

ALERT: INDIA RELAXES PRESS NOTE 3 RESTRICTIONS FOR MINORITY INVESTMENTS

BACKGROUND:

In April 2020, the Government of India introduced restrictions on foreign investments from countries sharing a land border with India (“LBCs”) through Press Note 3 (“PN3 2020”) issued by the Department for Promotion of Industry and Internal Trade (“DPIIT”). The PN3 2020 mandated that any investment into India from such countries, or where the beneficial owner of the investment is situated in or is a citizen of a LBC, would require prior government approval. The objective was to prevent opportunistic takeovers of Indian companies during the COVID-19 pandemic, particularly by investors from LBCs.

On 10 March 2026, the Union Cabinet (“Cabinet”) approved amendments to the PN3 2020 to address implementation challenges faced by global investors and funds having limited exposure to investors from LBCs (“Proposed Amendment”)¹.

KEY POLICY CHANGES:

1. Limited Automatic Route for Minority Beneficial Ownership:

The Proposed Amendment allows investments under the automatic route where the investor has non-controlling beneficial ownership of an entity of an LBC of up to 10% (Ten percent), subject to applicable sectoral caps and entry conditions.

The Proposed Amendment also formally introduces a definition and criteria for determining ‘beneficial ownership’, aligned with the standards under the Prevention of Money Laundering Rules, 2005 (“PMLA”), and applies the beneficial ownership test at the level of the investor entity.

In such cases –

- the investment must remain non-controlling, and
- relevant information relating to beneficial ownership must be reported by the investee entity to DPIIT.

This change primarily addresses situations where global funds or multinational investors have minor exposure to investors from an LBC.

2. Expedited Approval Mechanism for Select Manufacturing Sectors:

For investments requiring government approval from LBC investors, the government has introduced a time bound approval framework. Investment proposals in specified manufacturing sectors will be processed within 60 (Sixty) days.

The sectors currently identified include –

¹ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2237806®=3&lang=2>

- capital goods manufacturing
- electronic capital goods
- electronic components
- polysilicon
- ingot-wafer and related materials

The list of sectors may be expanded or modified by a Committee of Secretaries headed by the Cabinet Secretary. For investments approved under this Proposed Amendment, majority ownership and control of the investee entity must remain with resident Indian citizens or Indian entities owned and controlled by resident Indian citizens.

The Proposed Amendment approved by the Cabinet will become effective only upon a formal notification by DPIIT through amendments to the Foreign Direct Investment Policy and/or the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019.

Until such notification is issued, the existing PN3 2020 framework continues to apply, under which any investment from an entity incorporated in, or having beneficial ownership from, an LBC requires prior government approval.

GOVERNMENT CLARIFICATION:

Following the Cabinet decision, government officials clarified that the relaxations brought in through the Proposed Amendment should not be interpreted as opening the automatic route to entities incorporated in an LBC. Entities registered an LBC will continue to require prior government approval for investments in India. The **relaxation** is limited to investor entities incorporated **outside an LBC** that have minority, non-controlling beneficial ownership (below 10%) from investors incorporated in an LBC.

AREAS AWAITING CLARIFICATION:

1. Director level Scrutiny:

The Proposed Amendment currently does not address the security clearance requirements applicable to directors from an LBC as made mandatory under the PN3 2020. Under the existing framework, appointment of directors who are nationals of an LBC require prior security clearance from the Ministry of Home Affairs.

It remains to be seen whether the Proposed Amendment in respect of minority beneficial ownership will have any bearing on these requirements, or whether such director level restrictions will continue to operate independently.

2. Treatment of Multi-Layered Ownership Structures:

The Proposed Amendment indicates that the beneficial ownership test will be applied at the level of the investing entity. However, the treatment of multi-layered ownership structures remains unclear. For instance, scenarios may arise where: an investor entity is incorporated outside an LBC, but an intermediate group holding company is located in an LBC, while the ultimate parent entity is situated outside an LBC.

The Proposed Amendment does not explicitly address such intermediate ownership structures, and additional clarification may be required on how the 10% (Ten percent) beneficial ownership threshold will be applied in these cases.

3. Applicability to Pending Applications:

The Proposed Amendment does not clarify whether the relaxation will apply to pending applications where investments that were subject to the PN3 2020 approval process.

Accordingly, it remains unclear whether: pending approval applications may benefit from the revised framework; or previously completed transactions involving minimal LBC exposure could be regularised under the new regime.

CONCLUSION:

The Proposed Amendment signals a calibrated relaxation of the PN3 2020 framework while maintaining safeguards around national security and strategic control.

- funds with limited exposure to investors from LBCs can now invest in India without triggering the government approval route.
- entities incorporated in China and other LBCs remain subject to government approval requirements.
- the introduction of a 60 (Sixty) day approval timeline aims to accelerate investments in strategic manufacturing sectors and support domestic supply chains.
- aligning the definition with the PMLA framework reduces ambiguity in determining beneficial ownership structures.

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