



IMPACT OF FOREIGN INSTITUTIONAL INVESTORS (FIIS) ON INDIAN CAPITAL MARKET

Commerce

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ABSTRACT

FIIs are investors or an investment fund which are registered outside the country in which it is investing. It includes hedge funds, insurance companies, pension funds and mutual funds. It also includes banks, large corporate buyers or representatives of large institutions. Most developing economies have high volume of FIIs and these economies provide high growth potential than in developed economies. This study aims to find out whether there exists any significant relation between the Indian stock market (NSE-CNX NIFTY) and FII. We have used correlation to find out the extent of relationship between two variables and to validate the impact of FIIs on Indian Stock Market. We have further done some statistical analysis to find out the dominance of FIIs in Indian stock market. The paper concludes that FIIs affect the Indian stock market, and thus the Indian economy.

KEYWORDS

FIIS, CNX NIFTY, STOCK MARKET, NET INVESTMENTS

INTRODUCTION

Over the years, FIIs have been showing diversified magnitude and changing trends with various underlying reasons for the same. During the initial year 1992-93, when the FII flows started flowing into India it just amounted to Rs 13 cr. because at this moment government was framing policy guidelines for FIIs. However within a year in 1993-94 the FIIs flow rose to Rs. 5127 cr. increasing with 39338 percent because government had opened door for investment in India. Thereafter, the FII flows witnessed mixed trends over the years like from 1994-95 to 2008-09, FIIs showed negative comparative growth. However from 1995-96 to 2009-10, they have been showing comparative positive growth. There have been many reasons for these non patterned flows of FIIs in Indian economy. The slowdown in 2004-05 and 2005-06 was on account of global uncertainties caused by hardening of crude oil prices and upturn in the interest rate cycle. During 2007-2008 the whole world felt the heat of global financial crisis originated in USA. During this period the gross purchases were Rs. 614575 and the gross sales were Rs. 6,60,386 Cr. It amounted to net outflow to the tune of Rs. 45,810 Cr.

However as discussed earlier, FIIs flow has also shown positive trends over the last many years. In 2010 FIIs injected Rs. 1,12,000 cr.(net investment) in Indian equities. Indian economy has not been immune to these FIIs flows. They have affected various economic factors of the economy considerably like volatility in the stock market, risk-return patterns, inflationary trends, and economic growth, foreign exchange reserves, market capitalisation of the companies listed with BSE, NSE, and government policy with regard to decision on capital account convertibility and so on.

OBJECTIVE

The objective of this study is to find out whether there exists any significant relation between the Indian stock market (NSE-CNX NIFTY) and FII.

RESEARCH METHODOLOGY

In this paper descriptive research has been used, data from different websites have been collected like NSE, NSDL, money control and RBI. Firstly data has been collected for 10 years to show the relationship between the two variables and then month wise data has been collected and compared. Correlation is used to see the impact of FIIs on Indian Stock. Further statistical analysis is also used to find out whether FIIs have emerged as the most dominant group of investors in Indian Capital market or not.

ANALYSIS

To find out the whether FIIs affect the Indian stock market and Indian economy, correlation has been calculated between Closing Index of FII and FII inflows. Correlation has been calculated for the data from 2010 - 2016, month wise from April 2015-March 2016, and day wise from 16 March - 2015 to 31 March 2015. Firstly, the analysis starts with data of past 10 years which includes closing Index of CNX NIFTY and total inflows of debt and equity by FIIs from the year 2010-2016.

Table 1: Correlation Between closing Index Of Cnx Nifty And Total Inflows Of Debt And Equity By Fiis (2010- 2016)

Year	Index of CNX NIFTY	FII Inflows (in Cr.)
2010	6134.5	142658
2011	4624.3	146438
2012	5905.1	93726
2013	6304	168367
2014	8282.7	51649
2015	7946.35	277461
2016	8185.8	-18176
	Correlation	0.165709494

From the table the correlation between closing Index of CNX Nifty and FIIs inflows has been calculated. The correlation comes out to be 0.1657 which indicates positive relationship between the two variables- Indian Stock Market represented by Closing Index of CNX Nifty and FII Inflows.

Table 2: Correlation Between closing Index Of Cnx Nifty And Total Inflows Of Debt And Equity By Fiis (april 2015 - March 2016)

Month	Closing Index of CNX NIFTY	FII Inflows (in Cr.)
Apr 15	8181.5	7864.36
May15	8433.65	-4796.25
June 15	8368.5	-8192.92
July15	8532.85	2298.05
Aug15	7971.3	-19772.07
Sept 15	7948.9	-11279.32
Oct 15	8065.8	3026.66
Nov 15	7935.25	-9029.81
Dec 15	7946.35	-2360.02
Jan 16	7563.55	-14356.01
Feb 16	6987.05	-12513.12
Mar 16	7738.4	24201.51
	Correlation	0.20078366

On the basis of Table 2 having data of 2015-2016, Correlation between closing index and FIIs inflows has been calculated which comes out to .020078 which again shows significant relationship between the Indian Stock Market and foreign institutional investors. To get more insight of the relationship in depth study of 12 days of the month of March 2015 has been taken.

Table 3: Correlation Between closing Index Of Cnx Nifty And Total Inflows Of Debt And Equity By Fiis (april 2015 - March 2016)

Date	Closing stock of CNX NIFTY	FII Inflows (in Cr.)
16 mar 15	-762.55	8633.15
17 mar 15	265.52	8723.3
18 mar 15	-457.43	8685.9
19 mar 15	1428.72	8634.65

20 mar 15	354.59	8570.9
23 mar 15	417.41	8550.9
24 mar 15	737.86	8542.95
25 mar 15	813.19	8530.8
26 mar 15	-521.23	8342.15
27 mar 15	-320.52	8341.4
30 mar 15	-240.34	8492.3
31 mar 15	356.07	8491
	correlation	0.243444483

On calculating the correlation between the closing index on CNX Nifty from 16th March 2015 to 31st March 2015 and foreign institutional investor it comes out to .024344 which shows the significant relationship between the Indian stock Market and FIIs. The Second part of the analysis is focussed on the share of FIIs in Indian Capital market. It is done through by finding out the share of FIIs in total investment made in foreigners in India. Period of the study is five years 2011-12 to 2015-2016.

CONCLUSION

The Indian Capital Markets have noticed some remarkable changes and reforms in last 10 years. Our analysis was focussed on the contribution of FIIs in Indian Capital market percentage share of FIIs in total foreign investments definitely poses a proof of huge amount contribution by them. Though there isn't a very high degree of correlation found but there was positive relationship between the indices and FIIs inflows. Second half of the analysis also reveals good amount of proof showing significant amount of share of FIIs in Indian capital Market, validating the dominance of FIIs. Markets have become more efficient with the existence of institutional investors. India stock markets are an attractive investment opportunity as Indian markets are not dependent on the world economy and have a large domestic case. Moreover, Indian markets offer a wide variety in terms of sectors and companies. The only factor that determines the behaviour of the FIIs is the opportunity for profit. If they feel that a market has the potential for profit, they will invest. It is company specific success stories that have engaged FIIs in the India market.

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