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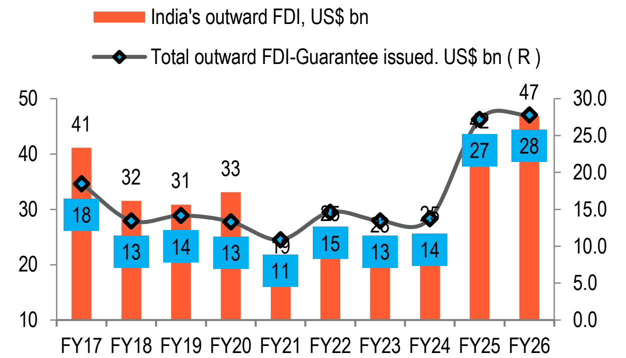
India’s outward FDI picture

India’s outward FDI momentum has been robust in contrast to the world where there has been significant degree of contraction post Covid period. This reflects growing intentions of Indian companies to expand into other countries and leverage the opportunity presented. The share of the route of investing in wholly owned subsidiary is also significantly higher. The equity component of outward FDI is posting robust growth reflecting higher interest for direct ownership. The sector wise profile shows financial services comprising the major pie of outward FDI, reflecting preference of knowledge-based IT related services over traditional capital-intensive manufacturing sector. The growing importance of GIFT city is also a major contributor towards the same. Destination wise, share of outward FDI in major advanced economies is lower. Hence this leaves more potential in the future in the time of new trade and investment agreements.

Trend of Outward FDI:

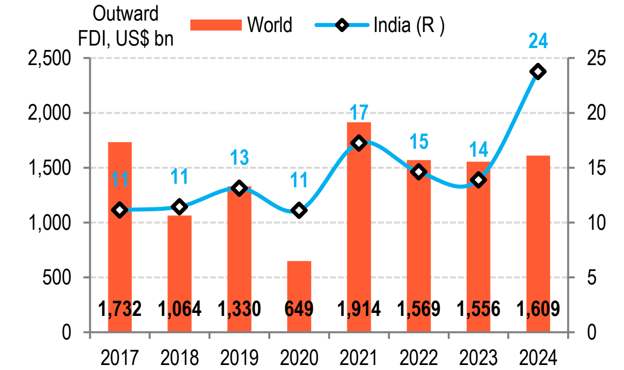
India’s outward FDI trajectory has been interesting. It has witnessed a steep U-shaped recovery after bottoming in the Covid period (FY21) due to slowdown in global economic activity. The pace of increase has been the sharpest in FY25 where it went up to US$ 42bn from US$ 25bn in FY24 which reflect India’s openness of foreign trade and investment policy. In FY26 as well, the momentum is retained at US$ 47bn. Excluding guarantee, India’s outward FDI was at US$ 28bn in FY26. India’s outward FDI story, however, does not fall in place in comparison to the world. **Fig 2** shows that since 2021 outward FDI of the world has shown deceleration at a sustained pace. From US$ 1.9tn in 2021, it went down to US$ 1.6tn in 2024. The comparison between global outward FDI and India is available with a lag. Nonetheless, it shows the divergence especially visible post Covid period.

Figure 1: A U-shaped trend in India’s outward FDI flow



Source: CMIE, Bank of Baroda Research

Figure 2: India’s picture in contrast to the world



Source: UNCTAD, Bank of Baroda Research

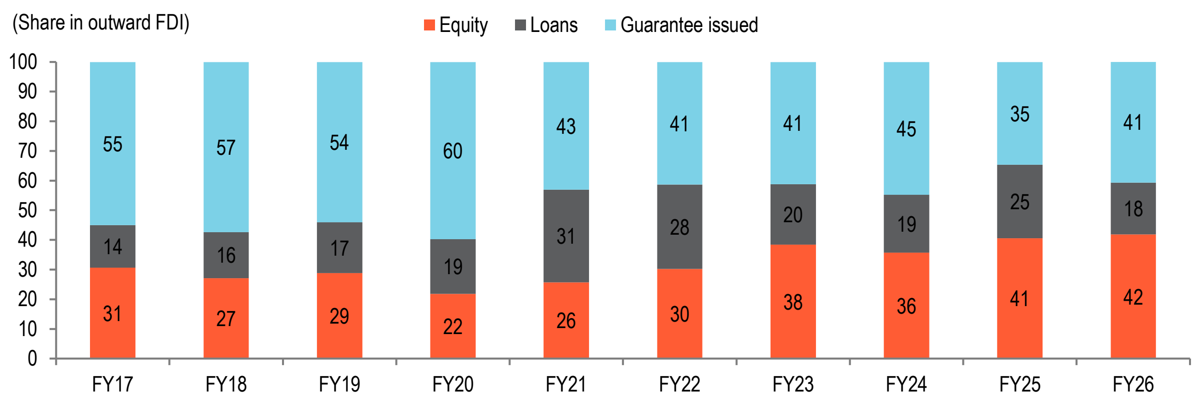
So, India’s outward FDI needs to be looked carefully. This note explores the different aspects of India's outward FDI:

1. The different components of outward FDI-Equity, loan and guarantee component.
2. How 5-Y and 10-Y cycle of outward FDI looks like? Has there been any structural shift in the same.
3. Outward FDI: Whether investment is directed at Joint Venture partnerships or Wholly Owned Subsidiary?
4. Concentration across sectors.
5. Spatial distribution of outward FDI.

Equity gearing up

The component of India’s outward FDI show the growing importance of equity compared to loan component. The evolution of share of equity on outward FDI is interesting. From 31% in FY17 it has risen to 42% in FY26. This may be a strategic move by domestic companies to acquire direct ownership to integrate itself into cross border technology and knowledge-value chain. The share of Guarantee issued has also been elevated at ~41%. This may be on account of higher financial penetration in terms of accessibility to global debt market. Further the 2022 regulations on overseas investment directed towards a comprehensive and clear role-based framework also must have facilitated this route. It is to be mentioned that from FY20 level where it peaked to 60% due to stagnation in global economic activity, it has come off to 41% in FY26. The share of guarantee is also much lower compared to the FY17 level of 55%.

Figure 3: Prominence of equity within outward FDI



Source: CMIE, Bank of Baroda Research

The 5Y CAGR data of total outward FDI data showed that it grew at a strong double-digit pace of 19.6%. For equity the pace of growth is at the sharpest even higher than the guarantee-component. The increasing growth of guarantee-component especially post Covid period signifies the higher reliance of contingent exposures in times of volatile environment. Loans component on the other hand has grown at a modest pace.

Th 5Y CAGR shows a steep growth rate of outward FDI on account of a low base due to Covid-period. If we consider the CAGR since FY19, the growth is more restrained.

Table 1: CAGR of different components of outward FDI

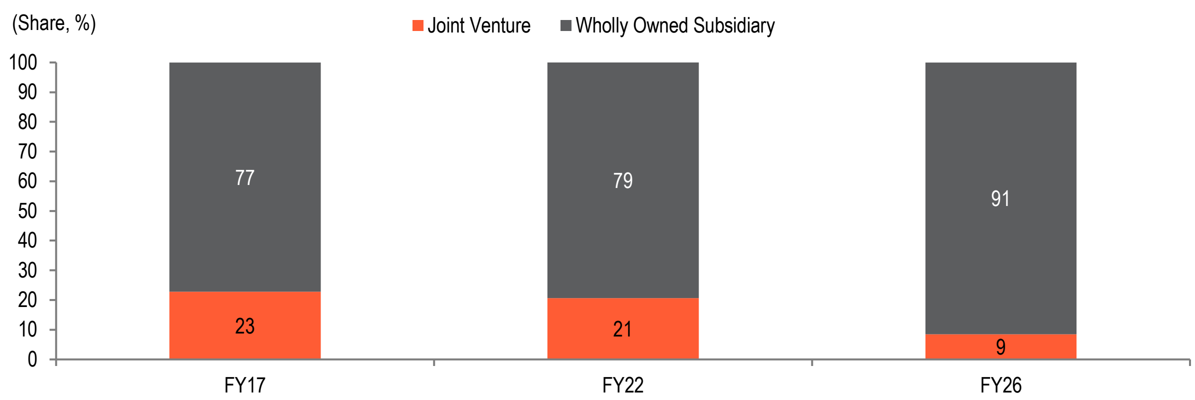
Growth rate (%)	Total	Equity	Loans	Guarantee issued
10-Yr CAGR	4.1	14.4	8.0	-1.6
5-Yr CAGR	19.6	31.9	6.6	18.3
CAGR since pre-pandemic (FY19)	6.2	12.0	6.5	1.9

Source: CMIE, Bank of Baroda Research

Wholly Owned subsidiary has the major share

There has been a clear structural shift with the jump in share of Wholly Owned Subsidiary from 77% in 2016-17 to 91% in FY26. This reflects strategic shift towards deeper exploration of foreign markets rather than only relying through the licensing mode or joint venture. This may be firm specific depending on the cost benefit structure.

Figure 4: More preference towards Wholly owned subsidiary



Source: CMIE, Bank of Baroda Research

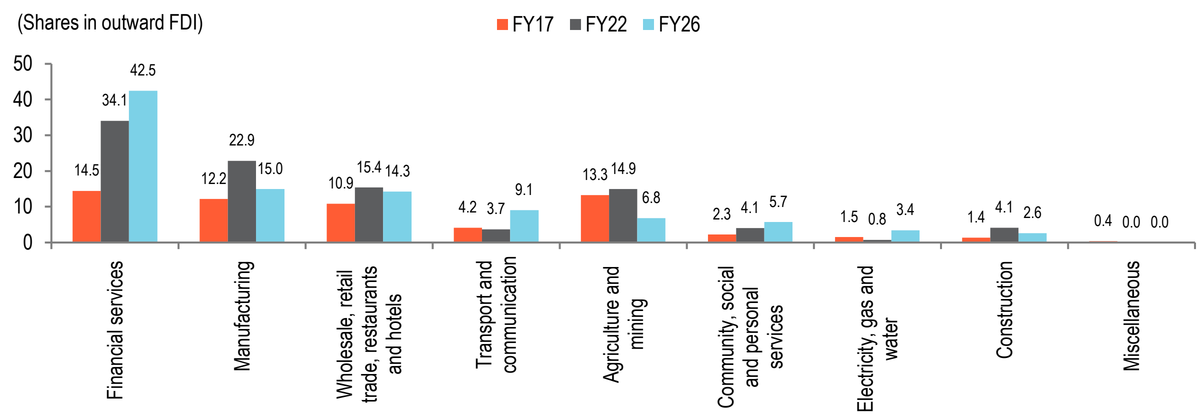
Sector wise profile of outward FDI.

Financial services (which includes business services) have the dominant share in outward FDI. The share of financial services is also rising persistently. From 14.5% in FY17 it has risen sharply to 34.1% in FY22 and further higher at 42.5% in FY26. This is in line with evolving regulatory reforms targeted at higher mobilisation of global capital market by Indian companies. The growing importance of IT and software led services and its venture to explore new markets to integrate with global value chain, might also one of the most contributing factors towards increased share of financial services. As per Bloomberg data India's outbound M&A deals have picked up in volume in FY26 compared to FY21. Indian technology and financial service providers are one of the major sectors where major outbound

M&A deals are concentrated. Apart from this, GIFT city is also a major contributor for the higher share of financial services in outward FDI.

On the other hand, the share of manufacturing in outward FDI has decelerated considerably from 22.9% in FY22 to 15% in FY26, albeit slightly higher than FY17 level of 12.2%. Thus, there is a clear shift of outward FDI from manufacturing to services i.e. a shift from capital intensive to knowledge-based services. The higher digital penetration globally and now with AI in picture, this trend of more outward FDI towards services is likely to persist. The share of wholesale, retail, trade, hotels have also improved from 10.9% in FY17 to 14.3% in FY26 with growing consumerism.

Figure 5: Financial services have the highest share in outward FDI



Source: CMIE, Bank of Baroda Research

Country-wise profile

Singapore has the highest share of 30% in India's outward FDI and the elevated share is consistently maintained since FY17. In absolute terms as well, outward FDI to Singapore has increased considerably. This may be on account of changing tax rules in 2016 (amendments to Double Taxation Avoidance Agreement). Other than Singapore, maximum concentration is in United States whose share in outward FDI has risen to 13.6% in FY26 from 9.9% in FY17. For Netherlands as well, the share has increased to 10.6% in FY26 from 4.4% in FY17. Here the DTA with regard to exemption on capital gains tax with certain conditionalities, has worked in favour of higher potential for outward FDI. However, for other advanced economies such as UK, Germany and France, share of outward FDI has been relatively low. This leaves more scope in the future in the era of new trade and investment agreements.

Table 1: Singapore has the highest share in outward FDI

Countries, Outward FDI, abs. in US$ bn	FY17	FY22	FY26
Singapore	6.5	7.2	12.7
Share (%)	*26.9*	*30.0*	*30.0*
United States	2.4	4.7	5.7
Share (%)	*9.9*	*19.6*	*13.6*
Mauritius	5.4	0.9	5.3
Share (%)	*22.2*	*3.6*	*12.5*
Netherlands	1.1	2.3	4.5
Share (%)	*4.4*	*9.5*	*10.6*
United Arab Emirates	1.1	1.2	3.8
Share (%)	*4.4*	*5.0*	*9.0*
United Kingdom	2.2	1.7	3.3
Share (%)	*9.0*	*7.2*	*7.7*
Sri Lanka	0.1	0.2	1.2
Share (%)	*0.3*	*1.0*	*2.7*
Germany	0.1	0.1	0.8
Share (%)	*0.4*	*0.4*	*1.9*
France	0.0	0.0	0.7
Share (%)	*0.1*	*0.1*	*1.7*
South Africa	0.0	0.0	0.5
Share (%)	*0.1*	*0.0*	*1.3*

Source: CEIC, Bank of Baroda Research

Outlook:

India's outward FDI trend in FY27 till data has also been buoyant. In Apr-May'26, it rose to US$ 10bn higher compared to US$ 9.6bn in the same period of previous year. We expect same momentum to continue in the coming months. Further under the current environment where India is trying to integrate more in the global value chain, there remains higher potential for increasing outward FDI flows and further diversification of flows to other countries. With more trade and investment agreements likely to come up in the future, there remains scope for higher internationalisation of firms. Services sector is likely to dominate their share in outward FDI in the near term as well. This is on account of higher focus on technology and AI related investments. Thus, there will be continued the preference over knowledge-based industries compared to traditional capital-intensive outward investment.

Conclusions:

1) India's outward FDI has picked up at a robust pace post Covid-period reflecting higher intention of Indian companies to integrate in the global value chain. Excluding guarantee outward FDI is at US$ 28bn in FY26.
2) India's story stands in contrast to the world where outward FDI is contracting.
3) The share of equity component in outward FDI is higher reflecting preference of companies towards direct ownership, may be on account of cost-benefit purpose.
4) There is a biasedness towards wholly owned subsidiary speaking of growing interest of firms for internationalisation.
5) The sector wise profile shows higher share of services sector compared to manufacturing sector. This shows inclination towards knowledge driven industries in line with growing boom of India's technology, IT, software services and GIFT city.
6) Country-profile shows that for major advanced economies share of outward FDI is much lower. Thus, there remains more potential in the future in the era of more trade and investment agreements.

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