



Foreign Institutional Investments (Fiis) And Indian Stock Market With Respect To Bse Sensex And Other Bse Indices

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ABSTRACT

The Indian stock market was opened up to FII investment in 1992-93 and since then there has been a significant increase in the portfolio investment by FIIs. FII investment has become an important determinant of the stock market trends in India. In this context, this paper studies the relationship between Foreign Institutional Investments (FIIs) and Indian Stock Market with respect to the BSE Sensex and other BSE indices such as BSE100, BSE200, BSE500 and BSECG (Consumer Goods). The monthly data have been collected from secondary sources such as official websites of Indian stock market, journals etc. from April 2005 to March 2015. The Karl Pearson Correlation Coefficient explains that there is a weak positive correlation between Foreign Institutional Investments and Indian Stock Market.

KEYWORDS : Foreign Institutional Investments, BSE Sensex, Coefficient of Correlation

INTRODUCTION

Concept of Stock Market:

Stock Market (also called Stock Exchange or Share Market) is one important constituent of capital market. Stock Market is an organized market for the purchase and sale of industrial and financial security. It is convenient place where trading in securities is conducted in systematic manner i.e. as per certain rules and regulations.

It performs various functions and offers useful services to investors and borrowing companies. It is an investment intermediary and facilitates economic and industrial development of a country. Stock Market is an organized market for buying and selling corporate and other securities. Here, securities are purchased and sold out as per certain well-defined rules and regulations. It provides a convenient and secured mechanism or platform for transactions in different securities. Such securities include shares and debentures issued by public companies which are duly listed at the stock exchange, and bonds and debentures issued by government, public corporations and municipal and port trust bodies.

Concept of Investment:

Investment is the employment of funds on assets with the aim of earning income or capital appreciation. Investment has two attribute namely time and risk. Present consumption is sacrificed to get a return in the future. The sacrifice that has to be borne is certain but the return in the future may be uncertain. This attribute of investment indicates the risk factor. The risk is undertaken with a view to reap some return from the investment. For a layman, investment means some monetary commitment. A person's commitment to buy a flat or a house for his personal use may be an investment from his point of view. This cannot be considered as an actual investment as it involves sacrifice but does not yield any financial return.

About Bombay Stock Exchange (BSE):

Bombay Stock Exchange Limited is the oldest stock exchange in Asia with a rich heritage. Popularly known as "BSE", it was established as "The Native Share & Stock Brokers Association" in 1875. It is the first stock exchange in the country to obtain permanent recognition in 1956 from the Government of India under the Securities Contracts (Regulation) Act, 1956. The Exchange's pivotal and pre-eminent role in the development of the Indian capital market is widely recognized and its index, SENSEX, is tracked worldwide. SENSEX is not only scientifically designed but also based on globally accepted construction and review methodology. First compiled in 1986, SENSEX is a basket of 30 constituent stocks representing a sample of large, liquid and representative companies. The base year of SENSEX is 1978-79 and the base value is 100. The index is widely reported in both domestic and international markets through print as well as electronic media.

About Foreign Institutional Investments (FIIs):

Foreign Institutional Investor (FII) means an institution established or incorporated outside India which proposes to make investment in securities in India. They are registered as FIIs in accordance with Section 2 (f) of the SEBI (FII) Regulations 1995. FIIs are allowed to subscribe to new securities or trade in already issued securities. This is just one form of foreign investments in India.

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FII is an investor or investment fund house that is formed or registered in a country outside of the one in which it is currently making investments. Institutional investors include pension funds, hedge funds, insurance companies and mutual funds – asset management companies (AMCs) registered outside India generally form an FII with SEBI to be allowed to invest in India. Again, the term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies. FII means an entity established or incorporated outside India which proposes to make investment in India.

REVIEW OF LITERATURE

Bohra, N. Singh and Dutt, Akash, studied the behavioral pattern of FII in India and figure out the reasons for indifferent responses of BSE Sensex due to FII inflows. They found the correlation between FII investment and turnover of different individual groups at BSE Sensex.

Rajeev K.S. and Ajit U. studied that in the Indian stock market FIIs have a disproportionately high level of influence on the market sentiments and price trends. Results of the study shows the linkages between the FIIs inflows and the performance of Midcap & Small cap Indices are robust and significant. FIIs have significant impact on the share prices of the Midcap & Small cap Indices companies and their active trading behaviour.

Dasgupta and Dutta (2011) by using monthly data from April, 2000 to September, 2010, pointed out that MFs total trading value has been the most significant contributor in improvement or decline in total trading value of NSE Cash Segment rather than the FIIs. Thus, it is quite clear that there is a lack of empirical studies investigating FIIs impact on Indian stock markets in comparison to the domestic institutional investors including MFs both in short and long-run.

RESEARCH METHODOLOGY**PROBLEM STATEMENT**

"To study the relationship between Foreign Institutional Investments (FIIs) and BSE Sensex and between Foreign Institutional Investments (FIIs) and Other BSE Indices"

RESEARCH OBJECTIVES

To study the relationship between Foreign Institutional Investments and Indian Stock Market (BSE Sensex).

To study the relationship between Foreign Institutional Investments and other BSE Indices like BSE100, BSE200, BSE500 and BSECG (Capital Goods).

RESEARCH DESIGN

For this research, Descriptive Research Design has been used because; in this research design the researcher has got very specific objectives, clear-cut data requirements. The recommendation/findings in a descriptive research are definite.

DATA COLLECTION METHOD

For this research, Secondary source of data has been used; these data are those, which have been gathered earlier for some other purpose. Secondary Data have been collected from official websites of Bombay stock exchange, journals, magazines, books etc.

SAMPLE

In order to fulfil the objectives of this study FIIs, BSE Sensex, BSE100, BSE200, BSE500 and BSECG (Capital Goods) have been considered.

SAMPLE PERIOD

Monthly data of FIIs, BSE Sensex, BSE100, BSE200, BSE500 and BSECG have been collected during financial year April- 2005 to March-2015.

STATISTICAL TOOLS

Statistical tools used in this study are Karl Pearson Coefficient of Correlation by using EvIEWS7 and Microsoft Excel.

LIMITATIONS OF THE STUDY

This study is purely based on the secondary data collection method. So any problem with this data can lead to huge change in the above said.

This study is limited to selected time period from year 2005 to year 2015.

DATA ANALYSIS & INTERPRETATION**Karl Pearson Coefficient of Correlation:**

In a bivariate distribution we may be interested to find out if there is any correlation or covariation between the two variables under study. If the change in one variable affects a change in the other variable, the variables are said to be correlated. If the two variables deviate in the same direction, that is if the increase (or decrease) in one results in a corresponding increase (or decrease) in the other, correlation is said to be direct or positive. But if they constantly deviate in the opposite directions, that is if increase (or decrease) in one results in corresponding decrease (or increase) in the other, correlation is said to be inverse or negative. If the variables are independent, there cannot be any correlation and the variables are said to be zero correlation.

According to Karl Pearson 1896, the Pearson Correlation above 0.75 indicates a strong relationship and that below 0.50 is adopted as weak relationship. The Pearson Coefficient of Correlation between 0.50 and 0.75 is considered as a moderate relationship. The result of Correlation is as below:

Table 1.1 Correlation of FIIs with BSE Sensex, BSE100, BSE200, BSE500 and BSECG

Variables	Correlation FIIs	Strength
BSE Sensex	0.28	Weak Positive Correlation
BSE100	0.31	Weak Positive Correlation

Variables	Correlation FIIs	Strength
BSE200	0.28	Weak Positive Correlation
BSE500	0.28	Weak Positive Correlation
BSECG	0.20	Weak Positive Correlation

INTERPRETATION

The above table 1.1 depicts the Karl Pearson Coefficient of Correlation of Foreign Institutional Investments (FIIs) with Indian Stock Market and other specific sector indices for the whole study period from 2005 to 2015. The strength of correlation can be indicated by different ranges into which the value of r lies. According to Karl Pearson 1896, the correlation above 0.75 indicates a strong relationship and that below 0.50 is adopted as a weak relationship. The correlation between 0.50 and 0.75 is considered as a moderate relationship.

The correlation of Foreign Institutional Investments with BSE Sensex is 0.28, which indicates a weak positive coefficient of correlation. The correlation of Foreign Institutional Investments with BSE100, BSE200, BSE500, and BSECG is 0.31, 0.28, 0.28, and 0.20 respectively, which also indicates a weak positive correlation. Here, the correlation is positive, which indicates that the movement of Foreign Institutional Investments and the other variables is in same direction.

CONCLUSION

It is concluded from the data analysis that there is a positive correlation between Foreign Institutional Investments (FIIs) and Indian Stock Market (BSE Sensex), further there is a positive correlation between Foreign Institutional Investments and other BSE indices like BSE100, BSE200, BSE500 and BSECG, but such relationship is very weak. It means, if FIIs is considered independent variable then influence of FIIs on Indian Stock Market is very less. Further, if Indian Stock Market is considered independent variable then the Indian stock market affects FIIs to some extent only.

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