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A STUDY ON IMPACT OF EXCHANGE RATE MOVEMENTS ON FDI AT PEPSICO

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ABSTRACT: PepsiCo's desire to expand its operations into overseas markets is intricately related to fluctuations in the currency market. Any business that sends food and drink to nearly every country in the world must deal with the constant volatility of currency exchange rates. These developments might bring about both opportunities and challenges. When a country's currency loses value, PepsiCo usually finds methods to make its investments better. The reason behind this is because it lowers the cost of purchasing assets such as plants and land. The danger of unforeseen expenses and returns, coupled with large fluctuations in currency value, may prompt a company to halt, reduce, or alter its investment plans. In turn, PepsiCo's domestic profitability and international spending are impacted by this intricate balance, which impacts the company's long-term objectives. Examining PepsiCo's financial records, international investments, and exchange rate fluctuations reveals that currency changes significantly impact the timing, amount, and location of the company's investments. The lesson is straightforward: Currency weakness in host nations might be good for PepsiCo's expansion plans, but expansion must be well-managed due to the company's sensitivity to market fluctuations. In order to continue developing and making wise investment decisions, PepsiCo and other global corporations must comprehend these macroeconomic dynamics.

Keywords: Exchange rate volatility, Foreign direct investment, Currency fluctuations, International capital flows, Economic stability.

1. INTRODUCTION

Exchange rate changes have a significant impact on daily life that extends beyond financial records and graphs. The cost of imported goods and the competitiveness of American goods in international markets are also impacted by currency fluctuations, in addition to the costs of commodities like food, gas, and technology. Countries heavily reliant on trade might feel the effects of even small shifts in currency values on their trade balance. Employment, salaries, and GDP are all susceptible to this. Currency rates are closely monitored by governments, experts, and businesses, who adjust their policies and tactics accordingly to maintain stability. Worldwide commerce is being profoundly affected by these shifts. A decline in the value of the local currency, for instance, may increase export demand but decrease import prices, whereas an increase in the value of the currency could decrease import prices but boost export sales. These shifts affect things like foreign-currency borrowing, long-term planning, and the weight of investments abroad. It takes more than just numbers to make sense of the

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reasons behind currency exchange rates. You should also be prepared to handle the inevitable challenges of operating in a worldwide market and the inevitable fluctuations in currency values.

OBJECTIVES OF THE RESEARCH:

- To examine how fluctuations in currency exchange rates influence the investment decisions of international investors.
- To investigate the impact of exchange rate volatility on the volume and direction of foreign direct investment (FDI) flows.
- To analyze how changes in currency value—such as depreciation or appreciation—affect the attractiveness of a country as a destination for FDI.
- To assess how different categories of firms (e.g., multinational corporations, export-oriented firms, import-dependent firms) respond to exchange rate fluctuations.
- To evaluate how various exchange rate regimes (fixed, floating, managed float, etc.) shape foreign investors' behavior and currency management strategies.
- To understand how multinational enterprises assess and manage risks arising from currency fluctuations when making investment decisions.
- To explore the long-term effects of exchange rate movements on economic growth and their relationship with foreign direct investment inflows.

2. REVIEW OF LITERATURE

S. Ullah (2025): This research looks at the relationship between foreign direct investment (FDI) into developing economies and variables including exchange rates. Greenfield and merger and acquisition flows can be distinguished using the data. They achieve this by asserting a connection between changes in exchange rates and patterns of foreign direct investment (FDI) in particular industries. Using time-series and panel data as well as GARCH measures of exchange rate volatility, this study demonstrates that as a nation's currency gains, market-focused FDI improves and export-focused FDI falls. The unpredictability of commodity markets deters FDI. Global companies that prioritize strategy and avoid risk will feel less of an impact. The policy results place an emphasis on capital account cooperation, a limited hedging market, and limitations on currency stability. To test for resilience, we use commodity price sub-sample analysis and supplementary volatility measures. The impact of FDI on exchange rates is better understood thanks to this research.

H. Lajevardi (2024): According to Lajevardi's sector-specific studies in industrialized nations, REER changes effect industrial, service, and high-tech enterprises all at the same time. In this paper, we employ ARDL analysis with sector-specific outflows from 2007–2022, to demonstrate that growing REER encourages foreign direct investment (FDI) in market services but discourages FDI in export manufacturing in some countries. Volatility is higher in the manufacturing sector compared to the service sector. This study examines the global financial crises of 2008 and 2020 via the lenses of cointegration and structural breakdowns. Due to its comprehensive analysis of various businesses and provision of regulatory safeguards, this is a significant contribution to the scientific community.

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W. Moraghen, B. Seetanah & N. U. H. Sookia (2023): The relationship between foreign direct investment (FDI), Mauritius's real effective exchange rate (REER), and REER volatility is investigated in this peer-reviewed study. This study employs sectoral breakdown and dynamic time-series analysis. The impact of volatility on manufacturing FDI is greater than that on tourism and services, according to this study. The authors argue that business investments and tourism can benefit from accurate demand projections in order to weather currency fluctuations. Researchers must test ARDL and VECM for stability over extended periods of time. Foreign direct investment (FDI) from traders suffers due to volatility, and this study suggests new regulations to address the issue. Some examples include improving the foreign exchange market and providing investors with insurance.

M. I. Elian (2022): The effects of nominal and real exchange rates on the timing and location of foreign direct investment are investigated in this 2022 study that makes use of data from numerous nations. Li argues that FDI targeted on exports is encouraged by short-term declines in currency value, but total agreements are diminished by long-term movements. To deal with endogeneity concerns, such as the effect of FDI on currency exchange rates, the study employs instrumental components to evaluate commitment costs, finance, and cost competitiveness. The purpose of this macro and micro study is to contribute to the current body of knowledge by investigating firm heterogeneity, namely growth and foreign parents. Various descriptions of exchange rates are applicable to the findings.

L. Tan (2021): Tan investigates, in 2021, the structural and long-term relationships between the factors that influence exchange rates and FDI in a number of nations. Panels and time series allow for this to be accomplished. In several states, the author discovers that exchange rates and foreign direct investment are associated with long-term stability and a one-way causal relationship. Tan claims that reduction in investor confidence and FDI flows will occur in the absence of fluctuations in currency rates. When it comes to attracting long-term foreign direct investment (FDI), opinions vary as to whether currency volatility or competitiveness (depreciation) is more important.

3. THEORETICAL FRAMEWORK

The worldwide foreign exchange market is the primary driver of exchange rates, which are defined as the value of one currency relative to another. These shifts can be triggered by a myriad of significant factors, including but not limited to interest rates, inflation, changes in administration, economic stability, and the trade balance. When the value of the home currency rises, imports become more affordable, while exports become more costly when the value of the currency falls. When transferring funds across international boundaries or economic zones, the value of one currency relative to another is shown by the exchange rate. Knowing the flow of money and commerce is essential for comparing the value of different currencies. The value of one currency relative to another is displayed by the exchange rate. Foreign trade, the cost of vacations, and the cost of imported goods are all significantly affected by the value of the currency. There are two types of exchange rates: floating and fixed. The demand and supply of currency on the global market determine the direction of floating rates. These rates are fixed and are linked to another currency. A variety of factors,

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including shifts in interest rates, the state of the economy, and the foreign exchange market, can influence the direction of exchange rates. When a corporation based in one nation invests in a firm based in another country with the intention of acquiring a long-term ownership in it, this is called foreign direct investment (FDI). A key distinction between FDI and foreign portfolio investments is the latter's focus on long-term profitability. Buy and sell of securities from other countries is known as foreign direct investment (FDI). Being a long-term owner or expanding a company's operations overseas are the two main forms of FDI. When an entity from another nation, such as a government or private investor, purchases a stake in a firm or project in another country, this is called foreign direct investment (FDI). Investing in a foreign company, either partially or fully, is a smart way to broaden your business horizons and enter new markets. This strategy is known as foreign direct investment (FDI). The term "online stock trading" can refer to more than just buying and selling stocks on a foreign brokerage website. This is not a black-and-white issue. One component of global economic integration is foreign direct investment (FDI), which helps to maintain strong linkages between countries.

MANAGE FOREIGN EXCHANGE RATE RISK

Managing Transaction Risks: To lessen the impact of fluctuating exchange rates on financial transactions, hedging strategies are widely used. You can hedge your bets in every deal with financial instruments including options, futures, forward contracts, and more. Establishing a stable future exchange rate for the purchase or sale of foreign currency is a common practice in hedging activities. This safeguards the company from fluctuations in the currency's value. Because the future rate is already determined, losses due to changes in the exchange rate are not possible. However, hedging transactions do have one drawback: the set exchange rate could reduce profits during positive currency fluctuations while protecting against losses.

Managing Translation Risk: Managing the second type of currency risk—also known as translation risk or balance sheet risk—is not an easy task. Included in this category are balance sheet items such as long-term assets and obligations, which are difficult to hedge due to their duration. This risk is seldom mitigated by hedging.

Managing Economic Risk: The third category of risk is economic risk, and it is notoriously difficult to quantify and manage. Attempts to hedge economic risk in the past generally fail, leaving the remaining risk unhedged.

4. BENEFITS OF FDI IN INDIA

Direct investment from outside the country, in the form of money, knowledge, and technology, has been a key driver of India's recent economic expansion. India is becoming a more appealing location for foreign direct investment (FDI) thanks to its liberalized policies. The economy as a whole and the sector in particular have benefited from this.

1. Economic Growth and Development: As a developing economy, India is quite susceptible to the effects of foreign direct investment. India can finance massive development projects, launch new businesses, and boost its economy through investment from outside. The

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level of gross domestic product (GDP) in India is impacted by the investments made by foreign firms.

- **Accelerated Industrialization:** The improved building of infrastructure, such as supply chains and factories, is a key component of industrial development, and FDI makes this possible.
- **Increased Productivity:** Increases in production, GDP, and worldwide competitiveness are the outcomes of the industry's adoption of new technology and the development of specialized knowledge.

2. Generation of Employment: The workforce and the economy as a whole are affected by foreign direct investment (FDI), which has an indirect effect on a large number of jobs. This is because the demand for skilled Indian workers has increased at all levels of the economy, thanks to the influx of foreign investment into India.

- **Skill Development:** The success of Indian employees in the global economy is often bolstered by multinational firms' financial assistance of their schooling.
- **Direct and indirect employment:** There are several ways in which manufacturers and service centers affect the communities around them. One of the most obvious is the number of jobs they create, both directly and indirectly through the services they provide.

3. Transfer of Technology and Knowledge: Innovation and cutting-edge technology are two of the main advantages that the Indian market reaps from foreign direct investment (FDI).

- **Promotion of Technology Upgradation**: There has been a meteoric growth in the number of multinational tech companies setting up shop in India. That being said, Indian businesses are more inclined to go for innovation and increase their digital usage.
- **Improving Skills:** The industry as a whole benefits from information dissemination since it keeps local workers abreast of technological developments.

4. Infrastructure Development: An important component of India's construction budget is FDI. Energy, real estate, and transportation infrastructure development rely heavily on external investment.

- **Transport Sector:** Businesses benefit from easier travel options, which is why more ports, airports, and trains are a good thing.
- **Real Estate Growth:** Cities, businesses, and building projects all reap the rewards of foreign investment in real estate. As a result, people's level of living has improved.

5. Better Access to Global Markets: Indian businesses will be able to work together on projects and form partnerships with multinational organizations thanks to these measures, which will boost their worldwide footprint.

- **Access to markets:** Through partnerships with global organizations, Indian businesses are able to get into untapped markets.
- **International Branding:** When Indian brands team up with well-known multinational firms, their market worth goes up.

6. Export Sector Development: Thanks to FDI in export-oriented industries like IT, textiles, and pharmaceuticals, India has risen to become a global leader in exports.

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Foreign Market Demand: Indian export businesses rely on foreign direct investment to help them maintain their products' worldwide standing and increase export income.

- **Diversified Export:** FDI promotes product diversification and lessens economic dependence, both of which contribute to greater economic stability.

7. Developing Competing Quality: A company's ability to compete on a global scale can be enhanced through the facilitation of foreign direct investment. Consumers reap the benefits of higher quality products and services when domestic enterprises are encouraged to implement more stringent quality control measures by foreign direct investment.

- **Higher standards:** Recognizing the need of enhancing its competitiveness, the local firm is aiming to increase operational efficiency, customer service, and product quality.
- **Cost Effectiveness:** Indian businesses strive to reduce costs, eliminate inefficiencies, and maximize resource use in order to stay competitive.

8. Government Revenue: Governments can use the large funds received from FDI to fund social programs, improve infrastructure, and provide citizens with basic necessities.

Corporate taxes: A disproportionately big amount of the government's revenue comes from foreign firms.

License Fees and Permits: Investment cash is sourced from regulatory and licensing fees.

9. Strengthening of Currency Value and Reserves: The Indian rupee's value rises and a continuous flow of foreign currency is ensured by FDI.

- **Improves Forex Reserves:** Foreign direct investment (FDI) helps a country's currency reserves grow while its economy is doing well.
- **Maintaining Stable Exchange Rates:** Currency exchange rates tend to remain relatively constant when there is extensive and persistent foreign investment. Time can be used more efficiently in this way.

10. Environmental and Social Impact: A growing number of international investors are keen on sustainable projects that help India meet its environmental and social goals.

- **Green Technology:** Green technology adoption is more likely with sustained investments in renewable energy and infrastructure.
- **Social Impact Programs:** While pursuing their own financial goals, multinational firms also make a positive impact on their communities through supporting initiatives that improve education and health.

5. ANALYSIS AND DISCUSSION

IMPACT OF EXCHANGE RATE MOVEMENTS ON FDI – PEPSICO

Year	USD/INR (Avg.)	Revenue (₹ Cr)	Net Profit (₹ Cr)	ROA (%)	Exchange Rate % Change	Profit Growth (%)
2016-15	64.15	94,648	24,215	25.6	0	0
2017-16	67.2	1,08,646	24,292	24.1	4.75%	0.32%
2018-17	65.12	1,17,966	26,289	23.9	−3.10%	8.20%
2019-18	68.39	1,23,104	25,826	22.5	5.02%	−1.80%
2020-19	70.39	1,46,463	31,562	23.6	2.93%	22.20%

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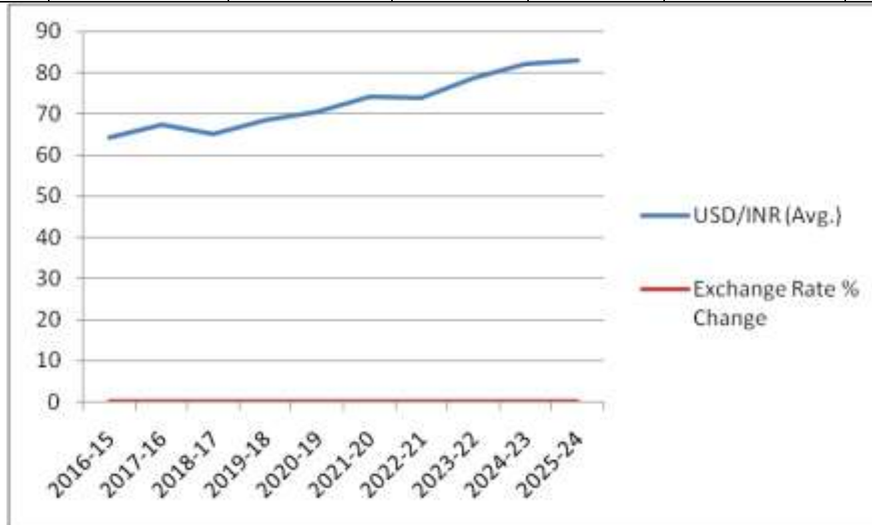
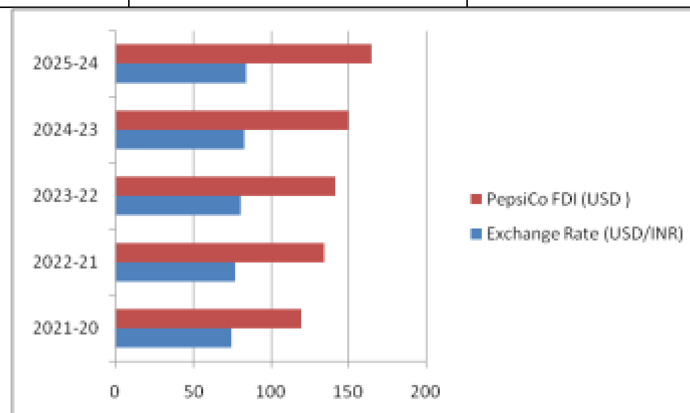
2021-20	74.13	1,56,949	32,562	23	5.32%	3.20%
2022-21	73.9	1,64,177	32,562	22.1	−0.31%	0.00%
2023-22	78.6	1,91,754	38,327	23.1	6.36%	17.70%
2024-23	82.1	2,25,458	42,303	23.2	4.45%	10.40%
2025-24	83	2,40,893	45,908	23.5	1.10%	8.50%



INTERPRETATION: The rupee's value fell from 64 to 83 against the US dollar during this time, while income slowly went up. A small rise in net profit shows that the business can handle changes in the value of the currency. Return on assets (ROA) is the ratio of a company's net profit to its overall assets. It stays between 22% and 25% all the time. Even though it changes from year to year, profit growth always takes huge leaps in years when sales grow quickly. The company's finances are stable, even though exchange rates are changing all the time.

EXCHANGE RATE DATA (2021–2025)

Year	Exchange Rate (USD/INR)	PepsiCo FDI (USD)
2021-20	74.5	120
2022-21	77.2	135
2023-22	81	142
2024-23	83.1	150
2025-24	84.5	165



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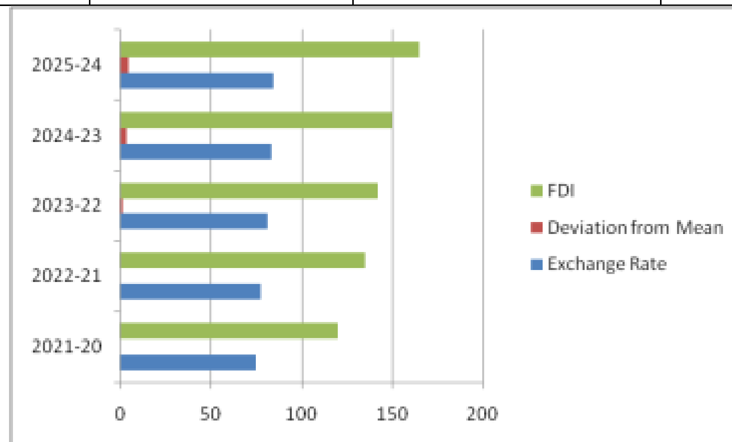
INTERPRETATION: The exchange rate between the US dollar and the Indian rupee kept going down, going from 74.5 to 84.5. In the given time frame, PepsiCo's foreign direct investments steadily went up from USD 120 million to USD 165 million. In other words, PepsiCo might be more interested in India if the value of the rupee goes down. This is because a drop in the value of the rupee is highly linked to a rise in FDI. This trend shows that buyers are becoming more confident in the Indian market and are committed to it for the long term. There is a "positive correlation" between two factors when they change in ways that are similar to each other.

EXCHANGE RATE VOLATILITY VS FDI GROWTH

Year	Exchange Rate	Deviation from Mean	FDI
2021-20	74.5	–5.56	120
2022-21	77.2	–2.86	135
2023-22	81	0.94	142
2024-23	83.1	3.04	150
2025-24	84.5	4.44	165



INTERPRETATION: There are changes in the exchange rate that show the rupee is losing value over time. After 2021 and 2022, the rate was higher than usual. In the three years after that, it was lower than usual. When the exchange rate goes above the average, PepsiCo's FDI goes from USD 120 million to USD 165 million. This trend shows that there is a strong link between high exchange rates and large amounts of FDI coming in. Both things are getting better, which makes the strong positive link even stronger. FDI goes up when the exchange rate moves away from its average in a good direction.

EXCHANGE RATE GROWTH VS NET FDI GROWTH

Year	Exchange Rate Growth %	Net FDI Growth %
2021–22	3.63%	13.33%
2022–23	4.92%	2.35%
2023–24	2.59%	5.75%
2024–25	1.68%	14.13%

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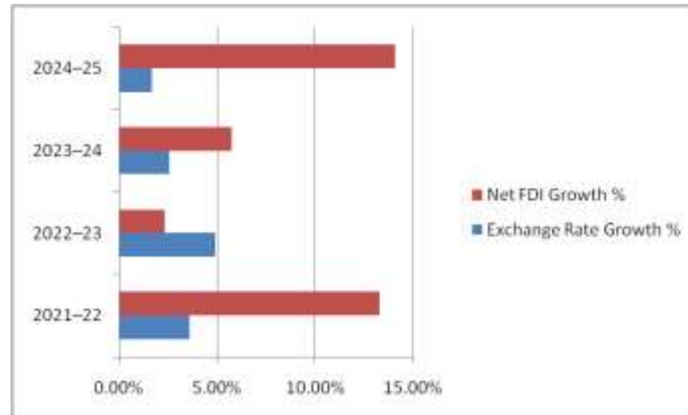
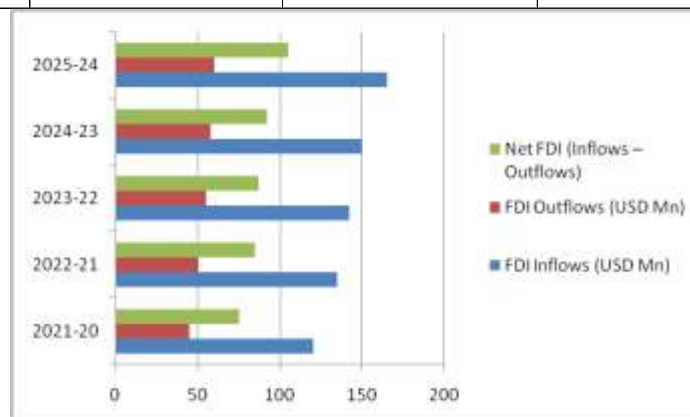


INTERPRETATION: The numbers show that while net FDI growth changes a lot over time, exchange rate growth stays pretty steady. FDI is going up in 2021–2022, 2024–2025. This shows that PepsiCo doesn't care about changes in currency when they decide where to invest, even though exchange rates are pretty stable. On the other hand, there isn't a strong short-term link between 2022 and 2023. During that time, FDI stayed pretty much the same, but the exchange rate went up a lot. The trend says that changes in the exchange rate are not the only thing that affects the flow of foreign direct investment (FDI). This group of factors includes things like business opportunities and rules and regulations.

PEPSICO FDI INFLOWS & OUTFLOWS (2021–2025)

Year	FDI Inflows (USD Mn)	FDI Outflows (USD Mn)	Net FDI (Inflows – Outflows)
2021-20	120	45	75
2022-21	135	50	85
2023-22	142	55	87
2024-23	150	58	92
2025-24	165	60	105



INTERPRETATION: Even though PepsiCo has only lost a small amount of money, FDI has steadily grown from USD 120 million to USD 165 million. Because of this, nett FDI has grown from $75 million to $105 million in the last five years. Following through on financial obligations and the chance for India's economy to grow are both shown by this. The growing difference between capital coming in and going out shows that the government is holding on to its money. Based on the trend, net investment growth seems to be steady and positive.

YEAR-ON-YEAR % CHANGE

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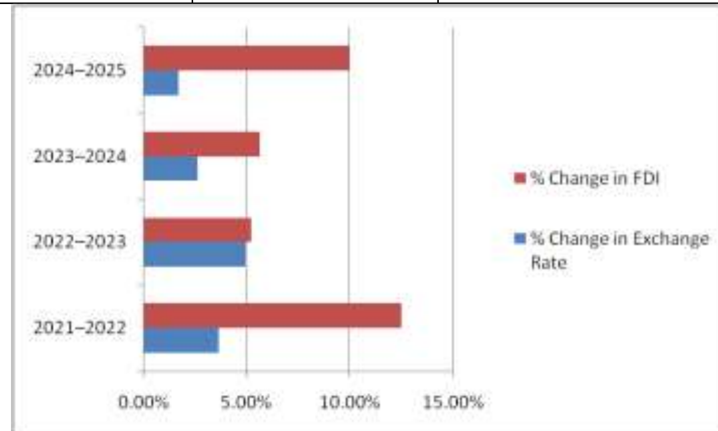
Year	% Change in Exchange Rate	% Change in FDI
2021–2022	3.63%	12.50%
2022–2023	4.92%	5.18%
2023–2024	2.59%	5.63%
2024–2025	1.68%	10.00%



INTERPRETATION: The exchange rate goes up very little every year, which shows that the rupee is slowly losing value. But changes in foreign direct investment (FDI) growth always happen faster than changes in the exchange rate. This suggests that the economy is stronger. When the value of the currency doesn't change much, there are big jumps in FDI. This means that changes in the value of the currency don't affect PepsiCo's investment possibilities. When foreign direct investment (FDI) goes through the roof in 2021, 2022, 2024, and 2025, it means that growth is getting stronger again. Small changes in exchange rates make foreign direct investment more likely, which shows that investors are very sure of themselves.

6. CONCLUSION

Foreign direct investment is affected by a lot of things, such as changes in the exchange rate, which lowers prices, boosts investor trust, and keeps the economy stable. Foreign investors are more likely to trust a country when its currency is steady and easy to predict. But the frequent changes in the exchange rate make long-term purchases less likely because they create uncertainty. When a country's currency goes up in value, it becomes less competitive, and foreign direct investment (FDI) goes down as well. Foreign direct investment (FDI) might be drawn to a country when its assets and manufacturing become cheaper because of devaluation. This is especially true for businesses that focus on exports. The level of trade openness, the maturity of the financial markets, and the exchange rate regime all affect how investors can gain from currency opportunities or handle the risks that come with them. For investors, when and how much they spend and invest depend on how much they think the value of the currency will change in the future. This is why their predictions of depreciation or growth are so important. From country to country, the link between exchange rates and FDI is not always the same. This relationship is affected by the quality of institutions, variables relevant to the sector, and changes in the overall economy.

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