


Figure 1-9 Exports, Imports and Trade balance from 2000 to 2024 (US\$ millions)

Source: Directorate General of Commercial Intelligence and Statistics

In the 2020-21 period the trade deficit was around \$102.6 billion, it was the time of the starting of the COVID-19 and subsequent lockdown globally. COVID-19 affected India badly and the trade deficit steeply increased to \$264.9 billion in the 2022-23 financial year. The value of imports during the two-year time from 2020 to 2022 almost doubled. It reached \$715.9 billion in the 2022-23 period. At the same time the value of exports only grew by one and a half times from \$291.8 billion in 2020-22 to \$451 billion in the 2022-23 period which widened the trade deficit.

Direction of Trade in India: Exports and Imports

From 2002 until the global crisis of 2008–09, world trade grew rapidly, with merchandise and service exports showing similar growth rates. A major shift occurred in the 1990s–2000s: developing countries moved from primary commodities to manufactured goods. This change was driven by FDI-led, export-oriented strategies in Southeast Asia since the mid-1990s. Growth in these economies was closely linked to intra-regional specialization and

Cross-Border Capital Flows and the Indian Corporate Sector

production sharing. China and ASEAN nations grew faster than developed countries, reshaping global trade patterns.

Examination of the direction of India's exports reveals that, by and large, India too has been following this global pattern insofar its increased trade integration with the developing countries is concerned.

In the 1990s, more than half of India's exports were accounted for by exports to Organisation for Economic Co-operation and Development (OECD) markets, with 28 per cent directed to European Union (EU) markets and around 15 per cent to the US. Russia was another dominant export market in the early 1990s, while the share of developing countries (with Asian markets being the dominant destination) in India's exports increased gradually, reaching 29 per cent in the mid-1990s (UNCTAD 2009).

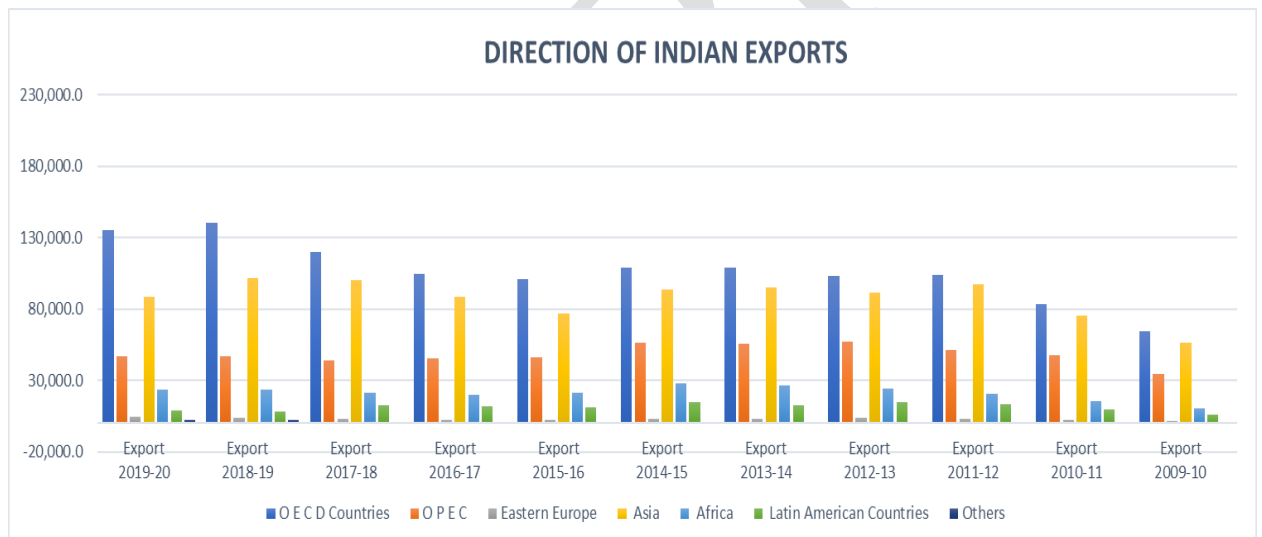


Figure 1-10 Direction of Indian Exports by Sectors (in USD figures)

Source: Database on Indian Economy

Cross-Border Capital Flows and the Indian Corporate Sector

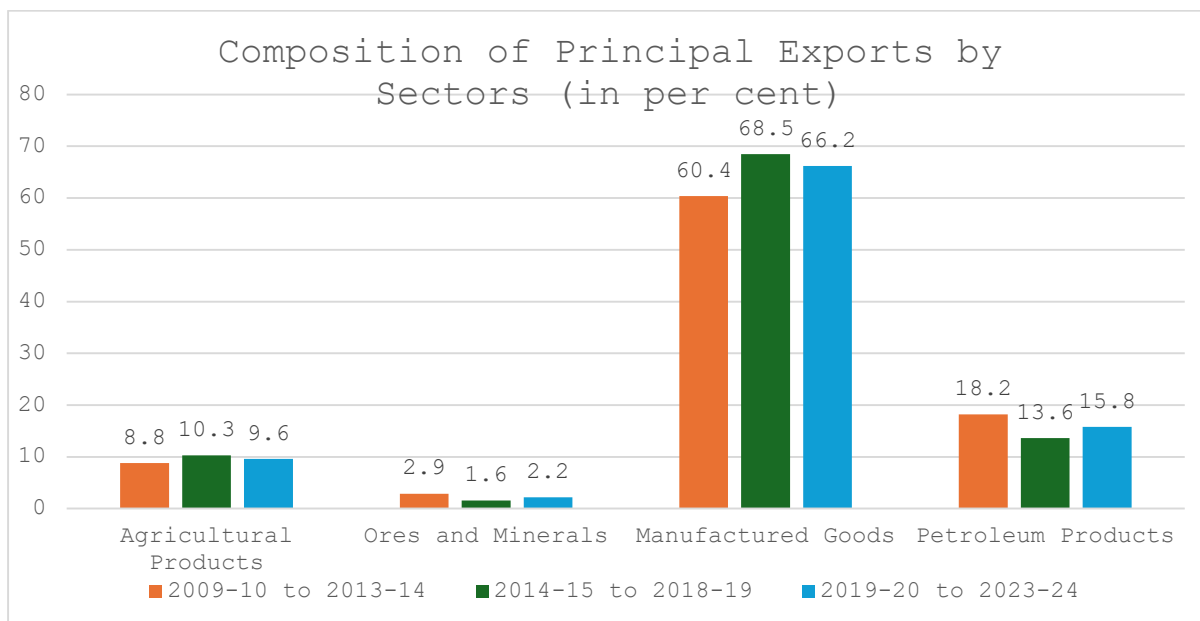


Figure 1-11 Composition of Principal Exports by Sectors (in per cent)

Source: Database on Indian Economy

This grouped bar chart shows the percentage share of India's principal merchandise exports across four broad sectors - Agricultural Products (leftmost bars), Ores and Minerals, Manufactured Goods, and Petroleum Products (rightmost), over three periods: 2009-10 to 2013-14 (orange bars), 2014-15 to 2018-19 (green bars), and 2019-20 to 2023-24 (blue bars). The y-axis spans 0-80%, with Manufactured Goods overwhelmingly dominant at 60-68% across all periods, followed by Petroleum Products at 10-18%, Ores and Minerals at 2-15%, and Agricultural Products consistently marginal at 8-10%. The chart reveals a stable sectoral hierarchy with subtle shifts: Manufactured Goods' share erodes marginally from 66% to 60%, offset by Petroleum's ascent from 10% to 18%, while Ores and Minerals exhibit volatility (peaking at 15% mid-period before contracting), and Agriculture remains a low-volatility anchor.

This configuration reflects India's export evolution from a diversified but commodity-tethered base to a manufacturing-centric powerhouse, albeit with petroleum as an opportunistic wildcard. In the 2009-10 to 2013-14 phase, post-2008 crisis recovery favored manufactured goods (66% share), which benefited from global rebound in demand for textiles, engineering, and gems, India's exports doubled from \$168 billion to \$314 billion, aided by rupee depreciation (from 45 to 60 INR/US\$) and FTAs like ASEAN-India (2010). Ores and Minerals spiked to 15% due to iron ore export booms (pre-2012 mining bans in Karnataka and Goa curbed illicit trade but formalized volumes), while Petroleum's modest 10% share stemmed from nascent refining expansions. Agriculture's steady 8-10% underscores structural limits: despite being the world's largest rice/wheat exporter, value addition is low, hampered by supply chain

inefficiencies and climate vulnerabilities (e.g., 2010-12 droughts slashed wheat output 10%).

The 2014-15 to 2018-19 interlude marks consolidation amid domestic reforms: Manufactured Goods held at 64%, propelled by Make in India (2014) and GST (2017), which reduced logistics costs by 14% and integrated MSMEs into global value chains, engineering exports alone grew 8% CAGR. Petroleum's share doubled to 14% as low crude prices (\$40-60/barrel) enabled value-added refining exports (e.g., diesel to Europe), with capacity additions like Paradip refinery (2016). Ores contracted to 9% post-mining reforms and Chinese steel demand slowdown (2015-16), while Agriculture ticked up to 10% from bumper harvests and export bans lifts (e.g., wheat in 2015). Demonetization (2016) and GST rollout caused a transient 15% export dip in 2017-18, but resilience shone through, with overall exports rising 5% annually.

The 2019-20 to 2023-24 period reveals pandemic-induced resilience and geopolitical pivots: Manufactured Goods dipped to 60% as COVID-19 (2020-21) eviscerated global demand (exports fell 7%), but rebounded 20% in 2021-22 via diversification to Vietnam/US under China+1 strategies. Petroleum's surge to 18% (overtaking gems as top category) was turbocharged by Russia discounts post-Ukraine invasion (2022), with exports hitting \$82 billion in 2023-24 - a 50% YoY jump despite refining margins compressing. Ores plummeted to 2% amid environmental regulations and China's green steel shift, while Agriculture stabilized at 9%, buoyed by protein export booms (shrimp up 20% CAGR) but capped by Ukraine war fertilizer shortages inflating input costs. Overall, this is not a pattern of stagnation but strategic reorientation: India's global export share rose from 1.7% to 1.8%, with services (IT, pharma) compensating for goods' 20% of GDP share, signaling a hybrid model less prone to commodity cycle

Cross-Border Capital Flows and the Indian Corporate Sector

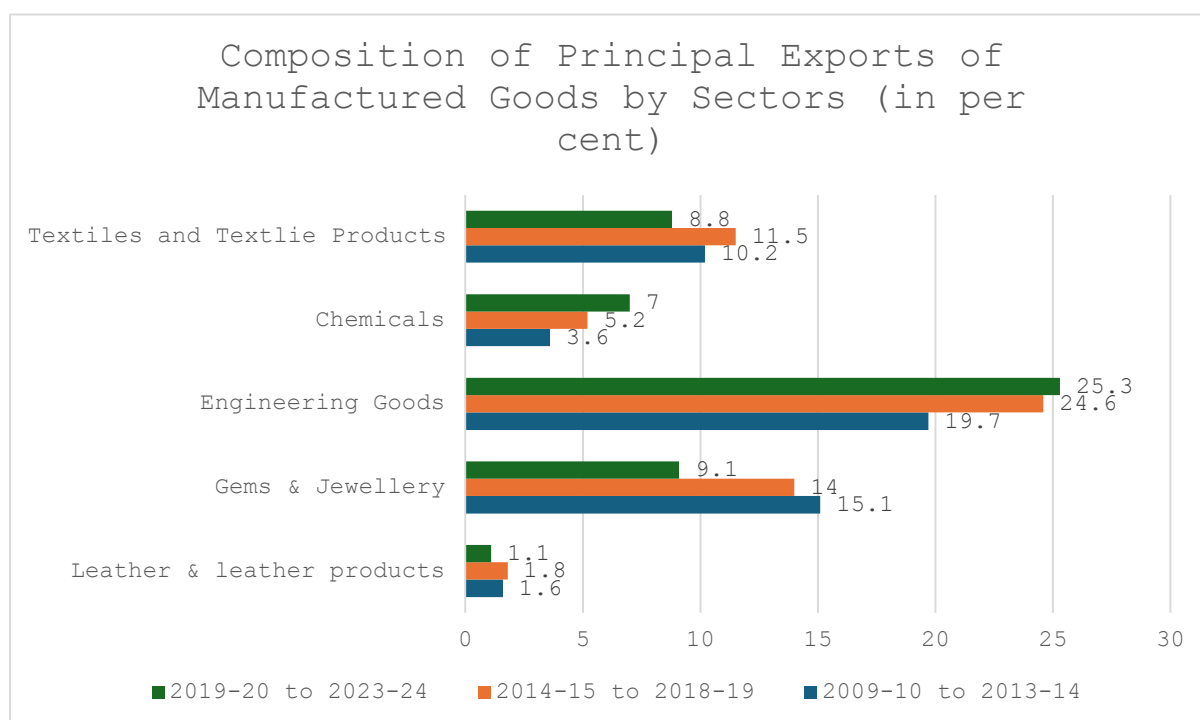


Figure 1-12 Composition of Principal Exports of Manufactured Goods by Sectors (in per cent)
Source: Database on Indian Economy

This horizontal grouped bar chart dissects the intra-manufactured goods export composition across five sub-sectors - Textiles and Textile Products, Chemicals, Engineering Goods, Gems & Jewellery, and Leather & Leather Products, mirroring the triennial periods from Graph 2 (2009-10 to 2013-14 in orange, 2014-15 to 2018-19 in green, 2019-20 to 2023-24 in blue). The y-axis lists sub-sectors vertically, with the x-axis ranging 0-30%. Engineering Goods emerge as the ascendant force, expanding from 19% to 25%, while Gems & Jewellery fluctuates (15-19%), Textiles hold steady (11-12%), Chemicals inch up (3-7% to 12%), and Leather remains negligible (1-2%). The pattern delineates a maturation from labor-intensive, low-tech segments to high-tech, capital-intensive ones, with engineering as the growth engine.

From 2009-10 to 2013-14, the base layer reflected post-crisis recalibration: Textiles at 12% leveraged rupee weakness for apparel surges to EU/US but faced Chinese competition; Gems at 19% boomed on diamond polishing (India processes 90% globally), though 2012 EU duties curbed jewelry. Engineering's 19% share stemmed from auto/steel exports amid global recovery, while Chemicals (3%) lagged due to R&D gaps, and Leather (1%) suffered from EU traceability norms. Total manufactured exports grew 12% CAGR, but sub-sector imbalances highlighted over-reliance on gems (vulnerable to US slowdowns).

Cross-Border Capital Flows and the Indian Corporate Sector

The 2014-15 to 2018-19 pivot was reform-driven: Engineering leaped to 24% via Make in India, attracting \$50 billion FDI in autos/machinery and PLI precursors; exports hit \$100 billion by 2018. Gems dipped to 15% post-demonetization (cash crunch hit jewelers) and US tariffs (2018), while Textiles stabilized at 11% despite GST teething pains. Chemicals rose to 7% from pharma APIs (e.g., paracetamol exports up 15%), and Leather edged to 1.6% on FTA gains (ASEAN). This era's 7% CAGR masked vulnerabilities, like 2016 steel overcapacity probes by US.

In 2019-20 to 2023-24, disruption and diversification defined the arc: Engineering solidified at 25% (\$110 billion in 2023-24), fuelled by PLI schemes (₹2 lakh crore incentives) targeting mobiles/ EVs, China+1 shifts (Apple's iPhone assembly doubled to 14% global share), and Ukraine war supply reroutes. Gems rebounded to 17% via lab-grown diamonds and Dubai FTA (2022) but faced 2023 US G7 curbs on Russian roughs. Textiles held at 8.8% amid COVID mask/PPE booms then slumps, while Chemicals surged to 12% (drug formulations up 20% CAGR post-vaccine diplomacy). Leather's 1.1% stasis reflects automation lags. Not a uniform ascent, this pattern signals policy efficacy: manufactured exports grew 8% CAGR despite COVID (down 10% in 2020-21), with engineering's rise mitigating low-value traps, though sub-5% shares in chemicals/leather underscore R&D and skilling needs.

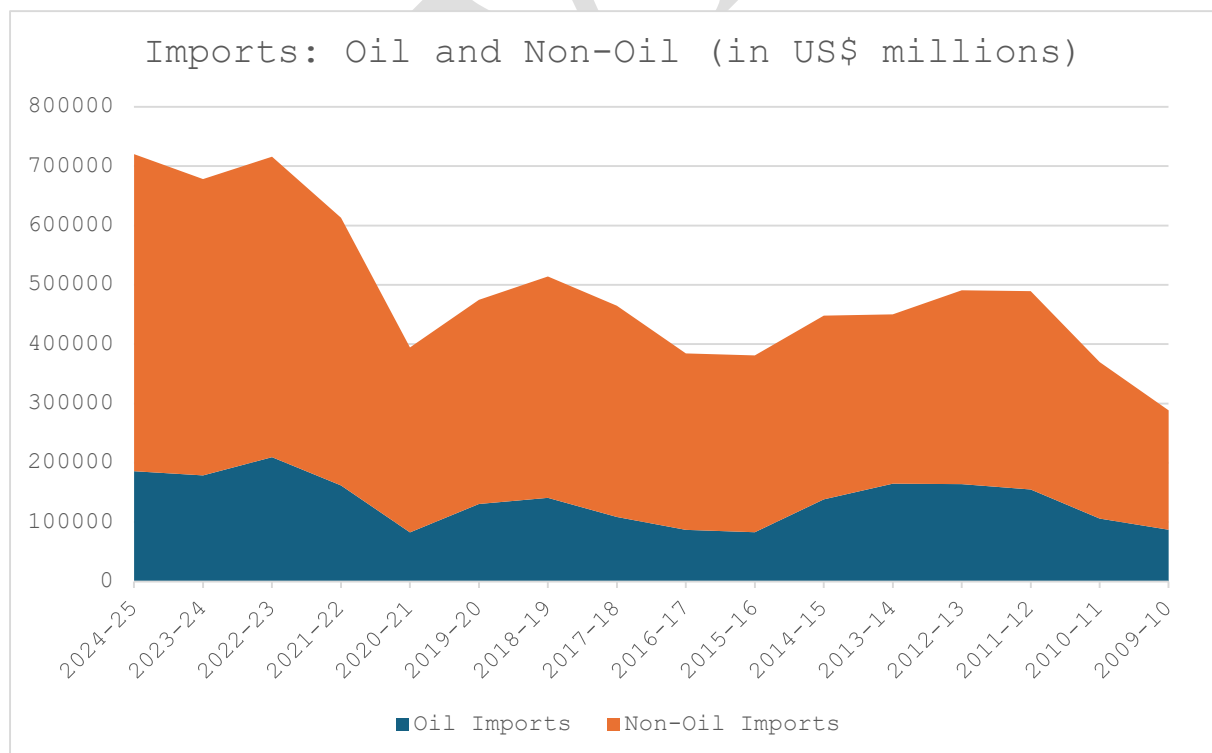


Figure 1-13 Oil and Non-Oil Imports (in US\$ millions)

Source: Database on Indian Economy

This stacked area chart illustrates the composition of India's total merchandise imports, bifurcated into oil imports (represented in blue at the base) and non-oil imports (in orange overlaying the blue layer), spanning from the financial year 2009-10 to 2023-24. The y-axis measures import values in US\$ million, ranging from 0 to 800,000, while the x-axis denotes fiscal years in reverse chronological order (starting from 2023-24 on the left and ending at 2009-10 on the right). Total imports exhibit a volatile yet upward trajectory, peaking at approximately 750,000 million US\$ around 2018-19 before a sharp contraction in 2020-21, followed by a robust recovery to near-peak levels by 2023-24. Non-oil imports consistently dominate the stack, comprising 70-85% of the total throughout the period, with a relatively smoother growth pattern characterised by gradual expansions interrupted by periodic dips. In contrast, oil imports display pronounced volatility, oscillating between 100,000 and 300,000 million US\$, with sharp spikes and troughs that significantly influence the overall import envelope.

The pattern underscores India's structural vulnerability to global energy markets, where oil imports, accounting for 20-30% of total imports on average, act as a volatile undercurrent amplifying fluctuations in aggregate import bills. From 2009-10 to 2013-14, both components trended upward amid post-global financial crisis recovery: non-oil imports grew steadily from around 250,000 million US\$ to 400,000 million US\$, driven by robust domestic demand for capital and intermediate goods as India's GDP rebounded from the 2008-09 slowdown (which had contracted global trade by 12% and shaved 2-3% off India's growth). Oil imports, however, surged from 100,000 million US\$ to nearly 200,000 million US\$ by 2012-13, fuelled by rising crude prices (Brent crude averaged \$110/barrel in 2011-12) and India's escalating energy needs from industrialization and urbanization, with consumption doubling from 3 million barrels per day (bpd) in 2009 to over 4 million bpd by 2013.

A stark reversal occurred in 2014-16, where total imports dipped by 15-20%, primarily due to a 40% plunge in global oil prices (from \$100+ to under \$50/barrel) triggered by the US shale boom and OPEC's decision to maintain production quotas. This disproportionately benefited India, reducing oil import costs by over 30% and narrowing the current account deficit from 4.8% of GDP in 2013 to 1% by 2016. Non-oil imports also softened slightly, reflecting subdued global demand and domestic policy tightening under the Modi government's fiscal consolidation efforts. However, this was not a structural decline; rather, it masked underlying resilience, as evidenced by the rebound in 2017-19, where non-oil imports climbed to 500,000+ million US\$ on the back of GST implementation (2017), which streamlined supply chains and boosted intermediate goods inflows, alongside a depreciating rupee (from 65 to 70 INR/US\$) that made imports costlier but spurred domestic manufacturing.

The most dramatic inflection point arrived in 2020-21, with total imports cratering by 25-30% to around 350,000 million US\$, a confluence of the COVID-19 pandemic's global lockdowns (disrupting supply chains and slashing demand) and domestic containment measures that idled factories and curbed consumption. Oil imports plummeted 40% to under 100,000 million US\$ as WTI crude briefly turned negative in April 2020 and demand evaporated (India's oil consumption fell 25%). Non-oil imports contracted less severely (15-20%), highlighting their ballast role from essentials like pharmaceuticals and electronics. Recovery was V-shaped post-2021: total imports surged 50% in 2021-22, propelled by pent-up demand, fiscal stimulus (Atmanirbhar Bharat packages worth 20 lakh crore INR), and global commodity rebounds. Oil imports spiked to 250,000 million US\$ in 2022-23 amid the Russia-Ukraine war, which drove Brent prices above \$100/barrel and prompted India to diversify suppliers-Russia's share jumped from 1% in 2021 to 40% by 2023, offering discounted Urals crude that mitigated costs despite volumes rising 20%.

By 2023-24, non-oil imports stabilized at 600,000+ million US\$, buoyed by electronics and machinery inflows under Production-Linked Incentive (PLI) schemes, while oil imports moderated to 200,000 million US\$ as prices eased (average \$80/barrel) and domestic refining capacity expanded (from 215 million tonnes per annum in 2019 to 250+ by 2024). This pattern is not indicative of deglobalization but rather adaptive resilience: India's import dependence on oil remains high (82-85% of needs), but diversification (Iraq, Saudi Arabia, Russia now top suppliers) and green energy pushes (e.g., 500 GW renewables target by 2030) suggest a gradual moderation. Absent these geopolitical buffers, the volatility could have been more destabilizing, as seen in the 2013 taper tantrum when foreign inflows reversed, widening deficits.

Cross-Border Capital Flows and the Indian Corporate Sector

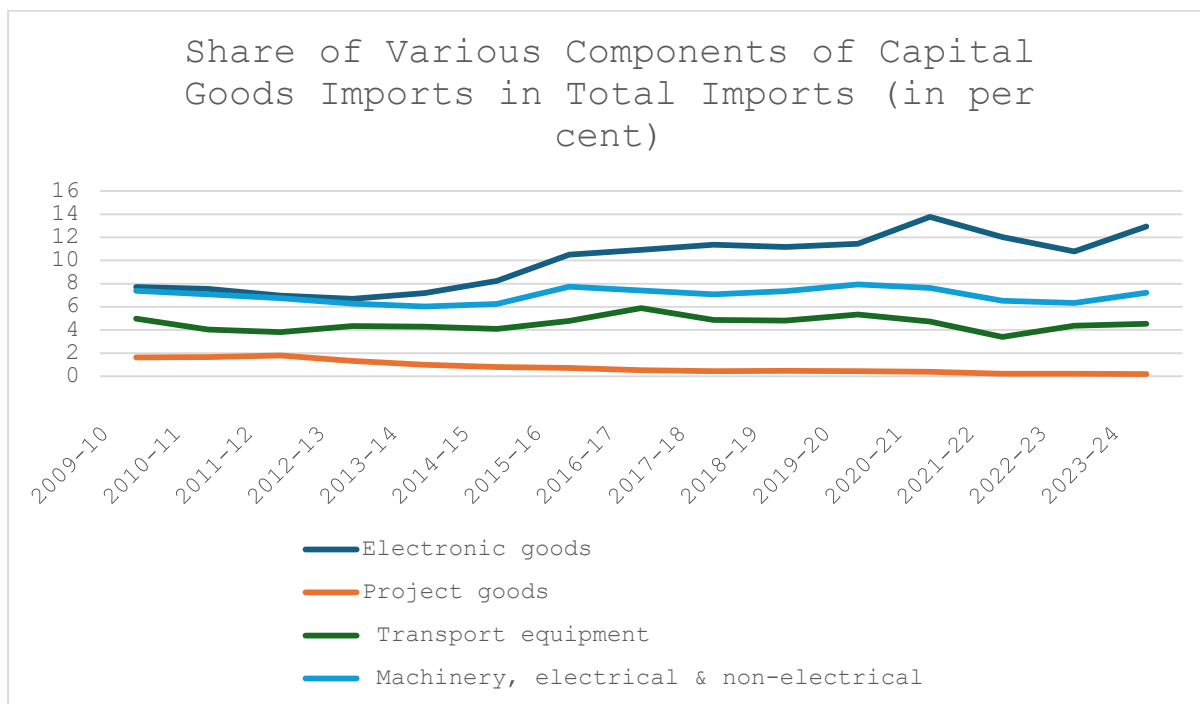


Figure 1-14 Share of Various Components of Capital Goods Imports in Total Imports (in per cent)

Source: Database on Indian Economy

This multi-line chart tracks the percentage contribution of four capital goods import categories - Electronic Goods (dark blue line), Project Goods (orange), Transport Equipment (green), and Machinery (electrical & non-electrical, light blue), to India's total imports from 2009-10 to 2023-24. The y-axis ranges 0-16%, x-axis lists fiscal years sequentially. Electronic Goods trace the steepest ascent, from 4% to 14% by 2023-24, with Machinery fluctuating around 6-10%, Transport Equipment hovering at 2-5%, and Project Goods languishing below 3%. The overall pattern depicts a tech-tilted import surge, where electronics' dominance reflects India's integration into high-value global chains, contrasting the stagnation in traditional infrastructure imports.

Initiating in 2009-10 to 2013-14, shares were subdued post-2008 crisis: Electronics at 4-6% as FDI inflows (\$30 billion cumulative) kickstarted assembly (e.g., Samsung plants), but global credit crunch delayed capex. Machinery peaked at 10% for power/steel projects under 11th Five-Year Plan, while Transport (3-4%) benefited from auto imports, and Project Goods (2%) from EPC contracts. Total capital imports grew 10% CAGR, but rupee volatility (2013 taper) compressed shares.

The 2014-15 to 2018-19 inflection was transformative: Electronics doubled to 8-10% via Digital India (2015) and PLI electronics (₹76,000 crore), with imports hitting \$50 billion by 2018 for components (90% dependency). Machinery stabilized at 8%, buoyed by GST-enabled infra (e.g., Bharatmala highways), but Transport dipped to 2%

Cross-Border Capital Flows and the Indian Corporate Sector

post-demonetization auto slump (sales down 18% in 2017). Project Goods trended flat amid PPP model fatigue. This 12% CAGR masked oil windfalls funding capex.

Pandemic and recovery (2019-20 to 2023-24) amplified divergences: Electronics soared to 14% (\$70 billion in 2023-24), driven by 5G rollouts, semiconductor missions (₹76,000 crore, 2021), and China+1 (imports from China fell 10% but Vietnam rose 30%). COVID slashed all shares in 2020-21 (total imports down 18%), with Transport crashing to 1% (aircraft grounded). Machinery recovered to 9% via renewables (solar imports up 25%), while Project/Transport lagged at 1-3% due to Atmanirbhar localization (e.g., 50% EV battery mandates). Ukraine war inflated machinery costs (nickel up 50%), but electronics' resilience buoyed by remote work booms elevated its share. This is not random volatility but deliberate retooling: capital imports as % of total rose from 15% to 20%, signalling investment-led growth (GFCF at 33% GDP), though over-reliance on electronics (import bill rivals' oil) poses supply risks amid US-China tensions.

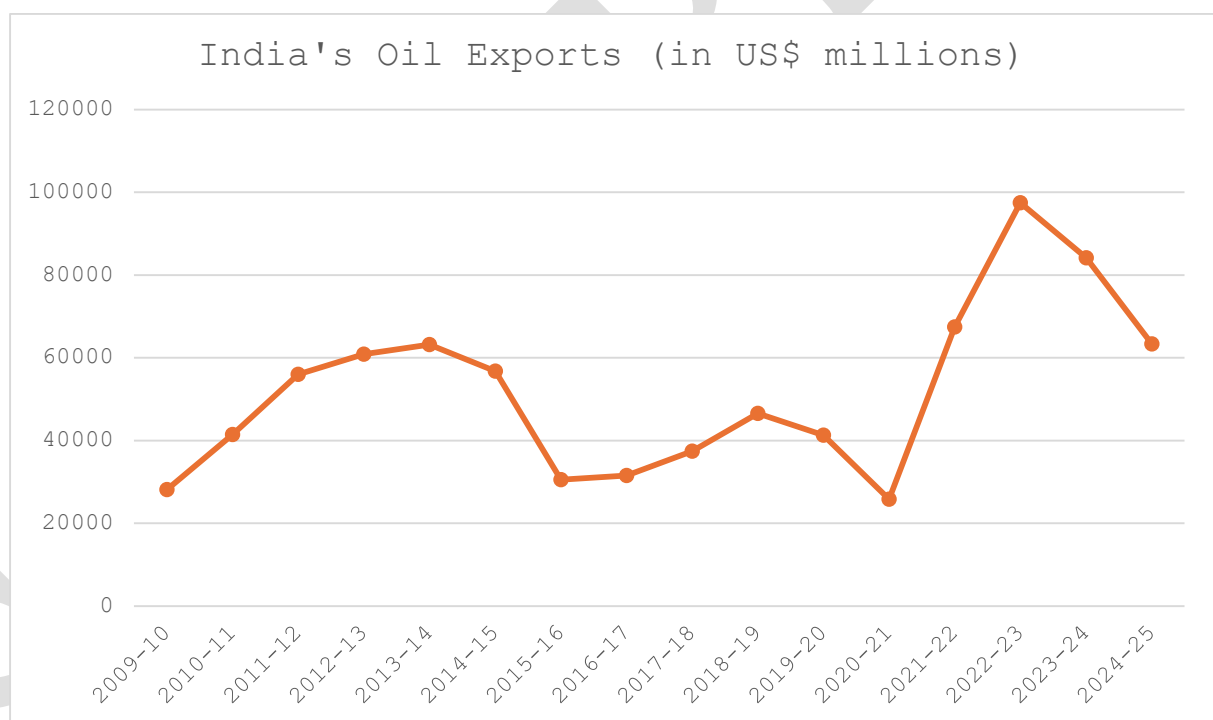


Figure 1-15 India's Oil Exports (in US\$ millions)

Source: Database on Indian Economy

Between the years of 2009 and 2025, India's oil exports experienced shifts, primarily due to a combination of major political policy and developments, domestic production, and price cycles. As India expanded its refining facilities, oil exports increased steadily in the first five years that followed, from 2009 to 2014. In this period, India managed to export more refined petroleum goods as a result of major conglomerates and state-

owned enterprises like Reliance Industries (Jamnagar Refinery) and Indian Oil Corporation vastly expanding their refining capacities. Even though actual oil export volumes increased at a steady pace during this time, export revenues were artificially raised by the rising prices of crude oil worldwide, which often crossed \$100/barrel.

India's oil exports dropped significantly between the years 2014 and 2016, from roughly \$65 billion in 2014–15 to less than \$30 billion in 2015–16. This was mostly caused by a global oil price collapse brought on by surplus production by other oil producing countries and declining demand. Although the levels of production were maintained, the value in dollars of India's oil shipments suffered a major blow when global crude prices fell to nearly \$30 to \$40/barrel. This period included a downturn in a number of developing nations, which put more pressure on India's overall export performance.

Exports rebounded slightly between the years of 2016 and 2020, touching the \$44 billion mark by 2018–19. A slight rebound in oil prices along with efficient use of domestic refinery capacity powered this upturn, ensuring India's spot as a major source of refined petroleum products. However, another drop was caused by the worldwide epidemic of COVID-19 in 2020. Both the value and the volume of India's oil exports fell drastically again as an outcome of the drop of demand worldwide and the brief drop in oil prices due to significant market tensions arising from uncertainty caused by the pandemic.

Oil exports touched almost \$99 billion, a new high in the years 2022 and 2023, indicating a turnaround from the years 2021 to 2023. The Russia-Ukraine conflict became one of the events which contributed to this growth. India purchased Russian oil at greatly reduced prices for its domestic refinery as Western countries sanctioned buying of Russian crude oil due to the ongoing Russia-Ukraine Conflict. As a way to fill the gap left by decreased Russian supplies, refined petroleum products were reexported to European nations and other nations. When international crude oil prices touched above \$120/barrel, the resulting profit-making possibilities due to arbitrage opportunities arising from the purchase of Russian crude and subsequent sale to European markets increased, making Indian refined petroleum exports very profitable at this time period of 2022-23.

The value of petroleum exports fell further by the years 2023-2024 and 2024-2025, reaching a low point around \$67 billion. The drop was caused by a number of factors, including reduced global oil prices as a result of slower GDP growth in the US and China, the supply from countries such as Iran and Venezuela, and greater sanctions from other nations that disrupted Russian oil exports. India's export value fell in 2025

Cross-Border Capital Flows and the Indian Corporate Sector

despite a three percent rise in export volumes and a drop of seven percent in price.

Indian refiners grew nervous and were forced to search for other supply sources due to greater American scrutiny, due to US tariff pressure against the Russian trade. Despite ongoing capacity expansion due to public and corporate spending on oil infrastructure, India's balance of trade reduced as more of its refinery output was used by increasing domestic demand. India's oil exports dropped significantly between the years 2014 and 2016, from roughly \$65 billion in 2014-15 to less than \$30 billion in 2015-16. This was mostly caused by a global oil price collapse brought on by surplus production by other oil producing countries and declining demand. Although the levels of production were maintained, the value in dollars of India's oil shipments suffered a major blow when global crude prices fell to nearly \$30 to \$40/barrel. This period included a downturn in a number of developing nations, which put more pressure on India's overall exports when it came to oil products.

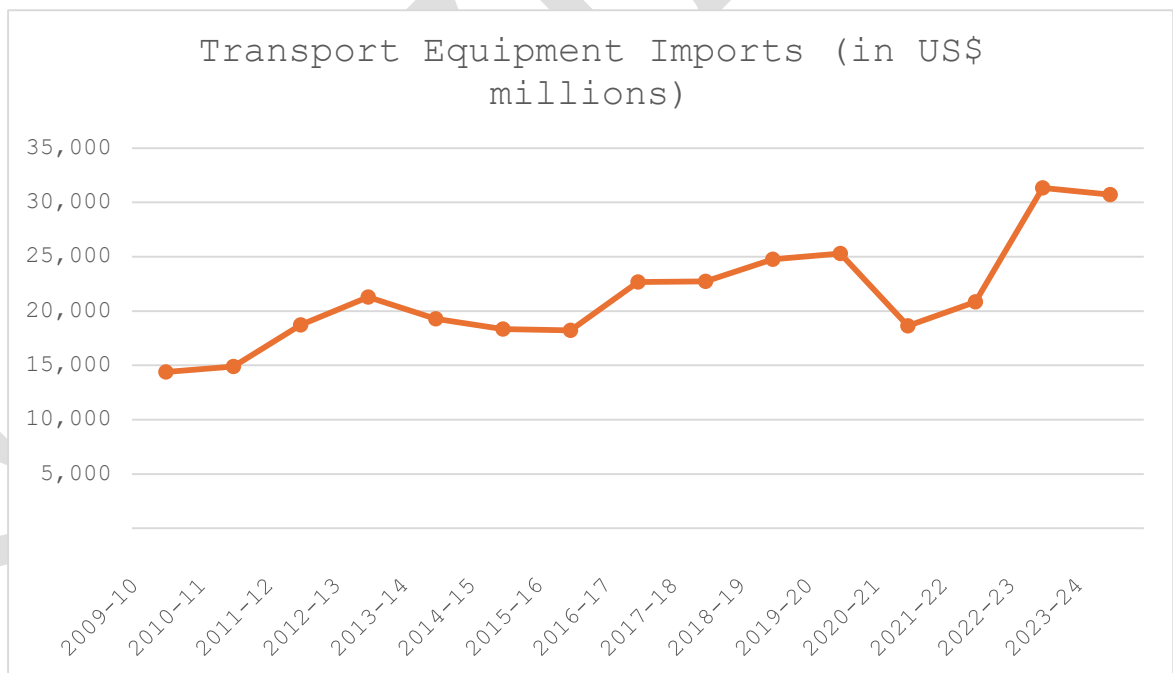


Figure 1-16 Transport Equipment Imports (in US\$ millions)

Source: Database on Indian Economy

The trend of imports of transport equipment in India between 2009-10 to 2023-24 highlights the interplay of global shocks and trends. Imports saw a rapid increase

from 2009-10 where it stood at around USD 14000 million which grew to around USD 30,000 million, which is a 2 fold increase within a span of around 13 years. This period was marked by rising consumer demand for automobiles, expansion in civil aviation, and large-scale infrastructure projects, all of which increased reliance on foreign machinery and equipment.

We can observe a downfall in the period of 2014-16 when imports declined due to a multitude of factors such as global crash in crude oil prices affecting overall trade flows, while the depreciation of the Indian rupee made imports more expensive. At the same time, India's domestic automobile and equipment production strengthened, reducing dependence on certain imported transport machinery. This period shows early signs of import substitution but also underlined India's vulnerabilities to global situations. The dramatic surge that took place in 2022-23, when imports crossed the USD 30,000 million mark, was largely due to the surge in post pandemic recovery, rise in demand, and the revival of industrial and infrastructural activity.

Large-scale defence imports, metro coaches, aircraft, and EV-related machinery contributed significantly. Supply chain normalization and India's renewed push toward modernization also played a role. This period illustrated both India's economic resilience and its dependence on foreign technology. In 2023-24, imports stabilized at a higher level, this suggests that India may have now entered a phase where transport remains structurally elevated. This reflects ongoing modernization of infrastructure, defence, and mobility but also points to persistent challenges in reducing reliance on advanced foreign technology despite domestic initiatives like *Atmanirbhar Bharat*.

Cross-Border Capital Flows and the Indian Corporate Sector



Figure 1-17 India's Trade Surplus in Drugs and Pharmaceuticals (in US\$ millions)

Source: Database on Indian Economy

The graph shows India's trade surplus in drugs and pharmaceuticals between 2009-10 to 2023-24. In the starting year 2009-10, the surplus was around 5,000 million US dollars only. Over the time, the line moves mostly upward which means India's export in this sector is growing stronger than its import. This clearly highlight that pharmaceuticals have been one of the most consistent sectors for India's trade balance.

But if we look closer, the growth is not always smooth. There are up and down at certain years. Like after 2020-21, there is a big jump followed by a sudden fall in 2021-22. This is most likely because of Covid-19 pandemic, when Indian medicines and vaccines were in huge demand, but later it came down. It proves how global crisis and events affect India's trade performance directly.

Still, even in those dips, the long-term trend is clearly upwards. India never went back to the low levels of the early 2010s. That means the country has made a strong space for itself in the global pharma market. Even when there was decline in 2021-22, it was temporary, and the industry show stability and resilience in the face of global problems.

In the latest years, specially from 2022-23 onwards, the surplus started to rise steeply again, almost touching 23,000 million dollars by 2023-24. This sharp rise might be due to strong exports, government policies like Atmanirbhar Bharat, and also India's

position as “the pharmacy of the world.” The industry benefits from low-cost manufacturing and high global demand of generic medicines.

So overall, the graph shows a very positive performance of India’s pharma exports. But at the same time, challenges are still there, like foreign competition, issues of patents, and reliance on imported raw materials. Even then, the general upward direction suggest that India will continue to be one of the leading suppliers of drugs and pharmaceuticals in the world.

Export Growth and Movement in Real Effective Exchange Rate

It is often argued that foreign direct investment (FDI) inflows play a significant role in promoting export growth. India’s relatively weak export performance until the 1990s is frequently attributed to its inability to attract sufficient foreign investment. With the further liberalization of investment policies in 2001, FDI inflows increased considerably in the new millennium. However, as several studies have noted, higher levels of FDI have not translated into a commensurate rise in exports.

A key reason for this disconnects lies in the Real Effective Exchange Rate (REER), particularly during 2007–08. Since India’s accumulation of foreign exchange reserves was largely driven by short-term capital inflows, the sudden reversal of these flows during the global financial crisis created sharp pressures on the current account. Moreover, a significant share of FDI has been directed towards non-tradable sectors such as services and infrastructure, rather than manufacturing and other tradable sectors. Consequently, although India received substantial foreign investment, its positive impact on exports remained limited.

Furthermore, in a flexible exchange rate system, large capital inflows such as those witnessed in India since 2002, may have an adverse effect on exports by causing significant appreciation of the domestic currency. Currency appreciation reduces export competitiveness, thereby constraining export growth and undermining India’s export potential. This reveals an inherent contradiction in external sector liberalization: while foreign capital inflows are encouraged, they can simultaneously impede export competitiveness.

Exchange rate appreciation, driven by capital inflows, also makes foreign goods cheaper relative to domestic goods, both within India and in international markets. This, in turn, worsens the trade and current account deficits. Indeed, the surge in capital inflows during the 2000s, particularly in the years leading up to the global financial

crisis, was associated with significant appreciation of the rupee, followed by episodes of sharp depreciation.

Thus, liberalization measures such as allowing market-determined exchange rates and liberalizing capital flows, have brought considerable volatility in exchange rate movements. This instability has not been conducive to sustained export growth, highlighting the contradictions within India's external liberalization policies.

Overall, the analysis of the recent pattern of India's trade shows that it may be too hasty to ascribe the increase in India's exports as 'success' of the economic reform process initiated since the 1990s and further strengthened in the 2000s. Analysis of the trend and direction of trade shows that India has more or less followed the global pattern of trade with regard to its increasing integration with other developing nations and has also diversified its markets for its exports. However, since imports have grown much faster than exports, the trade deficit has worsened substantially in this period.

- Real Effective Exchange Rate is the weighted average value of domestic currency against a basket of foreign currencies, adjusted for inflation differentials between domestic and foreign countries.

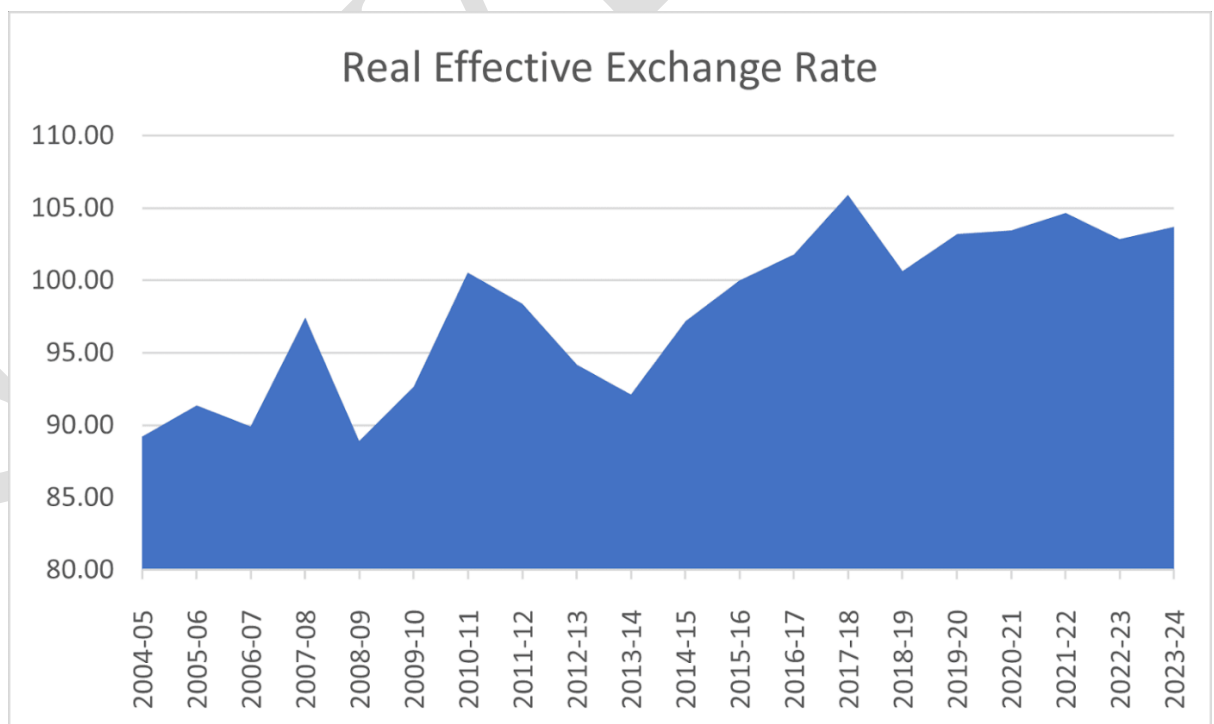


Figure 1-18 Real Effective Exchange Rate

In summary, alongside the growth in world trade, a specific set of conditions has driven India's export growth in recent years. However, the high growth observed in certain sectors appears to be based on fragile foundations and is unlikely to be sustained at the same pace. Greater openness has also resulted in increased imports from partners that are generally more competitive, leading to persistent deficits in both the overall and manufactured trade balances. Indeed, the trade balance has not only turned negative but has progressively deteriorated over the past decade (Chandrasekhar and Ghosh, 2012), indicating that rising import dependence across almost all sectors, not just oil, has become a near-permanent challenge for the country.

The fact that India's trade balance worsened significantly even during a period of unprecedented and sustained export growth suggests that the country has yet to reach a position where it can genuinely claim to have "earned" its foreign exchange reserves. On the contrary, given that India's economic reform era has been characterized by short-lived export surges coupled with increasing import dependence, it offers little cause for optimism that India will be able to sustainably "earn" its foreign exchange in the near future.

Chapter 2 Cross-Border Capital Flows

Introduction

A developing nation like India requires significant financial resources to back its growth initiatives. Historically, these growth initiatives have been financed through savings generated domestically. Domestic savings arise from households, the private corporate sector, and the public sector. However, when domestic resources are insufficient, there often arises a need for alternative sources to fund development projects. Consequently, countries frequently turn to foreign capital to support their investment and economic growth. Inflows of capital assist in closing the gap between domestic savings and the total capital investment requirements of the nation.

Capital flows refer to the movement of money or investments across borders for economic activities, including trade, assets, and business operations. The foreign capital that enters a country conveys more than just financial statistics; it also reflects the level of dependence on external capital and investor confidence in domestic markets.

Following independence, the Indian government chose to isolate India from global markets to allow domestic industries to develop without external competition. In the early 1950s and 60s, most capital inflows were official external support from entities such as the IMF and World Bank. Much of this funding consisted of aid and concessional loans aimed at addressing India's developmental financing requirements.

In 1966, India experienced balance of payments pressure, leading to a significant devaluation of the rupee. This situation prompted support from the IMF and World Bank, highlighting India's reliance on external assistance. Despite a highly regulated investment environment with strict restrictions on foreign capital, the 1970s and 80s saw further policy changes such as the Foreign Exchange Regulation Act (FERA) of 1973, which limited foreign ownership to 40% and drove many multinational companies away from Indian markets. This restrictive approach to foreign private capital forced India to depend more on aid, commercial loans, and deposits from Non-Resident Indians (NRIs). Although the government actively promoted NRI deposits to sustain its reserves, by the 1990s, its heavy reliance on short-term and volatile flows created significant vulnerabilities, including growing external debt.

In 1991, India's foreign reserves dropped to less than USD 1 billion, barely enough to cover two weeks' worth of imports. Although India overcame this crisis with assistance from the IMF, World Bank, and others, it recognized the unsustainability of its inward-focused and heavily regulated economic management model, marking a

pivotal moment in the evolution of capital flows. The period following liberalization, which began in 1991, represented a crucial turning point for the country. India embarked on extensive economic transformations that led to a move towards more open policies regarding foreign direct investment (FDI) and various forms of capital inflow.

Four key transformations occurred during this period:

- **Foreign direct investments gained automatic approval:** Many essential industries were allowed automatic approval for foreign ownership of up to 51%, a cap that has now been lifted to 100% for several sectors.
- **Licensing regulations were reduced:** Most licensing obligations were abolished, and various incentives were introduced to attract foreign investors.
- **Approval processes were streamlined:** Entities like the Foreign Investment Promotion Board (FIPB) were established to handle FDI applications that didn't meet the criteria for automatic approval.

These policy reforms, combined with India's swift GDP growth, made the nation an attractive destination for foreign direct investors. Furthermore, Double Taxation Avoidance Agreements (DTAAs) facilitated FDI inflows by offering favorable tax conditions.

India's integration into the global capital market since 2000 stands as one of the most consequential developments in modern emerging market history, defined by rapid yet strategic adaptation to both domestic priorities and turbulent global financial cycles. Instead of embracing unchecked capital account liberalization, Indian policymakers pursued a pragmatic, gradualist path. This nuanced approach, forged in response to the hard lessons of previous international crises and institutional learning, has enabled India to balance the ambitions of growth, monetary sovereignty, and external stability, an ongoing process shaped by the constraints of the Impossible Trinity.

India's capital account management between 2000 and 2024 can be best described as a balancing act, carefully facilitating foreign investment while containing the systemic and volatility risks posed by large, mobile capital flows. The era opened with Indian institutions acutely aware of the dangers of sudden stops and cross-border liquidity shocks, having studied the aftermath of the 1991 domestic crisis and the 1997 Asian financial crisis. Policymakers adopted a posture of "calibrated liberalization," steadily relaxing restrictions on foreign direct investment (FDI) and select elements of portfolio flows yet moving cautiously with full capital account convertibility.

FDI emerged as the backbone of India's external financing strategy, often promoted as "sticky capital" for its long-term orientation, technology transfer, and employment-generating characteristics. This policy vision paid off: India's cumulative FDI inflows surpassed the \$1 trillion mark by 2024, with most of the growth coming in the last decade, underpinned by reforms such as sector liberalization, single-window clearances, and the 'Make in India' initiative. The services sector, together with software, hardware, and manufacturing, consistently attracted the largest FDI inflows, accounting for about 16% and 22% respectively of total investments over the period. Sources of FDI remained primarily Mauritius (driven by tax treaties), Singapore, and the United States, reflecting India's strong integration with global capital chains.

Alongside FDI, foreign portfolio investment (FPI) introduced a dynamic layer to India's external sector outlook, often acting as both a catalyst for capital market development and a key channel for transmitting global shocks. These flows, sensitive to yield differentials and global risk appetites, built up rapidly before key international crises such as the 2008 Global Financial Crisis and the 2013 Taper Tantrum, only to recede sharply in response to US monetary tightening or surges in the VIX index (a proxy for global fear). Such episodes underscored the necessity for robust reserve accumulation and macroprudential management.

Empirically, India's entire approach has been shaped by the constraints and flexibilities of the "Impossible Trinity," or the trilemma, which asserts that no country can simultaneously enjoy a fixed exchange rate, free capital mobility, and independent monetary policy. Indian authorities have chosen a middle path, running a "managed float" of the rupee combined with selective capital controls and vigorous intervention to maintain autonomy in monetary policy. Tools have included active foreign exchange (FX) market interventions, building forex reserves exceeding \$640 billion by 2024, as well as sterilization (offsetting the liquidity impact of intervention by selling government bonds or using reverse repo facilities).

The policy architecture in this era was far from static. In response to capital inflow surges, the Reserve Bank of India (RBI) often eased restrictions on outflows to offset appreciation pressure or tightened inflow conditions when volatility threatened macroeconomic stability. The Indian state demonstrated exceptional institutional agility in dealing with global shocks: the 2008 crisis invoked aggressive easing and liquidity provision, whereas the 2013 Taper Tantrum required sharp rate hikes and confidence-building interventions to stem outflows and defend the rupee. In 2020, during the Covid-19 shock, Indian retail and institutional investors provided a powerful counterweight to

FPI outflows; an outcome born from deepening domestic financial inclusion and market reforms over the preceding decade.

These calibrated interventions and learning cycles have made India an outlier among emerging markets, sustaining robust GDP growth (projected at 6.6% in 2024–25), and preventing a major external crisis despite persistent current account deficits. Asset quality in banking improved markedly as gross non-performing assets fell to multi-year lows, sustaining overall financial stability. The establishment of a strong domestic investor base, fueled by policies like Jan Dhan, Aadhaar, and the popularization of SIPs, reduced systemic reliance on foreign capital and provided essential shock absorption during episodes of global stress.

However, this success brings new policy dilemmas. The IMF's 2024 reclassification of India's exchange rate regime from a floating to a "stabilized arrangement" reflects the cumulative effect of persistent RBI intervention and heavy capital inflows, signaling a shrinking policy space as India opens to bond index inclusion and more rules-based flows. The paradox is clear: maintaining stability will require ever more subtle and coordinated policies as capital, trade, and monetary interdependence deepen in the years ahead.

India's management of capital flows from 2000 to 2024 showcases an exemplary model of pragmatism, institutional adaptation, and economic resilience in the face of profound global volatility. Its careful navigation of the Trilemma: balancing openness with prudence, and capitalizing on global flows while managing their risks, stands as a blueprint for emerging markets seeking to combine high growth ambitions with robust macroeconomic stability. As India pushes towards greater global integration, its experience underscores that sustaining growth will require not only flexible and sophisticated capital flow management but also continuous domestic reforms and policy innovation.

For India, the inflows of Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), Non-Resident Indian (NRI) deposits, and remittances have been crucial in closing the savings-investment gap, supporting current account financing, and facilitating industrial modernization (RBI, 2023).

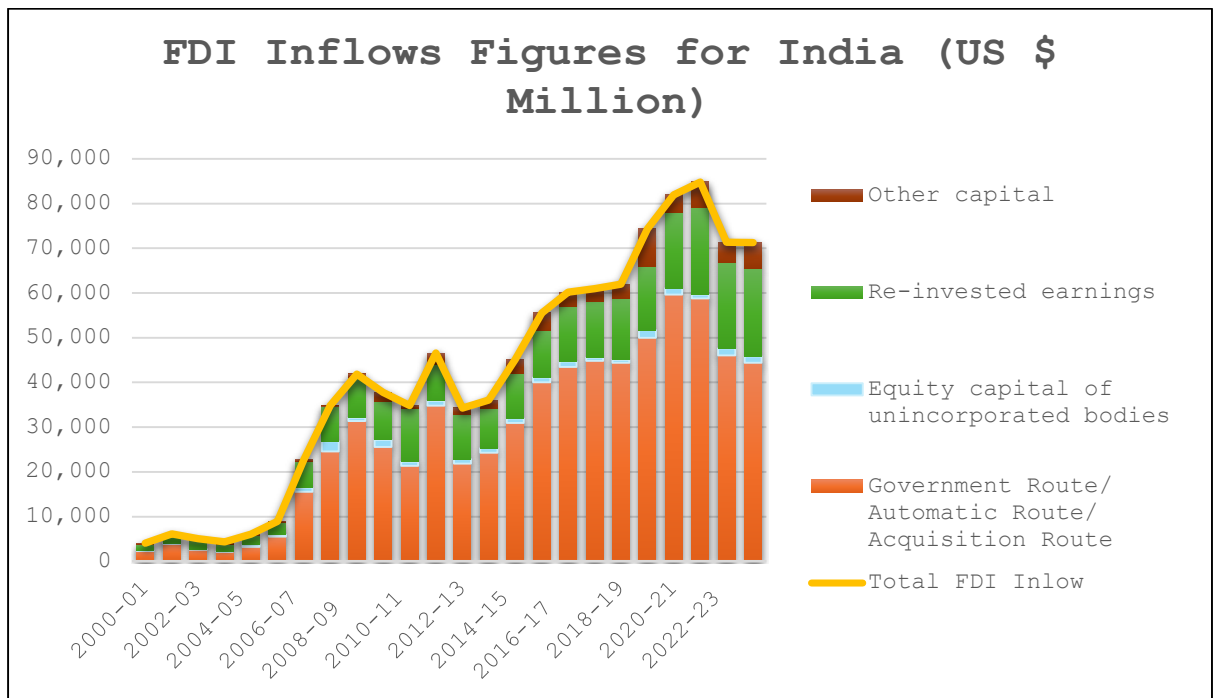


Figure 2-1 India's FDI Inflows (in US\$ millions)

Source: Department for Promotion of Industry and Internal Trade. (2025)

There are various components to FDI inflows into India, each of which represents a unique form of foreign investment. The three routes for equity capital, symbolised by the orange bars, are acquisitions of already-existing Indian companies, the government route, which requires approvals for large investments or sensitive sectors, and the automatic route, which does not require prior clearance. The equity capital of unincorporated bodies, or investments made into locally unincorporated entities as opposed to registered companies, is represented by the yellow bars. Reinvested earnings, or profits made by foreign-owned businesses in India that are kept and reinvested rather than repatriated, are indicated by green bars. Brown bars stand for additional capital, primarily debt-type inflows from parent companies overseas to their Indian subsidiaries, including trade credits, intercompany loans, and similar instruments. Together, these components form the total FDI inflow, depicted by the yellow trend line across years.

India has received over US\$268 billion in foreign direct investment since 1991. After 2005–2006, there is a noticeable increase in the volume of FDI flows. India shifted the majority of approvals to the automatic route and loosened restrictions on foreign ownership starting with the 2005 policy, which permitted up to 100% FDI in construction development and gradually opened up industries like defence, telecom, retail, and insurance. According to detailed FDI data from DIPP, a significant portion of FDI has gone into the services sector, and mergers and acquisitions are increasingly

Cross-Border Capital Flows and the Indian Corporate Sector

a significant FDI channel in India. Low global interest rates, strategic incentives (PLI schemes in electronics, auto, and pharmaceutical), additional FDI limit raises (e.g., insurance to 74% in 2021), and supply-chain diversification accelerated inbound deals despite a brief decline in 2018–19. As a result, total FDI reached an all-time high of roughly US \$83.6 billion in FY 2021–2022.

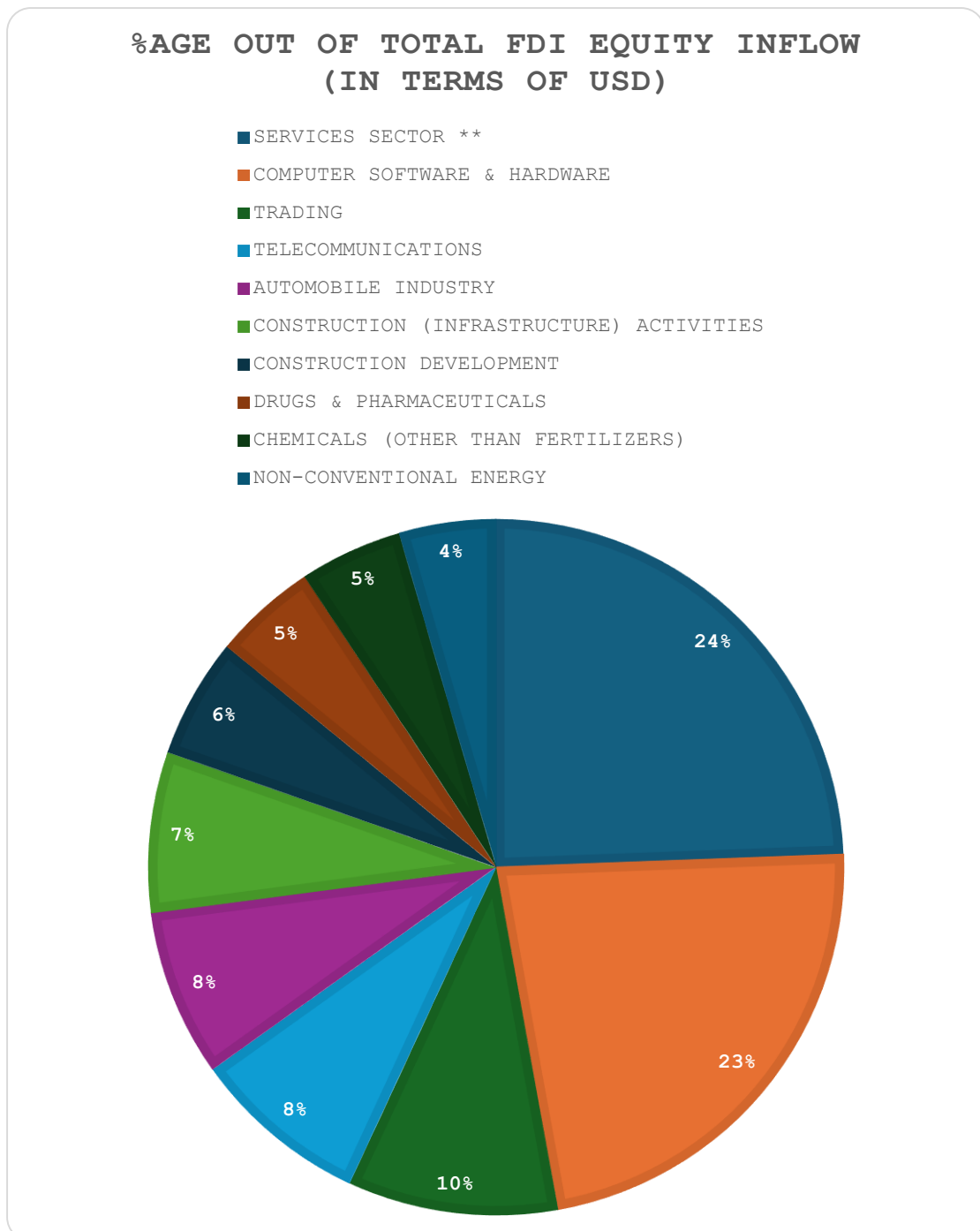


Figure 2-2 Percentage share of various sectors in total FDI Equity Inflow

Source: Department for Promotion of Industry and Internal Trade. (2025)

Cross-Border Capital Flows and the Indian Corporate Sector

According to the graph, the services sector (24.4%) and computer software & hardware (22.7%) receive most India's foreign direct investment inflows, which together make up almost half of all equity inflows. While construction, pharmaceuticals, chemicals, and renewable energy receive comparatively smaller shares, other significant industries drawing investment include trading (9.8%), telecommunications (8.2%), and automobiles (7.8%). This suggests that international investors see India mainly as a centre for technology and services, with consistent but smaller inflows towards infrastructure, manufacturing, and energy.

Driven by skilled talent, cost advantages, and global IT demand, the services sector (24.4%) and computer software & hardware (22.7%) account for the majority of India's FDI inflows. India's growing consumer market and quick adoption of digital technology are advantageous for trading (9.8%) and telecom (8.2%). With the help of PLI incentives, the automobile sector (7.8%) draws foreign direct investment (FDI) because of its low-cost manufacturing base and export potential. Urbanisation and initiatives like Smart Cities are driving up construction (13% combined). India's reputation as a global leader in generics benefits pharmaceuticals (4.8%), while chemicals (4.8%) show consistent industrial demand. As India works towards its 2030 renewable targets, non-conventional energy (4.5%) attracts inflows.

Rank	Country	<u>Cumulative</u> <u>Equity Inflow *</u>	<u>%age</u> <u>out of total</u> <u>FDI Equity</u> <u>inflow</u>
		<u>(April, 2000-</u> <u>March, 2025)</u>	<u>(in</u> <u>terms</u> <u>of</u> <u>USD)</u>
1	Mauritius	180,191	25%
2	Singapore	174,886	24%
3	U.S.A.	70,650	10%
4	Netherland	53,302	7%
5	Japan	44,396	6%

6	United Kingdom	35,887	5%
7	UAE	22,848	3%
8	Cayman Islands	15,637	2%
9	Germany	15,112	2%
10	Cyprus	14,653	2%
TOTAL FDI EQUITY INFLOW FROM ALL COUNTRIES		728,882	

Table 2.1: Distribution of source countries of FDI Inflow.

Source: Department for Promotion of Industry and Internal Trade. (2025).

Mauritius (25%) and Singapore (24%), which are financial hubs and preferred investment routes because of tax treaties and ease of capital movement, dominated India's FDI inflows between April 2000 and March 2025. 10% came from the United States, and steady inflows from European countries like the Netherlands (7%), Japan (6%), and the United Kingdom (5%) were made into industries like infrastructure, cars, and information technology. Smaller shares, frequently associated with energy ties or investment structuring, came from the UAE (3%), Cayman Islands (2%), Germany (2%), and Cyprus (2%). Overall, the data indicates that both offshore hubs that facilitate capital inflows and major world economies influence India's sources of foreign direct investment.

Strategic economic ties and tax benefits are reflected in India's top FDI sources. Due to its long history as a routing hub for multinational corporations under the India-Mauritius DTAA, which previously exempted capital gains tax, Mauritius (25%) leads. Due to its lower tax rates, Mauritius became India's top destination for foreign direct investment (FDI), with many multinational corporations choosing to make their investments there. Similar advantages are enjoyed by Singapore (24%) due to its DTAA, sound financial system, and standing as Asia's investment hub. Strong bilateral trade and technological partnerships are reflected in the US's significant investments in India's IT, services, and startups. Under strategic cooperation, Japan makes investments in electronics, infrastructure, and cars, while the Netherlands acts as a European financial hub with advantageous treaties.

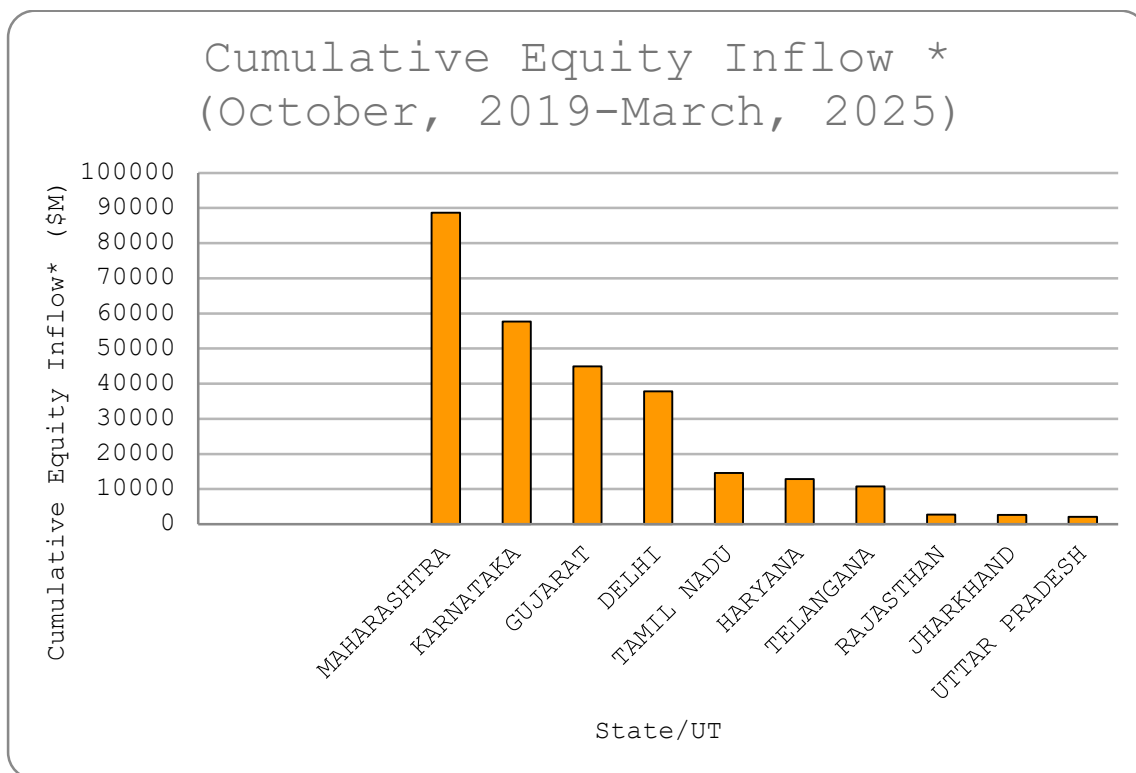


Figure 2-3 State-wise distribution of FDI inflows in India

Source: Department for Promotion of Industry and Internal Trade. (2025).

The cumulative equity inflows across Indian states and union territories from October 2019 to March 2025 are displayed in the graph. With inflows approaching \$90 billion, Maharashtra leads by a wide margin. Karnataka and Gujarat, which also drew large investments, are next in line. States like Haryana, Telangana, Rajasthan, Jharkhand, and Uttar Pradesh received significantly smaller inflows, while Delhi and Tamil Nadu follow, albeit on a much smaller scale. Because of Mumbai's status as India's financial centre, its robust BFSI base, and Pune's IT and manufacturing clusters, Maharashtra leads the country in cumulative FDI inflows from 2019 to 25. Karnataka comes next, propelled by Bengaluru's international standing in R&D, startups, and IT. Gujarat's strong port-led infrastructure, industrial corridors, and investor-friendly policies that support manufacturing and petrochemicals are the main reasons for its high ranking. As the political and administrative centre of the nation and a major location for services, e-commerce, and corporate headquarters, Delhi (NCR) also draws large influxes of people. These states work together to control FDI inflows by combining sectoral strengths, policy support, and infrastructure.

The Reserve Bank of India started the Liberalised Remittance Scheme (LRS) on February 4, 2004. It lets all residents (including minors) send up to USD 250,000 per financial year (April–March) for any allowed current- or capital-account transactions

Cross-Border Capital Flows and the Indian Corporate Sector

(or a mix of both) without having to get permission from the RBI first. You can use the money for things like school, travel, medical care, taking care of close family members who live abroad, gifts and donations, buying property, and investing in foreign assets. Corporations, partnerships, HUFs, and trusts are not allowed to use the money. No more remittances are allowed under the scheme until the next financial year, once the annual limit has been reached.

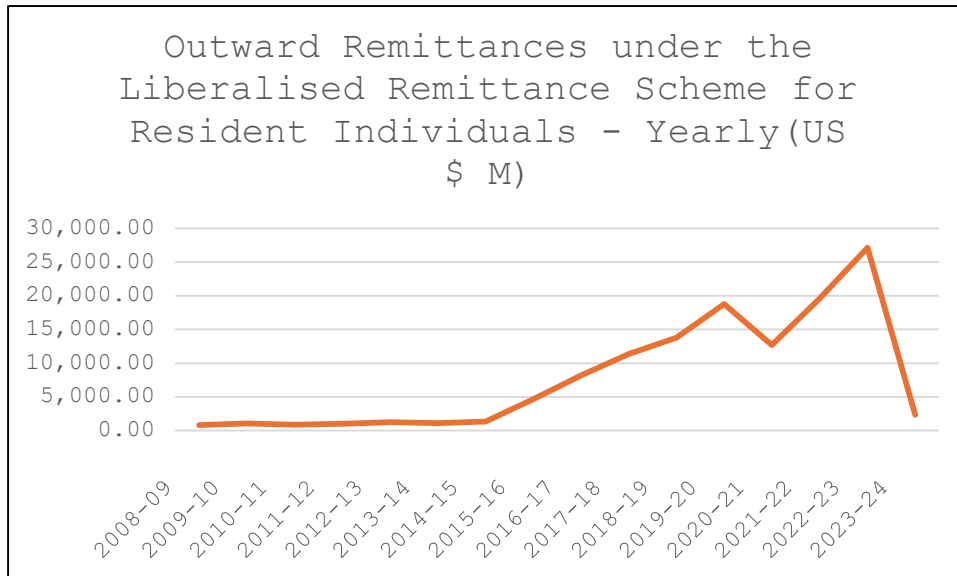


Figure 2-4 Outward Remittances under the Liberalised Remittance Scheme for Resident Individuals

Source: Reserve Bank of India. Database on Indian Economy (DBIE)

The Liberalised Remittance Scheme (LRS) has had three clear phases: it stayed flat until 2015, then it shot up, and now it has been going down. At first, low limits of \$25,000, fewer eligible categories, and reliance on informal channels kept flows low, even though they were slowly relaxed. The 2015 revision raised the cap to USD 250,000 and allowed more uses, such as education, travel, and investments. This led to a surge, with remittances rising from less than USD 2 billion before 2015 to almost USD 27 billion by 2022–23, thanks to rising incomes and digital channels. However, flows fell in 2020–21 because of COVID-19, and the fall in 2023–24 can be attributed to the rupee losing value, less demand for education and maintenance transfers, and TCS was added to LRS transactions, making remittances more expensive.

Cross-Border Capital Flows and the Indian Corporate Sector

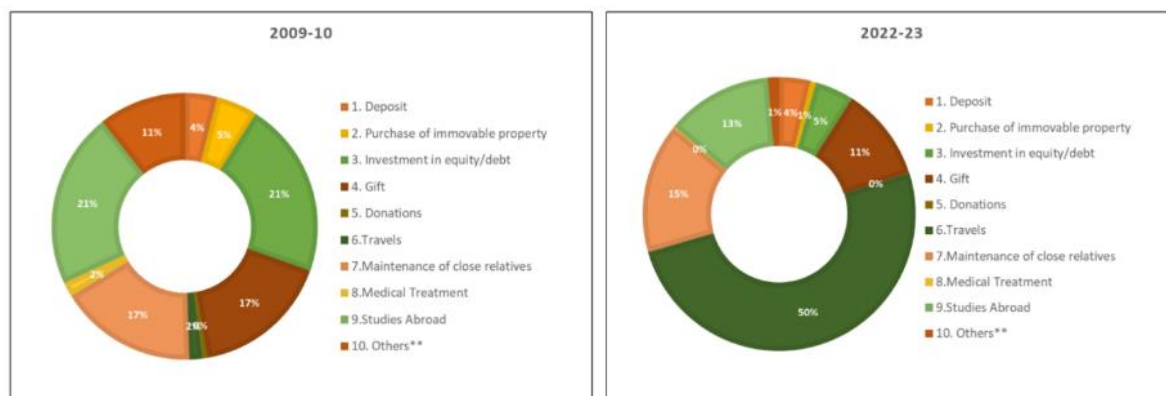


Figure 2-5 Change in usage pattern of outward remittances from India

Source: Reserve Bank of India. Database on Indian Economy (DBIE)

The two charts illustrate a significant change in usage patterns by comparing outward remittances from India from 2009–10 to 2022–23. In 2009-10, the most common reasons for giving money were investing in stocks and bonds (21%), giving money to family members (21%), and taking care of close relatives (17%). These reasons show a mix of investment and family support. But by 2022-23, the trend had changed a lot. Overseas travel became the most common reason for sending money home, making up 50% of all remittances. Maintenance of relatives (15%) and studies abroad (13%) also became more important, showing that more middle-class people are moving around and wanting to go to school. At the same time, important categories like donations and equity/debt investments shrank quickly to very small shares. This difference shows how remittances have changed from being used for managing wealth and giving to charity to being used for things like travel and education, along with rising incomes and the globalisation of Indian households.

Cross-Border Capital Flows and the Indian Corporate Sector

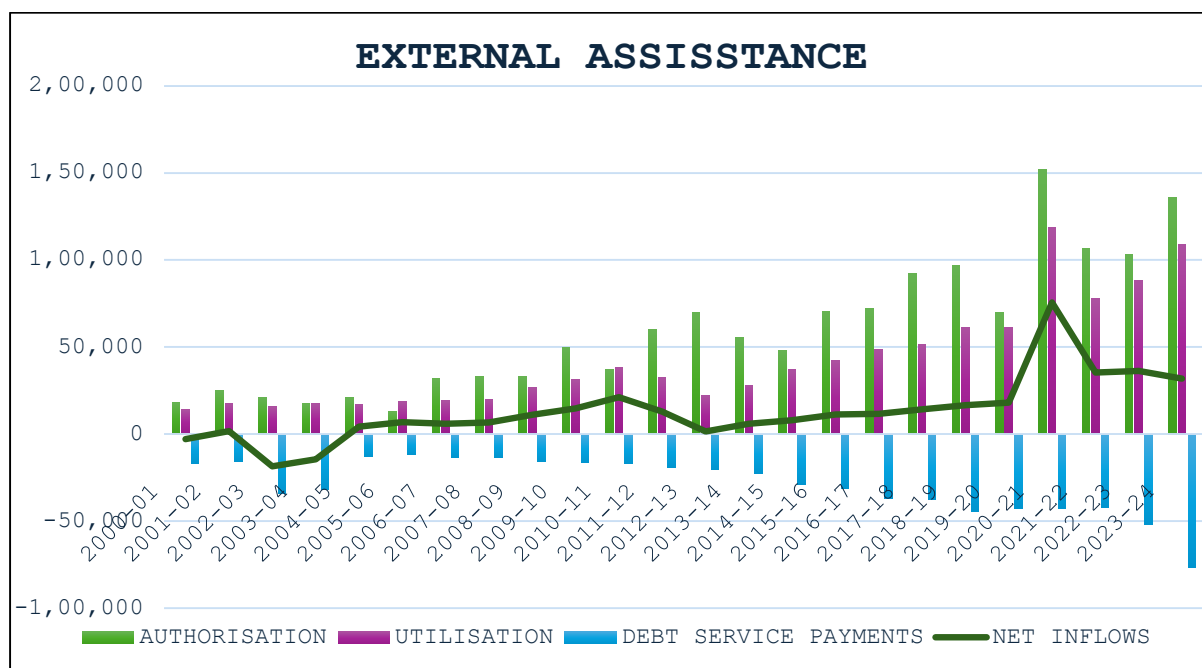


Figure 2-6 External Assistance flows (in US\$ millions)

Source: Reserve Bank of India. *Database on Indian Economy (DBIE)*

Authorisation (green bars), utilisation (blue bars), debt service payments (yellow bars) and net inflows (black line) are the four main components of this graph, which shows external assistance flows in millions of dollars from 2000-01 to 2023-24. Over the course of the 24-year period, the data clearly demonstrates an increase in both authorisation and utilisation, with authorisation rising from approximately \$200 million to recent peaks of \$1.5 billion. Although at lower levels, utilisation typically follows authorisation patterns, suggesting that not all authorised funds are used right away. As repayment obligations have grown, debt service payments (represented by negative values) have increased dramatically since roughly 2018–19 and will reach about \$800 million by 2023–2024. The difference between debt payments and new assistance, or the net inflows line, peaked in 2021–2022, at about \$700 million, and then began to decline as debt service costs increased. This suggests that the nation is about to enter a phase where a greater portion of new external assistance is being used for debt repayments.

Over the past 20 years, significant global economic events and crises have been reflected in the trends in external assistance. Early 2000s growth was modest and in line with Millennium Development Goals commitments, but the global financial crisis of 2008–2009 caused a major slowdown as donor nations faced budgetary constraints and international financial flows to developing nations dropped by 25%. Recovery began around 2010-2015 as economies stabilised, followed by acceleration from 2016-2020 driven by climate commitments and Sustainable Development Goals. As developed nations increased their assistance for developing nations struggling with COVID-19,

foreign aid hit an all-time high of USD 179 billion in 2021, up 4.4% from 2020, marking the dramatic peak in 2020–2022. Despite high authorisation levels, net inflows have recently decreased, which is indicative of a shift from the expansion to the debt management phase as a result of prior loans maturing and growing debt service payments using up more new assistance.

Foreign Direct Investment

Foreign Direct Investment has played a significant role in defining India’s economic transformation over the last 2 decades. FDI signifies the investments made by foreign entities directly into productive sectors of the Indian Economy.

Since its liberalisation in the 1990s, India has moved steadily towards becoming a preferred destination for international investors. FDI rose sharply during the mid - 2000s, reflecting the reforms, and expanding market opportunities and improved investor confidence.

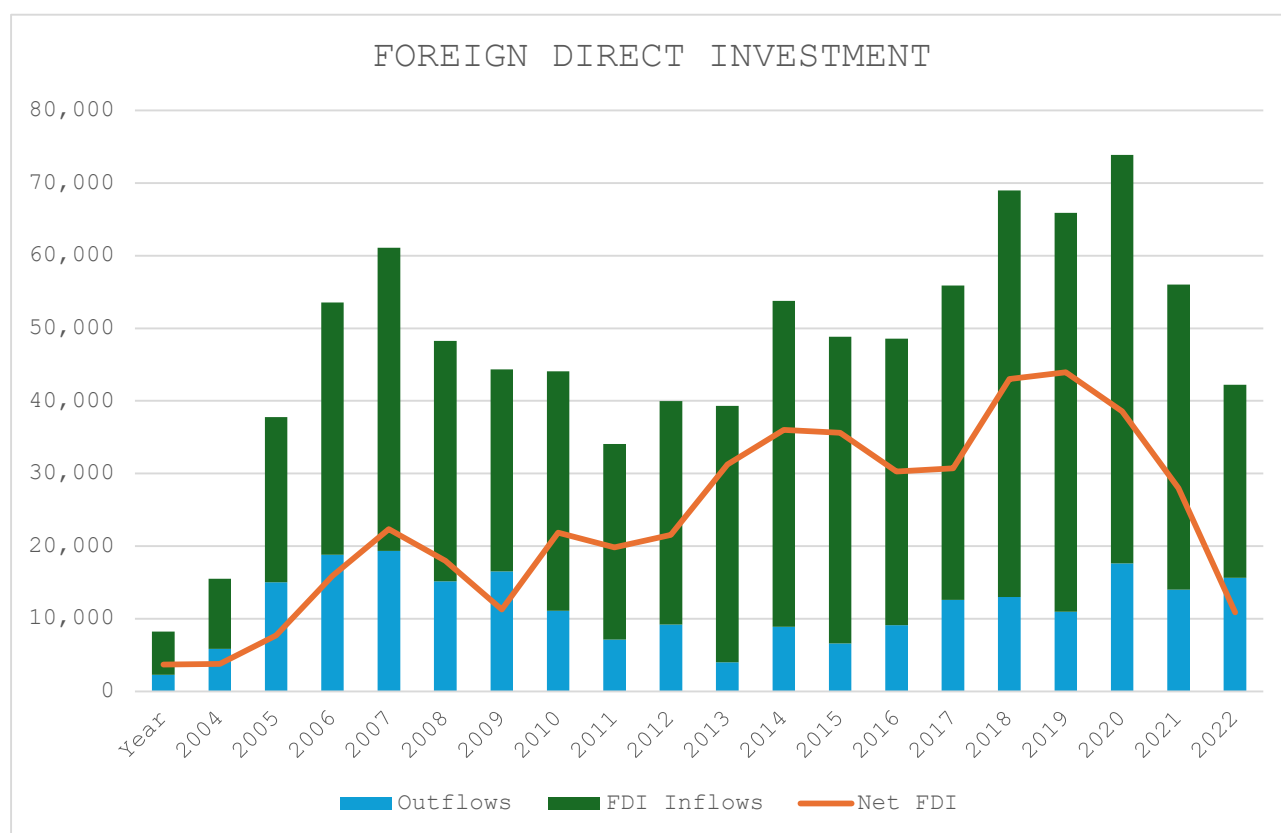


Figure 2-7 India’s FDI flows

Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Trends on FDI

2004-2007: Rapid growth in both inflows and outflows, strong net FDI growth.

Under the mid-2000s, we witnessed a strong surge of FDI inflows to India. The Indian government introduced several liberalisation measures including allowance of 100% FDI in many sectors (telecommunications, manufacturing, insurance, pharmaceuticals, civil aviation, mining, and financial services). During this period India experienced high GDP rates making it an attractive destination for foreign investors. Growth in key sectors attracted higher inflows.

2007-2013: Financial Crisis and its Aftermath

As US housing and banking collapsed in 2007-2008, it triggered a worldwide financial panic, this hurt global investment and economic growth that led to huge decline in investments and hence the net FDI. After the crisis, the economy was reviving during the next time period and the investors showed confidence in the Indian market. FDI inflows rebounded as the global economy stabilized and India's own reforms and gradual liberalization convinced investors to re-engage and maintain steady inflows, at a slower pace as global uncertainties persisted.

2014-2019: Renewed Growth Phase, significant increase in inflows and net FDI

Major government initiatives like 'Make in India,' digital infrastructure expansion, and improvements in the ease of doing business helped attract global capital. Foreign investors responded positively to steps such as GST implementation, bankruptcy law reforms, and liberalization of FDI limits in several sectors.

2020-2022: Pandemic and challenges

The pandemic years brought unpredictable changes, visible in the FDI graph. While the initial shock of COVID-19 and global uncertainty slowed investments, India managed to retain substantial FDI inflows, partially driven by renewed investor interest in digital, healthcare, and technology segments. However, by 2021-22, there was a steep decline in both inflows and net FDI that reflected external global economic shocks. Higher outward FDI from India companies and increased profit repatriations by foreign investors led to lower net FDI.

FDI inflows into India have reflected a mix of domestic policy action and changing global tides. Each rise and dip is driven by a blend of reforms, economic cycles, investor sentiment, and global events. The graph essentially tells the story of India's integration into the world economy highlighting moments when the world invested in India's future, and times when challenges prompted a temporary slowdown.

Overall, India's ability to attract FDI even amidst global headwinds speaks to its enduring potential and the resilience of its economic fundamentals. The country's FDI journey shows how policy, reform, and adaptability can shape a nation's investment landscape over time.

Foreign Portfolio Investment

Foreign Portfolio Investment refers to the investment done by foreign entities in Indian financial assets, primarily equity shares and bonds. FPI is a key indicator for global investor confidence in India. Over the years, as India's economy has opened up, these inflows have both reflected and influenced the nation's journey on the global economic stage. Unlike Foreign Direct Investment (FDI) which involves long-term stake in businesses, FPIs are relatively more sensitive to global events and sentiment, making them a pulse of short-term market dynamics.

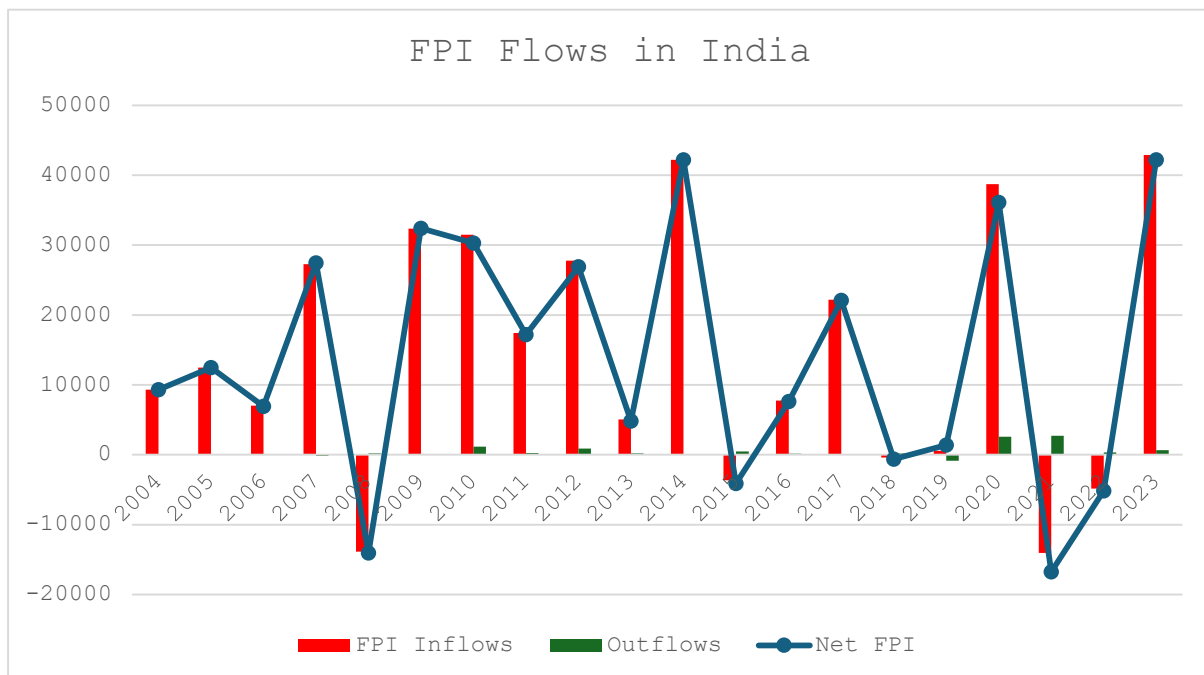


Figure 2-8 FPI Flows in India

Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Trends on FPI

Cross-Border Capital Flows and the Indian Corporate Sector

2004-2007: The years before the financial crisis saw consistent FPI inflows. This period was marked by robust economic growth, market liberalization, and growing global appetite for emerging markets like India. Strong Inflows and net FPI reflected global optimism toward emerging markets, fueled by robust economic growth and liquidity.

2008-2009: The 2008 global financial crisis hit FPI inflows hard, reflecting worldwide foreign investors facing uncertainty in their home markets, who pulled back their funds. This led to net FPI turning negative for the first time in many years, and this phenomenon was seen across emerging markets.

2009-2010: During this period, a strong recovery took place, once the markets stabilized and India's growth gained momentum and FPIs surged again. Foreign investors return aggressively that shows investor confidence and signs of global stability. This period highlights how quickly portfolio flows can turn positive.

2011-2013: This period saw notable fluctuations, reflecting global uneasiness around US Federal Reserve's monetary policy under which American bonds became more attractive to investors due to higher interest rates, making global investors including those in India to move funds out of the markets and back to US. Even small policy shifts or global news could make FPI inflows swing widely during these years.

2014-2018: We saw strong net FPI in 2014 due to policy reforms and high global liquidity, foreign investors piled up hoping for strong economic growth. However, by 2015, concerns over global growth, China's slowdown, and uncertainties in commodity prices led to another retreat, reiterating the external dependence of FPI inflows. The effects of demonetisation in late 2016, and implementation of the GST in 2017, shook investors initially creating uncertainty and slowing capital inflows. In 2018, we saw a smaller dip linked to global trade tensions due to worries over tighter US monetary policy which led to rupee depreciation.

2018-2019: During the period, FPI inflows experienced some decline amidst the global uncertainties such as the US-China trade war, slower global sector, and domestic challenges like banking sector slowdown leading to cautiousness among foreign investors

2019-2020: FPI inflows faced more pressure, as the depreciation of INR against USD adding to the financial market instability. The inflationary pressure further rose due to supply constraints and oil prices volatility. The RBI had to intervene as inflation remained a concern and the period was categorised as fewer capital flows due to heightened risk aversion.

The COVID-19 pandemic led to a further dip in the trend, FPI inflows were subdued by economic slowdowns and global tensions. The disruptions led to one of the sharpest selloffs in India's FPI history, Global investors pulled back from India, causing massive FPI outflows and high volatility in the Indian Financial Markets

2022-2023: The trend seemed to continue in the first half of 2022, as reacting to global uncertainties including rising interest rates by US Federal reserve and other reasons like Russia Ukraine conflict investors continued the FPI sell-offs. However, during the second half of 2022, the trend reversed sharply as the markets stabilized FPIs returned with strong inflows. 2023 saw continued inflows, although the FPI remained sensitive to global economic developments, foreign investors pumped over Rs 1,7 lakh crore into the Indian Equity market, demonstrating sustained confidence levels in India's growth story.

India's Foreign Portfolio Investment (FPI) trends over the past decade reflect a story of resilience amid global and domestic challenges. Starting with strong inflows around 2014 due to reform optimism, FPIs faced dips from global slowdowns and commodity price shocks. Major reforms like demonetisation and GST created initial uncertainty (2016-18), but inflows gradually recovered. The rupee depreciated about 10.9% against the US dollar from 2018 to 2020, reflecting global trade tension impacts. The COVID-19 pandemic caused sharp FPI outflows in 2020, followed by a swift recovery in 2021, driven by tech and healthcare sectors.

In 2022-23, FPIs initially fell due to US rate hikes and geopolitical risks but rebounded as India's macroeconomic fundamentals and regulatory reforms attracted renewed foreign interest. The rise of alternative investment funds, REITs, and InvITs also diversified foreign investment channels, underscoring India's growing appeal as a vibrant emerging market with evolving opportunities

Various NRI Deposits Schemes

As an increasing number of Indians began to migrate abroad for employment, the government in the 1970s implemented NRI deposit initiatives. To promote the repatriation of their savings back to India, the government created schemes that allowed for full repatriation of deposits while offering appealing interest rates. Since then, NRIs have deposited significant sums of money into the Indian banking sector. These inflows have been an important source of foreign currency for India.

TRENDS IN NON-RESIDENT DEPOSIT FLOWS

PRE-CRISIS

NRI deposits were launched in February 1970 with the introduction of the NRERA (Non-Resident (External) Rupee Account), which allowed for repatriable principal and interest. In 1975, the FCNRA (Foreign Currency Nonresident Account) was introduced, which is also a repatriable foreign currency deposit, with the RBI assuming the exchange rate risk, making it appealing to banks. Initially, growth was modest, but by the 1980s, inflows picked up considerably, particularly into FCNRAs, as India faced an increasing current account deficit. By 1990, the total value of NRI deposits had reached US\$12.4 billion, with approximately 70% in foreign currencies, fueled by competitive interest rates, exchange-risk protection, and relaxed CRR/SLR requirements.

POST-CRISIS

During the 1990s, India experienced a Balance of Payments crisis, facing severe external sector challenges due to high current account deficits and political instability. The country's foreign exchange reserves dwindled to levels barely sufficient to cover 2-3 weeks of imports. The confidence of Non-Residents diminished, leading to concerns that India might default or impose restrictions; consequently, despite penalties for early encashment, significant outflows and withdrawals occurred, increasing pressure on the economy. This highlighted how dependent India was on unstable NRI deposits, rendering its external position more precarious. In response, new deposit schemes like FCNRB and NRNR were created, while older schemes were modified. Throughout the 1990s, inflows from FCNR(B) largely compensated for FCNR(A) repayments, whereas rupee schemes contributed an additional US\$10 billion. By the 2000s, annual inflows averaged over US\$2 billion, leading to a sharp increase in reserves, and policies shifted to lower deposit rates and aligned CRR/SLR with domestic account levels.

Properties of NRI Deposits:

- **Currency Composition:** deposits can either be denominated in rupees or in foreign currencies. After the crisis, the proportion of foreign currency deposits decreased from 70 percent in 1990 to around 44% in FY25.

Cross-Border Capital Flows and the Indian Corporate Sector

- **Repatriable Component:** This refers to the portion of your deposit and its interest that you can take back from India. Currently, both FCNR(B) and NR(E)RA allow for full repatriation, whereas NRO permits only partial repatriation.

NRI DEPOSIT SCHEMES THROUGH THE YEARS

ACTIVE SCHEMES

Deposit Type	Currency	Repatriable	Tax Status	Use Case
FCNR(B)	Foreign	Fully	Tax free	To invest in foreign currency and protect funds from currency fluctuations
NR(E)RA	INR	Fully	Tax free	To deposit foreign currency into Indian bank account
NRO	INR	Limited	Taxable	To manage and consolidate income earned in India, such

Cross-Border Capital Flows and the Indian Corporate Sector

				as rent, dividends, or pension
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Discontinued schemes

SCHEME	DURATION	REASON
FCNR(A)	1991-1997	FCNR(B) replaced it by giving better benefits like foreign exchange risk fell on banks not on customers, the banks could utilise the funds themselves and would not have to surrender them to RBI making it attractive for banks to offer better deposit rates to customers
NR(NR)RD	1992-2004	The scheme had outlived its utility, as it was designed to attract foreign exchange while India was restructuring its financial systems. With schemes introduced with better benefits it had proven costly not only to customer but also to the country.
FC(O)N & FC(B&O)D	1991-1995 1993-1998	Crisis-specific they phased out post crisis

Visual presentation and explanation

The graphs presented below are based on data sourced from DBIE, a government site associated with the Reserve Bank of India. To make the graphs clearer and enhance comprehension, the selected time frame is from 2000 to 2024, and only information on the currently active schemes has been included, which is why the overall total will not correspond to the sum of the individual schemes provided.

In the early 2000s, the RBI began to gradually lower the interest ceiling rates to mitigate excessive inflows that could potentially lead to an overheating of the rupee.

Cross-Border Capital Flows and the Indian Corporate Sector

This resulted in a slight reduction in deposits. However, over time, the trust of NRIs remained steady as the inflows were consistent. There was a noticeable decline in 2008, attributed to the global financial crisis, when depositors opted to withdraw their funds for safety; yet, India's resilience during the crisis helped restore these flows relatively quickly.

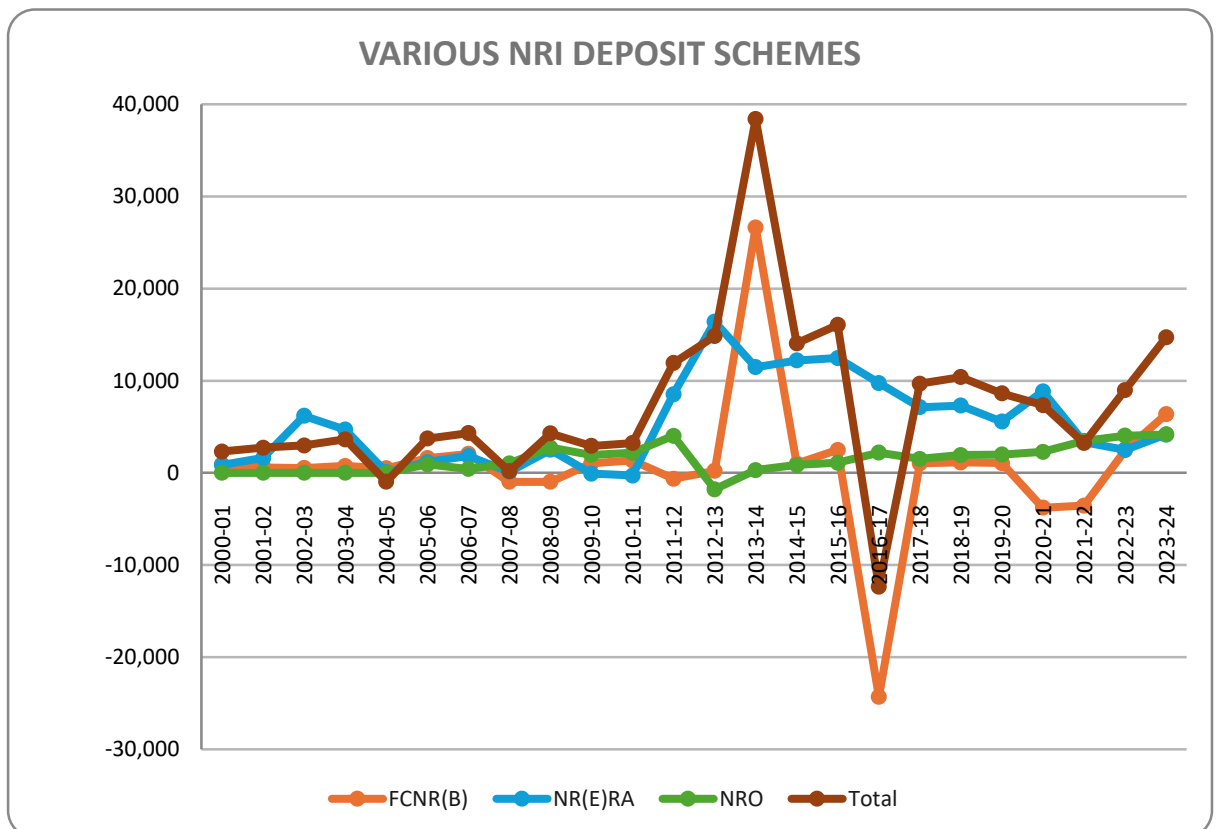


Figure 2-9 Various NRI deposit schemes over the years

Source: Reserve Bank of India, Database on Indian Economy (DBIE)

The significant peak depicted in the graph was triggered by the taper tantrum in 2013. This event incited panic among investors fearing impending US interest rate hikes, leading to mass withdrawals from emerging markets, including India. The abrupt and large-scale outflow created substantial turbulence in the financial markets, resulting in billions being pulled from the Indian equity and debt sectors. Consequently, this led to a depreciation of the rupee. To curtail further withdrawals from NRI deposits, the RBI introduced a special scheme under the FCNR(B) (foreign currency denominated deposit) called the SWAP SCHEME.

Through this initiative, the RBI itself provided the opportunity to exchange foreign currency for Indian rupees at participating banks and to reverse the currency exchange after a specified period at a predetermined rate (known as the swap rate). This

scheme attracted approximately US\$26 billion in deposits, significantly boosting India’s foreign exchange reserves. It was appealing to NRIs since the RBI mitigated currency exchange risk and offered around 3.5% returns, which was quite attractive compared to global rates. This scheme operated only temporarily and was terminated once its goals were achieved. The substantial influx resulted in the spike visible on the graph.

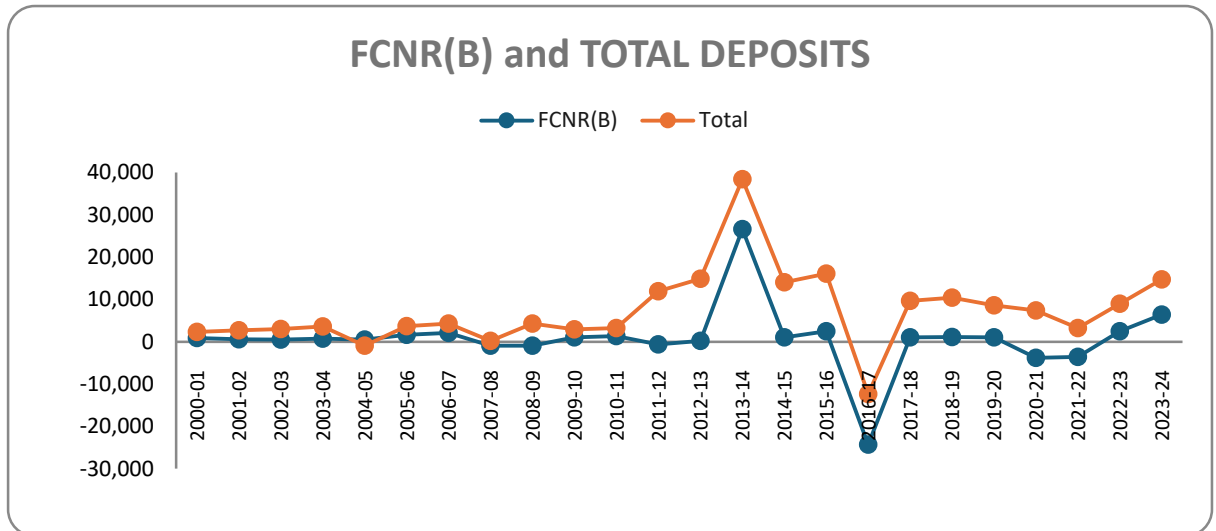


Figure 2-10 FCNR(B) & Total deposits

Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Three years later, as these deposits matured, there were notable outflows. Given that this scheme was a temporary measure to stabilize foreign reserves and no new highly attractive schemes were introduced, the inflow of NRI deposits slowed again, leading to the decline seen on the graph in 2016.

In the subsequent years, a steady flow of deposits was observed, with minor spikes occurring during the COVID-19 pandemic when lockdowns forced people to stay home. Investors withdrew funds due to market instability, but with remittances being sent by NRIs back home, there was a slight increase in NR(E)RA. Recently, the RBI has raised interest rate ceilings to make deposits more appealing to NRIs, resulting in a gradual increase post-2022. This adjustment may have been aimed at enhancing foreign reserves, particularly as the rupee faced pressure, and alongside interest rate changes, additional measures have also been implemented to encourage deposit inflows.

Cross-Border Capital Flows and the Indian Corporate Sector

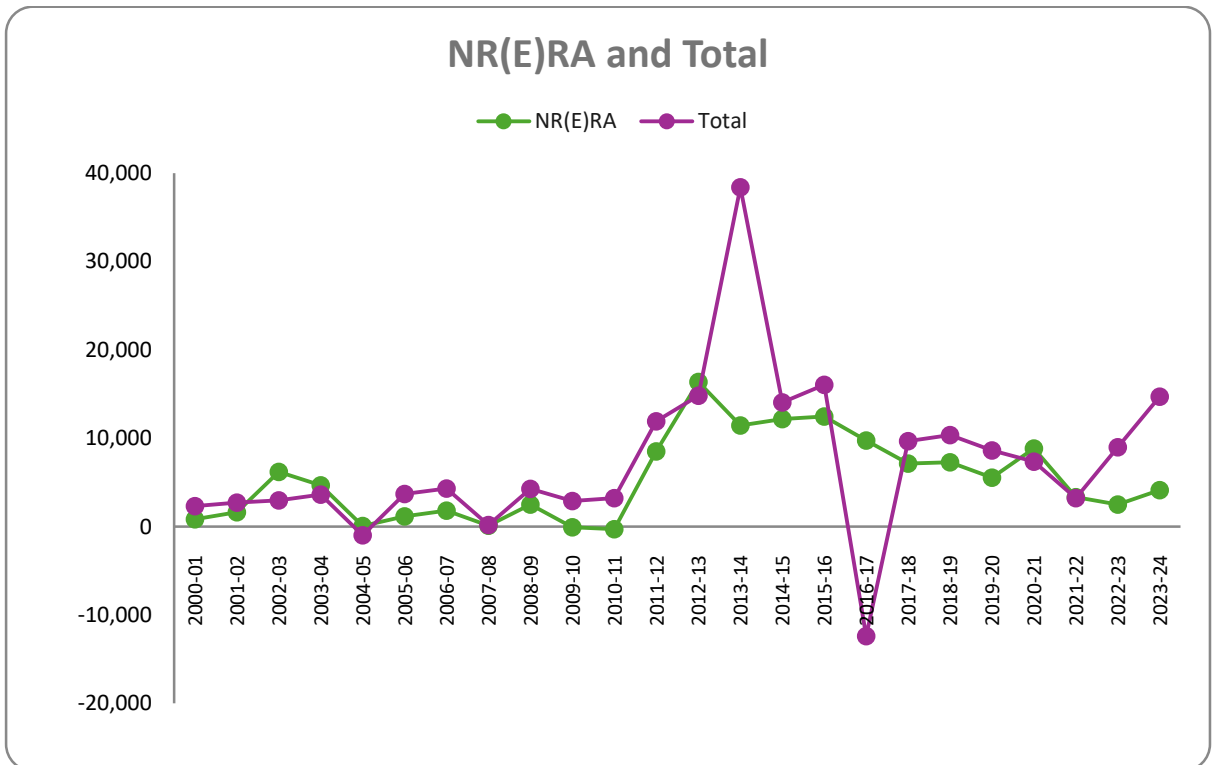


Figure 2-11 NR(E)RA and Total Deposits

Source: Reserve Bank of India, Database on Indian Economy (DBIE)

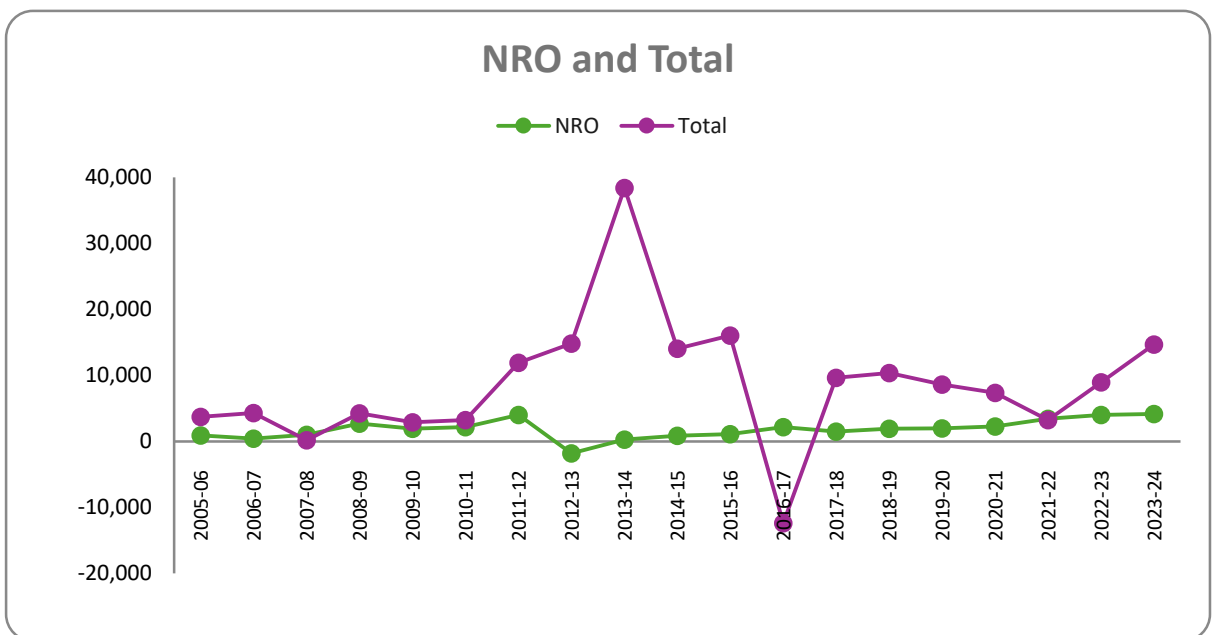


Figure 2-12 NRO and Total Deposits

FOREIGN LIABILITIES AND ASSETS FOR MUTUAL FUND AND ASSETS MANAGEMENT COMPANIES

Foreign Liabilities & Assets tell us how “globally connected” mutual funds & AMCs are — both how much foreign money they manage in India and how much Indian money they have invested abroad.

KEY COMPONENTS OF FLA FOR MUTUAL FUNDS/AMCS

1. Foreign Liabilities

Foreign liabilities represent the obligations of Indian Mutual Funds and Asset Management Companies (AMCs) towards non-resident investors. These liabilities arise when units of mutual funds are held by Non-Resident Indians (NRIs), foreign institutional investors, or overseas entities. The reporting of foreign liabilities requires disclosure of the total number of units owned by such investors, their market value as on the closing date of the reporting period, and a classification of investors by type, including individuals, corporates, and institutions.

2. Foreign Assets

Foreign assets comprise investments made by Indian Mutual Funds and AMCs outside India. Such investments typically include overseas exchange-traded funds (ETFs), international debt instruments such as bonds and debentures, foreign equities, and units of pooled funds or mutual funds abroad. Reporting on foreign assets involves providing the market value of each investment, a detailed country-wise and instrument-wise breakdown, and specifying whether the investment was made directly or through a feeder fund structure.

3. Income Flows

Income flows capture the earnings generated by Indian Mutual Funds from their overseas investments. These income streams include dividends received from foreign equities or funds, interest accrued from international debt securities, and capital gains or losses realized on the sale of foreign investments. For reporting purposes, both gross and net income (after deduction of taxes and expenses) must be disclosed, with clear attribution to the relevant reporting period.

4. Changes in Position

Changes in the position record the variations in foreign assets and liabilities during the reporting period. These changes may result from exchange rate fluctuations, which alter values when converted into Indian rupees; market revaluations, reflecting shifts in the market prices of foreign securities; and actual transactions, including purchases, sales, inflows, or redemptions. Documenting these movements ensures

accurate reconciliation between the opening and closing balances of foreign assets and liabilities.

WHY FLA MATTERS FOR MUTUAL FUNDS & AMCS?

1. Regulatory compliance external sector Statistics transparency - Mutual Funds and Asset Management Companies (AMCs) are required to report their foreign assets and liabilities annually to the Reserve Bank of India (RBI) under the Foreign Exchange Management Act (FEMA). This ensures that all entities dealing with foreign investments follow proper legal and financial reporting standards.

2. External sector statistics- The data collected through FLA reporting helps the RBI build accurate external sector statistics, especially India's International Investment Position (IIP). This gives a clear picture of the country's total foreign assets and liabilities, where mutual funds and AMCs play a growing role due to their global investment activities.

3. Transparency- FLA report includes transparency by disclosing the extent of foreign holdings and overseas investments by mutual funds and AMCs. This allows regulators to monitor risks related to capital flows and currency exposure, while also supporting informed policy decisions and investor confidence.

SRI

Cross-Border Capital Flows and the Indian Corporate Sector

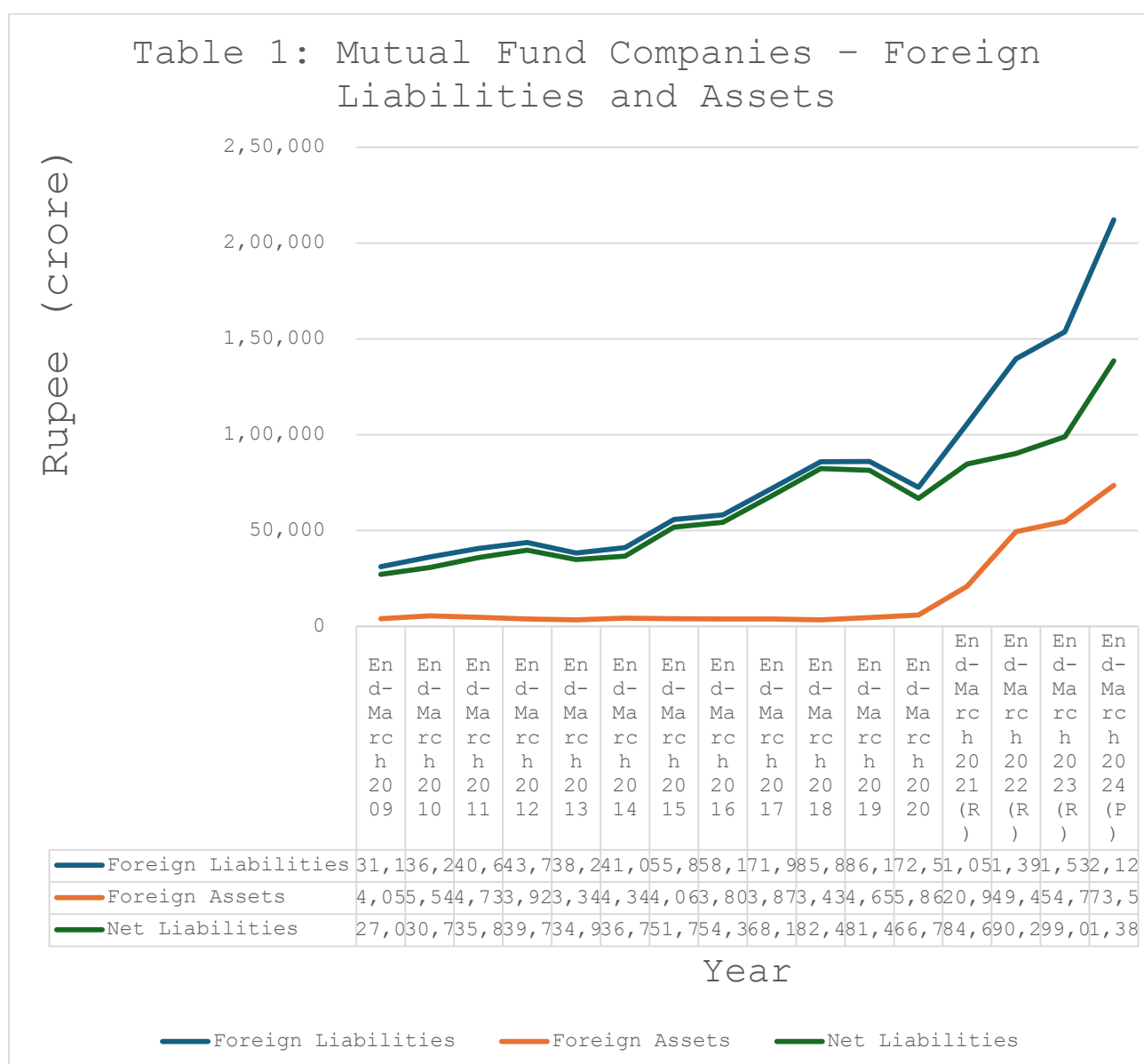


Figure 2-13 Mutual Fund Companies - Foreign Liabilities & Assets

Source: Reserve Bank of India. Database on Indian Economy (DBIE)

Interpretation: Indian mutual funds have more debt to foreign investors than foreign assets, since foreign liabilities are much larger. Net liabilities are therefore significant compared to what they hold overseas.

Between 2009 and 2010, both assets and liabilities increased, indicating a slight rise in outbound investments and a higher level of foreign participation.

Mutual funds are net receivers of foreign funds, not net investors abroad, due to the wide gap between liabilities and assets.

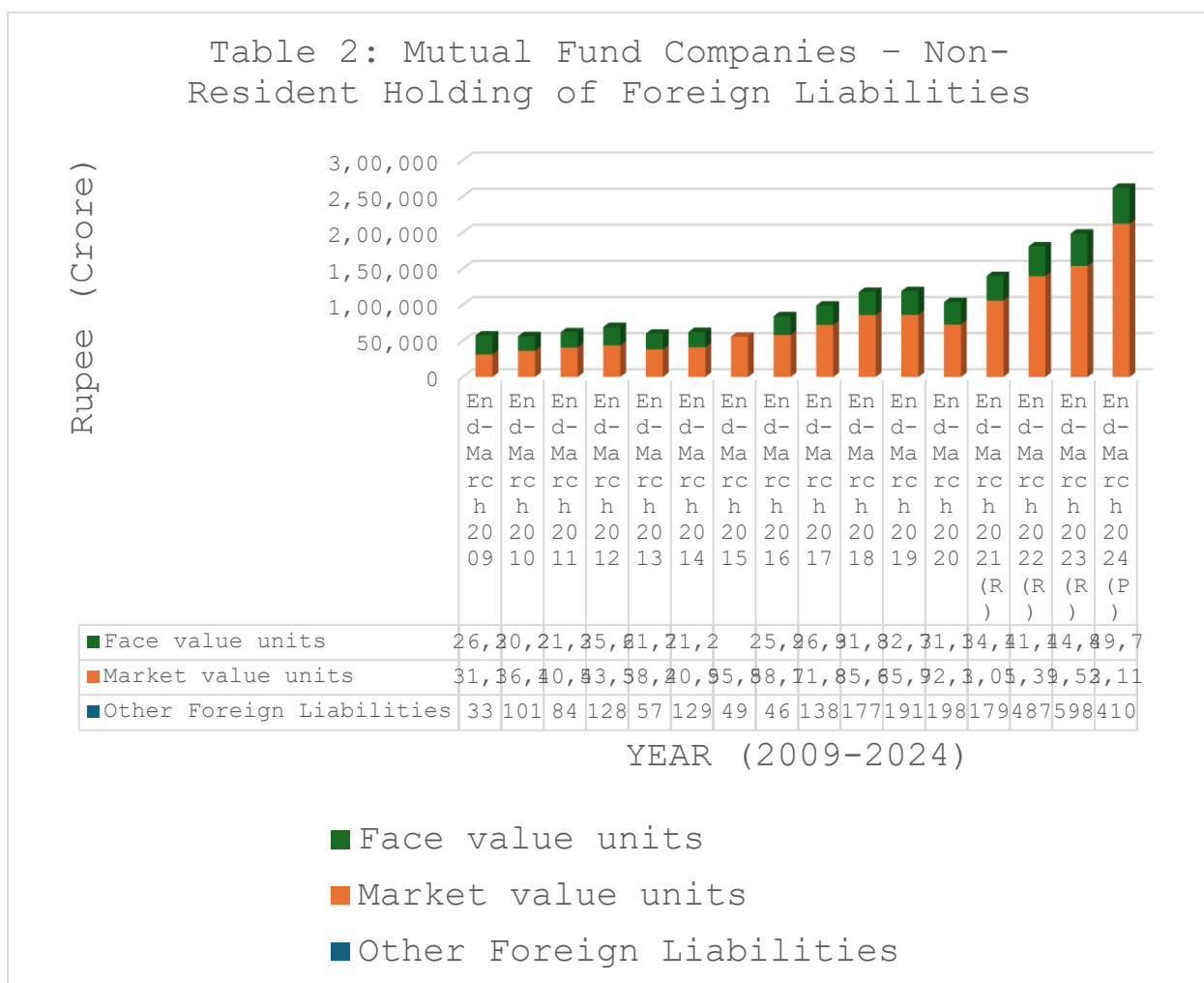


Figure 2-14 Mutual Fund Companies - Non-Resident Holding of Foreign Liabilities

Source: Reserve Bank of India. Database on Indian Economy (DBIE)

Interpretation: The majority of foreign liabilities are held by non-residents, and market value units make up the bulk of these liabilities. The fact that face value units are slightly lower than market value units suggests that they have appreciated. Most liabilities arise directly from unit holdings, as other foreign liabilities are negligible in comparison. Almost all foreign assets consist of equity securities, with foreign stocks being the primary means through which Indian mutual funds invest overseas.

During this period, there is no investment in foreign bonds, and debt securities remain at zero. Although very small in volume, other foreign assets display a steady presence.

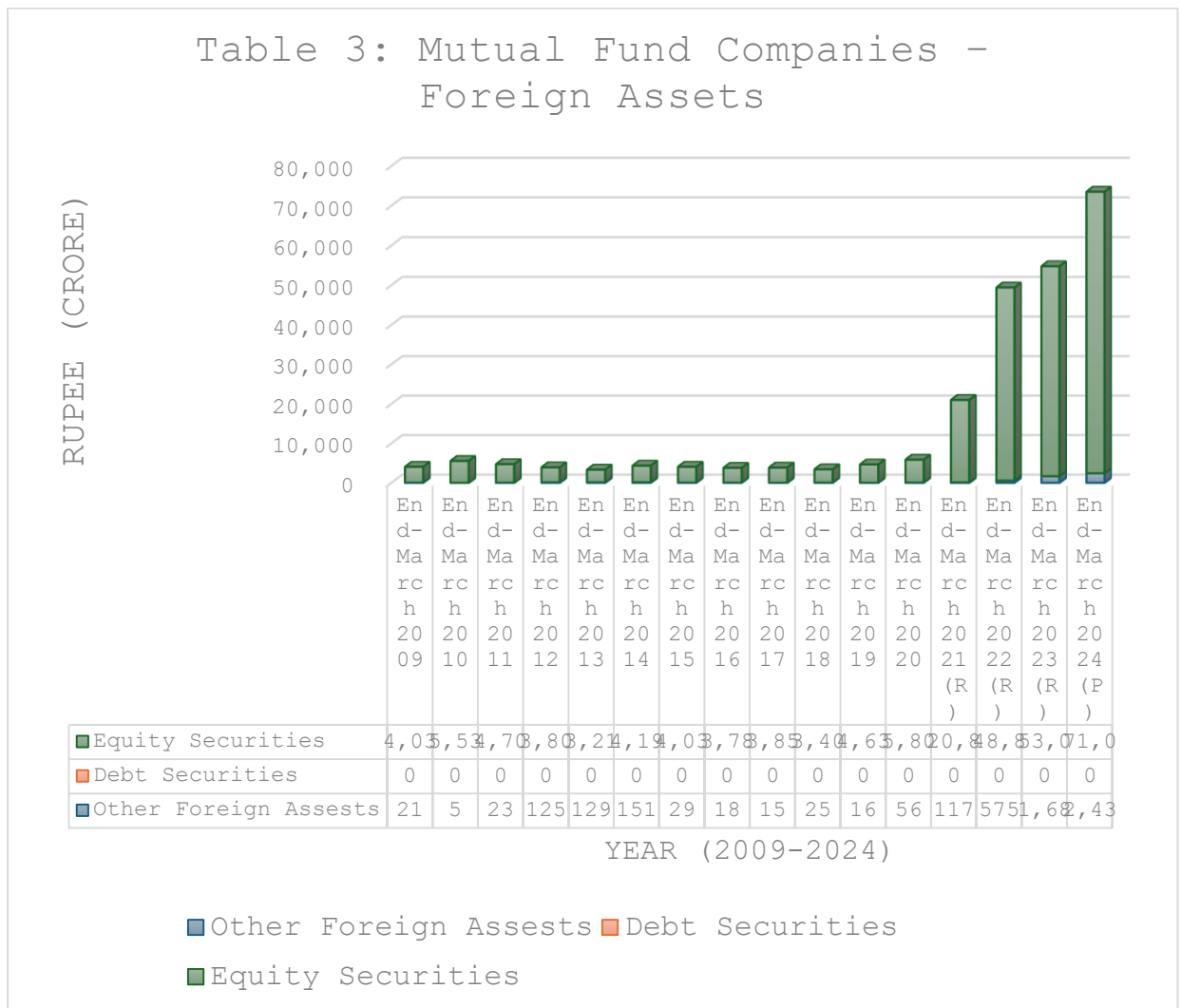


Figure 2-15 Mutual Fund Companies - Foreign Assets

Source: Reserve Bank of India. Database on Indian Economy (DBIE)

Interpretation:

Almost all foreign assets are equity securities, with foreign stocks being the primary means through which Indian mutual funds invest overseas. During this period, there is no investment in foreign bonds, and debt securities remain at zero.

Analysts and experts in the mutual fund sector claim that the rate of return has recently been extremely low on a global scale. As a result, NRIs sought out chances to invest and allocate funds to Indian stocks. Due to an increase in their equity securities holdings, MF companies' foreign assets grew by \$3.6 billion over the course of the year, reaching \$6.5 billion in March 2022. Consequently, in March 2022, MF companies' net foreign liabilities were \$11.3 billion. The outstanding limits of the mutual funds that NRIs own are investments in foreign liabilities. NRIs in the United Arab Emirates

Cross-Border Capital Flows and the Indian Corporate Sector

(UAE), the United Kingdom (UK), the United States of America (USA), and Singapore collectively held approximately 44% of all MF units held overseas.

The MF industry witnessed steady growth with ample investments from NRIs, till the beginning of April this year when inflation started buffeting the Indian economy hard. While the lower rate of returns in other countries was one of the major factors till then, the stable performance of the rupees too contributed significantly

Other foreign assets, such as cash deposits, real estate, or alternative investments—are relatively small but have steadily increased from ₹21 crores in 2009 to ₹151 crores in 2014. Equity exposure peaked in 2010 and then declined, indicating a shift in global equity allocations.

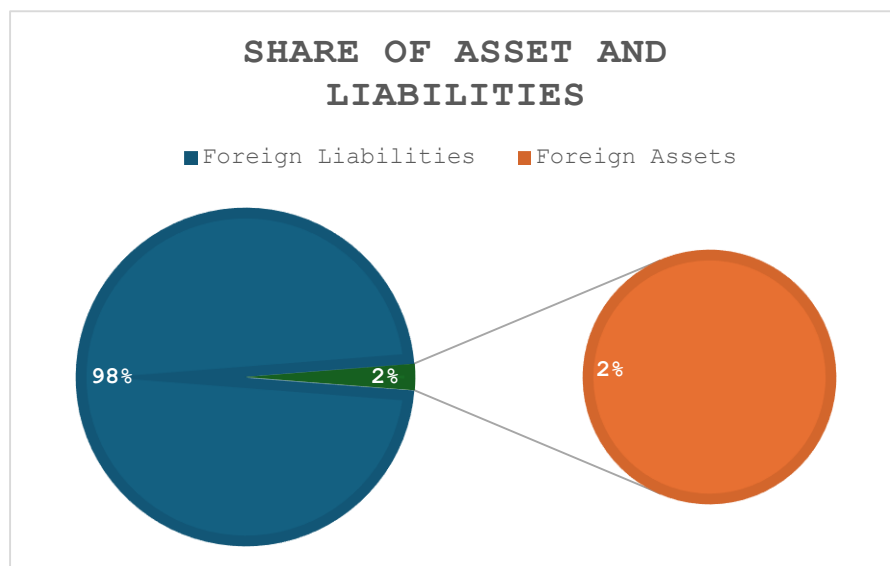


Figure 2-16 Share of Assets and Liabilities

Source: Reserve Bank of India. Database on Indian Economy (DBIE)

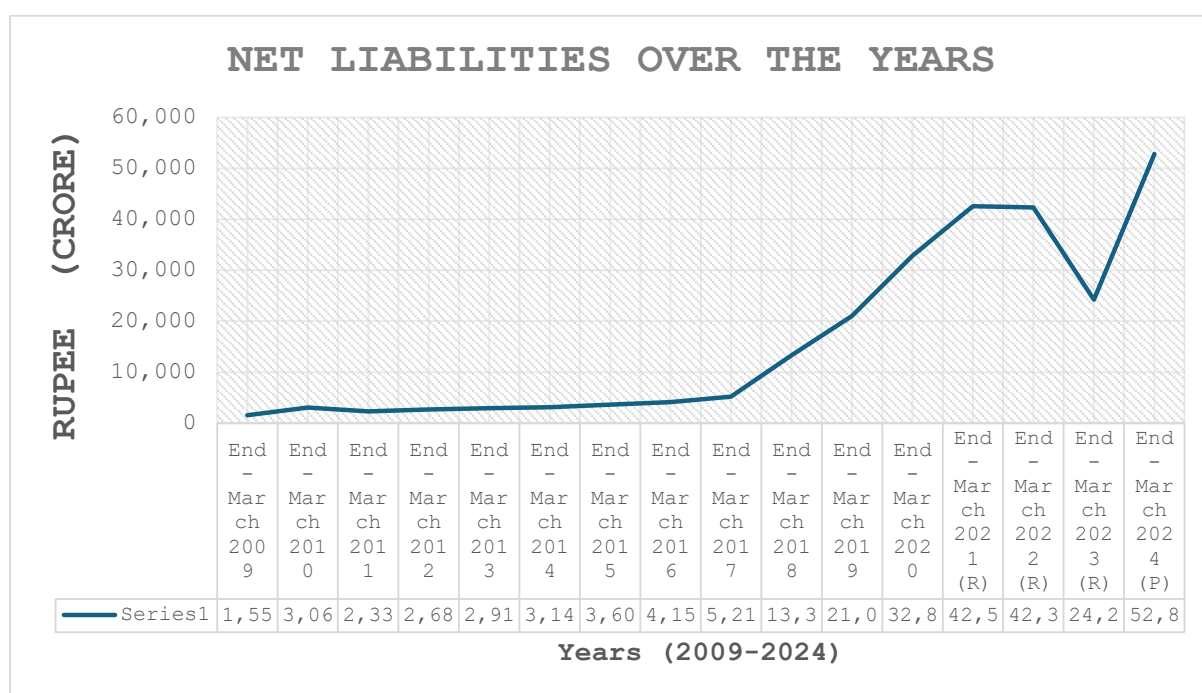


Figure 2-17 Net Liabilities over the years

Source: Reserve Bank of India. Database on Indian Economy (DBIE)

Interpretation: Net liabilities remained low (around ₹1,500–5,000 crore) until 2017.

Increased Household Debt: It has been reported that beginning in 2017–18, household financial surpluses narrowed as a result of financial liabilities growing more quickly than assets. A greater reliance on borrowed money to pay for consumption and other expenses is implied by this increase in liabilities. **Government Debt Accumulation:** The COVID-19 pandemic caused the government to spend more on services and programs, which greatly increased the amount of public debt. A general increase in net liabilities for both governments and possibly the entire economy would have resulted from this increase in national debt, a significant component of liabilities. **Broader Economic Slowdown:** After 2017, there was volatility and a slowdown in growth in the global economy, especially in the time after the pandemic. As a result, households and businesses may borrow more money and see their asset values decline.

Recovering Household Savings In 2023, household financial savings began to return to their pre-pandemic level. As assets grew more quickly than liabilities, households' overall net financial position improved, possibly lowering their net liabilities even though they may still have liabilities. **Decreased Corporate Borrowing:** Beginning in 2023, advanced economies saw a decline in corporate borrowing, which was fueled by robust corporate balance sheets and muted growth prospects. The

economy's overall net liability picture improves when corporate debt declines. National Debt Stabilization: Despite spending spikes brought on by the pandemic, attempts to control and lower debt in 2023, along with possible economic recovery

Persistent Geopolitical Tensions: Higher market rates and borrowing behavior are being influenced by broader geopolitical uncertainties as well as worries about growing deficit spending in a number of nations. Growth of Private Credit: Although dealmakers are advised to optimize capital structures in this uncertain environment, the expansion of private credit markets, a source of funding for businesses, remains a factor. Exorbitant borrowing costs Even though financing conditions have somewhat improved, previous interest rate hikes continue to have an impact on businesses' debt service expenses, and high long-term rates can raise borrowing costs and possibly increase reliance on debt for operations and projects.

Overall, this indicates that AMCs' reliance on foreign funding has grown significantly in recent years.

International Investment Position (IIP) of India

The following presents a descriptive analysis of India's external sector, with a focus on foreign investment inflows and the International Investment Position (IIP) data. As the objective is to explain the composition and policy relevance of these indicators, the emphasis is placed on trends, structural composition, and macroeconomic implications.

The IIP is a stock measure that records the value of all external financial assets owned by residents of a country against the value of all external financial liabilities owed to non-residents at a given point in time. According to the IMF's Balance of Payments and International Investment Position Manual (BPM6), the net IIP is defined as:

Net IIP=Assets–Liabilities

A negative net IIP indicates that the country is a net debtor, while a positive net IIP reflects a net creditor position.

The dataset under review highlights notable developments. The highest aggregate value was observed in 2021–22:Q2-P, amounting to 66.9 million, which marked the peak period within the sample. Liabilities constituted the dominant

Cross-Border Capital Flows and the Indian Corporate Sector

component in the “Value by Items” distribution, accounting for 298.1 million, or 14.76% of the total. Moreover, when isolating liabilities, the peak value also occurred in 2021–22:Q2-P, registering 9.3 million. Within the classification, the “List B” category recorded the highest contribution at 298.1 million.

These findings underscore the central role of liabilities in shaping India’s IIP profile. The government’s focus has been directed toward understanding the underlying factors contributing to the peak in 2021–22:Q2-P, particularly with respect to liabilities. Identifying these drivers is essential to sustaining or replicating similar performance in the future. Furthermore, given the predominance of liabilities in the external balance sheet, it is important to formulate strategies to optimize or leverage this category to strengthen overall financial resilience.

All data are based on Revised (R) values, with Provisional/Partially Revised (PR/P) figures incorporated where revisions were not available.

India’s IIP (Net) Trend from 2005 to 2020

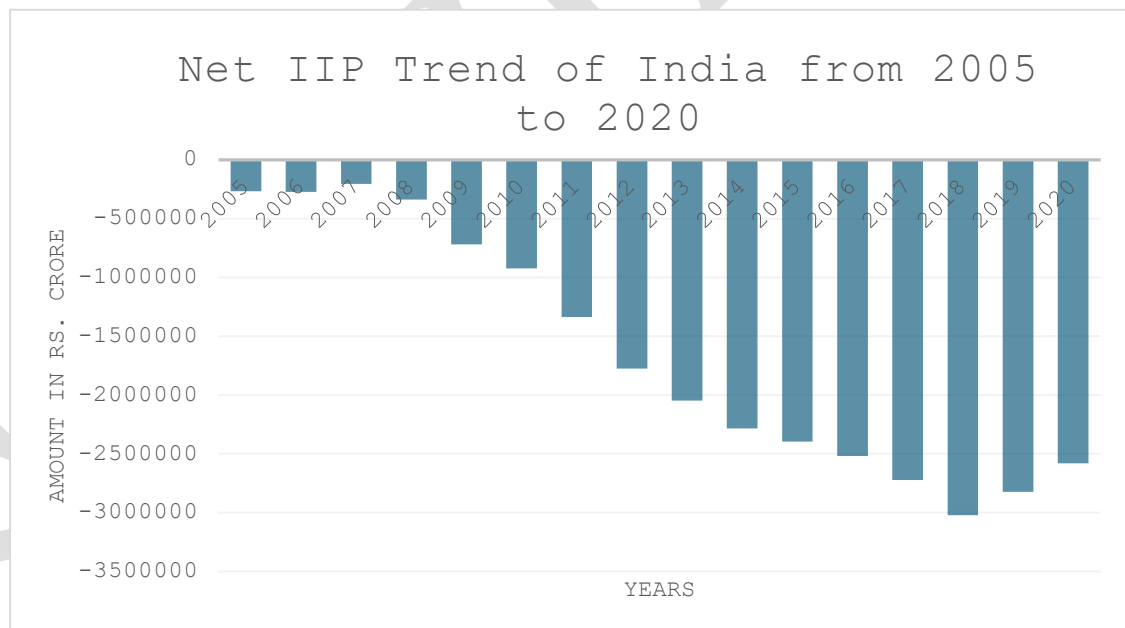


Figure 2-18 Net IIP Trend of India from 2005 to 2020

India’s Net International Investment Position (IIP) between 2005 and 2020 has remained consistently negative, reflecting the country’s status as a net debtor. This imbalance arises because foreign liabilities, driven by foreign direct investment (FDI), portfolio flows, and external borrowing, consistently exceed India’s overseas assets, such as foreign reserves and outward investments. Structural reliance on foreign capital to bridge the gap between domestic savings and high investment needs, alongside

persistent current account deficits due to heavy imports of oil, gold, and machinery, has reinforced the negative position. In addition, valuation effects such as rupee depreciation have amplified external liabilities in dollar terms.

The year-wise trends show that while India entered the mid-2000s with a moderately negative IIP, the global financial crisis of 2008–10 deepened the imbalance as capital inflows slowed and external borrowing rose. The position deteriorated further during 2011–13 with persistently high oil prices, widening current account deficits, and volatile portfolio flows, most notably during the 2013 “taper tantrum.” Although falling crude oil prices after 2014 briefly slowed the deterioration, external liabilities continued to outpace asset accumulation. By 2016-17, the IIP stabilized somewhat as reforms and steady FDI inflows offset external vulnerabilities, but the balance remained firmly negative.

From 2018 to 2020, India’s IIP plateaued around -2.6M to -3.0M, reflecting a combination of global trade slowdowns, rupee depreciation, and the economic shock of the COVID-19 pandemic. These patterns highlight the structural character of India’s negative IIP: while stable FDI inflows provide some resilience, reliance on external borrowings and portfolio investments continues to dominate liabilities. The persistence of this imbalance underscores the importance of boosting export competitiveness and overseas asset accumulation to reduce long-term vulnerability.

Asset vs. Liabilities Across Years

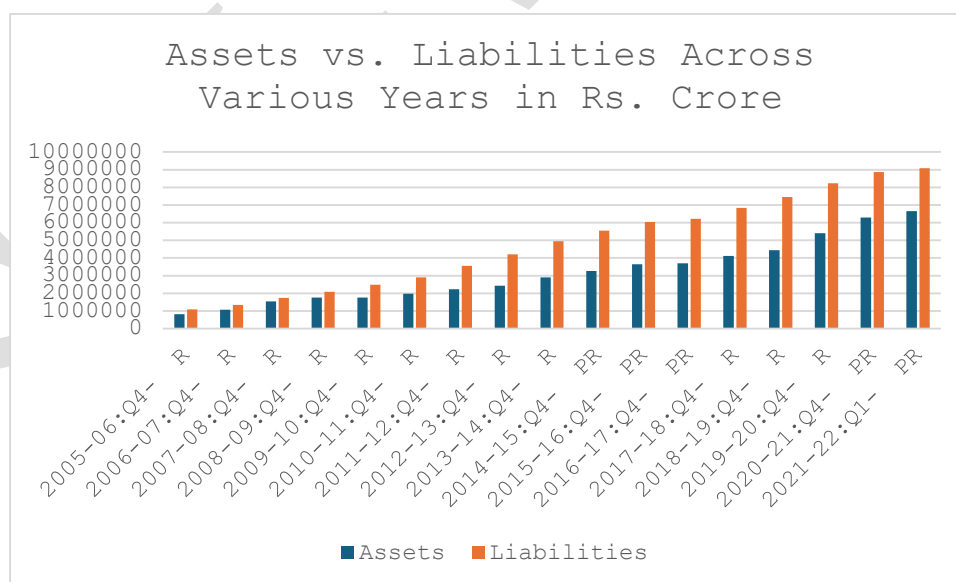


Figure 2-19 Assets versus Liabilities across the years

India’s international investment data reveals a persistent structural imbalance, with liabilities consistently exceeding assets over the entire observed period. Both assets and liabilities rose steadily, reflecting deeper integration with the global financial

system, but liabilities grew at a faster pace. This confirms India's status as a net debtor to the world, where foreign capital inflows through foreign direct investment, portfolio flows, and external loans have systematically outstripped the growth of outward assets such as reserves, investments abroad, and other holdings.

The trend is particularly visible after 2010, when the gap between liabilities and assets widened significantly. Episodes such as the 2008–2009 global financial crisis, the eurozone crisis, the taper tantrum in 2011–2013, and the COVID-19 shock in 2020 each caused temporary disruptions. During these downturns, liabilities either slowed or contracted as capital outflows intensified, while assets, primarily in the form of foreign exchange reserves, were built up or deployed to safeguard stability. This countercyclical use of reserves played a crucial buffering role during volatile periods. However, in recovery phases such as 2014–2016 and 2017–2019, liabilities once again grew sharply, driven by investor confidence, strong capital inflows, and renewed borrowing by corporations.

Post-COVID, the pace of foreign inflows surged, leading to substantial liability growth even though India maintained record-high foreign reserves. The result was that by 2021–22, the net liability position reached its widest gap relative to assets, underlining the inherent dependence on foreign capital to finance growth. While large reserves strengthen resilience in times of turbulence, the rising stock of external liabilities translates into higher future outflows in dividends, interest, and debt repayments. For policymakers, this underscores the delicate balance between leveraging foreign capital for development and ensuring external vulnerability does not compromise long-term financial stability.

SK

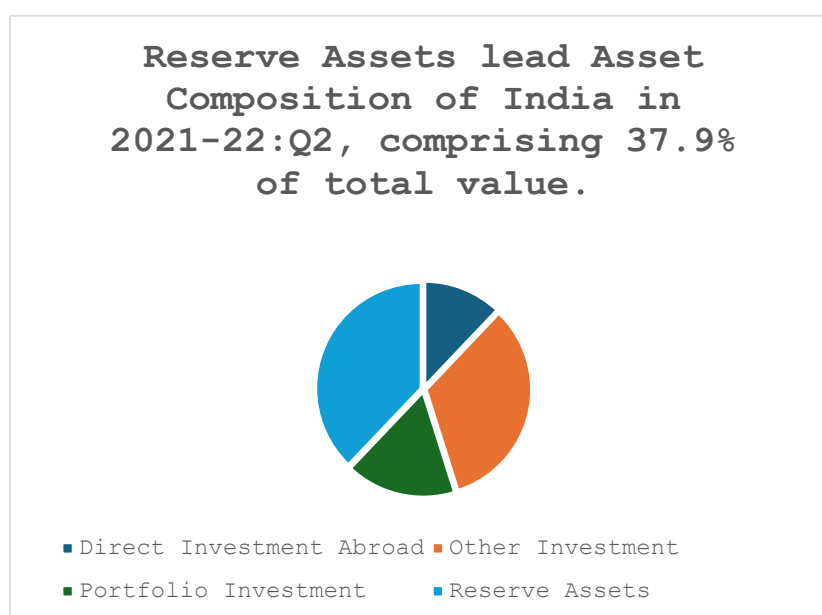


Figure 2-20 Asset Composition of India

Asset Composition Analysis

In 2021–22 Q2, India’s international asset composition was dominated by reserve assets, which accounted for nearly 37.9 percent of the total stock of foreign assets. This reflects the Reserve Bank of India’s strong accumulation of foreign exchange reserves in recent years, primarily to cushion the economy against external shocks and provide stability to the rupee. Alongside reserves, portfolio investment abroad and “other investments” such as loans and trade credits also hold a significant share, while direct investment abroad remains comparatively smaller. The composition underscores India’s cautious external sector strategy: while Indian firms’ overseas direct investments have grown gradually, the bulk of India’s asset strength lies in its reserve build-up, which acts as a safeguard during episodes of global volatility, sudden capital outflows, or currency pressures. This pattern demonstrates that while India is a consistent net debtor in its International Investment Position due to high foreign liabilities, it simultaneously relies on reserve accumulation as a counterbalance, ensuring credibility in financial markets and resilience in times of uncertainty.

Navigating the Trilemma: India's Macroeconomic Management of Capital Flows, 2000-2024

Over the past two decades, India’s relationship with global finance has been a balancing act. After the 1991 economic crisis, the country cautiously opened up to international capital. Unlike some emerging economies that embraced a doctrinaire approach of rapid and comprehensive capital account liberalization, India chose a

‘middle path’ going for stability and independence over quick gains from financial openness.

India wrestled with the “Impossible Trinity”—one can’t have a fixed currency, free capital movement, and independent monetary policy at once. India opted for a pragmatic middle ground:

- **A flexible exchange rate** that the RBI actively managed to prevent wild swings.
- **Selective capital controls** that encouraged safer, equity-based inflows like FDI over volatile short-term debt.
- **Independent monetary policy**, with the RBI setting interest rates mainly according to domestic inflation and growth.

This pragmatic approach helped India avoid the kind of crisis, which saw seemingly healthy East Asian economies collapse under the weight of rapid capital flow reversals. At its core, the strategy has focused on reshaping the composition of inflows, favoring stable, long-term FDI over volatile FPI.

Capital Flow Trends: A Quick Look (2000-2024)

India's seen a flood of foreign cash, turning its trade balance upside down. FDI has grown steadily, especially post-2014, while FPI swings wildly—booming when money's cheap abroad, fleeing when risks rise. This mix has built huge forex reserves as a safety net, which have become a primary tool of self-insurance against external shocks.

Year (Fiscal)	Net FDI (US\$ Billion)	Net FPI (US\$ Billion)	Other Investment (incl. ECBs, US\$ Billion)	Total Net Capital Flows (US\$ Billion)	Total Net Capital Flows (% of GDP)	Current Account Balance (% of GDP)	Foreign Exchange Reserves (US\$ Billion, end-period)
2000-01	2.4	2.8	-1.1	4.1	0.9%	-0.5%	42.3
2007-08	15.5	29.3	46.5	91.3	7.4%	-1.3%	309.7
2009-10	19.8	32.4	1.3	53.5	4.0%	-2.8%	279.1
2013-14	21.6	4.8	-1.6	24.8	1.3%	-1.7%	304.2
2018-19	30.7	-2.3	24.4	52.8	1.9%	-2.1%	412.9
2020-21	44.0	36.1	1.7	81.8	3.1%	0.9%	577.0
2023-24	10.6	41.7	-1.5	50.8	1.4%	-0.7%	642.5

The Tarapore Committees and the Academic Rebuttal

Two Tarapore Committees (1997, 2006) advocated faster capital account convertibility (CAC), promising benefits like global capital access, financial efficiency, portfolio diversification, and policy discipline. Critics countered forcefully:

- Jagdish Bhagwati's "Capital Myth" (1998) highlighted unproven benefits versus real risks of "manias, panics, and crashes," critiquing a U.S.-driven agenda.
- Prabhat Patnaik warned of policy subordination to global finance, forcing high rates and deindustrialization.
- Others, like Partha Sen and John Williamson, deemed India's system immature for CAC risks

Both times, global crises soon followed (the Asian crisis after the first report, and the Global Financial Crisis after the second), effectively shelving these recommendations. Critics felt vindicated, India's slow approach seemed safer

Managing the Surge: The Pre-GFC Boom (2003–2008)

From 2003 to 2008, India faced its first big stress test of capital flow management. Loose global monetary conditions and India's strong growth attracted a flood of inflows, especially portfolio money. Left unchecked, these flows would have pushed the rupee up sharply, hurting exports and domestic industries.

The RBI stepped in heavily:

- Buying up dollars to limit rupee appreciation, which ballooned forex reserves.
- But those interventions injected rupees into the system, creating inflationary pressure.
- To mop this up, the RBI sterilized by selling government bonds.

This sterilization, however, was costly. It raised domestic interest rates, added fiscal burdens (since India paid more on bonds than it earned on safe foreign assets),

and paradoxically attracted more inflows. It also crowded out domestic private investment.

The period exposed the messy trade-offs of managing the trilemma. India avoided a crisis but paid in fiscal costs and policy distortions. Still, the reserve build-up would prove valuable insurance in the turbulent years ahead.

2013–2024: A Decade of Volatility and Reform

The Taper Tantrum: India's Stress Test (2013)

The summer of 2013 was a turning point. When the U.S. Federal Reserve hinted at tapering quantitative easing, and global investors panicked. Capital fled from emerging markets.

India, with its large current account deficit and high inflation, was labeled one of the "Fragile Five" alongside Brazil, Indonesia, South Africa, and Turkey.

The rupee plunged, stock and bond markets came under pressure, and portfolio investors withdrew billions. This exposed India's dependence on volatile capital flows.

But the response was swift and multifaceted:

- The RBI hiked interest rates to stabilize the currency.
- It intervened in forex markets using reserves to smooth the rupee's decline.
- It opened special swap windows to attract dollars through banks and non-resident deposits, pulling in over \$34 billion.

A New Policy Vector (2014-2019): The Proactive Pursuit of Foreign Direct Investment

The Taper Tantrum catalyzed a shift toward "sticky" FDI to reduce reliance on volatile flows. This became a core stability pillar, with initiatives like:

- **"Make in India" Campaign (2014):** Promoted manufacturing hubs, simplifying procedures for a favorable investment climate.

- **Goods and Services Tax (GST, 2017):** Unified national market, enhancing transparency and ease of doing business.
- **Liberalization of FDI Norms:** Raised sectoral caps and shifted to automatic routes, signaling openness.
- **Institutional Reforms:** Online Foreign Investment Facilitation Portal (FIFP) streamlined approvals post-FIPB abolition.

The results were dramatic. Between 2014 and 2024, with the total inflow of US\$ 667.74 billion, India attracted **two-thirds of all FDI** it had ever received since 2000. Services and manufacturing were top beneficiaries, with defence, insurance, retail, and even space gradually opened up.

However, India's broad FDI definition includes private equity/venture capital, which may behave like portfolio flows, potentially overstating stability gains

Navigating Shocks: COVID-19 and Global Tightening (2020–2024)

The COVID-19 Shock (2020–21):

When the pandemic hit, foreign investors rushed out, pulling record amounts from Indian markets in March 2020. GDP collapsed by nearly **24% in Q2 2020**, and uncertainty was sky-high. However, the market downturn was surprisingly short-lived, and capital flows rebounded strongly later in the year.

For the first time in a major crisis, a massive FPI sell-off did not cascade into a prolonged market collapse. This was because of the emergence of a deep and resilient domestic investor base.

A decade of policy efforts towards financial inclusion driven by the Jan Dhan Yojana (universal bank accounts), Aadhaar (biometric identity), and mobile connectivity combined with regulatory reforms by the Securities and Exchange Board of India (SEBI) to simplify KYC norms, had brought millions of new retail investors into the capital market. The rapid growth of digital brokerage platforms and the popularization of Systematic Investment Plans (SIPs) in mutual funds created a steady and significant flow of domestic capital into the equity market.

During the 2020 panic, as foreign institutions sold, this burgeoning class of domestic institutional and retail investors stepped in, acting as a powerful shock absorber and stabilizing the market.

The Global Monetary Tightening Cycle (2022-2024)

Beginning in 2022, the world's major central banks, led by the U.S. Federal Reserve embarked on the most aggressive and synchronized monetary tightening cycle in decades to combat post-pandemic inflation. EMEs faced renewed pressure as rising interest rates in advanced economies reduced the appeal of emerging market assets. India again witnessed significant FPI outflows during parts of this period. but this time the story was different from 2013:

- The current account deficit was smaller.
- Inflation was under control with a calibrated RBI hiking cycle.
- Forex reserves were far larger, crossing \$560 billion by late 2022.

The rupee weakened, but there was no panic. India had learned how to absorb external shocks without sliding into crisis mode.

Contemporary Assessment and Future Trajectory (to 2025)

The State of Financial Resilience

As of June 2025, RBI's Financial Stability Report (FSR) affirms a robust system: Banks' GNPA at multi-year lows (2.6%), CRAR at 16.7%, with stress tests showing shock absorption. IMF's 2025 Article IV echoes this but flags NBFC interconnections and sector exposures, urging alignment with global standards. Rising public debt and geopolitical risks pose threats.

The Evolving Exchange Rate Regime and the Trilemma's New Constraints

India's de jure floating regime is de facto "stabilized" per IMF (reaffirmed through 2024, likely ongoing), with low rupee volatility tightening trilemma space. Bond index inclusions (e.g., JP Morgan) bring passive flows, complicating interventions.

Emerging Challenges and Structural Shifts

- **Global Fragmentation ("Slowbalization"):** Geopolitical tensions offer FDI from China diversification but risk trade dampening.
- **Bond Index Inclusion:** Lowers borrowing costs but exposes to global volatility.
- **Domestic Deepening:** Retail investors provide anchors but require enhanced regulation for stability.

India's management from 2000 to 2025 is a case study in pragmatic heterodoxy. Rejecting binary choices, policymakers navigated volatility with high growth and no major crises. Success attributes were Flexible toolkit (managed float, controls, reserves) and adaptive capacity (FDI pivot, domestic buffers). In upcoming years, the fundamental challenge will be to preserve the core tenets of stability and autonomy that have served India well, while adapting to a reality of deeper and more complex financial integration.

Indicator	Pre-Taper (Q1 2013)	Trump Peak (Q3 2013)	Pre-COVID (Q4 2019)	COVID Peak (Q2 2020)	Tightening (Q4 2022)	2025 Update (Q3)
Quarterly GDP Growth (%)	4.4%	5.2%	3.1%	23.8%	4.5%	~6.5% (est.)
CPI Inflation (%)	1.0%	9.9%	7.4%	6.3%	5.9%	4.8%
Current Acct (% GDP)	-3.6%	-1.2%	-0.2%	3.8%	-2.7%	-1.5% (est.)

Cross-Border Capital Flows and the Indian Corporate Sector

Net FPI (US\$ Bn)	1.3	1	-	1.5	.3	3	-	-3.5	~	25.0 (FY25 est.)
USD/INR (Avg)	4.3	5	63.	8	1.3	7	6	75.	82.2	8
Forex (US\$ Bn)	92.0	2	27	5.5	57.5	4	6.8	50	562.	7
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Conclusion

Looking back at India's journey with Foreign Direct Investment (FDI) from 2000 to 2024, the transformation is nothing short of remarkable. What began as a crisis-driven necessity in the precarious days of 1991 when foreign reserves barely covered two weeks of imports have evolved into a sophisticated engagement with global capital. The headline figures are compelling: cumulative FDI inflows crossed the \$1 trillion mark by 2024, with the services and technology sectors leading the charge. Yet, the true success story isn't just in the numbers; it's in India's pragmatic gradualism.

India deftly avoided the all or nothing trap that ensnared many emerging economies. Instead of swinging wildly between protectionism and unchecked liberalization, policymakers consistently chose a middle path. They opened doors selectively, systematically built robust buffers, and intervened strategically. This institutional wisdom, forged in the wake of the Asian Financial Crisis and the 2008 global meltdown, is evident in the managed float of the rupee and the impressive \$640+ billion in forex reserves, giving the nation the necessary tools to navigate turbulent global waters.

The success is palpable across the economy. We've seen a shift in key investment routes, the rise of Maharashtra and Karnataka as FDI magnets, and the dominance of the services sector, complemented by the steady growth of manufacturing through initiatives like Make in India. Even the changing aspirations reflected in the Liberalised Remittance Scheme with overseas travel and education now superseding traditional investment motives reflect a maturing middle class looking beyond borders. Crucially, the deepening of capital markets, fueled by robust domestic institutional investors, has created essential shock absorbers. When foreign portfolio investors fled during crises like COVID-19, domestic capital often stepped in, a powerful testament to the financial strength built from within.

But this achievement brings its own set of challenges. The road ahead will demand managing increasingly complex capital flows, addressing rising debt service obligations, and maintaining competitiveness in a rapidly shifting global landscape. These pressures will test the institutional foundation built over the last two and a half decades.

Ultimately, India's FDI story from 2000 to 2024 is more than a tale of economic statistics. It's a powerful case study of a country that learned to engage with the world on its own terms. As India progresses toward becoming a developed economy, the core lessons of this period were patience, pragmatism, and the wisdom to know when to open and when to hold back will remain its most valuable guide. The foundation has been successfully laid, the institutions have been tested, and confidence has been hard-earned. The next phase of India's growth will build directly upon this solid, uniquely Indian base.

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Chapter 3 Jet Airways: From Take-off to Turbulence

INTRODUCTION

Naresh Goyal, a travel industry veteran, founded Jet Airways on the foundation of his earlier company, Jetair (Private) Limited, which he established in 1974. Initially, Jetair served as a marketing representative for foreign airlines in India, where Goyal honed his expertise in airline operations, route planning, and sales. This experience, along with his expansive network of 60 branch offices, provided the perfect launching pad when the Indian government opened up its domestic aviation market in 1989. Seizing the opportunity, Goyal formally launched Jet Airways (India) Private Limited in 1991, transforming his extensive industry knowledge and relationships into a successful airline venture.

Jet Airways formally incorporated as an Air taxi operator on 1 April 1992, and commenced commercial operations on May 5 1993. Early funding for the venture came from M/s Tail Winds, incorporated in The Isle of Man, complemented by crucial backing from Middle Eastern investors such as Gulf-Air and Kuwait-Air. At this early stage of time Jet Airways claimed to be the only privately owned profitable airline. Jet Airways became a scheduled airline in early January 1995, a milestone that kickstarted the deregulation and renewal of the Indian flight market after the Air Corporations Act was abolished. By the 1996-97 financial year, it had already captured a 20% market share, making it the second-largest domestic carrier after the state-owned Indian Airlines. Jet Airways incurred its first loss in the financial year 2001-2002. This was due to a decline in demand and an increase in costs.

In 2003, the government began allowing private domestic airlines to operate international services. Jet Airways launched its first international flight in March 2004 with a route from Chennai to Colombo, Sri Lanka. This marked a significant milestone for the airline. Quickly after the success of its first international service, the airline added more international destinations to its list. In May 2004, flights were launched from Delhi to Kathmandu, Nepal. By May 2005, the airline had commenced its long-haul operations to London using an Airbus A340-300 aircraft.

Jet Airways went public with its Initial Public Offering (IPO) in 2005, a major step in

the company's expansion. The IPO offered 17,266,801 equity shares, which represented about 20% of the company's expanded equity capital. The total amount raised was approximately ₹1,899.35 crore (which was about \$430 million). The IPO made Naresh Goel 16th richest man in India according to Forbes magazine. The acquisition of Air Sahara by Jet Airways in 2007 was not only complex but also highly-publicized event. This deal was significant in its scale and also for the challenges and long-term consequences it brought to Jet Airways. Jet Airways first attempted to acquire Air Sahara in January 2006 for a price of \$500 million (approximately ₹2,300 crore) in an all-cash deal. However, this initial deal collapsed in June 2006 due to various disagreements, primarily over the valuation and the transfer of certain assets. Subsequently both airlines filed lawsuits against each other, leading to a long and public legal battle. After a period of legal battles, two companies reached a new agreement.

On April 12, 2007, Jet Airways successfully acquired Air Sahara for a revised price of ₹1,450 crore (approximately \$340 million). After the acquisition a budget segment called Jet Lite was created to compete with the growing number of low-cost carriers like Air Deccan and Indigo, while Jet Airways continued as a full-service carrier. Jet Lite was a separate legal entity. Its livery and brand elements were distinct from Jet Airways but shared a clear visual link which signals that it was part of the same parent company.

By 2010, Jet Airways had established itself as a dominant force in the Indian aviation market, becoming the biggest airline in India by passenger carried. Acquisition of Air Sahara and subsequent formulation of a low-cost-arm called Jet Lite, extensive domestic network that connected major cities as well as smaller regional hubs, aggressive expansion of international operations and heavy investments in modernising the fleet were the main driving force of achieving this milestone. By 2012 the Government of India allowed foreign airlines to invest in India. Etihad airlines invested 379 million dollars (approximately 1700 crores) to acquire 24% share of Jet Airways. It was a strategic deal for both airlines to expand their market positions.

Around 2014, the loss of Jet Airline grew substantially leading to the selling of its valuable assets like the A330 aircrafts. There were many reasons for the growing losses. The acquisition of Air Sahara already pushed the company to high debt numbers. The increasing operational cost due to increase in oil prices and aviation fuel were one of the biggest vulnerabilities of the aviation sector of the country and Jet Airways was badly affected. Over the years the assets of the company were sold to manage high debts. By 2017 the company started scaling back its operations from non-profitable markets. In 2019. By November 2018, Jet Airways faced a very serious financial outlook due to increasing losses. The severity of its financial distress became evident in

March 2019, when nearly a one by fourth of its aircraft fleet was grounded due to unpaid lease rates. With fewer planes, the airline had to cancel flights, which led to a massive drop in revenue, further worsening its financial situation. The situation escalated further on April 5, 2019, when Indian Oil Corporation ceased fuel supply due to non-payment of dues which effectively paralysed the airline's network. Finally, on April 17, 2019, Jet Airways suspended all flight operations after lenders rejected a critical ₹4 billion emergency funding request, marking the effective end of its operational life.

Jet Airways once achieved the feat of being a leading private airline in India's aviation industry through strategic expansion and quality service provided to its customers. However, it wasn't soon after achieving this pinnacle of growth, that the company faced a decline, and finally, liquidation.

Success factors of Jet Airways:

The success of Jet Airways was primarily built on the business model of incorporating a full service, premium airline with the needs of business travelers and middle class. The airline differentiated itself by the strategies of quality service, operational efficiency and wide network

1. Quality Service and Brand Identity:

Jet Airways' success in cultivating a loyal customer base was a direct result of its strategic focus on providing a premium, full-service experience that stood out in the Indian aviation market. The airline's commitment to quality service, punctuality, and efficiency was the cornerstone of its brand identity. Jet Airways positioned itself as a premium brand, contrast to the state-owned Indian Airlines, which was known for inconsistent service. Jet Airways' core philosophy was to provide a superior travel experience

2. Product Differentiation:

The airline's focus on passenger comfort was evident in its specialized seating. It was one of the first Indian carriers to offer flat beds in its Premiere (business) class and private suites in its first class on international routes, placing it well ahead of domestic competitors.

3. Customer

Loyalty:

Members could earn JPMiles by flying on Jet Airways and its partner airlines. This program was named as JetPrivilege loyalty program. Members could use their accumulated JPMiles to book free or discounted flights on Jet Airways. Beyond flights, Jet Airways expanded its offerings to become a comprehensive loyalty program. Members could earn and redeem JPMiles with a wide network of "non-air partners," including hotels, car rentals, retail outlets, and co-branded credit cards. This made it an attractive program for everyday spending, not just air travel. The program incentivized customers to choose Jet Airways by offering JPMiles, thus differentiating it from competitors. This emphasis on a high-quality product created a loyal customer base, particularly among corporate and frequent flyers. The JetPrivilege loyalty program, which at its peak had millions of members, was a key tool in retaining these customers and generating a significant portion of the airline's secondary revenue.

4. Strategic Fleet Management and Operational Efficiency:

The airline initially chose to lease its aircraft instead of buying them. This was a smart financial move, as it reduced the enormous capital expenditure associated with aircraft acquisition and provided flexibility to scale its fleet up or down. Jet Airways began its operations with new Boeing 737-300 aircraft, which were more fuel-efficient and cheaper to maintain than the older models used by its competitors. Initially it maintained a fleet of a single aircraft type (the 737) to simplify maintenance and crew training, which boosted its operational efficiency. As its international ambitions grew, the airline strategically introduced wide-body aircraft like the Airbus A330 and Boeing 777. The A330s were used for medium-haul international flights, while the Boeing 777s, with their premium cabin offerings like private suites and flat beds, became the flagship aircraft for long-haul routes. This allowed it to operate to a wide range of destinations and enabled it to compete with established global carriers.

5. Market Dominance and Network Expansion

Jet Airways achieved market dominance and expanded its network

through a strategic combination of organic growth, a high-quality service model, and a pivotal acquisition. This allowed it to become a leader in both domestic and international air travel in India. Jet Airways rapidly gained market share by offering a superior product compared to its competitors. By 1997, it was India's largest private carrier, this rapid growth was due to its focus on quality service and operational efficiency. The most significant event that cemented Jet Airways' domestic dominance was the acquisition of Air Sahara in 2007. This move instantly gave Jet Airways access to Air Sahara's network and fleet, significantly boosting its market share and allowing it to become a leader in the domestic market. The acquisition was also a strategic play to enter the low-cost segment by rebranding Air Sahara as JetLite.

In March 2004, the airline launched its first international service from Chennai to Colombo, Sri Lanka. A key turning point was the launch of long-haul services. In May 2005, Jet Airways commenced its long-haul operations to London Heathrow using wide-body Airbus A340-300 aircraft. This move established the airline as a serious international player. At its peak, Jet Airways flew to over 65 destinations worldwide, including 45 domestic and 21 international locations. Its global network was supported by hubs in major cities like Mumbai and Delhi and international gateways in cities like Amsterdam, London, and Paris. The airline also formed strategic alliances and codeshare agreements with major global carriers, which allowed it to offer connections to over 450 destinations worldwide.

As on March 31, 2018, Jet Airways had a fleet of 112 aircraft. The company's share in the domestic market stood around 15.1% in July 2018, also its PLF stood at 83.7% in 2018-19. With this, Jet Airways achieved the status of one of the biggest airlines in India. Let us look at the scenario in more detail.

Market Share:

Jet Airways constituted a 12% market share, which was second largest after Indigo, which was a market leader in the Indian airline industry with a market share of 44%. [Other prominent airlines include Spicejet 12%, Air India 11%, Go Air 9%, Air Asia and Vistara each with 5% each.

Cross-Border Capital Flows and the Indian Corporate Sector

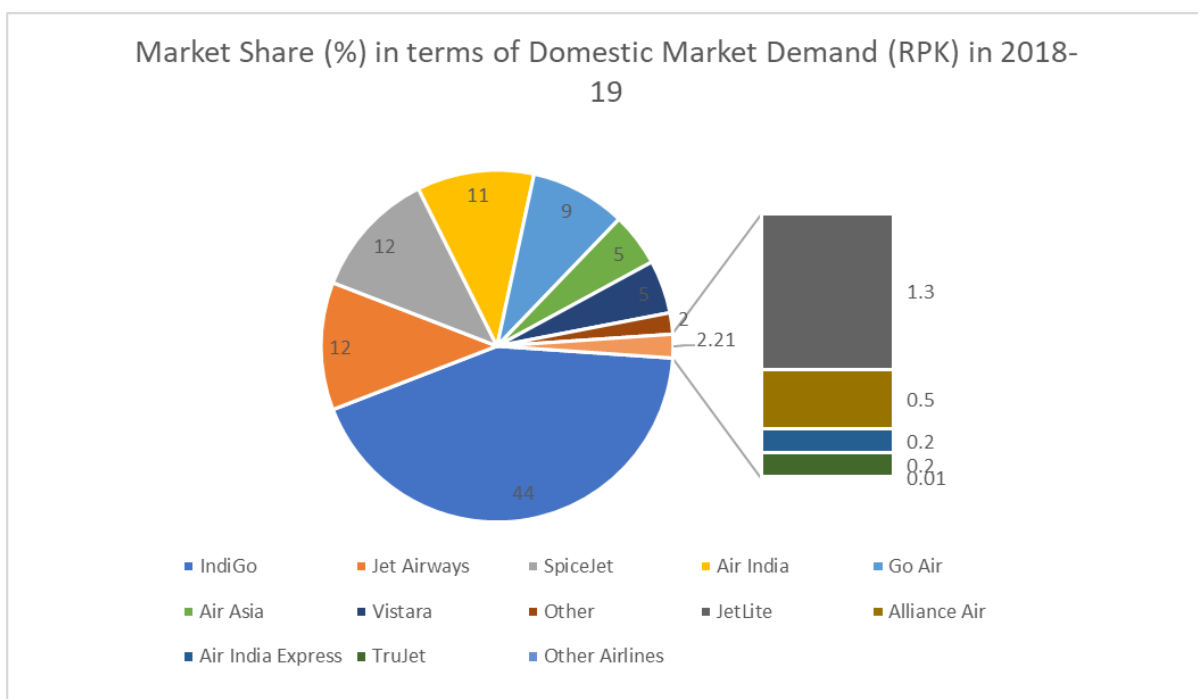


Figure 3-1 Market Share (%) in terms of Domestic Market Demand (RPK) in 2018-19

Source: Handbook on Civil Aviation Statistics 2018-19

Passenger Load Factor (PLF): It is the ratio of number of paying passengers multiplied by distance flown, also called revenue passenger kilometer (RPK) and available seats kilometer (ASK) which is the product of total seats and distance flown.

The PLF of other major airways is as follows:

Indigo	0.868
SpiceJet	0.930
Air India	0.811
Go Air	0.884
Air Asia	0.843
Vistara	0.842

Passenger Load Factor (PLF)=Revenue Passenger Kilometers (RPK) / Available Seat Kilometers (ASK).

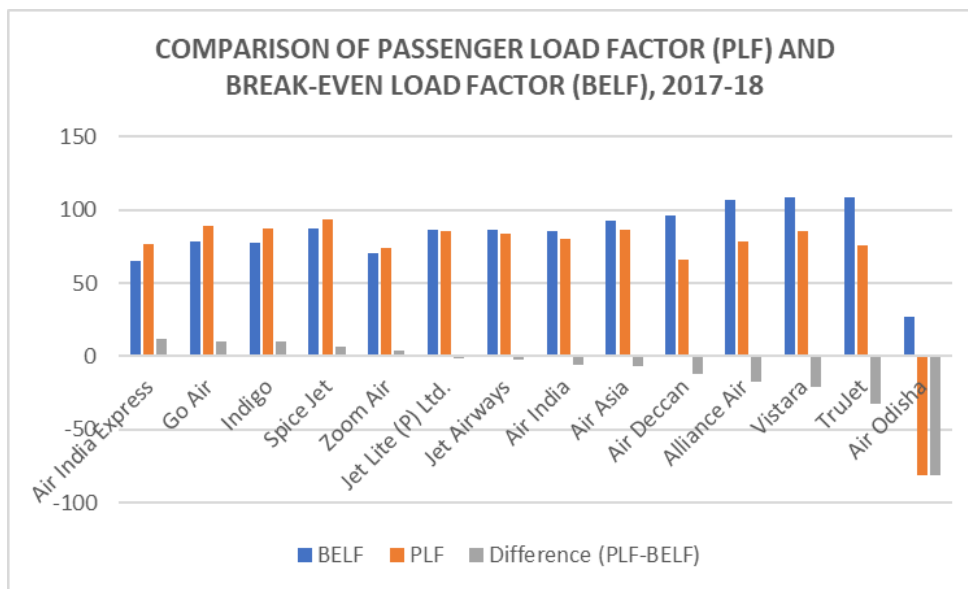


Figure 3-2 COMPARISON OF PASSENGER LOAD FACTOR (PLF) AND BREAK-EVEN LOAD FACTOR (BELF), 2017-18

Source: Handbook on Civil Aviation Statistics 2018-19

The provided graph offers a crucial insight into airline operating economics by comparing the Passenger Load Factor (PLF) and Break-Even Load Factor (BELF). The PLF measures the percentage of seats an airline fills with paying passengers, directly reflecting its revenue-generating efficiency. A high PLF is generally desirable, as it indicates strong demand and effective capacity utilization. Conversely, the BELF is a critical financial benchmark, representing the minimum PLF required to cover all operating expenses and break even. When an airline's actual PLF falls below its BELF, it signifies that the revenue from ticket sales is insufficient to offset costs, leading to financial losses.

The graph highlights a critical issue for Jet Airways during the 2017-18 period: its PLF of **85.5%** was just below its BELF of **86.1%**. While a PLF of over 85% might seem healthy, this slight negative margin meant the airline was not generating enough revenue to cover its operational costs, resulting in a loss. This small gap had significant

implications, as it was a symptom of deeper financial troubles. Jet Airways, once a full-service carrier, struggled to compete with low-cost airlines that had much leaner cost structures and lower BELFs. Additionally, a costly acquisition of Air Sahara and a high debt burden compounded its financial woes, making it difficult to maintain profitability even with a strong PLF. The persistent negative difference between its PLF and BELF was a clear indicator of the financial instability that eventually led to its grounding.

The Pinnacle Years (2007–2010)

Jet Airways actually reached its peak during the mid-2000s to early 2010s. The airline was definitely at its strongest point during this period. This time actually showed the airline's strong position in Indian aviation and definitely on the world stage too. After more than ten years of steady growth, we are seeing Jet Airways change from a private local airline into India's largest and most respected carrier only. It was surely known for its modern aircraft, wide network, excellent service, and new ideas that made it different from other airlines. Moreover, these qualities helped it stand out in the competitive market.

We are seeing that Jet Airways started its business operations only on 5th May 1993. Moreover, by 1997, five airlines out of seven that actually started after 1992 were definitely shut down. The company surely grew very fast and became bigger than Indian Airlines, the government-owned market leader, in passenger numbers during the early 2000s. Moreover, this rapid growth helped it capture the largest share of the Indian aviation market. As per the aviation records, Jet Airways got permission for international flights in 2003. Regarding the first destination, the airline started operations to Colombo, Sri Lanka. Basically, Jet Airways had the motto "We don't fly aircraft, we fly people" and the same approach made them very successful. The market share surely increased dramatically from 6.6% in 1993–1994 to 42% in 2000–2001. Moreover, this growth shows a significant expansion over just seven years

Services offered by Jet Airways
First Class had private rooms with flat beds, personal TVs, and the same power outlets at every seat. We are seeing Business Class with only luxury reclining seats, while Economy Class on long flights had 32-inch seat space with personal screens.

As per the JetPrivilege program, passengers could earn and redeem miles regarding their travel with five different membership levels available. As per the package, benefits included lounge access, priority check-in, and extra baggage allowance.

Moreover, every seat provided a touchscreen entertainment system for passengers, travelers could easily connect their Apple devices to this system. As per technological developments, entertainment could be directly streamed to personal devices later. Regarding viewing habits, this allowed people to watch content on their own phones and tablets.

As per medical requirements, expert chefs prepare meals regarding all dietary and religious needs of patients. As per the new policy, eco-friendly packaging was started and biryani was served on some domestic flights every Friday. Regarding the meal service, this change was made to improve passenger experience.

Moreover, we are seeing exclusive lounges only for First and Business Class passengers and JetPrivilege Platinum or Gold members in main Indian cities and international places.

JetMobile actually provides mobile seat selection, digital boarding passes, and easy check-in services. The app definitely simplifies airline travel processes for passengers.

They actually provide special help for disabled passengers, pregnant women, children traveling alone, families with kids, and people with pets. This support definitely makes travel easier for everyone who needs extra assistance.

Basically, baggage allowance changes depending on your class and route, with the same details available on your ticket and airline website.

Market

In the starting of 2008 Jet Airways was leading the market with 22% share.

Leadership

International Expansion

Before suspending operations in April 2019 due to mounting losses, Jet Airways was present in more than 65 destinations in India and across the world—Europe, the Middle East, Southeast Asia, and North America, with hubs in Mumbai, Delhi, Bengaluru, and gateways in Amsterdam, Paris, London, and Abu Dhabi.

Fleet Strength

At its peak, Jet Airways had over **120 aircraft** including modern Boeing 777s and Airbus A330s, competing globally.

Awards

Jet Airways was honored with the title of Best Airline in India, a recognition that highlighted its strong commitment to service excellence. Commenting on the award, Jayaraj Shanmugam, Chief Commercial Officer of Jet Airways, expressed, “We are delighted to receive TripAdvisor’s Traveller’s Choice Award for Best Airline- India in 2017. This achievement reflects our company’s ‘Guest First’ philosophy, which is built on delivering greater connectivity, wider choice, convenience, and superior comfort to all our passengers. What makes this recognition truly special is that it is based entirely on the experiences and feedback of our valued guests. We see this as an encouragement to continue raising the bar and to set new benchmarks in products and services, ensuring that every journey with Jet Airways remains a joyful and memorable experience.”

Strategic

The management made its first big gamble by eyeing Air Sahara in 2006. In order to realize its high growth aspirations, Jet acquired Air Sahara. Naresh Goyal struck a deal in 2007 to buy Air Sahara for Rs 1,450 crores. The Jet-Sahara merger was expected to bring synergies and benefits like a complete parking bay, airport infrastructure dominance, cost savings by improving economies of scale, a larger operational base, and increased prime-time departures and frequencies.

Acquisitions

During its golden era, Jet Airways became more than just an airline, it was a **symbol of aspiration and prestige**. For the Indian middle class and corporate sector, flying with Jet Airways represented quality, reliability, and success.

The pinnacle years of Jet Airways

Indian aviation underwent a significant transformation during the operational peak of Jet Airways. At its zenith, the airline established benchmarks aligned with international standards, demonstrating that an Indian carrier could effectively compete in terms of service quality, safety, and luxury. By introducing levels of comfort and professionalism previously absent in domestic aviation, Jet Airways reshaped passenger expectations and secured a strong customer base among non-resident Indians, high-profile individuals, and business travelers. Its expansion facilitated trade, tourism, and cross-cultural exchange, while simultaneously strengthening India’s global connectivity. The airline’s rise symbolized aspiration and progress, illustrating how a private carrier could challenge the dominance of state-owned enterprises and enhance confidence in the broader aviation sector. Although financial distress ultimately led to its closure in 2019, the Jet Airways era is widely regarded as a defining phase in Indian aviation history, characterized by vision, operational excellence, and service quality.

Downfall of Jet Airways

After examining the growth and pinnacle of the Airlines giant, we now move towards

Cross-Border Capital Flows and the Indian Corporate Sector

the downfall of the same. As has already been mentioned in introductions, there are several factors working behind the downfall of Jet Airways, which include both financial and managerial factors, both internal and external factors. This section of the article examines, in detail, these factors, their implications, and their effects on the performance of Jet Airways.

INTERNAL FACTORS	EXTERNAL FACTORS
1. Financial factors	1. Financial factors
Aggressive expansion	Rising Aviation Turbine Fuel (ATF)
Unhedged Fuel Costs	Depreciation of Indian Rupee
Mounting Debt and Interest Burden	High Taxation and Regulatory
Revenue Mismanagement	High Aircraft leasing cost
2. Operational factors	2. Operational factors
Centralized, Inflexible leadership	Overcapacity in Indian market
Failure to adapt to market shift	Policy and infrastructure constraints
Delayed strategic alliance	Pressure from government owned competitors
Employee discontent	

This clearly states the major factors involved in the downfall of Jet Airways, these factors are subject to further analysis which shall be done now.

INTERNAL FACTORS:

This includes factors which relate to the internal functioning and decision making (both financial and operational) of the company, it helps us understand the constraints of growth and factors contributing to downfall which operated from within the organisation.

Financial factors:

1. Aggressive expansion:

In April 2007, Jet Airways acquired Air Sahara for a lump sum of ₹1450 crore, this decision led to the accumulation of heavy burden on the company's finances. The company anticipated benefits such as acquisition of infrastructure and manpower of Air Sahara, and a potential brand expansion, as Hindustan Times mentioned, "Aiming to become the single largest aviation player". However, Jet Airways faced several key challenges in this process, which includes, clearly, financial burden, acquisition of Air Sahara despite the presence of heavy debt; issues with integration of the two company's work culture, leading some staff to protest against the merger; and fleet complexity, which arose due to the fact that Air Sahara worked on leased aircrafts, adding to Jet's already diverse fleet led to an increase in maintenance and training costs.

2. Unhedged Fuel Costs:

Jet Airways planned to hedge only 25% of its aviation turbine fuel (ATF) needs, which was significantly lesser than the amount required. By 2015, it decided not to hedge any proportion of fuel at all. This led to huge oil costs. The Airlines lost its chance (not once but repeatedly) to protect itself from rising fuel prices. The airline took an optimistic stance on fuel prices. According to analysts, Jet's unhedged position may have been based on the expectation that fuel prices would continue to decline—an inherently speculative strategy that left them exposed to sudden price reversals.

3. Mounting Debt and Interest Burden:

Jet's consolidated debt increased from under ₹3,000 crore in 2005 to over ₹12,000 crore by March 2008 and rose further to around ₹16,600 crore by March 2009. Despite few steps towards modernisation, debt stood at ₹7,600 crore as of December 2018.

4. Revenue mismanagement:

Jet Airways faced shrinking revenue even as expenses surged. In Q3 FY19 (three months through December), revenue slipped to ₹6,198.4 crore from ₹6,207.8 crore a year earlier, while costs spiked, largely due to fuel and operational inefficiencies. Jet Airways hesitated to engage in fare wars against budget carriers, it led to lower load factors (percentage of seats sold) and revenue yield. As written in mint, "Avoid a fare war with rivals as part of its strategy to boost yields".

Operational factors:

1. Centralised Decision-making

Jet operated as a founder-driven airline, where most strategic and financial decisions were made by Goyal, this left very little autonomy to professional managers. This centralisation delayed decision-making and created a culture where innovative alternative strategies were rarely encouraged. This gave minimal space to independent decision-making processes.

2. Failure to adapt to market shift:

India's aviation sector was liberalised in 2000, then the industry saw a huge rise in the number of Low Cost Carriers (LCCs) such as Indigo, SpiceJet, GoAir which reshaped consumer expectations in the aviation industry. Jet airways however, was slow to update its business model and continued to operate on a full service model with higher operating costs, legacy staff contracts, and expensive frills that customers were increasingly unwilling to pay for. Attempts to compete against LCCs by introducing low-cost vertices such as JetLite, by acquiring Air Sahara, and later Jet Konnect. However, these were poorly integrated, inconsistently branded, and failed to match the efficiency of their counterparts.

3. Delayed strategic alliance

From the 2000s, global aviation started moving towards a more integrated globalised space where international players started to partner up with Indian Airline companies to increase their customer base and capture a larger Indian customer base. However, they hesitated and delayed in securing such partnerships. By the time Jet Airways partnered with Etihad, the financial damage, mounting debt, and loss of competitiveness had already reached a point from which recovery was very difficult.

4. Employee Discontent

The financial condition, mounting debt and decrease in cash flow led to frequent salary delays in employees which led to a large-scale employee discontent. It had led to operational disruptions due to protests from the pilots, engineers and cabin crew; Talent drain due to skilled pilots leaving Jet and joining competitor airlines such as Indigo and Spicejet; a significant reputational damage due to media coverage of staff protests.

EXTERNAL FACTORS

This includes external factors, which influenced, both directly and indirectly, the decision making and course of action of Jet Airways, and contributed to its decline.

Financial factors:

1. Rising Aviation Turbine Fuel (ATF):

The cost of aviation turbine fuel (ATF) makes up 45% of airfare prices. During periods of global crude oil price hikes (especially 2011–2014 and again in 2018), Jet's fuel bill surged. Unlike some global carriers, Jet could not cope up with increasing operational costs and competitive ticket prices and suffered from huge revenue losses. In addition to it, as has already been mentioned, Jet failed to hedge its fuel prices timely and in the right proportion (later removed hedging itself) which led to a steep rise in operational costs to the company.

2. Depreciating value of Indian Rupee

The depreciating value of the Indian rupee was a major external financial factor that contributed to the decline of Jet Airways, as it directly pushed the operating cost of the Airlines upwards.

Airlines like Jet earn most of their revenue in Indian rupees (from domestic passengers) but a large portion of their expenses-such as aircraft leasing, maintenance, fuel purchases, and interest on foreign loans-are denominated in U.S. dollars. When the rupee weakens against the dollar, the cost of these obligations rises sharply. For Jet Airways, which already operated with thin profit margins, the repeated downfalls in value of rupee (notably in 2013 and 2018) created a severe mismatch between income and expenses.

3. High Taxes and Regulations:

Aviation Turbine fuel is subject to both central levies and taxes from state governments in the form of VAT which ranges from state to state between 4% to 30%. This heavily increases the operational cost for airlines. Jet Airways, which was already suffering from low margins faced a very bad impact due to high taxation and regulations. This condition was further worsened by increasing competition from Low Cost Carriers (LCCs), and the government owned enterprise (Air India) which could keep the fares low despite any amount of operational costs.

4. High aircraft leasing cost:

Jet Airways operated on leasing aircrafts from international leasers, not by owning them outright. This led to huge periodic costs in dollars, which were further worsened by a depreciating value of Indian Rupee. Further, Jet couldn't optimize the use of airplanes it leased. Jet leased both narrow-body and wide-body aircraft, including long-haul Boeing 777s and Airbus A330s, at high cost. Several of these wide-body aircraft were underutilized due to poor route planning and rising international competition (especially from Gulf carriers). This meant Jet was paying for planes that were not generating enough revenue.

Operational factors:

1. Overcapacity in Indian market:

From the late 2000s onward, the Indian skies witnessed a highly aggressive expansion of the airline industry, which included both full-service carriers and low-cost airlines. As airlines rushed to capture market share, they added large numbers of aircrafts and introduced new routes, often without a corresponding growth in demand. This created a scenario where seat supply often exceeded passenger demand.

2. Policy and infrastructure constraints:

India's aviation policy during Jet's critical years was marked by strict rules which heavily regulated expansion and functionality of airlines. These regulations delayed newer entrants' international expansion, crowding the domestic market with excess capacity and fare wars that shortened Jet's profit margins. Moreover, frequent regulatory changes created uncertainty in long-term strategic planning. Also, unlike state-owned Air India, which consistently received government financial support, Jet Airways had to rely solely on private funding and debt financing. This uneven policy environment disadvantaged Jet in times of crisis.

3. Pressure from government owned competitors:

A very important factor which contributed to the downfall of Jet airways was the competitive environment which was shaped by Air India, which is a state-owned Airline, unlike Jet Airways, which had private ownership. Air India regularly received financial bailouts, debt restructuring, and equity infusions from the Government of India, despite chronic losses. This meant that Air India could operate on lower fares despite suffering from losses in the market. This posed a serious competition for private airlines, especially for Jet Airways, which was already suffering from losses and thin margin.

Bankruptcy of Jet Airways

Jet Airways, which used to be a top airline in India, went bankrupt in 2019. This happened because the company had a lot of debt, bad operations, and more competition. The case was the first time in India that a cross-border airline used the new IBC rules. It caused discussions about how to handle problems in the airline industry while using general bankruptcy rules.

Why was Jet Airways Limited put into CIRP?

Jet Airways grew fast but took many risks, leading to money problems. Shocks in the industry and too much borrowing made the company shut down in April 2019. After lenders asked for help, the NCLT Mumbai Bench put Jet Airways into bankruptcy on June 20, 2019. The process was led by a Resolution Professional and a Committee of Creditors made up mostly of Indian banks.

Important Participants in the Corporate Insolvency Resolution Process:

- **Jet Airways (India) Limited**, a publicly traded business that conducts business both domestically and abroad.
- **Nine significant lenders** were part of the Committee of Creditors (CoC), which was chaired by State Bank of India and Punjab National Bank
- **The Jalan-Kalrock Consortium (JKC)** consisted of Franz Fritsch of Kalrock Capital which is a UK based private equity firm and Murari Lal Jalan, an NRI investor based in the United Arab Emirates.
- **The Resolution Professional** Oversaw day-to-day operations, verified claims, and facilitated plans.
- **The Competition Commission of India (CCI), the Ministry of Civil Aviation (MoCA), and the Directorate General of Civil Aviation (DGCA)** were the regulators in this case.
- **Courts and Tribunals:** The Supreme Court of India, NCLT, and NCLAT offer comprehensive adjudication.

- **International**

Stakeholders:

This group consisted of International lessors and the Dutch bankruptcy trustee for cross-border assets

The Resolution Plan: Overview and Elements

The resolution plan suggested a revival based on significant equity infusion, creditor discounts, and regulatory recovery of operational assets, particularly airport slots. It was approved by the NCLT on June 22, 2021, and by the CoC in 2021. Slowdowns in implementation and inevitable business and regulatory setbacks sealed the plan's failure despite its promise.

1. Monetary Obligations

With a periodic payment plan, JKC agreed to make investments of INR 350 crore in Jet Airways Limited. To ensure compliance and safeguard the interests of the creditors, a performance guarantee from the bank of INR 150 crore was deposited. The plan stipulated that initial installments would begin 180 days once a "Effective Date" that was dependent on regulatory approvals was agreed.

2. Employee and Pensioner Provisions

The plan proposed limited cash payments to employees, with additional value through equity-linked instruments. Pension and gratuity liabilities were largely to be satisfied by future cash flows, not upfront capital, engendering substantial discontent. Employee costs were partially isolated through transfer of business undertakings to a different entity (AGSL).

3. Creditor Settlement Structures

The plan instituted an absolute haircut of more than 95% for both financial and operational creditors, with secured creditors expected to recover roughly INR 380 crore against admitted claims exceeding INR 7,800 crore. CIRP professional costs were given first priority for full repayment.

4. Provisions for Staff and Pensioners

Employees would receive limited cash payments according to the plan, with additional value being provided by equity-linked instruments. There was a great deal of unhappiness because pension and gratuity

obligations were primarily to be covered by future cash flows rather than up-front funding. Through the transfer of company operations to a different entity- AGSL, worker expenses were partially isolated.

5. Structures for Creditor Settlement

Both financial as well as operational creditors were given a definitive haircut of over 95% according to the plan, with secured creditors expected to recoup about INR 380 crore against admitted claims aggregating more than INR 7,800 crore. The full repayment of CIRP professional costs was given priority.

6. Dealing with Regulations

The plan included "substantial conditionality", regarding the approvals from the DGCA and MoCA, especially regarding international traffic rights and slots. The deal value had been substantially decreased by adverse regulatory reactions, and approvals were neither time-bound nor assured.

Barriers to Implementation

Despite governmental authorization and early hope, foundational problems surfaced:

- **Slot Allocation Conflict:** The reconstructed "Jet 2.0" operations were seriously compromised when the fundamental business premise of regaining slots had failed.

- **Fund Infusion Delayed:** JKC fell short of meet multiple milestone payment deadlines. Courts and the COC questioned the applicant's integrity and commitment.

- **Performance Guarantee Disputes:** SBI and other members of the Committee of Creditors opposed JKC's proposal to use its PBG for equity infusion, resulting in additional litigation.

- **Legal and Cross-Border Conflicts:** The parallel advancement of Dutch insolvency (branch assets) processes and Indian proceedings pointed at the practical challenges of India's cross-border insolvency arrangements.

The Judicial and Regulatory Timeline

June 20, 2019:

Jet Airways admitted to CIRP.

2021:

JKC plan gets COC and NCLT approval.

2022-2023:

Implementation stalls on regulatory, financial, and legal disputes.

2024:

SBI and other creditors seek plan termination; judiciary criticizes extended delays.

November

7,

2024:

Supreme Court orders Jet's liquidation, citing plan failure after five years .

Breakdown of Financial Recovery

Creditor Group	Total Admitted Claims (INR)	Estimated Recovery	Recovery Rate (%)
Financial Creditors	~7,800 crore	380 crore	≈ 4.8
Operational Creditors	~7,000 crore	Negligible	<2
Employees & Workmen	~120 crore	Minimal, pro rata	~2-3

CIRP Costs	Full, as incurred	Full	100
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The overwhelming majority of creditors accepted haircuts in excess of 90%. Only the costs associated with the Corporate Insolvency Resolution Process was recovered from in full.

Sectoral and Systemic Problems

- **Value Erosion in Exposure Because of the delay:**

The brand, goodwill, and economic value was totally wiped out during the nearly five years that passed between admission to CIRP and the Supreme Court-ordered liquidation.

- **Intangibles in Asset-light, Regulated Sectors:**

This highlighted regulatory power as a constraint on commercial rescue because the slot and license dependency cannot be considered as "recoverable" assets during the process of resolution.

- **IBC Implementation Gaps:**

The case highlights ambiguous clauses pertaining to "effective dates," plan performance standards, and conditional approval enforcement.

- **Stakeholder Mistrust:**

High amounts of mistrust from all stakeholders was caused due to extended litigation and uncertainty resulting from the misalignment of investor assurances, lender interests, and regulatory discretion.

- **Cross-border Coordination:**

Activities in separate legal forums, especially the Dutch and Indian proceedings, highlighted challenges in coordinating asset realization across

different

countries.

Legal along with Policy Recommendations

• **Time-bound Plan Implementation:**

Large, systemically significant corporate debtors especially require new regulations with strict deadlines and clearly stated penalties for failure to comply with the implementation plan

• **Regulatory Agency Coordination:**

For industries with substantial government involvement, forward-looking regulatory discussion during the plan approval stage is needed to facilitate successful implementation

• **Clarity on Intangible Asset Recovery:**

In sector-specific solutions, CIRP frameworks might need to distinguish between operational and government provided or regulatory assets such as Airport Slots.

The story of Jet Airways' resolution marks an important moment in South Asian corporate insolvency. The limitations of a standardized legal approach for distressed enterprises have been made clear by the attempt to strike a balance between quick commercial resolutions and sector-specific regulatory risks. Despite formal plan approval and collaboration among multiple stakeholders, Jet Airways' eventual liquidation emphasizes the need for a more resilient, sector appropriate insolvency framework as well as a well-coordinated regulatory and judicial ecosystem. Future CIRP cases run the risk of diminishing creditor value while also undermining institutional trust in legal rescue frameworks

Liquidation of Jet Airways

The liquidation of Jet Airways (India) Limited represents one of the most significant corporate insolvency cases in Indian aviation history. After a protracted five-year resolution process under the Insolvency and Bankruptcy Code, 2016 (IBC), the Supreme Court of India ordered the airline's liquidation on November 7, 2024. Despite the initial approval of the Jalan-Kalrock Consortium's resolution plan in 2021, the consortium's failure to meet financial obligations ultimately led to the airline's liquidation, marking the end of an era for one of India's premier airlines.

Legal Proceedings

NCLT Proceedings:

The National Company Law Tribunal (NCLT), as the first judicial authority under the Insolvency and Bankruptcy Code, initially exhibited considerable flexibility toward the Jalan-Kalrock consortium's requests for extensions and for modifications to the conditions precedent (CPs).

On January 13, 2023, the NCLT formally fixed May 20, 2022, as the effective date of the resolution plan, a procedural step required for the transfer of ownership and for allowing the consortium to take control of Jet Airways. This order was controversial, as lenders argued that the consortium had not infused the full Rs. 350 crores promised in the plan, nor had they finalized critical aviation licenses.

NCLAT Appeals:

The Committee of Creditors, led by SBI, appealed the NCLT's decision to the National Company Law Appellate Tribunal (NCLAT). The lenders argued that the consortium had failed to meet its obligations and that the resolution plan was no longer viable.

In a controversial decision on March 12, 2024, the NCLAT upheld the resolution plan and permitted the adjustment of Rs. 150 crores from the Performance Bank Guarantee toward the first tranche payment. This decision was based on the consortium's undertaking to complete remaining payments by specified dates.

Supreme Court Intervention:

Dissatisfied with the NCLAT's order, the lenders approached the Supreme Court. On January 18, 2024, the Supreme Court had directed the consortium to deposit Rs. 150 crores in an escrow account by January 31, 2024, emphasizing that the Performance Bank Guarantee could not be adjusted against payment obligations.

However, instead of making the full payment, the consortium deposited Rs. 200 crores and attempted to use the PBG for the remaining amount, leading to further legal complications.

Supreme Court's Liquidation Order
On November 7, 2024, the Supreme Court of India, in a landmark judgment in *State Bank of India & Ors. vs. The Consortium of Mr. Murari Lal Jalan and Mr. Florian Fritsch & Anr.*, ordered the liquidation of Jet Airways. The three-judge bench comprising Chief Justice D.Y. Chandrachud, Justice J.B. Pardiwala, and Justice Manoj Misra delivered this decisive verdict.

Key Findings of the Supreme Court:

- **Timeline Violations:** The Court noted that five years had elapsed since the resolution plan's approval with no meaningful progress toward implementation. The Court emphasized that the IBC's primary objective of time-bound resolution had been defeated.

Key Observations:

- No meaningful implementation of the resolution plan occurred, despite multiple opportunities and extensions granted by tribunals.
- The NCLT's leniency in accepting "substantial compliance" with CPs rather than strict adherence contributed to erosion of urgency and the enterprise's value.
- Judicial discipline in following statutory timelines was found lacking, with courts and tribunals often extending deadlines without sufficient justification.

Cross-Border Capital Flows and the Indian Corporate Sector

- These delays defeated the purpose of IBC (Insolvency and Bankruptcy Code), which is to preserve the value of the company and maximize returns for creditors.
- **Financial Non-Compliance:** The consortium's failure to infuse the committed Rs. 350 crores and its attempt to adjust the Performance Bank Guarantee against payment obligations were held to be in direct violation of the resolution plan terms and IBC regulations.

Critical findings:

- The adjustment of the PBG (Performance Bank Guarantee) toward payment obligations was held to be in direct violation of both the plan's terms and the CIRP Regulations (Regulation 36B(4A)).
- The lenders' insistence on full and timely cash infusion was upheld, and the consortium's repeated failures to comply were cited as a primary reason for liquidation.
- Only Rs. 200 crores out of Rs. 350 crores was actually paid, with the balance never fulfilled despite repeated court orders and extensions.
- **Use of Article 142 Powers:** Recognizing the exceptional circumstances, the Court invoked its plenary powers under Article 142 of the Constitution to order liquidation, stating this was necessary "to do complete justice" between the parties.
- **Forfeiture of Investments:** The Court ordered forfeiture of Rs. 200 crores already invested by the consortium and directed lenders to encash the Rs. 150 crore Performance Bank Guarantee, sending a strong message about the consequences of non-compliance.

Implications:

- Rs. 200 crores invested by the Jalan Consortium was forfeited, not refunded, as a penalty for failure to meet agreed obligations.
- Rs. 150 crore PBG was ordered to be encashed by lenders, demonstrating that performance guarantees are not "fallback funds" but real security for creditors.

- The Court's message was clear: Financiers and resolution applicants must honour their commitments strictly; tribunals and courts will not tolerate stretching regulatory leniency to breaking point.

- **Broader Implications & Looking Forward:** Jet Airways' liquidation is a landmark case for Indian insolvency jurisprudence and the aviation sector. It demonstrates that even the most promising revival plans can fail if strict compliance is not enforced. The judgment reaffirms the primacy of the IBC's time-bound, creditor-driven processes and the duty of tribunals and administrators to uphold, not dilute these principles.

Looking ahead, the Supreme Court's judgment will likely influence future legislative reforms and tribunal practices. It is a reminder that the law's intent timely, maximized recoveries for creditors cannot be sacrificed on the altar of routine extensions and "substantial compliance".

Conclusion

Jet Airways's story serves as a warning as well as an inspiration. From its modest origins in 1993, it quickly became the leading private airline in India, establishing new standards for global connectivity, operational effectiveness, and service quality. Its heyday represented ambition, professionalism, and the self-assurance of a private airline successfully competing against the world's largest. But its foundation was undermined by a combination of aggressive expansion, growing debt, inflexible leadership, and a failure to adjust to the emergence of low-cost carriers. The crisis was further exacerbated by outside factors like fluctuating fuel prices, a weakening rupee, and regulatory difficulties.

Important lessons are learned from Jet Airways' subsequent insolvency and eventual liquidation in 2024, not only for the airline but also for India's corporate governance and aviation industry as a whole. It emphasizes the value of sound financial management, flexibility in response to shifting market conditions, and the risks associated with an excessive dependence on debt-driven expansion. The case also revealed weaknesses in India's insolvency laws, especially in sectors that rely on licenses and slots and other intangible assets as well as regulatory approvals.

In the end, Jet Airways' decline from prominence to collapse illustrates how brittle success can be in industries with intense competition and high capital requirements. Its demise serves as a reminder that sustainability, compliance, and prompt reforms are crucial for long-term survival, even though its name and legacy will always be remembered for revolutionizing Indian aviation

Chapter 4 VIDEOCON: A case study

Introduction

Videocon Industries Limited, a prominent Indian conglomerate, was founded in 1979 by Venugopal Nandlal Dhoot, a visionary entrepreneur from a family with roots in the cotton ginning and trading business in Maharashtra. Born in 1951 in Aurangabad, Dhoot came from a modest background; his father, Nandlal Dhoot, was involved in agricultural trading, which instilled in him an early understanding of business operations and market dynamics. After completing his education in electrical engineering from Pune University, Venugopal Dhoot initially worked in the family business but soon recognised the untapped potential in India's burgeoning consumer electronics sector. At the time, India was heavily reliant on imported electronics, with limited domestic manufacturing capabilities due to restrictive government policies under the License Raj. Dhoot saw an opportunity to bridge this gap by establishing a homegrown brand that could produce affordable, quality appliances for the masses.

The foundation of Videocon began modestly with the establishment of Videocon Appliances in Aurangabad, Maharashtra, as a small-scale unit focused on manufacturing colour televisions. The name "Videocon" was derived from "video" and "con" (short for consumer), reflecting its core focus on video-related consumer products. Dhoot's initial investment was around ₹10 lakh (approximately \$20,000 at the time), sourced from family savings and small loans. He started by assembling televisions using imported components, leveraging technical collaborations with Japanese firms like Toshiba Corporation. This partnership was crucial, as it provided access to advanced technology and manufacturing know-how, allowing Videocon to produce reliable products that competed with international brands entering the Indian market. By 1985, Videocon had expanded its product line to include washing machines, refrigerators, and air conditioners, marking its transition from a single-product company to a diversified consumer durables manufacturer.

The 1980s were a period of rapid growth for Videocon, fueled by India's economic liberalisation policies that began easing import restrictions and encouraging domestic production. In 1986, the company went public with an Initial Public Offering (IPO) on the Bombay Stock Exchange, raising capital to fund expansion. This move not only provided financial resources but also enhanced its credibility in the market. Videocon's shares were listed at a premium, reflecting investor confidence in Dhoot's leadership. By the late 1980s, Videocon had established manufacturing plants in multiple locations, including Aurangabad, Gandhinagar (Gujarat), and later in Uttar Pradesh and Tamil Nadu. These facilities employed state-of-the-art assembly lines, and the company invested heavily in research and development to localise production,

reducing dependency on imports. Videocon's televisions, in particular, gained popularity for their affordability and features tailored to Indian consumers, such as built-in voltage stabilisers to handle erratic power supply, a common issue in rural and semi-urban areas.

Entering the 1990s, Videocon solidified its position as a leader in the Indian consumer electronics industry. The economic reforms of 1991, spearheaded by Finance Minister Manmohan Singh, opened up the market to foreign competition, but Videocon was well-prepared. It capitalised on the growing middle class and rising disposable incomes by expanding its distribution network to over 5,000 dealers across the country. By 1995, Videocon had captured a significant market share in colour televisions, estimated at around 20-25%, making it one of the top three players alongside brands like BPL and Onida. The company's revenues crossed ₹1,000 crore (about \$300 million) by the mid-1990s, driven by aggressive marketing campaigns featuring Bollywood celebrities and sponsorships of major events, which boosted brand visibility. Videocon also ventured into international markets, exporting products to the Middle East, Africa, and Southeast Asia, establishing itself as an emerging global player.

A key milestone came in 1998 when Videocon acquired the picture tube manufacturing technology from Thomson SA of France, setting up a glass shell plant in Bharuch, Gujarat. This backward integration allowed the company to control its supply chain, reducing costs and improving product quality. By the early 2000s, Videocon had diversified beyond consumer electronics into new sectors, transforming into a full-fledged conglomerate. In 2000, it entered the oil and gas industry through Videocon Petroleum Limited, securing exploration blocks in India and abroad, including partnerships in Brazil, Indonesia, and Mozambique. This move was strategic, as it leveraged rising global energy demands and provided a hedge against fluctuations in the consumer goods market. Videocon's entry into telecommunications followed in 2008 with Videocon Telecommunications Limited, which acquired spectrum licenses for mobile services under the brand Datacom (later rebranded as Videocon Mobile Services). Although telecom operations were nascent, they positioned the company in a high-growth sector.

The 2000s marked Videocon's peak expansion phase. In 2005, the company acquired the colour picture tube business of Electrolux Kelvinator India, further strengthening its dominance in appliances. By 2007, Videocon had become India's largest manufacturer of consumer durables, with a market share exceeding 15% in refrigerators and washing machines, and over 20% in televisions. Its annual turnover surpassed ₹10,000 crore (approximately \$2.2 billion), employing more than 10,000 people directly and supporting a vast ecosystem of suppliers and distributors. Internationally, Videocon made bold acquisitions, such as purchasing Thomson's colour

picture tube plants in Italy, Poland, and Mexico in 2005 for \$290 million, which catapulted it to the position of the world's third-largest manufacturer of picture tubes. This deal not only expanded its global footprint but also brought in advanced R&D capabilities.

A cornerstone of Videocon's success was its ability to stay ahead of technological trends through strategic partnerships and in-house innovation. Beyond its early collaboration with Toshiba, Videocon forged alliances with global giants like Samsung for LCD panel technology and Matsushita (Panasonic) for advanced appliance manufacturing techniques. These partnerships enabled Videocon to introduce cutting-edge products, such as India's first plasma TVs in 2004 and energy-efficient air conditioners compliant with global standards. The company also established a dedicated R&D centre in Aurangabad, employing over 200 engineers by 2010, focusing on product localisation to suit Indian conditions, such as high-durability appliances for humid climates. Its acquisition of Thomson's picture tube facilities in 2005 not only boosted production capacity but also gave Videocon access to advanced cathode-ray tube (CRT) and flat-panel technologies, positioning it as a global leader in display manufacturing. These efforts underscored Videocon's commitment to technological excellence, enabling it to compete with international brands like Sony and LG in India and abroad.

Videocon's meteoric rise in the Indian consumer electronics market was not solely due to its manufacturing capabilities but also its savvy marketing strategies tailored to the Indian consumer psyche. Recognising the importance of brand recall in a competitive market, Videocon invested heavily in advertising campaigns that resonated with middle-class aspirations. Its iconic tagline, "The Indian Multinational," emphasised its homegrown roots while projecting global ambitions, fostering a sense of national pride among consumers. The company roped in Bollywood superstars like Shah Rukh Khan and Priyanka Chopra as brand ambassadors, leveraging their popularity to promote televisions and appliances. Videocon also pioneered innovative retail strategies, such as easy financing schemes and extended warranties, making its products accessible to semi-urban and rural consumers. Its sponsorship of high-profile events, such as cricket tournaments, and later the IPL's Mumbai Indians, cemented its brand presence among diverse demographics, contributing significantly to its market share growth to over 20% in key product categories by the late 2000s.

Videocon's success was underpinned by innovative strategies, such as introducing energy-efficient products and eco-friendly manufacturing processes ahead of competitors. In 2009, it launched LCD and LED televisions, aligning with global trends toward flat-panel displays. The company also invested in branding, becoming the title sponsor of the Indian Premier League (IPL) cricket team Mumbai Indians in

2010, enhancing its appeal among younger demographics. By 2010-2011, Videocon's consolidated revenues reached ₹17,000 crore (about \$3.8 billion), with operations spanning consumer electronics, oil and gas, telecommunications, and even real estate through subsidiaries. It had established a presence in over 10 countries, with manufacturing facilities in China and Europe, and was recognised as one of India's most valuable brands by publications like Brand Finance.

Under Venugopal Dhoot's stewardship, Videocon exemplified the rise of indigenous entrepreneurship in post-liberalisation India. From a small assembly unit in Aurangabad, it grew into a multinational conglomerate synonymous with quality and innovation, serving millions of households with reliable products. Its journey reflected the broader transformation of India's economy, from import substitution to global competitiveness, positioning Videocon as a symbol of industrial prowess and market leadership in multiple sectors.

VIDEOCON'S PERFORMANCE UNTIL THE DOWNFALL

- 1979 (Founded): Videocon became a pioneer in India's consumer electronics market, especially in the color TV segment.
- Early 1990s: expanded aggressively into home appliances like washing machines, refrigerators, and air conditioners.
- Late 1990s and early 2000s: Dominated the Indian home appliances market
- Post 2008: Began diversifying into areas beyond consumer electronics, notably oil & gas (Rs 8000 crore investment) and telecom. All ventures were largely debt funded.

Growth Phase (1979 – early 2000s):
From its inception in 1979, Videocon capitalized on the growing demand for consumer electronics in India. Its pioneering entry into the color television market made it a household brand during the 1980s and 1990s. The company consistently expanded its portfolio to include refrigerators, washing machines, and air conditioners, aligning itself with the aspirations of India's expanding middle class. During the 1990s, economic liberalization further boosted demand for consumer durables, and Videocon benefited significantly. Its domestic dominance was complemented by global acquisitions, such as Thomson's color television business (2005) and Daewoo Electronics (2008), which expanded its technological base and gave it access to international markets. Until the early 2000s, Videocon's performance remained robust, with strong revenues, high brand recall, and significant market share across product categories.

Diversification Phase (2008-early 2010s):

After 2008, Videocon shifted its focus from consumer durables to high-capital industries such as **oil & gas exploration** and **telecom**. The company invested nearly ₹8,000 crore in energy exploration projects and entered the telecom industry with Videocon Telecommunications Ltd. While these moves reflected bold ambition, they were largely **financed through debt**, which exposed the company to financial stress. At the same time, competition in consumer electronics intensified as global brands like LG, Samsung, and later Chinese players captured the Indian market share with advanced technology and aggressive pricing. Videocon began losing ground in its core business even as its new ventures failed to generate sustainable profits.

Videocon's Decline(2012-2015)

The period between 2012 and 2015 marked the beginning of Videocon's rapid decline, as a series of adverse developments eroded its financial stability. In 2012, the company suffered a critical setback when the Supreme Court of India revoked its 2G telecom spectrum licenses, as part of the broader fallout from the spectrum allocation controversy. This judgment effectively dismantled Videocon's telecom operations and resulted in a direct financial loss of approximately ₹7,000 crore, undermining its diversification strategy.

In 2013, external market conditions further worsened the company's position. The sharp decline in global crude oil prices significantly reduced the profitability of Videocon's oil and gas exploration ventures, which had earlier been envisioned as a major source of long-term revenue. The fall in oil prices coincided with rising debt obligations, causing severe strain on cash flows and weakening the company's ability to finance ongoing operations.

By the mid-2010s, Videocon's financial position had deteriorated substantially. To compensate for mounting losses in telecom and energy, the group resorted to persistent borrowing, which caused its overall debt to escalate dramatically. Estimates indicate that by this period, Videocon's liabilities had ballooned to between ₹47,000 crore and ₹61,000 crore, creating an unsustainable financial burden. The combination of regulatory setbacks, unfavorable market conditions, and debt-driven financing marked this phase as the tipping point that set the company firmly on the path toward insolvency.



Figure 4-1 Close Price of Videocon's publicly traded shares from 1994 to 2022

- The all-time high or the highest price that Videocon Industries' stocks have ever touched was ₹867.12, and this occurred on 01 Jan 2008.
- The highest closing price at which Videocon Industries stocks have ever closed was ₹825.81, recorded on 01 Dec 2007.

Shares of Videocon have been mostly falling since June 2017 when the stock saw a massive decline of about 82% to Rs 17.4 from a share price level of Rs 100.6 within a span of 25 days. Notably, the stock of Videocon had made an all-time high of Rs 871.2 on 1 January 2008 with a trading volume of 15.84 lakh equity shares and a turnover of Rs 134.15 crore while the scrip has made an all-time low of Rs 8.6 with a trading volume of 2.2 lakh equity shares and a turnover of Rs 18.99 lakh on NSE.

Resolution Process and Plan Submission
 The invitation for Expression of Interest (EoI) was issued in March 2020, attracting 11 prospective resolution applicants (PRAs), including Vedanta Ltd., Adani Group entities, and others. After due diligence, two compliant plans were shortlisted: one from Twin Star Technologies Ltd., a special-purpose vehicle promoted by Vedanta Ltd. and key managerial personnel from the RP's team, and another from Aarin Capital Advisors Pvt. Ltd. on behalf of Axis Bank and other lenders.

On November 11, 2020, during the 19th CoC meeting, the Twin Star plan was approved with 95.09% voting share, meeting the 66% threshold. Dissenting votes came from minority creditors like Bank of Maharashtra at 1.97%, IFCI Ltd. at 1.03%, and

SIDBI at 0.053%. The plan was submitted to NCLT on December 10, 2020, under IBC Section 30(6).

Detailed Contents of the Twin Star Resolution Plan

The plan, valued at Rs. 2,962.03 crore against Rs. 64,838 crore claims implied a ~95.4% haircut for financial creditors and was structured for implementation within 180 days of NCLT approval. It emphasized revival through debt restructuring, asset retention, and equity infusion, with Vedanta gaining strategic control over high-value assets like Videocon's 25% stake in the Ravva oilfield in the Krishna-Godavari basin, operated by Cairn India, a Vedanta subsidiary. This would elevate Vedanta's effective stake to 47.5%, raising antitrust and conflict-of-interest concerns.

1. CIRP Costs and Implementation Funding

CIRP costs, estimated at Rs. 150-200 crore, were to be paid in priority from available cash flows or funded by the Successful Resolution Applicant (SRA), namely Twin Star. This included an upfront infusion of Rs. 1,000 crores in equity or capital into VIL post-merger for working capital and revival. The implementing entity was Twin Star as the overseer of execution, with board reconstitution featuring most SRA nominees.

2. Treatment of Financial Creditors (Admitted Claims: Rs. 62,520.31 crore) Assenting creditors, holding 95.09% voting share, were allocated Rs. 200 crore upfront cash, Rs. 2,700 crore in secured, rated, listed Non-Convertible Debentures (NCDs) with a 6.65% annual coupon rate redeemable over 10 years with prioritized redemption, a pro-rata share of residual cash balances post-CIRP costs, and 8% equity in the revived VIL on a post-money, fully diluted basis for select assenting creditors. Dissenting financial creditors were guaranteed not less than the liquidation value of Rs. 2,568.13 crore pro rata, with upfront cash and NCD redemptions prioritized over assenting creditors to ensure parity. Overall recovery was approximately ~ 4.6% in cash and NCDs plus equity upside, which was criticized as marginal over the liquidation value.

3. Treatment of Operational Creditors (Admitted Claims: Rs. 1,178.23 crore)

Operational creditors received **Rs. 10 crore** upfront cash, distributed pro rata, resulting in a recovery of **~0.85%**. There were no provisions for equity or future claims, and statutory operational dues, such as those from trade creditors, were treated similarly.

4. Treatment of Workmen and Employees (Admitted Claims: Rs. 52 crore)

Workmen and employees were provided **Rs. 52 crore** upfront cash in full settlement, achieving **100% recovery** for workmen at **Rs. 13.5 crore** and employees or non-workmen at **Rs. 38.5 crore**. The plan ensured retention of existing employees with continuity of service, with no mandated layoffs, though revival plans included potential rehiring.

5. Treatment of Government and Statutory Dues (Admitted Claims: Rs. 1,587.1 crore)

Government and statutory dues were allocated **Rs. 10 crore** upfront pro-rata, yielding a recovery of **~0.63%**. Notably, the **Petroleum Ministry's claim** of **Rs. 2,245 crore** or **USD 525.62 million** for unpaid profit petroleum from the Ravva oilfield was rejected by the RP as time-barred, sparking ongoing disputes.

6. Equity and Corporate Structure

Existing shareholders, including promoters, were wiped out, with **100% equity** transferred to the SRA. Post-implementation, **92% equity** went to **Twin Star/Vedanta**, and **8%** to assenting financial creditors. The structure involved mergers of **11 corporate debtors** into VIL, delisting of VIL and **Value Industries Ltd.** shares, and capital reduction in VIL to **Rs. 10 crore**.

7. Asset Treatment and Revival Strategy

All assets were retained, including oil and gas blocks like Ravva, real estate, and intellectual property. No divestitures were mandated; however, the SRA committed to operational revival, including the restart of electronics manufacturing. Contingencies included reversion to liquidation if implementation failed.

8. Other Key Terms

The plan included confidentiality and exclusivity provisions, making details non-disclosable except to NCLT and CoC. Dispute resolution was governed by IBC, with arbitration for NCD-related issues.

Approvals and Voting

CoC approval occurred on **November 11, 2020**, with **95.09% in favor**. Major assenting banks included **SBI** at **18.05%**, **IDBI** at **16.06%**, and **Union Bank** at **9.07%**. Abstention or minor dissenters included **Yes Bank** at **0.23%** and **Goldman Sachs** at **0.064%**. NCLT approval followed on **June 8, 2021**, by the bench consisting of Judicial Member **V.P. Singh** and Technical Member **Ravikumar Duraisamy**, upholding the

plan under **IBC Section 31**. This cited the commercial wisdom of the CoC, compliance with must-provisions like **Section 30(2)**, and value maximization. The approval noted the plan's proximity to liquidation value but deferred to the CoC's evaluation, with conditions for the RP to file compliance reports and monitor implementation for **1 year**.

Challenges, Controversies, and Current Status

The approval faced immediate backlash, highlighting IBC's vulnerabilities in complex group insolvencies. In **July 2021**, dissenting lenders such as **Bank of Maharashtra** and **IFCI** appealed to **NCLAT**, alleging undervaluation, process irregularities, including the RP's ties to Vedanta, and breach of confidentiality, leading to NCLAT staying implementation on **July 19, 2021**. Promoter **Venugopal Dhoot** filed an NCLAT appeal, offering **Rs. 31,789 crores** to reclaim control and claiming oppression under the **Companies Act, 2013**. **Twin Star** appealed the stay to the **Supreme Court (SC)** in **August 2021**, where the SC refused vacation but issued notices. In a landmark ruling on **January 21, 2022**, in **Company Appeal (AT)(Insolvency) No. 148-149 of 2021**, NCLAT set aside NCLT's approval, holding that the CoC could reconsider its decision pre-approval, analogous to a board's fiduciary duty. It rejected Twin Star's plan, invited fresh EoIs with a deadline of **February 28, 2022**, and extended CIRP by **90 days**, emphasizing the CoC's ongoing role beyond initial voting.

Legal Violations and Laws Breached

Videocon Industries' fall was precipitated by a series of severe legal violations across multiple statutes, exposed by regulator investigations, forensic audits, and high-profile court rulings. The following presents a detailed account of the major breaches, tracing their regulatory, financial, and criminal dimensions.

Breach of Companies Act, 2013

Several instances pointed to abuse of director duties under Section 166 and falsification of financial statements under Section 129. The Dhoot family, Videocon's promoters, were found to have engaged in questionable accounting practices and mismanaged affairs, as detailed by Grant Thornton's transaction review, the company's resolution professional, and the NCLT. Assets and surpluses were grossly overstated while liabilities remained hidden, resulting in misleading annual reports and manipulation designed to camouflage deteriorating business reality. These findings led

to requests for the NCLT to declare past transactions void and freeze assets affiliated with the promoters, amounting to direct breaches of fiduciary and transparency norms.

Violations of SEBI's Listing Obligations (LODR), 2015

Both individual directors and the company breached disclosure requirements. Venugopal Dhoot, Videocon founder, failed to declare his interests in several related entities, including Supreme Energy and QTAPL, which subsequently played central roles in the ICICI Bank quid pro quo fraud case. The stakes in these entities and their transactions should have been disclosed as material events under Regulation 30, but were kept hidden, hampering investor transparency and violating listing agreements. SEBI fined Dhoot and other entities for these lapses, which also included illegal off-market share transfers without consideration and improper designation of related parties.

Criminal Cheating and Conspiracy under the Indian Penal Code

The infamous ICICI-Videocon loan scam involved criminal conspiracy (Section 120B) and cheating (Section 420), wherein Chanda Kochhar, then CEO of ICICI Bank, was found to have approved loans as part of a quid pro quo arrangement. The Central Bureau of Investigation (CBI) and Enforcement Directorate (ED) established a trail: Videocon group firms, having received credit exceeding ₹3,250 crore, routed ₹64 crore as investment to NuPower Renewables, controlled by Kochhar's husband, through a complex chain of shell companies. The appellate tribunal later upheld the ED's asset seizure, citing "gross misconduct" and clear conflict of interest; ultimately, Kochhar, her husband, and Videocon's Venugopal Dhoot faced formal criminal charges.

Insolvency and Bankruptcy Code (IBC), 2016: Fraudulent Trading

During insolvency proceedings, the Resolution Professional's audit, NCLT, and PricewaterhouseCoopers forensic reviews found Videocon engaged in fraudulent practice under Section 66 of IBC. Over ₹14,000 crore was siphoned through the sale of undervalued assets, preference transactions, and a network of shell entities. The RP's plea for transaction avoidance and asset attachment was upheld by the NCLT, which imposed strict restrictions on transfer or alienation of the Dhoot family's assets to secure recovery for lenders and creditors.

Banking Regulation Act, 1949

Banks, including ICICI, disregarded prudential norms and Section 45E by failing to accurately disclose Videocon's credit exposure and delaying recognition of non-performing assets. Instead of ceasing exposure, lending continued even as Videocon's financial state deteriorated—a regulatory lapse highlighted by the RBI's annual reports and Parliamentary NPA reviews. The CBI specifically named ICICI among consortium banks showing preferential lending.

Prevention of Money Laundering Act (PMLA)

ED and CBI established Videocon's involvement in laundering bank loan proceeds via layered, circuitous transactions. Funds were rerouted through a web of shell companies and ultimately invested in entities linked to the Kochhar and Dhoot families. The appellate tribunal's order on asset confiscation classified Videocon's proceeds as "illicit," supporting the case for property forfeiture and prosecution under PMLA.

Regulatory Oversight Failures

A consistent theme in Videocon's saga was the lack of coordinated oversight. RBI's group exposure norms were ignored by several consortium banks, and sectoral regulators failed to track Videocon's related-party dealings or group-wide risks. The absence of consolidated scrutiny enabled Videocon to perpetuate fraudulent and mismanaged practices, as highlighted in NCLT and regulatory action records.

Conclusion

The Videocon Industries collapse stands as a textbook case of systemic corporate misconduct penetrated by regulatory and criminal investigation. Verified audits and tribunal orders confirm violations across the Companies Act, SEBI LODR, IPC, IBC, Banking Regulation Act, PMLA, and wider regulatory frameworks. These breaches resulted in deep financial losses, the erosion of lender and investor trust, and widespread legal repercussions for the company's promoters and senior directors.

CURRENT SCENARIO

The Videocon case is a landmark for being one of the largest group insolvencies handled in India's nascent Insolvency and Bankruptcy Code (IBC). As all 13 companies were summed into one debtor due to the interrelated debts and guarantees, this just added to the complexity of dealing with the case, with no proper legal structure being laid down for such conditions.

There have been several developments in the case till today. In 2021, the Bank of Maharashtra and other creditors challenged the approval of the resolution plan submitted by Twinstar Technologies, which offered approximately 4.15% repayments to the creditors, citing inadequate compliance with the IBC norms. The NCLAT then sets aside the NCLT approval, asking the committee of creditors (CoC) to reconsider the resolution plan, focusing on the need for creditors' rights protection.

In 2022, the CBI arrested the key accused of the Videocon-ICICI Fraud Case, including Venugopal Dooth and the Kochhars, citing conclusive evidence of quid-pro-quo bribery in sanctioning Videocon loans. PMLA authorities reinforce the attachment of assets linked to implicated parties. But later, Chanda Kochhar was granted interim bail by the Bombay High Court, criticizing procedural lapses and irregularities in arrests by investigating agencies, stirring debate on due process.

In March 2023, SEBI imposed a fine of Rs 5 lakh after finding that he had not disclosed his interest in Supreme Energy to Videocon when the latter granted a loan to the former. This was found by the SEBI when they were investigating the quid pro quo case of Videocon-ICICI. Later in July, the SEBI had ordered the attachment of banks, demat accounts, and mutual funds holding of Videocon group founder Venugopal Dhoot to recover the dues totalling Rs 5.16 lakhs, as he failed to pay the fine imposed on him in March. The Promoters and some lenders continue opposing the resolution plan and raise issues about asset valuation and inclusion of overseas entities such as oil and gas units. The Supreme Court also addressed several pleas related to the insolvency and loan fraud investigations. Government intervention was seen when the Ministry of Petroleum urged the Supreme Court to move to seek recovery of unpaid dues from Videocon's overseas oil assets, highlighting the public sector stake in the case.

In July 2025, the PMLA Appellate Tribunal confirmed Chanda Kocchar's guilt in accepting Rs 64 crore bribes; her assets remain attached. Despite Vedanta's Twinstar

Technologies' resolution plan being the front-runner, ongoing court disputes from promoters and creditors delay final liquidation or takeover. Opposition from promoters and some lenders highlighted tensions between maximizing recovery and respecting the rights of legal creditors. The Tribunal has issued notices to resolution professionals, lenders, and the Vedanta group to respond to procedural and compliance queries, ensuring transparency. Continued government efforts focus on recovering dues and overseeing the insolvency resolution to prevent public fund losses.

On an economic level, the Videocon case amplified concerns about non-performing assets within the banking sector, pressuring regulatory bodies to strengthen oversight and resolution frameworks such as the Insolvency and Bankruptcy Code (IBC). The outcome also affects investor sentiment, as global investors observe whether India can deliver fair, time-bound, and predictable outcomes in resolution of distressed assets, which is critical for promoting investment inflows.

The severe haircut faced by lenders, with banks recovering only a fraction of their dues, strained the domestic financial sector and highlighted the limitations of India's insolvency regime in protecting creditor interests, particularly those of banks and MSMEs. This has implications for credit availability and risk assessment in future lending, prompting both policy reform and caution among domestic financial institutions.

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