

A STUDY ON FOREIGN INVESTMENT & ITS IMPACT ON GROWTH OF FOOD & AGRICULTURE SECTOR IN INDIA

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ABSTRACT

Foreign investment play very important role in the development of any county. It will not only bring the capital but will also bring technology, managerial skill and human capital which will helps the companies to improve capital availability, influence their short term and long term growth. According to theories, Foreign Investment will help to improve capital position and supports managerial efficiency which will increase the productivity of companies. In the light of above assumption, the present research paper made an attempt to study and analyze the impact of Foreign Investment on managerial efficiency in FDI based Companies in Food and Agriculture sector in India from 2007-2016. The study has been used appropriate statistical techniques simple regression analysis. The study concluded that Foreign Investment have a statically significant impact on ROI and ROE of in Food & Agriculture Sector in India at 1%, 5% and 10% significant level.

KEYWORDS

ROI, ROE, FI, FDI, BSE.

1. INTRODUCTION

Foreign investment play very important role in the development of any county. It helps to fill the gap between demand and supply of scare resource in developing country like India and help in its growth & development. Foreign Investment has taken many forms and shapes over the years in Indian economy. There are various advantages and disadvantages attached to it. Foreign Investment in companies will improve capital availability which will influence their short term and long term growth of companies. The growth is determined by the efficiency factors of which managerial efficiency is vital. According to theories, Foreign Investment will help to improve capital position and supports managerial efficiency which will increase the productivity. Return on investment (ROI) and Return on equity (ROE) are taken as variable to examine the managerial efficiency of FDI based Companies. The present study will examine the impact of Foreign Investment on managerial efficiency with the help of regression techniques in FDI based Companies in Food and Agriculture sector in India.

2. LITERATURE REVIEW

(Azzam, Fouad, & Ghosh, 2013) aim is to examine the relationship between the degree of foreign ownership and financial performance of 8,185 companies in Egypt from 2006 to 2010 by using panel data analysis. The study concluded that firm's return on assets (ROA), return on equity (ROE), debt ratio (DR) was positively related to foreign ownership. It also shows that with increase in foreign ownership the financial performance of companies will also increase which is depend on sector specification. (De Backer & Maria, 2002) made an attempt to analyse domestic forms and foreign firms in differ industry and impact of foerign Direct Investment on economic strcure of host economy. The study conclude that growth of foreign firms are different form domestic firms and FDI is has negative impact on economy. (Iuliana, 2014) aim of this paper is to stduy the relation between the foreign ownership and manufactruing firm performance of 261 companies. Variable used are Rreturn on assets (ROA), Return on Equity (ROE) and Return on sales (ROS). The results show that there is no significnat relation between econoimc and financial perfromace and the existence of foreign owbnership. (Jayesh, 2012) aim is to find out the impact of foreign investment on financial performance, Corporate Performance with respect to managerial & technological efficiency, R&D and CSR of Indian companies considering the case study of BSE-30. Sample size of the study is 30 companies for BSE-30 was take for the period between 2002-2011. Simple regression technique was used to test the hypotheses along with simple descriptive statistics such as averages, simple growth rates, standard deviation, variance, co – variance. (K.Srinivasan, Deo, & Srinivasan) Aim is to examine the performance of select Foreign Direct Invested (FDI) assisted pharmaceutical units in India for the period from 1st April 1999 to 31st March 2008, 23 FDI assisted pharmaceutical units and evaluated through the following ratios Capital Structure Ratios, Liquidity Ratios, Profitability Ratios, and Return on Investment. The study concluded that the capital has been efficiently used in gearing profits, but there was a slight decline in return on equity due to over utilization of outsider's capital it was the major reason for showing negative effects (Rastogi, 2014) to examine the pattern of inward FDI at the industry level test for the industry-specific characteristics that have been significant in attracting foreign investment in India during. The period of study is 2000-10. FDI inflows focus on a panel of top ten investing countries, as well as individual countries with relatively stringent environmental norms. Regressions analysis has been used for the study. The result shows that the pattern of FDI in India has been largely towards capital-intensive industries, and in polluting industries with large market size. But growth in FDI inflow failed to exploit scale economies and generate jobs during the last decade. (K.Srinivasan, Deo, & Srinivasan) aim is to examine the performance of select Foreign Direct Invested (FDI) pharmaceutical units in India for the period from 1st April 1999 to 31st March 2008, 23 FDI pharmaceutical units and evaluated through the following ratios Capital Structure Ratios, Liquidity Ratios, Profitability Ratios, Du Pont Analysis and Return on Investment. The study concluded that the FDI in pharmaceutical units for different ratios report a positive direction throughout the study and provoked the strength of Indian economy for the future.

3. OBJECTIVE

To Study the impact of Foreign Investment on Managerial Efficiency of FDI based companies in Food & Agriculture sector in India.

4. HYPOTHESIS

H01: Foreign Investment does not have a statically significant impact on ROI of FDI based companies in Food & Agriculture Sector in India.

H02: Foreign Investment does not have a statically significant impact on ROE of FDI based companies in Food & Agriculture Sector in India.

5. RESEARCH METHODOLOGY

This paper examines the impact of Foreign Investment on Managerial Efficiency of FDI based companies in Food and Agriculture sector in India. The data is collected from CMIE Prowess IQ data base from 2007 to 2016 (10 years) for companies consistently listed at BSE. The list of FDI Companies is selected on the basis of FDI definition given by IMF i.e. if Foreign Investment is 10% or more than 10% in the company then that company will be considered as FDI based companies and less than 10% Non-FDI based companies. The total number of Companies in CMIE Prowess IQ data base is 2399 out of which 22 companies are found to be FDI based companies. Foreign Investment is taken as independent variable and Return on Equity (ROE) & Return on Assets (ROA) as dependent variables. The statistical technique used in the paper is linear Regression analysis to find out the impact of foreign Investment on managerial efficiency of FDI based companies in Food & Agriculture Sector in India.

6. ANALYSIS AND INTERPRETATION

6.1. IMPACT OF FOREIGN INVESTMENT ON ROI OF FDI BASED COMPANIES IN FOOD & AGRICULTURE SECTOR IN INDIA

The first regression equation which includes Foreign Investment of FDI based companies in Food & Agriculture Sector in India during 2007 to 2016 and is regressed with Return on Investment (ROI) for the same period. The Regression Model is

$$ROI = \alpha_1 + \beta_1 FI + \mu_1$$

Where, ROI = Return on Investment (ROI), α_1 = constant, FI = Foreign Investment and μ_1 = Error term

Table-1 below presents the detail result data of Foreign Investment in Food and Agriculture Sector in India during 2007 to 2016 and regressed with ROI. The coefficient and constant value along with its P-values at 1%, 5%, and 10% significant level to study to know whether foreign Investment has positive impact on ROI in Food and Agriculture Sector in India. In order to test the hypothesis and meet the objective of the study, simple regression model was used by keeping Foreign Investment as the independent variable and ROI as dependent variables. The findings as per the regression results are blow.

TABLE 1: IMPACT OF FOREIGN INVESTMENT ON ROI OF FDI BASED COMPANIES IN FOOD & AGRICULTURE SECTOR IN INDIA

S.No	FDI Based Companies	ROI					
		con	Std err	t-stat	coef	Std err	t-stat
1	Agro Tech Foods Ltd.	-0.20	0.28	-0.72	0.01	0.01	1.27
2	Assam Company India Ltd.	0.09	0.10	0.88	0.00	0.00	-0.27
3	Britannia Industries Ltd.	37.1	7.70	4.83***	-0.73	0.15	-4.8***
4	Dharani Sugars & Chemicals Ltd.	0.22	0.19	1.14	-0.01	0.01	-0.64
5	Glaxosmithkline Consumer Ltd.	0.22	0.02	10.5***	0.00	0.00	-1.33
6	Godfrey Phillips India Ltd.	0.13	0.03	4.07***	0.00	0.00	2.25*
7	Goodricke Group Ltd.	0.12	0.02	6.55***	-	-	-
8	Harrisons Malayalam Ltd.	0.03	0.01	3.00**	-	-	-
9	Kore Foods Ltd.	0.64	0.48	1.33	-0.03	0.02	-1.35
10	Lotte India Corpn. Ltd.	0.05	0.01	4.99***	0.00	0.00	0.01
11	Mcleod Russel India Ltd.	0.66	0.46	1.43	-0.02	0.02	-1.18
12	Monsanto India Ltd.	362.	194.	1.87*	-5.03	2.70	-1.86*
13	Nestle India Ltd.	9.38	3.31	2.84**	-0.14	0.05	-2.71**
14	Ovobel Foods Ltd.	0.02	0.17	0.09	0.01	0.01	1.09
15	Ponni Sugars (Erode) Ltd.	0.24	0.21	1.14	-0.01	0.02	-0.51
16	Shree Renuka Sugars Ltd.	0.10	0.01	8.95***	0.00	0.00	-3.18**
17	Tarai Foods Ltd.	0.39	0.28	1.41	-	-	-
18	United Breweries Ltd.	-0.03	0.07	-0.45	0.00	0.00	2.53**
19	United Spirits Ltd.	0.13	0.03	4.51***	0.00	0.00	0.57
20	V S T Industries Ltd.	0.27	0.02	15.8***	-	-	-
21	Warren Tea Ltd.	0.12	0.11	1.10	0.00	0.00	0.16
22	Winsome Breweries Ltd.	0.08	0.01	11.0***	0.00	0.00	-2.3**

(Source: CMIE-Prowess & Author Compilation)

Table 2, Foreign Investment influence ROI highly significant (1% significance level) in 5 companies out of 22 FDI based Companies in Food and Agriculture Sector. FDI based Companies like Harrisons Malayalam Ltd, Nestle India Ltd, United Breweries Ltd and Winsome Breweries Ltd. have experienced a moderate impact of foreign investment on their ROI which appears from the fact that the coefficient P-value in case of such companies is found to be statistically significant at 5% significance level. Though at a low level, companies like Godfrey Phillips India Ltd and Monsanto India Ltd. Witnessed an impact of foreign investment on their ROI. In two companies, the coefficient P-value is statistically significant at 10% significance level.

TABLE 2: IMPACT OF FOREIGN INVESTMENT ON ROI OF FDI BASED COMPANIES IN FOOD AND AGRICULTURE SECTOR IN INDIA (SIGNIFICANCE AT 1%, 5%, 10%)

ROI					
1% Significance Level		5% Significance Level		10% Significance Level	
Constant	Coefficient	Constant	Coefficient	Constant	Coefficient
-	Britannia Industries Ltd.	-	-	Godfrey Phillips India Ltd.	-
Glaxosmithkline Consumer Ltd.	-	Harrisons Malayalam Ltd.	-	Monsanto India Ltd.	-
Lotte India Corpn. Ltd.	Shree Renuka Sugars Ltd.	Nestle India Ltd.	United Breweries Ltd.	-	-
V S T Industries Ltd.	-	-	Winsome Breweries Ltd.	-	-

(Source: CMIE-Prowess & Author Compilation)

Over all out of 22 FDI based companies in Food and Agriculture Sector, 11 FDI based companies is observed to have influenced by ROI which is 50% of the total. Hence the null hypothesis i.e. there is no significant impact of foreign investment on ROI of FDI based companies in Food and Agriculture Sector in India is rejected.

TABLE 3: IMPACT OF FOREIGN INVESTMENT ON ROI OF FDI BASED COMPANIES IN FOOD AND AGRICULTURE SECTOR IN INDIA (NOT SIGNIFICANCE AT 1%, 5%, 10%)

ROE (Not Significance at 1%, 5%, 10%)	
Agro Tech Foods Ltd.	Mcleod Russel India Ltd.
Assam Company India Ltd.	Ovobel Foods Ltd.
Dharani Sugars & Chemicals Ltd.	Tarai Foods Ltd.
Kore Foods Ltd.	Warren Tea Ltd.

Source: CMIE-Prowess & Author Compilation

The remaining FDI based companies in Food and Agriculture Sector in India are statistically not significant at 1%, 5% and 10%. Hence null hypothesis is rejected where Foreign Investment dose not bring much impact on their ROI.

6.2. IMPACT OF FOREIGN INVESTMENT ON ROE OF FDI BASED COMPANIES IN FOOD & AGRICULTURE SECTOR IN INDIA

The second regression equation which includes Foreign Investment of FDI based companies in Food & Agriculture Sector in India during 2007 to 2016 and is regressed with Return on Equity (ROE) for the same period. The Regression Model is

$$ROE = \alpha_2 + \beta_2 FI + \mu_2$$

Where, ROE = Return on Equity (ROE), α_2 = constant, FI = Foreign Investment and μ_2 = Error

Term

TABLE 4: IMPACT OF FOREIGN INVESTMENT ON ROE OF FDI BASED COMPANIES IN FOOD & AGRICULTURE SECTOR IN INDIA

S. No	FDI Based Companies	ROE					
		con	Std err	t-stat	coef	Std err	t-stat
1	Agro Tech Foods Ltd.	81.79	43.12	1.90*	-0.98	0.86	-1.13
2	Assam Company India Ltd.	8.95	5.86	1.53	-0.02	0.15	-0.12
3	Britannia Industries Ltd.	348	6896.1	5.05***	-680	135.5	-5.0***
4	Dharani Sugars & Chemicals Ltd.	-11.82	20.87	-0.57	1.35	0.98	1.38
5	Glaxosmithkline Consumer Ltd.	-43.22	21.42	-2.02*	2.12	0.38	5.6***
6	Godfrey Phillips India Ltd.	749.7	109.35	6.86***	-15.66	3.80	-4.1***
7	Goodricke Group Ltd.	21.20	2.65	8.01***	-	-	-
8	Harrisons Malayalam Ltd.	17.13	1.09	15.6***	-	-	-
9	Kore Foods Ltd.	2.15	1.85	1.16	-0.06	0.07	-0.78
10	Lotte India Corpn. Ltd.	36.76	3.60	10.2***	0.11	0.08	1.36
11	McLeod Russel India Ltd.	129.5	51.91	2.50**	-4.31	2.07	-2.08*
12	Monsanto India Ltd.	-73.70	406	-1.81	1021.0	563.3	1.81
13	Nestle India Ltd.	-31.85	562.01	-5.4***	50.20	9.01	5.5***
14	Ovobel Foods Ltd.	2.71	2.77	0.98	0.34	0.21	1.65
15	Ponni Sugars (Erode) Ltd.	34.00	10.37	3.28**	-1.11	1.16	-0.96
16	Shree Renuka Sugars Ltd.	80.80	7.92	10.2***	-0.60	0.64	-0.95
17	Tarai Foods Ltd.	0.27	0.08	3.37***	-	-	-
18	United Breweries Ltd.	-67.22	461.40	-1.47	23.12	12.13	1.91*
19	United Spirits Ltd.	83.27	9.87	8.44***	1.48	0.36	4.1***
20	V S T Industries Ltd.	90.17	9.06	9.9***	-	-	-
21	Warren Tea Ltd.	4.64	5.81	0.80	0.21	0.12	1.77
22	Winsome Breweries Ltd.	1.77	0.26	6.9***	0.06	0.03	1.94*

(Source: CMIE-Prowess & Author Compilation)

In order to test the hypothesis and meet the objective of the study, simple regression model was used by keeping foreign investment as the independent variable and ROE as dependent variables. The findings as per the regression results are blow.

TABLE 5: IMPACT OF FOREIGN INVESTMENT ON ROE OF FDI BASED COMPANIES IN FOOD AND AGRICULTURE SECTOR IN INDIA (SIGNIFICANCE AT 1%, 5%, 10%)

ROE					
1% Significance Level		5% Significance Level		10% Significance Level	
Constant	Coefficient	Constant	Coefficient	Constant	Coefficient
-	Britannia Industries Ltd.	-	-	Agro Tech Foods Ltd.	-
Glaxosmithkline Consumer Ltd.	-	Ponni Sugars (Erode) Ltd.	-	McLeod Russel India Ltd.	-
	Godfrey Phillips India Ltd.	-	-	-	United Breweries Ltd.
Goodricke Group Ltd.	Nestle India Ltd.	-	-	-	Winsome Breweries Ltd.
Harrisons Malayalam Ltd.	United Spirits Ltd.	-	-	-	-
Lotte India Corpn. Ltd.	-	-	-	-	-
Shree Renuka Sugars Ltd.	-	-	-	-	-
Tarai Foods Ltd.	V S T Industries Ltd.	-	-	-	-

(Source: CMIE-Prowess & Author Compilation)

In the above table 5, Foreign Investment influence ROE highly significant (1% significance level) in 11 companies out of 22 FDI based Companies in Food and Agriculture Sector in India. Ponni Sugars (Erode) Ltd. have experienced a moderate impact of Foreign Investment on their ROE which appears form the fact that the coefficient P-value in case of such companies is found to be statistically significant at 5% significance level. In 4 companies, the coefficient P-value is statistically significant at 10% significance level.

Over all out of 22 FDI based companies in Food and Agriculture Sector, 16 FDI based companies is observed to have influenced by ROE which is more than 50% of the total. Hence the null hypothesis i.e there is no significant impact of foreign investment on ROE of FDI based companies in Food and Agriculture Sector in India is rejected.

TABLE 6: IMPACT OF FOREIGN INVESTMENT ON ROE OF FDI BASED COMPANIES IN FOOD AND AGRICULTURE SECTOR IN INDIA (NOT SIGNIFICANCE AT 1%, 5%, 10%)

Net Profit Margin (Not Significance at 1%, 5%, 10%)	
Assam Company India Ltd.	Dharani Sugars & Chemicals Ltd.
Kore Foods Ltd.	Ovobel Foods Ltd.
Warren Tea Ltd.	

(Source: CMIE-Prowess & Author Compilation)

The remaining FDI based companies in Food and Agriculture Sector in India are statistically not significant at 1%, 5% and 10%. Hence null hypothesis is rejected where Foreign Investment dose not bring much impact on their ROE.

7. CONCLUSION

This paper examines the impact of Foreign Investment on Managerial Efficiency of FDI based companies Food & Agriculture sector in India. In order to analyse the impact at managerial level two dependent variables i.e return on investment (ROI) and return on equity (ROE) and Independent Variable Foreign Investment for the period of 10 years (2007-2016) are analyse by using simple regression technique.

The study concludes that 5 companies Britannia Industries Ltd, Glaxosmithkline Consumer Ltd, Lotte India Corpn. Ltd, Shree Renuka Sugars Ltd and V S T Industries Ltd Foreign Investment on their ROI is significant at 1%. FDI based Companies like Harrisons Malayalam Ltd, Nestle India Ltd, United Breweries Ltd and Winsome Breweries Ltd. significant at 5% and Godfrey Phillips India Ltd, Monsanto India Ltd. statistically significant at 10% significance level. Over all out of 22 FDI based companies 11 FDI based companies is observed to have influenced by ROI which is 50% of the total. Hence the null hypothesis i.e there is no significant impact of foreign investment on ROI of FDI based companies in Food and Agriculture Sector in India is rejected. Foreign Investment is also have impact on ROE, 11 companies significance at 1%, Ponni Sugars (Erode) Ltd at 5% significance level and 4 companies Agro Tech Foods Ltd, Mcleod Russel India Ltd, United Breweries Ltd and Winsome Breweries Ltd significant at 10% significance level. Over all out of 22 FDI based companies in Food and Agriculture Sector, 16 FDI based companies is observed to have influenced by ROE which is more than 50% of the total. Hence the null hypothesis i.e there is no significant impact of Foreign Investment on ROE of FDI based companies in Food and Agriculture Sector in India is rejected. The observation is based on many reasons varying from company to company due to lack of utilization of Foreign Investment.

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