



Fii's Flows on Indian Stock Market

Milan B. Undavia

(Lecturer), M.COM, P.G.D.I.F.A., B /4, Kirti Appt, Near Shankarda Hall, K.K.NAGAR Road, Ghatlodia, Ahmedabad-380061.

ABSTRACT

Foreign Capital comes in two forms FDI & FII. The study pertains to India, which is one of the fast growing markets in the world. India is an appropriate case for conducting such a study, as portfolio investment has become the dominant path of foreign investment in the Indian economy. India liberalized its financial market and allowed FIIs to participate in their domestic markets in 1992. The Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are two leading stock exchanges of India. The foreign institutional investors are investing in these markets. This paper makes an attempt to develop an understanding of the dynamic of the trading behavior of FIIs and effect on the Indian equity market. The analysis also finds that movements in the Indian Capital Market are fairly explained by the FII net inflows.

KEYWORDS

FIIs, Trends of FII in India, Correlation & Regression

Introduction

With rapid changes in the economy because of liberal economic policies and fast pace changes due to globalisation, Indian market has become a focus point for foreign investors. Organisations tend to target for large volume of trade in this era of globalisation. Trade flows are indeed one of the most visible aspects of globalization. International investment is a powerful source in propelling the world toward closure economic integration. FII refers to the investment made by resident of one country in the financial capital and asset of another country it facilitates and persuades large productivity and help in shaping up balance of payments. FII flows in India have continuously grown in importance.

With over 20 million shareholders, India has the third largest investor base in the world after the USA and Japan. Over 9,000 companies are listed on the stock exchanges, which are serviced by approximately 7500 stockbrokers.

Literature Study

- **Shrikanth, M. and Kishore B. (2012)**, in their paper investigated a cause and effect relationship between FII and Indian capital market. They observed that FIIs carried the institutional flavor in terms of market expertise and fund management by way of pooling small savings from retail investors. The main objective of FIIs is maximizing returns and minimizing risk while keeping liquidity of the investments intact. They concluded that net FII inflows had a positive impact on the Indian stock market and foreign exchange reserves.
- **Loomba, J. (2012)**, attempted to testify the behavior of FII trading and its effect on Indian stock market. He observed that in the course of capital market liberalization, foreign capital has become increasingly significant source of finance and institutional investors are growing their influence in developing markets. He concluded that the Indian stock markets have come in age where there were significant developments in the last 15 years make the markets at par with the developed markets.
- **Bohra, N. Singh and Dutt, Akash. (2011)**, 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. They concluded that there is a positive correlation between FII investment and stock market but in year 2005

and 2008, it was also observed that positive or negative movement of FII's investment leads to a major shift in the sentiments of domestic or related investors in market.

- **Saha, Malayendu. (2009)**, investigated the participation of foreign institutional investors and the performance of the Indian stock markets and she concluded that Indian stock market is regarded at par with the developed markets. Moreover, it had a very unique economic model and is based on strong economic growth with huge liquidity and it is not depended on the US economy for its GDP growth.
- **Singh, Manmohan. (2007)**, attempted to explain the use of participatory notes (PNs) by foreign investors, as a conduct of portfolio flows into Indian capital markets for more than a decade.
- Foreign institutional investors (FIIs) are keenly interested in the Indian equity market and have been overweight the MSCI index since 2003, while market capitalization of the large Indian stock exchanges is presently about 100 percent of GDP (around \$ 1.3 trillion) and tax arbitrage via capital gains tax has almost disappeared since July 2004.
- **Dhamija, Nidhi. (2007)**, described that the increase in the volume of foreign institutional investment (FII) inflows in recent years has led to concerns regarding the volatility of these flows, threat of capital flight, its impact on the stock markets and influence of changes in regulatory regimes. She suggested that as the pace of foreign investment began to accelerate, regulatory policies have changed to keep up with changed domestic scenarios.

Objectives of Study

- FII inflow and outflow trends in Indian capital markets during the past liberalization period that is 1992-1993 to 2014- 2015.
- To find out relationship between FIIs & NIFTY.
- To Study the importance of FII on Indian economy as a whole.

Scope of Study

The study takes 23 years data into consideration. To study the impact of FII on Indian stock market, Nifty was selected in the study, as it is the most systematic stock market indices and widely used by market participants for benchmarking.

Research Methodology

Research Methodology is used to discuss fundamentals research methodology and different statistical tools and techniques of the research study. Research has framed hypothesis for study objectives and identify dependent variables and independent variables for research work. Moreover, this research paper assists to justify the research methodologies employed for the present study and shows how the sample design, data collection and analysis, hypothesis are apply to fulfill the research objectives draw round.

DATA COLLECTION METHOD

SECONDARY DATA: Secondary data collection was done through internet

Statistical Tools and Techniques

- Regression model analysis
- Coefficient of determination
- T – test
- F- test

Descriptive Statistical tools like

- Mean
- Median
- Std. deviation
- Std. error
- Coefficient of variance
- P- value

Variable of the study

Researcher has used variables for research work dependent variable & independent variable.

1. Dependent Variables & Independent variable

- NIFTY 50 (Dep.Variable)
- FIIs investment (Independent Variable)
- Exchange rate of US \$ v/s Indian Rupee

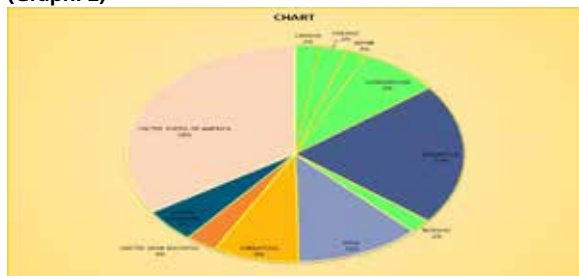
Hypothesis

1. H0: There is no significant relationship between FII & NIFTY.
2. H1: There is relationship between FIIs investments and NIFTY.

FIIs Trends in India: (Graph: 1)



FII INVESTMENT IN INDIA FROM VARIOUS COUNTRIES (Graph: 2)



DOLLAR VS. RUPEE

(Graph: 3)



FORMULA:

- $y = a + bx$
- Here, FII = Independent Variable (x)
- Nifty = Dependent Variable (y)
- a = Constant of Regression line
- b = Beta

Data Analysis

Correlation between FII and Nifty

Correlation has been used to determine the statistical relationship between variables under study FII and NIFTY. Based on the results it can be concluded that there is a moderate positive correlation of 0.781 between FII and NIFTY. Since the significance value is 0.00 which is less than 0.05, we should reject the null hypothesis. There is a relationship between FII and NIFTY.

		NIFTY	FII
Pearson Correlation	NIFTY	1.000	.781
	FII	.781	1.000
Sig. (1-tailed)	NIFTY	.	.000
	FII	.000	.
N	NIFTY	23	23
	FII	23	23

Regression analysis between FII and NIFTY:

Regression has been used to determine the strength of relationship between FII and NIFTY. R – Square value is 61% which means model explains the 61% variation. In other words, independent variable FII is able to explain 61% variation of the dependent variable NIFTY. P value is 0.00 which is less than 0.05 which means null hypothesis is rejected and there is no significant impact of FII on NIFTY.

Impact of FII's on NIFTY: The effect of FII's on nifty is positive and co-efficient of correlation is .781 this shows that it has moderate degree of positive correlation; hence the effect is also moderate on nifty.

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	438975.171	1	438975.171	32.787	.000 ^a
	Residual	281158.583	21	13388.504		
	Total	720133.754	22			

Table : 3 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	Std. Error	Beta				Lower Bound	Upper Bound
1 (Constant)	123.533	30.930		3.994	.001	59.211	187.855
FII	3.603	.629	.781	5.726	.000	2.294	4.911

a. Dependent Variable: NIFTY

Table : 4 Descriptive Statistics

	Mean	Std. Deviation	N
NIFTY	234.3489	180.92361	23
FII	30.7586	39.20771	23

Table : 5 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					F Change	df1	df2	Sig. F Change		
dimension0	1	.781 ^a	.610	.591	115.70870	.610	32.787	1	21	.000

Findings of the study

- Nifty has increased over a period of 23 years from year 1992-1993 to year 2014-2015.
- There is a moderate positive correlation between FII and NIFTY stock market index. There is a relation between FII and NIFTY.
- FII flows increased and decreased trend from 1992-1993 to 2014-2015.
- FII is able to explain 61% variation of the dependent variable Nifty.

9. <http://shodhganga.inflibnet.ac.in/>
10. <https://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Handbook%20of%20Statistics%20on%20Indian%20Economy>

CONCLUSION

FII's contribution to the Indian stock market has great influence on the market. But their investment is fluctuating from time to time from 1992-1993 to 2014-2015. Apart from FII's investment there are major factors that influence the stock market. The Flow of FII has advanced significantly in last 23 years from the year 1992-1993 to 2014-2015 and there is a correlation between such FII flows and changes in stock market indices like nifty. According to findings and results, foreign institutional investors (FIIs) have significant impact on the movement of Indian capital market. R-square is also found to be very low means others factors might be contributing towards volatility of Indian Stock market.

ABBREVIATION

- FII ---- Foreign Institutional Investment
- NSE --- National Stock Exchange
- BSE --- Bombay Stock Exchange

REFERENCES

1. Shrikanth, Maram and Kishore Braj (2012) "Net FII Flows into India: A cause and Effect Study, ASCI Journal of management, Vol.41 (2), pp. 107-112.
2. Loomba, Jatinder. (2012) "Do FIIs Impact Volatility of Indian Stock Market?" International Journal of Marketing, Financial Services& Management Research Vol.1. Issue 7.
3. Bohra, N. Singh and Dutt, Akash (2011) "Foreign Institutional Investment in Indian Capital Market: A study of Last one Decade' International Research Journal of Finance and Economics, Retrieved 24 Jan 2012.
4. Saha, Malayendu. (2009) "Stock Market in India and Foreign Institutional Investments: An appraisal" Journal of Business and Economics Issues, Vol.1. No.1
5. Singh, Manmohan (2007). "Use of Participatory Notes in Indian Equity Markets and Recent Regulatory Changes" IMF Working Paper, Monetary and Capital Markets Department, WP/07/291.
6. Dharmija, Nidhi. (2007) "Foreign Institutional Investment in India" Research on Stock Volatility. Vol.14, Publisher: Emerald Group Publishing limited.
7. <https://nsdl.co.in/>
8. www.moneycontrol.com