

# FII's into Indian Primary Market – Bullish or Bearish

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## Abstract

Post liberalization, Indian Securities market has undergone many changes. Thanks to the new industrial policies which attracted Foreign Institutional Investors to Indian Markets particularly in portfolio investments. Foreign Institutional Investors have increased their performance both in primary and secondary markets. Of late, figures show that FIIs switch focus to primary markets for long-term bets which is evident from the investment of Rs.35, 000crore in the primary market compared to Rs.12, 200crore in the secondary market since January this year, according to NSE. Hence, the paper aims to analyze the performance of FII's in Indian primary market and the factors determining the institutional investors.

## Introduction

According to economists, liberalization will lead to the release of funds towards financing the more productive and realistic projects and increase in real interest rates which encourages the supply of credit and savings in developing and under-developed countries that help in improving the economic growth and development. The link between the savings and investment is solid, in the shadow of capital controls and if a country has restricted access to foreign savings (Mckinnon 1973; Shaw, 1973).

Post liberalization, Indian Securities market has undergone many changes. Thanks to the new industrial policies which attracted Foreign Institutional Investors to Indian Markets particularly in portfolio investments. Foreign Institutional Investors have increased their performance both in primary and secondary markets. There was no significant change in the Indian Stock Market average returns and volatility was significantly reduced after India opened its stock markets to foreign investors (Bansal A & J.S.Pasricha(2009))

The year 2017 was an iconic one for Indian primary markets, as it has witnessed record of the capital raising of Rs 1.6 lakh crore, 3.6 times the amount raised in 2016, according to Prime Database. Out of the total capital rising, 53 percent was by way of fresh issue shares. In this context, this paper aims to study the role and performance of FII's in Indian primary market and the factors determining the institutional investors.

## Need for and Importance of the study

Foreign Investment places a vital role in economic growth and development of developing and under-developed countries. In a developing economy like India where the majority of investors would be interested in investment, huge changes are taking place the way how investors are changing their focus from investment in a secondary market to primary market. It would be interesting to understand the factors determining the change in focus.

## Review of Literature

**Stanley Morgan (2002)** has examined that FIIs have played a vital role in expanding India's forex reserves, which lead to economic reforms. According to The Morgan Stanley report, FII strongly influences short-term market movements in bear markets. The correlation between returns and flows reduces during bull markets as other market participants raise their involvement reducing the influence of FIIs.

**Rangarajan, C. (2000)** examined the FII from two angles, (i) from the angle of volatility and (ii) its impact on capital formation and growth and other from the extent and forms of controls that can be imposed on these flows. He strongly recommended that opening up of capital account need not preclude the imposition of moderate controls, either price based or regulatory or capital flows. Controls should be selective, designed to achieve the specific objective of controlling speculative flows.

**Gordon & Gupta, (2003)** found causation running from FII inflows to return in BSE. They observed that FIIs act as market makers and book profits by investing when prices are low and selling when they are high. Hence, there are contradictory findings by various researchers regarding the causal relationship between FII net inflows and stock market capitalization and returns of BSE/ NSE.

**Mehta, D (2009)**, examined that stock markets in India have been experiencing the huge amount of FII flows. This affected small investors thinking that markets are rigged. For the good news to Indian investors it has been established that out of all the factors, it is basically the performance of Indian stock markets vis-à-vis other emerging and developed markets that probably may cause returns and not the other way round.

**Mohan, T.T. (2005)** concluded that the crossover funds in the emerging markets form only a small component of global portfolios and hence they are somewhat a bit less vulnerable to fluctuations to stock returns arising from changes in fundamental and economic conditions in emerging markets.

**Mukherjee (2002)** analyzed the relationship between FII inflows and equity returns during 1999-2002. The results showed that FII flows tend to be caused by returns in the stock market and not the other way around. On the whole, author, finds that these policies mostly render FII investment more sensitive to domestic market returns and raise the inertia of FII flows.

**Dhamija Nidhi (2007)** found 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. The determinants and destinations of these flows and how are they influencing economic development in the country have also been debated.

## Research Gap

From the above review, it is evident that researchers either FII investment behavior in the secondary market or in primary market and determinants of FII's. But a fully fledged paper focusing on both is limited. There is a shift of focus from secondary to primary market by FII's. Hence, an attempt has been made to study is to analyze the performance of FII's in Indian primary market and the factors determining the institutional investors.

## Objective

The main objective of the study is to analyze the performance of FII's in Indian primary market.

## Research Methodology

The study is based on secondary data and empirical in nature. The data is collected from various sources like NSE and Economic Times.

## Performance of FII's in Primary Market

Institutional investors have increased their participation in India's primary market, investing three times more in initial public offers, offers for sale and qualified institutional placements than in the secondary market.

FII's pumped in almost Rs 35,000crore into the primary market compared with Rs 12,200crore they invested in the secondary market since January this year, according to NSE data.

Three large public issues — SBIBSE -1.10 % Life Insurance, ICICI Lombard General Insurance and IRB InvIT — together attracted more than \$1 billion from FII's. They invested almost Rs 2,850crore in SBI Life Insurance compared with Rs 1,530crore by local mutual funds.

Some of the breakups of Rs.35000crore can be seen below:

Company	Listing Date	Price Band (Rs.)	Size (Rs. Cr.)	MOQ	Close Date	Return
Maheshwari Logistics Ltd		68	27.17	2000	6-Jan-17	111.03%
Libas Designs Ltd	9-Jan-17	68	13.6	2000	30-Dec-16	30.44%
Prolife Industries Ltd	9-Jan-17	38	4.22	3000	30-Dec-16	21.05%
Veeram Ornaments Ltd	5-Jan-17	45	5.12	3000	28-Dec-16	33.33%
Housing and Urban Developm..	19-May-17	56.00 - 60.00	1142.73	200	11-May-17	36.92%
Meera Industries Ltd	15-May-17	36	3.89	3000	4-May-17	495.83%
S Chand and Company Ltd	9-May-17	660.00 - 670.00	72.25	22	28-Apr-17	31.18%
Pure Giftcarat Ltd	8-May-17	13	7.45	10000	28-Apr-17	8.08%
KMS Medisurgi Ltd	24-Apr-17	30	2.7	4000	17-Apr-17	0.33%
Escorp Asset Management Ltd	17-Apr-17	15	3.24	8000	6-Apr-17	3.33%
Shankara Building Products Ltd	5-Apr-17	440.00 - 460.00	331.96	32	24-Mar-17	225.04%
Octaware Technologies Ltd	3-Apr-17	90	8.6	1600	24-Mar-17	7.72%
Prime Customer Services Ltd	31-Mar-17	60	7.28	2000	23-Mar-17	170.33%
Oceanic Foods Ltd	31-Mar-17	65	6.5	2000	22-Mar-17	76.54%
Relstruct Buildcon Ltd	30-Apr-17	50	23.36	3000	22-Mar-17	16.00%
Manas Properties Ltd	30-Mar-17	360	39.96	300	22-Mar-17	1.39%
Maximus International Ltd	30-Mar-17	25	3.77	6000	22-Mar-17	24.00%
CL Educate Ltd	31-Mar-17	500.00 - 502.00	238	29	22-Mar-17	35.29%
Chemcrux Enterprises Ltd	28-Mar-17	18	2.4	8000	20-Mar-17	58.33%
Manomay Tex India Ltd	28-Mar-17	27.00 - 30.00	10.27	4000	20-Mar-17	22.50%
Sarthak Metals Ltd	27-Mar-17	30	10.91	4000	17-Mar-17	120.33%
Jash Dealmark Ltd	27-Mar-17	40	5.4	3000	17-Mar-17	11.13%
Avenue Supermarts Ltd	21-Mar-17	290.00 - 299.00	1806.7	50	10-Mar-17	269.50%
IFL Enterprises Ltd	21-Mar-17	20	3.25	6000	10-Mar-17	49.75%
Music Broadcast Ltd	17-Mar-17	324.00 - 333.00	86.14	45	8-Mar-17	10.89%
RMC Switchgears Ltd	14-Mar-17	27	614.4	4000	3-Mar-17	110.74%
Tanvi Foods (India) Ltd	3-Mar-17	60	6.6	2000	22-Feb-17	25.00%
BSE Ltd	3-Feb-17	805.00 - 806.00	1241.89	18	25-Jan-17	19.31%
Super Fine Knitters Ltd	2-Feb-17	12	4.08	10000	24-Jan-17	26.25%

Source : [economicstimes.indiatimes.com](http://economicstimes.indiatimes.com)

“Many new foreign institutions including global funds, which is distinct from emerging market funds that seldom come in Indian issues, pension and sovereign funds have shown interest in investing in India of late through IPOs and QIPs on expectations of much better corporate earnings growth over the next couple of years, aided by lower interest rates and continued bold reforms by the government,” said V Jayasankar, senior executive director at Kotak Investment Banking.

Companies raised Rs 1.35 lakh crore in the primary market this calendar year, according to Prime Database. About 33 companies raised Rs 70,000crore through IPOs, while 28 companies. The BSE IPO index has risen 40% so far this year, exceeding the 26% gain in the benchmark Sensex.

“One of the reasons for FIIs to tap the primary market is that they can deploy large amounts at a fixed price in one go, whereas in the secondary market it’s not possible,” said Ravi Sardana, EVP at ICICI Securities. “Also, in the primary market, a stock is usually priced conservatively whereas the secondary market is currently overpriced.”

FIIs have been active participants as anchor investors. Five sovereign wealth funds — Temasek, Government of Singapore, Norges (Norwegian Fund), Abu Dhabi Investment Authority and Kuwait Investment Authority – were investors in the recent HDFC Standard Life Insurance IPO.

Several new foreign funds have put in money in recent IPOs, including US National Railroad Investment Trust, Carnegie Fund, University of California, TVF Fund, Sanford C Bernstein Fund, Carmignac Investissement and FIIs subscribed to over 25% of issues from companies such as SBI Life, IRB InvIT, and ICICI Lombard, Avenue Supermarts, Security & Intelligence Services, Godrej Agrovet and Matrimony.com.

### Factors Influencing FII investments

FII investment in India is influenced by factors like

- ✚ Rupee movements
- ✚ Policy reforms
- ✚ Investment regulations
- ✚ Interest rates
- ✚ Liquidity and
- ✚ Macro economic conditions

**The outlook for primary markets in 2018** looks even more promising, said Pranav Haldea, managing director, Prime Database. While 15 companies holding SEBI approval are looking to raise Rs 12,000crore, another 10 companies are awaiting SEBI approval to raise Rs 19,000crore.

Reduction in government holding in 18 listed public sector undertakings to 75 per cent (according to SEBI guidelines) alone can contribute Rs 27,520 crore. Further, it has planned to list profit-making unlisted PSUs and identified 34 PSUs for a strategic sale.

Year 2017 was an iconic one for the Indian primary markets, which witnessed record capital mop-up of Rs. 1.6 lakh crore, 3.6 times the amount raised in 2016, according to Prime Database. Of the total capital raised, 53 per cent was by way of fresh issue of shares.

The all-time high mobilization was driven by initial public offers and qualified institutional placements, which raked in all-time high amounts.

There were 36 main-board IPOs which raised a cumulative amount of Rs. 67,147crore, compared to 26 companies that raised Rs. 26,494crore in 2016. Almost half (17 companies) of the total number of 36 IPOs were backed by private equity or venture capital investors. While offer-for-sale by these investors formed 15 per cent of the total IPO money raised, those by promoters accounted for a whopping 63 per cent of the IPO amount; Prime pointed out.

### **Reasons for shift of focus from primary to secondary**

One of the reason for FII to focus on the primary market is that they can deploy large amounts at a fixed prices at one go and also in the primary market, a stock is usually priced conservatively where as the secondary market is currently overpriced. Another reason could be the expectations of much better corporate earnings growth.

### **Conclusions**

It is difficult to conclude on why is this shift of focus from secondary to primary. Is it going to lead to concentration of economic power in few or domination of FII's in primary market; only time can decide? It would be interesting to note the words of wisdom "Always buy a stock with high FII holding or favorite of FII then it will fall more sharply when FIIs decide to pull out. The correction will be more than the market correction."

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