



A STUDY ON THE IMPLICATIONS OF FOREIGN DIRECT INVESTMENT IN SELECTED INDUSTRIES

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Abstract: Foreign Direct Investment (FDI) has emerged as a critical driver of economic growth, industrial modernization, and global integration in developing economies. This study examines the implications of FDI in three key sectors — Agro and Food Processing, Manufacturing, and Infrastructure. Using financial tools including ratio analysis, DuPont analysis, and trend analysis over five financial years (2020–21 to 2024–25), the study evaluates the impact of foreign capital on profitability, liquidity, solvency, and overall financial performance. Key findings reveal consistent profitability (net profit margin ~12%), strong liquidity improvement (current ratio 2.33 to 6.59), declining leverage (D/E ratio 0.47 to 0.16), and growing shareholder equity (trend 100 to 207.62). The study concludes that well-directed FDI, supported by professional financial advisory, enhances long-term sustainability and competitiveness, while urging attention to declining ROI (33.38% to 23.53%) and asset utilization efficiency.

Index Terms - Foreign Direct Investment, FDI Implications, Financial Performance, Ratio Analysis, DuPont Analysis, Trend Analysis, Agro Processing.

I. INTRODUCTION

Foreign Direct Investment (FDI) plays an important role in a country's economic development. It helps move capital, technology, and management skills across borders. FDI refers to investments made by foreign entities in domestic businesses through ownership or controlling interest. In a developing economy like India, FDI has emerged as a major driver of industrial growth, job creation, and globalization. It offers a significant source of external funding that aids in business expansion and modernization.

By bringing in new technologies, better management practices, and global standards, FDI improves efficiency, productivity, and product quality. This study examines the effects of FDI in three key industries: Agro and Food Processing, Manufacturing, and Infrastructure. These sectors are heavily impacted by foreign investments and play a vital role in economic growth. In the agro sector, FDI enhances processing techniques, storage, and supply chain systems. In manufacturing, it increases production capacity, sparks innovation, and boosts competitiveness. In the infrastructure sector, FDI backs large development projects and helps lay the groundwork for industrial and economic progress.

The study also discusses the significance, effects, and challenges related to FDI in these industries. It aids decision-making by providing insights into financial performance, profitability, liquidity, and growth through tools like ratio, trend, and comparative analysis. FDI strengthens the financial status of firms, promotes technological progress, and creates jobs, all of which improve living standards and overall economic development. It also boosts global competitiveness, allowing firms to enter

international markets. However, FDI encounters challenges such as regulatory complexities, reliance on foreign capital, uneven distribution across sectors, cultural differences, and external economic factors. If not managed well, these challenges can threaten the stability and sustainability of investments. Overall, this study aims to assess how well FDI contributes to industrial development and long-term growth while highlighting the need for balanced policies and strategic planning to maximize its benefits.

II. OBJECTIVES OF THE STUDY

- To analyze the implications of Foreign Direct Investment (FDI) in Agro and Food Processing, Manufacturing, and Infrastructure industries.
- To examine the trend and flow of FDI in agriculture, manufacturing, and infrastructure sectors in India.
- To evaluate the impact of FDI on financial performance, productivity, and industry growth.
- To identify the opportunities and challenges in attracting foreign investment.
- To assess the contribution of FDI to employment generation, technological development, and economic growth.

III. REVIEW OF LITERATURE

Ali, Asgar Pal & Atreyee (2025) – Impact of FDI on Economic Growth and Employment in Indian Manufacturing and Service Sector: This study examines the relationship between FDI, economic growth, and employment across key sectors in India. The findings reveal that FDI contributes significantly to industrial development, innovation, and productivity. However, the impact on employment generation varies depending on the sector. The study concludes that strategic policies and strong domestic capabilities are essential to fully utilize the benefits of FDI.

Nair (2025) – Growth and Trends of FDI in Food Processing Industry: This research focuses on the trends and growth of FDI in India's food processing sector. The study finds that FDI enhances infrastructure, promotes technology transfer, improves food safety standards, and boosts exports. It also highlights the role of government policies in attracting foreign investments. The study concludes that FDI is a key driver for the expansion and modernization of the food processing industry.

Chawla & Kumar (2023) – FDI, International Trade and Global Value Chains in India: This study examines the role of FDI in enhancing India's participation in global value chains. The findings reveal that FDI helps improve trade integration and export performance. However, India still lags behind other countries in capturing value-added benefits. The study concludes that improving the quality of FDI and strengthening production capabilities are essential for better global competitiveness.

Rehman & Sohag (2022) – Impact of Sectoral Infrastructure on Export and FDI Inflow: This study investigates how infrastructure development influences FDI inflows and export performance in South Asian economies. The results indicate that sectors such as transport, energy, and telecommunications play a crucial role in attracting foreign investment. It also highlights the importance of institutional quality and human capital. The study concludes that strong infrastructure is a key factor in sustaining long-term FDI growth.

Bhattarai & Negi (2020) – FDI and Economic Performance of Firms in India: This study examines the impact of FDI on the performance of Indian manufacturing firms using empirical analysis. The findings show that FDI significantly improves sales, profitability, employment, and wages by complementing domestic investment with advanced technology and innovation. The study concludes that FDI plays a vital role in enhancing firm performance and supporting long-term economic growth.

IV. RESEARCH METHODOLOGY

Research Design

A research design serves as a foundational blueprint or structured plan that directs a research study from start to finish. It establishes a clear framework for collecting, measuring, and analyzing data. In the context of analyzing financial performance, a well-defined research design ensures that the approach taken is logical, systematic, and objective.

Analytical Research Design

Analytical research design involves looking at and analyzing data to find trends, relationships, and underlying causes. Examining a company's financial accounts, calculating important financial ratios, comparing trends over time, and examining the relationships between various financial components are all part of financial performance analysis. This includes more than just summarizing the data; it additionally involves analyzing it to arrive at informed inferences regarding the stability, performance, and financial health of the business.

Analytical Tools Used

Table 1: Summary of Analytical Tools Employed

S.No	Tool	Description
1	Ratio Analysis	Current Ratio, Quick Ratio, ROA, ROE, Gross/Net Profit Ratio, EPS, P/E Ratio, D/E Ratio, Proprietary Ratio
2	DuPont Analysis	ROI decomposed into Net Profit Ratio \times Capital Turnover — identifies specific drivers of performance
3	Trend Analysis	Trend percentage of Net Profit, Net Sales, Operating Profit, Shareholders' Equity, Current Assets, Liabilities, and Working Capital

V. DATA ANALYSIS AND INTERPRETATION

Liquidity Analysis

Liquidity ratios assess whether a company can pay its bills when they come due. A business might be profitable on paper but still face a cash crunch if its assets cannot be quickly converted. The following tables present current ratio and quick ratio for FY 2020–21 to 2024–25.

Table 2: Current Ratio (2020–21 to 2024–25)

Year	Current Assets (Rs. Cr.)	Current Liabilities (Rs. Cr.)	Current Ratio
2020-21	12,39,89,137	5,32,68,624	2.33
2021-22	14,77,73,579	5,43,67,574	2.72
2022-23	17,94,25,803	5,51,61,180	3.25
2023-24	18,51,75,598	4,63,06,584	4.00
2024-25	19,66,18,991	2,98,26,205	6.59

The current ratio increased significantly from 2.33 in 2020–21 to 6.59 in 2024–25, indicating a strong improvement in short-term liquidity. The company consistently maintained a ratio well above the standard benchmark of 2:1, reflecting excellent capacity to meet short-term obligations. The sharp improvement in 2024–25 is driven by simultaneous growth in current assets and a substantial decline in current liabilities.

Table 3: Quick Ratio (2020–21 to 2024–25)

Year	Liquid Assets (Rs. Cr.)	Current Liabilities (Rs. Cr.)	Quick Ratio
2020-21	8,15,12,519	5,32,68,624	1.53
2021-22	10,26,44,318	5,43,67,574	1.89
2022-23	12,64,31,824	5,51,61,180	2.29
2023-24	14,54,28,916	4,63,06,584	3.14
2024-25	14,82,19,824	2,98,26,205	4.97

The quick ratio increased from 1.53 in 2020–21 to 4.97 in 2024–25, reinforcing the observation on strong liquidity. The company demonstrates a high level of liquid assets available to meet immediate obligations, indicating conservative and efficient current asset management.

Profitability Analysis

Table 4: Return on Assets (ROA) — 2020–21 to 2024–25

Year	Net Profit (Rs. Cr.)	Total Assets (Rs. Cr.)	ROA (%)
2020-21	6,50,05,808	24,80,15,455	26.2
2021-22	7,95,76,178	28,60,48,320	27.8
2022-23	8,56,93,377	31,90,72,618	26.9
2023-24	8,07,73,280	33,80,64,520	23.9
2024-25	7,45,96,726	34,70,83,129	21.5

ROA declined from 26.2% in 2020–21 to 21.5% in 2024–25, indicating reduced efficiency in utilizing total assets. While the company's asset base grew substantially, profit growth did not keep pace, suggesting a need for improved asset productivity and capital allocation.

Table 5: Return on Equity (ROE) — 2020–21 to 2024–25

Year	Net Profit (Rs. Cr.)	Shareholders' Equity (Rs. Cr.)	ROE (%)
2020-21	6,50,05,808	13,22,64,315	49.15
2021-22	7,95,76,178	17,42,36,428	45.67
2022-23	8,56,93,377	21,14,58,712	40.52
2023-24	8,07,73,280	24,34,71,526	33.18
2024-25	7,45,96,726	27,46,28,410	27.16

ROE decreased from 49.15% in 2020–21 to 27.16% in 2024–25. Although the equity base grew continuously due to retained earnings, the profit generated from it has not increased proportionally. This reflects the dilution effect of an expanding equity base on per-unit shareholder returns.

Table 6: Gross Profit Ratio and Net Profit Ratio — 2020–21 to 2024–25

Year	Gross Profit Ratio (%)	Net Profit Ratio (%)
2020-21	40.59	11.89
2021-22	40.47	11.85
2022-23	40.50	11.81
2023-24	40.48	11.88
2024-25	40.52	12.08

Both gross profit ratio (~40%) and net profit ratio (~12%) remained remarkably stable across the five-year period. This consistency indicates disciplined cost management, stable production efficiency, and effective control over operating expenses. The slight uptick in net profit margin to 12.08% in 2024–25 reflects improving cost efficiency.

Table 7: Earnings Per Share (EPS) and P/E Ratio — 2020–21 to 2024–25

Year	Net Profit (Rs.)	No. of Shares	EPS (Rs.)	Market Price (Rs.)	P/E Ratio
2020-21	6,50,05,808	85,00,000	7.65	100	13.07
2021-22	7,95,76,178	85,00,000	9.36	110	11.75
2022-23	8,56,93,377	85,00,000	10.08	125	12.40
2023-24	8,07,73,280	85,00,000	9.50	140	14.74
2024-25	7,45,96,726	85,00,000	8.78	155	17.65

EPS rose from Rs. 7.65 to Rs. 10.08 (2022–23) and then declined to Rs. 8.78 in 2024–25, reflecting fluctuations in net profit. The P/E ratio increased consistently from 13.07 to 17.65, indicating growing investor confidence and positive market expectations about the company's future growth despite the earnings fluctuation.

Solvency and Leverage Analysis

Table 8: Debt-to-Equity and Proprietary Ratio — 2020–21 to 2024–25

Year	Shareholders' Equity	Long-Term Debt	D/E Ratio	Total Assets	Proprietary Ratio
2020-21	13,22,64,315	6,24,82,516	0.47	24,80,15,455	0.53
2021-22	17,42,36,428	5,74,44,318	0.33	28,60,48,320	0.61
2022-23	21,14,58,712	5,24,52,726	0.25	31,90,72,618	0.66
2023-24	24,34,71,526	4,82,86,410	0.20	33,80,64,520	0.72
2024-25	27,46,28,410	4,26,28,514	0.16	34,70,83,129	0.79

The debt-to-equity ratio declined sharply from 0.47 to 0.16, indicating reduced dependence on long-term debt and a stronger financial structure with greater reliance on shareholders' funds. Correspondingly, the proprietary ratio increased from 0.53 to 0.79, confirming that a larger proportion of assets are now financed by equity, improving financial stability and reducing financial risk for the company.

DuPont Analysis of Return on Investment

The DuPont analysis decomposes ROI into its constituent drivers — Net Profit Ratio and Capital Turnover — to identify the specific factors influencing performance. The formula applied is: $ROI = \text{Net Profit Ratio} \times \text{Capital Turnover}$.

Table 9: DuPont Analysis — ROI Decomposition (2020–21 to 2024–25)

Year	Net Sales (Rs. Cr.)	Net Profit (Rs. Cr.)	Capital Employed (Rs. Cr.)	Net Profit Ratio (%)	Capital Turnover	ROI (%)
2020-21	54,23,48,615	6,50,05,808	19,47,46,831	11.98	2.78	33.38
2021-22	66,57,92,431	7,95,76,178	23,16,80,746	11.95	2.87	34.34
2022-23	71,98,36,542	8,56,93,377	27,39,11,438	11.90	2.63	31.28
2023-24	67,48,92,215	8,07,73,280	29,17,15,986	11.97	2.31	27.69
2024-25	61,26,54,788	7,45,96,726	31,71,56,924	12.18	1.93	23.53

The DuPont analysis reveals that the ROI decline from 33.38% (2020–21) to 23.53% (2024–25) is primarily attributable to a significant drop in capital turnover from 2.78 to 1.93 times. Net profit margins remained remarkably stable throughout (11.98% to 12.18%), indicating that profitability management is not the issue. The declining capital turnover suggests that capital employed is growing faster than sales, pointing to a need for better asset utilization and revenue acceleration.

Trend Analysis

Table 10: Trend Analysis Summary (Base Year: 2020–21 = 100)

Indicator	2020-21	2021-22	2022-23	2023-24	2024-25
Net Profit	100	122.41	131.83	124.25	114.76
Net Sales	100	122.76	132.73	124.44	112.96
Operating Profit	100	122.42	131.82	124.25	114.76
Shareholders' Equity	100	131.73	159.87	184.02	207.62
Current Assets	100	119.18	136.64	149.38	158.58
Current Liabilities	100	102.06	103.54	86.91	55.99

Working Capital	100	132.08	161.56	196.41	235.84
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The trend analysis reveals three distinct patterns. Net profit, net sales, and operating profit followed a growth-then-decline trajectory — peaking in 2022–23 before moderating in subsequent years, though remaining comfortably above base year levels. Shareholders' equity and current assets showed consistent upward trends, reflecting strong wealth creation and improving liquidity. Most notably, current liabilities declined sharply (to 55.99% of base) while working capital surged to 235.84%, confirming exceptional short-term financial management.

VI. SUMMARY OF KEY FINDINGS

- The current ratio improved substantially from 2.33 to 6.59, and the quick ratio from 1.53 to 4.97, indicating exceptional short-term liquidity and a strong capacity to meet immediate obligations.
- ROA declined from 26.2% to 21.5% and ROE from 49.15% to 27.16%, reflecting reduced efficiency in asset and equity utilization despite growing asset and equity bases.
- Gross profit ratio remained stable at approximately 40% and net profit ratio at ~12% throughout the period, indicating consistent cost control and stable profitability.
- EPS peaked at Rs. 10.08 in 2022–23 and declined to Rs. 8.78 in 2024–25, while P/E ratio rose from 13.07 to 17.65, indicating increased market confidence despite earnings fluctuation.
- The debt-to-equity ratio decreased from 0.47 to 0.16 and the proprietary ratio rose from 0.53 to 0.79, demonstrating significantly reduced financial risk and improved financial structure.
- DuPont analysis confirms that the ROI decline (33.38% to 23.53%) is driven primarily by falling capital turnover (2.78 to 1.93), not by profitability deterioration — indicating an asset utilization issue.
- Net profit, net sales, and operating profit trends all peaked in 2022–23 before moderating, signaling a need for renewed revenue momentum.
- Shareholders' equity trend increased continuously to 207.62, working capital to 235.84, and current assets to 158.58, confirming strong financial health on multiple dimensions.

VII. SUGGESTION

Improvements need to be made on capital efficiency through better use of resources, avoiding low-yielding investments and improvement in the relationship between revenues and capital employed. At the same time, faster growth in income needs to be made possible, taking into consideration the fact that slower growth in both net sales and operating profit emphasizes the need for better marketing policies, expansion, product positioning and customer reach.

Even though liquidity ratios look healthy, working capital optimization is important to avoid idle cash while maintaining the appropriate balance of current assets and liabilities. This will make sure that higher profits are realized without compromising stability in any way. Low debt equity ratio of 0.16 shows under-utilization of financial leverage and well planned borrowing can help in expanding operations with risks kept at moderate levels. Return on investment declining is another indication that cost management should be improved, leading to more efficiencies from operations such as cutting down wastage and costs in general. Improvements in production methods and adoption of modern techniques could also go a long way in making the operation profitable. Optimization in FDI benefits can be made through better technology absorption, exports and innovations.

VIII. CONCLUSION

Foreign Direct Investment has been found to have positive effects on the growth and performance of the industries. It assists in efficient management of operations, application of advanced technologies, and expanding of business operations. For instance, in sectors like agro-processing, manufacturing, and infrastructure, FDI makes a significant contribution towards the progress of industries and their productivity levels. In the financial aspect of the study regarding the client's firm, it has been established that there are advantages of FDI in terms of profitability and sustainability of the operations. Nonetheless, some concerns including regulatory issues and dependency on foreign resources require to be handled very carefully. Financial advisory organizations should assist greatly in attracting investment opportunities.

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