Government of India
Ministry of Commerce & Industry
Department for Promotion of Industry & Internal Trade

Clarification on FDI Policy on Contract Manufacturing

This Department has received representations from various business entities regarding clarification on FDI Policy on Contract Manufacturing as contained in para 5.2.5.1 of Press Note 4 (2019).

In this regard, it is hereby clarified that:

S. No	Issue	Clarification
1	Whether, an entity having foreign direct investment ("Principal") will be deemed to be a manufacturing entity itself, if the manufacturing is done by a third party contractor ("Contractor") under a legally tenable document;	Vide Press Note 4(2019), it has been provided clearly that the foreign investment in 'manufacturing' sector is under automatic route and the manufacturing can be either self-manufacturing or contract manufacturing in India through a legally tenable contract. Accordingly, contract manufacturing in India is also covered under the definition of manufacturing provided the manufacturing is done with third party under a legally tenable contract.
2	If contract manufacturing will be deemed as manufacturing under Regulation 16 of TISPRO, would the Principal entity which has outsourced the manufacturing to the Contractor be eligible to sell the products so manufactured through wholesale, retail or e-commerce on the same footing as an entity which manufactures directly.	As clarified above, contract manufacturing in India is also covered under the definition of manufacturing provided the manufacturing is done with third party under a legally tenable contract. Further, as per the extant FDI policy, a manufacturer is permitted to sell its products manufactured in India through wholesale and/ or retail, including through e-commerce, without Government approval.

FDI in Contract Manufacturing is governed by provisions of para 5.2.5.1 of Press Note 4 (2019). However, compliance with all the conditions enumerated in the FDI Policy and as notified under FEMA would continue to be responsibility of the manufacturing entity.

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