

“IMPACT OF FOREIGN INVESTMENTS ON CORPORATE PERFORMANCE IN BANKING SECTOR IN INDIA”

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Abstract

The present day's scenario shows that Corporate are playing very important role in the growth and development of a country but they are in need of further capital for its expansion and development purpose in this changing business environment. This capital can be arranged by two ways i.e domestic capital and foreign capital. Thus foreign investment is considered as one of the major source for finance of corporate sectors which will contribute to of economic growth for developing country like India. Many research studies revealed the fact that there is a significant impact of Foreign Investment on Corporate Performance in country. This paper studies the impact of Foreign Investment on Corporate Performance of Banking Sectors from BSE Index with the help of the necessary statistical technique such as, Correlation Matrix and OLS.

Keywords: Corporate Performance, Foreign Capital, EPS, PAT, OLS.

Introduction

Foreign Investment is considered as one of the major sources of economic growth and development of any country irrespective of its growth status as compare to world. Countries attracting Foreign Investment by accepting and adopting a positive policy framework to Foreign Investment. India is one of the largest developing economies in the world and has been undergoing various processes of restructuring and transformation since the early 1990s. Indian has opened economy in 1991, initiated by the Govt. of India brought about a new era of globalization for the Indian Corporate Sector but inflows not been matched by a corresponding growth in the absorptive capacity of the Indian economy. The major reason is the persistent

slowdown of industrial activity since 1997. Foreign investment is widely regarded as a very important role in today's global economy. It brings not only capital, but also technology, management and marketing networks to the host countries. Financial capital that flows into the Indian corporate can be a tool for bringing knowledge, managerial skills and capability, product design, quality characteristics, brand names, channels for international marketing of products, etc. and consequent integration into global production chains, which are the foundation of a successful exports strategy. All these factors contribute towards enhancing the overall financial performance of Corporate. This paper focus on the impact of Foreign Investment on Corporate Performance of Banking Sectors from BSE Index with the help of the necessary statistical technique such as, Correlation Matrix and OLS.

Review of Literature

(Roya, 2014) "Foreign Direct Investment And Performance Of Indian States" Aim to examine the effects of FDI in Indian States in the post reform (post 1991) era. The main objective of this paper is empirical investigation to determine the impact of FDI on growth of Indian states. Most recent data on FDI is used. The results indicate higher human capital and financial assistance are essential ingredients to reap benefits from FDI for Indian states. Results are robust to inclusion of other relevant variables.

Gupta (2010) "Movement of SENSEX: Domestic and International Factor" "study attempts to identify the key variables-domestic and international that affect the share prices. The result show that SENSEX depends on both domestic and international factors. The movement of SENSEX is governed by the growth of industrial production and the flows of foreign institutional capital. Policymakers need not to be aggressive to attract FII to keep the market strong. The stock market depends only partially on foreign capital.

Srinivasan (2010), "Causal Nexus between Foreign Direct Investment and Economic Growth in India", Study examines the causal nexus between foreign direct investment and economic growth in India during the post liberalization period. The empirical result revealed that unidirectional causation is running from economic growth to foreign direct investment both in the short-run and long run in India.

Objectives of the study

- I. To examine the trends of Foreign Investment in selected Banking Sector of BSE Index.
- II. To find out the Impact of Foreign Investment on Financial Performance of Indian Banks from BSE Index i.e BANKEEX.
- III. To examine the effect of Foreign Investment on Financial Performance of Indian Banks from BSE Index i.e BANKEEX.

Hypothesis Testing

Foreign Investment and Financial Performance of Indian banking sector (from BSE Index i.e BANKEEX):

- 1) H₀: There is no significant effect of foreign investment on financial performance of Banks from BSE BANKEEX w.r.t. PAT.
H₁: There is significant effect of foreign investment on financial performance of Banks from BSE BANKEEX w.r.t. PAT.

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- 2) H0: There is no significant effect of foreign investment on financial performance of Banks form BSE BANKEX w.r.t. EPS.
H1: There is significant effect of foreign investment on financial performance of Banks form BSE BANKEX w.r.t. EPS.
- 3) H0: There is no significant effect of foreign investment on financial performance Banks form BSE BANKEX w.r.t. Book Value.
H1: There is significant effect of foreign investment on financial performance Banks form BSE BANKEX w.r.t. Book Value.
- 4) H0: There is no significant effect of foreign investment on financial performance of Banks form BSE BANKEX w.r.t. Market Capitalization.
H1: There is significant effect of foreign investment on financial performance of Banks form BSE BANKEXw.r.t. Market Capitalization.

Research Methodology

Data Sources and Variable Selection

The data was collected from Annual reports, BSE web site and from “Bloomberg LP” on monthly basis which was converted into Year on Year basis (YoY) from 2009 to 2015. To find out impact of foreign investment on financial performance of corporate in India with the help of Banking companies the following variables were taken for the study.

- i) **Explanatory variable:** - “Foreign Investment” to measure this variable, the data has been collated from the shareholding patterns of corporate, which is available from BSE for the period of 7 years in banking sector.
- ii) **Dependent variable:** -Profit after tax (PAT), Earning per share (EPS), Book Value and Market Capitalization. For variable the data has been collected from “Bloomberg LP” Data Base.

Sample Design:

The sample size of the study includes 12 banks listed in BSE BANKEX.

Table No. 1- List of Companies in BSE BANKEX

S.No	BSE BANKS
1	Axis Bank Ltd (AXSB IN)
2	Bank of Baroda (BOB IN)
3	Bank of India (BOI IN)
4	Canara Bank (CBK IN)
5	Federal Bank Ltd (FB IN)
6	HDFC Bank Ltd (HDFCB IN)
7	ICICI Bank Ltd (ICICIBC IN)
8	IndusInd Bank Ltd (IIB IN)
9	Kotak Mahindra Bank Ltd (KMB IN)
10	Punjab National Bank (PNB IN)
11	State Bank of India (SBIN IN)
12	Yes Bank Ltd (YES IN)

Source: Banks from BSE Index 2015

Tools & Techniques

The study includes the impact of Foreign Investment on Financial Performance by applying Correlation matrix and Ordinary Least Square (OLS) analysis using Excel & Gretl.

Analysis and Interpretations

Objective 1: - To examine the trends of Foreign investment in selected Banking Sector of BSE Index.

Foreign capital is one of the important components for every countries development. Foreign Capital will come in different forms in the country i.e. FDI and FII's. Foreign Investors are allowed to invest in all the securities traded on the Primary and the Secondary market including the equity, debt and other securities/instruments of companies listed/to be listed on stock exchanges in India.

Table - 2: Trends of FII's in Indian Banking Sector during 2008 – 2014 (Rs. Millions)

S.No	BSE BANKS	2009	2010	2011	2012	2013	2014	2015	Total
1	Axis Bank Ltd	123.96	111.09	143.2	136.43	127.82	168.38	144.64	955.52
2	Bank of Baroda	71.15	61.61	69.83	60.59	58.39	63.23	50.57	435.37
3	Bank of India	61.61	62.32	48.93	40.21	36.05	46.41	19.52	315.05
4	Canara Bank	52.83	43.62	47.54	58.52	55.18	47.15	31.29	336.13
5	Federal Bank Ltd	181.07	146.02	146.15	158.56	169.46	176.73	117.47	1095.46
6	HDFC Bank Ltd	134.47	109.5	113.13	116.73	127.64	137.09	101.85	840.41
7	ICICI Bank Ltd	212.19	143.14	153.22	150.14	144.07	152.24	81.54	1036.54
8	IndusInd Bank Ltd	83.7	88.31	127.08	139.44	140.06	162.57	130.07	871.23
9	Kotak Mahindra Bank Ltd	104.49	115.97	103.54	105.05	117.04	125.6	101.38	773.07
10	Punjab National Bank	76.73	70.94	77.06	75.99	70.08	71.27	51.93	494
11	State Bank of India	51	38.35	48.93	40.21	36.05	38.24	31.91	284.69
12	Yes Bank Ltd	101.27	115.92	115.45	142.61	183.06	165.16	136.65	960.12

Source: FII's Investment in each bank from BSE Index 2015.

Objective 2: - To find out the Impact of Foreign Investment on Financial Performance of Indian Banks from BSE Index i.e. BANKE X

The correlation matrix of Foreign Investment and Financial Variables are tested

Table No. 3 - Correlation Matrix of Foreign investment and Financial Variables

	Foreign Shareholding	PAT	EPS	Book Value	Market Capitalization
Foreign Shareholding	1				
PAT	-0.01782	1			
EPS	-0.47122	0.063413	1		

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Book Value	-0.4552	-0.11974	0.97108	1	
Market Capitalization	-0.12369	-0.5031	-0.08511	-0.00118	1

The above table no.3 interpretsthe correlation matrix among the selected variables. There is negative correlation between the Foreign shareholding and PAT, EPS, Book Value and Market Capitalization. On the other hand, there exist a high degree of positive correlation between Book Value and PAT (0.06). There is also positive correlation between Book Value and EPS (0.97). Hence the objective 2 is true and there exist a correlation among the variables

Objective 3: - To examine the effect of Foreign Investment on Financial Performance of Indian Banks from BSE Index i.e BANKEX

To study effect of Foreign Investment on Financial performance of Indian banks Hypothesis is formulated and tested.

Hypothesis - I

H0: There is no significant effect of foreign investment on financial performance of Banks form BSE BANKEX w.r.t. PAT.

Table No. 4 Impact of Foreign Investment on PAT of Banking Companies from BANKEX

Company Name	Coefficient	Std. Error	t-ratio	p-value
Axis Bank Ltd	0.0848	0.0576	1.4714	0.2011
Bank of Baroda	-0.0284	0.2772	-0.1025	0.92238
Bank of India	0.3113	0.1060	2.9347	0.0324**
Canara Bank	0.5159	0.5525	0.9339	0.4032
Federal Bank Ltd	0.0566	0.0659	0.8588	0.4296
HDFC Bank Ltd	-0.0358	0.1416	-0.2531	0.8102
ICICI Bank Ltd	-0.0912	0.0461	-1.9798	0.1046
IndusInd Bank Ltd	0.2341	0.0410	5.7041	0.0023***
Kotak Mahindra Bank Ltd	0.0716	0.1793	0.3995	0.7060
Punjab National Bank	0.5076	0.124	4.0937	0.0094***
State Bank of India	0.2208	0.2154	1.0250	0.3525
Yes Bank Ltd	0.1170	0.0339	3.4440	0.0183**

Source: "Bloomberg LP" Data Base and Summarized regression result with the help of gretl32

Table No. 4.1 Impact of Foreign Investment on PAT of Banking Companies from BANKEX

PAT		
At 1% Significance Level	At 5% Significance Level	At 10% Significance Level
IndusInd Bank Ltd (0.0023)	Bank of India (0.0324)	-
Punjab National Bank	Yes Bank Ltd (0.0183)	-

(0.0094)

Source: "Bloomberg LP" Data Base and Summarized regression result with the help of gretl32

In order to test the hypothesis and meet the objectives of the study, simple regression model is used keeping Foreign Investment as the Independent Variable and one performance indicator i.e PAT as the Dependent Variable. The results shows that Foreign investment influences PAT highly significantly (i.e., at 1% significance level) in 2 Banks out of 12 BSE BANKEX. Such Banks are Infosys Ltd, Punjab National Bank. Whereas Banks like Bank of India and yes Bank have experienced a moderate impact of Foreign Investment on their PAT which appears from the fact that the coefficient p-value in case of such Banks is found to be statistically significant at 5% significance level. Although at a low level, there is no Banks witnessed an impact of Foreign Investment on their PAT. Overall, out of 12 companies in the BSE category, Foreign Investment is observed to have influenced PAT in 4 companies which are exactly 42 per cent of the total. Hence the Null Hypothesis i.e. there is no significant effect of foreign investment on financial performance of BSE BANKEX w.r.t. PAT is rejected.

Hypothesis - II

H0: There is no significant effect of Foreign Investment on Financial Performance of Banks form BSE BANKEX w.r.t. EPS.

Table No. 5 Impact of Foreign Investment on EPS of Banking Companies from BANKEX

<i>Company Name</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>
Axis Bank Ltd	0.9465	0.6871	1.3775	0.22681
Bank of Baroda	-3.2087	1.5534	-2.0655	0.093*
Bank of India	-0.032	0.237	-0.136	0.8965
Canara Bank	0.8618	1.4360	0.6002	0.5745
Federal Bank Ltd	-0.0045	0.0417	-0.1079	0.9182
HDFC Bank Ltd	-0.123	0.3362	-0.367	0.7286
ICICI Bank Ltd	-0.469	0.206	-2.276	0.0718*
IndusInd Bank Ltd	0.2422	0.0604	4.007	0.010**
Kotak Mahindra Bank Ltd	0.0715	0.3920	0.182	0.8623
Punjab National Bank	0.596	1.607	0.3710	0.7258
State Bank of India	-0.246	0.1734	-1.4228	0.2140
Yes Bank Ltd	0.3089	0.1618	1.9081	0.1146

Source: "Bloomberg LP" Data Base and Summarized regression result with the help of gretl32

Table No. 5.1 Impact of Foreign Investment on EPS of Banking Companies from BANKEX

EPS		
At 1% Significance Level	At 5% Significance Level	At 10% Significance Level

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-	IndusInd Bank Ltd (0.010)	Bank of Baroda (0.093)
-	-	ICICI Bank Ltd (0.0718)

Source: "Bloomberg LP" Data Base and Summarized regression result with the help of gretl32

In order to test the hypothesis and meet the objectives of the study, simple regression model is used keeping Foreign Investment as the Independent Variable and one performance indicator i.e EPS as the Dependent Variable. The results shows that Foreign Investment influences EPS does not show highly significantly impact at 1% significance level in any banks, whereas like IndusInd Bank Ltd have experienced a moderate impact of Foreign investment on their EPS which appears from the fact that coefficient P- value in case of such banks is found to be statically significant at 5% significance level. Banks like Bank of Baroda and ICICI Bank Ltd has witnessed an impact of Foreign Investment on their EPS at 10% significance. Overall out of 12 banks in BANKEX category, Foreign Investment is observed to have influenced EPS in four banks which is 33% of total. Hence the Null Hypothesis i.e there is no significant effect of Foreign Investment on Financial Performance of BSE BANKEX w.r.t. EPS is rejected.

Hypothesis – III

H0: There is no significant effect of Foreign Investment on Financial Performance of Banks form BSE BANKEX w.r.t. Book Value.

Table No.6 Impact of Foreign Investment on Book Value of Banking Companies from BANKEX

<i>Company Name</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>
Axis Bank Ltd	7.964	4.0059	1.9883	0.1034
Bank of Baroda	-24.274	8.9144	-2.723	0.041**
Bank of India	-5.627	1.3367	-4.2101	0.008***
Canara Bank	-6.4823	6.5295	-0.9928	0.3664
Federal Bank Ltd	-0.218	0.2337	-0.9336	0.3933
HDFC Bank Ltd	-0.5534	1.444	-0.383	0.7174
ICICI Bank Ltd	-1.9276	0.7129	-2.7036	0.042**
IndusInd Bank Ltd	1.248	0.54791	2.278	0.071*
Kotak Mahindra Bank Ltd	0.8773	2.9094	0.3015	0.7751
Punjab National Bank	-18.20	8.5616	-2.1267	0.086*
State Bank of India	-3.218	1.231	-2.6148	0.047**
Yes Bank Ltd	1.242	0.641	0.934	0.1108

Source: "Bloomberg LP" Data Base and Summarized regression result with the help of gretl32

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Table No.6.1 Impact of Foreign Investment on Book Value of Banking Companies from BANKEX

Book Value		
At 1% Significance Level	At 5% Significance Level	At 10% Significance Level
Bank of India (0.008)	Bank of Baroda (0.041)	IndusInd Bank Ltd (0.071)
-	ICICI Bank Ltd (0.042)	Punjab National Bank(0.086)
-	State Bank of India (0.047)	-

Source: "Bloomberg LP" Data Base and Summarized regression result with the help of gretl32

In order to test the hypothesis and meet the objectives of the study, simple regression model is used keeping Foreign Investment as the Independent Variable and one performance indicator i.e Book Value as the Dependent Variable. The results shows that Foreign Investment influences Book Value highly significantly (i.e., at 1% significance level) in Bank of India out of 12 BSE BANKEX. Whereas Banks like Bank of Baroda, ICICI Bank Ltd and State Bank of India have experienced a moderate impact of Foreign Investment on their Book Value which appears from the fact that the coefficient P-value in case of such banks is found to be statistically significant at 5% significance level. Although at a low level, Banks like IndusInd Bank Ltd and Punjab National Bank witnessed an impact of Foreign Investment on their Book Value. Overall, out of 12 banks in the BSE category, Foreign Investment is observed to have influenced Book Value in 6 banks which are exactly 50 per cent of the total. Hence the Null Hypothesis i.e. there is no significant effect of Foreign Investment on Financial Performance of BSE BANKEX w.r.t. Book Value is rejected.

Hypothesis – IV

H0: There is no significant effect of Foreign Investment on Financial Performance of Banks from BSE BANKEX w.r.t. Market Capitalization.

Table No.7 Impact of Foreign Investment on Market Capitalization of Banking Companies from BANKEX

Company Name	Coefficient	Std. Error	t-ratio	p-value
Axis Bank Ltd	3396.9	2292.68	1.4817	0.1985
Bank of Baroda	-8575	6102	-1.405	0.2189
Bank of India	-1258	1353	-0.926	0.3952
Canara Bank	4743	2880	1.6467	0.16050
Federal Bank Ltd	-84.481	475.67	-0.1776	0.866
HDFC Bank Ltd	-5159	1694	-0.304	0.7729
ICICI Bank Ltd	-3895	3723.1	-1.046	0.3433
IndusInd Bank Ltd	2531	937.9	2.698	0.042**
Kotak Mahindra Bank Ltd	501.24	8374	0.0599	0.9545
Punjab National Bank	424.92	4610.53	0.092	0.930
State Bank of India	-12402	21823	-0.568	0.5944

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Yes Bank Ltd	1196	745.10	1.606	0.1835
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Source: "Bloomberg LP" Data Base and Summarized regression result with the help of gretl32

Table No.7.1 Impact of Foreign Investment on Market Capitalization of Banking Companies from BANKEX

Market Capitalization		
At 1% Significance Level	At 5% Significance Level	At 10% Significance Level
-	IndusInd Bank Ltd (0.042)	-

Source: "Bloomberg LP" Data Base and Summarized regression result with the help of gretl32

In order to test the hypothesis and meet the objectives of the study, simple regression model is used keeping Foreign Investment as the Independent Variable and one performance indicator i.e Market Capitalization as the Dependent Variable. The results show that Foreign Investment does not influence Market Capitalization at 1% and 10% significance level in BSE BANKEX. But IndusInd Bank Ltd have experienced a moderate impact of foreign investment on their Market Capitalization 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. Overall, out of 12 banks in the BSE category, Foreign Investment is observed to have influenced Market Capitalization of only one Bank. Hence the Null Hypothesis i.e. there is no significant effect of Foreign Investment on Financial Performance of BSE BANKEX, w.r.t Market Capitalization is rejected.

Conclusions

This study which is carried out to test whether there exist or not a significant relation between the Foreign investment and Corporate performance in Banking sector from BSE index BANKEX. Banks has shown positive and negative trends in the Foreign Investments. According to the correlation matrix there exist a high degree of positive correlation between Book Value and PAT and Book Value and EPS. Finally, the OLS analysis indicates that there is a significant relation between Foreign Investment Independent Variable and Dependent variables like Profit after tax (PAT), Earning per share (EPS), Book Value and Market Capitalization which shows that banks are influenced at significance level of 1%, 5% and 10%. Thus it is concluded saying that there is a significant impact of Foreign Investment on the Financial Performance of Banks from BSE BANKEX.

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