

## Finances of Foreign Direct Investment Companies, 1994-95\*

The financial performance of the foreign direct investment (FDI) companies<sup>@</sup> for the period 1992-93 to 1994-95 is presented in this article based on the audited annual accounts of 241 selected companies which closed their accounts during the period April 1994 to March 1995<sup>\$</sup>. 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 241 companies were amongst those included in the regular studies on finances of non-government non-financial public/ private limited companies for the year 1994-95. Of these, 208 companies were public limited companies and the rest 33 companies were private limited companies. The selected companies are classified into 7 major country and industry-groups.

A company is classified in a country depending upon the country 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 241 selected companies indicated that foreign direct investment in India are predominantly from U.K, U.S.A. and Germany with tallies of 65, 43 and 26 companies respectively. Within each industry-group also the investments came mostly from these three countries. In fact, in the case of 'Tea' industry, out of the 13 tea companies 12 had investments from U.K. The two industry-groups, 'Engineering' and 'Chemicals' dominated with 100 and 51 companies respectively.

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

@ As per the Balance of Payments manual (5th edition, 1995; para 362) "Direct investment enterprises are an incorporated or unincorporated enterprises 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)".

\$ The previous study relates to finances of 275 companies during 1993-94 published in the March, 1999 issue of the Reserve Bank of India Bulletin.

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**Table 1: Industry X Country-Wise Distribution of Selected FDI Companies, 1994-95**

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Country/ Industry-group	U.K.	U.S.A.	Germany	Switzer- land	Japan	Sweden	Others	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Engineering	20	20	17	11	11	1	20	100

2. Chemicals	14	9	8	2	5	1	12	51
3. Tea	12	-	-	-	-	-	1	13
4. Trading	2	2	-	-	-	-	4	8
5. All textiles	2	1	-	1	-	-	2	6
6. Rubber	2	1	-	1	-	-	1	5
7. Other industries	13	10	1	8	4	1	21	58
<b>Total</b>	<b>65</b>	<b>43</b>	<b>26</b>	<b>23</b>	<b>20</b>	<b>3</b>	<b>61</b>	<b>241</b>

### Overall Performance

The financial performance of the 241 selected foreign direct investment (FDI) companies in 1994-95 continued to be impressive in terms of improvement in sales, profits and value added. Profit margin (gross profits to sales) and return on shareholders' equity (profits after tax to net worth) were higher in 1994-95 than in the previous year. The effective tax rate (tax provisions to profits before tax) declined steadily during the years under review. There was sharp rise in the premium on shares, incremental bank borrowings and inventory accumulation during 1994-95.

Overall, the performance of the selected companies exhibited similar favourable trends across the industry-groups and across the investing countries also. However, the performance of the companies belonging to 'Tea' industry-group was rather subdued in 1994-95.

### A. Operational Results

The selected companies succeeded in raising their gross profits by 20.4 per cent to Rs.3,552 crore in 1994-95. Substantial sales growth (16.4 per cent) for a second consecutive year had contributed towards this improvement. However, manufacturing expenses as well as depreciation provisions were also higher in 1994-95 as compared to the previous year. The profit margin (gross profits to sales) of these companies increased from 12.9 per cent in 1993-94 to 13.3 per cent in 1994-95. Interest payments declined for the second consecutive year while non-operating surplus registered a significant growth in 1994-95. This further enhanced the profitability of the selected companies during the year under review.

**Table 2: Growth Rates of Sales, Gross Profits and Net Profits of Selected FDI Companies, 1993-94 and 1994-95**

(per cent)

Industry/ Country	Sales		Gross Profits		Profits After Tax	
	1993-94	1994-95	1993-94	1994-95	1993-94	1994-95
<b>Industry</b>						
1. Engineering (100)	18.7	22.1	9.8	34.0	39.5	75.2

<i>Of which,</i>						
(a) Motor vehicles (19)	22.8	26.8	19.0	40.2	67.2	72.7
(b) Electrical machinery, apparatus, appliances, etc. (22)	18.6	21.3	15.9	39.0	141.9	66.9
(c) Machinery other than transport and electricals (39)	19.0	21.3	10.6	23.7	22.7	45.2
(d) Ferrous/ non-ferrous metal products (14)	0.9	21.2	- 23.0	85.1	- 75.2	#
2. Chemicals (51)	13.3	13.9	23.2	20.4	34.8	88.9
<i>Of which,</i>						
(a) Basic industrial chemicals (18)	7.4	16.6	18.4	26.6	37.6	61.9
(b) Medicines and pharmaceutical preparations (15)	14.2	9.9	32.1	11.8	64.9	244.7
3. Tea (13)	5.9	- 3.9	- 1.8	- 54.9	66.0	- 78.7
4. Trading (8)	28.2	16.0	- 6.6	38.6	-	#
5. All textiles (6)	14.9	42.9	2.9	29.8	3.9	62.1
6. Rubber (5)	0.9	19.3	9.6	12.0	- 12.5	34.9
<b>Country</b>						
1. U.K. (65)	19.7	14.3	16.8	18.5	41.3	49.2
2. U.S.A. (43)	20.5	17.6	18.3	20.3	38.5	35.6
3. Germany (26)	16.9	17.4	22.5	12.2	46.3	33.8
4. Switzerland (23)	10.4	12.8	12.4	14.0	15.0	100.6
5. Japan (20)	17.8	23.3	21.1	41.5	38.8	65.8

6. Sweden (3)	0.8	18.4	- 12.4	105.0	26.5	#
<b>All Companies (241)</b>	<b>16.5</b>	<b>16.4</b>	<b>15.7</b>	<b>20.4</b>	<b>36.0</b>	<b>53.0</b>

Note: Figures in brackets relate to number of companies.

- Numerator is negative or nil or negligible as compared to denominator.

# Denominator is negative or nil or negligible as compared to numerator.

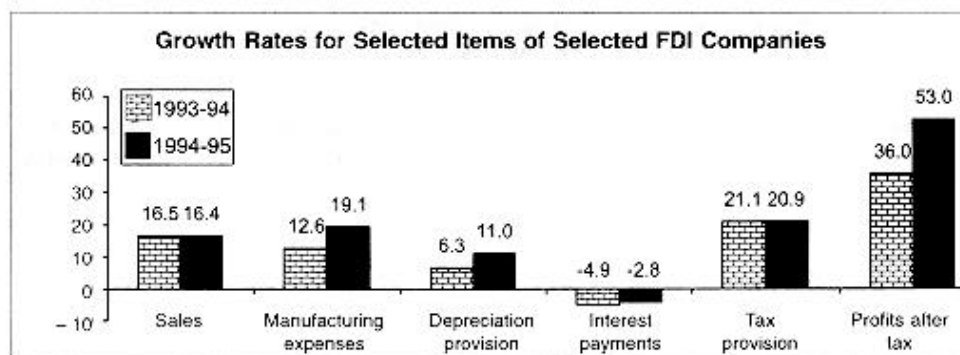


Chart 1

The effective tax rate of these companies declined from 39.2 per cent in 1993-94 to 33.7 per cent in 1994-95. Post-tax profits increased by 53.0 per cent in 1994-95 over and above a 36.0 per cent rise recorded in the previous year. Return on shareholders' equity also rose from 14.5 per cent in 1993-94 to 17.2 per cent in 1994-95.

**Table 3: Profit Margin, Effective Tax Rate and Return on Equity of Selected FDI Companies, 1993-94 and 1994-95**

(per cent)

Industry/ Country	Profit Margin		Effective Tax Rate		Return on Equity	
	1993-94	1994-95	1993-94	1994-95	1993-94	1994-95
<b>Industry</b>						
1. Engineering	10.6	11.7	40.7	36.9	12.9	16.4
<i>Of which,</i>						
(a) Motor vehicles	9.2	10.1	29.0	29.6	12.5	13.1
(b) Electrical machinery, apparatus, appliances, etc.	8.4	9.7	38.7	45.8	13.5	17.7
(c) Machinery other than transport and electricals	14.2	14.5	43.6	38.8	17.3	20.0
(d) Ferrous/ non-ferrous metal products	11.8	18.1	66.4	33.3	2.0	17.6
2. Chemicals	13.4	14.2	42.3	29.4	14.7	20.6
<i>Of which,</i>						

(a) Basic industrial chemicals	13.7	14.9	37.1	26.0	10.9	13.5
(b) Medicines and pharmaceutical preparations	10.2	10.4	49.6	24.0	11.8	27.0
3. Tea	16.2	7.6	39.5	57.7	5.4	1.2
4. Trading	6.6	7.9	#	14.7	-	17.0
5. All textiles	26.0	23.6	41.0	32.8	17.7	22.4
6. Rubber	9.4	8.8	33.6	31.9	8.7	8.9
<b>Country</b>						
1. U.K.	14.2	14.7	41.4	35.8	15.0	16.9
2. U.S.A.	14.2	14.5	42.4	39.4	18.9	21.7
3. Germany	12.5	11.9	49.1	43.4	12.9	14.1
4. Switzerland	15.1	15.2	33.5	21.6	13.8	18.8
5. Japan	9.7	11.2	16.8	22.5	18.6	23.2
6. Sweden	12.5	21.7	19.0	32.9	5.8	22.0
<b>All Companies</b>	<b>12.9</b>	<b>13.3</b>	<b>39.2</b>	<b>33.7</b>	<b>14.5</b>	<b>17.2</b>

- Numerator is negative.

# Denominator is negative.

According to the country-wise analysis for 1994-95, companies having major portion of FDI from U.K. and U.S.A. posted profit margin of the order of 14.7 per cent and 14.5 per cent respectively while it was slightly higher at 15.2 per cent in the case of Switzerland. Industry-wise, 'Engineering' and 'Chemical' companies recorded higher profit margins of the order of 11.7 per cent and 14.2 per cent respectively in 1994-95 as compared to the previous year.

## B. Foreign Business

There was a net outflow of Rs. 215 crore in foreign currencies as against an inflow of Rs. 529 crore in 1993-94 ([Statement 16,17,18](#)). The total foreign exchange earnings of these companies grew at a lower rate of 11.3 per cent in 1994-95 (37.3 per cent in 1993-94) in the wake of a slack in exports growth (10.7 per cent in 1994-95 as against 29.4 per cent in 1993-94). The export intensity of sales (export to sales) of the selected companies also dipped from 10.4 per cent in 1993-94 to 9.9 per cent in 1994-95.

**Table 4: Growth in Exports and Export Intensity of Sales of Selected FDI Companies, 1993-94 and 1994-95**

(per cent)

Industry/ Country	Growth in Exports		Export Intensity of Sales	
	1993-94	1994-95	1993-94	1994-95
<b>Industry</b>				
1. Engineering	32.0	8.4	8.2	7.3
2. Chemicals	24.7	44.6	6.4	8.1
3. Tea	- 20.9	- 16.2	20.5	17.8

4. Trading	100.7	29.2	28.5	31.8
5. All textiles	- 10.4	65.1	32.0	37.0
6. Rubber	124.0	- 4.6	8.3	6.6
<b>Country</b>				
1. U.K.	31.1	-	13.9	12.1
2. U.S.A.	38.5	17.6	9.9	9.9
3. Germany	- 4.4	38.0	6.2	7.2
4. Switzerland	11.2	66.3	4.5	6.7
5. Japan	20.8	3.0	8.0	6.7
6. Sweden	41.2	16.3	4.0	3.9
<b>All Companies</b>	<b>29.4</b>	<b>10.7</b>	<b>10.4</b>	<b>9.9</b>

- Nil or negligible

Country-wise, companies having major FDI from U.K. and U.S.A. ranked the highest in terms of export intensity of sales (12.1 per cent and 9.9 per cent respectively). Among the industry-groups, in respect of 'Engineering' and 'Chemical' companies, export intensity of sales was at 7.3 per cent and 8.1 per cent respectively in 1994-95 as compared to 8.2 per cent and 6.4 per cent respectively in 1993-94.

A spurt in imports of these companies in 1994-95 by 47.7 per cent, resulted in a substantial increase of 46.6 per cent in total expenditure in foreign currencies. Raw materials, components, etc. continued to form a significant proportion in total imports.

The imports to exports ratio of these companies worked out to 107.5 per cent in 1994-95. The companies having major portion of FDI from U.K. had the lowest imports to exports ratio at 68.0 per cent. Industry group-wise, in the 'Engineering', 'Chemicals' and 'Rubber' industry-groups, imports were higher than exports in 1994-95.

**Table 5 : Growth in Imports and Imports to Exports Ratio of Selected FDI Companies, 1993-94 and 1994-95**

(per cent)

Industry/ Country	Growth in Imports		Imports to Exports Ratio	
	1993-94	1994-95	1993-94	1994-95
<b>Industry</b>				
1. Engineering	8.1	51.4	125.3	175.0
2. Chemicals	15.7	30.3	154.8	139.5
3. Tea	6.7	161.0	0.9	2.8
4. Trading	- 7.8	20.0	5.2	4.8
5. All textiles	- 29.8	108.3	47.9	60.4
6. Rubber	- 8.9	19.8	166.1	208.4
<b>Country</b>				
1. U.K.	9.1	60.3	42.4	68.0
2. U.S.A.	10.9	41.9	142.0	171.2

3. Germany	0.4	58.1	133.4	152.9
4. Switzerland	39.7	45.5	200.1	175.1
5. Japan	44.6	45.1	126.4	177.9
6. Sweden	- 8.6	58.0	258.1	350.7
<b>All Companies</b>	<b>11.7</b>	<b>47.7</b>	<b>80.6</b>	<b>107.5</b>

### Dividend Remittances

Dividend remittances of the selected 241 companies in foreign currencies increased from Rs. 121 crore in 1993-94 to Rs. 187 crore in 1994-95. It formed 5.6 per cent of total expenditure in foreign currencies. Dividend remittances in foreign currencies in the case of all country-groups were higher in 1994-95 as compared with the previous year. 'Engineering', 'Chemical' and 'All textiles' industry-groups reported higher dividend remittances in foreign currencies in 1994-95 than in 1993-94.

### C. Financing Pattern and Capital Structure

#### Financing Pattern

A sum of Rs. 5,410 crore was raised by the selected companies during 1994-95 as against Rs. 2,930 crore raised in 1993-94 ([Statement 15](#)). The pattern of financing was at variance in 1994-95 from that in 1993-94. The selected companies relied more on external sources of funds in 1994-95 as compared to the previous year. Funds raised by way of external sources formed 62.1 per cent of total funds raised in 1994-95. Paid-up capital raised from the market formed 23.5 per cent of the total funds raised during 1994-95. Premium on shares collected on new issues was 6.3 times of the face value. Substantial incremental bank borrowings and sundry creditors also contributed significantly in external sources of funds, as compared to the previous year. Funds raised by way of external sources formed 62.1 per cent of total funds raised in 1994-95. Paid-up capital raised from the market formed 23.5 per cent of the total funds raised during 1994-95. Premium on shares collected on new issues was 6.3 times of the face value. Substantial incremental bank borrowings and sundry creditors also contributed significantly in external sources of funds.

**Table 6: Financing Pattern of Selected FDI Companies, 1993-94 and 1994-95**

Sources	(per cent)	
	1993-94	1994-95
<b>Internal sources</b>	<b>52.7</b>	<b>37.9</b>
Paid-up capital (Internal)	3.3	4.0
Reserves and surplus	24.2	18.9
Provisions	25.2	15.0
<b>External sources</b>	<b>47.3</b>	<b>62.1</b>
Paid-up capital (External)	28.3	23.5
Borrowings	- 3.9	10.2
Trade dues and other current liabilities	22.9	28.3

Others	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Capital Structure

Total liabilities/ assets (unadjusted) of the selected companies increased by 22.7 per cent to Rs. 25,576 crore in 1994-95 ([Statement 12](#)). The changes in financing pattern during 1994-95 also resulted in variations in the capital structure of selected companies ([Table 7](#)). The share of 'Reserves and surplus' and 'Trade dues and other current liabilities' in total liabilities increased from 34.1 per cent and 24.6 per cent in 1993-94 to 36.2 per cent and 26.0 per cent respectively in 1994-95. On the contrary, the share of borrowings in total liabilities declined from 29.2 per cent in 1993-94 to 26.0 per cent in 1994-95. The share of debt in total liabilities also decreased from 17.5 per cent in 1993-94 to 13.5 per cent in 1994-95.

**Table 7: Composition of Liabilities of Selected FDI Companies, 1992-93 to 1994-95**

Liabilities	(per cent)		
	1992-93	1993-94	1994-95
1. Share capital	8.7	8.8	8.7
2. Reserves and surplus	29.8	34.1	36.2
3. Borrowings	34.0	29.2	26.0
<i>Of which, debt</i>	<i>20.5</i>	<i>17.5</i>	<i>13.5</i>
4. Trade dues and other current liabilities	24.4	24.6	26.0
5. Others	3.0	3.3	3.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Debt-equity Ratio

Debt equity ratio for the selected companies declined from 40.8 per cent in 1993-94 to 30.2 per cent in 1994-95 ([Table 8](#)).

**Table 8: Debt-Equity Ratio of Selected FDI Companies, 1992-93 to 1994-95**

Industry/ Country	(per cent)		
	Debt-equity Ratio		
	1992-93	1993-94	1994-95
<b>Industry</b>			
1. Engineering	70.8	59.8	38.4
2. Chemicals	48.3	39.3	29.4
3. Tea	7.1	5.2	8.3
4. Trading	77.5	90.0	24.0
5. All textiles	37.7	32.5	35.6
6. Rubber	72.5	67.4	56.9
<b>Country</b>			
1. U.K.	51.2	39.1	27.6



2. U.S.A.	32.3	26.4	23.2
3. Germany	54.3	39.4	28.7
4. Switzerland	65.6	45.2	25.5
5. Japan	88.1	75.9	57.6
6. Sweden	141.1	129.9	98.7
<b>All Companies</b>	<b>53.2</b>	<b>40.8</b>	<b>30.2</b>

#### D. Utilization of Funds and Asset Structure

##### Utilization of Funds

The pattern of utilization of funds showed wide variations in 1994-95 as compared to the previous year ([Table 9](#)).

**Table 9: Funds Utilization by the Selected FDI Companies, 1993-94 and 1994-95**

Uses of funds	(per cent)	
	1993-94	1994-95
1. Gross fixed assets	49.4	32.3
2. Inventories	5.6	18.2
3. Loans and advances and other debtor balances	32.7	30.3
4. Investments	15.2	10.5
5. Cash and bank balances	- 2.8	6.5
6. Other assets	- 0.1	2.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Fixed asset formation (32.3 per cent) remained the most significant use of total funds raised in 1994-95 followed by 'loans and advances and other debtor balances' (30.3 per cent) ([Statement 15](#)). However, their share in total uses of funds declined in 1994-95 as compared to those in the previous year. There was substantial accumulation of inventories in 1994-95, its share in total uses of funds going up from 5.6 per cent in 1993-94 to 18.2 per cent in 1994-95. Cash and bank balances formed 6.5 per cent of total funds in 1994-95.

##### Assets Structure

The changes in utilization pattern of funds available with the companies reflected minor variations in the composition of assets of the selected companies ([Table 10](#)).

**Table 10: Composition of Assets of Selected FDI Companies, 1992-93 to 1994-95**

Assets	(per cent)		
	1992-93	1993-94	1994-95
1. Net fixed assets	36.1	37.0	34.3
2. Inventories	25.6	23.2	22.8
3. Loans and advances and other debtor balances	28.5	29.6	30.5
4. Investments	4.3	5.9	7.1

5. Cash and bank balances	4.8	3.8	4.5
6. Others	0.6	0.5	0.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

'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 1994-95. The current ratio of selected FDI companies remained constant at 1.5 during the period under study.

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

The growth and performance of 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](#). There was impressive growth in sales and profits of selected FDI public limited companies as well as other public limited companies in 1994-95. The profit margin and effective tax rate were higher in the case of selected FDI public limited companies as compared to other public limited companies. In the case of private limited companies, growth in sales and profits as well as profit margin of selected FDI private limited companies were higher than those of other private limited companies.

**Table 11: Growth Rates of Sales, Gross Profits and Net Profits of Selected Companies, 1993-94 and 1994-95**

(per cent)

Type of Companies	Number of Companies	Sales		Gross Profits		Profits After Tax	
		93-94	94-95	93-94	94-95	93-94	94-95
		1. Public limited companies <sup>(a)</sup>	1720	15.4	20.5	22.5	31.7
(i) Selected FDI companies <sup>(b)</sup>	208	16.4	16.3	15.7	20.3	36.2	52.8
(ii) Others <sup>(c)</sup>	1512	15.2	21.5	24.2	34.5	78.0	60.7
2. Private limited companies <sup>(a)</sup>	839	17.3	22.0	27.2	22.9	70.2	45.6
(i) Selected FDI companies <sup>(b)</sup>	33	27.0	36.5	9.3	45.8	4.6	81.1
(ii) Others <sup>(c)</sup>	806	17.0	21.6	28.1	21.9	75.1	44.0
3. FDI companies <sup>(b)</sup> (1(i)+2(i))	241	16.5	16.4	15.7	20.4	36.0	53.0

**Table 12: Profit Margin, Effective Tax Rate and Return on Equity of Selected Companies, 1993-94 and 1994-95**

(per cent)

Type of Companies	Number of Companies	Profit Margin		Effective Tax Rate		Return on Equity	
		93-94	94-95	93-94	94-95	93-94	94-95
		1. Public limited companies <sup>(a)</sup>	1720	11.9	13.0	23.7	20.2
(i) Selected FDI companies <sup>(b)</sup>	208	12.9	13.3	39.2	33.8	14.4	17.2
(ii) Others <sup>(c)</sup>	1512	11.7	12.9	19.2	16.7	11.6	13.5

2.	Private limited companies <sup>(a)</sup>	839	9.7	9.7	35.2	28.8	16.1	17.4
	(i) Selected FDI companies <sup>(b)</sup>	33	13.7	14.6	38.9	28.5	19.6	24.5
	(ii) Others <sup>(c)</sup>	806	9.6	9.6	35.0	28.8	15.9	17.1
3.	FDI companies <sup>(b)</sup> (1(i)+2(i))	241	12.9	13.3	39.2	33.7	14.5	17.2

- (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.