The Impact of Macroeconomic Factors, Capital Structure, and Liquidity on the Profitability of Export-Oriented Companies in India

An Internship report for

Course code and Course Title: MGF-651 & Internship & Summer training

Credits: 16

Submitted in partial fulfillment of Master's Degree

(MBA) in Financial Services

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22P0300022

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Date: April 2024

Examined by:

Seal of the School

DECLARATION BY STUDENT

I hereby declare that the data presented in this Dissertation report entitled, "The Impact of Macroeconomic Factors, Capital Structure, and Liquidity on the Profitability of Export-Oriented Companies in India" is based on the results of investigations carried out by me in the (MBA) in Financial Services at the Goa Business School, Goa University under the Supervision of Assistant professor. Jick Castanha and the same has not been submitted elsewhere for the award of a degree or diploma by me. Further, I understand that Goa University or its authorities / College will not be responsible for the correctness of observations / experimental or other findings given the dissertation.

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Sayed Ahmad Shah Sadat

Seat no: 22

Date: 03/05/2024

Place: Goa University

COMPLETION CERTIFICATE

This is to certify that the dissertation report "The Impact of Macroeconomic Factors, Capital Structure, and Liquidity on the Profitability of Export-Oriented Companies in India" is a bonafede work carried out by Mr. Sayed Ahmad Shah Sadat under my supervision in partial fulfillment of the requirements for the award of the degree of Masters in Business Administration in the Discipline Financial Services at the Goa Business School, Goa University.

Assistant professor. Jick Castanha

Date: April 2024

Goa Business School ★ Goa University ★

Signature of Dean of the School/HoD of

Dept School/Dept Stamp

Date: 03/05/2024

Place: Goa University

IWS FINSERV
AMFI - Registered Mutual Fund Distributor

TO WHOMSOEVER IT MAY CONCERN

Date: 24.04.2024

This is to certify that Mr. Sayed Ahmad Shah Sadat a student at MBA Financial Services program at Goa Business School, Goa University has successfully completed his internship program with our organization. This internship tenure was from **15th February 2024** to **12th April 2024**.

During this internship, we found the intern to be motivated, duty bound and hard-working who not only worked sincerely on given assignments but also delivered excellent performance on the job.

We wish him the very best in his future endeavours.

Your Sincerely

For and on Behalf of,
IWS Finserv

AUTHORIZED SIGNATORY

IWS FINSERV IWS GOA

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No. 063

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Title: The Impact of Macroeconomic Factors, Capital Structure, and Liquidity on the Profitability of Export-Oriented Companies in India

Abstract

This study investigates the influences of macroeconomic conditions, capital structure, and liquidity on the profitability of export-oriented companies in India. Drawing on a panel dataset of companies listed on key Indian indices, the study employs regression analysis to examine the complex interplay of these factors over a ten-year period. A key finding highlights the detrimental impact of excessive debt financing on the Return on Assets (ROA) of exporting firms. This underscores the importance of prudent capital structure management, particularly in India's dynamic economic environment. Additionally, the study reveals a surprising positive relationship between real interest rates and ROA, warranting further exploration of sector-specific responses to interest rate fluctuations. While GDP growth, inflation, exchange rates, and liquidity metrics did not exhibit statistically significant relationships with ROA in the current study, their potential influence cannot be completely ruled out. The research offers valuable insights for the strategic decision-making of export-oriented companies and policymakers seeking to enhance the competitiveness and sustainability of India's export sector.

Profile of the organization

IWS FINSERV (IMPERIAL WEALTH SERVICES) was established in April 2014. The organization’s corporate office is located at Milroc Neurekar Pride, Opposite Azad Maidan, M G Road, Panjim, Goa. 403001. IWS is an AMFI-certified financial product distributor which serves to meet various financial needs through its wide range of products and services such as Mutual Funds, Equity Broking, Insurance, Portfolio Management Services, Alternative Investment Funds, and ELSS (Equity Linked Saving Schemes).

IWS provides financial guidance to its clients and has been assisting them in achieving their long-term financial goals in terms of wealth creation, growth, and risk management. It has continuously shown a high level of expertise in providing financial services.

The IWS team has a defined approach to meeting long-termfinancial needs and making the investment process hassle-free for the customers. The company provides a seamless onboarding process, and personalized financial services to its clients and manages their wealth.

It has assets under management of over 290 Cr. IWS has been bestowed with various awards and accolades from some of the largest asset management companies in India for its contribution to the field of wealth management by providing mutual funds services to its clients.

CORE VALUE:

The core values of IWS lie in putting client needs first and helping them to achieve long-term financial success and security. Keeping strong communication from the initial meeting phase and beyond is the company's key to long-term success.

The company is registered with asset management companies which are as follows:

DSP Black Rock – Platinum Member

HDFC Mutual Fund – Elite Black Partner

ICICI Prudential Mutual Fund – Gold Member

Reliance Mutual Fund – Platinum Partner

Franklin Templeton – Diamond Partner

THE MANAGEMENT TEAM

Dr. Priya Sharma	Medical Director	MBBS, MD (Internal Medicine)	Extensive experience in hospital management and patient care
Dr. Rohan Patel	Chief Medical Officer	MBBS, MBA (Healthcare Management)	Leadership in clinical governance and healthcare administration
Dr. Maya Desai	Director of Nursing	BSc Nursing, MSN (Nursing Administration)	Expertise in nursing leadership and quality improvement

Rahul Mehta	Operations Manager	MBA (Operations Management)	Proven track record in optimizing healthcare operations and resource allocation

PRODUCTS OFFERED

1. Mutual Funds

2. Insurance

3. Offshore Funds

4. Portfolio Management Services

5. Bonds

6. Alternate Investment Funds

7. Equity Broking

8. General Insurance

9. Health Insurance

COMPANY PARTNERS:

A. MUTUAL FUNDS

A mutual fund is a type of investment that pools money from multiple investors to invest in a diversified portfolio of securities such as bonds, stocks, and other assets. It is managed by professional fund managers, who make investment decisions on behalf of the investors and aspire to achieve their financial goals.

 HDFC Mutual Fund

 Birla Sun Life Mutual Fund

 ICICI Prudential Mutual Fund

 Kotak Mutual Fund

 IDFC Mutual Fund

 Nippon India Mutual Fund

 Axis Mutual Fund

 SBI Mutual Fund

 UTI Mutual Fund

 Sundaram Mutual Fund

 Mirae Asset Mutual Fund

 Motilal Oswal

 Franklin Templeton Investment

 L & T Financial Services Mutual Fund

 PPFAS Mutual Fund

B. INSURANCE

Insurance is a contract between the insurer and the individual (Insured), where the insured has to paya premium in exchange for the insurer's promise to provide financial protection or compensation for specific events or losses in the future.

 Aditya Birla Health

 Bajaj Allianz

 Digit Insurance

C. EQUITY BROKING

Equity brokerage also known as stockbrokers or brokerage firms refers to the business of facilitating the buying and selling of stocks or equities on behalf of investors in exchange for brokerage fees and commissions. It includes the course of actions that includes account opening, order placement, Trade execution, Research and Analysis, and Account Management and Support.

Introduction

The export sector plays a pivotal role in the Indian economy, driving growth, generating employment opportunities, and contributing to foreign exchange reserves. However, the success of Indian exporting companies is contingent on a complex interplay of macroeconomic factors, their internal financial structures, and their ability to maintain adequate liquidity in a dynamic global environment. Understanding these relationships is crucial for the sustainability and competitiveness of India's export sector. This study aims to analyze the combined impact of macroeconomic variables, capital structure, and liquidity on the profitability of export-oriented companies in India, as measured by Return on Assets (ROA). The following introduction will provide a background of the study, outline the research problem, state aims, objectives and questions, discuss the scope and significance of the study, acknowledge and limitations.

Economic conditions significantly shape a nation's export landscape. Macroeconomic variables like GDP growth, interest rates, exchange rates, and inflation can have far-reaching effects on the operations and profitability of exporting firms(Rashid et al., 2022) (Upadhyay, 2022). Moreover, a company's capital structure (its mix of debt and equity) and liquidity levels are internally critical (Choi, 2023). This study will combine these aspects to investigate their joint influence on Indian exporters' performance. Previous studies have examined specific relationships between individual macroeconomic variables and export performance (Upadhyay & Ghosh Roy, 2016a) (Malik, 2021). The impact of capital structure and liquidity on exporters has also been researched(Rashid et al., 2022). A knowledge gap exists in fully understanding the combined interplay of macroeconomic conditions, capital structure, and liquidity as they affect the ROA of Indian exporting companies. Exporting companies, policymakers, and investors require deeper insights into these relationships to inform strategic decision-making, risk mitigation strategies, and policies designed to promote a robust, sustainable export sector.

Research Aims, Objectives, and Questions

This study aims to enhance understanding of how macroeconomic forces, financial structures, and liquidity influence the profitability of Indian export-oriented companies.

Scope and Significance of the Study

This study will focus on export-oriented companies listed within the Nifty Pharma, Nifty IT, Nifty Energy, Nifty Oil & Gas, Nifty Auto, and Nifty Infrastructure indices. The sample comprises 73 companies with available data. Financial data was obtained from Prowess IQ, and macroeconomic data from the World Bank database. The analysis will cover a ten-year period from 2013 to 2022. This research holds theoretical and practical significance. It will contribute to the body of knowledge on export performance determinants. Additionally, the findings will offer insights to exporting companies on managing macroeconomic risks and optimizing their financial structures. Policymakers can use the results to design better-targeted policies supporting India's export competitiveness.

Literature Review

The complex interaction between macroeconomic conditions and export-oriented industries in India has significant implications for the performance and competitiveness of firms engaged in international trade. This literature review explores these dynamics, highlighting key findings and identifying areas for further investigation.

The relationship between exchange rates and exports is multifaceted. While a real appreciation (strengthening rupee) can enhance short-term profitability, it may also diminish export competitiveness in the long run (Upadhyay, 2022; Upadhyay & Ghosh Roy, 2016b; Rashid et al., 2022a). Exchange rate volatility can create uncertainty and discourage exports, especially for firms with financial constraints (Rashid, 2022). However, a developed financial system can mitigate these adverse effects (Rashid, 2022). External demand is a crucial determinant of export success. Research demonstrates a strong link between India's software and services exports and external GDP growth (Malik & Velan, 2019). Furthermore, external demand positively impacts firm-level productivity (Yang & Mallick, 2014). Access to credit and a robust financial system underpin export

success, as financial constraints obstruct quality upgrading within export firms (Choi, 2023). Targeted investments in relevant sectors, such as IT, can further drive export growth (Malik & Velan, 2019). Trade agreements have the potential to benefit export prices by incentivizing innovation and quality improvements (Flach & Gräf, 2020). International connectedness aids knowledge transfer and strengthens a country's ability to leverage global knowledge, which can benefit export-oriented industries (Choi, 2023).Firm size, age, productivity, and technological intensity significantly shape export decisions and outcomes (Das & Mahalik, 2023). Larger, more experienced, and productive firms generally exhibit greater export success(Atif et al., 2023) (Casagrande et al., 2024). Export performance can also be enhanced through product diversification and wider export market penetration (Atif et al., 2023). Government policies play a significant role in shaping the export landscape. Innovation-focused policies and tax reforms can enhance export competitiveness and product quality (Chen, 2010)(Sun et al., 2024). Crucially, export performance strongly influences India's economic growth, as evidenced by the positive correlation between software exports and Indian GDP (Malik, 2021). Disruptions in export flows can reverberate throughout the economy (Rose et al., 2023).

A company's capital structure, the mix of debt and equity financing it employs, can influence its financial risk and flexibility. Studies have explored the relationship between capital structure (often measured by the debt-to-equity ratio) and export performance, with findings suggesting that a moderate debt level can positively impact exports (Al-Najjar, 2011; Asiedu & Alves, 2017). However, excessive debt can burden a company and hinder its export activities (Deshai, 2004).

Liquidity, a firm's ability to meet its short-term obligations, is another crucial factor. Liquidity ratios, such as the current ratio (current assets / current liabilities) and quick ratio (quick assets /

current liabilities), are used to assess a company's short-term solvency. Adequate liquidity allows firms to seize export opportunities and navigate unexpected challenges.

Research Gap

There's a need for deeper analysis of the combined, interacting impact of macroeconomic forces, capital structure (debt-equity mix), and liquidity on the profitability of Indian exporting firms (measured by ROA). Such research would provide a more holistic understanding and offer valuable insights for exporters, investors, and policymakers.

Objective1: To analyze the combined impact of macroeconomic variables (GDP growth, interest rates, exchange rates, inflation), capital structure (debt-to-equity ratio), and liquidity (current and quick ratios) on the Return on Assets (ROA) of Indian exporting companies.

Research Question1: How do macroeconomic variables, capital structure, and liquidity influence the Return on Assets (ROA) of exporting companies in India?

Null Hypothesis;

H0_1: There is no significant relationship between GDP growth rate and the ROA of export-oriented Indian companies.

H0_2: There is no significant relationship between inflation and the ROA of export-oriented Indian companies.

H0_3: There is no significant relationship between the exchange rate and the ROA of export-oriented Indian companies.

H0_4: There is no significant relationship between real interest rates and the ROA of export-oriented Indian companies

H0_5: There is no significant relationship between the debt-to-equity ratio (DER) and the ROA of export-oriented Indian companies.

H0_6: There is no significant relationship between the current ratio (CR) and the ROA of export-oriented Indian companies.

H0_7: There is no significant relationship between the quick ratio (QR) and the ROA of export-oriented Indian companies.

Research Methodology

This chapter outlines the methodological framework employed to investigate the impact of macroeconomic variables, capital structure, and liquidity on the Return on Assets (ROA) of Indian exporting companies. It details the approach, design, data collection, analysis techniques, and ethical considerations. A quantitative approach is employed to analyze the relationships between independent and dependent variables. This research utilizes a cross-sectional, correlational design to analyze the relationships between macroeconomic variables, capital structure, liquidity, and the ROA of Indian exporting companies over a specific time period. The dependent Return on Assets (ROA): Calculated as net income divided by total assets. It measures a company's profitability relative to its overall asset base, providing a standardized measure of efficiency for comparison across firms (Atif et al., 2023; Malik & Velan, 2019).

Independent Variables

Macroeconomic Variables: GDP Growth Rate: Annual percentage change in real GDP (World Bank Database), reflecting overall economic activity (Malik & Velan, 2019). Real Interest Rate which is inflation-adjusted interest rate (World Bank Database), affecting the cost of capital (Upadhyay & Ghosh Roy, 2016). Exchange Rate is the value of the Indian Rupee against a basket

of foreign currencies (World Bank Database), influencing price competitiveness (Rashid et al., 2022a; Das & Mahalik, 2023). Inflation is the annual percentage change in the Consumer Price Index (World Bank Database), a measure of price stability (Mukhopadhyay & Upadhyay, 2022). Debt-to-Equity Ratio is total debt divided by shareholder equity, reflecting a company's capital structure (Asiedu & Alves, 2017). Current Ratio is current assets divided by current liabilities, assessing short-term liquidity (Choi, 2023). Quick Ratio which equal to (Current assets – Inventory) divided by current liabilities, providing a more stringent assessment of immediate liquidity (Choi, 2023).

Data Sources

Company Financial Data: ROA, debt-to-equity ratio, current ratio, and quick ratio obtained from the Prowess IQ database. GDP growth rate, real interest rate, exchange rate, and inflation data sourced from the World Bank database.

Sampling

The target population comprises all Indian exporting companies listed on the Nifty Pharma, Nifty IT, Nifty Energy, Nifty Oil & Gas, Nifty Auto, and Nifty Infrastructure indices. The final sample consists of 73 companies The study analyzes data for a 10-year period from 2013 to 2022. Microsoft Excel will be used to prepare the data, identify and address inconsistencies, and ensure data suitability for statistical analysis. Descriptive Statistics such as Mean, standard deviation, and correlation analysis to summarize data characteristics and initial relationships. Panel Data Regression analysis is employed using EViews software to examine the combined impact of macroeconomic, capital structure, and liquidity variables on ROA, while controlling for company and year-specific effects.

Study Model

$ROA_{it} = \alpha_1 + \beta_1 GDP_t + \beta_2 IntRate_t + \beta_3 ExRate_t + \beta_4 Infl_t + \beta_5 DE_{it} + \beta_6 CR_{it} + \beta_7 QR_{it} + + u_{it}$

Where:

ROA_{it}= Return on Assets of company 'i' in year 't'

GDP_t= GDP Growth Rate in year 't'

$IntRate_t$ = Real Interest Rate in year 't'

$ExRate_t$ = Exchange Rate in year 't'

$Infl_t$= Inflation Rate in year 't'

DE_{it}= Debt-to-Equity Ratio of company 'i' in year 't'

CR_{it} = Current Ratio of company 'i' in year 't'

QR_{it} = Quick Ratio of company 'i' in year 't'

$\beta_1 ... \beta_7$ = Regression Coefficients

α_1 = Company-Specific Intercept

u_{it}= Error Term

Data Analysis and Interpretation

Graphical presentation of Macroeconomic Variables

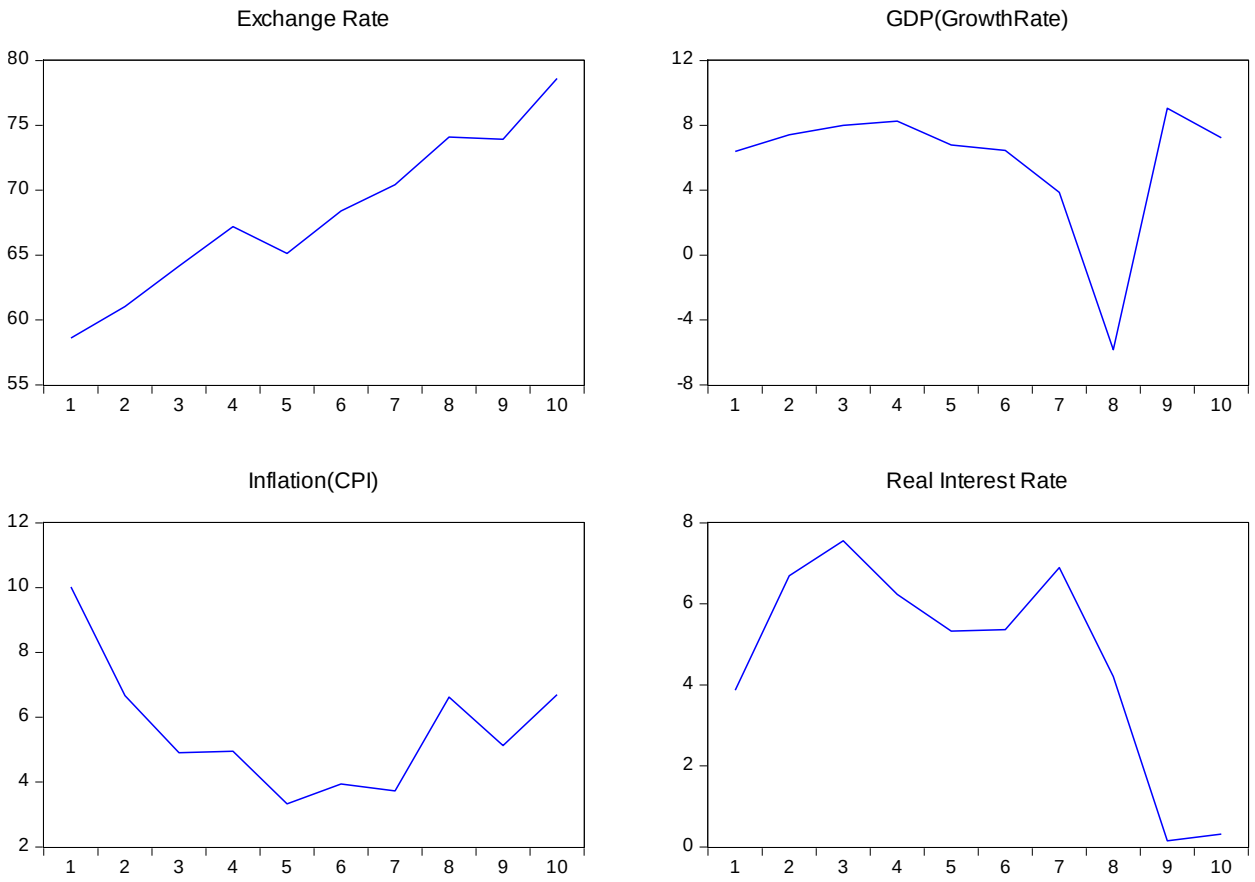

Figure 1

Figure 1 shows the graphical presentation of macroeconomic variables in certain observations we can seen are that INR/USD Indian currency has been constantly deprecating since 2013 which, GDP growth rate also has increased over the period of time expect in 2022 it dropped to -6 percent and there is minor fluctuation in inflation as well and real interest rate has been decreased.

Descriptive Statistics of Macroeconomic variable

	EXCHANGE_RATE	GDP_GROWTHRATE_	INFLATION_CPI_	REAL_INTEREST_RATE
Mean	68.15281	5.762848	5.598911	4.660100
Median	67.79239	7.017538	5.039812	5.344638
Maximum	78.60449	9.050278	10.01788	7.556488
Minimum	58.59785	-5.831053	3.328173	0.147236
Std. Dev.	6.246667	4.305495	1.984739	2.603786

Skewness	0.109916	-2.191898	0.994491	-0.836642
Kurtosis	2.072930	6.565724	3.437258	2.392032

Table 1

The descriptive analysis shows a moderately volatile exchange rate environment, with an average of 68.15 (USD/INR). The GDP growth rate exhibited significant fluctuations over the study period, averaging 5.76% with unusually low growth outliers evident in the distribution. Inflation (5.60% average) and real interest rates (4.66% average) showed moderate variability. Overall, the descriptive statistics suggest a dynamic macroeconomic landscape in India, with notable fluctuations in GDP growth, alongside relatively stable inflation and interest rates.

Panel Data Regression

Output of Pooled OLS Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.97891	9.923916	1.509375	0.1316
GDP_GROWTHRATE_	0.083574	0.098623	0.847410	0.3970
INFLATION_CPI_	0.211986	0.257220	0.824141	0.4101
REAL_INTEREST_RATE	0.260798	0.247774	1.052565	0.2929
EXCHANGE_RATE	-0.059156	0.107955	-0.547973	0.5839
DER	-6.830238	0.467733	-14.60286	0.0000
CR	-1.466127	0.808494	-1.813405	0.0702
QR	1.809768	0.817450	2.213918	0.0271

R-squared	0.239506	Mean dependent var	10.58122
F-statistic	32.93320	Durbin-Watson stat	0.255724
Prob(F-statistic)	0.000000		

Source: Author's own compilation

Table 2

Output of Fixed effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.29270	4.887609	2.105876	0.0356
GDP_GROWTHRATE_	0.072755	0.048361	1.504432	0.1329
INFLATION_CPI_	0.134911	0.126248	1.068619	0.2856
REAL_INTEREST_RATE	0.245106	0.121441	2.018313	0.0440
EXCHANGE_RATE	0.001953	0.053125	0.036756	0.9707
DER	-2.547064	0.440980	-5.775912	0.0000

CR	-0.708231	1.160946	-0.610046	0.5420
QR	0.323196	1.240442	0.260549	0.7945

R-squared	0.835554	Mean dependent var	10.58122
F-statistic	41.85491	Durbin-Watson stat	1.148412
Prob(F-statistic)	0.000000		

Source: Authors' own compilation

Table 3

Output of Random effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.74295	4.951244	2.169747	0.0303
GDP_GROWTHRATE_	0.073762	0.048357	1.525364	0.1276
INFLATION_CPI_	0.141838	0.126223	1.123711	0.2615
REAL_INTEREST_RATE	0.246891	0.121440	2.033034	0.0424
EXCHANGE_RATE	-0.004424	0.053100	-0.083317	0.9336
DER	-2.999391	0.419616	-7.147948	0.0000
CR	-0.546516	1.020877	-0.535340	0.5926
QR	0.214543	1.082354	0.198219	0.8429

R-squared	0.078582	Mean dependent var	1.884503
F-statistic	8.918231	Durbin-Watson stat	1.005610
Prob(F-statistic)	0.000000		

Source: Authors' own compilation

Table 4

Model Section Criteria

Pooled vs fixed

Redundant Fixed Effect Test

Fixed Effects Test	Statistic	d.f.	Prob.
Cross-section F	32.720514	(73,659)	0.0000

Cross-section Chi-square	1133.225137	73	0.0000

Source: Authors' own compilation

Pooled Vs Random

Test Summary Statistic	Chi-Sq.	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	7	1.0000

Source: Authors' own compilation

Fixed vs random

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	1693.262 (0.0000)	4.507122 (0.0338)	1697.769 (0.0000)

Source: Authors' own compilation

Model Selection

To determine the most appropriate panel data regression model, a series of specification tests were conducted. The Redundant Fixed Effects tests (F-test and Chi-square test) provided strong evidence ($p < 0.0000$) for the presence of fixed effects, suggesting the importance of accounting for unobserved heterogeneity across firms.

Next, the Breusch-Pagan Lagrange Multiplier tests indicated that a random effects model is preferable to a simple pooled OLS model, as it captures individual-level effects. This was supported by statistically significant p-values across cross-section, time, and both specifications ($p < 0.0000$).

Finally, the Correlated Random Effects - Hausman Test was employed to compare the random effects model to a fixed effects specification. The test yielded a high p-value (1.0000), failing to reject the null hypothesis that the random effects model is the more appropriate choice. This decision is further supported by the theoretical context of this study, where it is reasonable to assume that unobserved firm-specific effects are uncorrelated with the included explanatory variables.

Random effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.74295	4.951244	2.169747	0.0303
GDP_GROWTHRATE_	0.073762	0.048357	1.525364	0.1276
INFLATION_CPI_	0.141838	0.126223	1.123711	0.2615
REAL_INTEREST_RATE	0.246891	0.121440	2.033034	0.0424
EXCHANGE_RATE	-0.004424	0.053100	-0.083317	0.9336
DER	-2.999391	0.419616	-7.147948	0.0000
CR	-0.546516	1.020877	-0.535340	0.5926
QR	0.214543	1.082354	0.198219	0.8429

R-squared	0.078582	Mean dependent var	1.884503
F-statistic	8.918231	Durbin-Watson stat	1.005610
Prob(F-statistic)	0.000000		

Source: Authors' own compilation

Interpretation:

GDP_GROWTHRATE is Positive but not statistically significant (p-value = 0.1276). This suggests a possible weak positive association between economic growth and ROA, but the result is not conclusive enough to claim a strong effect. INFLATION_CPI is also positive but not statistically significant (p-value = 0.2615). There's a hint of a positive relationship between inflation and ROA, but again, we lack strong statistical evidence to back this claim. The REAL_INTEREST_RATE is positive and statistically significant (p-value = 0.0424). This

indicates a potentially important relationship. As real interest rates increase, ROA tends to increase as well. EXCHANGE_RATE is not statistically significant (p-value = 0.9336). The model suggests little to no impact of exchange rate fluctuations on ROA. DER (Debt-to-Equity Ratio) is negative and statistically significant (p-value = 0.0000). This is a strong finding, implying that firms with higher levels of debt relative to equity tend to experience lower profitability (ROA). This is likely related to higher interest expenses associated with more debt. CR (Current Ratio): is not statistically significant (p-value = 0.5926). QR (Quick Ratio) is also not statistically significant (p-value = 0.8429). The results suggest no clear relationship between a firm's short-term liquidity (as measured by the quick ratio) and its ROA.

Model Diagnostics

R-squared: A relatively low R-squared (0.078582) indicates that the model explains only a small portion of the total variation in ROA. This suggests that there are important factors influencing ROA that are not included in this model. The F-statistic is statistically significant (p-value = 0.000000), implying that your model as a whole has some explanatory power.

Hypothesis Testing

Assuming a significance level of 0.05, the regression analysis provides evidence to reject the null hypotheses regarding the relationship between real interest rates (H0_4, p = 0.0424) and the debt-to-equity ratio (H0_5, p = 0.0000) with the ROA of export-oriented companies. These findings suggest that real interest rates and a firm's capital structure have statistically significant impacts on profitability. However, the analysis failed to reject the null hypotheses regarding GDP growth rate (H0_1, p = 0.1276), inflation (H0_2, p = 0.2615), exchange rates (H0_3, p = 0.9336), the current ratio (H0_6, p = 0.5926), and the quick ratio (H0_7, p = 0.8429). This indicates insufficient

evidence to demonstrate a statistically significant link between these variables and ROA within the context of this study.

Findings and Discussion

The panel data regression analysis revealed several statistically significant relationships between macroeconomic variables, capital structure, liquidity, and the Return on Assets (ROA) of Indian exporting companies over the 2013-2022 period.

Key findings include:

Real Interest Rate: A positive and statistically significant relationship was observed between real interest rates and ROA ($p = 0.0424$). This suggests that as real interest rates increase, the profitability of exporting firms tends to increase as well. Debt-to-Equity Ratio (DER): The DER exhibited a strong negative and statistically significant association with ROA ($p = 0.0000$). This indicates that export-oriented companies with higher levels of debt relative to equity tend to experience lower profitability. And no statistically significant relationships were found between ROA and the other variables such as GDP growth rate, inflation, exchange rate, current ratio, and quick ratio. These findings provide valuable insights into the factors influencing the profitability of Indian export-oriented companies. Let's discuss the implications, comparisons with existing literature, and limitations. The positive impact of real interest rates on ROA is somewhat surprising, as higher borrowing costs are often expected to constrain profitability. However, one potential explanation is that during periods of higher real interest rates, Indian exporting firms might benefit from increased investment returns or more favorable currency differentials for their export revenues. The robust negative relationship between DER and ROA is consistent with

previous research (Al-Najjar, 2011; Deshai, 2004) which suggests that excessive debt financing can limit profitability by increasing interest expenses, hindering investment opportunities, and raising financial risk. This underscores the importance for Indian exporting companies to maintain a prudent capital structure, balancing the potential benefits of debt with the risks associated with overleveraging. The lack of statistically significant findings for GDP growth, inflation, exchange rates, and liquidity metrics offers opportunities for reflection. While these factors are often cited as influential in export literature (Malik & Velan, 2019; Mukhopadhyay & Upadhyay, 2022; Rashid et al., 2022a), their impact on profitability within the specific context of this study may be limited or might require more nuanced analysis. It's possible that sector-specific dynamics or a longer time frame could reveal different relationships.

Conclusion

This study aimed to analyze the combined impact of macroeconomic variables, capital structure, and liquidity on the profitability of Indian export-oriented companies. The panel data regression analysis revealed both expected and potentially surprising findings that contribute to the understanding of export performance determinants. A key result was the strong negative association between the debt-to-equity ratio (DER) and Return on Assets (ROA). This emphasizes the importance of prudent capital structure management for exporting companies, as excessive debt appears to have detrimental effects on profitability. The findings highlight the need for exporters to strike a balance between the potential benefits of debt financing and the associated risks. Additionally, the positive relationship between real interest rates and ROA suggests a complex interplay between interest rates and export performance. While this finding warrants further sector-specific exploration, it underscores the need for exporters to closely monitor macroeconomic trends and develop strategies to mitigate potential risks. While GDP growth,

inflation, exchange rates, and liquidity metrics did not exhibit statistically significant relationships with ROA in this study, their influence cannot be definitively ruled out. Future research with longer time horizons or sector-level analysis might shed further light on these variables.

Managerial Implication

The study's findings have significant managerial implications for export-oriented firms in India. The strong negative impact of high debt-to-equity ratios on profitability underscores the importance of prudent capital structure management. Managers should carefully evaluate the benefits of debt financing against the potential burdens of excessive interest payments and increased financial risk. This is particularly vital in a dynamic macroeconomic environment like India's, where fluctuations in GDP growth could exacerbate the challenges of high debt levels. Additionally, the findings suggest the need for exporters to actively monitor macroeconomic trends, particularly real interest rates. Developing strategies to mitigate the potential adverse effects of interest rate changes and capitalize on favorable periods could enhance financial resilience and long-term competitiveness. While this study didn't find immediate links between liquidity measures and profitability, maintaining healthy liquidity levels remains crucial for exporters to manage unexpected short-term fluctuations and seize potential growth opportunities.

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