

Finances of Foreign Direct Investment Companies, 1997-98*

The financial performance of the foreign direct investment (FDI) companies[@] for the period 1995-96 to 1997-98 is presented in this article based on the audited annual accounts of 284 selected companies which closed their accounts during the period April 1997 to March 1998^{\$}. In the case of companies, which either extended or shortened their accounting year, income, expenditure and appropriation account figures have been annualised. The balance sheet data, however, have been retained as presented in the annual accounts of the companies with the result that the data reported in balance sheets in such cases refer to varying periods. The analysis of the financial performance of FDI companies over the years is subject to these limitations.

All the selected 284 companies were amongst those included in the regular studies on finances of non-government non-financial public/ private limited companies for the year 1997-98. Of these, 211 companies were public limited companies and the rest 73 companies were private limited companies. The selected companies are classified into 9 major country-groups and 7 major industry-groups.

A company is classified in a country-group depending upon the origin of the largest foreign direct investment in the company. The industry group of the company is determined on the basis of the industry from which the company is reported to have earned more than 50 per cent of its total income. Industry-wise distribution of the selected companies across the major countries is presented in [Table 1](#).

The data collected from the 284 selected companies indicated that foreign direct investment in India are predominantly from U.S.A., U.K., and Germany with tallies of 67, 60 and 32 companies respectively. Within each industry-group also the investments came mostly from these three countries. In the case of 'Tea' industry, 9 out of the 10 tea companies had investments from U.K. The two industry-groups, 'Engineering' and 'Chemicals' dominated with 115 and 46 companies respectively.

Overall Performance

The financial results of the 284 selected foreign direct investment (FDI) companies in 1997-98 indicated a slow down in performance in terms of sales, gross profits and value added in 1997-98 as compared to their performance in the previous year. Profit margin (gross profits to sales) and return on shareholders' equity (profits after tax to net worth) declined in 1997-98 from their level in the preceding year. The effective tax rate (tax provisions to profits before tax) was lower for the year under study as compared to the previous year. The external funds was major source of asset formation in 1997-98, however, the share of internal funds in total funds has increased.

Table 1: Industry X Country-wise Distribution of Selected FDI Companies, 1997-98

Country/ Industry-group	U.K.	U.S.A.	Ger- many	Swit- zerland	Japan	Sweden	Nether- lands	Mauritius	Others	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1. Engineering	21	25	18	12	11	3	7	2	16	115
2. Chemicals	9	10	7	1	5	1	3	2	8	46

3. Tea	9	-	-	-	-	-	-	-	1	10
4. Trading	2	3	-	2	1	-	1	1	4	14
5. All textiles	2	-	1	1	-	-	-	-	2	6
6. Rubber	2	3	-	-	-	-	-	-	-	5
7. Other industries	15	26	6	6	6	2	-	4	23	88
Total	60	67	32	22	23	6	11	9	54	284

The deceleration was observed in performance of these companies across industry-groups, as well as across investor country-wise groupings. In particular, the performance of the companies in 'Motor vehicles' and 'Ferrous/non-ferrous metal products' industries was subdued in 1997-98. However, the performance of the selected companies belonging to 'Tea' and 'Chemicals' industry-group was good in 1997-98.

A. Operational Results

The sales of the selected companies increased by 4.7 per cent to Rs. 40,635 crore in 1997-98. Employees' remuneration and depreciation provision increased by 14.8 per cent and 14.1 per cent respectively in 1997-98. The gross profits and profits before tax declined by 2.5 per cent and 4.5 per cent respectively. Interest payments recorded 4.5 per cent increase in 1997-98 after an increase of 30.8 per cent in 1996-97. On account of the decline in tax provisions, post-tax profits of these companies showed an increase of 0.5 per cent in 1997-98.

Table 2: Growth Rates of Sales, Gross Profits and Net Profits of Selected FDI Companies, 1996-97 and 1997-98

Industry/ Country	Number of Companies	Sales		Gross Profits		Profits After Tax	
		1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
(Per cent)							
Industry							
1. Engineering	115	17.2	0.6	10.4	-21.0	5.5	-30.3
<i>Of which,</i>							
(a) Motor vehicles	19	22.7	-1.6	13.0	-12.7	3.7	-16.2
(b) Electrical machinery, <i>apparatus, appliances, etc.</i>	26	18.7	4.9	20.0	-48.7	48.6	-85.6
(c) Machinery other than <i>transport and electricals</i>	55	10.2	0.8	12.7	-10.4	11.2	-1.2
(d) Ferrous/ non-ferrous <i>metal products</i>	10	5.1	-5.7	11.2	-42.0	0.1	-51.6
2. Chemicals	46	12.0	10.1	13.8	8.2	-14.3	15.4
<i>Of which,</i>							
(a) Basic industrial <i>chemicals</i>	11	4.1	10.1	0.1	15.5	-11.6	32.0
(b) Medicines and <i>pharmaceutical preparations</i>	13	12.2	9.2	19.4	14.5	-34.8	7.3
3. Tea	10	-2.0	27.5	31.3	138.4	150.2	415.0

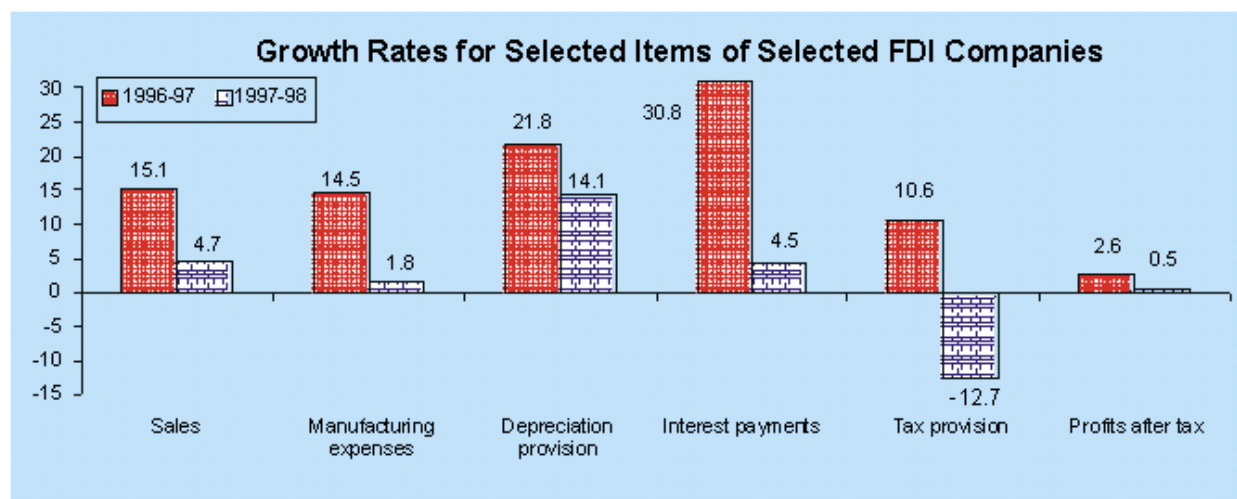
4. Trading	14	27.0	6.2	54.2	12.7	74.2	15.1
5. All textiles	6	17.1	0.5	22.0	-49.0	60.7	-
6. Rubber	5	10.2	6.2	29.9	10.1	9.6	30.9

Country

1. U.K.	60	14.5	1.4	23.8	6.1	3.7	11.0
2. U.S.A.	67	17.4	6.9	15.5	-0.9	19.4	12.0
3. Germany	32	16.2	6.1	13.6	-23.3	2.9	-42.2
4. Switzerland	22	13.1	8.7	18.8	-17.4	55.4	-31.9
5. Japan	23	21.1	12.4	16.2	16.7	1.8	35.8
6. Sweden	6	7.3	-2.5	9.3	-45.6	5.1	-54.2
7. Netherlands	11	6.6	9.7	6.5	-7.9	-34.6	12.7
8. Mauritius	9	10.4	15.9	12.8	23.4	3.4	28.5

All Companies	284	15.1	4.7	14.2	-2.5	2.6	0.5
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- Numerator negative or nil or negligible



Profit margin and return on shareholders' equity declined from 13.6 per cent and 15.6 per cent in 1996-97 to 12.7 per cent and 13.7 per cent respectively in 1997-98. The effective tax rate was lower at 34.3 per cent in 1997-98 as compared to 37.6 per cent in 1996-97.

A country-wise analysis shows that, companies having major portion of FDI from U.K., Japan and Mauritius posted higher profit margins in 1997-98 as compared to that in the previous year. Industry-wise, 'Engineering' and 'Chemicals' companies recorded lower profit margins of the order of 9.3 per cent and 14.1 per cent in 1997-98 as compared to 11.9 per cent and 14.4 per cent respectively in the previous year.

Table 3: Profit Margin, Effective Tax Rate and Return on Equity of Selected FDI Companies, 1996-97 and 1997-98

Industry/Country	Profit Margin		Effective Tax Rate		Return on Equity	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
Industry						
1. Engineering	11.9	9.3	37.3	36.6	15.1	9.7
Of which,						

(Per cent)

(a) Motor vehicles	12.2	10.8	36.2	32.5	13.5	10.3
(b) Electrical machinery, apparatus, appliances, etc.	9.5	4.6	33.3	64.8	17.7	2.5
(c) Machinery other than transport and electricals	14.4	12.8	37.3	32.1	19.6	16.9
(d) Ferrous/ non-ferrous metal products	19.9	12.3	43.4	33.7	15.5	7.2
2. Chemicals	14.4	14.1	37.4	32.9	17.7	16.9
Of which,						
(a) Basic industrial chemicals	14.6	15.3	26.9	23.8	12.7	14.7
(b) Medicines and pharmaceutical preparations	14.6	15.3	40.9	39.3	19.1	18.1
3. Tea	11.6	21.7	62.3	38.8	1.3	6.5
4. Trading	9.5	10.1	28.3	29.7	22.9	21.8
5. All textiles	11.8	6.0	36.9	#	11.9	-
6. Rubber	9.7	10.1	39.0	32.4	12.1	9.5
Country						
1. U.K.	17.1	17.9	38.7	35.2	14.8	14.2
2. U.S.A.	13.9	12.9	37.4	30.7	20.1	18.6
3. Germany	11.9	8.6	40.9	49.4	14.3	8.0
4. Switzerland	14.6	11.1	28.9	26.1	26.6	15.4
5. Japan	10.3	10.7	38.6	32.8	16.9	18.7
6. Sweden	21.4	11.9	46.0	39.3	16.7	7.3
7. Netherlands	7.1	5.9	46.5	36.6	10.6	10.4
8. Mauritius	19.1	20.3	30.7	33.7	14.8	14.4
All Companies	13.6	12.7	37.6	34.3	15.6	13.7

- Numerator negative or nil or negligible.

Denominator negative or nil or negligible.

B. Foreign Business

There was a net outflow of only Rs. 254 crore in foreign currencies as against an outflow of Rs. 3,281 crore in 1996-97 ([Statements 16, 17 and 18](#)). Incidentally, while companies having FDI from countries other than U.K. registered net outflow of foreign exchange for all three years, in the case of U.K. it was net inflow for all three years. The total foreign exchange earnings of these companies grew at the rate of 22.6 per cent in 1997-98. The growth in exports was at 13.7 per cent in 1997-98 as against 18.9 per cent in 1996-97. The export intensity of sales (exports to sales) of the selected companies increased to 10.5 per cent in 1997-98 from 9.7 per cent in 1996-97.

Country-wise, companies having FDI from U.K. ranked the highest in terms of export intensity of sales at 13.4 per cent in 1997-98. Among the industry-groups, in respect of 'Engineering' and 'Chemicals' companies, export intensity of sales was at 7.3 per cent and 8.5 per cent respectively in 1997-98 as compared to 6.8 per cent and 8.2 per cent respectively in 1996-97.

The imports to exports ratio of the selected companies worked out to 111.1 per cent in 1997-98. With the 29.5 per cent decline in imports, the total expenditure in foreign currencies of these companies declined by 26.2 per cent in 1997-98. 'Raw materials, components, etc.' as well as 'Capital goods' continued to form a significant proportion in total imports.

Table 4: Growth in Exports and Export Intensity of Sales of Selected FDI Companies, 1996-97 and 1997-98

(Per cent)

Industry/ Country	Growth in Exports		Export Intensity of Sales	
	1996-97	1997-98	1996-97	1997-98
Industry				
1. Engineering	17.4	7.0	6.8	7.3
2. Chemicals	27.5	13.3	8.2	8.5
3. Tea	-6.4	27.8	18.1	18.1
4. Trading	14.9	5.0	19.9	19.7
5. All textiles	17.6	50.2	33.0	49.3
6. Rubber	23.5	16.1	11.3	12.4
Country				
1. U.K.	3.1	22.9	11.1	13.4
2. U.S.A.	24.6	6.5	7.9	7.9
3. Germany	11.6	33.8	9.6	12.1
4. Switzerland	10.0	6.4	6.5	6.3
5. Japan	100.7	-17.0	11.2	8.3
6. Sweden	-0.3	23.3	5.4	6.9
7. Netherlands	45.4	2.9	4.1	3.8
8. Mauritius	51.9	61.6	6.7	9.4
All Companies	18.9	13.7	9.7	10.5

Table 5: Growth in Imports and Imports to Exports Ratio of Selected FDI Companies, 1996-97 and 1997-98

(Per cent)

Industry/ Country	Growth in Imports		Imports to Exports Ratio	
	1996-97	1997-98	1996-97	1997-98
Industry				
1. Engineering	73.5	-47.0	335.3	166.2
2. Chemicals	23.2	33.6	161.1	189.9
3. Tea	-82.8	80.7	1.0	1.4
4. Trading	-11.8	8.1	50.3	51.7
5. All textiles	-4.7	1.4	41.3	27.8
6. Rubber	-18.5	45.6	67.7	84.9
Country				
7. U.K.	14.3	0.6	64.3	52.6
8. U.S.A.	10.3	2.9	166.2	160.6
9. Germany	40.2	-3.4	179.1	129.3
10. Switzerland	-5.4	-18.7	244.1	186.5
11. Japan	24.2	2.5	124.6	153.9
12. Sweden	12.8	-5.7	353.6	270.6
13. Netherlands	-3.1	19.5	170.1	197.6
14. Mauritius	4.6	23.2	182.4	139.1
All Companies	53.8	-29.5	179.2	111.1

The companies having major portion of FDI from U.K. had the lowest imports to exports ratio at 52.6 per cent in 1997-98. Industry group-wise, in the 'Engineering' and 'Chemicals' industry-groups, imports were higher than exports in 1997-98.

Dividend Remittances

Dividend remittances of the selected 284 companies in foreign currencies decreased from Rs. 332 crore in 1996-97 to Rs. 276 crore in 1997-98. It formed 4.8 per cent of total expenditure in foreign currencies in 1997-98. Dividend remittances in foreign currencies for Germany, Switzerland and Japan country-groups were higher in 1997-98 as compared to the previous year. Among the industry-groups, dividend remittances in foreign currencies were higher for 'Engineering' companies while these were lower for 'Chemicals' companies in 1997-98 than in 1996-97.

C. Financing Pattern and Capital Structure

Financing Pattern

The total funds raised by the selected companies during 1997-98 amounted to Rs. 6,684 crore as against Rs. 8,360 crore in 1996-97 ([Statement 15](#)). The pattern of financing in 1997-98 differed somewhat from that in 1996-97. The selected companies continued to rely more on external sources of funds in 1997-98. However, funds raised by way of external sources formed 57.4 per cent of total funds raised in 1997-98 as against 64.8 per cent in 1996-97. Depreciation provisions (18.0 per cent), net borrowing through issuance of new debentures (12.9 per cent), advances / deposits from customers (12.7 per cent) and sundry creditors (10.5 per cent) were the major sources of assets formation in 1997-98.

Table 6: Financing Pattern of Selected FDI Companies, 1996-97 and 1997-98

Sources	(Per cent)	
	1996-97	1997-98
Internal sources	35.2	42.6
Paid-up capital (Internal)	0.9	1.1
Reserves and surplus	19.1	23.0
Provisions	15.3	18.5
External sources	64.8	57.4
Paid-up capital (External)	11.6	9.0
Borrowings	41.7	36.3
Trade dues and other current liabilities	11.4	11.9

Others	0.1	0.3
Total	100.0	100.0

Capital Structure

Total liabilities/ assets (unadjusted) of the selected companies increased by 14.2 per cent to Rs. 44,577 crore in 1997-98 ([Statement 12](#)). The changes in the financing pattern during 1997-98 also resulted in minor variations in the capital structure of the selected companies (See [Table 7](#)). The share of 'Borrowings' in total liabilities increased from 28.5 per cent in 1996-97 to 30.4 per cent in 1997-98, while the share of 'Trade dues and other current liabilities' in total liabilities declined from 27.0 per cent in 1996-97 to 25.4 per cent in 1997-98.

Table 7: Composition of Liabilities of Selected FDI Companies, 1995-96 to 1997-98

Liabilities	(Per cent)		
	1995-96	1996-97	1997-98
1. Share capital	7.7	7.7	7.2
2. Reserves and surplus	34.5	33.4	33.9
3. Borrowings	24.0	28.5	30.4
4. Trade dues and other current liabilities	30.3	27.0	25.4
5. Others	3.5	3.4	3.0
Total	100.0	100.0	100.0

Debt-equity Ratio

Debt-equity ratio for the selected companies increased from 26.0 per cent in 1995-96 to 39.1 per cent in 1997-98 ([Statements 5, 6 and 7](#)).

Table 8: Debt-equity Ratio of Selected FDI Companies, 1995-96 to 1997-98

Industry/Country	(Per cent)		
	Debt-equity Ratio		
	1995-96	1996-97	1997-98
Industry			
1. Engineering	30.9	41.5	46.0
2. Chemicals	23.5	22.9	28.1
3. Tea	14.6	13.2	10.8
4. Trading	5.6	6.4	6.5
5. All textiles	36.5	26.9	30.0
6. Rubber	39.4	40.5	18.7
Country			
1. U.K.	24.5	30.0	37.0

2. U.S.A.	22.9	33.2	34.5
3. Germany	33.3	39.8	30.2
4. Switzerland	11.4	13.1	29.5
5. Japan	33.7	33.6	34.9
6. Sweden	64.1	62.6	65.3
7. Netherlands	17.4	21.6	20.4
8. Mauritius	33.6	30.2	27.9
All Companies	26.0	33.5	39.1

D. Utilization of Funds and Assets Structure

Utilization of Funds

The pattern of utilization of funds showed wide variations in 1997-98 as compared to the previous year ([Statement 15](#)).

Table 9: Funds Utilization by the Selected FDI Companies, 1996-97 and 1997-98

Uses of funds	(Per cent)	
	1996-97	1997-98
1. Gross fixed assets	66.1	59.1
2. Inventories	8.5	3.4
3. Loans and advances and other debtor balances	18.8	17.5
4. Investments	0.2	10.2
5. Cash and bank balances	6.6	7.9
6. Other assets	-0.1	1.9
Total	100.0	100.0

Fixed asset formation (59.1 per cent) remained the most significant use of total funds raised in 1997-98 followed by 'loans and advances and other debtor balances' (17.5 per cent). The share of inventory accumulation in total uses of funds went down from 8.5 per cent in 1996-97 to 3.4 per cent in 1997-98 while share of investments increased from 0.2 per cent in 1996-97 to 10.2 per cent in 1997-98.

Assets Structure

The changes in the utilization pattern of funds available with the companies reflected minor variations in the composition of assets of the selected companies ([Statement 12](#)).

Table 10: Composition of Assets of Selected FDI Companies, 1995-96 to 1997-98

Assets	(Per cent)		
	1995-96	1996-97	1997-98
1. Net fixed assets	32.0	37.4	39.1
2. Inventories	23.4	20.8	18.7
3. Loans and advances and other debtor balances	33.0	30.8	29.6
4. Investments	6.9	5.7	6.5

5. Cash and bank balances	3.7	4.4	5.1
6. Others	1.0	0.8	1.0
Total	100.0	100.0	100.0

'Net fixed assets', 'Loans and advances and other debtor balances' and 'Inventories' formed the three major components of total assets of all the selected companies in 1997-98. The current ratio (current assets to current liabilities) of the selected FDI companies remained at 1.3 during the period under review.

E. Performance of FDI Companies vis-a-vis Others

The growth and performance of the selected FDI companies vis-a-vis other companies included in the regular studies on public and private limited companies may be glimpsed from [Tables 11](#) and [12](#). The growth in net profits of the selected FDI public limited companies was noticed to be 0.4 per cent in 1997-98 whereas the other public limited companies reported a decline of 14.4 per cent. In the case of private limited companies, selected FDI companies reported a rise of 5.4 per cent in net profits in 1997-98 as against a rise of 47.6 per cent reported by other private limited companies. Profit margin for the selected FDI companies was higher as compared to that of other public/ private limited companies in 1997-98.

Table 11: Growth Rates of Sales, Gross Profits and Profits After Tax of Selected Companies, 1996-97 and 1997-98

Type of Companies	Number of Companies	(Per cent)					
		Sales		Gross Profits		Profit After Tax	
		1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1. Public limited companies ^(a)	1948	12.2	5.2	1.2	-4.7	-24.6	-14.3
(i) Selected FDI companies ^(b)	211	15.2	4.6	14.1	-2.6	2.6	0.4
(ii) Others ^(c)	1737	11.0	6.9	-2.5	-3.1	-32.1	-14.4
2. Private limited companies ^(a)	883	10.9	12.0	2.4	14.5	-18.6	41.5
(i) Selected FDI companies ^(b)	73	11.7	19.9	26.5	10.2	2.9	5.4
(ii) Others ^(c)	810	10.8	11.2	-	15.1	-21.4	47.6
3. FDI companies ^(b) (1(i)+2(i))	284	15.1	4.7	14.2	-2.5	2.6	0.5

- Nil or negligible.

Table 12: Profit Margin, Effective Tax Rate and Return on Equity of Selected Companies, 1996-97 and 1997-98

Type of Companies	Number of Companies	(Per cent)					
		Profit Margin		Effective Tax Rate		Return on Equity	
		1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1. Public limited companies ^(a)	1948	12.9	11.7	27.1	27.9	9.8	7.6
(i) Selected FDI companies ^(b)	211	13.6	12.7	37.6	34.3	15.7	13.8
(ii) Others ^(c)	1737	12.7	11.5	23.8	26.1	8.3	6.5

2. Private limited companies ^(a)	883	8.3	8.5	41.4	32.0	8.7	10.4
(i) Selected FDI companies ^(b)	73	10.2	9.3	39.7	41.1	11.4	8.3
(ii) Others ^(c)	810	8.1	8.4	41.7	30.7	8.3	10.7
3. FDI companies ^(b) (1(i)+2(i))	284	13.6	12.7	37.6	34.3	15.6	13.7

(a) All selected companies included in the regular studies published by the Division.

(b) The FDI companies included in the study are based on the list of such companies included in the Foreign Investment Survey (FIS) conducted by the Department.

(c) Others include companies which are not included in FIS mentioned at (b) above.

* **Prepared in the Company Finances Division of the Department of Statistical Analysis and Computer Services.**

@ As per the Balance of Payments manual (5th edition, 1993; para 362) “Direct investment enterprise is an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10 per cent or more of the ordinary shares or voting power (for an incorporate enterprise) or the equivalent (for an unincorporated enterprise)”.

\$ The previous study relates to finances of 268 companies during 1996-97 published in the February, 2000 issue of the Reserve Bank of India Bulletin.