



## AN EMPIRICAL STUDY ON MOBILISATION OF FOREIGN CAPITAL

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### **Abstract**

*Acquisition of overseas capital needs proper timing, type and place of issue. This is a dire necessity to get required funds conveniently, easily and speedily. Under SEBI guidelines, the formalities should be eased without confining them that they are approved route and automatic route.*

*The objectives of the study are to study mobilization of funds in primary market and provide suggestions based on findings/ results. In view of the objectives of the study, exploratory research design has been adopted. The study is based on secondary data covering annual data for acquisition of funds from various categories covering from 2008-09 to 2014-15. This has been collected from official websites of Reserve Bank of India, Securities Exchange Board of India and various other reports like magazines, journals, and published books for the present study. The statistical tools applied for data analysis is descriptive and inferential statistics. E-views are used. Based on objectives, the hypotheses are formed for analysis.*

*Overseas funds are acquired from Foreign Institutional Investors (FIIs), American Deposit Receipts (ADRs)/ Global Deposit Receipts (GDRs) and External Commercial Borrowings (ECBs). It is concluded that not less than 7.5% compound annual growth rate of acquisition of funds from overseas during the study period. There is a major share of overseas funds acquired from FIIs which are inconsistent. ECBs overseas funding are more consistent during the study period.*

### **Introduction**

Mobilisation of overseas capital needs proper timing, type and place of issue. This is a dire necessity to get required funds conveniently, easily and speedily. Under SEBI guidelines, the formalities should be eased out without confining them that they are approved route and automatic route. Each method of mobilization of overseas capital has got its procedure and mechanism. Government should strive for strictly balanced growth, even development of various sectors for diversification, establishment of investment platform for small and medium-sized industries, seeking of new avenues for raising capital through lower cost of capital.

James V. Abraham, vice president and director at Boston Consulting Group, says foreign investors have high expectations about the prospects for Indian firms. "That is why they are willing to buy equity in these companies at a premium." Adds Jayesh Desai, head of investment banking at Ernst & Young, "Confidence in Indian companies is rising with every quarter as they continue to achieve scale, strategize intelligently and report strong numbers. While it is true that globally there is a large amount of cash looking for assets, it is also true that demand for products and services in India has never been more buoyant. The India story is beginning to look more attractive, and that is what is convincing lenders."

In post globalization era, companies raise funds from different sources of investors widely scattered throughout the world. It ensures a wider distribution of funds thereby leading to diffusion of ownership and avoids concentration of economic power in a few hands. It is quite convenient and economical. Moreover, the company gets the money quickly and there is no risk of non-receipt of minimum subscription. A method saves the company from the cost and trouble of selling securities directly to the investing public.. A method helps to save the expenses of public issue.

### **Objectives of the Study**

- To study acquisition of funds through Foreign Institutional Investors (FIIs), American Deposit Receipts (ADRs)/ Global Deposit Receipts (GDRs) and External Commercial Borrowings (ECBs) from overseas.
- To provide suggestions based on findings/ results.

### **Research Design**

In view of the objectives of the study, exploratory research design has been adopted. Exploratory research is one, which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of the existing and available information and it makes use of secondary data.

### **Research Methodology**

The study is based on secondary data covering annual data of acquisition of funds from overseas from 2008-09 to 2014-15. In view of these, acquisition of capital from overseas are classified into three categories namely Foreign Institutional Investors (FIIs), American Deposit Receipts (ADRs)/ Global Deposit Receipts (GDRs) and External Commercial Borrowings (ECBs).



This has been collected from official websites of Reserve Bank of India and Securities Exchange Board of India. Various other reports like magazines, journals, published books are also referred to for the present study.

### Sources of Data

**Tools of Analysis:** The data collected for the study is analysed logically and meaningfully to arrive at meaningful conclusions. The statistical tools applied for data analysis is descriptive and inferential statistics. E-views are used. Based on the objectives, the hypotheses formed for analysis are:

**H01:** There are no differences among various classes of acquisition of overseas capital namely Foreign Institutional Investors (FIIs), American Deposit Receipts (ADRs)/ Global Deposit Receipts (GDRs) and External Commercial Borrowings (ECBs). Analysis of inferences is based on assumptions:

1. The data is randomly selected and
2. they are independent

### Results / Findings

- **Foreign Institutional Investors (FIIs):** Average total amount of acquisition of capital from FIIs during the study period is Rs. 336.5191 billions. Its Coefficient of variation (C.V.) of 1.79560 is inconsistent and CAGR by 176%. The distribution of mobilization of foreign funds is right skewed since its mean is bigger than that of median. Its kurtosis of 1.7125 indicates a distribution is peaked than normal distribution.
- **ADRs/GDRs:** The mean level of ADRs/ GDRs is greater than of median so the data are only right-skewed. It is caused by there are some unusually large values. The kurtosis of 2.1104 is a leptokurtic. The average amount of mobilization of foreign capital by ADRs/ GDRs is Rs. 62.3571 billions over the study period. The average variation around the mean is 57.0438. There is consistency in acquisition of capital by ADRs/ GDRs and CAGR of 12.27%.
- **External Commercial Borrowings (ECBs):** The average mean in mobilization of funds by ECBs is Rs. 27.92 billions whose stability is very high and CAGR of 7.52% during the study period. Acquisition of funds by ECBs is left-skewed whose mean is lesser than its median. It means that there are some extremely lower values. The kurtosis of 1.7655 is a leptokurtic indicating acquisition of funds is more peaked than normal distribution.

There is strong evidence that among different classes of acquisition of foreign capital, there are no significant differences. Null hypotheses are accepted since prob. values of ANOVA F-test and WELCH F-test are 0.2235 and 0.1962 respectively. On testing t test between FIIs and ADR/ GDRs, FIIs and ECBs and ADR/ GDRs and ECBs, they are same.

On un-fulfillment of assumptions of normal distribution and equal variance associated with parametric test, non-parametric test of Med. Chi-square, Adj. Med. Chi-square, Kruskal-Wallis, Kruskal-Wallis (tie-adj.) and van der Waerden statistics are also used whose probability values are 0.8262, 0.9764, 0.9319, 0.9319 and 0.9762 respectively. Hence, null hypotheses of insignificant differences are accepted. The alternative hypotheses of significant differences between and within the variables of acquisition of overseas capital are rejected.

### Conclusions

Foreign funds are acquired from different means. It is concluded that not less than 7.5% compound annual growth rate of acquisition of funds from overseas during the study period. There is a major share of overseas funds acquired from FIIs which are inconsistent. ECBs overseas funding are more consistent during the study period.

### References

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**Appendix 1: Classification of overseas acquisition of funds (Rs. in billions)**

Year	FII's	ADRs/GDRs	ECBs
2008-09	-433.3775	47.88	18.36
2009-10	1149.0112	159.67	21.67
2010-11	1107.1827	94.42	25.78
2011-12	499.1785	27.12	35.97
2012-13	14.0625	10.35	32.05
2013-14	8.5522	1.16	33.24
2014-15	11.0244	95.9	28.38

Source: Sebi.gov.in and rbi.org

**Appendix 2: Descriptive Statistics of Total Number and Amount of Issues of Capital**

Descriptive Statistics	ADRs/GDRs	ECBs	FII's
Mean	62.35714	27.92027	336.5191
Median	47.88	28.38384	14.0625
Maximum	159.67	35.96678	1149.011
Minimum	1.16	18.36233	-433.3775
Std. Dev.	57.04387	6.393825	604.256
Skewness	0.558226	-0.265567	0.357986
Kurtosis	2.110476	1.765545	1.712563
Jarque-Bera	0.594335	0.526745	0.632949
Probability	0.74292	0.768456	0.728714
Sum	436.5	195.4419	2355.634
Sum Sq. Dev.	19524.02	245.286	2190752
Observations	7	7	7
C.V.	0.91479292	0.229003	1.7956068
CAGR(	1.76	0.1227354	0.0752858

**Appendix 3: Test for Equality of Medians between Series**

Test for Equality of Means Between Series				
Date: 08/30/17 Time: 20:51				
Sample: 1 7				
Included observations: 7				
Method		df	Value	Probability
Anova F-test		(2, 18)	1.630051	<b>0.2235</b>
Welch F-test*		(2, 8.10013)	2.004964	<b>0.1962</b>
*Test allows for unequal cell variances				
Analysis of Variance				
Source of Variation		df	Sum of Sq.	Mean Sq.
Between		2	400362.6	200181.3
Within		18	2210521	122806.7
Total		20	2610884	130544.2
Category Statistics				
				Std. Err.
Variable	Count	Mean	Std. Dev.	of Mean
ADRs/GDRs	7	62.35714	57.04387	21.56056
ECBs	7	27.92027	6.393825	2.416639
FII's	7	336.5191	604.256	228.3873
All	21	142.2655	361.309	78.84409



**Appendix 4: Test for Equality of Medians between Series**

Date: 08/30/17 Time: 20:58					
Sample: 17					
Included observations: 7					
Method		df	Value	Probability	
Med. Chi-square		2	0.381818	0.8262	
Adj. Med. Chi-square		2	0.047727	0.9764	
Kruskal-Wallis		2	0.141002	0.9319	
Kruskal-Wallis (tie-adj.)		2	0.141002	0.9319	
van der Waerden		2	0.048215	0.9762	
Category Statistics					
			> Overall		
Variable	Count	Median	Median	Mean Rank	Mean Score
ADRs/GDRs	7	47.88	4	11.71429	0.053696
ECBs	7	28.38384	3	10.57143	-0.051229
FIIIs	7	14.0625	3	10.71429	-0.002467
All	21	28.38384	10	11	5.55E-17

**Appendix 5: Test for Equality of Variances between Series**

Date: 08/30/17 Time: 20:59					
Sample: 17					
Included observations: 7					
Method		df	Value	Probability	
Bartlett		2	58.92777	0	
Levene		(2, 18)	20.83497	0	
Brown-Forsythe		(2, 18)	5.192148	0.0166	
Category Statistics					
Variable	Count	Std. Dev.	Mean Abs.	Mean Abs.	Median Abs.
ADRs/GDRs	7	57.04387	46.54816	44.48	
ECBs	7	6.393825	5.129529	5.063304	
FIIIs	7	604.256	498.8043	452.739	
All	21	361.309	183.494	167.4274	
Bartlett weighted standard deviation: 350.4379					