

Finances of Foreign Direct Investment Companies, 1998-99 (Part 1 of 4)

The financial performance of the foreign direct investment (FDI) companies[@] for the period 1996-97 to 1998-99 is presented in this article based on the audited annual accounts of 321 selected companies which closed their accounts during the period April 1998 to March 1999^{\$}. 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 321 companies were amongst those included in the regular studies on finances of non-government non-financial public / private limited companies for the year 1998-99. Of these, 257 companies are public limited companies and the remaining 64 companies are 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 FDI share 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 and major industries is presented in [Table 1](#).

The data collected from the 321 selected companies indicated that foreign direct investments in India are predominantly from U.S.A., U.K., and Germany with tallies of 71, 69 and 36 companies respectively. Within major industry-group also, the investments came mostly from these three countries. In the case of 'Tea' industry, 7 out of the 10 tea companies had investments from U.K. The two industry-groups, 'Engineering' and 'Chemicals' dominated with 137 and 51 companies, respectively.

Overall Performance

The financial results of the 321 FDI companies indicated an improvement in sales which registered an increase of 7.0 per cent in 1998-99 as compared to 5.9 per cent growth in the previous year whereas their gross profits and profits after tax declined over the period. Profit margin (gross profits to sales) and return on shareholders' equity (profits after tax to net worth) at 10.2 per cent and 9.1 per cent, respectively, in 1998-99 were comparatively lower than the corresponding levels a year ago. The effective tax rate (tax provisions to profits before tax) at 35.4 per cent was higher during 1998-99 as compared to the previous year. Total funds raised by these companies declined from Rs. 9,888 crore in 1997-98 to Rs. 5,601 crore in 1998-99. The share of internal funds in total funds raised in 1998-99 increased to 58.2 per cent from 35.9 per cent in the previous year.

Table 1: Industry X Country-wise Distribution of Selected FDI Companies, 1998-99

Country/ Industry-group (1)	(Number of Companies)									
	U.K. (2)	U.S.A (3)	Ger- many (4)	Swit- zerland (5)	Japan (6)	Sweden (7)	Nether- lands (8)	Mauritius (9)	Others (10)	Total (11)
1. Engineering	30	33	21	16	13	4	8	3	9	137
2. Chemicals	10	9	8	4	4	1	5	2	8	51
3. Tea	7	-	-	-	-	1	1	-	1	10
4. Trading	3	4	1	1	1	-	-	2	2	14
5. All textiles	2	-	2	-	-	-	-	3	4	11
6. Rubber and rubber products	2	2	-	-	-	-	-	-	-	4
7. Other industries	15	23	4	8	5	1	1	9	28	94
Total	69	71	36	29	23	7	15	19	52	321

Among the industry-groups, the sales performance of 'Medicines and pharmaceutical preparations', 'Electrical machinery, apparatus, appliances, etc.', 'Tea' and 'Trading' was good in 1998-99. The performance of 'Ferrous/non-ferrous metal products', 'Machinery other than transport and electricals' and 'Basic industrial chemicals' industries remained subdued in 1998-99.

A. Operational Results

The sales of selected companies increased by 7.0 per cent to Rs. 51,126 crore in 1998-99. Side by side, on the expenditure side, manufacturing expenses increased by 6.6 per cent during 1998-99 as compared to 12.0 per cent increase in the previous year while the employees' remuneration and depreciation provision increased by 7.5 per cent and 12.5 per cent in 1998-99 as compared to the increase of 15.4 per cent and 17.2 per cent respectively in the previous year. Interest payments registered an increase of 4.2 per cent in 1998-99 after an increase of 5.2 per cent in the previous year. The gross profits and profits before tax declined by 8.6 per cent and 11.6 per cent, respectively in 1998-99. The post-tax profits of these companies dropped by 16.6 per cent in 1998-99 in contrast to an increase of 7.2 per cent in the previous year.

Table 2: Growth Rates of Sales, Gross Profits and Net Profits of Selected FDI Companies, 1997-98 and 1998-99

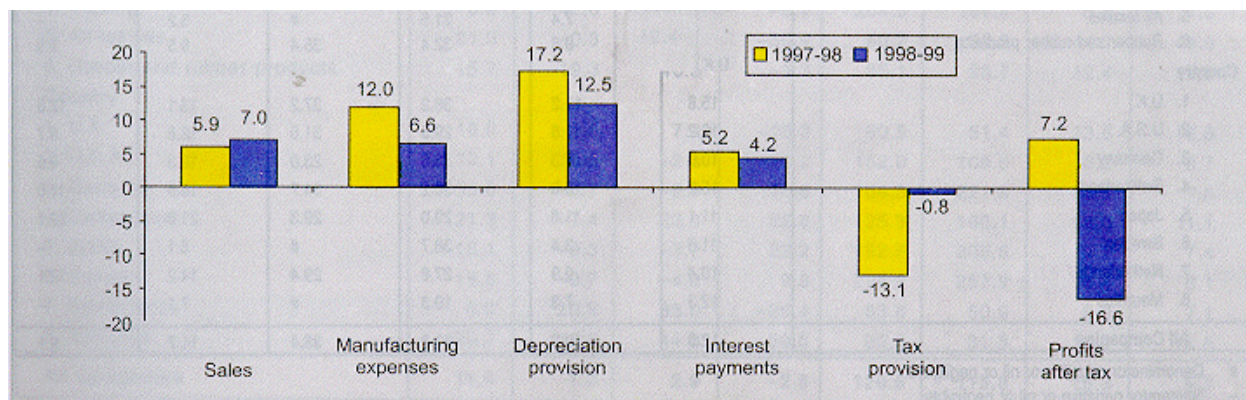
Industry/ Country Industry	Number of Companies	(Per cent)			
		Sales 1997-98	Sales 1998-99	Gross Profits 1997-98	Profits After Tax 1998-99

1. Engineering	137	3.7	0.4	-17.0	-12.2	-19.0	-26.6
<i>Of which,</i>							
(a) Motor vehicles	18	3.1	0.1	-0.4	-15.5	6.6	-28.9
(b) Electrical machinery, apparatus, appliances, etc.	32	8.2	8.1	-43.9	22.4	-80.4	283.5
(c) Machinery other than transport and electricals	64	0.9	-5.4	-10.1	-9.9	0.6	-18.4
(d) Ferrous/ non-ferrous metal products	17	-3.0	-6.3	-43.2	-92.5	-	&
2. Chemicals	51	7.0	6.6	4.9	-34.9	1.1	-15.2
<i>Of which,</i>							
(a) Basic industrial chemicals	16	1.7	-2.8	-6.7	-	-40.0	-
(b) Medicines and pharmaceutical preparations	18	10.6	12.8	19.2	13.6	15.1	38.6
3. Tea	10	28.6	6.9	118.1	-1.0	370.6	1.4
4. Trading	14	39.5	7.9	4.8	-24.4	-31.1	21.6
5. All textiles	11	11.4	2.5	11.0	-32.5	139.8	-
6. Rubber and rubber products	4	6.3	-0.1	10.0	-4.2	30.6	12.1
Country							
1. U.K.	69	0.6	6.7	2.4	2.7	10.0	7.4
2. U.S.A.	71	7.1	4.5	0.2	0.5	16.2	-18.3
3. Germany	36	6.7	10.8	-13.6	-18.6	4.5	-17.0
4. Switzerland	29	9.5	5.9	14.7	-5.4	31.6	-27.9
5. Japan	23	17.9	13.1	9.9	17.5	29.5	16.4
6. Sweden	7	-3.3	1.9	-44.5	-70.3	-51.0	-
7. Netherlands	15	17.0	2.1	30.7	-2.8	63.9	-5.8
8. Mauritius	19	15.7	0.9	4.2	-39.7	0.3	-
All Companies	321	5.9	7.0	-3.1	-8.6	7.2	-16.6

- Numerator negative or nil or negligible.

& Both Numerator and Denominator are negative.

Growth Rates for Selected Items of Selected FDI Companies



Profit margin and return on shareholders' equity declined from 12.0 per cent and 11.7 per cent in 1997-98 to 10.2 per cent and 9.1 per cent in 1998-99, respectively. The effective tax rate was 35.4 per cent in 1998-99 as compared to 31.5 per cent in 1997-98.

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

Industry/Country	(Per cent)					
	Profit Margin		Effective Tax Rate		Return on Equity	
	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
Industry						
1. Engineering	9.3	8.2	36.2	42.2	9.2	6.4
<i>Of which,</i>						
(a) Motor vehicles	11.2	9.4	29.6	34.6	13.0	8.7
(b) Electrical machinery, apparatus, appliances, etc.	4.9	5.5	59.6	33.5	1.5	5.6
(c) Machinery other than transport and electricals	13.2	12.5	31.1	34.2	17.4	12.9
(d) Ferrous/ non-ferrous metal products	8.1	0.6	#	#	-	-
2. Chemicals	12.8	7.8	36.0	37.3	10.3	8.3
<i>Of which,</i>						
(a) Basic industrial chemicals	11.2	-	46.5	#	3.5	-
(b) Medicines and pharmaceutical preparations	15.2	15.3	36.0	29.5	18.0	21.2
3. Tea	19.7	18.3	38.4	35.7	8.6	8.4
4. Trading	6.9	4.8	24.3	20.0	5.8	6.7
5. All textiles	11.3	7.4	21.5	#	5.2	-
6. Rubber and rubber products	10.1	9.6	32.4	35.4	9.5	9.9
Country						
1. U.K.	15.8	15.2	36.2	37.2	13.1	12.8
2. U.S.A.	12.2	11.8	29.3	31.5	12.8	9.7
3. Germany	10.0	7.3	23.6	23.0	12.3	9.5
4. Switzerland	15.2	13.6	30.2	34.7	16.8	11.0
5. Japan	11.1	11.6	29.0	29.3	21.0	20.1
6. Sweden	11.6	3.4	38.7	#	8.1	-
7. Netherlands	10.4	9.9	27.6	29.4	14.2	12.1
8. Mauritius	12.3	7.3	10.3	#	7.1	-
All Companies	12.0	10.2	31.5	35.4	11.7	9.1

Denominator negative or nil or negligible.

- Numerator negative or nil or negligible.

However, companies having major portion of FDI from U.K., U.S.A. and Japan maintained their profit margin in 1998-99 at almost the same level as in the previous year. Industry-wise, 'Engineering' and 'Chemicals' companies recorded lower profit margins of 8.2 per cent and 7.8 per cent in 1998-99 as compared to 9.3 per cent and 12.8 per cent respectively in the previous year.

B. Foreign Business

The selected companies recorded a net outflow of Rs. 1,065 crore in foreign currencies during 1998-99 as against an outflow of Rs. 349 crore in 1997-98 ([Statements 16](#), [17](#) and [18](#)). Incidentally, companies having FDI from U.K., Netherlands and Mauritius registered net inflow of foreign exchange for all three years. The total foreign exchange earnings of the selected companies declined by 10.9 per cent in 1998-99 in contrast to an increase of 19.2 per cent in the previous year. The total foreign currency expenditure by these companies declined by 0.1 per cent in 1998-99.

The exports by the selected companies increased by 1.2 per cent during 1998-99 as compared to an increase of 11.4 per cent in the previous year. The export intensity of sales (exports to sales) of the selected companies declined from 10.3 per cent in 1997-98 to 9.7 per cent in 1998-99. Country-wise, the companies having FDI from Mauritius ranked the highest in terms of export intensity of sales at 18.6 per cent in 1998-99. Among the industry-groups, in respect of 'Engineering' and 'Chemicals' companies, export intensity of sales was 9.0 per cent and 10.4 per cent, respectively, in 1998-99 as compared to 8.7 per cent and 12.1 per cent, respectively, in 1997-98.

Table 4: Growth in Exports, Imports, Import to Export and Export Intensity of Sales of Selected FDI Companies, 1997-98 and 1998-99

Industry/Country	Growth in Exports		Growth in Imports		Imports to Exports		Export Intensity of Sales	
	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
(Per cent)								
Industry								
1. Engineering	8.2	3.8	-7.8	-7.1	140.5	125.8	8.7	9.0
2. Chemicals	26.2	-7.8	42.5	-18.1	157.4	139.9	12.1	10.4
3. Tea	44.0	30.8	2.7	-47.1	16.6	6.7	13.3	16.3
4. Trading	-8.8	47.6	73.1	-6.6	264.5	167.4	5.5	7.5
5. All textiles	21.3	-0.3	67.5	-50.4	40.7	20.2	44.1	43.0
6. Rubber and rubber products	15.7	-19.3	46.3	-9.3	85.1	95.7	12.4	10.0
Country								
1. U.K.	16.0	-1.5	7.4	-16.3	60.5	51.4	13.6	12.5
2. U.S.A.	12.1	10.6	-2.6	-20.2	152.0	109.6	8.2	8.7
3. Germany	35.0	-6.7	-8.9	25.8	164.5	221.8	8.3	7.0
4. Switzerland	21.3	-7.4	22.8	22.8	125.3	166.1	12.6	11.1
5. Japan	-16.1	-9.3	-3.7	22.2	152.5	205.6	9.2	7.4
6. Sweden	18.8	-3.7	-4.8	9.8	226.2	257.9	8.6	8.1
7. Netherlands	6.6	20.9	35.0	-26.4	83.6	50.9	6.0	7.1
8. Mauritius	-20.7	15.6	44.0	-59.5	90.8	31.8	16.2	18.6
All Companies	11.4	1.2	2.9	-2.8	120.6	115.8	10.3	9.7

The imports by the selected companies declined by 2.8 per cent in 1998-99. The imports as percentage of exports of the selected companies worked out to 115.8 per cent in 1998-99 as compared to 120.6 per cent in the previous year. The import of 'Raw materials, components, etc.' accounted for more than half of the total imports by these companies for all the three years. Among the industry-groups, imports were higher than exports in 'Engineering', 'Chemicals' and

‘Trading’ companies during 1998-99.

Dividend Remittances

Dividend remittances of the selected 321 companies in foreign currencies decreased from Rs. 271 crore in 1997-98 to Rs. 257 crore in 1998-99. It formed 3.7 per cent of total expenditure in foreign currencies in 1998-99. Dividend remittances in foreign currencies for U.S.A., Switzerland and Japan country-groups were higher in 1998-99 as compared to the previous year. Among the industry-groups, dividend remittances in foreign currencies were lower for ‘Engineering’ companies while these were higher for ‘Chemicals’ companies in 1998-99 than in 1997-98.

C. Financing Pattern and Capital Structure

Financing Pattern

The total funds raised by the selected companies during 1998-99 amounted to Rs. 5,601 crore as against Rs. 9,888 crore in 1997-98 ([Statement 15](#)). The share of external sources in total sources of funds declined from 64.1 per cent in 1997-98 to 41.8 per cent in 1998-99. Depreciation provisions (31.6 per cent), Trade dues and other current liabilities (14.0 per cent) and net borrowing through issuance of new debentures (12.6 per cent) were the major sources of funds in 1998-99.

Table 5: Financing Pattern of Selected FDI Companies, 1997-98 and 1998-99

Sources	(Per cent)	
	1997-98	1998-99
Internal sources	35.9	58.2
Paid-up capital (Internal)	0.5	0.9
Reserves and surplus	18.3	21.2
Provisions	17.1	36.1
External sources	64.1	41.8
Paid-up capital (External)	11.0	7.4
Borrowings	40.4	20.4
Trade dues and other current liabilities	12.4	14.0
Others	0.3	-
Total	100.0	100.0

Capital Structure

Total liabilities/ assets (unadjusted) of the selected companies increased by 6.6 per cent to Rs. 61,326 crore in 1998-99 ([Statement 12](#)). The changes in the financing pattern during 1998-99

resulted in minor variations in the capital structure of the selected companies (See [Table 6](#)). The share of 'Borrowings' in total liabilities declined fractionally from 34.1 per cent in 1997-98 to 33.9 per cent in 1998-99, while the share of 'Share capital' in total liabilities increased from 7.9 per cent to 8.1 per cent over the same period.

Table 6: Composition of Liabilities of Selected FDI Companies, 1996-97 to 1998-99

Liabilities	(Per cent)		
	1996-97	1997-98	1998-99
1. Share capital	8.2	7.9	8.1
2. Reserves and surplus	32.4	32.3	32.3
3. Borrowings	31.8	34.1	33.9
4. Trade dues and other current liabilities	24.5	23.1	22.9
5. Others	3.1	2.6	2.8
Total	100.0	100.0	100.0

Debt to Equity

Debt to equity for the selected companies increased from 45.1 per cent in 1996-97 to 51.4 per cent in 1997-98 and 1998-99 ([Statements 5, 6 and 7](#)).

Table 7: Debt to Equity of Selected FDI Companies, 1996-97 to 1998-99

Industry/Country	(Per cent)		
	Debt to Equity		
	1996-97	1997-98	1998-99
Industry			
1. Engineering	46.5	50.2	51.9
2. Chemicals	41.7	47.9	39.2
3. Tea	4.6	4.7	8.4
4. Trading	135.4	148.5	181.7
5. All textiles	102.9	112.5	119.0
6. Rubber and rubber products	40.3	18.6	15.6
Country			
1. U.K.	36.3	43.8	40.5

2.	U.S.A.	59.7	62.9	60.4
3.	Germany	34.7	39.4	42.8
4.	Switzerland	23.7	36.4	39.6
5.	Japan	37.1	29.5	29.7
6.	Sweden	57.0	60.3	71.7
7.	Netherlands	23.8	19.8	20.5
8.	Mauritius	92.7	102.7	126.5
	All Companies	45.1	51.4	51.4

D. Utilization of Funds and Assets Structure Utilization of Funds

The pattern of utilization of funds showed wide variations in 1998-99 as compared to the previous year ([Statement 15](#)). 'Fixed asset formation' (62.5 per cent) remained the major use of total funds raised in 1998-99 followed by investments (15.3 per cent) and 'loans and advances and other debtor balances' (13.8 per cent).

Table 8: Funds Utilization by the Selected FDI Companies, 1997-98 and 1998-99

		(Per cent)	
Uses of funds		1997-98	1998-99
1.	Gross fixed assets	59.1	62.5
2.	Inventories	8.4	9.4
3.	Loans and advances and other debtor balances	14.1	13.8
4.	Investments	8.5	15.3
5.	Cash and bank balances	8.0	-4.1
6.	Other assets	1.8	3.2
Total		100.0	100.0

Assets Structure

The changes in the utilization pattern of funds available with the companies were reflected in the composition of assets of the selected companies ([Statement 12](#)). 'Net fixed assets' (42.3 per cent), 'Loans and advances and other debtor balances' (26.9 per cent) and 'Inventories' (18.2 per cent) remained the three major components of total assets of the selected companies in 1998-99. The current ratio (current assets to current liabilities) of the selected FDI companies remained at 1.3 during the period under review.

Table 9: Composition of Assets of Selected FDI Companies, 1996-97 to 1998-99

		(Per cent)		
Assets		1996-97	1997-98	1998-99
1.	Net fixed assets	40.5	42.1	42.3
2.	Inventories	19.9	18.5	18.2
3.	Loans and advances and other debtor balances	29.2	27.4	26.9
4.	Investments	5.5	6.2	7.2
5.	Cash and bank balances	3.9	4.7	4.1
6.	Others	0.9	1.1	1.3
Total		100.0	100.0	100.0

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 10](#) and [11](#). The growth in sales of the selected public limited FDI companies in 1998-99 (6.9 per cent) was better than the corresponding growth in the previous year (5.9 per cent). Among the selected public limited companies, the FDI companies achieved higher sales growth during 1998-99 than others. Like wise, in the case of private limited companies, the FDI companies posted higher sales growth (15.1 per cent) than the others (6.7 per cent) in 1998-99. The post-tax profit growth of the selected FDI companies during 1998-99 decreased for both public limited companies (-16.6 per cent) as well as private limited companies (-15.4 per cent). Profit margin and return on shareholders' equity for the selected FDI companies also declined during 1998-99 as compared to previous year in the case of both public and private limited companies.

Table 10: Growth Rates of Sales, Gross Profits and Net Profits of Selected Companies, 1997-98 and 1998-99

		(Per cent)					
Type of Companies	Number of Companies	Sales		Gross Profits		Profits after Tax	
		1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
1. Public limited companies ^(a)	1848	7.5	6.1	-2.8	-3.2	-13.7	-20.9
(i) Selected FDI ^(b)	257	5.9	6.9	-3.2	-8.7	7.1	-16.6
(ii) Others ^(c)	1591	5.8	5.8	-2.7	-1.8	-18.7	-22.5
2. Private limited companies ^(a)	890	10.3	7.4	14.1	10.7	47.8	3.7
(i) Selected FDI ^(b)	64	20.8	15.1	9.8	9.8	22.3	-15.4
(ii) Others ^(c)	826	9.3	6.7	14.6	10.8	53.5	7.1
3. FDI companies ^(b) (1(i)+2(i))	321	5.9	7.0	-3.1	-8.6	7.2	-16.6

Table 11: Profit Margin, Effective Tax Rate and Return on Equity of Selected Companies, 1997-98 and 1998-99

		(Per cent)					
Type of Companies	Number of Companies	Profit Margin		Effective Tax Rate		Return on Equity	
		1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
1. Public limited companies ^(a)	1848	11.6	10.6	26.3	31.4	7.6	5.6
(i) Selected FDI ^(b)	257	12.0	10.3	31.5	35.3	11.7	9.1
(ii) Others ^(c)	1591	11.6	10.7	24.5	29.9	6.9	5.0
2. Private limited companies ^(a)	890	8.4	8.7	32.4	36.8	9.2	8.4
(i) Selected FDI ^(b)	64	10.2	9.7	31.7	37.9	11.3	9.0
(ii) Others ^(c)	826	8.3	8.6	32.5	36.6	8.9	8.3
3. FDI companies ^(b) (1(i)+2(i))	321	12.0	10.2	31.5	35.4	11.7	9.1

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

(b) The FDI status of the companies included in the study are ascertained from the Foreign Investment Surveys conducted by the Department and the information supplied by the companies.

(c) 'Others' refer to companies included in the regular studies published by the Division and not covered under (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 284 companies during 1997-98 published in the July, 2000 issue of the Reserve Bank of India Bulletin.