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A study on Impact of FDI inflows on the Revenues and Profits of Host companies in India

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ABSTRACT

FDI is vital for any country's Economic Development. Foreign capital brought into domestic companies provides an increase in the productivity of the Domestic companies. The objective of the paper is to analyse the impact of FDI on the trends of automobile industry in terms of revenues, profits and production. The methodology applied for the study is descriptive and tool applied for the study is correlation. The findings show that there exists a negative correlation of FDI in relation to revenue and expenditure to the extent of 0.766 in revenue indicating there is growth in India's automobile sector due to the flow of FDI.

Introduction

FDI is very vital for any country's Economic Development; The first thing that should be said about foreign direct investment is that the term is a misnomer. FDI is not, in either an accounting sense, whether one is talking of financial accounting or of balance of payments accounting, or in an economic sense, truly "investment". As noted above, in most cases the investment is in fact a subsidiary of a MNC. The subsidiary itself is typically an on-going business under the managerial control of the parent firm. On the balance sheet of the subsidiary, the subsidiary's net worth is simply the value of assets of the business minus the liabilities owed to entities other than the business's owners; by the fundamental financial accounting identity

REVIEW OF LITERATURE

1. **Ramachandra:** This research will let us know the impact of FDI on Indian automobile industry. The methodology used for future predictions are ARIMA, linear compound model and Time series analysis. The main objective of research is

to analyse the inflows of FDI to India, examine the trends & composition. This study will tell us that there is shift to service sector & fall in the manufacturing sector after liberalization. There is a growth of 18% in the automobile sector. Major investing countries are USA, JAPAN, & Netherland. From the above study we can say that these trends of change in the structure of FDI inflows to developing are expected to experience boom in coming years.

2. **K. RAJALAKSMI(2011):** The researcher describes that FDI inflows to automobile industry is at increasing rate in India after the emergence of liberalization, there is 18% increase in the automobile sector. Indian automobile industries use advanced technology, efficient manpower, India also has competent Auto ancillary along with R&D centres. India ranks 2nd in manufacturing the 2wheelers. The methodologies used by them are regression analysis (ARIMA, Co-efficient & compound model) for the future analysis. This period of study is from 1991 to 2011. Data has been collected by selecting the industries with more FDI flows on automobile industry after & before recession.

3. **Dr Nishikant c Dhande:** This research focuses on the role played by FDI in automobile industry & the changes made after the 1991 government policy. The aim of this study is to review the historical presence, scope and present status of Indian auto mobile sector in India, factors attracting the FDI on Indian automobile industry. Indian automobile industry is one among the top global players of world. The major investing countries are USA, Japan, & Germany.

4. **Maran Sujatha:** This research has focus on the impact of FDI in automobile sector after liberalization & government policies. The country was financial deficit & also crisis in order to overcome that doors were opened for the foreign investor to invest. At that time the investment was in the form of FDI & FPI country in the year 1991. The research analyse the cause & implications of FDI on economic growth & development in the country. The aim of this research is to analyze the trend in the automobile sector. The tools used by them for analysis are ARIMA modelling & correlation analysis after the presence of the foreign investment only there was growth in the country, exports and rise in the level of employment.

5. **Sharma Reetu and Khurana** – the authors in this paper have described about FDI in terms of shares between 1991 to 2012. This paper also discusses the various problems about the FDI and suggests some recommendations for the same. In this study found that, Indian economy is mostly based on agriculture services. Therefore the FDI in this sector should be encouraged.

6. **Abhishek Vijaykumar Vyas:** The researcher explains the distribution of FDI between 2000 to 2015. This study highlights the country wise approval of FDI inflows to India & Inflows of FDI to the each sector for the period April 2000 June 2015. The author has used the data from commerce & industry website, RBI and other Government websites. The result of this research shows that Mauritius is the Major contributor of FDI in India.

RESEARCH GAP

In the past studies mentioned above, the researchers mainly focused on the government and liberalisation policies and the crisis faced by the economy. This study aims to focus the Revenue, profits and production of the automobile sector from the period 2000- 2019.

STATEMENT OF PROBLEM

The government liberalized the economy to foreign investors to bring India in tune with global economy there was a huge flow of FDI in India, the study analyses the investment trends and evaluates the profits and production of automobile sector in India. This papers main objective is to analyse impact of FDI on the trends of automobile industry in terms of revenues, profits and production.

SCOPE OF THE STUDY

The study analyses the performance and impact of FDI in automobile sector in India. The study covers the various trends of FDI from the period 2000 to 2019.

DATA COLLECTION

For the purpose of study data is collected through:

1.Primary Data: Data is collected through annual reports furnished by DIPP from 2000 -2019.

The progress of automobile sector has been ascertained from BSE auto index .the performance major players of the industry are measured through market capitalisation of the company.

2.Secondary Data: The information is collected through websites, reports, various journals and articles

RESEARCH METHODOLOGY

The research design followed in this research is descriptive design. The study describes the characteristics and specific forecasts about FDI in India during a particular period. Here, we use descriptive statistical analysis and correlation model to analyse the interpretation of the data.

DATA ANALYSIS:

Table no 1: showing the data of FDI , production and sales of automobile sector from the year 2000 -2010.

Year	FDI in core (Rs)	Production units in millions	Sales units in millions
2000-01	10733	3.2	3.7
2001-02	18654	3.9	3.98
2002-03	12871	4.2	4.2
2003-04	10064	5.23	5.8
2004-05	14653	5.26	5.36
2005-06	24584	6.21	9.2
2006-07	56390	6.9	12.3
2007-08	98642	7.23	13.2
2008-09	142829	8.669	14.2
2009-10	123120	9.23	14.56

(SOURCE –DIPP website & compiled by the researcher)

Table 2: Data showing the correlation of FDI in relation to production and sales

	FDI	production	Sales
FDI	1		
Production	0.9054	1	
Sales	0.9129	0.9628	1

Interpretation: Table no 1 explains the correlation of FDI in relation to production and sales. FDI and its impact on production and sales in the automobile sector has been increasing. Impact of FDI in relation to production and sales in the automobile industry shows a positive correlation to the extent of 0.9054 for production and 0.9129 for sales. It indicates the movement of production and sales in the automobile sector is influenced by FDI. Hence the correlation of FDI in relation to production and sales shows a perfect positive correlation.

Table 3: Showing The Data Of FDI ,Production And Sales Of Automobile Sector From The Year 2010 - 2020.

Year	FDI in crore	sales in millions	Production in millions
2011	97320	9.8	10.5
2012	165146	11.2	13.4
2013	121907	14.2	15.4
2014	147518	17.79	20.65
2015	181682	18.42	21.5
2016	262322	19.72	23.36
2017	291696	20.47	24.02
2018	288889	21.88	25.33
2019	309867	24.9	29.7

(SOURCE – DIPP website & complied by the researcher)

Table 4: Data showing the correlation of FDI in relation to production and sales

	FDI	sales	production
FDI	1		
sales	0.845952	1	
production	0.871183	0.996449	1

Interpretation: The table no 3 examines the correlation of FDI in relation to production and sales for the period of 2011-19. The impact of FDI in relation to production and sales shows a positive correlation to the extent of 0.845 for sales and 0.871 for production. It indicates there is a growth in production and sales of automobiles due to FDI. Hence there exists a perfect positive correlation for this period.

The table no 4 examines the correlation of FDI in relation to production and sales for the period of 2011-19. The impact of FDI in relation to

production and sales shows a positive correlation to the extent of 0.845 for sales and 0.871 for production. It indicates there is a growth in production and sales of automobiles due to FDI. Hence there exists a perfect positive correlation for this period.

Table 5: Data Showing FDI , Revenue ,Expenditure For The Period Of 2000-2010

Year	FDI (cr)	Revenue(cr)	Expenditure (cr)
2000-01	10733	38.23	18.33
2001-02	18654	45.2	21.36
2002-03	12871	31.2	25.23
2003-04	10064	48.2	32.5
2004-05	14653	51.2	47
2005-06	24584	24.23	20.36
2006-07	56390	54.23	32
2007-08	98642	59.23	28.23
2008-09	142829	62.13	35.12
2009-10	123120	67.23	38.21

(SOURCE –IBEF website & complied by the researcher)

Table 6: Data showing the correlation of FDI in relation to revenue and expenditure

	FDI	Revenue	expenditure
FDI	1		
Revenue	0.769255	1	
expenditure	0.351277	0.65557551	1

Interpretation: Table no 5 explains the correlation of FDI in relation to revenue and expenditure for the period of 2000-2010. There exists a negative correlation of FDI in relation to revenue and expenditure to the extent of 0.769 in revenue, where there is increase in the revenue and 0.351 in expenditure, where it shows decrease in the expenditure, therefore the expenditure on the automobile is less and there is increase in the revenue.

Table 8: Data Showing The FDI, Revenue and Expenditure For The Year 2011-2019

Year	FDI (cr)	Revenue (cr)	Expenditure(cr)
2011	97320	57.04	20.43
2012	165146	54.33	23.58
2013	121907	29.04	20.51
2014	147518	78.05	28.88
2015	181682	80.58	60.92
2016	262322	84.23	56.23
2017	291696	98.32	46
2018	288889	159.14	37.32
2019	309867	258.28	46.79

(SOURCE –IBEF website & complied by the researcher)

Table 9: Data showing the Correlation of FDI in relation to revenue and expenditure

	FDI	Revenue	expenditure
FDI	1		
revenue	0.766036	1	
expenditure	0.650224	0.403306	1

Interpretation: Table no 8 explains the correlation of FDI in relation to revenue and expenditure for the period of 2000-2010. There exists a negative correlation of FDI in relation to revenue and expenditure to the extent of 0.766 in revenue , where there is increase in the revenue and 0.650 in expenditure , where it shows decrease in the expenditure, therefore the expenditure on the automobile is less and there is increase in the revenue.

Findings:

- 1.The results have revealed that FDI create significant impact on automobile sector, which brings success to make in India project. It is suggested that the government should take an advantage and reduce the selective policies and bureaucratic rules.
2. FDI clearly showed the growth in India`s automobile sector, so it is recommended to the government of India to organise a well-established relationship with both developing and underdeveloped countries.
- 3.The automobile sector creates employment opportunities and turnover significantly, so it is suggested that government should take care of the inflows to create more opportunities into India`s automobile sector.
- 4.The best policy intervention would involve general steps to enhance overall capital and technical capabilities of employees in the domestic economy.
- 5.The average capital of FDI invested in India for the period of 2010-2019 was Rs 2388cr, which showed a difference in the investment of 38.07% . The minimum capital invested was Rs 658cr , where there was a downfall of investment by38.51%. The maximum capital invested was Rs403cr, which increased the investment by 279.3%. The total sum invested for the period was Rs214928cr. The volatility of the capital invested was 104.15% which showed increase in the inflow of the capital
5. The FDI inflows shows the growth rates in the domestic companies sales and Profit.
6. The findings show the increase in Sales Revenue and Productivity increases the national Income of the nation.

Conclusion:

FDI investments are sensitive to the point that local markets have an edge over the retail investors in India as they have unique advantages such as an understanding of local needs and extended the required service to their customers. As the FDI influence on the Indian retail sector sets in, the total size of the retail trade is expected to grow extensively in the coming years and the consumer segment. It can be concluded that Govt. of India`s Make in India plan gets positive supports through the entry of global automakers & automobile sector become most important sunrise sector in Indian industry.

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WEBSITES

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