

Foreign Institutional Investment FII's a trigger and a catalyst for Indian stock exchange

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Abstract : Being a rapidly developing country's share market. Indian stock market or stock exchange serves as hotspot of investment avenues for stable, assured, profitable returns based on its demographic growth, increased productivity and long-term economic growth potential. Indian stock exchange captivates or entices stupendous investments from both domestic investors and foreign investors in addition to that act as important indicators of economic status of the country. Very next to agriculture capital market in India plays vital role in constructing country's GDP to the larger extent. Foreign Portfolio/Institutional Investors (FPI/FII) acts as biggest drivers of India's financial markets. Highly developed primary and secondary markets have attracted FIIs/FPIs to the country. Investments by FIIs/FPIs in India are considered as both trigger and a catalyst for the performance of Indian share market FIIs & FPIs, net inflow are Very high as majority who oppress minority here too FIIs/FPIs s had a considerable hand in driving India's share market growth this paper aims at examining the dominance of FII's on Indian share market by correlating net flows of FII's and India's premier stock exchange Bombay stock exchange index sensx and national stock exchange index nifty50 although FII's greatly influence Indian stock exchange relaxations of cumbersome procedure of SEBI even retail investors from abroad are allowed to invest through institutional investment route Further, no single group i.e. fii alone cannot influence the market.

Index Terms - FII's(Foreign Institutional Investment FII, market movement, stock exchange, national stock exchange(NSE), stock index nifty, Market volatility.

I. INTRODUCTION

Emerged globalization vanished countries geographical boundaries as barriers and paved way for flow of foreign investment. Developing economies lure large volume of foreign institutional investments than that of mature economies. In terms of higher growth potentiality being developing country with tremendous growth potentiality inflow of foreign institutional investment are most commonly found in India, world 11th largest stock exchange is Indian stock exchange serves as an hotspot of investment for foreign investors .in terms of economic prosperity foreign institutional investment or international investment are indeed for emerging economy like Indian economy to achieve greater degree of BOP(Balance of Payments). FII means the investment made by one resident of country in the financial capital of another country FIIs are investing huge amounts in the Indian stock exchanges that reflects healthy sign of our markets. Foreign institutional investment improved the breadth and depth of Indian markets by polling huge funds their investment are considered as hot cash investment in the parlances of Indian share market being giant investor group in terms of their percentage of holdings in the market. Which composite around merely quarter market share the FII is an important factor which is driving Indian share market this paper aims at examining level or degree of dominance/influence of Foreign Institutional Investments FII's on Indian stock exchange.

FIIS OPERATION, GOVERNING AUTHORITY

FIIs are allowed to invest in India's primary and secondary capital markets only through the country's portfolio investment scheme (PIS). This scheme allows FIIs to purchase shares and debentures of Indian companies on the normal public exchanges in India. There is a ceiling for all FIIs that states the max investment amount can only be 24% of the paid-up capital of the Indian company receiving the investment. The max investment can be increased above 24% through board approval and the passing of a special resolution. The ceiling is reduced to 20% of the paid-up capital for investments in public sector banks.

The Reserve Bank of India monitors daily compliance with these ceilings for all foreign institutional investments. It checks compliance by implementing cutoff points 2% below the max investment amounts. This gives it a chance to caution the Indian company receiving the investment before allowing the final 2% to be invested. Foreign investor investment flows are indeed to grow Indian share market the equity assets

FIIS INVESTORS IN INDIA

- a. Endowment fund
- b. Hedge fund
- c. Insurance company
- d. Investment company
- e. Investment trust
- f. Mutual fund

- g. Pension fund
- h. Sovereign wealth fund
- i. Unit trust and unit investment trust

II. LITERATURE REVIEW

With the available literatures it is evidenced that Foreign Institutional Investors (FIIs) pool huge investment in securities market. as their investments in the stock market are large scale the inflow and outflow of money affect the stock market performance Rao, (1999) in his research study of foreign institutional investments and Indian stock market revealed that the net FII investments influence the stock prices in India. Chakrabarti, (2001) on his study titled FIIs in India concluded that the equity performance has a significant as well as positive influence on the FIIs in India. Mukherjee, (2002) observed the various determinants of FII have an impact on FII decisions, but such influence do not prove to be strong enough. Kumar, (2002) on the role of institutional investors (including the FIIs) in Indian equity market, concluded that institutional investors greatly influence Indian share market. Raj Chaitanya, (2003) on his research work titled 'Foreign Institutional Investments' discussed about the FIIs and their impact on the Indian economy and held that the stock market performance has been the sole driver of FII flows. Pal, P. (2004) observed that FIIs are triggering stock market turnover which states growing importance of FII's N. Bindu, (2004), in his study on the determinants of foreign Institutional Investments in India and the role of risk, inflation and return' showed that the impact of stock market returns and the ex-ante risk turned out to be the major determinants of FII inflow. Ahmed, (2005) Examined that there is no long- run equilibrium relationship between stock returns exchange rate. Bhupender Singh, (2005) revealed that the financial sector of an economy plays a vital role in attracting the Foreign Institutional Investment inflows Trivedi and Nair (2005), suggested that FIIs play as market makers and thereby making profits. Douma, Kabir and Rejie (2006) examined the impact of foreign institutional investment on the performance of emerging market firms and observed there is a direct relationship between foreign ownership on firm's performance. Narayan Sethi (2007) another research study on the topic Globalization, Capital Flows and Growth in India revealed that Capital flow's importance, while capital flows is steady and stable. The international capital flow like direct and portfolio flows has great contribution to impact the economic behavior of the countries in a positive way Kulwantraj. Krishna Reddy Chittedi (2009), in his research work titled 'Volatility of Indian Stock Market and FIIs' observed the performance of sensex verses FIIs and some of the most talked about movements of the sensex, starting with the secondary market summary of each year. Sundaram Kumar, (2009). One of research study reviewed that contribution of FII in Indian stock market had influence on each other but their influence varies in corresponding to their timing. Anbhuashrivastav (2013), On his research studies on the inflation of the Foreign institutional investment on India stock market indicates that FII did have high significant impact on the Indian capital market. Queensly Jeyanthi, (2016) Impact of FIIs on National Stock Exchange of India found FII's have positive impact on NSE.

Need of the study:

India's economy has been the world's fastest growing major economy, being developing country's stock exchange Indian stock exchange or Indian stock market acts as a destination for investments by foreign investors as well as domestic investors developed Indian market holds dynamic grip in growth potentiality for upcoming two decades as of now more to flourish in upcoming years in terms of large scale foreign institutional investment FII's there inflows and outflows hits the market performance to the greater extent. This paper aims at examines level of dominance of Foreign Institutional Investor FII's on Indian stock exchange with reference to FII's flow into the market and NSE CNX NIFTY. On two phases from 2000-2017(21.11.18)

Objective of the Study:

- 1) To understand the growth of Foreign Institutional Investor FII's on Indian stock exchange
- 2) To understand the influence FIIs net flow and NSE market performance(nifty volatility)
- 3) To determine how FII's triggers Indian stock market movement

Hypothesis:

H₀: FIIs net flow triggering the market performance in Indian share market

H_A: FIIs net flow not triggering the market performance in Indian share market

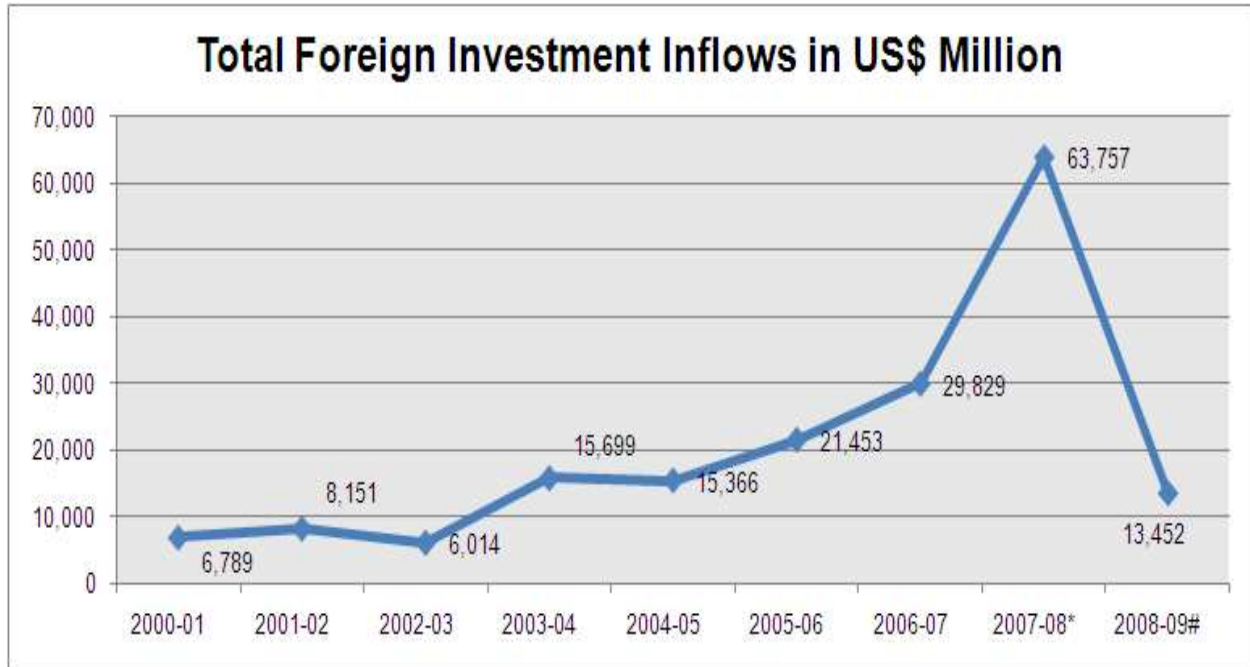
Research methodology:

Descriptive research has been executed data used were secondary data which has been analyzed were sourced from NSDL CSDL SEBI NSE and money control websites, journals, books etc. CNX Nifty50 was a natural choice, as it is the most significant market indices and widely used barometer. Data is collected in two phase's phase 1:2000-2010 phase 2:2011-2018(October) The secondary data comprises CNX nifty50 closing index points and FIIs net inflow in cores for the study period. Study period undertaken as per calendar year analysis has been made by, correlating nifty index and FIIs net flow to find the extent that exists between FII and stock market (NSE).

Limitation of the study:

As the time at our disposal is much limited area undertaken for the study is vast this study focused on identifying whether there does FIIs drives Indian stock market performance for the stipulated time i.e. The period of study from 2000-2018(31-10-18) only and the study focused only on volatility in terms of market movement

III. Foreign inflows into India



From the above chart it is clearly depicted that FII’s inflow is growing year by year hence their influence there too hiking up and they are having considerable hand in market performance.

Year	Closing Index of CNX NIFTY	FII Inflows(in CR)
2000	12363.55	6371
2001	1059.05	13295
2002	1093.5	3630
2003	1879.75	30459
2004	2080.5	38965
2005	2836.55	47181
2006	3966.4	36540
2007	6138.6	71487
2008	2959.15	-52987
2009	5201.05	83424
2010	6134.5	133267

Source: Secondary Data sourced from NSDL and NSE websites

*Significant at 5%

Note: Closing index of CNX nifty taken as per the financial year ending FIIs inflow are net inflows

IV. Analysation for the table 1: phase 1 of the study from 2000-2010

The above data in table 1 the correlation between the closing stock index of every year end of NSE CNX nifty I of those years was calculated and it was found that the relation between them is **0.21153** which indicates that there is positive

correlation between the FII inflows and the stock index of the Indian market. Further analysis was made to find degree of relationship that exists between FII INFLOWS AND the market performance of Indian stock market with regression analysis of fii inflows as X AND NIFTY AS Y RESULTS HELD THAT $r^2=0.054$ this reveals there is low degree of influence in phase1 this is mainly due to bankruptcy of European countries .to make it further more clear this paper aims at analyzing the data for another decade too hence further analysis were made to find the soundness of fiis in triggering market performance of Indian share market data has been collected for the period of 8 years from 2011 to 2018(november2018)

Year	Closing Index of CNX NIFTY	FII Inflows(in CR)
2011	4624.3	-2714
2012	5905.1	128361
2013	6304	112969
2014	8282.7	97054
2015	7946.35	17808
2016	8185.8	20568
2017	10530	512252
2018	10600.05	-37400

Source: Secondary Data sourced from NSDL and NSE websites *Significant at 5%

From the above data in table 2 from the year 2011 to 2018(21.11.18) the correlation between the closing stock index of NSE and the corresponding FII of those years was calculated and it was found that the relation between them is 0.365932 which indicates that there is moderate correlation between the FII inflows and the stock index of the Indian market. Anmance is traced out with the extent of dominance by fii inflow on market performance was traced out with the help of regression analysis held $r^2=0.133$.

Even though there is correlation between FIIs and CNX nifty in phase 1 analysis i.e.from2000-2010 that is less that of association in phase 2 analysis with is analysis it is inferred that fii inflows always influence market performance as their investment pooling is giant comparatively. In phase 2 analysis i.e. after 2011 their dominance increased due to relaxation of entry checks in their investment route.

Findings of the study:

1. Nifty has higher correlation (phase2 analysis i.e. from 2011-2018(21.11.18)) with FII's investment as a result their inflows moves nifty upwards and outflows vice versa.
2. Nifty has moderate correlation in phase 1 analysis (i.e. from 2000-2010) with FII's investment as a result their influence moves nifty but not remarkable extent.
3. FII investment behavior catalyzing the market performance but FII ALONE cannot decide Indian stock markets growth as it is one of well defined stock exchange in terms of market capitalization amongst world stock exchanges.

V. Conclusion

Based on the analysis of the data from table 1 and 2 it can be concluded that there is a association between FII flow and the market performance of Indian stock market fii inflow tends to the movement of share market null hypothesis was assumed as-**Ho**: FIIs net flow triggering the market performance in Indian share market and it was found that null hypothesis is accepted and alternate hypothesis is rejected with the assumption of 5% significance level. based on the chi-square test performed with the help of the above data from table1 and table 2 respectively. Thus it is observed that FII inflow in Indian market are growing tremendously and have dynamic interactions with share market movements but they alone cannot owes market performance but to greater extent gauge the growth potentiality of investments in Indian share market.

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