A Study on Foreign Direct Investment in Indian Stock Market

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ABSTRACT

Foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key battleground in the emerging markets. The prospect of new growth opportunities and outsized profits encourages large capital inflows across a range of industry and opportunity types. And this has led to competition among the states in formulating flexible policies and providing incentives to woo private investors to invest more and more. In the light of the above the paper highlights the trend of FDI in India after the economic reforms, sector-wise and country-wise share of FDI, the manner in which FDI has effected the growth of Indian states. Various factors which play a significant role in attracting FDI into a particular state are also examined. Efforts made by the state governments in order to attract maximum FDI are also studied

1. INTRODUCTION:

FDI-Foreign direct investment in Indian stock market

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. It plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development

Foreign direct investment (FDI) in its classic form is defined as a company from one country making a physical investment into building a factory in another country. It is the establishment of an enterprise by a foreigner. More specifically, foreign direct investment is a cross-border corporate governance mechanism through which a company obtains productive assets in another country. Its definition can be extended to include investments made to acquire lasting interest in enterprises operating outside of the economy of the investor. The FDI relationship consists of a parent enterprise and a foreign affiliate which together form an international business or a multinational corporation (MNC). In order to qualify as FDI the investment must afford the parent enterprise control over its foreign affiliate. The IMF defines control in this case as owning 10% or more of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm; lower ownership shares are known as portfolio investment.

NEED FOR THE STUDY:

There has been a lot of furor over introducing foreign direct investment in the Indian retail sector. Many say that the employment opportunity for common man will be dampened and many say that the local retailers will be eliminated from the scene. Many strikes were conducted in the country and the protests by the various groups of shopkeepers kept the reporters busy for many days. What is retail sector? It is the sector that sells the produce to the consumers. In simple words, they form as the intermediates to the producers and consumers. They make profit in the process and maintain the supply and demand in the society. Now what happens if this foreign direct investment is directly introduced in the retail sector. For understanding that you need to know the present rules that govern the foreign direst investment. As per law India allows 51 % foreign investment in the single brand retail sector. While no investment is allowed in the multi-brand sector. In the cash and carry, export products the regulations are much less.

So basically this means that at present foreign direct investment in India in single brand products is going on Indian retail sector have been plagued by the problems of improper public distribution system. Further especially in the cold chain facility sector the wastage of food crops is at its high. Most of the produced food crops have ended up as waste due to the lack of cold chain infrastructure. This problem can be solved to an extant with this decision. This would further help in upgrading our state of the art agriculture sector to newer heights.GDP can be expected to improve with more skilled agriculturists and definitely more tax for the government. The decision to improve our retail sector with more investment from foreign countries can be a milestone in the Indian history.

SCOPE OF THE STUDY:

The present project work enables us to know the Indian stock market, foreign instructional investors and the impact of FDIs on Indian stock market. The stock market BSE & NSE are studied. FDIs investments for last 12 years have been studied

Objectives:

1. The main objective of the study is to observe the impact of FDI on Indian stock market.
2. To measure the correlation co-efficient between FDI on Indian stock market.
3. Whether the FDI has positive or negative impact on Indian stock market.
4. To suggest the investors to invest in Indian stock market basing on FDI investment

2. LITERATURE SURVEY

Government to classify equity infusion as FDI, with 3 year lock-in period

NEW DELHI: The government has found a mid-way solution to the contentious issue of foreign direct investment through investments that have built-in options. The Reserve Bank of India has agreed to classify equity infusion as FDI - even if it has in-built option - if the investment is locked-in for three years. The government had rolled back a provision in the FDI policy that any foreign investment that has any in-built option, such...

100% foreign direct investment regime in pharmaceutical sector

NEW DELHI: A high-level inter-ministerial group chaired by the prime minister has decided to continue with the 100% foreign direct investment regime in the pharmaceuticals sector, overruling concerns raised by the health and industry ministries about rising medicine costs due to acquisitions of Indian drug companies by multinationals. But the takeover of Indian drug companies by foreign companies, or brownfield investment, will face stringent scrutiny by the...

Unclear rules stop FDI in pharma companies

NEW DELHI: The government has recently stopped giving permission to foreign companies and overseas investors to buy into Indian drug makers till clear guidelines regarding foreign direct investment in the sector are finalized. The Foreign

Investment Promotion Board (FIPB), the nodal agency that approves investments in India, deferred four proposals at its March 30 meeting on the grounds that specific conditions for considering cases of brown field foreign investment in the pharma...

China throws open health sector to foreign direct investment

BEIJING: China has thrown open its health sector to foreign direct investment, inviting hospitals abroad to open their branches in the country, apparently to meet growing demand for Medicare in the world's most populous nation. In its new policy, Chinese government said the health sector would be opened not only for private sector but also for investment abroad to meet the increasingly diversified demands on health care. The official guidelines carried by the state-run media said that overseas investments are now welcome to sponsor hospitals, while the procedures will be further simplified.

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3. RESEARCH METHODOLOGY

The present project work has been undertaken to study foreign direct investment on Indian stock market

The project must been done through data collection and analysis

Data collection:

Data can be collected in two ways:

1**) Primary source:**

The first hand information is know as Primary data in this project the primary data collected through instruction of company people .

2)Secondary source:

Already available data is known as secondary data. Majority of project study is depending on secondary data

- The sources of study are as follows:
- Text books
- Journals
- Websites

Data analysis:

The study has been analysis through the following tools & techniques

- **Tables:** the tables show the calculations of correlation co-efficient between FDI net Investments and different Indian stock indices.
- **Graphs:** The graphs show the movements of FDI net investments and Indian stock indices movements.
- **Formula:** the formula correlation co-efficient used for the calculation for find out the correlation co-efficient between FDI net investments and Indian stock indices.

LIMITATIONS:

1. Work on the high profit areas rather then.
2. Priority sector.
3. Technological advancement.
4. Evading nature.
5. Unfavorable effect towards balance of payment.
6. Interferes in the national politics.
7. Unfair unethical trade prelates.
8. Bulldogging nature to ward’s nation market.
9. Unfavorable for countries economy.

4. FINDINGS OF THE STUDY

FINDINGS:

The present project has been under taken under study IMPACT OF FOREIGN DIRECT INVESTMENT IN INDIAN STOCK MARKET during this analysis the following facts have been identified.

SENSEX:

- The total investment in FDI from APR 2018-FEB 2017 is 11,451. and total closing of BSE sensex is 6608.72. the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 1.040.
- The total investment in FDI from APR2018-FEB 2017 is 11,451. and total closing of BSE AUTO is 11402.79. the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is 6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.127.
- The total investment in FDI from APR 2018-FEB 2017 is 11,451 and total closing of BSE BANKEX is 12491.63 the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is 6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.385.
- The total investment in FDI from APR 2018-FEB 2017 is 11,451. and total closing of BSE CAPITAL GOODS is 9122.87 the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.329.
- The total investment in FDI from APR 2018-FEB 2017 is 11,451. and total closing of BSE CONSUMER is 6207.81 the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is 6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.032.
- The total investment in FDI from APR 2018-FEB 2017 is 11,451. and total closing of BSE FMCG IS 6608.72. the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.324.
- The total investment in FDI from APR 2018-FEB 2017 is 11,451. and total closing of BSE HEALTH CARE is 9446.61. the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is 6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.121.
- The total investment in FDI from APR 2018-FEB 2017 is 11,451 and total closing of BSE IT is 7872.52 the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is 6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.097.
- The total investment in FDI from APR 2018-FEB 2017 is 11,451. and total closing of BSE METAL is 8573.65 the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.087.
- The total investment in FDI from APR 2018-FEB 2017 is 11,451. and total closing of BSE OIL&GAS is8591.89 the highest investment in FDI is 26,351. in the year 2018. and lowest investment in FDI is 6,819. in the year 2018. the correlation co-efficient of FDI and BSE sensex is 0.599.

5. SUGGESTIONS:

1. India and China not only survived the financial crisis — over the course of the financial crisis their economies grew. This is the perfect time for India to attract much needed non-debt creating capital flows through foreign direct investment (FDI).
2. The **Indian Budget** for 2011-12 has rightly proposed to simplify the FDI regime, maintaining FDI flows particularly by recognizing ownership and control issues and liberalizing the pricing and payment system for technology transfers, trademarks, and brand name and royalty payments. More importantly, the budget shows an intention to introduce user-friendly regulations and guidelines for FDI.
3. while India is macro-economically well placed to attract FDI inflows, merely showing an intention to introduce user-friendly regulations

without addressing the core regulatory, institutional and policy issues affecting FDI may not be enough to attract the **huge amounts** of FDI the country needs.

4. Economic surveys in last few years confirm time and again the need for concrete reforms to improve the Indian investment and business climate. While the 2009 'Doing Business' survey prepared by the World Bank showed that India's indicators have gotten better, India still **lags behind China** overall.
5. India's high trade and transaction costs are mainly due to the country's lack of **quality infrastructure.** This lack of infrastructure discourages resource-seeking and export-oriented FDI to use India as their base as they do with China. China's unmatched average growth rate of 10 per cent for more than a decade is due to consistent improvements in physical infrastructure.
6. The 2011-12 Budgets does focus on infrastructure development, allocating substantial general funds, which constitute 46 per cent of the total plan allocation, and doubling plan allocation to power sector and improved allocation for renewable energy in particular. Moreover, some of the budget's announcements—like allocating coal blocks for captive mining and a proposal to set up a Coal Regulatory Authority to ensure greater transparency—are welcome steps.
7. India invests around 5 to 6 per cent of GDP on infrastructure whereas China invests 14.4 per cent of GDP. The gap between infrastructure investments in China and India is widening not only as share of GDP, but also in absolute levels given that India's GDP is only one third that of China. Hence, the private sector must participate substantially in infrastructure development in India.
8. One way of improving the environment for infrastructure development is through public-private partnerships. These require a more stable and secure policy framework; particularly ensuring the protection of property rights and consistency in pricing and subsidy policies. Infrastructure projects need maximum clearances and approvals that sometimes run into innumerable disputes. Therefore, there should be an institutional mechanism for speedy dispute resolution.
9. The politically acceptable cost-recovery based pricing is a must for attracting private investment into the infrastructure sector. Infrastructure projects are capital intensive. A special federal investment law should be formulated to consolidate the many sets of State laws, rules and regulations covering the infrastructure sector. Infrastructure also needs stable financing. Because of this the Rs 20,000 income tax exemption for investment on infrastructure bonds is a welcome step. But the government could do more by allowing financial intermediaries to invest in reasonably rated infrastructure projects and by giving a guarantee to use pension funds, insurance and FII's to invest in infrastructure projects.
10. The Budget 2010 intends to simplify and introduce user-friendly regulations and guidelines for FDI but these are mostly at the central government level. However, actual implementation of projects will take place at the state level. Bureaucratic hassles, mainly at the state level, are obstacles to the realization of FDI. Some of the major issues related to project implementation such as land acquisition, land use change, power connection, building plan approval are at the state level This division of political responsibility creates a delay in implementation. Therefore, a concerted effort is required for better co-ordination between the central and state governments on this issue. An institutional mechanism may be set up for getting clearances of FDI projects from both central and state governments within a stipulated time.
11. Another way of attracting FDI is by following the Chinese special economic zone (SEZ) model. This is large with state of the art infrastructure facilities and proper infrastructure connectivity to the market. To attract FDI SEZs in India should be designed as China's are, with

proper infrastructure connectivity to domestic and external markets. If necessary, the private sector should be encouraged to set up private airports and ports to service the SEZs through automatic routes and 100 per cent FDI equity. Since it's hard to connect different kinds of transportation infrastructure in India, SEZs should be established in the coastal regions like in China to make transportation easier.

12. The Budget 2010-11 should have addressed some of these measures to attract FDI much needed by the economy.
13. While foreign equity participation has increased in most sectors, there are still sectors where there is huge potential for FDI inflows. Further increases in FDI ceilings in sectors such as telecom, civil aviation, power generation, food retailing, insurance, banking, investing companies and the real estate sector will be required to achieve this potential. Most of these sectors need to be opened up further with independent regulatory systems to control market distortions and allow fair competition.
14. Though the budget recognizes the importance of ownership and control issues for FDI, no concrete steps have been announced or proposed.
15. The investment climate can be improved through increasing foreign and private ownership in different sectors, simplifying rules and regulations and developing independent regulatory bodies. But India can only succeed in actually creating a conducive business environment and getting more investment both from private and foreign investors if it focuses on providing quality physical infrastructure.

6. CONCLUSION

The present project has been undertaken to study the impact of FDI on Indian stock market foreign direct investment improves nations economic conditions when direct investment was allowed by Indian government from 1991, it started growing investment of economic growth. FDI shows impact in many sectors especially on Indian stock market investors generally feels that, the equity investment will grow faster than domestic investment. There for in the project it is tried to observe that whether the relationship between FDI and Indian stock market is high or low. To know about this, correlation co- efficient is calculated for sensex and FDI investment for 10 years. It is observed that every year, the correlation co-efficient is high. There we can say that, by increasing foreign direct investment, India can develop more.

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