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Impact of FII's on Indian Stock Exchange: Special Reference to BSE & NSE

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Introduction After the liberalization of our economy, global investors have kept a close watch on its development. Numerous investors are drawn to India in hopes of discovering more investment prospects. The stock market has seen significant improvements due to the modifications made in 1991, which have also contributed positively to the economy. Foreign investors are engaging in India after recognizing the growth potential in our financial market. They enter through foreign direct investment and foreign institutional investment. A foreign portfolio investor tends to make short-term investments. Their actions are highly influenced by fluctuations in the stock market. Generally, foreign institutional investors are considered the largest contributors in the stock market. For the economy to advance, attracting foreign investments is crucial. An influx of investment into Indian enterprises enhances the economic outlook as well. Furthermore, it leaves investors with a positive view. Retail investors are also significant contributors to this landscape. They strive to invest in the stock market in order to achieve reasonable returns, albeit with limited financial resources and knowledge. This paper explores the influence of foreign institutional investors on the Indian stock market. The role of foreign institutional investors is substantial. Occasionally, they may liquidate their securities due to external circumstances,which can disrupt the stock markets. Investment plays a crucial role in the advancement of any nation's economy. Countries can obtain investment in both direct and indirect ways. Direct investment is known as FDI, which is also labeled as long-term investment. Indirect investment can involve foreign institutions and individuals, among other sources. After achieving independence, our economy has required substantial investment for growth. Economic policies and management have limited our access to investment opportunities, resulting in less than expected foreign investment. Since becoming independent, we have experienced minimal foreign investment. In 1991, we took steps to open our economy to outside investment. This means that foreign investors directly finance our institutions.

However, we also benefit from foreign funding in less overt ways. The primary avenue for this is through the stock market. Those who are involved in this are referred to as "foreign portfolio investors. " Their investments contribute significantly to the rapid growth of our stock exchange. Moreover, in instances where foreign portfolio investors allocate large amounts of capital, the share prices of associated companies tend to rise swiftly.

According to historical trends, our stock markets gain significantly more revenue from international investors than from local ones. As Foreign Institutional Investors engage in our market and later withdraw their funds, we can witness both beneficial and detrimental trends within our stock exchange. Nevertheless, it is incorrect to assert that Foreign Institutional Investors are essential for the Indian stock market. As a developing nation, India's economic growth rate is remarkably high compared to other emerging countries.

With the prospect of substantial returns, Foreign Institutional Investors are keen to invest in our nation over others. The stability of our economy is notably superior. All these factors make our market attractive to foreign investors, who also aim to safeguard their investments elsewhere. Investors are hopeful of maintaining their capital, which is why a robust economy attracts external investments. Our steady economic conditions draw international investors, and although this influx of investment benefits us, it simultaneously begins to have a dominating effect on our stock market. Occasionally, we witness adverse market ramifications due to this reliance. While the high levels of investment are positive, they also increase our dependency on foreign contributions.

The stock market can exhibit significant volatility at times. Several factors impact the share market, some arising internally and others externally. These influences also affect the behavior of Foreign Institutional Investors. Negative factors may trigger sell-offs in the market. Once substantial selling is initiated, it amplifies market pressure. Consequently, there is a clear correlation between Foreign Institutional Investments and stock market trends. We maintain a favorable outlook on Foreign Institutional Investment, as it has attracted many novice retail investors. Furthermore, these investors often lack clarity on their stock choices. They tend to mimic the decisions of Foreign Institutional Investors, opting solely for the stocks where FIIs are increasing their stakes.

Stock Exchange

A stock exchange serves as a venue where numerous sellers and buyers engage in the exchange of various securities. Examples of these securities include shares of companies and government bonds. Stocks from different corporations that have registered their businesses on the stock exchanges are exchanged within this setting. Companies that are newly established can become listed through an initial public offering, after which their stocks begin to be traded. The stock market provides crucial financial movement and a direct influx of capital into both promising and thriving enterprises.

Securities and Exchange Board of India (SEBI)

The SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) is responsible for regulating the stock exchange in India. Established in 1988, it received its legal powers through the SEBI Act of 1992 on April 12 of that same year. According to the Preamble of the S&EB, the primary duties of the Securities and Exchange Board of India involve "…safeguarding the interests of those investing in securities, fostering the growth of, and overseeing the securities market, along with related or incidental matters. " SEBI must consider the requirements of the three stakeholders in the market: security issuers, investors, and market intermediaries.

Bombay Stock Exchange

BSE is referred to as the Bombay Stock Exchange. BSE was founded in 1875 and is recognized as the first stock exchange in Asia as well. The SENSEX represents the index for BSE. As of January 2022, BSE has a market capitalization of 276.173 lakh crore rupees. It holds the title of being the fastest stock exchange globally, boasting a median trading speed of 6 microseconds.

BSE SENSEX

The S&P BSE SENSEX, frequently referred to as the BSE 30 or simply the SENSEX, is a stock market index that uses a free-float market capitalization approach. It includes 30 well-established and financially sound firms that are listed on the Bombay Stock Exchange. These 30 companies, which consist of some of the largest and most actively traded stocks, represent a wide array of significant industrial sectors of the Indian economy. It is actively traded on leading exchanges globally, such as EUREX and those situated in the BRCS nations (Brazil, Russia, China, and South Africa).

National Stock Exchange

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NSE NIFTY

A stock exchange in India is called the NATIONAL STOCK EXCHANGE (NSE). The NSE was established in November 1992 and is the country's first countrywide, fully automated electronic exchange. Twenty financial institutions, including state-owned banks and insurance firms, make up its stockholders. As of 2021, the NSE was the third-largest stock exchange in the world, with a market capitalisation of more than US$ 3.4 trillion

FOREIGN PORTFOLIO INVESTOR (FII)

Overseas portfolio investors are overseas investors who make brief investments in the stock market. Basically, they deposit their money in the bank of the host nation and then use it to buy stocks, bonds, and other financial products.

FII'S IN INDIA

The Indian government initiated the process of liberalization and economic reform during 1990-1991, aiming for rapid and substantial economic advancement while promoting the international integration of the economy. As a part of this reform initiative under the New Industrial Policy, the administration revised its approach to foreign investment, acknowledging the increasing importance of foreign capital as a means to facilitate technology transfer, enhance foreign exchange reserves, and encourage the globalization of the Indian economy.

Starting from September 14, 1992, foreign portfolio investors were permitted to engage in investments across all securities available on primary and secondary markets. This included shares, debentures, and warrants from enterprises that were currently listed or anticipated to be listed on Indian stock exchanges, with certain regulations in place. During the presentation of the 1992-1993 Budget, the then-Finance Minister Dr. Manmohan Singh suggested allowing established foreign investors, such as pension funds, to participate in the Indian capital market. In a SEBI announcement made in January 2014, foreign institutional investors were categorized along with foreign portfolio investors (FII).

LITERATURE REVIEW

While looking at literatures available it was found that most of the developed countries opened up their economies to attract foreign investments. They are trying to ease foreign investment rules in country.

(Bhansali, 2016)A study demonstrates how Indian liberalization has contributed to an increase in FDI and FPI. They therefore investigated what happens to the stock exchange when our economy welcomes foreign investment. Study takes into account data going back ten years to 1991. They looked for a connection between index closing values and FII buying or selling behavior using correlation and regression.

(Vaishali, 2016) The study looks into both the favorable and unfavorable comments on FII investing or selling. Market return and volatility's effects have been examined in the study. A study reveals that the Indian market became unstable when FIIs sold their securities there. In India, FIIs chase returns. In the Indian market, buying in large quantities is regarded as a positive indicator, while selling is regarded as a bad sign. The volatility of nifty returns is impacted by FIIs, while market returns are unaffected. specifically, their sales operations. A study demonstrates that international investors' trading feedback on Indian markets contributes to the country's financial markets' volatility.

(Jalota, 2017) The study looked at how DII's behavior changed as FII began to sell amid market turbulence. Since FII are recognized as important investors in the Indian stock market, every institution in the sector imitates their behavior in an effort to gain an advantage or protect itself. The reason for this is because there are several prospects for growth in India. We're still expanding. In a study, the relationship between FII and DII is examined from the standpoint of the Indian market. Participation by FII has been steadily rising. It demonstrates how positively FIIs view the Indian market.

(Swapna, 2018) In the context of the BSE and NSE, the study examines the effects of many variables, including FII buying, selling, and net FII investment. The study also reveals that FII activity adequately explains movement in the Indian stock market. It investigated how FII influx and outflow affected the SENSEX and Nifty 50 Index. A study reveals a strong correlation between FIIs and indices. The decline in the SENSEX is a result of FII exodus. The flow of FIIs affects how index values move. The study's conclusion is that FII cash outflows are what caused the decline in both indices.

(Padole, 2020) A study investigates the impact of FIIs on the comeback of the Indian stock market. It is concluded that FII investment is motivated by factors other than just domestic and international economic conditions. Additionally, be inspired by market emotion. They anticipate making money in the stock market in the short term. High volatility and speculation are caused by high return expectations. The movement of the BSE and NSE indices and FII inflow are significantly correlated.

(S Thombare, 2020) discovered that in emerging nations, foreign capital aids in raising labor productivity and accumulating foreign exchange reserves to cover the current account deficit. It was discovered that other factors influence stock market indices in addition to FII. Other significant factors can have an impact on the stock market. This study looked at FII investments in the SENSEX and the connection between FIIs and firm-specific ownership, financial, and stock market performance characteristics. They note that where public shareholders control more stock in companies, FIIs invested more. Share returns and earnings per share are two more critical factors that affect FII investment.

(Kulshrestha, 2019) Study uses correlation and regression to look at the connection between FII investment and stock exchange. The 20-year data is taken into consideration when examining the relationship between FII investment and stock exchange. The study looks at the relationship between the movement of the FII and the SENSEX and CNX NIFTY. According to research and observations, FIIs have a big influence on stock market investment. The stock market is also impacted by other variables. One of those elements is FIIs. With the good flow of FII investment, the stock market increases.

(Mishra, 2018) The study discovers a long-term relationship between the factors. Since there is a long-term correlation between the macroeconomic variables of IIP, inflation, gold prices, exchange rates, FII, and BSE SENSEX, investors view India as a rising economic power with enormous potential.

RESEARCH METHODOLOGY

Correlation and regression statistical tools have been utilized to analyses the data that has been gathered. A statistical tool that assesses how closely two variables' movements are related is the correlation coefficient. Its range of values is from -1 to 1. In order to determine whether there is a relationship between the FII purchases and the closing values of the indices (SENSEX and Nifty) for that specific year, an analysis was conducted. The effects of independent factors on a single dependent variable have been assessed using regression analysis. In this essay, we examine how FIIs affect the stock market.

Scope of the Study

This paper studies the relationship between the stock exchange index movement and the FII flow to Indian markets. The study takes the previous 20 year data from 2007 to 2026 (Financial Year). Study consider the flow of FII while changes in market volatility. There are few factors that affect share market. Some of them are internal factors and some are foreign factors. FII is one of those factors that affect our stock market. Study of FII's movement give us a clear view of market behavior. It helps to policy makers and investors. Retail investors is one of important part that consider FII's investment behavior. We are looking for some other factors how retail investor get affected through FII's investment. In future this research will help retail investors to understand the behavior of FII.

DataCollection Secondary data

The study is based on secondary data. The data has been collected from internet by exploring important websites. The data related to FII is collected from the official website of NSE, FII investment section. Yearly index value has been taken.

OBJECTIVE OF THE STUDY

Objective of the Study:-

- To explore is FII has significant relationship with stock market.
- To know does stock market perform positive while increase of FII investment.

Research Questions

- Does FII's have any impact on stock market?
- Does stock market fall while FII's sell in stock market.
- Which factors foreign investor consider while they invest and while they sell.

Hypothesis

Ho: There is no any significance relationship between FII and Indian stock market. Ha: There is a significant relationship between FII and Indian Stock Market.

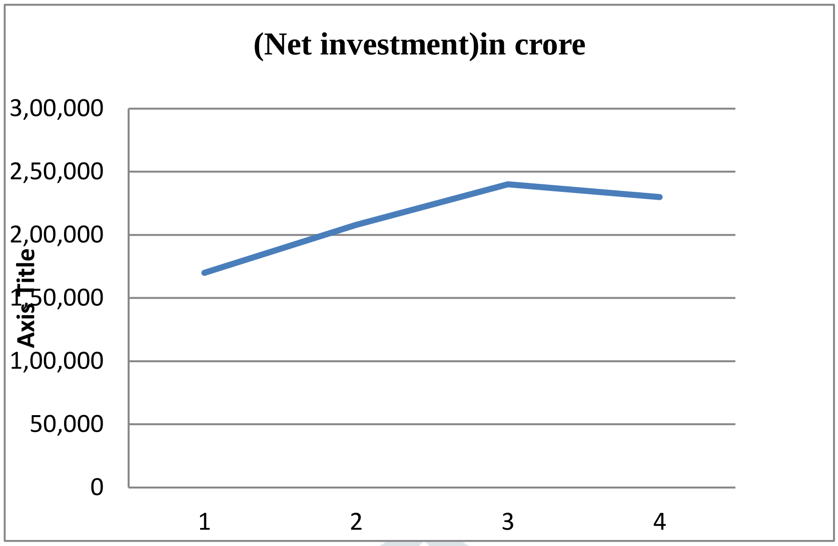
Significance of the Study

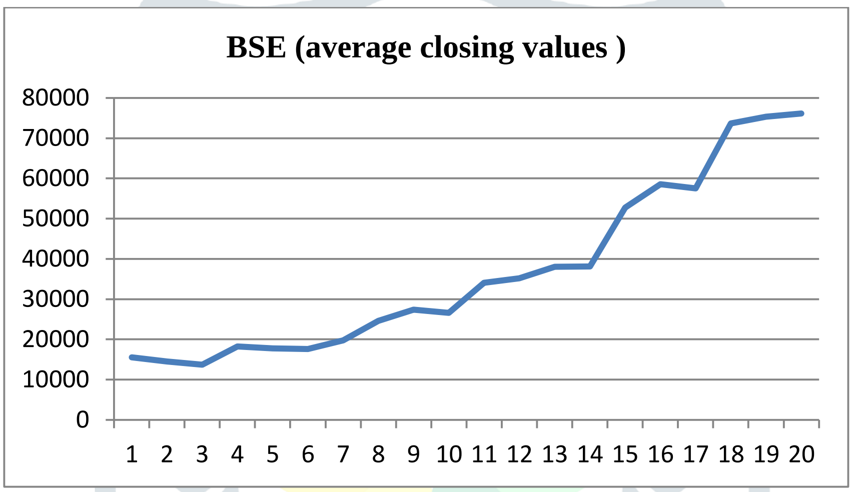
- Study will help us to understand the behavior of FII's in positive manner and also in negative manner. Our stock market will grow so we need to understand the what is contribution of foreign investment.
- It will identify the factor that affects the share market.
- With the help of this study we will be able to identify how can we help the retail investors.

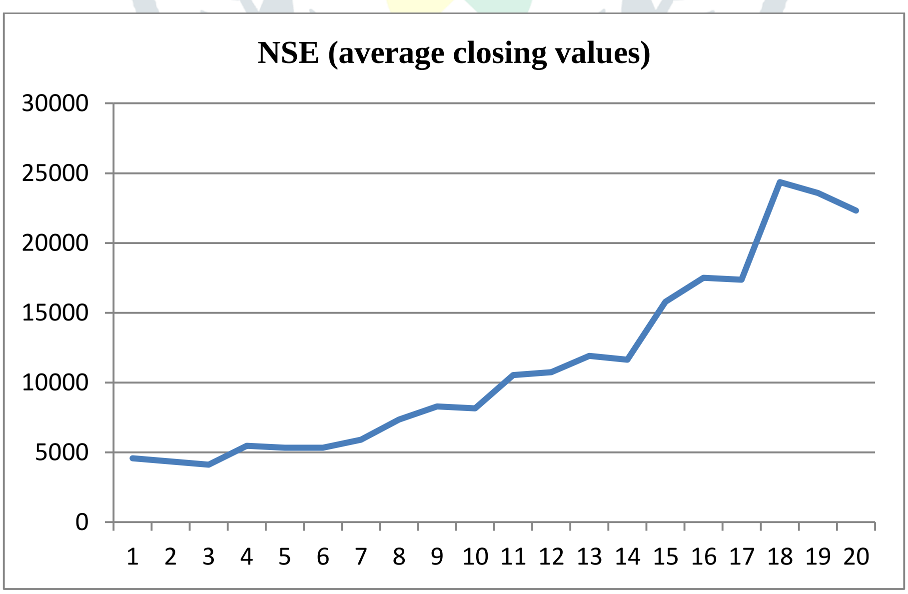
DATA COLLECTION

Average Closing Values

YEAR	FII (Net investment)in crore	BSE (average closing values)	NSE (average closing values)
2007	80914	15563.59	4571.29
2008	-41215	14492.67	4344.74
2009	87987	13700.82	4113.96
2010	179674	18206.91	5461.12
2011	39352	17777.76	5335.91
2012	163350	17617.03	5341.52
2013	62287	19722.42	5915.90
2014	256211	24638.95	7360.30
2015	63662	27352.17	8285.91
2016	-23079	26,626.46	8158.8
2017	20048	34,056.83	10530.7
2018	33,973	35,178	10,736
2019	97,766	38,015	11,921
2020	2,74,225	38,128	11,642
2021	37,666	52,786	15,778
2022	1,20,00	58,564	17,498
2023	1,70,000	57,527	17,360
2024	2,08,000	73,651	24,354
2025	2,40,000	75,317	23,589
2026	2,30,000	76,111	22,331


(Net investment)in crore
Axis Title
3,00,000
2,50,000
2,00,000
1,50,000
1,00,000
50,000
0
1
2
3
4


BSE (average closing values)
80000
70000
60000
50000
40000
30000
20000
10000
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20


NSE (average closing values)
30000
25000
20000
15000
10000
5000
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

TOOLS AND TECHNIQUES TO ANALYSE DATA

Correlation between FII's and BSE SENSEX

Correlation has been used to determine the statistical relationship between variables under study FII and BSE SENSEX. With the help of correlation we can get a relationship that FII is affecting share market.

Correlation between FII's and NSE NIFTY

Same as above we use Correlation to determine relationship between FII's net investment and NSE NIFTY. If they are positively correlated it means changes in FII's net investment will affect NSE nifty. Or if there is negative relationship between FII and NIFTY it means there no such impact on share market.

Regression FII's and BSE SENSEX.

Regression is a statistical technique that relates a dependent variable to one or more independent variable. It shows weather changes observed in dependent variable are associated with changes in one or more independent variable. In this study FII will be independent variable and market will be dependent variable. We will find out that is there any relationship between FII and SENSEX.

Regression FII's and NIFTY.

Same as above we will find out association between FII's net investment and NSE NIFTY. Regression will show us is there any changes when FII's change there position in share market.

ANOVA (ANALYSIS OF VARIANCE)

ANOVA test is a type of statistical test used to determine if there is a statistically significant difference between two or more categorical groups by testing for differences of means using variance.

DATA ANALYSIS

CORRELATION BETWEEN FII AND BSE CLOSING VALUE

Correlations			
	2	3	
2	Pearson Correlation	1	.198
	Sig. (2-tailed)		.462
	N	16	16
3	Pearson Correlation	.198	1
	Sig. (2-tailed)	.462	
	N	16	16

Correlations BETWEEN FII AND NSE CLOSING VALUES

Correlations			
	2	4	
2	Pearson Correlation	1	.183
	Sig. (2-tailed)		.497
	N	16	16
4	Pearson Correlation	.183	1
	Sig. (2-tailed)	.497	
	N	16	16

PAIRED T TEST

Paired Samples Statistics					
	Mean	N	Std. Deviation	Std. Error Mean	
Pair 1	2	65770.1250	16	76682.23058	19170.55764
	3	16344.4731	16	8870.44379	2217.61095
Pair 2	2	65770.1250	16	76682.23058	19170.55764
	4	4943.1531	16	2707.92820	676.98205

Paired Samples Correlations				
	N	Correlation	Sig.	
Pair 1	2 & 3	16	.198	.462
Pair 2	2 & 4	16	.183	.497

		Paired Differences					t	Sig- 2 tailed
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			
					Lower	Upper		
Pair 1	2 - 3	49425.65188	75426.67386	18856.66847	9233.61444	89617.68931	2.621	.019 .006
Pair 2	2 - 4	60826.97188	76232.17176	19058.04294	20205.71491	101448.22884	3.192	

One way anova

ANOVA						
	Sum of Squares	df	Mean Square	F	Sig.	
3	Between Groups	1180271595.245	15	78684773.016	.	.
	Within Groups	.000	0	.		
	Total	1180271595.245	15			
4	Between Groups	109993126.952	15	7332875.130	.	.
	Within Groups	.000	0	.		
	Total	109993126.952	15			

Conclusion

Correlation has been utilized to illustrate the notable connection between the stock market and Foreign Institutional Investors (FII). The findings indicate that the relationship between FII and the Bombay Stock Exchange (BSE) is weak; similarly, the connection between FII and the National Stock Exchange (NSE) also reflects weakness. This suggests that FII does not significantly contribute to the downturn in the stock market. Nonetheless, FII can be seen as an influential participant in the stock market. The data indicates a minor decline in both BSE and NSE due to the exit of FII from these markets. FII can be regarded as a crucial factor that influences the stock exchange in various aspects. FII has the potential to play a major role in the advancement of the stock market. However, this does not imply that FII is the sole influencer of the share market. Other macroeconomic factors can also impact the performance of the share market in different ways. This research paper focuses exclusively on FII investments. We have not examined other macroeconomic factors that might affect the stock market. Additional macroeconomic variables such as international currency fluctuations, interest rates set by the U. S. central bank, conflicts, etc., can also influence the share market. Based on the data analysis presented, we can conclude that there is no significant correlation between the stock market and FII. FII might impact the stock market in various ways, and it is one of the several significant variables involved.

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