
Client Advisory Note

Qualified Foreign Investors can now invest directly in public companies

The Securities and Exchange Board of India ("SEBI"), the Indian securities market regulator has permitted Qualified Foreign Investors ("QFIs") to directly invest in the equity shares of listed companies and equity shares offered to the Indian public subject to certain conditions.

Earlier QFIs could invest in the Indian securities market only through mutual funds subject to certain conditions.

QFIs include an individual, a company, a partnership firm, pension funds, a local authority, trusts and every artificial juridical person.

SEBI has further liberalized the entry route for QFI by permitting the QFIs to invest in the equity shares of listed companies. This move will be welcomed by foreign companies, looking to build/enhance stakes in Indian listed companies.

Under the liberalized regime, QFIs can:

- Purchase equity shares of listed companies;
- Apply for shares in the initial public offer of Indian companies;
- Sell shares of listed companies;
- Receive bonus shares;
- Receive dividend;
- Tender equity shares in an open offer made in accordance with the Indian Takeover Regulations;
- Tender the equity shares in the open offer for delisting of shares;

- Tender the equity shares in case of a buy back;
- Subscribe to rights issue;
- Receive equity shares in the case of merger/demerger or other corporate actions.

QFIs are not permitted to pledge the shares acquired.

An individual QFI can hold up to 5% of the equity share capital of the Indian company. The aggregate shareholding of all the QFIs in an Indian company cannot exceed 10% of the equity share capital of the Indian company.

QFIs shall be allowed to invest through SEBI registered qualified depository participant (“DP”). A QFI shall open only one demat account and a trading account with any of the qualified DP. The QFI shall make purchase and sale of equities through that DP only.

QFIs shall remit money through normal banking channel in any permitted freely convertible currency directly to the single rupee pool bank account of the DP maintained with a designated Authorized Dealer bank. Upon receipt of instructions from QFI, DP shall carry out the transactions of purchase or sale of equity shares.

The information and/or observations contained in this note do not constitute legal advice and should not be acted upon in any specific situation without appropriate legal advice. The views expressed in this memorandum do not necessarily constitute the final opinion of Wakhariya & Wakhariya and should you have any queries in relation to any of the issues set out herein or on other areas of law, please feel free to contact us at the following coordinates:

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