

FPI Investments in the Indian Debt Markets: An Overview

INTRODUCTION

Investments in debt securities in India by non-residents require compliance with an array of Indian foreign exchange and securities regulations. Overseas investors intending to invest in debt instruments in India typically do so either under the Reserve Bank of India's ("RBI") framework for external commercial borrowings ("ECB") or through the route available for foreign portfolio investors ("FPI") registered with the Securities and Exchange Board of India ("SEBI"). In recent years, the FPI route has become a popular option for overseas investors looking to invest in India's debt markets on a regular basis as it allows for greater flexibility in terms of interest, repayment terms, security cover and end use of funds in comparison to the ECB route. According to data from the National Securities Depository, FPI investments in the Indian debt markets stood at [INR 1.1 trillion](#) in 2024.

In January 2025, the RBI issued Master Direction - Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025 ("[Master Direction](#)"), which, *inter alia*, consolidates a number of the circulars and directions issued by the RBI on investments in debt instruments by non-resident investors, including FPIs. This note analyzes the key regulatory aspects governing FPI investments in corporate debt securities, particular in light of the Master Direction.

REGULATORY FRAMEWORK

FPIs are overseas investors that are registered as foreign portfolio investors with SEBI under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 ("[FPI Regulations](#)"). The FPI Regulations permit a wide variety of entities, including overseas banks, funds, broker-dealers, sovereign wealth funds, multilateral organizations, corporate entities, family offices and foundations, to register

as FPIs. Once registered, FPIs are permitted to invest in a range of equity and debt instruments, including units of real estate investment trusts (“**ReITs**”), infrastructure investment trusts (“**InvITs**”) and certain mutual funds, in accordance with the FPI Regulations. The onus of compliance with the regulatory requirements for debt investments is the responsibility of the FPI and its custodian, and any violation of regulatory norms shall be subject to regulatory action as determined by SEBI, except in cases of minor violations that may be regularized.

Investments in debt securities by FPIs are regulated both by SEBI, pursuant to the FPI Regulations, and by the RBI, under the Foreign Exchange Management (Debt Instruments) Regulations, 2019 (“**Debt Regulations**”) and other circulars and directions issued by the RBI from time to time. In addition, all listed debt securities issued to FPIs would be subject to the Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (“**NCS Regulations**”), the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015 (“**LODR Regulations**”) and other related regulations and circulars on the issuance of listed non-convertible debt securities.

FPI INVESTMENTS IN DEBT SECURITIES

The Master Direction identifies the following key investment channels for investments in debt instruments by non-residents:

1. General Route;
2. Voluntary Retention Route (“**VRR**”);
3. Fully Accessible Route (“**FAR**”); and,
4. Scheme for Trading and Settlement of Sovereign Green Bonds (“**Scheme**”).

Of these channels, the General Route and the VRR are available exclusively to FPIs while the FAR is available to FPIs as well as to other categories of non-resident investors, including non-resident Indians (“**NRIs**”) and overseas citizens of India (“**OCI**”), for investments in specified securities issued by the Central Government. The Scheme applies to the issue of sovereign government bonds to eligible investors in the International Financial Service Centre. In addition to the above, FPIs are also permitted to participate in over-the-counter markets for investments in government securities (in both primary and secondary markets). However, the General Route and the VRR are the only avenues available for FPIs to make investments in corporate debt securities.

General Route

Under the General Route, FPIs may invest in government securities and corporate debt securities within the prescribed investment limits and subject to specific conditions regarding, *inter alia*, minimum residual maturity and concentration limits. The Debt Regulations and the Master Direction define corporate debt securities to include listed and unlisted non-convertible debentures issued by Indian companies, commercial papers issued by an Indian company, securitized debt instruments, units of domestic mutual funds, etc. Notably, the Master Direction has increased the FPI investment limit for corporate debt securities from 9% to 15% of the outstanding stock of corporate bonds. Some of the key requirements for FPI investments in corporate debt securities through the General Route are as follows:

- **Minimum Residual Maturity:** FPIs are only permitted to invest in corporate debt securities with an original or residual maturity period of over one year. Therefore, FPIs may not be able to invest in corporate debt securities with an optionality clause exercisable in less than one year, debt mutual fund schemes with maturity or duration of the portfolio of less than one year, partly paid-up debt instruments and certain amortized instruments.
- **Short-term Investment Limits:** Investments in corporate debt securities with maturity of up to one year cannot exceed 30% of the FPI's total investment in corporate debt securities. Reinvestment of coupons is also permitted and counted towards the investment limits at the time of periodic resetting, provided that such reinvestments are made within the prescribed time limits.
- **Issue-wise Limits:** Investment by any FPI (including related FPIs) is capped at 50% of any single issue of corporate debt securities. It is important to note, however, that this issue-wise limit is not applicable for investments in corporate debt securities by multilateral financial institutions.
- **Concentration Limits:** An FPI's investment, including investments by related FPIs, in corporate debt securities is capped at 15% of the overall prevailing limit for long-term FPIs (such as sovereign wealth funds, multi-lateral agencies, pension funds and foreign central banks) and at 10% of the overall prevailing limit for other FPIs.
- **Unlisted and "To-be Listed" Debt Securities:** While FPIs are permitted to invest in unlisted debt securities through the General Route, the funds raised from the issuance of unlisted securities cannot be used for real estate business, capital markets and for purchase of any land. In the case of "to be listed" debt securities,

if the debt securities are not listed within the SEBI-prescribed timelines, then securities must immediately be redeemed by the issuer or sold to a third party.

- **Exemptions:** Certain exemptions from the minimum residual maturity requirements, short-term investment limits and issue-wise limits are available for specific situations such as security receipts, defaulted bonds and debt securities issued by an entity undergoing the corporate insolvency resolution pursuant to the terms of a resolution plan under the Insolvency and Bankruptcy Code, 2016.

Voluntary Retention Route

Investment through the VRR can be made in addition to the investment limits for FPIs under the General Route. Similar to the General Route, the VRR is also available exclusively to FPIs, but it covers a wider range of eligible debt instruments, including repos/ reverse repos subject to certain investment limits. Investments under the VRR are not subject to the minimum residual maturity requirement, concentration limits and issue-wise limits applicable to the General Route. However, investments under this route have a minimum retention period of three years. Notably, the norms with respect to non-listing of 'to be listed' corporate debt securities and end-use restrictions for unlisted corporate debt securities are applicable to both the General Route and VRR. The key requirements for debt investments through the VRR are as follows:

- **Investment Limit and Allocations:** The overall investment limit under VRR has been set at INR 2.5 trillion, which may be increased through a notification by the RBI. Debt securities under this route are allocated on tap and allotted on a "first come, first served basis" or through an auction mechanism prescribed under the Master Direction. In case of demand for more than 100 percent of the amount offered, the maximum allocation to a single FPI (including related FPIs) will be capped at 50% of the offered amount.
- **Minimum Retention Period:** An FPI is required to hold debt securities invested through the VRR for a minimum period of three years from the date of allotment of the limit by the RBI. However, in cases where FPIs are given additional time to complete their investment, the retention period will commence from the date of investment of at least 75% of the FPI's Committed Portfolio Size ("**CPS**"). The RBI has also mandated that FPIs must invest at least 75% of their CPS within three months of allotment and maintain this level throughout the retention period.
- **Transfer of Investment and Reinvestments:** An FPI is permitted to transfer its investments made under the General Route to the VRR at any time. In addition, reinvestment of income from investments through VRR is allowed at the discretion

of the FPI, even if such investments are in excess of the CPS. However, custodians cannot permit any repatriation from an FPI's VRR account if such repatriation results in the FPI's assets falling below 75% of the CPS during the retention period.

- **Exits:** At the end of the retention period, an FPI may either liquidate its investments, transfer them to the General Route, hold its investments until maturity/sale, or continue for an additional retention period. An FPI may also exit its investments, in whole or in part, prior to the end of the retention period by selling its investments to another FPI; however, the FPI purchasing the investment will have to comply with all the terms applicable to the transferring FPI under the VRR.

ANALYSIS

Investments in debt securities through the FPI route offer far greater flexibility over ECBs as they are not subject to stringent requirements on all-in costs, minimum average maturity period and end use restrictions that apply to ECBs. Further, the FPI route may often be the only option available in situations such as acquisition financing where borrowers are not permitted to avail ECBs for acquiring shares in another entity. For instance, foreign owned and controlled companies (“**FOCC**”) cannot avail ECBs for acquisition financing and are also not permitted to use domestic borrowings to finance equity investments, making the issuance of debt instruments to FPIs their only source of debt financing for such acquisitions. Further, since the promulgation of the [Foreign Exchange Management \(Debt Instruments\) \(First Amendment\) Regulations, 2021](#), FPIs had been permitted to invest in InvITs and REITs under the erstwhile medium-term framework and VRR. Under the Master Direction, FPIs are permitted to invest in InvITs and REITs under both the General Route and VRR.

Both the General Route and the VRR have their advantages, depending on the FPI's investment goals and the nature of the transaction. The VRR was formulated by the RBI in [March 2019](#) to provide exemptions from investment limits and macro-prudential norms as long as the FPI was willing to hold the securities for the three year retention period. If a single FPI wishes to subscribe to an entire tranche of debentures issued by an Indian company, the VRR is the only route available on account of the 50% issue-based investment threshold stipulated under the General Route. On the other hand, the General Route may be more advantageous for FPIs that may want the flexibility to divest their investments without any restrictions on repatriation.

It is also important to note that FPI investments in listed debt securities, which constitutes a majority of debt investments by FPIs, will also be subject to the NCS Regulations and the LODR Regulations. For instance, while the minimum residual

maturity period of one year might not be applicable under the VRR, the minimum maturity period of one year under the NCS Regulations will continue to be applicable.

Similarly, FPIs would also need to be cognizant of tax considerations, particularly in light of changes to the taxation rate proposed in the Finance Bill, 2025 (Bill No. 14 of 2025). While, the [Finance \(No, 2\) Act, 2024](#), had changed the tax rate on long term capital gains (“**LTCG**”) arising on transfer of listed equity shares to 12.5% (plus applicable surcharge and cess) for resident and non-resident transferors, LTCG arising on all other assets of FPIs continued to be taxed at the rate of 10%. The [Finance Bill, 2025](#) (Bill No. 14 of 2025) provides that any LTCG (including from the sale of listed debt securities), arising to an FPI will be taxed at the rate of 12.5% (plus applicable surcharge and cess).

CONCLUSION

The regulatory framework governing FPI investments in debt securities in India, as outlined in the Master Direction, represents a significant step towards streamlining and clarifying the regulatory framework for non-resident participation in India’s debt markets. Each of the investment channels presents specific advantages depending on the investor's preferences related to investment limits, tenure, liquidity, and repatriation flexibility. However, it is critical that FPIs and their custodians remain vigilant in ensuring compliance with the diverse set of regulatory provisions prescribed by both the RBI and SEBI. For Indian issuers, there remains an opportunity to tap into this robust source of capital by offering terms for debt instruments that align with the preferences of FPIs.

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