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Original Research Paper

Commerce

IMPACT OF FII'S ON INDIAN STOCK EXCHANGE: SPECIAL REFERENCE TO BSE & NSE

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ABSTRACT After our economy was liberalized, international investors continued to monitor its growth. Many investors come to India in search of greater investment opportunities. Our stock market has improved as a result of the 1991 adjustments, which also improved the economy. Foreign investors invest in India after spotting the potential for growth in our market. Through FDI and FII, the foreign investor arrived. A short-term investment is made by a foreign portfolio investor. They are extremely reliant on stock market movement. The biggest stock market investors are typically recognized as being foreign institutional investors. In order for the economy to grow, foreign investment is essential. A significant amount of investment in Indian businesses also improves perceptions of the economy. Additionally, it gives investors a favorable impression. Retail investors also play a big part in all of this. Retail investors attempt to invest their money in the stock market in an effort to earn a fair return, but they do so with limited resources and understanding. In this essay, we examine how FIIs affect the Indian stock market. FIIs play an important role. Sometimes they sell their securities due to some external factors and shake the stock markets.

KEYWORDS : Stock Market, Foreign Portfolio Investors, SEBI, NSE, BSE

INTRODUCTION

Investment is necessary for every nation to develop its economy. Countries can receive investment directly or indirectly. We refer to direct investment as FDI. It also goes by the name of long-term investment. Foreign institutions, foreign individuals, and other terms are used to describe indirect investment. Our nation's economy needs a lot of investment to grow after gaining independence. We did not receive as much as we wanted in terms of investment opportunities due to controlled economic policies and administration. We receive very little foreign investment now that we are independent. We opened up our economy to foreign investment in 1991 after doing so. We receive investment directly.

It implies that foreign investors fund our institutions directly. However, we also receive foreign funding in more covert methods. The stock market is the primary source of it. The term "foreign portfolio investors" applies to them. Investing in a portfolio helps our stock exchange expand quickly. Additionally, where foreign portfolio investors make sizable investments, the share prices of those companies rise quickly.

Our stock markets are making a lot more money from international investors than from domestic ones, according to historical data. As FII invest in our nation and remove their investment, we may observe both the positive and negative behaviour of our stock exchange. In addition, we cannot claim that FIIs are a necessity for the Indian stock exchange. India is a developing nation, and compared to other emerging nations, our economy is rising extremely quickly.

With these potential investments, FIIs want to invest in our nations in order to receive considerably higher returns than other nations. Comparatively speaking, the economy of our country is far more stable. Due to all these advantages, foreign investors are drawn to our market. They wish to save their investment somewhere else as well. Nobody wants to lose the money they have invested. So, with the aid of a healthy economy, we draw in outside capital. We draw international investors since our economy is steady and superior to other economies, but somehow this form of investment starts to dominate our stock market. We occasionally see negative market effects as a result of this dependence. We receive a lot of investment, which is good, but on the other hand.

Our reliance on foreign investment increases. The stock market can be very volatile at times. The share market is influenced by numerous factors, some of which are internal and others of which are external. These elements have an effect on FIIs' behavior as well. Selling in the stock market might be brought on by a negative factor. As significant selling began, market pressure increased. As a result, there is a direct connection between FII and the stock market. We have a favorable perspective about FII investment because it attracted many inexperienced retail investors. Additionally, they are unsure of the stock they wish to choose. They merely seem to follow the FII. They only select the stock in which FIIs are expanding their holdings.

Stock Exchange

A stock exchange is a marketplace where various buyers and sellers can trade securities. Government securities and firm stock shares are examples of security. Shares of several corporate entities that listed their businesses on stock exchanges were traded there. Through an IPO, new firms are listed, and following the listing, stock is bought and sold. The stock market offers the essential financial mobility and direct money flow into the potential and successful businesses

Securities and Exchange Board of India (SEBI)

The SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) is in charge of overseeing the Indian stock market. It was founded in 1988, and on April 12, 1992, the SEBI Act, 1992, granted it legal authority. The Securities and Exchange Board of India's basic responsibilities are "...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market, as well as for matters connected therewith or incidental thereto," according to the Preamble of the S&EB.

The needs of the three groups that make up the market—the issuers of securities, the investors, and the market intermediaries—must be taken into consideration by SEBI.

Bombay Stock Exchange

BSE is known as Bombay stock exchange. BSE is established in 1875 and it is Asia's first stock exchange also. SENSEX is known as index of BSE. BSE has market capitalization of rupee 276.173 LAKH CORER As on January 2022. It is world fastest stock exchange in world with a median trade speed of 6 micro seconds.

BSE SENSEX

The S&P BSE SENSEX, often known as the BSE 30 or just the SENSEX, is a free-float market-weighted stock market index composed of 30 reputable and financially stable companies listed on the Bombay Stock Exchange. The 30 component firms, some of the biggest and most liquid equities, comprise a cross-section of the Indian economy's main industrial sectors. It is traded on major exchanges throughout the world, including the EUREX and those of the BRCS countries (Brazil, Russia, China, and South Africa).

National Stock Exchange

A stock exchange in India is called the NATIONAL STOCK EXCHANGE (NSE). The NSE was established in November 1992 and is the country's first countrywide, fully automated electronic exchange. Twenty financial institutions, including state-owned banks and insurance firms, make up its stockholders. As of 2021, the NSE was the third-largest stock exchange in the world, with a market capitalisation of more than US$ 3.4 trillion.

NSE NIFTY

The NSE index is known as Nifty 50. Nifty 50 refers to the top-performing equities and financially sound businesses. Due to these firms' performance, changes are occasionally made. The National Stock Exchange of India's benchmark stock market index for the Indian equities market is the NIFTY 50 index. It offers investment managers exposure to the Indian market in a single portfolio and includes 22 areas of the Indian economy.

FOREIGN PORTFOLIO INVESTOR (FII)

Overseas portfolio investors are overseas investors who make brief investments in the stock market. Basically, they deposit their money in the bank of the host nation and then use it to buy stocks, bonds, and other financial products.

FII'S IN INDIA

The Indian government started implementing liberalisation and economic changes in 1990–1991 with the goal of achieving quick and significant economic growth and advancing the globalisation of the economy. The government updated its foreign investment policy as part of the reform process under the New Industrial Policy, recognising the growing significance of foreign investment as a tool for technology transfer, augmentation of foreign exchange reserves, and globalisation of the Indian economy.

Foreign portfolio investors were allowed to invest in all securities traded on the primary and secondary markets, including shares, debentures, and warrants issued by companies that were listed or were expected to be listed on the Indian stock exchanges, beginning on September 14, 1992, subject to the appropriate restrictions. Then-Finance Minister Dr. Manmohan Singh had proposed allowing reputable international investors, like Pension Funds etc., to invest in the Indian capital market while presenting the Budget for 1992-1993. Following a SEBI statement from January 2014, foreign institutional investors were grouped with foreign portfolio investors (FII).

Literature Review

While looking at literatures available it was found that most of the developed countries opened up their economies to attract foreign investments. They are trying to ease foreign investment rules in country.

(Bhansali, 2016)A study demonstrates how Indian liberalization has contributed to an increase in FDI and FPI. They therefore investigated what happens to the stock exchange when our economy welcomes foreign investment. Study takes into account data going back ten years to 1991. They looked for a connection between index closing values and FII buying or selling behavior using correlation and regression.

(Vaishali, 2016) The study looks into both the favorable and unfavorable comments on FII investing or selling. Market return and volatility's effects have been examined in the study. A study reveals that the Indian market became unstable when FIIs sold their securities there. In India, FIIs chase returns. In the Indian market, buying in large quantities is regarded as a positive indicator, while selling is regarded as a bad sign. The volatility of nifty returns is impacted by FIIs, while market returns are unaffected. specifically, their sales operations. A study demonstrates that international investors' trading feedback on Indian markets contributes to the country's financial markets' volatility.

(Jalota, 2017) The study looked at how DII's behavior changed as FII began to sell amid market turbulence. Since FII are recognized as important investors in the Indian stock market, every institution in the sector imitates their behavior in an effort to gain an advantage or protect itself. The reason for this is because there are several prospects for growth in India. We're still expanding. In a study, the relationship between FII and DII is examined from the standpoint of the Indian market. Participation by FII has been steadily rising. It demonstrates how positively FIIs view the Indian market.

(Swapna, 2018) In the context of the BSE and NSE, the study examines the effects of many variables, including FII buying, selling, and net FII investment. The study also reveals that FII activity adequately explains movement in the Indian stock market. It investigated how FII influx and outflow affected the SENSEX and Nifty 50 Index. A study reveals a strong correlation between FIIs and indices. The decline in the SENSEX is a result of FII exodus. The flow of FIIs affects how index values move. The study's conclusion is that FII cash outflows are what caused the decline in both indices.

(Padole, 2020) A study investigates the impact of FIIs on the comeback of the Indian stock market. It is concluded that FII investment is motivated by factors other than just domestic and international economic conditions. Additionally, be inspired by market emotion. They anticipate making money in the stock market in the short term. High volatility and speculation are caused by high return expectations. The movement of the BSE and NSE indices and FII inflow are significantly correlated.

(S Thombare, 2020) discovered that in emerging nations, foreign capital aids in raising labor productivity and accumulating foreign exchange reserves to cover the current account deficit. It was discovered that other factors influence stock market indices in addition to FII. Other significant factors can have an impact on the stock market. This study looked at FII investments in the SENSEX and the connection between FIIs and firm-specific ownership, financial, and stock market performance characteristics. They note that where public shareholders control more stock in companies, FIIs invested more. Share returns and earnings per share are two more critical factors that affect FII investment.

(Kulshrestha, 2019) Study uses correlation and regression to look at the connection between FII investment and stock exchange. The 20-year data is taken into consideration when examining the relationship between FII investment and stock exchange. The study looks at the relationship between the movement of the FII and the SENSEX and CNX NIFTY. According to research and observations, FIIs have a big influence on stock market investment. The stock market is also impacted by other variables. One of those elements is FIIs. With the good flow of FII investment, the stock market increases.

(Mishra, 2018) The study discovers a long-term relationship between the factors. Since there is a long-term correlation between the macroeconomic variables of IIP, inflation, gold prices, exchange rates, FII, and BSE SENSEX, investors view India as a rising economic power with enormous potential.

Research Methodology

Correlation and regression statistical tools have been utilized to analyses the data that has been gathered. A statistical tool that assesses how closely two variables' movements are related is the correlation coefficient. Its range of values is from -1 to 1. In order to determine whether there is a relationship between the FII purchases and the closing values of the indices (SENSEX and Nifty) for that specific year, an analysis was conducted. The effects of independent factors on a single dependent variable have been assessed using regression analysis. In this essay, we examine how FIIs affect the stock market.

Scope of the Study

This paper studies the relationship between the stock exchange index movement and the FII flow to Indian markets. The study takes the previous 20 year data from 2007 to 2026 (Financial Year). Study consider the flow of FII while changes in market volatility. There are few factors that affect share market. Some of them are internal factors and some are foreign factors. FII is one of those factors that affect our stock market. Study of FII's movement give us a clear view of market behavior. It helps to policy makers and investors. Retail investors is one of important part that consider FII's investment behavior. We are looking for some other factors how retail investor get affected through FII's investment. In future this research will help retail investors to understand the behavior of FII.

Data Collection Secondary data

The study is based on secondary data. The data has been collected from internet by exploring important websites. The data related to FII is collected from the official website of NSE, FII investment section. Yearly index value has been taken.

OBJECTIVE OF THE STUDY

Objective of the Study:-

- To explore is FII has significant relationship with stock market.
- To know does stock market perform positive while increase of FII investment.

Research Questions

- Does FII's have any impact on stock market?
- Does stock market fall while FII's sell in stock market.
- Which factors foreign investor consider while they invest and while they sell.

Hypothesis

Ho: There is no any significance relationship between FII and Indian stock market. Ha: There is a significant relationship between FII and Indian Stock Market.

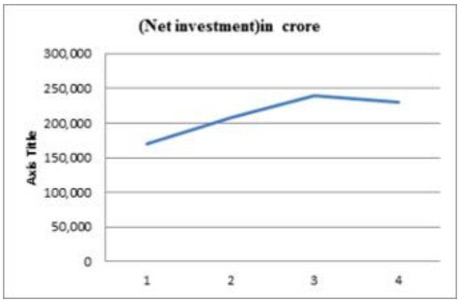
Significance of the Study

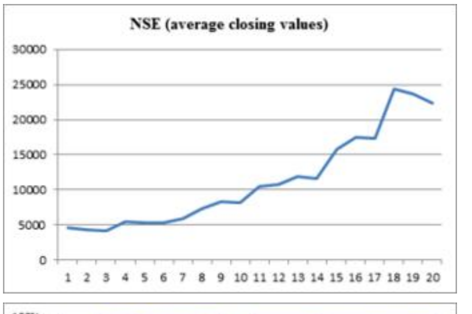
- Study will help us to understand the behavior of FII's in positive manner and also in negative manner. Our stock market will grow so we need to understand the what is contribution of foreign investment.
- It will identify the factor that affects the share market.
- With the help of this study we will be able to identify how can we help the retail investors.

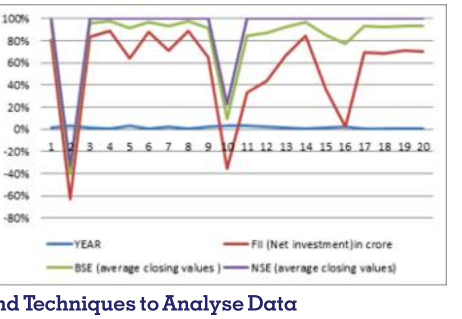
Data Collection

Average Closing Values

YEAR	FII (Net Investment) in Crore	BSE (Average Closing Values)	NSE (Average Closing Values)
2007	80914	15563.59	4571.29
2008	-41215	14492.67	4344.74
2009	87987	13700.82	4113.96
2010	179674	18206.91	5461.12
2011	39352	17777.76	5335.91
2012	163350	17617.03	5341.52
2013	62287	19722.42	5915.90
2014	256211	24638.95	7360.30
2015	63662	27352.17	8285.91
2016	-23079	26,626.46	8158.8
2017	20048	34,056.83	10530.7
2018	33,973	35,178	10,736
2019	97,766	38,015	11,921
2020	2,74,225	38,128	11,642
2021	37,666	52,786	15,778
2022	1,20,00	58,564	17,498
2023	1,70,000	57,527	17,360
2024	2,08,000	73,651	24,354
2025	2,40,000	75,317	23,589
2026	2,30,000	76,111	22,331







Tools and Techniques to Analyse Data

Correlation Between FII's and BSE SENSEX

Correlation has been used to determine the statistical relationship between variables under study FII and BSE SENSEX. With the help of correlation we can get a relationship that FII is affecting share market.

Correlation Between FII's and NSE NIFTY

Same as above we use Correlation to determine relationship between FII's net investment and NSE NIFTY. If they are positively correlated it means changes in FII's net investment will affect NSE nifty. Or if there is negative relationship between FII and NIFTY it means there no such impact on share market.

Regression FII's and BSE SENSEX.

Regression is a statistical technique that relates a dependent variable to one or more independent variable. It shows weather changes observed in dependent variable are associated with changes in one or more independent variable. In this study FII will be independent variable and market will be dependent variable. We will find out that is there any relationship between FII and SENSEX.

Regression FII's and NIFTY.

Same as above we will find out association between FII's net investment and NSE NIFTY. Regression will show us is there any changes when FII's change there position in share market.

ANOVA (ANALYSIS OF VARIANCE)

ANOVA test is a type of statistical test used to determine if there is a statistically significant difference between two or more categorical groups by testing for differences of means using variance.

Data Analysis

Correlation Between FII and BSE Closing Value

Correlations			
	2	3	
2	Pearson Correlation	1	.198
	Sig. (2-tailed)		.462
	N	16	16
3	Pearson Correlation	.198	1
	Sig. (2-tailed)	.462	
	N	16	16

Correlations Between FII and NSE Closing Values

Correlations			
	2	4	
2	Pearson Correlation	1	.183
	Sig. (2-tailed)		.497
	N	16	16
4	Pearson Correlation	.183	1
	Sig. (2-tailed)	.497	
	N	16	16

PAIRED T TEST

Paired Samples Statistics					
	Mean	N	Std. Deviation	Std. Error Mean	
Pair 1	2	65770.1250	16	76682.23058	19170.55764
	3	16344.4731	16	8870.44379	2217.61095
Pair 2	2	65770.1250	16	76682.23058	19170.55764
	4	4943.1531	16	2707.92820	676.98205

Paired Samples Correlations				
	N	Correlation	Sig.	
Pair 1	2 & 3	16	.198	.462
Pair 2	2 & 4	16	.183	.497

		Paired Differences					t	Sig- 2 tailed
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			
					Lower	Upper		
Pair 1	2 - 3	49425.65188	75426.67386	18856.66847	9233.61444	89617.68931	2.621	.019 .006
Pair 2	2 - 4	60826.97188	76232.17176	19058.04294	20205.71491	101448.22884	3.192	

One Way Anova

ANOVA						
	Sum of Squares	df	Mean Square	F	Sig.	
3	Between Groups	1180271595.245	15	78684773.016	.	.
	Within Groups	.000	0	.		
	Total	1180271595.245	15			
4	Between Groups	109993126.952	15	7332875.130	.	.
	Within Groups	.000	0	.		
	Total	109993126.952	15			

CONCLUSION

Correlation has been used to define the significant relationship between stock market and FII's. as result shown that there is a weak correlation between FII and BSE similarly there is also weak correlation between FII and NSE. It means FII is not directly responsible for decline in the share market. However we can consider FII as significant player in the stock market. From the above data we can identify that there is a slight declining in the BSE and NSE due to the withdrawal of FII from both market. We can consider FII as a important variable that affect the stock exchange in certain ways. FII can play a significant role in the development of stock market. But it does not mean that only FII can affect the share market. There are other macro-economic variables that can affect the share market in other terms. In this research paper we only discuss about the FII's investment. We did not consider other macro variables that can affect the stock market. Other macro variables like international currency exchange, USA central banks rate, war etc., can also affect the share market. From the above data analysis we can conclude that there is no significant relationship in the stock market and FII's. FII can affect the stock market in other terms and it is part of among important variables.

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