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PERFORMANCE OF FOREIGN DIRECT INVESTMENT (FDI) ON THE GROWTH OF SELECT SECTORS IN INDIA – WITH RESPECT TO NSE AND BSE

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ABSTRACT

The paper aims to analyze the Performance of Foreign Direct Investment (FDI) in Indian select sectors. The Economic reforms in India started on 24 July 1991. India's Post-Independence development strategy showed all the signs of stagnation, but the economy started showing the sign of recovery in the early nineties when the Government adopted the new economic model known as Liberalization, Privatization and Globalization (LPG) to meet a grave economic crisis; characterized by exceptional adverse Balance of Payment problem, Inflation, decline in the Foreign exchange reserve and the Gross Domestic Product (GDP) growth rate in India. The objective of the economic reforms adopted by the Indian Government was to transform a backward and predominantly agrarian economy, lacking in basic infrastructure, into a modern developed economy. The study covers a period of ten years from 2011 – 2012 to 2015 – 2016. The data collected for the study is secondary once. In addition, other required data were collected from various magazines, journals, RBI bulletin, DIPP and OCED. The collected data have been used for analysis with the help of both financial and statistical tools. Ratio analysis is a technique adopted to analyze and interpret the impact on the growth of select sectors.

KEY WORDS: *Mean, Standard Deviation, Co-Efficient of Variance, Correlation and Regression.*

JEL Classification Code: G14, L1, L5 and L6.

INTRODUCTION

Foreign Direct Investment (FDI) is a direct investment in a country by a company located in another country, either by buying a company in the target country or by expanding operation of an existing business in a country. The fast and steadily growing economy of India with the majority of its sectors has made India one of the most famous and popular destinations in the whole world for Foreign Direct Investment. According to a recent survey by the United Nations Conference on Trade And Development (UNCTAD) India has conspicuously immerged out as the second most popular and preferable destination in the entire world, after china for highly profitable direct investment. In recent years, the huge of the Foreign Direct Investment in Infrastructure, Telecommunication, Information Technology, Computer Hardware and Software and Hospitality Services; have been made by investors of countries like US, Mauritius, Singapore and may other countries. Foreign Direct Investment in India is the major monetary source for economic development in India. Foreign companies invest directly in fast growing private Indian businesses to take benefits of wages and changing business environment of

India. Economic liberalization started in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India. It was Manmohan Singh and P.V. Narasimha Rao who brought FDI in India, which subsequently generated more than one crore jobs.

Foreign investments were introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance Minister Manmohan Singh. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49 percent. In 2015, India emerged as top FDI destination surpassing China and the US. India attracted FDI of $31 billion compared to $28 billion and $27 billion of China and the US respectively. India received $63 billion in FDI in 2015. India also allowed 100 percent FDI in many sectors on 2016.

REVIEW FROM EARLIER STUDY

Sudheer Kumar.B and Malyadri. G (2013), "*a paper on foreign direct investment (FDI) and foreign institutional investment (FII)*", a study examines the FDI trends and patterns across different sectors and different countries in India during post liberalization period (1991 – 2012). A study is using secondary data from various sources. The statistical tools like correlation and regression was are used to analyze the data like growth and patterns of FDI. Further the study carried out the percentage analysis has been used to measure the share of each investing countries and each sectors in the overflow of FDI in India. Through the analysis the author concludes from his study a large number of changes there were introduced in the country's economic policies the liberalization era of the FDI policy. FII did have high significant impact on the Indian capital market.

Rahul Dhiman, Preeti Sharma, (2013), "*impact of flow of FDI on Indian capital market*", the authors to study the trends and patterns of foreign capital flow in India in the form of FDI and also to study the impact of foreign capital in the form of FDI on the stock market, developing countries like India needs a large inflow of the capital in terms of FDI. The study is based on secondary data. The required data collected from various sources. The various statistical tools will be applied in order to analyze the study. In order to study the impact, sensex and nifty are used as they are representing the Indian stock market. The authors suggest that amount of FDI has a direct impact on both sensex and nifty. The study concludes that FDI has provides ample opportunities as far as technological up gradation is concerned. In addition to this study India has also gained the global managerial skills which were required negatively to sharpen the managerial skills for Indian Industry. The study is that there is strong degree of correlation between FDI and sensex, FDI and nifty.

Chellasamy, P., and Ponsabariraj, N., (2013) have conducted a study entitled *"Profitability and Trend Analysis of Select Retail Companies in India".* The authors analyze the profitability position and prospectus of the selected retail companies in India. The study covers a period of ten years from 2002-2003 to 2011-2012. The study has used the financial tool, namely "Profitability Scoring Multiplier Analysis". It is aimed to measure operating, non-operating and financial indicators on profitability position of select retail companies in India. The final results depict that the profitability position of a few of the selected retail companies was not satisfactory during the study period. This was due to the poor cost of production, return on investment, non-core assets and increasing bad debts. The debt capital greatly affected the profitability position and the trend of the company. Finally the study concludes that return on investments in terms of using capital and reducing production cost will help to increase the profits of the concerned companies.

Abhishek Vijaykumar Vyas, (2015), "*an analytical study of FDI in India (2000-2015)*", the study has focused on the trends of FDI Flow in India during 2000-2001 to 2014-2015. The analysis to FDI flow as to identify country wise approvals of FDI inflows to India and also to analysis sector wise in flow of FDI in India, to identify problems the relating to low inflow of FDI and to make suggestions for attracting more FDI inflow to India. The study is based on secondary data from different websites and reports. The simple percentages have been used to defect the growth rate of India The study gave the suggestions for increased flow of FDI into country by flexible labour laws, relook at sectoral caps, promote green-field projects and develop debt market. The author gave the findings in the study by FDI is an important stimulus for the economic growth of India. FDI creates high perks jobs for skilled employee in Indian service sector. The author concludes the study that FDI is always to create employment in the country and also support the small scale industries also and helps country to put an impression on the world wide level through liberalization and globalization.

PROBLEM THAT HAS BEEN FOCUSED IN THE STUDY

The Economic reforms in India started on 24 July 1991. India's Post-Independence development strategy showed all the signs of stagnation, but the economy started showing the sign of recovery in the early nineties when the Government adopted the new economic model known as Liberalization, Privatization and Globalization (LPG) to meet a grave economic crisis; characterized by exceptional adverse Balance of Payment problem, Inflation, decline in the Foreign exchange reserve and the Gross Domestic Product (GDP) growth rate in India. The objective of the economic reforms adopted by the Indian Government was to transform a backward and predominantly agrarian economy, lacking in basic infrastructure, into a modern developed economy. The attractiveness of India as a preferred investment destination could be ascertained from the large increase in FDI inflows to India, which rose continuously from year to year. The significant increase in FDI inflows to India reflected the impact of liberalization of the economy since the early 1990s as well as gradual opening up of the capital account. As part of the capital account liberalization, FDI was gradually allowed in almost all sectors, except a few on grounds of strategic importance, subject to compliance of sector specific rules and regulations. FDI peaked in year 2007-2008 and only marginally declined in the following years of economic crisis.

The opening up of the economy has led to rapid increase in Foreign Direct Investment and Foreign Exchange Reserves which increase FDI and FII. The reform process has been widely criticized for not being able to address some of the basic problems facing the economy especially in the areas of employment, agriculture, industry, infrastructure development and fiscal management. Hence, the researcher wanted to know the answers for the following research questions:

- ➢ Whether the select sectors profitability position is growing or not?

OBJECTIVES OF THE STUDY

The following are the objectives of the study Foreign Direct Investment

- ❖ To analyze the impact of Foreign Direct Investment on the profitability position of select sectors with respect of NSE and BSE.

Applied Methodology

Time frame

The study covers a period of ten years from 2011 – 2012 to 2015 – 2016.

Sources of data

The data collected for the study is secondary once. The required data for the study were collected and complied from “INFLIBNET” database of Centre for Monitoring Indian Economy (CMIE) for the period from 2011 - 2012 to 2015 – 2016 which is a reliable and empowered corporate database. In addition, other required data were collected from various magazines, journals, RBI bulletin, DIPP and OCED.

Techniques of analysis

The collected data have been used for analysis with the help of both financial and statistical tools. Ratio analysis is a technique adopted to analyze and interpret the impact on the growth of select sectors. This analysis is carried out by applying statistical techniques namely mean, standard deviation, co-efficient of variance, correlation and regression.

Sampling Design

As the complete source list of all the select sectors is not available, the data for this study were select based on convenience sampling method, among the industries listed with both stock exchanges of India, namely, Bombay Stock Exchange and National Stock Exchange. There are 12 listed companies available in BSE 200 index. Out of these only 5 companies were selected by using convenience sampling method. The following parameters were used to identify the sample:

- ✓ Companies that have an efficient turnover.
- ✓ Availability of continuous data for all the five financial years.

Research Hypothesis

The following are the hypothesis has been framed in the presented study.

H_{01}: There is no impact between FDI and profitability position of the company.

Limitations of the study

- ❖ The study is confined only top five sectors in NSE and BSE.
- ❖ The study consists only reputed and highest performed companies in each sectors.

ANALYSIS AND DISCUSSION

Table-1

Net Profit Ratio of select companies in India during the period 2011 – 2012 to 2015 – 2016

(In Percentage)

Years	Service			Construction Development			Computer			Telecommunication			Automobile industry		
	Jet Airways	Vijaya Bank	ICICI Bank	Hindustan Construction Company	Petron Engineering Constructions	Vijay Shanthi Builders	TATA Consultancy Services	WIPRO	Infosys	Bharati Airtel	Idea Cellular	Reliance Communication	Hero Motocorp	TVS Motor Company	Mahindra and Mahindra
2011-12	-143.18	11.72	56.08	-3.66	42.45	3.62	56.08	19.06	147.56	15.09	1.74	0.76	119.09	5.24	48.87
2012-13	-56.24	11.82	72.17	-2.27	0.12	3.23	65.33	22.94	158.82	13.42	2.47	3.02	106.07	2.44	56.8
2013-14	-322.87	4.84	84.94	1.33	5.03	1.55	94.32	29.96	178.22	16.51	5.09	3.57	105.61	5.51	63.67
2014-15	-159.66	5.11	19.27	1.26	0.83	0.72	98.32	33.19	105.96	33.02	7.81	-0.62	119.46	7.32	56.16
2015-16	103.31	4.09	16.72	1.09	5.79	0.27	116.13	32.78	68.75	18.88	7.27	-6.53	156.85	9.1	53.45
MEAN	**-115.73**	**7.52**	**49.84**	**-0.45**	**10.84**	**1.88**	**86.04**	**27.59**	**131.86**	**19.38**	**4.88**	**0.04**	**121.42**	**5.92**	**55.79**
SD	**155.81**	**3.90**	**30.83**	**2.35**	**17.84**	**1.49**	**24.76**	**6.29**	**44.09**	**7.88**	**2.74**	**4.05**	**20.92**	**2.49**	**5.40**
CV	**-1.35**	**0.52**	**0.62**	**-5.22**	**1.65**	**0.79**	**0.29**	**0.23**	**0.33**	**0.41**	**0.56**	**101.13**	**0.17**	**0.42**	**0.10**

Source: *Compiled and Calculated from the data published in various Reports.*

Table 1 reveals the net profit ratio of select companies in India from 2011 - 2012 to 2015 – 2016. The average of net profit ratio of select companies shows a fluctuating trend during the study period. This fluctuation indicates the firm's capacity to face adverse economic condition such as price competition, low perception of demand. The Infosys has the highest average on net profit ratio of 131.86 per cent, followed by the Hero motor corporation. This has the average net profit ratio of 121.42 per cent. The Jet Airways has the negative average net profit ratio of 115.73 per cent. The Jet Airways has the highest standard deviation of net profit ratio of 155.81 per cent, followed by the Infosys. This has the average standard deviation of 44.091 per cent and Vijay Shanthi Builders with negative standard deviation of net profit of 1.49 per cent and it is found to be stable in net profit ratio. The Reliance Communication has the highest coefficient of net profit of 101.13 per cent, followed by the Petron Engineering Construction. This has the coefficient variance of net profit ratio of 1.65 per cent. The Hindustan Construction Company has the negative coefficient variance of net profit ratio of 5.22 per cent and it is found that there is more consistency in net profit ratio than the other retail companies.

Table-2

Operating Profit Ratio of select companies in India during the period 2011 – 2012 to 2015 – 2016

(In Percentage)

Years	Service			Construction Development			Computer			Telecommunication			Automobile industry		
	Jet Airways	Vijaya Bank	ICICI Bank	Hindustan Construction Company	Petron Engineering Constructions	Vijay Shanthi Builders	TATA Consultancy Services	WIPRO	Infosys	Bharati Airtel	Idea Cellular	Reliance Communication	Hero Motocorp	TVS Motor Company	Mahindra and Mahindra
2011-12	0.89	0.05	-0.21	1.2	0.4	0.43	5.8	3.38	4.68	3.4	2.22	4.05	1.78	0.37	1.35
2012-13	0.74	-0.01	0	1.39	0.42	0.66	6.27	3.13	3.69	2.72	2.21	3.68	1.3	0.29	1.29
2013-14	0.59	-0.21	-0.1	1.34	0.57	1.15	6.25	3.3	3.69	2.72	2.42	5.04	1.79	0.63	1.45
2014-15	0.7	-0.3	-0.15	1.59	0.81	1.41	6.56	3.53	4.79	3.2	2.58	3.83	1.91	1.33	1.82
2015-16	0.66	-0.33	-0.77	1.47	0.54	0.84	5.72	3	4.64	3.03	2.14	3.99	2.05	1.43	1.74
MEAN	**0.72**	**-0.16**	**-0.25**	**1.40**	**0.55**	**0.90**	**6.12**	**3.27**	**4.35**	**3.01**	**2.31**	**4.12**	**1.77**	**0.81**	**1.53**
SD	**0.11**	**0.17**	**0.30**	**0.15**	**0.16**	**0.39**	**0.35**	**0.21**	**0.49**	**0.30**	**0.18**	**0.54**	**0.28**	**0.54**	**0.24**
CV	**0.16**	**-1.07**	**-1.23**	**0.10**	**0.30**	**0.43**	**0.06**	**0.06**	**0.11**	**0.10**	**0.08**	**0.13**	**0.16**	**0.66**	**0.15**

Source: *Compiled and Calculated from the data published in various Reports.*

Table 2 reveals the operating profit ratio of select companies in India from 2011 - 2012 to 2015 – 2016. The average of operating profit ratio of select companies shows a fluctuating trend during the study period. This fluctuation implies inability to keep operating expenses properly controlled for level of sales achieved. The TATA Consultancy Services has the highest average operating profit ratio of 6.12 per cent, followed by Infosys, which has average operating profit ratio of 4.35 per cent. The ICICI Bank has the negative average operating profit ratio of 0.25 per cent. The TVS Motor Company has the highest standard deviation of operating profit ratio of 0.54 per cent, followed by the Reliance Communication, which has standard Deviation of operating profit ratio of 0.54 per cent. The Jet Airways has the lowest standard deviation of operating profit ratio of 0.11 per cent and it is found to be stable in operating profit. The TVS Motor Company has the highest coefficient of variance of operating profit ratio of 0.66 per cent which shows the more consistency of operating profit ratio than the other companies because the ICICI Bank has the lowest coefficient variance of 1.23 per cent when compared with the other select companies.

Table-3

Return On Equity Ratio of select companies in India during the period 2011 – 2012 to 2015 – 2016 (In Percentage)

Years	Service			Construction Development			Computer			Telecommunication			Automobile industry		
	Jet Airways	Vijaya Bank	ICICI Bank	Hindustan Construction Company	Petron Engineering Constructions	Vijay Shanthi Builders	TATA Consultancy Services	WIPRO	Infosys	Bharati Airtel	Idea Cellular	Reliance Communication	Hero Motocorp	TVS Motor Company	Mahindra and Mahindra
2011-12	229.14	15.39	10.7	-17.16	21.06	8.66	44.33	19.23	28.46	11.59	4.45	0.34	55.43	21.3	24.08
2012-13	49.51	14.29	12.48	-11.83	0.05	7.32	39.38	23.31	25.28	9.41	5.83	1.88	42.31	9.47	22.88
2013-14	144.22	7.37	13.39	6.38	2.43	3.4	41.93	25.16	24.21	9.89	10.83	2.32	37.66	18.48	22.39
2014-15	41.16	7.41	13.89	5.88	0.39	1.55	42.4	23.66	25.3	16.86	12.83	-0.42	36.47	21.14	17.25
2015-16	-35.24	5.84	11.19	4.56	2.72	0.58	38.87	19.79	27.61	8.93	10.76	-5.02	39.42	22.31	14.59
MEAN	**85.76**	**10.06**	**12.33**	**-2.43**	**5.33**	**4.30**	**41.38**	**22.23**	**26.17**	**11.34**	**8.94**	**-0.18**	**42.26**	**18.54**	**20.24**
SD	**102.37**	**4.43**	**1.37**	**11.19**	**8.87**	**3.55**	**2.26**	**2.59**	**1.78**	**3.25**	**3.60**	**2.93**	**7.68**	**5.26**	**4.10**
CV	**1.19**	**0.44**	**0.11**	**-4.60**	**1.66**	**0.82**	**0.05**	**0.12**	**0.07**	**0.29**	**0.40**	**-16.26**	**0.18**	**0.28**	**0.20**

Source: *Compiled and Calculated from the data published in various Reports.*

Table 3 shows the return on equity capital ratio of select companies in India from 2011 - 2012 to 2015 – 2016. The average return on equity capital ratio of select companies shows a fluctuating trend during the study period. This fluctuating indicates profit earned by the company and these profits can be made available to pay dividends to equity shareholders. The Jet Airways has the highest average return on equity capital ratio of 85.76 per cent, followed by the Hero Motor Corporation which has the average return on equity capital ratio of 42.26 per cent. When compared with Hindustan Construction Company which has the negative average return on equity capital ratio of 2.43 per cent. The Jet Airways has the highest coefficient of variance of return on equity capital ratio of 102.37 per cent, followed by the Hindustan Construction Company which has the average return on equity capital ratio of 11.19 per cent. The Infosys has the lowest standard deviation of return on equity capital ratio 1.78 per cent and it is found to be stable in return in equity ratio. The Petron Engineering Construction has the highest coefficient of variance of return on equity capital ratio of 1.66 per cent followed by the Jet Airways. This has the coefficient variance of return on equity capital ratio of 1.19 per cent. The reliance Communication has the negative coefficient of variance of return on equity capital ratio of 16.26 per cent and it is found that there is more consistency in return on equity capital ratio compared to other select companies.

Table-4

Earnings per Share Ratio of select companies in India during the period 2011 – 2012 to 2015 – 2016

(In Percentage)

Years	Service			Construction Development			Computer			Telecommunication			Automobile industry		
	Jet Airways	Vijaya Bank	ICICI Bank	Hindustan Construction Company	Petron Engineering Constructions	Vijay Shanthi Builders	TATA Consultancy Services	WIPRO	Infosys	Bharati Airtel	Idea Cellular	Reliance Communication	Hero Motocorp	TVS Motor Company	Mahindra and Mahindra
2011-12	-143.18	9.49	56.11	-3.66	42.45	3.70	55.95	19.13	147.51	15.09	1.74	0.76	119.09	5.24	48.97
2012-13	-59.23	9.41	72.20	-2.27	0.12	3.23	65.22	23.03	158.76	13.42	2.47	3.02	106.07	2.44	56.85
2013-14	-381.30	7.64	84.99	1.33	5.03	1.55	94.15	30.09	178.39	16.69	5.09	3.54	105.61	5.51	63.67
2014-15	-159.66	5.11	19.32	1.27	0.83	0.72	98.31	33.38	105.91	33.02	7.94	-0.66	119.46	7.32	56.23
2015-16	103.31	4.44	16.75	1.10	5.79	0.27	116.13	32.97	68.73	18.88	7.27	-6.52	156.86	9.10	53.51
MEAN	-128.01	7.22	49.87	-0.45	10.84	1.89	85.95	27.72	131.86	19.42	4.90	0.03	121.42	5.92	55.85
SD	175.80	2.36	30.83	2.35	17.84	1.51	24.80	6.34	44.14	7.87	2.77	4.04	20.92	2.49	5.36
CV	-1.37	0.33	0.62	-5.28	1.65	0.80	0.29	0.23	0.33	0.41	0.57	144.16	0.17	0.42	0.096

Source: *Compiled and Calculated from the data published in various Reports.*

Table 4 shows the earnings per share of select companies in India from 2011 - 2012 to 2015 – 2016. The average earnings per share ratio of select companies show a fluctuating trend during the study period. This fluctuation indicates whether earning power increased or decreased in equity shares. The Infosys has the highest average earnings per share of 131.86 per cent, followed by Hero Motor Corporation has the average earning per share ratio of 121.42 per cent. The Jet Airways has the negative average earnings per share ratio of 128.01 per cent. The Jet Airways has the highest standard deviation of earnings per share ratio of 175.80 per cent, followed by the ICICI Bank has the average earning per share ratio of 30.83 per cent. When compared with the Vijay Shanthi Builders has the negative average earnings per share ratio of 1.51 per cent. It is found to be stable in return on equity capital ratio. The Reliance Communication shows more consistency of earnings per share ratio of 144.16 per cent, followed by the Petron Engineering Construction has the Coefficient of variance of earnings per share ratio of 1.65 per cent. The Hindustan Construction Company has the negative coefficient of variance of earnings per share ratio of 5.28 per cent and it is found that there is more consistency in earnings per share when compared to other select companies.

POLICY FOR IMPLICATION

The FDI plays of vital role in promoting developing countries in to developed nation. The FDI help to promote the modern marketing concept through their developing countries to attain more positive growth in all leading sectors. In Jet airways, vijay shanthi builders and Hindustan net profit ratio are very low when comparing with other leading companies. So, in order to increase the net profit the company should concentrate on reduces sundry creditors, expenses and current liabilities. It will increase more profit for upcoming years. From the Earning per share ratio and return on equity ration Hindustan construction ltd and Jet airways are very low when compare with the other select companies. Hence, the companies must concentrate on increase bonus shares and reduce interest rate of debentures. It will increase more profit and stable financial position for upcoming years. Finally, the result depicts the few companies financial performances are not satisfactory during the study period. The overall performance of select sectors in India stable after advent of FDI.

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