Original Research Paper Management

IMPACT OF FOREIGN INSTITUTIONAL INVESTMENTS ON INDIAN STOCKMARKET

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ABSTRACT

In developing countries, like India, there is a great need of foreign capital investment, not only to increase productivity of labour but also to build foreign exchange reserves to meet trade deficit. After the opening the border for capital movement, foreign investment in India have uplift enormously. International capital markets have undergone tremendous changes since last 2 decades. Several countries, including India have adopted liberalization and globalization policies dismantling the trade barriers internationally. This transformation made local economies to integrate with the international economy in turn seeking information and their impact on other global markets. To facilitate foreign capital flows developing countries seek to strengthen their capital markets. As a result of which Indian capital markets have achieved new heights and have become more volatile opening the dimensions of new research in the arena of Foreign Institutional Investments and Indian capital market.

KEYWORDS Stock Market, Foreign institutional investment, Liberalization, Net investment, Return, Volatility, NIFTY, Foreign Capital.

INTRODUCTION

In the reference of National Stock Exchange is one of the stock market which acts as a important role in the circulation of currency where high volatility is maintained. From the data observed in past few years shows clear evidence that there is a huge investment going into these stock markets through various sources and the large numbers of companies are listed in the National stock exchange has significantly enhances. In 1992 at the time of finance minister Dr. Manmohan Singh government follow liberalized foreign investment into the Indian market and there was a huge inflow of foreign currency into the Indian Stock market. This research paper focus on the relationship between the stock index movement in the National stock exchange and the Foreign Institutional Investment (FII) flow into the Indian Stock Markets, and maintain the healthyand faithful relationship between the foreign stock market vis-vis Indian stock market.

Emerging markets have therefore become more accessible and have begun to offer attractive investment opportunities to investors around the globe. Behalf of this the Indian Stock Market environment become undoubtedly and more conducive to Foreign Institutional Investors (FIIs). On this behalf Foreign Investments in the country can make their mind set of investments in listed companies such as Foreign Institutional Investments; investments in listed/unlisted companies other than stock exchanges such as Foreign Direct Investment, Private Equity; investments through American Depository Receipts and Global Depository Receipts and investments by Non Resident Indians (NRIs).

Institutional investors are organizations which pool in large sums of money and invest in securities, property and other investment assets. These include mutual funds, hedge funds, insurance companies, pension funds, banks. Their most important role in the Indian economy is to act as highly specialized and sharp investor with the compare of on others. Institutional investors exert significant influence in the management of corporations by exercising their voting rights and actively engage in corporate governance. Foreign Institutional Investors have a significant critical role in functioning of the financial markets of an Indian economy.

INDIAN STOCK MARKET

National Stock Exchange (Nifty)

The National Stock Exchange of India was incorporated in 1992 and recognized as a stock exchange in 1993, at a time when PV Narasimha Rao was the Prime Minister of India and Dr. Manmohan Singh was the finance minister. In this time the Indian governments announce that open market for foreign players. This was became a mile stone in Indian history. The total stock market is watch on foreign investment and the potential of Indian stock market become strong. It was set up to bring in transparency in the markets. In April 1993, it was recognized as a stock exchange under the Securities Contracts (Regulation) Act, 1956. National Stock Exchange commenced worked with the Wholesale Debt Market (WDM) segment in June 1994. The Capital market (Equities) segment of the NSE commenced operations in November 1994, while operations in the Derivatives segment commenced in June 2000.

At the level of the National Stock Exchange (NSE) is India's top most leading stock exchange covering different cities and various segments in all towns across the country. NSE was set up by leading institutions to provide a modern, fully automated screen based trading system with national reach. The Exchange has brought about unparalleled transparency, speed & efficiency, safety and market integrity this was important phenomena in stock market. It has set up facilities that serve as a role model for the securities industry in terms of top systems, top most practices and easy procedures.

NSE has played a important role in reforming the Indian securities market in terms of microstructure level, fair market practices and bulk trading volumes. The market today uses state-of-art information technology to provide an efficient and transparent trading, clearing and settlement mechanism, and has witnessed several innovations in products & services viz. demutualization of stock exchange governance, screen based trading, compression of settlement cycles, dematerialization and electronic transfer of securities, securities lending and borrowing, professionalization of trading members, fine-tuned risk management systems, emergence of clearing corporations to assume counterparty risks, market of debt and derivative instruments and intensive use of information technology.

The National Stock Exchange (NSE) changed the way the Indian markets functioned, in the early nineties, by replacing floor-based trading with nationwide screen based electronic trading, which took trading to the doorstep of the investor. The National Stock Exchange was mainly set up to bring in transparency in the Indian Stock Market. Instead of trading membership being confined to a group of brokers, the NSE ensured that anyone who was well qualified, long experienced and met minimum financial requirements was allowed to trade. In this context, the NSE was ahead of its times, when it separated ownership and management in the exchange under SEBI's supervision. The price information which could earlier be accessed only by a handful of people could now be seen by a client in a remote location with the same ease.

Bombay Stock Exchange

Established in 1875, BSE Ltd. (formerly known as Bombay Stock Exchange Ltd.), is Asia's first Stock Exchange and one of India's leading exchange groups. Over the past 140 successful years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as Bombay Stock Exchange, the bourse was established as "The Native Share & Stock Brokers' Association" in 1875. This was a successful journey in the Indian Stock Market. Bombay Stock Exchange is a corporatized and demutualised entity, with a broad shareholder-base which includes two leading global exchanges, Deutsche Bourse and Singapore Exchange as strategic partners. Bombay Stock Exchange provides highly efficient and transparent stock market for trading in equity, debt instruments, derivatives, mutual funds. It also has a platform for trading in equities of small-and-medium enterprises (SME).

In India 5500 and above companies (small and big) are listed on Bombay Stock Exchange making it world's No. 1 exchange market in terms of top most listed members. The companies listed on Bombay Stock Exchange Ltd. control a total market capitalization of USD 1.68 Trillion as of March 2015. It is also one of the world's largest leading exchanges market (5th largest in March 2015) for Index options trading (Source: World Federation of Exchanges).

In the reference of Bombay Stock Exchange were provides a host of other financial services and portfolio management to capital market participants including risk management, clearing, problem settlement, market research data services and portfolio education. This route map is become a global reach with customers around the world and a nationwide. Bombay Stock Exchange systems and processes are play as a safeguard in stock market integrity, drive the high growth of the Indian capital market and stimulate innovation and healthy competition across all stock market segments. Bombay Stock Exchange is the first exchange market in the India and second in the world to obtain an ISO 9001:2000 certifications. According to reference to Indian Stock Market this is the first Stock Exchange Market in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its On-Line trading System (BOLT). It operates one of the most respected capital market educational institutes in the country (the BSE Institute Ltd.). Bombay Stock Exchange also provides deposit services through its Central Depository Services Ltd. (CDSL). Bombay Stock Exchange popular equity index - the S&P BSE SENSEX - is India's most widely tracked stock market with benchmark index. And finally it is traded internationally on the EUREX as well as leading exchanges market of the BRCS nations (Brazil, Russia, China and South Africa).

REVIEW OF LITERATURE

According to "Balasubramanian Bala N and Ramaswamy Anand", (2014)

The research studied concentrated ownership and control is the predominant shareholding pattern in India. Over the 11-year study period from December 2001 –December 2011, controlling shareholders further entrenched themselves by substantially increasing their holdings. Foreign companies in this study strengthened their entrenchment, with median holdings running over 50% right through. The changes in the Government policy opened up several business sectors for majority foreign direct investment could have been a contributing factor for the decline in the number of listed companies. Government-owned companies in this sample witnessed a decline in non-institutional share holdings over the study period, with institutional holdings showing corresponding increases.

According to "Pratapsinh Daksha Chauhan", Dec (2013) The researcher has studied the financial performance of NSE and BSE over the last decade. The study aims to find out the stock exchange which is performing financially better on various bases. This study is limited for only financial performance covering averages of profits, listing income, brokerage income, operating expenses, Return on Capital Employed, total revenue income, etc. The tool for appraisal of financial performance is mean, standard deviation, co-efficient of variance and trend analysis. They have looked at the price returns of individual stocks, with data from the National Stock Exchange (NSE) and daily closing price data from both NSE and the Bombay Stock Exchange (BSE), the two largest exchanges in India.

According to "Bala Anju", (2013) The research studied the Indian stock market in depth. The study was conducted to find out the past, present and future trend or the prospect of Indian stock market. This study provided guidelines to investors to maximize their profit by minimizing risk. High degree of volatility in the present in Indian stock market will lead to development of future. The risk can be mitigated in stock market by spreading of investment across various options.

According to "Venkateswara K.S. Kumar & Prof. Devi V. Rama Devi" Conducted by Professors of KLU Business School, KL University, Andhra Pradesh, the above mentioned research emphasizes the contribution of Foreign Direct Investment (FDI) & Foreign Institutional Investors (FII) on the Stock Market. It is also an analysis on the trend & pattern of FDI & FII flow in the Indian economy, with its influencing aspects on the country.

According to "Gupta Nupur" (2011) In this study a comparison had been made between stock markets of Asia such as Indonesia, Korea, Japan, Malaysia and Hong Kong. These countries are becoming a hot spot for foreign capital as low capital and this is leading to advancement of technology. The research had been conducted to show whether BSE AND NSE provide better diversification in long run and short run to both institutional investors and international investors. The study provides the information to the investors related to investment risk and return. This paper finds the non-normality feature in the stock distribution of the above mentioned economies. The negative skewnessin the long run and short run indicates that there will be more returns and higher opportunity for investment.

According to "Ranpura Darshan, Patel Bhavesh K." (2011) In this research paper the author tries to show Indian stock market is interdependent on foreign stock market. For this purpose the study examines the linkages between different markets. The aim of the study was to identify the extent the events happening in one stock market affects the other stock market and to study the co movement of stock market of India with other developed and developing countries.

According to "Mukherjee and Bose" (2008) They investigated the integration of India with the developed countries such as US, Japan, and five other Asia Pacific market for period in between 1999 to 2005. It founded that stock returns in India were led by major stock exchange return in US, Japan, Singapore, South Korea. They also founded Indian market exerted considerable influence in stock return in Japan and South Korea along with Malaysia and Taiwan.

OBJECTIVES OF THE STUDY

1. To investigate the determinants that augment investment in The Indian Stock Market.
2. To measure the significant impact of FII in Indian Stock Market.
3. To measure the relationship between FII and the Stock Indices of Indian Stock Markets.

RESEARCH METHODOLOGY

Research design

1. The research design is exploratory and descriptive.
2. Descriptive research has been used in this study and the data has been collected from NSE website, RBI website, money control website and Government Gazette. Past 10 years data has been collected from the above sources and the following test has been performed to find out the impact of FII in Indian Stock Market.

FOREIGN INSTITUTIONAL INVESTMENT

New York Stock Exchange, USA

In the reference of USA stock exchange the origin of the New York Stock Exchange can be established on May 17, 1792, when the Buttonwood Agreement was signed by 24 stock market brokers outside of 68 Wall Street in New York under a Buttonwood Tree on Wall Street. On March 8, 1817, the organization drafted a constitution and renamed itself the "New York Stock & Exchange Board". Anthony Stockholm was elected the Exchange's first president.

At the time of last central location of the Stock Exchange was a room, rented in 1792 for $200 a month, and located at 40 Wall Street. After that this location was comes in the Great Fire of New York in 1835, the Exchange moved to a temporary headquarters. In 1863, the New York Stock & Exchange Board changed to its current name, the New York Stock Exchange. In 1865, the Exchange moved to 10–12 Broad Street.

A stock exchange is based in New York City, which is considered and the largest equities-based market exchange in the world based on total market capitalization of its listed securities and exchange. Formerly run as a private organization, the NYSE became a public entity in 2005 following the acquisition of electronic trading exchange Archipelago. The guardian company of the New York Stock Exchange is now normally called NYSE Euronext, following a merger with the European exchange in 2007.

Also known as the "Big Board", the NYSE relied for many years on floor trading only, using the open outcry system. Now a day, more than half of all New York Stock Exchange trades are conducted high electronically system, although floor traders are still used to set pricing and deals with high volume of institutional trading in stock market.

The Company's exchanges located in Europe and the United States trade equities, futures, options, fixed-income, and exchange-traded products. With approximately 8,000 indicated issues (excluding European Structured Products) are from more than 55 countries, NYSE Euronext's equities markets—the New York Stock Exchange, NYSE Euronext, NYSE MKT, NYSE Alternext and NYSE Arca—represent one-third of the world's equities trading and the most liquidity of any global exchange group. NYSE Euronext also operates NYSE Liffe, a leading European derivatives business and the world's second-largest derivatives business by value of trading, and NYSE Liffe U.S., which is a global, multi-asset class futures exchange. In the United State. Derivatives Clearing Organization, The New York Portfolio Clearing, LLC (a joint venture of DTCC and NYSE Euronext) delivers unique capital efficiencies to the market.

NYSE Euronext began trading publicly on March 8, 2006 under the NYX ticker. The historical combination of the New York Stock Exchange Group and Euronext in 2007 was created the first truly global exchange group, and become together major marketplaces across the Europe and the United States, whose histories stretch back more than four centuries, including the New York Stock Exchange which was formed with the signing of the Buttonwood Agreement in 1792. NYSE Euronext is represented in the S&P 500 index, and is the only exchange operator in the Fortune 500.

Hang Seng Index, Hong Kong

The Hang Seng Index (abbreviated: HSI, traditional Chinese :) is a free float-adjusted market capitalization-weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong. In this stock market 45 companies represent about 67% of capitalization of the Hong Kong Stock Exchange.

HSI was started on November 24, 1969, and is currently compiled and maintained by HIS Services Limited, which is a wholly owned subsidiary of Hang Seng Bank, the largest bank registered and listed in Hong Kong in terms of market capitalisation. It is responsible for compiling, publishing and managing the Hang Seng Index and a range of other stock indexes, such as Hang Seng China AH Index Series, Hang Seng China Enterprises Index, Hang Seng China H-Financials Index, Hang Seng Composite Index Series, Hang SengFreefloat Index Series and Hang Seng Total Return Index Series.

Hang Seng Index's Company Limited (Hang Seng Index's), a wholly -owned subsidiary of Hang Seng Bank, was established in 1984 and is Hong Kong's leading index compiler covering Hong Kong and mainland China markets.

Nikkei Stock Exchange, Tokyo.

The NIKKEI Stock exchange on average is Japan widely watched index of stock market activity and has been calculated continuously since September 7, 1950. (Before that date, the Tokyo Stock Exchange calculated the Tokyo Stock Exchange Adjusted on average Stock Price, so index-based measurement of the market actually goes back to May 16, 1949).

The current calculation method, called the Dow Jones method, has been used since 1950. The 225 components of the NIKKEI Stock Average are among the most actively traded issues on the first section of the TSE. The index reflects the ex-rights-adjusted average stock price.

Since the NIKKEI Stock Average is expected to represent the performance of stocks on the first section – and by extension the market in general – the mix of components has been rebalanced from time to time to assure that all issues in the index are both highly liquid and representative of Japan's industrial structure.

The previous round of rule changes governing deletion and addition of components took place in October 1991. The revisions were taken place in the mandatory replacement of issues whose trading volumes had becomes declined considerably with high liquidity alternatives, with all an eye to maintaining a lanced representation by the various industrial sectors. Japan's economic and industrial environment has changed rapidly over the past 10 years and activity in the stock market has reflected this.

On the base of literature study outcomes analysis in recent years, the pace of change has accelerated. Notably, an entirely new industry has emerged around information technology (IT). During this period of highly changes, Japan has been suffering through a recession characterized by sluggish capital investment and weak consumer spending.

The Nikkei Stock Average has now come to play a much larger role than simply measuring the market level and reflecting trends. With the use of average as a base for futures and other index-linked derivatives, is just one of a growing range of applications. These changes in the industrial and investment environments that necessitated revisions to the rules covering selection (addition and deletion) of index components. The goal was to assure continuity of the basic philosophy of using —225 Selected Issues to accurately represent Japan's economic conditions.

Moscow Exchange, Russia

Moscow Exchange is the largest exchange group in Russia, operating trading markets in equities, bonds, derivatives, FX, money markets and precious metals. Moscow Exchange also operates Russia's Central Securities Depository and the country's largest clearing service provider.

Moscow Exchange was officially established on 19 December 2011 through the merger of the two largest Moscow based exchanges, the Moscow Interbank Currency Exchange and the Russian Trading System. Both organizations were formed in the 1990s and for two decades were the leading exchanges in Russia, with the MICEX Index and the RTS Index being among the world's top stock indices. The merger created a single entity that has become a leading exchange globally for trading across asset classes and to advance Russia's plans to turn Moscow into an international financial centre.

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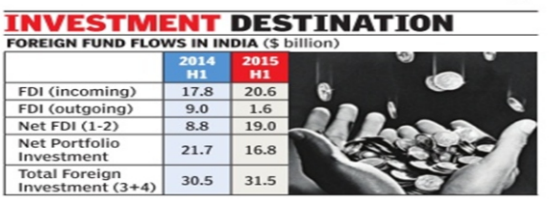
Moscow Exchange completed its own IPO on February 15, 2013, raising 15 billion rubles (approximately $500 million). The IPO, at the time the largest ever held exclusively in Moscow, was more than two times oversubscribed and drew demand from institutional investors globally. The Exchange's shares were included in the MSCI Russia Index as of November 26, 2013.

KOSPI, Korea

The Korea Composite Stock Price Index or KOSPI was launched in 1983 with the base value of 100 as of January 4, 1980. KOSPI is the major stock market index of South Korea. The index represents all common stocks traded on the Korea Exchange. The index calculation is based on market capitalization method. KOSPI replaced Dow-style KCSPI (Korea Composite Stock Price Index) in 1983. The Korea Composite Stock Price Index or KOSPI was launched in 1983 with the base value of 100 as of January 4, 1980. KOSPI is the major stock market index of South Korea. The index represents all common stocks traded on the Korea Exchange. The index calculation is based on market capitalization method. KOSPI replaced Dow-style KCSPI (Korea Composite Stock Price Index) in 1983.

KOSPI moved below 1,000 mark for several years. The index breached 1,000 for the first time in April 1989. KOSPI recorded its largest one-day percentage gain of 8.50% on June 17, 1998 & largest one-day percentage drop of 12.02% on September 12, 2001. The index's Korean name was officially changed to Koseupijisu in November 2005. KOSPI reached another milestone of breaking 2000 level for the first time on July 24, 2007.

INVESTMENT IMPACT OF FOREIGN INSTITUTIONAL ON INDIAN


INVESTMENT DESTINATION

FOREIGN FUND FLOWS IN INDIA ($ billion)

	2014 H1	2015 H1
FDI (incoming)	17.8	20.6
FDI (outgoing)	9.0	1.6
Net FDI (1-2)	8.8	19.0
Net Portfolio Investment	21.7	16.8
Total Foreign Investment (3+4)	30.5	31.5

Source: Times of India by Subodh Varma Oct 1, 2015

Reserve Bank of India (RBI) data indicates for foreign investment flows does not appear to reflect this, causing much puzzlement in India. The total foreign direct investment that flowed into India between January and June 2015 is pegged at $20.6 billion. If we deduct the outflow from India in the form of outgoing Foreign Direct Investment from India, this make downfall as to $19 billion.

Besides this inflow, there is also foreign portfolio investment mainly by institutional investors in the stock market. This portfolios investment was about $17 billion in the first half of 2015. When we take these two major components of investment – direct investment and portfolio investment together combined about $31.5 billion for the same period. But this could hardly be what the FT report is talking about since much of this is neither Greenfield nor Capital Investment.

Net portfolio investment has however sharply declined by about 23 percent from $21.7 billion in the first half of 2014 to $16.8 billion in the comparable period of 2015. As a result of these opposing trends, the net foreign flows into India have shown only a marginal increase from $30.5 billion to $31.5 billion between the first halves of 2014 and 2015.

CONCLUSION

The Flow of FII has advanced significantly enhance in the year 2014 – 2015 and there is a correlation between such FII flows and changes in stock market with foreign investment. In stock market other factors might be contributing towards volatility of Indian stock market. Indian market is regarded on par with the developed markets as so many developments have taken place in the stock market during the last fifteen years. The important feature of the developed market is the growing dominance of institutional investors. In Indian market we find the combined force of FIIs and MFs. India, however, in recent time is regarded as one of the most favored destinations due to:-

a) Business week says that of the 100 emerging markets which are rapidly globalizing 21 are Indian firms.
b) Economists projects India to become the third largest economy in the world in 2040.
c) Indian rupee is showing strong resilience over dollar.
d) Indian capital market regulator has acquired international credibility in the least possible time.
e) India has a disclosure – based regime of regulations.
f) Indian accounting standards are closer to international standards.
g) SEBI has made corporate governance guidelines mandatory for listed companies.

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