

# Japanese investment in Indian finance hits record as business ties tighten

**Tokyo drawn to vast market where Chinese competition is limited by geopolitical tensions**

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Record Japanese investment in India's financial sector is highlighting the tightening business links between the world's fourth and fifth-largest economies.

Japan's largest bank, Mitsubishi UFJ Financial Group, closed a \$4.4bn deal to acquire part of an Indian shadow bank at the end of last year, marking the biggest ever foreign investment in India's financial sector.

MUFG's purchase of a fifth of Shriram Finance's shares was part of a record \$8.8bn spent by Japanese companies on stakes in Indian businesses last year, according to Dealogic data.

Closer business and investment links between Japan and India are being driven by the opportunities presented by the south Asian nation's vast market, geopolitical tensions and an urgent need to compete with ascendant Chinese companies. India, which had restricted

investment from China until recently after clashes on their Himalayan frontier in 2020, regards Japan as an important source of funds — especially for capital-short banks — and of technology and technical expertise for its manufacturing sector.

Sourav Mallik, deputy chief executive of Kotak Investment Bank, which has been involved in some of the deals with Japanese companies, said that a lack of growth in their domestic economy was making their investors push them to “go global”.

As a fastest-growing large economy, “India naturally pops up”, said Mallik, while Japan’s “very long-term patient capital . . . ties in very nicely with Indian companies and entrepreneurs who want to retain a certain degree of control”.

Yoshinobu Agu, head of Citigroup Global Markets Japan’s mergers and acquisitions unit, said that Japanese investors had tended to “prefer strategic minority positions” because of the difficulty of acquiring full control of Indian companies and their high valuations.

Masahiro Kihara, chief executive of Mizuho, Japan’s third-biggest bank by assets, has described India as requiring a “very long-term” view. Mizuho

announced in December it would take a majority stake in Indian financial services provider Avendus Capital, and Kihara said then that his ambitions went beyond serving Japanese industrials in the country.

“I would say that European companies, US companies, also will have interest”, and Mizuho saw its purpose as connecting the commercial relationships it had around the world with India, he said.

Tokyo and New Delhi share a desire for closer geopolitical alignment as a

bulwark against an increasingly powerful and assertive China.

“Investment in India is on an expanding trend, surpassing investment in China for the second consecutive year in 2024 and maintaining a high level” at \$5.34bn, the Japan External Trade Organisation said in a global trade and investment report last year.

By contrast, Japanese foreign direct investment in China fell for a third consecutive year to \$5.39bn, its lowest level since 2014, Jetro said.

Teruhide Sato, founder of Beenext, a

venture capital firm that has invested in more than 120 Indian start-ups, said Japan Inc was drawn to India by the size of its market, geopolitical tailwinds and a need to source talent for digital and AI transformations.

“There’s going to be a ripple effect. It starts from the megabanks to the insurers to the asset managers,” he said. “These are big economic entities that symbolise the Japanese economy that are not just setting up regional branches, but investing and potentially buying more businesses.”

Kenji Sugino, secretary-general of the Japan Chamber of Commerce and Industry in India, said that Japanese foreign direct investment in India was second only to the US, with \$7.5bn of FDI from Japan in the three fiscal years to last March.

The chamber of commerce said that despite India’s lack of legal transparency, under-developed infrastructure and complicated tax system, smaller Japanese companies had also felt the country’s lure in recent years.

Japanese companies with a capital base of about \$30mn or lower now account for 62 per cent of the chamber’s membership, up from less than 40 per cent in 2021. The proportion of service

sector members has grown to match that of manufacturing at just above 40 per cent.

Japanese manufacturers are also pouring funds into India in the hope of gaining economies of scale that will enable them to compete with lower-cost Chinese rivals in the Indian market and elsewhere.

New Delhi’s restrictions on Chinese companies investing and operating in India — and barriers to some goods imports from China — add to its attractiveness for Japanese manufacturers. “Japanese companies are essentially in a market without China, they’ve been able to enjoy the upside of that,” said Kazuya Nakajo, executive adviser at Jetro.

Daikin, the world’s biggest air conditioner supplier, plans to increase its annual production in India of residential units to 5mn by 2030 from 3mn now, supplying the country’s middle class and creating a supply hub for the global south. Daikin president Naofumi Takenaka said the company hoped to eventually raise production in India to 10mn units a year, at least five times its capacity in any other country.

“Behind this is the world’s most rapidly growing market,” he said.



**New Delhi's restrictions on Chinese companies operating in India has appealed to Japanese groups**

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