IMPACT OF NATIONAL AND INTERNATIONAL INSTITUTION ON THE BEHAVIOUR OF INDIAN STOCK MARKET IN INDIAN ECONOMY-REVIEW

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Abstract: FII refers to an institution established or incorporated outside India, which suggests to make investment decision in Indian stock market. In order to trade in Indian stock market foreign corporations must register with the Securities as well as Exchange Board of India as an international institutional investor. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies. As a way to invest in the stock markets, it is very essential that unknown investors have a very good thought about NSE, BSE… etc. There are Institutional investors that include hedge funds, insurance companies, pension funds and mutual funds. According to research there are 1484 Foreign Institution Inverters and 38 foreign brokers registered to securities & Exchange Board of India (SEBI).

Keywords: Indian Economy, Market, public organizations

1. Introduction

Within the initial time period the financial growth of all of the countries had been started through government preparing and activity by developing the agriculture, manufacturing and also the infrastructure services of the country. Though these types of facilities have been adequate for the economy however it didn't increase the domestic growth regarding the country since it did not result in much preserving or any additional investment. Because these domestic savings were being inadequate, nations had to rely on the loans from various countries for that development of their own country via different general public organisations. This particular led to regarding economies simply by increased overseas investments that came in are overseas loan. Foreign funds plays a substantial role within the development of any kind of economy. This fills the actual gap among domestic cost savings and its needed investment with regard to growth. However this investment decision limited the particular scope associated with growth because loans are not easily available. Therefore countries caused foreign assets by letting them invest in the businesses listed upon stock marketplaces to a main extent. This specific led to progress stock market segments.

Stock Markets at first were only a way for people to invest their money into various companies plus they were not which big. But since of today they have got become a part in the development process of any kind of country. Because of development of stock markets, financial systems are getting globalized and world is getting smaller sized. Hence the importance of stock markets has exploded above advances. As of today the actual Gross domestic Production of the country mostly depends on commodity markets. Consequently each nation is trying to improve its investment markets to be able to attract overseas investments and also to boost the progress process of their very own country.

The Foreign Investors are eyeing these days on the Asian markets specially India due to many obvious reasons. First of all growth potential in Asian Markets is higher, secondly its cheaper in countries like India to invest as the costs are low, thirdly there is a higher investor base and fourthly mostly the Asian economies are developing and hence the Governments are welcoming to Foreign investors as they play a major role in boosting the growth of the country.

2. LITERATURE REVIEW

International Institutional investors play a major role inside the economic growth of India. Their particular impact will be significant although their industry capitalization is just not much and is also improving every week. Several tries have been built to understand the influence FIIs have got on Indian Stock market segments. According to Aggarwal 1997, Chakrabarti 2001 along with Trivedi in addition to Nair 2003(cited in Rai and Bhanumurthy) equity profits have impact on FIIs. But Gordon and Gupta, 2003 (as citied in Rai and Bhanumurthy) contradict simply by saying that will foreign buyers are in charge of earning revenue, they choose a company and create the price rise as additional investors adhere to and then publication their gains and depart. So it can be stated that there is any bidirectional partnership between FIIs and value return.

Researches in the past possess concluded that the actual return within source country and monetary inflation in that country doesn't apply pressure upon FII. However this concept has been contradicted by the current subprime economic downturn in ALL OF US which resulted in most of FIIs withdrawing their own investments in so that it will cope up along with crisis within their own state. Hence in case stock marketplaces of foreign investor's home country tend to be doing well and stability inside their economy after that it results in a positive effect on the assets by FIIs.

According to Aggarwal 1997 (as cited in Rai and Bhanumurthy 2004) world stock market capitalisation has a positive impact on growth of FIIs in India. According to literature survey shows that most of the existing studies do not reflect the effect of stock volatility and also they do not account for realised risks in foreign and domestic markets.

Another observation by Ahmadjian and Robbins (2005) after analysing firms in Japanese economy showed that foreign investors are more inclined towards profit making than going in for long term ownership. They tend to make money and move away towards other company.

Investment decision Preferences associated with FIIs

According to Douma, Pallathiatta and Kabir (2006) there is a positive impact of foreign ownership on firm performance and especially on the emerging economies. They also found the impact on business group affiliations of FIIs But FIIs don't invest in any firm, they invest in those firms which have good corporate governance as the firms with poor corporate governance are least protective about the investors and instead they are concerned about their own interest only, this was observed by Aggarwal, Klapper and Wysocki (2005). According to them companies which are controlled by block of shareholders they find it difficult to find external investors as they are derived by private benefits and may manipulate things accordingly. This was already concluded by Cho and Padmanabhan 2001 (as cited in Prasana 2008) that block shareholders influence firm performance. They also said that corporate governance of listed companies play an important role in attracting foreign investments. They also clarified that block shareholders mean basically businesses run by family groups and distinguished them from times when government acts as block shareholders; they act quiet differently from private investors. Bhanumurthy and Rai (2003) made an attempt to examine the determinants of FIIs by using the monthly data from January 1994- November 2002 by analyzing the effect of return, risk and inflation in domestic and foreign economy. They firstly calculate the domestic and foreign returns from daily returns on BSE Sensex and S&P 500. After the analyses they find out that FIIs inflow depend on stock market returns, inflation rate and Ex-ante risk.

According to Yin-Hua and Woidtke 2005 (cited in Prasana 2008) investor's protection is weak when company board is dominated by members of controlling family and it gets difficult to separate the ownership from management then firm value is inversely related to family ownership firms. Their view was supported by Choe, Kho, Stulz (2005) who analysed US investors and concluded that they hold fewer shares in companies where ownership structure is more conducive to insiders. Another observation by LI (2005) was that if there was poor corporate governance then foreign investors tend to prefer other route of Foreign Direct Investment instead as Foreign Institutional Investors. Going further in accessing the information on firm ownership, Leuz, Nanda and Wyoscki (2003) assessed the firm level characteristics and found family control increases insider trading which gives less benefit to foreign investors. They were supported by Haw, Hu, Hwang and Wu (2004) who concluded that firm level characteristics cause information asymmetry problems for FIIs.

In order to analyse the investment preferences of FIIs, Dahlquist et al (2003) analysed the foreign ownership and firm characteristics of Swedish Stock Market and they concluded that FIIs prefer firms which are large, pay low dividends and have a huge cash holdings. Whereas Covirg et al (2007) were of the view that foreign managers have comparatively less information than domestic managers and hence they concern FIIs preference to be based on size of sales and stocks which are listed on foreign soil.

According to Li and Jeong-Bon 2004 (as cited in Prasana 2008), FIIs are in a better position to analyse the public information and hence they tend to avoid stocks with high cross-corporate holdings whereas according to Morin 2000 (as cited in Prasana 2008) as they analysed the French model of shareholding and management of FII pattern concluded that France has undergone a rapid change and has gone away with the traditional system of FII holding and facilitated with new techniques which demands corporate management.

Objectives of the study

1. To determine the relation around FIIs investment& NSE.
2. To study the effect of FIIs on NSE INDICES (S&P CNX NIFTY)
3. To study if the stock market is actually affected by the foreign investment.

3. Research Methodology

The methodology in this research work is based on data collection as well as primary sources.

Primary sources: The particular sources of primary data collection is based on discussion with SEBI official or even NSE's players and putting Questionnaire to players of the Market.

Secondary sources:

The secondary data have been gathered from various external resources such as SEBI bulletins, RBI bulletin , NSE, BSE, CNX NIFTY signifies CRISIL NSE index which is an index for fifty shares & it is managed by India index services & products ltd(IISC). The data of CNX NIFTY & FIIs is collected from the NSE & SEBI bulletins... The present study has taken into consideration of 10years starting from 2007-2017.

Statistical Techniques used for Data Analysis

Because the study is always to find out the partnership between the couple of variables NSE & FIIs. Correlation, regression would be ideal technique to supply the accurate assertion of linear relationship involving the two parameters. Linear regression analysis have been used for info analysis just where let'stake into account CNX NICE as based mostly variable and also FII purchase as indie variable.

Hypothesis Testing

1. Let the null hypothesis be that there is no significant relationship exists between NSE CNX NIFTY change & flow of FII investment.
2. To confirm our hypothesis, let us consider a linear regression equation.

CNX NIFTY= $\alpha+\beta$ FII

3. Variables considered are….

FII: INDEPENDENT VARIABLE

CNX NIFTY: DEPENDENT VARIABLE

Analysis

The particular analysis have been started through the past a decade closing list of NIFTY and the FII into The india that is from the year 2006 to 2016 to understand the particular correlation between the stock market changes in connection with the FII.

While analyzing we can say that FIIs play a significant role in bringing the funds to India. The presence of FIIs in Indian stock market witnessed an increase in the net cumulative investment. Table: 1 shows that 2006-08 there was a standard increment but all of there was a decline in the in 2008-09 due to global crises leading to decrease in the CNX NIFTY indices points.

Table 1: FII Inflows & CNX Nifty Index

Financial Year	FII Investment Rs(in cr)	CNX Nifty(INDEX)
2006-07	30840	3572
2007-08	66179	4897
2008-09	-4588	3731
2009-10	142658	4658
2010-11	146438	5583
2011-12	93726	5296
2012-13	153448	5905
2013-14	157550	5134
2014-15	98621	6023
2015-16	145283	5925
2016-17	197648	7893

Sources: SEBI Bulletin 2017, NSE

Summary Output

Table 2: Correlation Coefficient

	FII INVESTMENT	CNX NIFTY (INDEX)
FII INVESTMENT RS(INCRORES)	**1**	
CNX NIFTY(INDEX)	0.720184256	**1**

Table 3: Regression Analysis

Regression Statistics
Multiple R 0.7201843
R SQUARE 0.5186654
Adjusted R Square 0.4749077
Standard Error 1338.1043
Observations 13

Table 4 ANOVA

	Df	**$S**	**MS**	**F**	**Significance I**
Regression	**1**	**21223290.64**	**21223291**	**11.85312**	**0.005497066**
Residual	**11**	**19695753.06**	**1790523**		
Total	**12**	**40919043.7**			

In this particular study we find out the relationship, data analysis method have been used by means of MS EXCEL. Correlation study has been accustomed to find out the relationship between the parameters FII and also CNX NIFTY. Table 2 represents the output, where correlation has been considered for 10years. Based on the result we conclude that there are 0.720184256 high degree positive correlations between FII & CNX NIFTY.

To find out the impact regression analysis has been used, Table 4 shows the strength of the relationship between the variables, the coefficient of determination R^2 is 0.518665 explain that 51.8665% of variation in dependent variable (CNX NIFTY) can be explains with the help of independent variable (FII INVESTMENT). Standard error which is the standard deviation of the sampling distribution is 1338.1043.

Conclusion

The most significant elements in the growth of Indian economic system has been foreign investment. The India has been the favorites place to go for investors coming from all over the world each year the whole number of foreign investors having registered together with SEBI are usually increasing significantly. The growth about Indian current economic climate is on the one hand due to the solid fundamentals associated with Indian organizations and on other hand as a result of liberalisations of monetary reforms which usually led to entry of foreign investors.So contribution of Foreign Investors can't be ignored in the growth of Indian economy.

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