



A STUDY ON FOREIGN INSTITUTIONAL INVESTMENTS IN INDIAN STOCK MARKET

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ABSTRACT

Rising globalization, deregulation, and foreign portfolio investments made the Indian stock exchanges competitive and efficient in their functioning. The role of investors is the key to success of market guided economic system and since it is FIIs who pump their savings into the markets, their investments need to be channelized to the most rewarding sectors of the economy. One of the most dominant investors groups that have emerged to play a critical role in the overall performance of the stock market are Foreign Institutional Investors (FIIs). Being a developing country, India attracts a large sum of FII every year. These foreign investments have a great impact on the economy of India. Indian stock market, which is one of the indicators of the economic status, is also being affected by the foreign investments made. This portfolio flows by FIIs bring with them great advantage as they are agents of growth while lowering the cost of capital in the emerging market. This paper indicates whether Foreign Institutional investors really have an impact on the stock market of India.

KEYWORDS : FII, FII's Impact, Indian Stock Market

INTRODUCTION

A Stock Exchange is a platform where buyers and sellers of securities issued by governments, finance institutions, corporate houses etc., meet and where trading of these securities takes place. This is a market of speculation. Stock exchanges may also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include stock issued by listed companies, unit trusts, derivatives, pooled investment products and bonds.

FOREIGN PORTFOLIO INVESTMENT(FII)

Foreign Portfolio Investment is the entry of funds into a country, where foreigners deposit money in a country's bank or make purchases in the country's stock and bond markets, sometimes for speculation. International portfolio flows refer to capital flows made by individuals or investors seeking to create an internationally diversified portfolio rather than to acquire management control over foreign companies. Diversifying portfolio internationally has been known as a way to reduce the overall portfolio risk and earn even higher returns.

Investors in developed countries can strengthen their portfolio by buying stocks in developing countries where stock markets have relatively low correlations with those in developed countries. The amount of FII is determined by the performance of the stocks of the countries where the investors want to invest his money relative to world markets.

DATA COLLECTION

The study is descriptive in nature and is based on secondary data. The data has been collected from internet by exploring the secondary sources available on the websites. The data related to FII flows has been collected from the SEBI website while the data related to Monthly closing value of SENSEX and NIFTY have been taken from the BSE and NSE website respectively. Yearly closing index values are taken so that they represent the real economic conditions of that period. Individual BSE SENSEX and NIFTY data and FII investment act as sample elements.

ANALYTICAL TECHNIQUE

In order to analyze the collected data statistical tools such as correlation and regression have been used. Correlation coefficient is a statistical measure that determines the degree which two variable's movements are associated. Its value ranges from -1 to 1.

The analysis has been made by correlating the FII purchases and the closing value of the indices for that particular year to identify whether a relationship exists between them. The regression analysis is used to evaluate the effects of independent variables on a single dependent variable. In the current paper an effort has been made to study the impact of FII on Indian stock exchange.

Table 1: Flow Of FII And Average Closing Values of Sensex And Nifty

YEAR	NetFII(Cr.)	AVERAGE CLOSING VALUE(SENSEX)	AVERAGE CLOSING VALUE(NIFTY)
2008	-41,215.5	14492.67	4344.74
2009	87,987.6	13700.82	4113.96
2010	1,79,674.6	18206.91	5461.12
2011	35,392.80	17777.76	5335.91
2012	1,63,350.1	17617.03	5341.52
2013	62,287.90	19722.42	5915.90
2014	2,56,211.85	24638.95	7360.30
2015	63,662.21	27352.17	8285.91

Correlation Between FII And Sensex

Correlation has been used to determine the statistical relationship between variables under study FII and BSE SENSEX.

Table 2: Correlation Between FII And BSE Sensex

	FII	SENSEX
FII Pearson Correlation	1	.659**
Sig.(2-tailed)	.20	.002
N	20	20
SENSEX Pearson Correlation	.659**	1
Sig.(2-tailed)	.002	.20
N	20	20

** . Correlation is significant at the 0.01 level (2-tailed).

INTERPRETATION:

From the above table, it is found that the Correlation between Net FIIs investment and BSE SENSEX is 0.659. This shows that there is strong relationship between net FIIs investment and BSE SENSEX. It shows that there is a strong impact of FIIs investment on stock market index. This positive correlation reveals the fact that the FIIs investment is an important factor in enhancing the market capitalization of Bombay stock exchange. In other words it can be said that due to FIIs activity in the Indian stock market the SENSEX value may go up or down by 65.9%. Also since the significance value is 0.002 which is less than 0.01 we can deduce that there is a relation between FII and SENSEX.

Regression analysis between FII and SENSEX

Regression has been used to determine the dependency between FII and BSE SENSEX. Here, Independent variable is FII investment and dependent variable is BSE SENSEX.

Table 3: Coefficients A

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1(Constant)	7256.259	1720.377		4.218	.001
FII	.072	.019	.659	3.718	.002

a. Dependent Variable: SENSEX

INTERPRETATION:

It can be observed from the table that the value of t statistics is 3.718 which is significant at 5% level of significance and hence thus shows that there is significant impact of FIIs on the BSE SENSEX thereby accepting that FII investment has the positive impact on Indian stock market. Thus, it can be concluded that the behaviour of FIIs matched the behavior of SENSEX during this period.

CORRELATION BETWEEN FII AND NIFTY

Correlation has been used to determine the statistical relationship between variables under study FII and NIFTY.

CONCLUSION

A number of developments have taken place in the Indian capital market with launching of financial reforms since summer 1991. With the advent of liberalization, Indian capital market has gone under tremendous changes. Today, it is one of the most attractive markets for the foreign institutional investors (FIIs). Since then the country has been receiving large amounts of portfolio investment. With the ongoing globalization the role of institutional investors in foreign capital flows has increased to a great extent. They are being regarded as key player of financial globalization. There is a steadily growing influence of FIIs in the domestic stock market if one looks at the total FII trade in equity.

FIIs and the movements of SENSEX are quite closely related in India and FIIs significant influence on the market sentiments and price trends. Results not only show that the FIIs are the major players in the domestic stock market in India but also that their influence on the domestic market is growing. Data on trading activity of FIIs and domestic stock market suggests that FIIs are becoming more important at the margin as an increasingly higher share of stock market turnover is accounted for FII trading. However, there may be other factors on which stock exchange may depend i.e. Government policies, budgets, bullion market, inflation, economic and political condition of the country, exchange rate.

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