

# Impact of FDI on Performance of Select Private Sector Banks in India

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## Abstract

Foreign direct investment (FDI) is considered to be the lifeblood of economic development, especially for a developing country like India. It plays an important role in the long-run development of a country not only as a source of capital, but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity, and generating employment opportunities. The financial sector is always the key sector for the overall development of any country, and the banking sector is the primary sector amongst all. Indian banking has come a long way since India adopted economic reforms in 1991. Today, Indian banks are as technology savvy as their counterparts in the developed countries. The competitive and reform forces have led to the emergence of the Internet, e-banking, ATM, credit cards, and mobile banking too in order to attract and retain the customers by a bank. This paper aimed at examining the impact of foreign direct investment on performance of select private sector banks such as Kotak Mahindra Bank Limited and IndusInd Bank Limited. Multiple linear regression technique was adopted to study the impact. This paper found that FDI had a significant positive impact on total business, business per employee (BPE), and total income of the banks; however, FDI had a negative impact on profit per employee (PPE) and total net profits of the selected banks.

**Key words:** FDI, banking sector, productivity, profitability, multiple linear regression technique, Kotak Mahindra Bank Ltd. , IndusInd Bank Ltd.

**JEL Classification:** C12, C35, C51, C88, E22, F22, G21, Y10

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Foreign direct investment (FDI) is considered to be the lifeblood of economic development, especially for a developing country like India. It plays an important role in the long-run development of a country not only as a source of capital, but also for enhancing the competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity, and generating employment opportunities (Kumar & Gupta, 2012). FDI is generally viewed as an engine for the development and transfer of technology. FDI occurs mainly in two forms, namely greenfield investment and mergers & acquisitions (Ramakrishna, 2011). Furthermore, FDI plays a vital role in the economy because it does not only provide opportunities to host countries to enhance their economic development, but also opens new vistas to home countries to optimize their earnings by employing their ideal resources.

According to the International Monetary Fund, FDI is defined as the investments that are made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor's purpose is to have an effective voice in the management of the enterprise (as cited in Organization for Economic Cooperation and Development [OECD], 2008). In India, FDI is considered as a development tool, which can help in achieving self-reliance in all the sectors of the economy.

India's rich and diversified resources, its sound economic policy, good market conditions, and highly skilled

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human resources make it a proper destination for investment (Sharma & Singh, 2013). According to the *World Investment Report 2014* released by the UNCTAD (2014), FDI inflows to India increased by about 26% to US\$ 35 billion in 2014 despite macroeconomic uncertainties and financial risks. However, India slipped by one notch to the fourth position in the latest ranking of most favoured destinations for investment by Transnational Corporations (UNCTAD's WIR, 2014).

## FDI in the Indian Banking Sector

Indian banking has come a long way since India adopted reforms path in 1991. Today, Indian banks are as technology savvy as their counterparts in developed countries. The competitive and reform forces have led to the emergence of Internet, e-banking, ATM, credit cards, and mobile banking too in order to attract and retain the customers by banks. As a result of liberalization, privatization, and globalization mode, Indian banks are going global and many global banks are setting up their business in India (Laghane, 2007). Furthermore, FDI in the banking sector ensures to provide the benefits of technology transfer, better risk management, financial stability and better capitalization, integration into global economy, knowledge transfer, and increasing competition. FDI in the banking sector can solve various problems of the overall banking sector, such as:

- ✧ Lack of innovative financial products and services,
- ✧ Problem of inefficient management,
- ✧ Non-performing assets,
- ✧ Financial instability,
- ✧ Poor capitalization, and
- ✧ Changing financial market conditions.

If we consider the root cause of all these problems, the reason is low-capital base and the entire problem is the outcome of the transactions carried over in a bank without a substantial capital base. In a nutshell, it can be said that FDI is a non-debt inflow which will directly solve the problem of capital base (Badade & Katkar, 2011).

## FDI Ceiling in the Banking Sector

**(1) Private Sector Banks :** FDI in the banking sector was liberalized by raising the FDI limit in the private sector banks to 74% including investment by foreign institutional investors in India in 2005. The aggregate foreign investment in a private bank from all sources can be 74% of paid-up capital of the bank. FDI is allowed in private banks under automatic route up to 49% and beyond 49%, and up to 74% FDI is allowed under the government approval route.

**(2) Public Sector Banks :** FDI and portfolio investment in nationalized banks are subject to overall statutory limit of 20%. The same ceiling also applies in respect of such investments in State Bank of India and its associate banks. FDI is allowed in public sector banks only through the government approval route (DIPP FDI Policy, 2014).

## FDI Inflows in the Banking Sector in India

The data pertaining to financial year-wise FDI inflows in the banking sector from 2000-01 to 2013-14 has been shown in the Table 1 and Figure 1 both in terms of crores (₹) and US\$ million (FDI Data Cell, 2014). It is evident from the Table 1 that the total amount of FDI equity inflows received in the banking sector over the last 14 years

**Table 1. Financial Year -Wise FDI Inflows in the Banking Sector in India**

Financial Year (Apr-March)	Amount of FDI Inflows		%age of growth over the previous Year FDI Inflows (US \$ mn)
	(In ₹ crore)	(In US \$ million)	
2000-01	50.54	11.75	-
2001-02	0	0	-
2002-03	484.16	101.29	(+) 762
2003-04	36.51	7.94	(-) 92
2004-05	397.12	86.81	(+) 993
2005-06	561.41	126.57	(+) 46
2006-07	1093.55	242.88	(+) 92
2007-08	4351.18	1087.77	(+) 348
2008-09	3130.47	693.85	(-) 36
2009-10	805.75	169.98	(-) 76
2010-11	2561.44	570.35	(+) 236
2011-12	162.70	32.03	(-) 94
2012-13	545.35	100.03	(+) 212
2013-14	2882.80	478.14	(+) 378
<b>Total</b>	<b>17062.98</b>	<b>3709.39</b>	-
<b>CAGR</b>	<b>33.49%</b>		

Source: DIPP's FDI Data base

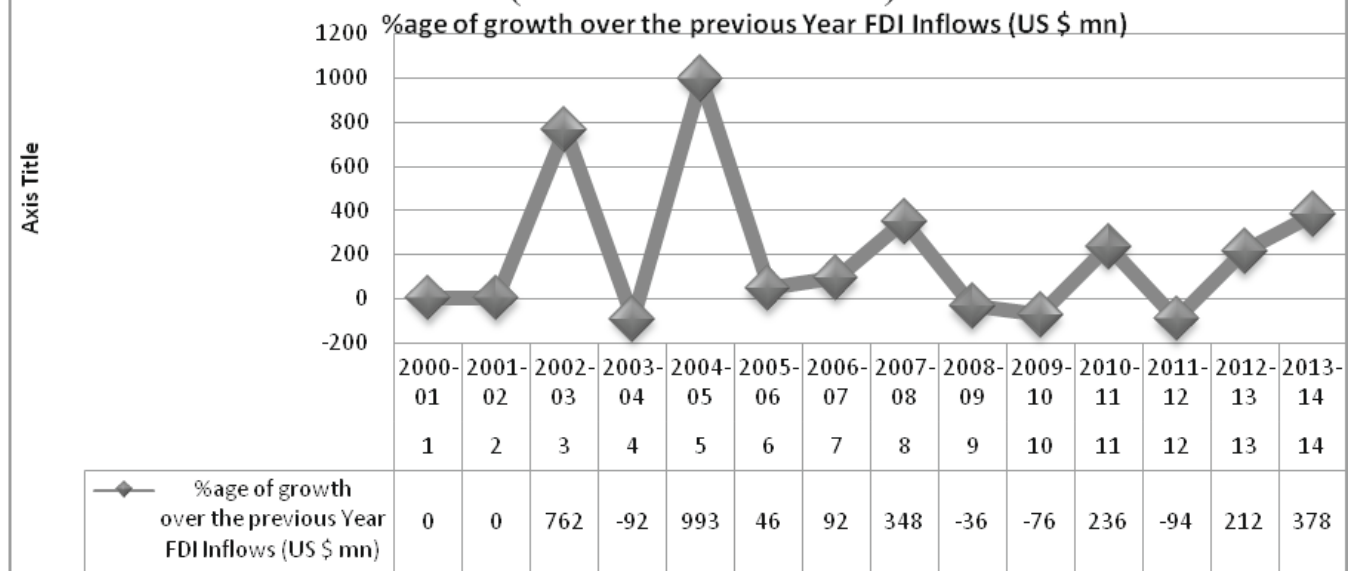
was US\$ 3709.39 million, which accounted for 9.4% of the total FDI inflows of the service sector. FDI equity inflows in the banking sector registered a CAGR of 33.49% over the last 14 years. The Table shows that FDI inflows increased from US\$ 11.75 million in 2000-01 to US\$ 126.57 million in 2005-06. Dramatically, FDI inflows increased to US\$ 1087.77 million in 2007-08, which accounted for 29.32% of total FDI inflows of the banking sector and is considered to be the maximum. The main reason for substantial increase of FDI inflows was further liberalization of FDI ceiling from 49% to 74% in the private sector banks in 2005. In a sharp contrast, FDI inflows decreased from US\$ 693.85 million in 2008-09 to US\$ 32.03 million in 2011-12, and later increased to US\$ 478.14 million in 2013-14. It is observed that the FDI inflows growth momentum started in the banking sector in 2013-14.

It can be seen from the Figure 1 that the growth rate of FDI equity inflows in the banking sector in 2002-03 was 762% and declined to 92% in the year 2003-04. Dramatically, in the year 2004-05, the growth rate climbed up to 993% over the previous year FDI inflows. This was because of the opening up of automatic route for FDI in the sector and raising the FDI ceiling in the banking sector. Later, there were fluctuations in the growth rate of FDI inflows. While the growth rate swelled to 348% in the year 2007-08, however, the growth rate declined to -36% and -76% in the years 2008-09 and 2009-10, respectively. In 2010-11, the banking sector witnessed a growth rate of 236% in FDI inflows. Interestingly, again, the growth momentum started in the year 2012-13 with 212% growth, and increased to 378% in the year 2013-14. On the whole, it is observed that there has not been a constant growth in FDI equity inflows in the banking sector over the last 14 years.

## Review of Literature

Patil (2014) analyzed the performance of Indian FDI and non-FDI banks. She used the free programmable software R to study the impact of FDI on performance of the banks. The study concluded that the productivity of

**Figure 1. Chart 1: Financial Year wise FDI Inflows in Banking Sector  
(From 2000-01 to 2013-14)**



Indian banks had increased to some extent in the FDI liberalized period. The study showed a significant positive impact on return on asset (ROA) and total business of the banks, but showed a negative impact on the total net profits and income of the banks. This means that except ROA and total business, other profitability parameters did not show a significant impact of the liberalized FDI policy. The study found mixed results in overall performance of Indian FDI banks.

Garg (2013) stated that FDI in the banking sector can address several issues pertaining to the sector such as encouraging development of innovative financial products, improving the efficiency of the banking sector, and can instill a better ability to adapt to changing financial market conditions. Finally, she concluded that growth and diversification in the banking sector had transcended limits all over the world. The author also observed that the banking sector has not been fully globalized. Furthermore, the study explored that FDI in the banking sector also assured better capitalization and offered financial stability.

Sabitha (2013) emphasized that FDI is considered to be the life blood and an important vehicle for economic development as far as the developing nations are concerned. The important effect of FDI is its contribution to the growth of the economy. She concluded that there was a high degree of positive correlation between FDI and economic development in India.

Kumar and Gupta (2012) highlighted that the developing countries had changed their attitude towards FDI because it is believed that FDI can contribute to the development of a country. The study concluded that over the last decade, the fast pace of economic growth and progressive policy liberalization has made India an attractive destination for world's investments.

Laghane (2011) empirically examined the impact of FDI model on borrower account, bank branches, time deposits, and profitability of domestic and foreign banks. Finally, he concluded that the LPG sponsored FDI model's impact on foreign banks' and Indian banks' profitability was positive. The impact of FDI on Indian banking sector was negative except for profitability.

## Objectives of the Study

(1) To study the impact of FDI on productivity of select private sector banks in India.

(2) To study the impact of FDI on profitability of select private sector banks in India.

## Main Hypotheses

The following are the main hypotheses of the present study :

- ✍ **H0 1 :** There is no significant impact of FDI on productivity of select private sector banks in India.
- ✍ **H0 2 :** There is no significant impact of FDI on profitability of select private sector banks in India.

## Sub Hypotheses

In order to find out the impact of FDI on profitability variables and productivity variables of select private sector banks, the following sub hypotheses were formulated and tested :

- ✍ **H01:** There is no significant impact of FDI on business per employee (BPE) of select private sector banks in India.
- ✍ **H02:** There is no significant impact of FDI on profit per employee (PPE) of select private sector banks in India.
- ✍ **H03 :** There is no significant impact of FDI on total net profit of select private sector banks in India.
- ✍ **H04 :** There is no significant impact of FDI on total income of select private sector banks in India.
- ✍ **H05 :** There is no significant impact of FDI on total business of select private sector banks in India.

## Research Methodology

In order to achieve the objectives of the study and to analyze the different factors considered, an appropriate methodology has been adopted. The present study is a descriptive as well as analytical research.

**(1) Banks Selected for the Study:** Among the private sector banks, the banks that attracted the highest FDI are Kotak Mahindra Bank Limited, IndusInd Bank Limited, Yes Bank Limited, and ING Vysya Bank. For this study, Kotak Mahindra Bank Limited and IndusInd Bank Limited were selected for the present study .

**(2) Data Collection:** The present study is mainly based on secondary data. The secondary data for the study was collected from various sources such as Economic Survey of India, annual publications of Ministry of Finance, Ministry of Commerce and Industry, RBI, Department of Industrial Policy & Promotion publications, Secretariat for Industrial Assistance (SIA) newsletters, UNCTAD's world investment reports, annual reports of select private sector banks, and so forth.

**(3) Statistical Tool :** Multiple linear regression analysis technique was used to study the impact of FDI on performance of select private sector banks with the help of Statistical Package for Social Sciences (SPSS).

**(4) Model Used :** The performance of the select banks was measured on the basis of two variables such as productivity and profitability of the banks. The productivity, in turn, was measured by taking into consideration the variables such as business per employee (BPE) and profit per employee (PPE). On the other hand, profitability was ascertained based on the variables such as total net profit, total income, and total business. Hence, for the

purpose of the present study, the following multiple linear regression equation has been used (Kothari, 2010) :

$$\text{Performance} = f \{FDI, EXP, EMPL, ADV, INCM\} \dots\dots\dots (1)$$

where,  
 performance = productivity and profitability,  
*FDI* = foreign direct investment,  
*EXP* = expenses,  
*EMPL* = employees,  
*ADV* = advances,  
*INCM* = income,

To study the impact of FDI on performance of select private sector banks, the following multiple linear regression model has been used:

$$\check{Y} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_n X_n \dots\dots\dots (2)$$

where,  
 $\check{Y}$  = Predicted or expected value of the dependent variables.  
 $X_{123..n}$  = Distinct independent or predicted variables.  
 $\beta_0$  = The value of  $\check{Y}$  when all of the independent variables ( $X_{1to n}$ ) are equal to zero.  
 $\beta_{123..n}$  = The estimated regression coefficients.

**(5) Period of the Study :** The present study covers the total FDI inflows data - year wise, country wise, and region-wise from the financial year 2000-01 to 2013-14, that is, the study considers a period of 14 years in the banking sector in India.

**Table 2. Multiple Linear Regression Results of Impact of FDI on Business per Employee of KMBL**

Model: $BPE = FDI + EXP + EMPL + ADV$								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	t-value	p- value	R-Square	Adjusted R Square	Significant
	B	Std. Error	Beta					
(Constant)a	372.185	44.934		8.283	.000	.978	.978	*
FDI	-.055	.026	-.177	-2.164	.083			No
EXP	-.029	.021	-.640	-1.402	.220			No
EMPL	-.017	.012	-.350	-1.475	.200			No
ADV	.017	.005	1.946	3.352	.020			Yes

F-statistics: 54.422 on 4 and 9 DF, P-value: 0.000

Multiple Regression Equation:  $y = 372.18 - 0.055(FDI) - 0.029 (Expenses) - 0.017 (EMPL) + 0.17 (Adv)$

a. Dependent Variable: BPE

**Table 3. Multiple Linear Regression Results of Impact of FDI on Business per Employee of IIBL**

Model: $BPE = FDI + EXP + EMPL + ADV$								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	t-value	p-value	R-Square	Adjusted R Square	Significant
	B	Std. Error	Beta					
(Constant)a	1022.639	31.525		32.439	.000	.963	.934	*
FDI	.259	.066	.830	3.901	.011			Yes
EXP	.006	.035	.125	.178	.865			No
EMPL	-.322	.069	-11.403	-4.641	.006			Yes
ADV	.079	.022	9.840	3.557	.016			Yes

F-statistic: 32.712 on 4 and 9 DF, P-value: 0.001

Multiple Regression Equation:  $y = 1022.639 + 0.259 (FDI) - 0.006 (EXP) - 0.322 (EMPL) + 0.079 (ADV)$

a. Dependent Variable: BPE

**Table 4. Multiple Linear Regression Results of Impact of FDI on Profit per Employee of KMBL**

Model: $PPE = FDI + EXP + EMPL + ADV$								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	t-value	p- value	R-Square	Adjusted R Square	Significant
	B	Std. Error	Beta					
(Constant)a	2.887	.908		3.179	.025	.954	.917	*
FDI	-.001	.001	-.143	-1.223	.276			No
EXP	-.002	.000	-2.555	-3.905	.011			Yes
EMPL	.000	.000	-.336	-.989	.368			No
ADV	.000	.000	3.745	4.501	.006			Yes

F-statistics: 25.877 on 4 and 9 DF, P-value: 0.002

Multiple Regression Equation:  $y = 2.887 - 0.001(FDI) - 0.002 (EXP) + 0.000 (EMPL) + 0.000(ADV)$

a. Dependent Variable: PPE

**Table 5. Multiple Linear Regression Results of Impact of FDI on Profit per Employee of IIBL**

Model: $PPE = FDI + EXP + INCM + ADV$								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	t-value	p-value	R-Square	Adjusted R Square	Significant
	B	Std. Error	Beta					
(Constant)a	-11.864	12.113		-.979	.372	.804	.647	*
FDI	.002	.002	.313	1.350	.235			No
EXP	-.554	.140	-1.374	-3.951	.011			Yes
INCM	.692	.200	1.083	3.465	.018			Yes
ADV	.010	.031	.095	.328	.756			No

F-statistics: 5.127 on 4 and 9 DF, P-value: 0.051

Multiple Regression Equation:  $y = -11.864 + 0.002(FDI) - 0.554 (EXP) - 0.692 (INCM) + 0.010(ADV)$

a. Dependent Variable: PPE



**Table 6. Multiple Linear Regression Results of Impact of FDI on Total Net Profit of KMBL**

Model: Net Profit = <i>FDI + EXP + EMPL + ADV</i>								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	<i>t</i> -value	<i>p</i> -value	<i>R</i> -Square	Adjusted <i>R</i> Square	Significant
	B	Std. Error	Beta					
(Constant)a	-59.989	57.456		-1.044	.344	.994	.990	*
FDI	-.012	.033	-.015	-.355	.737			No
EXP	-.153	.027	-1.317	-5.742	.002			Yes
EMPL	-.006	.015	-.052	-.440	.678			No
ADV	.052	.007	2.326	7.975	.001			Yes

F- statistics: 219.375 on 4 and 9 DF, P-value: 0.000

Multiple Regression Equation:  $y = -59.989 - 0.12 (\text{FDI}) - 0.153 (\text{EXP}) - 0.006 (\text{EMPL}) + 0.052 (\text{ADV})$

a. Dependent Variable: Net Profit

## Results and Discussion

**(1) Impact of FDI on Productivity :** The impact of FDI on productivity variables such as business per employee (BPE) and profit per employee (PPE) of select private sector banks such as Kotak Mahindra Bank Ltd. and IndusInd Bank Ltd. is discussed in the following paragraphs :

**(i) Business per Employee (BPE) :** The Table 2 shows the multiple linear regression results of impact of FDI on business per employee (BPE) of Kotak Mahindra Bank Limited. It can be seen from the multiple linear regression results (Table 2) that the FDI in KMBL is negative and its *t*-value is -2.164, and the *p*-value is 0.083, which is more than 0.05 (at 5% level of significance). Since the *p*-value is more than 0.05, the null hypothesis H01 is accepted. Hence, it can be concluded that FDI in Kotak Mahindra Bank Limited has no statistical significant impact on the business per employee of the bank.

The Table 3 portrays the multiple linear regression results of impact of FDI on business per employee (BPE) of IndusInd Bank Limited. From the Table 3 (which shows the multiple linear regression results), it is evident that the FDI is positive and its *t*-value is 3.901 and *p*-value is 0.011, which is less than 0.05 (5% level of significance). As the *p*-value is less than 0.05, the null hypothesis H01 is rejected. Hence, it can be inferred that FDI in IndusInd Bank Limited has a statistical significant impact on the business per employee (BPE) of the bank. Furthermore, it can be said that one unit change in FDI leads to a positive effect of 0.259 on business per employee (BPE) of IndusInd Bank Limited. Thus, the null hypothesis H01 that there is no significant impact of FDI on business per employee (BPE) of select private sector banks in India is rejected in case of IndusInd Bank Ltd. However, the null hypothesis H01 accepted in case of Kotak Mahindra Bank Ltd.

**(ii) Profit per Employee (PPE) :** The Table 4 represents the multiple linear regression results of impact of FDI on profit per employee (PPE) of Kotak Mahindra Bank Limited. It can be observed from the multiple linear regression results (Table 4) that the FDI is negative (-0.001) and its *t*-value is -1.223 and *p*-value is 0.276, which is more than 0.05 (at 5% level of significance). The null hypothesis (H02) is accepted, as the *p*-value is more than 0.05. Hence, it is to conclude that FDI in Kotak Mahindra Bank Limited has no statistical significant impact on the profit per employee (PPE) of the bank. Furthermore, it can be said that one unit change in FDI leads to a negative effect of 0.001 on profit per employee (PPE) of Kotak Mahindra Bank Limited.

The multiple linear regression results of impact of FDI on profit per employee (PPE) of IndusInd Bank Limited



**Table 7. Multiple Linear Regression Results of Impact of FDI on Total Net Profit of IIBL**

Model: Total Net Profit = <i>FDI + EXP + EMPL + ADV</i>								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	<i>t</i> -value	<i>p</i> -value	<i>R</i> -Square	Adjusted <i>R</i> Square	Significant
	B	Std. Error	Beta					
(Constant)a	-266.218	82.195		-3.239	.023	.982	.967	*
FDI	.139	.173	.120	.802	.459			No
EXP	-.096	.090	-.522	-1.062	.337			No
EMPL	-.114	.181	-1.090	-.630	.556			No
ADV	.074	.058	2.511	1.290	.254			No

F-statistics: 67.321 on 4 and 9 DF, P-value: 0.000

Multiple Regression Equation:  $y = -266.218 + 0.139 (\text{FDI}) - 0.096 (\text{EXP}) - 0.114 (\text{EMPL}) + 0.074 (\text{ADV})$

a. Dependent Variable: Total Net Profit

has been depicted in the Table 5. It can be analyzed from the multiple linear regression results (Table 5) that the FDI is positive (0.002) and its *t*-value is 1.350 and *p*-value is 0.235, which is more than 0.05 (at 5% level of significance). As the *p*-value is more than 0.05, the null hypothesis (H02) is accepted. Hence, it can be inferred that FDI in IndusInd Bank Limited has no statistical significant impact on the profit per employee of the bank. Therefore, the null hypothesis (H02) that there is no significant impact of FDI on profit per employee (PPE) of select private sector banks in India is accepted in case of both the banks under study.

**(2) Impact of FDI on Profitability :** In this section, an attempt has been made to analyze the impact of FDI on profitability variables such as total net profit, total income, and total business of select private sector banks such as Kotak Mahindra Bank Ltd. and IndusInd Bank Ltd.

**(i) Total Net Profit :** The Table 6 exhibits the multiple linear regression results of impact of FDI on total net profit of Kotak Mahindra Bank Limited. Analysis of the multiple linear regression results (Table 6) reveals that FDI in KMBL is negative (-.012) and its *t*-value is -0.355 and *p*-value is 0.737 which is more than 0.05 (at 5% level of significance). Since the *p*-value is more than 0.05, the null hypothesis H03 is accepted. Hence, it can be inferred that FDI in Kotak Mahindra Bank Limited is not showing statistically significant impact on the total net profit of the bank. Furthermore, it is observed that one unit change in FDI leads to a negative effect of -0.012 on net profit of KMBL and it is statistically not significant.

The Table 7 shows the multiple linear regression results of impact of FDI on total net profit of IndusInd Bank Limited. It is examined from the multiple linear regression results (Table 7) that while FDI is positive (.139), its *t*-value is 0.802 and *p*-value is 0.459, which is more than 0.05 (at 5% level of significance). The null hypothesis H03 is accepted, since the *p*-value is more than 0.05. Hence, it is concluded that FDI in IndusInd Bank Limited does not have a statistical significant impact on the total net profit of the bank. Furthermore, it is investigated that one-unit change in FDI leads to a positive effect of 0.139 on total net profit of IndusInd Bank Limited, but it is statistically not significant. Hence, the null hypothesis H03 that there is no significant impact of FDI on total net profit of select private sector banks in India is accepted in case of both the banks under study.

**(ii) Total Income :** The Table 8 exhibits the multiple linear regression results of impact of FDI on total income of Kotak Mahindra Bank Limited. It is evident from the multiple linear regression results (Table 8) that FDI is positive (.015) and its *t*-value is 0.084 and *p*-value is 0.936, which is more than 0.05 (at 5% level of significance).

**Table 8. Multiple Linear Regression Results of Impact of FDI on Total Income of KMBL**

Model: Total Income = <i>FDI + EXP + EMPL + ADV</i>								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	<i>t</i> -value	<i>p</i> -value	<i>R</i> -Square	Adjusted <i>R</i> Square	Significant
	B	Std. Error	Beta					
(Constant)a	-305.801	316.685		-.966	.379	.999	.998	*
FDI	.015	.181	.002	.084	.936			No
EXP	.920	.147	.707	6.254	.002			Yes
EMPL	-.037	.081	-.027	-.455	.668			No
ADV	.080	.036	.319	2.219	.077			No

F-statistics: 907.062 on 4 and 9 DF, P-value: 0.000

Multiple Regression Equation:  $y = -305.801 + 0.015 (\text{FDI}) + 0.920 (\text{EXP}) - 0.037 (\text{EMPL}) + 0.080 (\text{ADV})$

a. Dependent Variable: Total Income

**Table 9. Multiple Linear Regression Results of Impact of FDI on Total Income of IIBL**

Model: Total Income = <i>FDI + EXP + EMPL + ADV</i>								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	<i>t</i> -value	<i>p</i> -value	<i>R</i> -Square	Adjusted <i>R</i> Square	Significant
	B	Std. Error	Beta					
(Constant)a	-341.002	84.245		-4.048	.010	1.000	.999	*
FDI	-.196	.177	-.026	-1.106	.319			No
EXP	.434	.092	.365	4.705	.005			Yes
EMPL	.021	.185	.031	.113	.914			No
ADV	.120	.059	.624	2.029	.098			No

F-statistics: 2747.216 on 4 and 9 DF, P-value: 0.000

Multiple Regression Equation:  $y = -341.002 - 0.196 (\text{FDI}) + 0.434 (\text{EXP}) - 0.021 (\text{EMPL}) + 0.120 (\text{ADV})$

a. Dependent Variable: Total Income

Since the  $p$ -value is more than 0.05, the null hypothesis  $H_0$  is accepted. Hence, it can be concluded that FDI in Kotak Mahindra Bank Limited does not have a statistical significant impact on the total income of the bank. Furthermore, it can be said that one unit change in FDI leads to a positive effect of .015 on total income of Kotak Mahindra Bank Limited, but it is statistically not significant.

The Table 9 represents the multiple linear regression results of impact of FDI on total income of IndusInd Bank Limited. It is observed from the multiple linear regression results (Table 9) that FDI is negative (-.196) and its  $t$ -value is -1.106 and  $p$ -value is 0.319, which is more than 0.05 (at 5% level of significance). As the  $p$ -value is more than 0.05, the null hypothesis  $H_0$  is accepted. Hence, it can be inferred that FDI in IndusInd Bank Limited does not have a statistical significant impact on the total income of the bank. Furthermore, it is examined that one unit change in FDI leads to a negative effect of -0.196 on total income of IndusInd Bank Limited, and it is statistically not significant. Thus, the null hypothesis  $H_0$  is accepted in case of both the banks under study.

**(3) Total Business :** The Table 10 reveals the multiple linear regression results of impact of FDI on total business of Kotak Mahindra Bank Limited. From the multiple linear regression results (Table 10), it is clear that the FDI is positive (0.824) and its  $t$ -value is 0.193 and  $p$ -value is 0.854, which is more than 0.05 (at 5% level of significance).

**Table 10. Multiple Linear Regression Results of Impact of FDI on Total Business of KMBL**

Model: Total Business = FDI + EXP + EMPL + INV								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	t-value	p- value	R-Square	Adjusted R Square	Significant
	B	Std. Error	Beta					
(Constant)a	-2873.049	6756.562		-.425	.688	.988	.978	*
FDI	.824	4.260	.013	.193	.854			No
EXP	4.682	1.146	.509	4.086	.009			Yes
EMPL	1.212	1.999	.124	.606	.571			No
INV	1.736	.906	.385	1.917	.113			No

F-statistics: 101.908 on 4 and 9 DF, P-value: 0.000

Multiple Regression Equation:  $y = -2873.049 + 0.824(\text{FDI}) + 4.682(\text{EXP}) + 1.212(\text{EMPL}) + 1.736(\text{INV})$

a Dependent Variable: Total Business

**Table 11. Multiple Linear Regression Results of Impact of FDI on Total Business of IIBL**

Model: Total Business = <i>FDI + EXP + EMPL + INV</i>								
Model (Coefficients)	Un-standardized Coefficients		Standardized Coefficients	<i>t</i> -value	<i>p</i> -value	<i>R</i> -Square	Adjusted <i>R</i> Square	Significant
	B	Std. Error	Beta					
(Constant)a	4581.340	1349.763		3.394	.019	.999	.998	*
FDI	-5.646	2.307	-.071	-2.448	.058			Yes
EXP	2.736	.956	.217	2.862	.035			Yes
EMPL	4.479	1.066	.622	4.200	.008			Yes
INVS	1.144	.589	.214	1.941	.110			No

F-statistics: 1472.632 on 4 and 9 DF, P-value: 0.000

Multiple Regression Equation:  $y = 4581.340 - 5.646(\text{FDI}) + 2.736(\text{EXP}) + 4.479(\text{EMPL}) + 1.144(\text{INV})$

a Dependent Variable: Total Business

Since the *p*-value is more than 0.05, the null hypothesis (H05) is accepted. Hence, it can be concluded that FDI in Kotak Mahindra Bank Limited does not have a statistical significant impact on the total business of the bank. Furthermore, it is investigated that one unit change in FDI leads to a positive effect of 0.824 on total business of Kotak Mahindra Bank Limited, but it is statistically not significant.

The Table 11 portrays the multiple linear regression results of impact of FDI on total business of IndusInd Bank Limited. It can be seen from the multiple linear regression results (Table 11) that the FDI is negative (-5.646) and its *t*-value is -2.448 and *p*-value is 0.058, which is less than 0.05 (at 5% level of significance). Since the *p*-value is less than 0.05, the null hypothesis H05 is rejected. Hence, it can be concluded that FDI in IndusInd Bank Limited has a statistical significant impact on the total business of the bank. Therefore, the null hypothesis H05 that there is no significant impact of FDI on total business of select private sector banks in India is rejected in case of IndusInd Bank Ltd. However, it is accepted in case of Kotak Mahindra Bank Ltd.

**(4) Testing of Main Hypotheses :** On the whole, it can be inferred that the main null hypothesis H01 that there is no significant impact of FDI on productivity of select private sector banks in India is partially rejected in case of IndusInd Bank Ltd. However, it is fully accepted in case of Kotak Mahindra Bank Ltd. It means that except for

business per employee (BPE) in IndusInd Bank Ltd., the FDI in both the banks under study has no significant impact on productivity, that is, on BPE and PPE of KMBL and IIBL during the study period. On the other hand, the main null hypothesis H02 that there is no significant impact of FDI on profitability of select private sector banks in India is partially rejected in case of IndusInd Bank Ltd. and is fully accepted in case of Kotak Mahindra Bank Ltd. It means that except for total business in IndusInd Bank Ltd., FDI in both the banks under study has no significant impact on the profitability, that is, on total net profit, total income, and total business of Kotak Mahindra Bank Ltd. and IndusInd Bank Ltd. during the study period.

## Findings

(1) It is found that FDI equity inflows in the banking sector registered a compound annual growth rate of 33.49% and there has not been consistent growth in FDI equity inflows in the banking sector over the last 14 years, that is, from 2000-01 to 2013-14.

(2) Analysis of FDI inflows in the banking sector revealed that the total amount of FDI inflows was US\$ 3709.37 million, which accounted for 9.4% of total service sector FDI inflows. The highest amount of FDI inflows was US\$ 1087.77 million received in the year 2007-08, which accounted for 29.32% of total FDI inflows in the banking sector. The main reason for the substantial inflow was opening up of automatic route and rising of FDI ceiling from 49% to 74 % in the private sector banks.

(3) It is observed that the FDI in IndusInd Bank Limited has a statistical significant impact on business per employee (BPE) of that bank as it received FDI up to 71. 86% of paid up capital of that bank. On the other hand, FDI received in Kotak Mahindra Bank Limited has no statistical significant impact on business per employee (BPE) of the bank.

(4) It is observed that the FDI in Kotak Mahindra Bank Limited and IndusInd Bank Limited has no statistical significant impact on profit per employee (PPE) of both the banks. However, though FDI in IndusInd Bank Limited (.002) is positive, but it did not have any statistical significant impact on profit per employee (PPE) of the bank.

(5) It can be inferred that FDI in Kotak Mahindra Bank Limited does not have any statistical significant impact on total net profit of the bank. However, the FDI in IndusInd Bank Limited (.139) is positive and contributes to the total net profit of the bank, but does not show any statistical significant impact.

(6) It can be observed that the FDI in Kotak Mahindra Bank Limited (0.015) is positive, but does not have any statistical significant impact on total income of the bank. On the other hand, the FDI in IndusInd Bank Limited (-.196) is negative, and does not show any statistical significant impact on total income of the bank.

(7) It is found that the FDI in IndusInd Bank Limited has a statistical significant impact on total business of the bank. However, it is observed that the FDI in Kotak Mahindra Bank Limited (0.824) is positive and contributes to the total business of the bank, but does not have any statistical significant impact on the total business of the bank.

## Suggestions

(1) FDI in IndusInd Bank has a significant impact on business per employee (BPE) and total business of the bank

and positively contributes to profit per employee (PPE) and total net profit as the bank attracted FDI inflows up to 71.86% of paid up capital. Hence, it is suggested that the bank can attract FDI inflows up to 74% to improve performance of the bank as and when it requires additional capital.

**(2)** FDI in Kotak Mahindra Bank Limited positively contributes to business per employee (BPE), total income, and total business of the bank, but statistically is not significant, as it received FDI inflows around 45% of paid up capital. It is suggested that Kotak Mahindra Bank Limited can raise the FDI inflows from the present 45% of paid up capital to 74% so as to improve the financial performance in the advent of FDI in the years to come.

The present study explores the FDI inflows in the Indian banking sector and ascertained the impact of FDI on the performance of select private sector banks such as Kotak Mahindra Bank Limited and IndusInd Bank Limited. As it is evident from the study, that there has not been a consistent growth in FDI inflows in the banking sector. The growth momentum started in FDI inflows from the year 2012-13. On the whole, it can be inferred that there are mixed results about the impact of FDI on performance of the two select private sector banks. Thus, on the whole, it can be inferred that FDI in the Indian banking sector is a boon in disguise.

## **Conclusion**

There is no doubt that foreign direct investment (FDI) is considered to be the lifeblood of economic development, especially for the developing and underdeveloped countries. After elaborate study and analysis of all the objectives and examination of the hypotheses regarding the present study, we can conclude that there are mixed results of the impact of FDI on overall performance of select private sector banks in India. It is observed that productivity has improved due to competition of new entrant banks with FDI. FDI in select private sector banks has a significant impact on business per employee (BPE), total business, and total income. FDI in select private sector banks has a negative impact on profit per employee and total net profit. On the whole, it can be concluded that FDI in the banking sector increases healthy competition, ensures to provide innovative financial products and services, leads to better management, control on NPAs, and provides employment opportunities. Furthermore, it can be said that the more FDI in the bank, the more is the significant impact on the performance of that bank as it is found from the present study. Hence, FDI in the Indian banking sector can be welcomed to accelerate the performance of the select banks.

## **Limitations of the Study and Scope for Further Research**

The present study is only based on the secondary data and is confined to only two select private sector banks in India which attracted more FDI inflows. The multiple linear regression model has been used to examine the impact of FDI on performance of the banks for the last 10 years, that is, 2004-05 to 2013-14 as the selected banks attracted FDI inflows during the said period. The inferences drawn from the present study cannot be generalized to other banks as FDI inflows vary from one bank to another.

The Indian banking sector witnessed sea changes after the 1991 policy initiatives. There is a vast scope for further research in the areas of performance of the Indian banking sector in the light of FDI. The important areas for further research are : (a) performance evaluation of Indian FDI and non-FDI banks, (b) a comparative analysis on impact of FDI on performance of Indian public and private sector banks, (c) impact of FDI on performance of foreign banks operating in India.

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