



## Foreign Shareholdings on Bombay Stock Exchange –An Empirical Assessment

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### ABSTRACT

*The objective of this paper is to investigate the pattern and variation of foreign shareholdings for a balanced panel of 201 publicly traded Indian firms listed on the Bombay Stock Exchange (BSE) using the data for the end of financial years 2007-2008 and 2013-2014. The total shareholdings have increased from 18.84% to 20.38% with the maximum share and highest change in the share of foreign institutional investor. The highest average foreign shareholding is in FMCG sector which is 33.33%. SEBI has simplified the overall operation of making foreign portfolio investments which is expected to boost foreign investment in India.*

**KEYWORDS :** Foreign shareholdings, Bombay Stock Exchange, India

### INTRODUCTION

The investment decisions of investors are based on financial and non-financial considerations which include return on investment, the macro-economic policy framework, investment climate and infrastructure in the host country, and their own investment policies. The Indian government has taken various measures to boost the investment environment and bring in foreign investments, upon all the major sectors of the economy since the time economic reforms were initiated in 1991. More and more foreign direct investment proposals are put in the automatic route. Broader and deeper financial markets emerge in the presence of strong investor protections, fostering more outside financing and better corporate financial performance. The foreign investment in India has increased significantly since 1990's. A study by Kaur and Gill (2008) found that during the period 2001 to 2006, the foreign institutional investment increased by 164 percent in India. This growth of shareholdings has continued since then and is expected to boost further. The present study is an attempt to study the pattern and variation of foreign shareholdings in the companies listed on BSE.

### RESEARCH METHODOLOGY

The present study is limited to the companies listed on the S&P BSE 500 Index of the Bombay Stock Exchange (BSE) of India as on March 31, 2014. BSE index is a representative index that covers nearly 93% of the total market capitalisation and all major industries of the economy. The pattern of change in foreign shareholdings is studied through the end of financial years 2007-2008 to 2013-2014. Out of the S&P BSE 500 companies listed as on March 31, 2014, we could collect complete information for 201 companies for the years under study that is, 2007-2008 and 2013-2014 after excluding banking and financial services ones. The data has been taken from Prowess, a database of Indian Companies, maintained by the Centre for Monitoring the Indian Economy (CMIE) and website of BSE and sample companies.

S. No.	Industry	Number of Companies
1	Basic Materials	29
2	Consumer Discretionary Goods & Services (CDGS)	47
3	Diversified	3
4	Energy	8
5	Fast Moving Consumer Goods (FMCG)	17
6	Healthcare	22
7	Industrials	43
8	Information Technology	16

9	Telecom	5
10	Utilities	11
	Total	201

Source: Authors Calculations

Table 1 outlines the industry wise profile of the firms included in the sample. The sample is represented evenly by all the industry groups of the Indian economy

### RESULTS AND ANALYSIS

The total foreign shareholdings in a firm are further divided into three groups, namely, foreign promoters, foreign institutional investors and foreign venture capital fund. Table 2 shows foreign shareholding of sample companies and its division amongst the three types of foreign owners as of the end of the financial years for the period of study 2007-2008 and 2013-2014. The total shareholdings have increased from 18.84% to 20.38% with the maximum share and highest change in the share of foreign institutional investor. The share of foreign promoters has been nearly same over the six year period under study. The foreign venture capital shareholdings have increased but are still very low.

Category of foreign shareholder	2008	2014	Average
Foreign Promoter	7.78	7.27	7.53
Foreign Institutional Investor	11	14.46	12.73
Foreign Venture Capital Fund	0.06	0.18	0.12
Foreign Ownership (total )	18.84	21.92	20.38

Source: Authors Calculations

Table 3 outlines the industry wise breakup of the sample firms together with the respective foreign shareholdings as at the end of two FY's. The foreign shareholding increased significantly in FMCG (10%) industry. Information Technology (IT) and Healthcare also witnessed increase in foreign shareholding by nearly 6%. FMCG and IT are the major receivers of foreign capital.

Industry	Foreign Shareholding		
	2008	2014	Average
Basic Materials	12.88	14.8	13.84
Consumer Discretionary Goods & Services (CDGS)	18.22	21.4	19.81

Diversified	6.64	5.87	6.26
Energy	10.9	11.08	10.99
Fast Moving Consumer Goods (FMCG)	28.37	38.28	33.33
Healthcare	15.75	21.28	18.51
Industrials	21.18	22.69	21.93
Information Technology	29.81	35.65	32.73
Telecom	14.32	15.44	14.88
Utilities	15.12	10.18	12.65
Grand Total	18.84	21.92	20.38

The number of sample companies in the various ranges of foreign shareholdings is exhibited in Table 4 (Panel A). It is apparent that the foreign shareholders have invested within the range of 5 to 20 percent in the highest number of sample companies (78), followed by less than 5 percent (53), followed by 20 to 35 percent (38), followed by investment in 16 companies which is 35 percent and above in the first year of study. For the range of holding less than 5 percent, there was a fall from 53 companies in 2008 to 37 companies in 2014. The number of companies increased in the rest of the ranges other than one where the number does not change. This suggests that foreign shareholdings have changed from a less than 5 percent share to a higher one. Panel B of the table 4 shows that there was no change in the foreign holding of only one company in the sample companies. 132 companies had an increase in foreign shareholding while 68 companies had a decline in foreign shareholdings. The decline in the shareholding was largest in the range less than or equal to 5 percentage points (34 companies), followed by 24 companies with a fall of 5 to 1 percentage points and minimum (10 companies) for decline of 1 percentage point. Amongst the sample companies, 82 companies had an increase in foreign shareholding of more than 5 percentage points. It can be observed that most of the sample companies had an increase in foreign shareholding wherein the largest increase is more than 5 percentage points despite the regulatory restrictions and the restrictions on large shareholdings. There have been gradual relaxations in the caps on foreign investments. The results are consistent with the study of Kaur and Gill (2008) which reported a considerable increase in foreign shareholding in India.

Table 4: Foreign Ownership Pattern		
Panel A: Range of Shareholding (%)	Number of Companies	
	(as of the end of FY)	
	2008	2014
less than 5	53	37
more than equal to 5 and less than 20	78	82
more than equal to 20 and less than 35	38	45
more than equal to 35 and less than 50	16	16
50 and above	16	21
n=201		
Panel B: Change in foreign shareholding		
Change in share (percentage points)	Number of Companies	
Decline		
Less than or equal to -5	34	
-5 to -1	24	
-1	10	
Total declines	68	
No change	1	
Increase		
Up to 1	13	
1 to 5	37	
More than 5	82	
Total Increase	132	

Table 4 further divides the changes in foreign shareholding into dif-

ferent ranges of foreign shareholding as at the end of FY. A total of 82 companies witnessed a change of more than 5% in foreign shareholdings where in 32 companies landed in the range more than equal to 5 and less than 20, and 30 companies landed in the range more than equal to 20 and less than 35 as at the end of FY 2014. The companies have shifted from first range to second and second to third. The above figures show a rising trend despite the complex procedures and delays, which were the bane of our system for the last so many decades which are now being gradually dismantled. Further, the government's efforts to improve the ease of doing business and initiatives such as 'Make In India' will add more fuel to this trend. According to data from the DIPP, the previous highest FDI inflow was in FY12 when the country received \$46.55 billion, which was a 34 per cent increase over \$34.8 billion it got in FY11. However, India recorded its largest-ever percentage increase in FDI when it received \$22.8 billion in FY07, representing a 155 per cent increase over the \$8.9 billion in FY06.

## SUMMARY AND CONCLUSIONS

This paper sought to investigate the pattern and variation of foreign shareholdings. Average foreign shareholding on BSE is 20.38%. The highest average foreign shareholding is in FMCG sector which is 33.33%. Presently, with the Indian governments initiatives to abandon the restrictions and caps, foreign investment would further increase drastically. The foreign investment depends on the sectoral caps under India's foreign investment policy. Although liberalized over time, caps on foreign investments in select sectors with sub limits for specific types of foreign investment such as foreign portfolio investment (FPI) and foreign direct investment (FDI) have been a hallmark of India's foreign investment policy. In order to address this, government has headed towards abolition of sub limits on different categories of investment and the creation of overall caps for foreign investment. In order to harmonize the various available routes for foreign portfolio investment in India, the Indian securities market regulator, i.e. Securities Exchange Board of India (SEBI) has introduced a new class of foreign investors known as the Foreign Portfolio Investors (FPI). This class will merge all the existing classes of investors through which portfolio investments were previously made namely, the Foreign Institutional Investors (FII), Qualified Foreign Investors (QFI) and sub-accounts of the FIIs. Previously portfolio investment was governed under different laws, i.e. the SEBI (Foreign Institutional Investors) Regulations, 1995 for FIIs and their sub-accounts and SEBI circulars governing QFIs, which are now repealed under the SEBI (Foreign Portfolio Investors) Regulations that govern FPIs. SEBI has, thus, intended to simplify the overall operation of making foreign portfolio investments in India. It is expected to boost foreign investment in India.

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