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AN ANALYSIS OF EQUITY, RE-INVESTED EARNINGS AND OTHER CAPITAL ON FOREIGN DIRECT INVESTMENT IN INDIA IN LAST DECADE (2011-12 TO 2020-21): AN EMPIRICAL STUDY

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Abstract

The level of FDI is the barometer for the economic development. Level of FDI decides the level of integration of the economy of that nation with other economies of the world. So, there is fears competition to lure companies to invest in the country by providing state of infrastructure and other benefit.

We have selected this topic to test the level impact of Equity, Re-Invested Earning and Other Capital outlay on Foreign Direct Investment. It is important to find the level of association between Foreign Direct Investment as dependent variable and three factors as independent variables. We have used analysis of variance and par co-rrelation to test the hypothesis. After analysis we found that Foreign Direct Investment is having significantly impacted by Equity, Re-Invested Earnings Other capitals outlay. After partial Co-rrelation analysis we found that there is high level of co-rrelation between Equity and Foreign Direct Investment (i.e $r=0.99\%$), Re-invested Earning and Foreign Direct Investment (i.e $r=0.91\%$) and Other Capital and Foreign Direct Investment (i.e $r=0.69\%$).

Keywords : Foreign direct investment, Equity, Re-Investment earnings, other capital.

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Introduction and importance of FDI

Foreign direct investment is a key parameter in the development of any nation. In the Asian contest India comes next to China in attracting FDI from the Oversea investors. FDI is not only concerned with attracting capital from foreign investor but it also accompanies with new idea, new technology and latest know how which is essential for balanced and sustainable growth and development of the different nation and communities of the world . As the country attract high level FDI inflow generate more revenue from taxes or duties from the companies establishing operation in the host country and also generating a lot of employment opportunities for educated youth. I

If we see particularly in the context of India where a large chunk of educated population which is termed as demographic dividend. This demographic dividend is considered as the growth engine of the economy. The Indian government is facing a lot of socio-economic problem due to mammoth population(approximately 1.40 crore population). The resources of the country is limited and we need partner to invest in the host country and create employment for the educated youth. No country is self-sufficient and self-reliant in all aspects of development. And so, we need FDI which acts as a lubricant to grease the different domains of the economy.

Literature Review

1) Chakravarty & Xiang (2011) concluded that access to external financing, property right and extent of private ownership and a relative comparative advantages all have significant effect on the decisions of foreign investors concerning level of earning related to host country.

2) Taylor (2013) argued that the economic growth of the host country and profitability of forign firms increases, foreign investors tends to hold re-invested earnings in the country.

3) Saloria & Brewer (2013) proposed a similar theory to the previous studies in which they pointed out that re-invested earnings are associated with corporate taxes rate, exchange rates and operational needs of multi- national firms in particular countries. They also noted that retained earnings are likely to be responsive to the restrictions in the remittance of profits of the parent company

Research Methodology

This research is based on secondary data of the 10 consecutive years from

2011-12 to 2020-21 of equity, Re-invested earnings and other capital as an independent variable. These data were collected from the RBI's bulletin for February, 2023 dated 17.02.2023(Table no.- 34- foreign investement inflows)

We have applied analysis of variance and partial correlation to test the following hypothesis. All the statistical computation has been done manually without using any software.

Ho= Equity, Re-invested earning and Other capital are having the same impact on Total FDI inflows.

H1= All the three independent variables are having different impact on total FDI Inflows.

Instruments of FDI

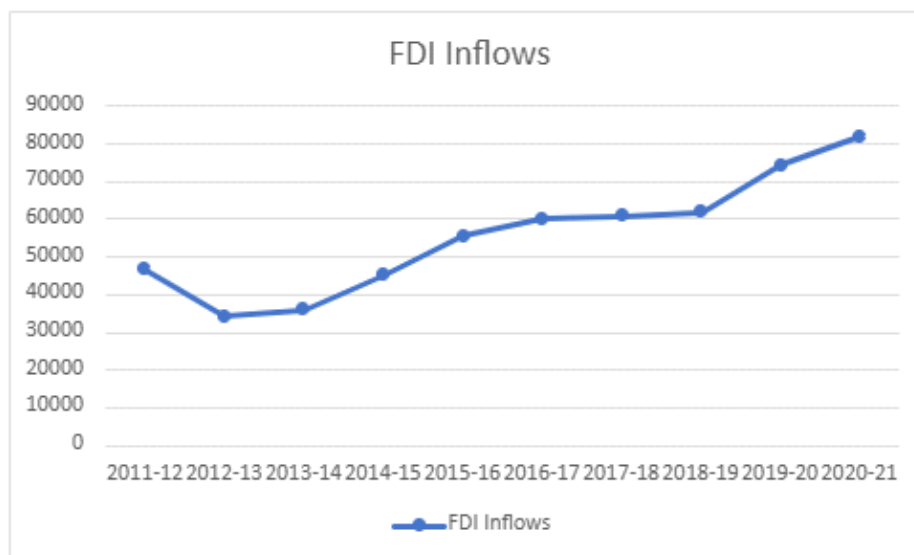
Table-1

Year	FDI Inflows
2011-12	46556
2012-13	34298
2013-14	36046
2014-15	45148
2015-16	55559
2016-17	60082
2017-18	60974

2018-19	62001
2019-20	74391
2020-21	81973

Source:- RBI's bulletin for February, 2023 dated 17.02.2023 (Table no.- 34- foreign direct investement inflows)

Figure-1



Interpretation: Initially FDI declined but improved over the upcoming years and increased drastically in the last two years.

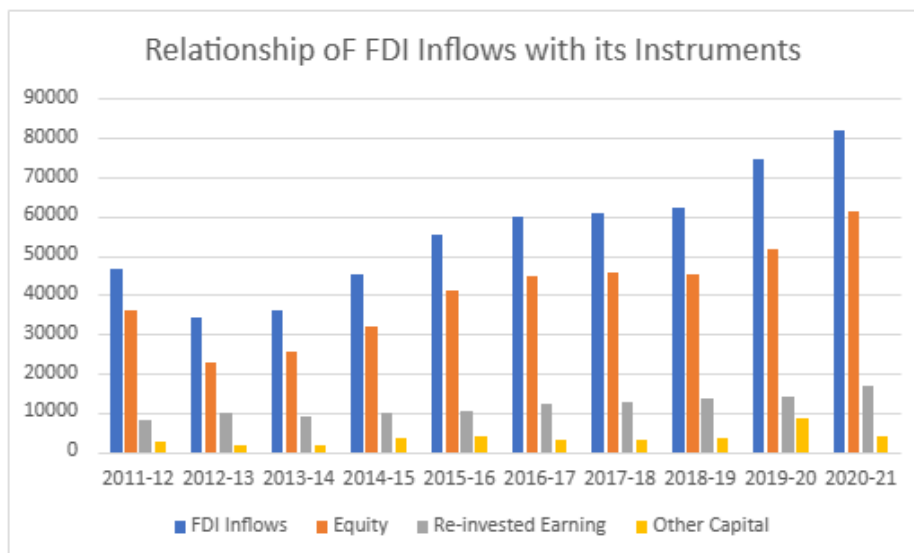
Table-2

year	FDI Inflows	Equity	Re-Invested Earning	Other Capital
2011-12	46556	35855	8206	2495
2012-13	34298	22884	9880	1534
2013-14	36046	25274	8978	1794
2014-15	45148	31911	9988	3249
2015-16	55559	41112	10413	4034
2016-17	60082	44701	12343	3176
2017-18	60974	45521	12542	2911
2018-19	62001	45055	13672	3274
2019-20	74391	51734	14175	8482
2020-21	81973	61088	16935	3950

Source:- RBI's bulletin for February, 2023 dated 17.02.2023 (Table no.- 34- foreign direct investement inflows)

Interpretation : The FDI inflows and its split into instruments is shown in the above mentioned figure

Figure-2



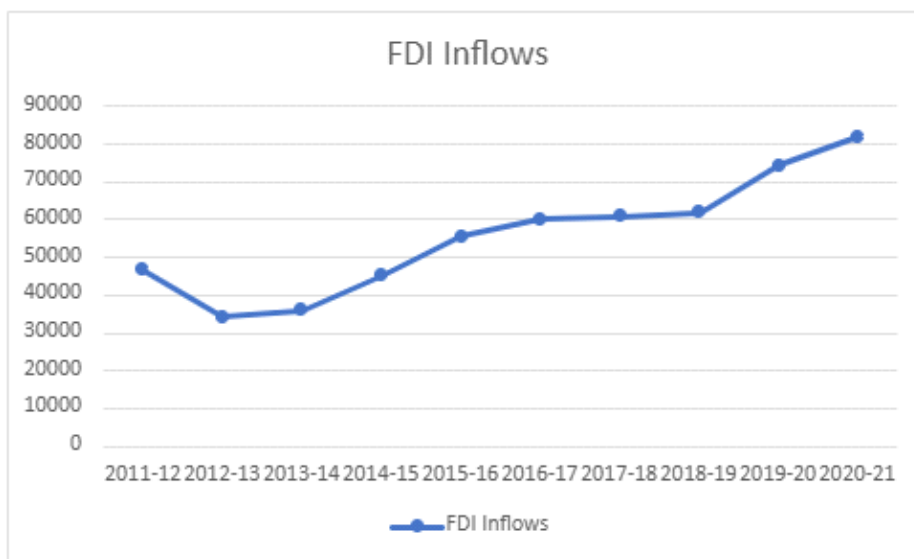
Interpretation : The FDI and its instruments is shown in the Bar chart year-wise from 2011-12 to 2020-21.

Table-3

year	FDI Inflows	Equity
2011-12	46556	35855
2012-13	34298	22884
2013-14	36046	25274
2014-15	45148	31911
2015-16	55559	41112
2016-17	60082	44701
2017-18	60974	45521
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Figure-3



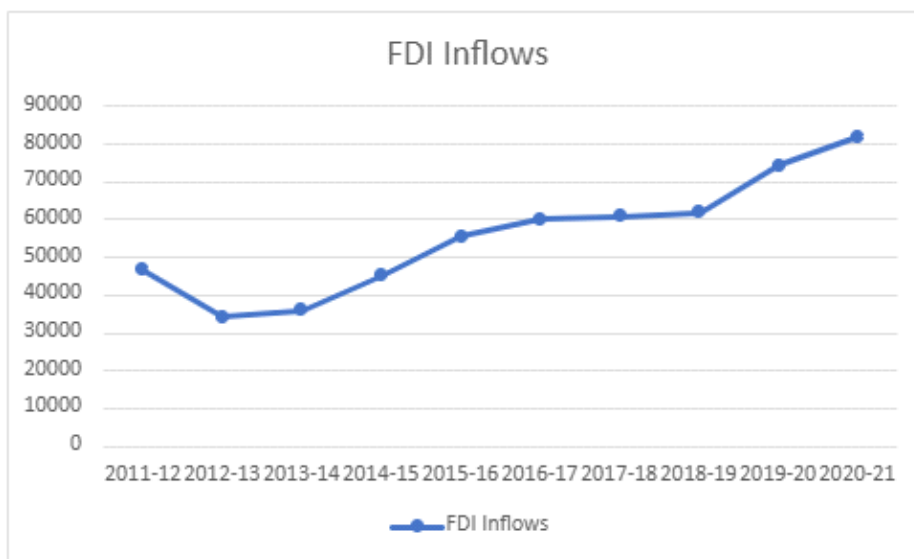
Interpretation: The above mentioned graph shows that FDI and equity shows the same trend of change.

Table-4

year	FDI Inflows	Re-invested Earning
2011-12	46556	8206
2012-13	34298	9880
2013-14	36046	8978
2014-15	45148	9988
2015-16	55559	10413
2016-17	60082	12343
2017-18	60974	12542
2018-19	62001	13672
2019-20	74391	14175
2020-21	81973	16935

Source:- RBI's bulletin for February, 2023 dated 17.02.2023 (Table no.- 34- foreign direct investment inflows)

Figure-4



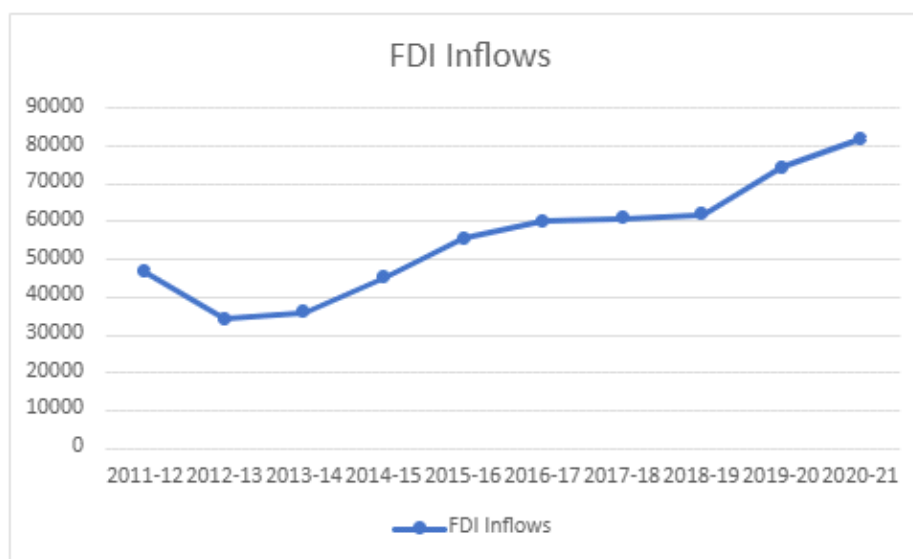
Interpretation : As it is evident from the above mentioned graph that FDI inflows and re-invested earning shows the same pattern of change.

Table-5

year	FDI Inflows	Other Capital
2011-12	46556	2495
2012-13	34298	1534
2013-14	36046	1794
2014-15	45148	3249
2015-16	55559	4034
2016-17	60082	3176
2017-18	60974	2911
2018-19	62001	3274
2019-20	74391	8482
2020-21	81973	3950

Source:- RBI's bulletin for February, 2023 dated 17.02.2023 (Table no.- 34- foreign direct investment inflows)

Figure-5



Interpretation : the above mentioned graph shows that FDI inflows and other capital are very close to each other and have same trend of change.

FDI has three Instruments.

It is one of the key parameter for financing projects through FDI. The funds pulled from the investors for financing the projects is termed as Equity. Following are the sources of Equity for FDI.

- Initial Public Offer(IPO)-- It is one of the way to collect the substantial amount from public by floating in the primary market. The public trust and confidence depends on the reputation and goodwill of the company's floating IPOs. There is a stipulated time- period for which the people can buy IPO from the primary market.
- Mutual Funds— It is defined in SEBI(Mutual fund) regulation 1996

Means a fund established in the form of a trust to raise monies through the sale of units to the public in sections of public under one or more schemes for financial investing in securities and money market instruments or gold related instruments or real estates assets.

The other way of collecting huge amount of funds from public is to launch various mutual fund scheme for the investment in

areas lie physical infrastructure (road, rail, sea-port, air-port, etc.). Social infrastructure (Health care, education etc) for managing the funds collected through mutual funds, companies are hiring the service of fund managers.

C) Re-Invested Earnings:- In the analysis of income statements of a company PAT(Profit after tax) is the net profit earned by the company. It is an important source of financing the existing expansion plan of a project or financing a new venture altogether. A part of retained earning is re-invested in the growth and prosperity of the company. In fast expanding economies companies expand their scale and size of operations and also want to inter nationalise their operations. For this huge amount of capital resource is required. This is best taken care of by re-invested earning.

Through Walter Model and Gordon Model retained earning is used to show the value of the share at various condition where cost of equity and earning per share remains constant.

Giving more prominence to re-invested earning as a source of financing projects reduces the dependance on debt given by financial and term-lending institutions makes a company a bit conservative companies

D) Other Capital:- It includes intra company debt transactions encompassing the borrowing

and lending of funds combined with the debt securities and trade credit between

direct investors and direct investment enterprises and between two direct investment enterprises, that share the same direct investors.

Analysis of Variance and Partial Correlation analysis

We applied Analysis of Variance and Partial correlation

Source of variable	SS	df	MS	F-ratio	Critical value (at 5% from F-table)
Between Sample	7,559,422,999.8	K=3, k-1=3-1-2	3,779,711,499.9	75.534	F(2,27)=3.35
Within sample	1,351,265,455.0	n-k=30-3=27	50,046,868.7037		
Total	8,910,688,454.8	n-1=30-1=29			

The above table shows that the calculated values of F is 75.5234 which is much more greater than the table value of 3.35 at 5% level of significance with degrees of freedom being V1=2, V2=27 and hence we can reject the null hypothesis. We may therefore conclude that the Equity, Re-Investment Earning and Other capital having significant impact on total Foreign Direct Investment inflow.

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