

CURRENT REVIEW ON IMPACT OF FOREIGN INSTITUTIONAL INVESTMENT ON STOCK MARKET: INDIAN EVIDENCE

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ABSTRACT

Since Indian capital business sector is limitless and pull in financial specialists as their venture destination. The Indian business sector is relentlessly developing and had charmed household financial specialists group and outside speculators bunch before. The significant piece of interest in Indian capital business sector is ascribed to institutional financial specialists among whom remote institutional speculators (FIIs) are of essential significance. One prominent worry in the matter is whether these remote institutional financial specialists (FIIs) direct the Indian capital business sector. This paper analyzes whether market development can be clarified by these financial specialists and their effect on the capital markets. FIIs, as a result of their transient nature, can have bidirectional causation with the profits of other household monetary markets, for example, currency markets, securities exchanges, and outside trade markets. Thus, the comprehension of determinants of FII is vital for any developing economy as FII applies a bigger effect on the residential monetary markets in the short run and a genuine effect over the long haul. The present paper is an endeavor to discover determinants of remote institutional interest in India, a nation that opened its economy to outside capital because of their remote trade emergency. The goal of the study is to see if there exist relationship amongst FII and Indian capital business sector

KEYWORDS: *FII, Indian Capital Market, Correlation and Regression, Trends of FII in India*

INTRODUCTION

Remote Institutional Investors (FII) implies a foundation set up or joined outside India which proposes to make interest in securities in India. They are enlisted as FIIs as per Section 2 (f) of the SEBI (FII) Regulations 1995. FIIs are permitted to subscribe to new securities or exchange as of now issued securities. In the Union Budget 2013-14, declared on 28 February

2013, vide Para 95, Honorable FM reported his goal to pass by the universally acknowledged definition for FIIs and FDIs, as follows to evacuate the equivocalness that wins on what is Foreign Direct Investment (FDI) and what is Foreign Institutional Investment (FII), it is proposed to take after the global practice and set out an expansive rule that, where a financial

specialist has a stake of 10 percent or less in an organization, it will be dealt with as FII and, where a speculator has a stake of more than 10 percent, it will be dealt with as FDI. An advisory group will be constituted to look at the utilization of the rule and to work out the points of interest speedily.

INDIAN CAPITAL MARKET

A capital business sector is a business sector where both government and organizations raise long haul assets to exchange securities on the security and the share trading system. It comprises of both the essential business sector where new issues are appropriated among financial specialists, and the auxiliary markets where officially existent securities are exchanged. In the capital business sector, contracts, securities, values and other such speculation assets are exchanged. The capital market additionally encourages the system whereby financial specialists with overabundance assets can divert them to financial specialists in deficiency.

REGULATORY FRAMEWORK FOR FII

The following entities, established or incorporated abroad, are eligible to be registered as FIIs:

- Pension Funds.
- Mutual Funds.

- Investment Trusts.
- Asset Management Companies.
- Nominee Companies.
- Banks.
- Institutional Portfolio Managers.
- Trustees.
- Power of Attorney holders.
- University funds, endowments, foundations or charitable trusts or charitable societies.

Other than the over, a household portfolio administrator or residential resource administration organization is additionally qualified to be enlisted as a FII to deal with the assets of sub-records. The FIIs can likewise contribute in the interest of sub-records. The accompanying substances are qualified for be enlisted as sub-records:

- An organization or asset or portfolio set up or consolidated outside India.
- A outside corporate or a remote person.

The general consent from the RBI will empower the FIIS to:

- Open remote cash account(s) in an assigned bank (there can be more than one record in the same bank office, in various monetary standards, if so required by the FII for its

operational reason).

- Open an extraordinary non-occupant rupee account in which all receipts from the capital inflows, deal continues of shares, profits and intrigue credited.

- Transfer aggregates from the outside cash records to the rupee records and the other way around, at the business sector rates of trade.

- Make interest in securities in India out of the parities in the rupee accounts.

- Transfer repatriable (after assessment) continues from the rupee record to the remote coin accounts.

- Repatriate the capital, capital additions, profits, wage got by the method for premium and any remuneration got towards deal/disavowal of rights offering of shares subject to the assigned branch of a bank/overseer being approved to deduct withholding charge on capital picks up and orchestrating to pay such expense and transmitting the net continues at business sector rates of trade.

REVIEW OF LITERATURE

Shrikanth, M. also, Kishore B. (2012)¹, in their paper explored a circumstances and end results relationship amongst FII and Indian capital business sector. They watched that FIIs conveyed the institutional flavor regarding market mastery and asset administration by

method for pooling little funds from retail financial specialists. The primary target of FIIs is augmenting returns and minimizing hazard while keeping liquidity of the speculations in place. They reasoned that net FII inflows positively affected the Indian securities exchange and remote trade saves.

Loomba, J. (2012)², endeavored to affirm the conduct of FII exchanging and its impact on Indian securities exchange. He watched that over the span of capital business sector liberalization, outside capital has turned out to be progressively noteworthy wellspring of account and institutional financial specialists are developing their impact in creating markets. He presumed that the Indian securities exchanges have come in age where there were noteworthy improvements in the most recent 15 years make the business sectors at standard with the created markets. Bohra, N. Singh and Dutt, Akash. (2011)³, contemplated the behavioral example of FII in India and make sense of the explanations behind impassive reactions of BSE Sensex because of FII inflows. They found the relationship between's FII speculation and turnover of various individual gatherings at BSE sensex. They presumed that there is a positive relationship between's FII speculation and securities exchange however in year 2005 and 2008, it was likewise watched that positive or negative development of FII's venture prompts a noteworthy movement in the suppositions of residential or related speculators in business

sector.

They presumed that host nation securities exchange (returns on Sensex) have positive and huge effect though home nation (returns on S&P 500 Index) have negative however inconsequential impact on FIIs venture inflows in long-keep running and in short-run.

SCOPE OF THE STUDY

Since monetary liberalization FII streams to India have relentlessly developed its significance. Outside capital inflows have been recognized as one of the imperative wellsprings of assets for creating economies that would develop at a rate higher than what residential investment funds can bolster. This brought about the joining of worldwide budgetary markets. Thus, capital began streaming uninhibitedly crosswise over national fringes searching out the most noteworthy rate of return. India is considered as one of the best speculation destination for remote institutional financial specialists regardless of political contrasts and absence of foundation office and so on. Since Indian business sector have immense potential, so it appealing and empowering outside speculators consistently however on January 21 2008, BSE Sensex saw the biggest ever fall in record, BSE shack by 2000 focuses intra-day because of worldwide financial emergency (Subprime loaning emergencies in US). This made everybody extremely wary whether the FII positions have

kept Indian capital business sector in such a hopeless condition.

OBJECTIVE OF THE STUDY

- To find out the impact of FII on Indian capital market.
- To determine the behavior and trend of FII's on Indian stock market.
- To determine the factors that influence investment decision of FII's.
- To examine whether FIIs have any influence on BSE Sensex and CNX Nifty.

RESEARCH METHODOLOGY

The paper examines The Impact of Foreign Institutional Investors (FII) on Indian capital market. The scope of the resear Since fiscal liberalization FII streams to India have persistently built up its hugeness. Outside capital inflows have been perceived as one of the basic wellsprings of advantages for making economies that would create at a rate higher than what private speculation assets can support. This realized the joining of overall budgetary markets. In this manner, capital started gushing uninhibitedly transversely over national edges looking out the most vital rate of return.

India is considered as one of the best theory destination for remote institutional

money related authorities paying little heed to political complexities and nonappearance of establishment office et cetera. Since Indian business area have tremendous potential, so it engaging and enabling outside examiners reliably however on January 21 2008, BSE Sensex saw the greatest ever fall in record, BSE shack by 2000 centers intra-day due to overall money related crisis (Subprime crediting crises in US). This made everyone to a great degree attentive whether the FII positions have kept Indian capital business part in such a miserable condition.

HYPOTHESIS OF THE STUDY

Null Hypothesis (Ho): There is no significant impact of Foreign institutional investors (FIIs)

on Indian Capital market Alternative Hypothesis (Ha): There is significant impact of Foreign institutional investors (FIIs) on Indian Capital market.

LIMITATION OF THE STUDY

Since the subject is very vast the study is mainly focused on identifying whether there exist a relationship between FIIs and Indian capital market. It is mainly based on the data available in various websites. The impact made on purely from the past eleven year's performance.

FIIs Trends in India

Table 1: FII Investment in Indian Capital Market (Rs in Crore)

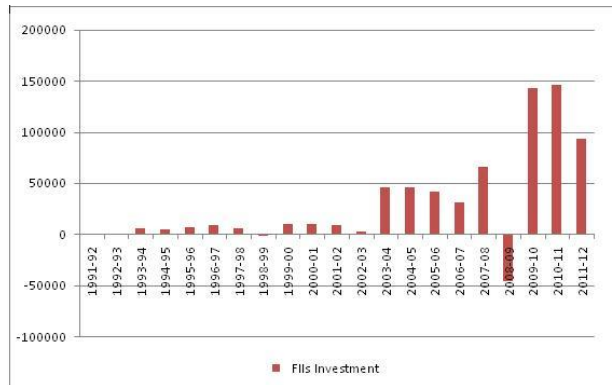
Year	FIIs Investment	Change in FIIs Investment	% Change
1991-92	0		
1992-93	13		
1993-94	5126	5113	
1994-95	4796	-330	-6.43777
1995-96	6942	2146	44.74562
1996-97	8575	1633	23.52348
1997-98	5998	-2577	-30.0525
1998-99	-1584	-7582	-126.409

Table 1: Contd.,

2000-01	9933	-189	-1.86722
2001-02	8763	-1170	-11.7789
2002-03	2689	-6074	-69.3142
2003-04	45764	43075	1601.897
2004-05	45880	116	0.253474
2005-06	41467	-4413	-9.61857
2006-07	30841	-10626	-25.6252
2007-08	66179	35338	114.5812
2008-09	-45811	-111990	-169.223
2009-10	142658	188469	-411.406

2010-11	146438	3780	2.649694
2011-12	93725	-52713	-35.9968

Source: Various Issues of SEBI Handbook



Source: Table 1

Figure 1: Year Wise FIIs Investment

FIIs were permitted to put resources into capital business sector securities since September 1992. Be that as it may, these have contributed from January, 1993 as it were. The net inflow has ascended from Rs. 5126 crores in 1993-94 to Rs.146438 crores in 2010-11 with relative good and bad times amid the period according to the above table. Amid the time of 19 years there has been expansion in eight years while decrease in the rest years It might be reasoned that there are critical varieties in the yearly inflow of FIIs into the Indian capital business sector amid 1993-94 to 2011-12. Amid the underlying year 1992-93, the FII streams began in September 1992, which added up to Rs. 13 crores on the grounds that right now government was encircling approach rules for FIIs.

No. of registered foreign institutional investors increases from the year to year when they are allowed to invest in Indian capital market Year wise registration of FIIs is given by the following table 2.

Table 2: Year Wise Registration of FIIs Registered with SEBI

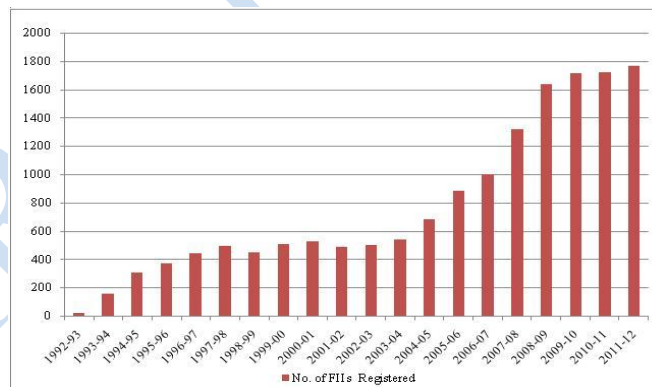
Year	No. of FIIs Registered	Trend %
1990-91		
1992-93	18	
1993-94	158	777.77
1994-95	308	94.93
1995-96	367	19.15
1996-97	439	19.61

1997-98	496	12.98
1998-99	450	-9.27

Table 2: Contd.,

1999-00	506	12.44
2000-01	527	4.15
2001-02	490	-7.02
2002-03	502	2.44
2003-04	540	7.56
2004-05	685	26.85
2005-06	882	28.75
2006-07	997	13.03
2007-08	1319	32.29
2008-09	1635	23.95
2009-10	1713	4.77
2010-11	1722	0.52
2011-12	1765	2.49

Source: Compiled from Various Issues of SEBI Handbook



Source: Table 2

Figure 2: No. of FIIs Registered

From the table and figure 2 it is revealed that India is the important destination for foreign investment therefore the number of FIIs is going on increasing year to year. The number of FIIs in 1992-93 was only 18 which are increased to 1765 in 2011-12; maximum number of FIIs registered 322 in 2007-08 subsequently 316 in 2008-09. No. of FIIs registration was decreased in 1998-99 due to Asian financial crises in 1997 and subsequently in

2001-02 due to early 2000s recession in USA. Major increase in the trend of registration of FIIs in 1993-94 and 1993-94 i.e. 777.77 % and 94.93 %.

Country wise domination of FIIs registered with SEBI in Indian Capital market is as follows:-

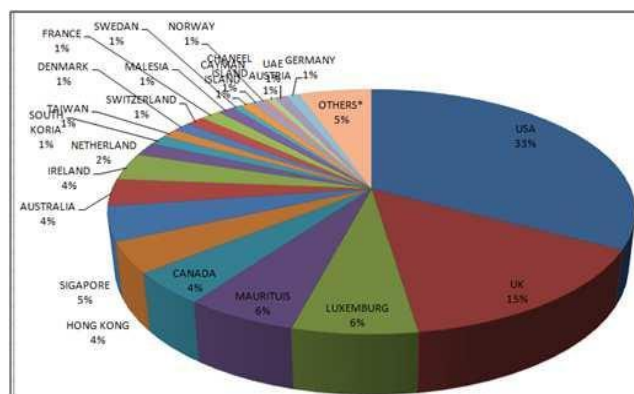
Table 3: Country Wise Domination of FIIs Registered with SEBI

Name of the Country	No. of FIIs
USA	576
UK	259
Luxemburg	113
Mauritius	101
Canada	75
Hong Kong	71
Singapore	80
Australia	63
Ireland	63

Table 3: Contd.,

Netherland	32
South Korea	23
Taiwan	21
Denmark	21
Switzerland	24
France	26
Malaysia	20
Sweden	11
Cayman Island	16
Channel Island	11
Norway	10
Austria	11
UAE	15
Germany	17
Others*	94
Total	1753

Source: Compiled from FII Index (sebi.org.in)



Source: Table 3

Figure 3: No. of FIIs

From the above mentioned table and Pie - chart 3 it is revealed that number of FIIs from USA is about 33% therefore any economic destabilization in USA causes heavy turmoil in Indian Stock Market. After USA numbers of FIIs are from Europe is about 27% (U.K., Luxemburg, Ireland and Netherland) which also causes the volatility in the Indian stock market and after Europe numbers of FIIs from Asia is about 15% (Mauritius, Hong Kong and Singapore) also causes the volatility in the Indian stock market.

DETERMINANTS OF FII FLOW IN INDIA

•Risk: Whenever hazard in home business sector builds, the outside financial specialists would begin to haul out their cash to their nation of origin in this manner making an inadequacy of assets in local business sector, so to pull in the remote speculation residential loan fee would expand along these lines to guarantee that the above uniformity is reestablished.

DATA ANALYSIS AND INTERPRETATION

BSE Sensex and FIIs

In running the regression analysis, daily BSE Sensex has been taken as the dependent variable and the daily FII investment is considered as the independent variable. To test the above-mentioned hypothesis, linear regression model fitted with the econometric technique of ordinary least square (OLS) has been done. Regression equation looking at relationship between BSE Sensex and FII flows is as follows:

$$Y(\text{BSE Sensex}) = \alpha + \beta (\text{FII}) + \epsilon$$

Y (BSE Sensex) is dependent variable, FII investment is independent variable, α is the intercept and ϵ is white-noise (Random shock)

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df 1	df2	Sig. F Change
1	.138 ^a	.019	.019	5775.387	.019	57.135	1	2923	.000

^a. Predictors: (Constant), FII

Table 5: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	Std. Error	Beta			
1	(Constant)	9688.501	109.117		88.790	.000
	FII	1.197	.158	.138	7.559	.000

^a. Dependent Variable: BSE

Interpretation

From the above table, it is found that the correlation between Daily net FII investment and Daily BSE Sensex is 0.138 which shows a very low degree of relationship between Daily FII investment and Daily BSE Sensex. The positive correlation between the two reveals the fact that the daily FII investment is an important factor in enhancing the Daily BSE Sensex of Bombay stock exchange consequently have a positive impact on Indian capital market. But the extent of the enhancement in BSE Sensex by FII flows can be examined by running the regression analysis. It can be observed from the

above table that all explanatory variables, taken together establish a relationship nearly 1.9 % because the coefficient of determination r^2 is 0.019 of the total variables in the daily BSE Sensex of

Bombay stock exchange.

CNX Nifty and FIIs

In running the regression analysis, daily CNX Nifty has been taken as the dependent variable and the daily FII investment is considered as the independent variable. To test the above-mentioned hypothesis, linear regression model fitted with the econometric technique of ordinary least square (OLS) has been done. Regression equation looking at relationship between CNX Nifty of NSE and FII flows is as follows:

$$Y(\text{CNX Nifty}) = \alpha + \beta (\text{FII}) + \epsilon$$

Y (CNX Nifty) is dependent variable, FII investment is independent variable, α is the intercept and ϵ is white-noise (Random shock)

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.139 ^a	.019	.019	1690.319	.019	57.673	1	2923	.000

^a. Predictors: (Constant), FII

Table 7: Coefficients^a

	Unstandardized	Standardized		
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	Model	Coefficients		Coefficients	T	Sig.
		B	Std. Error			
1	(Constant)	2927.416	31.936		91.665	.000
	FII	.352	.046	.139	7.594	.000

^a. Dependent Variable: NSE

Interpretation

•Risk: Whenever peril in home business part fabricates, the outside money related experts would start to pull out their money to their country of root in this way making an insufficiency of benefits in neighborhood business segment, so to pull in the remote theory private advance charge would extend thusly to ensure that the above consistency is restored.

•Inflation: At the period of high extension, the veritable benefit for settled pay securities like bonds and modified stores rots. Thusly a security which gives say around 8.5% financing cost truly gives a real return of just 1% if the swelling is 7.5%. In case the development increases propel, the honest to goodness return would diminish more. Advance charges: For the business, cost of getting rises this has a negative result on their net incomes. In like manner they may even concede any hypothesis activity which may be sponsored by acquiring to some later period when the advance charges are lower keeping in mind the end goal to decrease their endeavor costs. Over the earlier year RBI has extended the repo rate reverse repo rate, CRR and SLR. This has incited an extension in the Prime Lending Rate (PLR) and along these lines the

general financing cost in the economy.

FINDINGS OF THE STUDY

- Daily BSE Sensex and daily CNX Nifty has very low degree of positive correlation with daily FII's investment. This implies that there are many other macro economic factors have indirectly affected the daily BSE Sensex and daily CNX Nifty but their influence on the stock prices cannot be completely ignored. Hence both indices move in direction of FII's investment.
- Largest number of FII is from USA ultimately the foreign investment from USA is maximum.
- Economic growth i.e. IIP and GDP, inflation and interest rate are the basic parameters used by FII's to invest in any countries. FII's investments also guide to economic growth of country since they bring the much needed capital.
- FII's helped in the improvement of market efficiency. Since investment of FII's increasing therefore SEBI have to improve market trading efficiency in order to sustain FII's investment.

CONCLUSIONS

The study led watched that ventures by FIIs and the developments of BSE Sensex and CNX Nifty are firmly related. As indicated by discoveries and results, remote institutional financial specialists (FIIs) have huge effect on the development of Indian capital business sector. Along these lines, the substitute theory is acknowledged. FIIs have positive effect on BSE Sensex and Nifty. However there are other macroeconomic elements likewise impact the bourses in money markets, yet FII is unquestionably one of the elements. This implies market ascend with expansion in FII's and breakdown when FII's are pulled back from the business sector. Without whatever other generous type of capital inflows, the potential sick impacts of lessening in the FII streams into the Indian economy can be extreme which was obvious at the season of U.S subprime loaning emergency. The discoveries of this concentrate additionally demonstrate that Foreign Institutional Investors have risen as the most prevailing financial specialist bunch in the local capital market especially, in the organizations that constitute in BSE Sensex and CNX Nifty.

SUGGESTIONS

Portfolio capital streams are constantly fleeting and theoretical and are regularly not identified with monetary basics yet rather to impulses and crazes common in global money related markets. There are taking after approach suggestions, which rise up out of this investigation.

- India ought to concentrate on fortifying their keeping money framework instead of advancing monetary markets in light of the fact that FIIs are

vacillating companions. Banks can give the surest vehicle to advancing long haul development and industrialization.

- Since budgetary markets in India have its essential significance, however government ought to attempt to shield the genuine economy from FIIs notions.
- The new code ought to Proposed to expel the present qualification between transient speculations and long haul ventures on the premise of the length of holding of the advantages. From a financial specialist's perspective, there is no impetus to stay long haul.
- Government ought to set a base point of confinement and in addition most extreme cutoff, inside which FII put resources into India, keeping in mind the end goal to evade instability in Indian securities exchange (BSE sensex and CNX Nifty).

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