

PRESS NOTE 3 (2020) AND OFFSHORE ACQUISITIONS: WHEN INDIA'S INVESTMENT SAFEGUARDS SHAPE GLOBAL TRANSACTIONS

INTRODUCTION

India's contemporary foreign investment screening architecture was anchored in Press Note 3 of 2020 ("**Press Note-3**"), issued by the Department for Promotion of Industry and Internal Trade ("**DPIIT**") on April 17, 2020.

Press Note-3 mandated that any investment in India by an entity of a country sharing a land border with India, or where the beneficial owner of the investment is situated in or is a citizen of such a country, shall be permitted only under the Government approval route.

This framework was expressly justified as a response to the risk of "**opportunistic takeovers and acquisitions of Indian companies**" in the aftermath of the **COVID-19 shock** and in light of heightened geopolitical sensitivities, with reference to FDI emanating from China and other land-border jurisdictions.

Subsequently, on March 10, 2026, the Union Cabinet approved amendments to Press Note 3 aimed at refining approval thresholds linked to "beneficial ownership" and introducing a more structured and time-bound approval process. These amendments seek to preserve the protective intent of the 2020 framework while alleviating systemic frictions for legitimate cross-border capital flows.

It is against this evolving Press Note-3 landscape that the proposed acquisition of Euro Group Laminations S.p.A. ("**Euro Group**") by Fountain Vest Partners, China ("**FountainVest**") assumes particular significance.

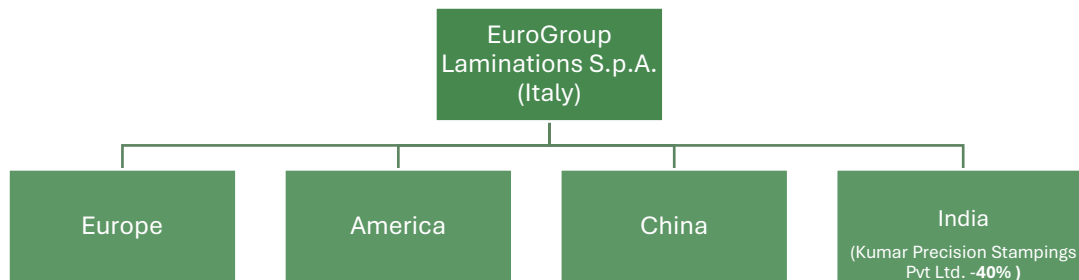
The ultimate collapse of the Euro Group- FountainVest deal illustrates how India's land-border FDI safeguards, originally crafted as a defensive mechanism against opportunistic acquisitions, can become a decisive external approval checkpoint for global transactions whose commercial core lies outside India.

This analysis therefore proceeds to critically assess Press Note 3 and its practical implications in light of the Euro Group episode.

THE EUROGROUP-FOUNTAINVEST TRANSACTION AND THE INDIAN "HOOK"

FountainVest, a China-based private equity sponsor, proposed to acquire EuroGroup, a European manufacturing group with a geographically diversified customer and asset base. Notwithstanding this, the transaction intersected with India's FDI screening framework because EuroGroup held a minority, non-controlling stake in *Kumar Precision Stampings Private Limited*, an unlisted Indian company. This stake created a limited, but legally relevant, Indian nexus.

As FountainVest is a Chinese-origin investor, this indirect Indian exposure was sufficient to create a jurisdictional "**hook**" for Indian regulatory scrutiny under Press Note-3.



The core commercial and regulatory centres of gravity for both acquirer and target were located outside India. India did not constitute a primary revenue, asset or regulatory jurisdiction for either party in the overall transaction structure.

However, even this limited indirect exposure triggered the need for Indian Government approval solely because the acquirer was a Chinese-origin fund.

The reported inability to obtain timely clearance in India, notwithstanding the non-strategic and minority nature of the Indian stake, **resulted in India functioning as a binding regulatory veto point for a global deal worth 295 million Euros**, whose primary business logic was located elsewhere.

LEGAL AND POLICY FRAMEWORK UNDER PRESS NOTE 3

CORE JURISDICTIONAL TRIGGERS UNDER PRESS NOTE 3:

The principal triggers under Press Note 3 can be summarised as follows:

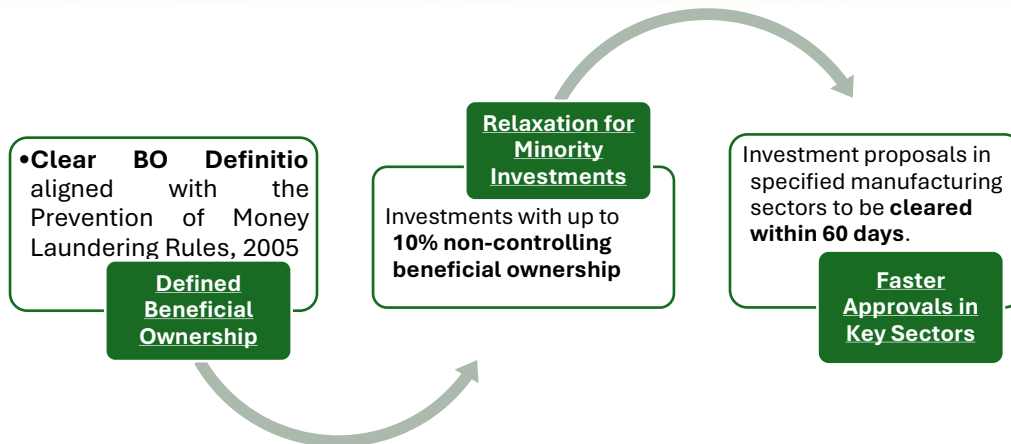
- i.) **Beneficial ownership test:** The Press Note 3 extends scrutiny beyond the immediate investor to the beneficial owner of the investment. Definition aligned with thresholds under the Prevention of Money Laundering Act (PMLA), 2008, to improve regulatory clarity.
- ii.) **Land-bordering country trigger:** If the beneficial owner is situated in a country sharing a land border with India which are: China, Pakistan, Bangladesh, Nepal, Myanmar, Bhutan, or Afghanistan, the prior approval requirement will be triggered.
- iii.) **Indirect change in ownership:** The rule also captures indirect transfers or acquisitions, including overseas transactions that result in a change in beneficial ownership of an Indian entity.
- iv.) **Extraterritorial impact:** Consequently, global M&A transactions involving foreign companies may fall within India's regulatory scrutiny if the target company holds any investment or subsidiary in India.

AMENDMENT TO PRESS NOTE 3:

The Investor experience with Press Note-3 between 2020 and 2025 highlighted primarily three issues:

- (i) **uncertainty over the scope** of "beneficial ownership";
- (ii) **the absence of differentiation** between controlling and minority investments; and
- (iii) **processing delays and backlogs.**

In response, the Union Cabinet approved amendments on March 10 2026, reflected in subsequent policy communications and FDI practice, which sought to introduce greater clarity and proportionality:



CRITICAL ANALYSIS: FDI VS TRADE DEPENDENCE ON CHINA

Is India over-regulating low-risk FDI while underestimating massive structural trade dependence?

From a quantitative standpoint, Chinese FDI in India has historically constituted a very small share of India’s overall FDI stock. Multiple policy and market analyses have consistently characterised China’s share of **India’s cumulative FDI inflows as materially below 1%, with total inflows typically estimated at USD 2-3 billion out of India’s overall FDI stock exceeding US\$ 81.04 billion (FY-2024-25).**

Further, the nature of such investments is largely **non-controlling and financial in character**, typically comprising:

- Minority shareholdings
- Venture capital investments
- Participation in technology and digital platform ecosystems

In contrast, India’s trade dependence on China is both quantitatively large and structurally significant. Public trade data demonstrates a **widening and asymmetrical trade relationship**, as set out below:

| Year | India’s Imports from China (USD Billions) | India’s Exports to China (USD Billions) | Trade Deficit (USD Billions) |
|----------------|---|---|------------------------------|
| 2022-23 | 101 | 16 | 85 |
| 2023-24 | 110 | 15.5 | 94.2 |
| 2024-25 | 113.5 | 14.3 | 99.2 |
| 2025-26 | 118 | 2-3 | 116 |

Sectoral Trade Dependence:

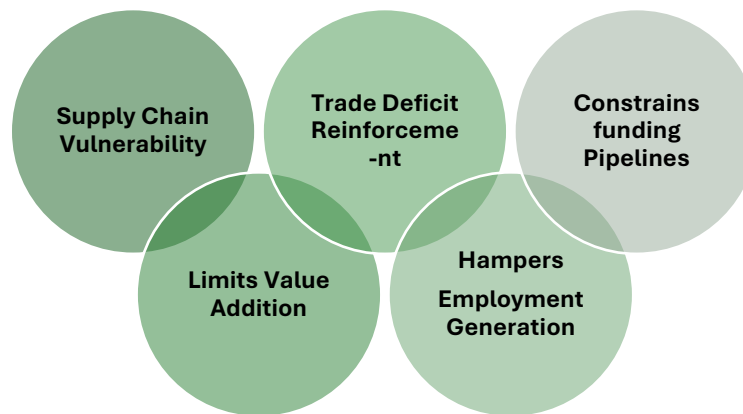
| S.No. | Sector | Concentration |
|-------|--|---|
| 1. | Electronics & Components | 70-75% import dependence |
| 2. | Active Pharmaceutical Ingredients | 65-70% dependence |
| 3. | Solar Modules | 80-85% dependence |
| 4. | Telecom Equipment | Significant reliance on Chinese supply chains |
| 5. | Auto Components & Machinery | High intermediate goods dependency |

(Compiled from NITI Aayog (Trade Watch Quarterly; GVC Reports), Ministry of Commerce & Industry Annual Reports, and sectoral industry analyses on solar and pharmaceutical supply chains.)

This data reflects several structural realities which indicates that India's economic vulnerability, if any, is more meaningfully linked to trade dependence rather than foreign investment exposure.

- **Sustained growth in imports**, indicating reliance on Chinese supply chains across key sectors.
- **Stagnant or declining exports**, reflecting limited reciprocal access and competitiveness constraints.
- **India's trade deficit with China has steadily increased**, reflecting growing structural dependence on Chinese supply chains.
- **Deep supply chain integration**, making substitution difficult in the short term.

Implications for Domestic Manufacturing and Start-Up Ecosystem: An overly restrictive or micro-managed approach toward FDI, particularly in the context of minority and venture capital investments, have unintended domestic consequences:



Policy Recommendations vis-a-vis Press Note 3:

1. **Shift from Origin-Based to Risk-Based Regulation:** *Regulation should be calibrated based on the nature, structure, and impact of the investment, rather than solely its country of origin. This would enable clear differentiation between:*
 - a) **High-risk investments** involving control, strategic sectors, or sensitive technologies/data, and
 - b) **Low-risk, passive financial investments** that do not confer influence

Such a differentiated framework would ensure that national security concerns are effectively addressed, while avoiding unnecessary constraints on legitimate capital flows.

2. **Institutional Mechanisms and Clarity:** A recent analysis quoted by *The Economic Times* reported figures on proposals submitted under Press Note 3 (2020). **Out of 526 investment proposals** received since the policy's introduction, **124 were approved, 200 were rejected, and 202 remained pending.** The report also noted that nearly 40% of applications had been pending for more than twelve weeks, indicating a significant backlog in the processing of proposals. The introduction of a **60-day approval timeline** is a welcome step toward enhancing procedural certainty and efficiency. However, its effectiveness will depend on **implementation capacity and institutional coordination.** In the absence of improvements in:

- a) Inter-ministerial coordination
- b) Administrative and review capacity, and
- c) Clarity in approval criteria and processes

Strengthening these institutional aspects is critical to ensuring timely, predictable, and transparent decision-making.

- 3. Introduce Safe Harbour for passive and widely held Investments:** A clear safe harbour framework may be introduced for investments that are passive, widely held, and non-controlling in nature, particularly those routed through regulated global investment vehicles such as AIFs, mutual funds, pension funds, and listed entities. Where no single investor from a restricted jurisdiction exercises control, significant influence, or special rights, such investments may be exempted from prior approval requirements.

This is likely to reduce regulatory burden, enhance predictability, and ensure that genuine capital flows are not impeded due to remote or incidental exposure.

Conclusion:

While the amendments to Press Note 3 represents a positive step toward reducing regulatory friction, its success will depend on consistent implementation and timely approvals. Addressing India's strategic vulnerability will require a broader approach that goes beyond investment screening to include reducing supply-chain dependence and strengthening domestic manufacturing capacity.

As emphasised in the Union Budget 2026-27, India seeks to position itself as a global manufacturing hub and attract long-term capital, maintaining transparent and predictable, regulatory framework will be critical to sustaining investor confidence in the stability of its investment regime.

Ultimately, if India seeks to attract global capital while safeguarding national interests, its regulatory framework must remain vigilant without becoming burdensome, protecting the gates without unnecessarily lengthening the path to entry.

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