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# ANALYSIS FII AND DII INFLOW AND OUTFLOW TIMING WITH SPECIAL REFERENCE TO NIFTY P/E RATIO

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**ABSTRACT**

*The purpose of this study is to understand and analyse FII and DII inflow and outflow timing with special reference to P/E Ratio in Indian equity markets. This study is based on secondary research, all the trading months since April 2007 to October 2017 i.e. 127 months are taken and analysed using statistical techniques. This research broadly concludes that historically FII's buy at lower market valuations and sell at higher market valuations in Indian equity market, where as DII's buy at higher market valuations and sell at lower market valuations in Indian equity market.*

***KEYWORDS**: FII's, DII's, Index, Price/Earnings Ratio, Valuations.*

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## Introduction

Foreign institutional investors (FIIs) are institutional investors which invest in the financial assets of the different countries other than where these organizations are based. Foreign institutional investors play key role in any country's economy. These are especially investment banks, mutual funds etc., who invest significant money in the Indian markets. Due to the larger ticket size markets trend to move upward and vice-versa. They have strong influence on the total inflows coming into the economy. On the other hand, domestic institutional investors are institutional investors which invests in securities and other financial assets of the country they are based in. Institutional investment is defined to be the investment made by institutions or organizations such as mutual fund houses, insurance companies, banks, etc. in the financial or real assets of a country. Domestic institutional investors use pooled funds to invest in securities and assets of their country. The domestic institutional investors also affect the total investment flows in the country. Nifty PE ratio is important as it is a measure of valuation of companies included in Nifty index. From long term perspective, low Nifty P/E ratio is considered undervaluation and ideal for buying. A high Nifty PE ratio is assumed to be overvalued and deserves caution while taking investment decisions.

## Literature Review

**V. Ravi Anshuman (2008)** in his study found that foreign institutional investors (FIIs) adversely affects volatility in the Indian stock markets. This study also concludes that FIIs does not increase stock volatility, but when FIIs sell to domestic clients or when domestic clients trade amongst themselves, volatility increases, furthermore Positive shocks in aggregate trading activity have a greater impact than negative shocks.

**Ajay Shah (2008)** analyzed the preferences of FIIs and DIIs in Indian stock market. FII and DII both prefer larger, widely dispersed firm and do not chase returns. However, the author found evidence of strong difference in behaviour of FII and DII.

**Md. AamirKhan, et al. (2010)** has analysed the relationship between Nifty and FIIs' net investment for the period January 1999 to February 2009 using daily data. The author has also pointed unidirectional relationship of Nifty over FIIs during each phase in the long run. Researcher also

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concluded that Correlation between time series is higher in bear phase as compared to bull phase as in bull phase other market participants raise their involvement reducing the influence of FIIs.

**Paramita andSuchismita Bose (2002)** analysed the relationship of foreign institutional investment (FII) flows to the Indian equity market with its possible covariates based on a time series of daily data for the period between January 1999 to May 2002.

**Jatinder Loomba (2012)** this research paper tries to develop an understanding of the dynamics of the trading behaviour of FIIs and effect on the Indian equity market. The study is conducted using daily data on BSE Sensex and FII activity over a period of 10 years spanning from 01st Jan 2001 to 31st Dec 2011. It gives the evidence of significant positive correlation between FII activity and effects on Indian Capital Market. This research also finds that the movements in the Indian Capital Market are fairly explained by the FII net inflows.

**Gordon and Gupta, (2003)** found causation running from FII inflows to return in BSE. This research 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. Therefore, there is a need to investigate whether FIIs are the cause or effect of stock market fluctuations in India.

**A Kotishwar (2012)** in this paper researcher revealed that regulatory framework policies have had the desire expansionary effect have either increased the mean level of FII inflows and/or the sensitivity of these flows to a change in BSE returns in inertia of these flows.

**Suchismita Bose (2012)** analyses the effect of stock market returns can be overshadowed by the effect of FII investments, in determining mutual fund flows. The study also finds evidence of net investments by FIIs having a causal influence on stock market returns even as it fails to identify any causal relation between domestic mutual funds' net investments and domestic stock returns.

**Objectives of the Study**

- To study and analyse FII and DII buying and selling timings in Indian equity markets.
- To study and analyse the valuations at which FII and DII buy or sell.

**Sample Size**

It is a census study undertaken for the definite conclusive results, number of observations analysed are 127.

**Data Collection**

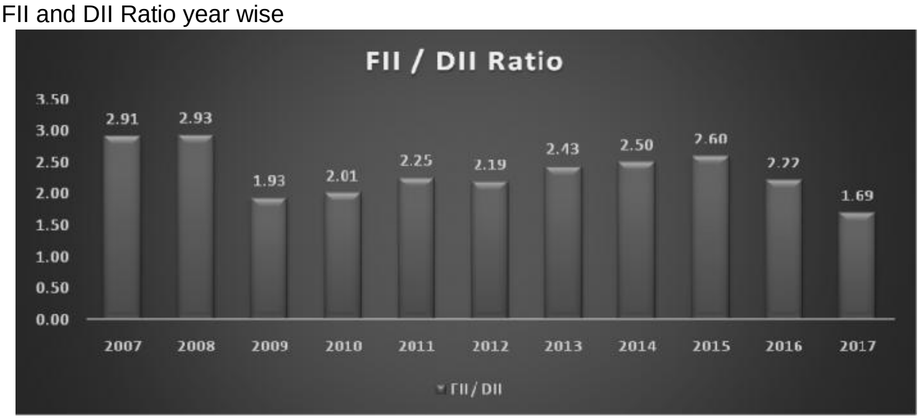
The data for this study is collected from the National Stock Exchange's website alone. This study is entirely based on the secondary information. Primary information is deliberately not used in this model to avoid personal views on market movement. All the trading months are analysed from April 2007 to October 2017. 127 months of FII and DII purchase and sales data is analysed in this research because before April 2007 the FII and DII trading activity data was not available in public domain.

**Research Methodology**

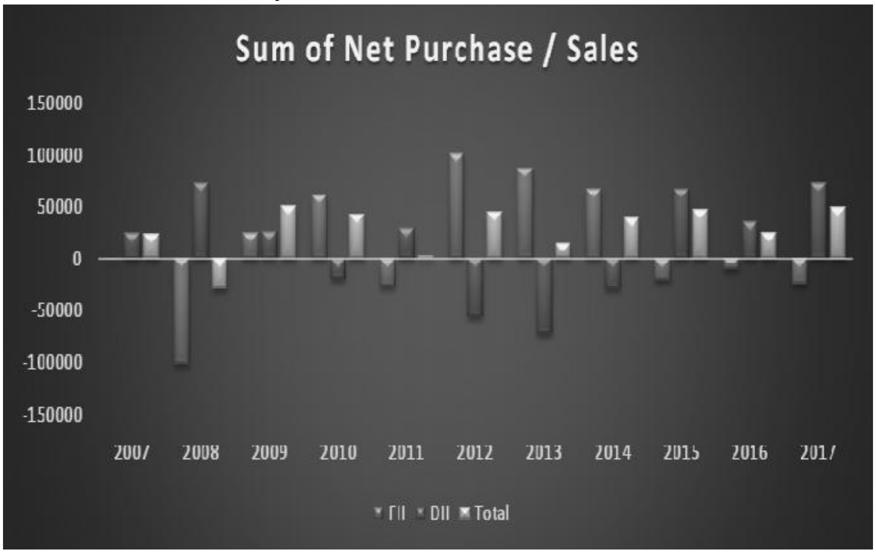
The data is analysed using excel functions like Count if, v look up, sum if, average, min, max, median, and pivot which would help to analyse this data in correctly. The data available in public domain is raw and processing using different statistical tools allows researcher to draw definite conclusions for this research.

**Analysis**

- FII and DII Ratio year wise

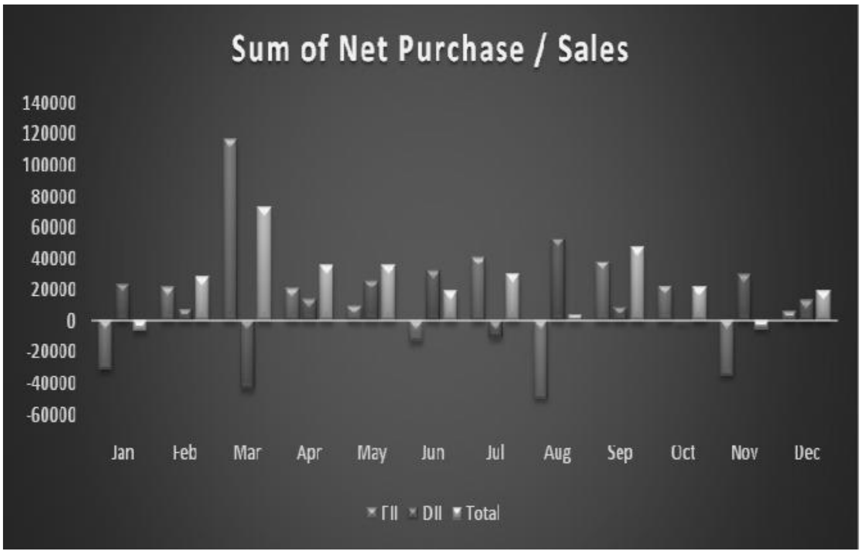


- Sum of Net Purchase/Sales year wise since 2007



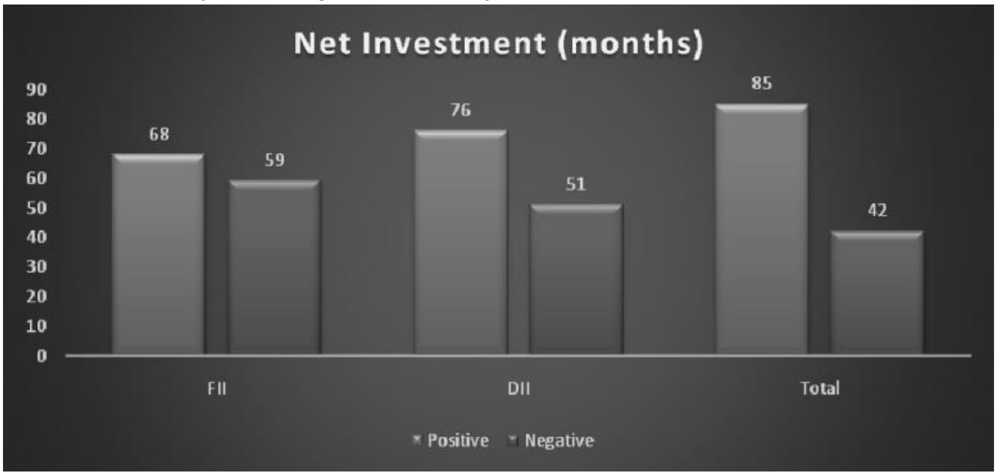

* All figures are in INR Crores

- Sum of Net Purchase/Sales month wise

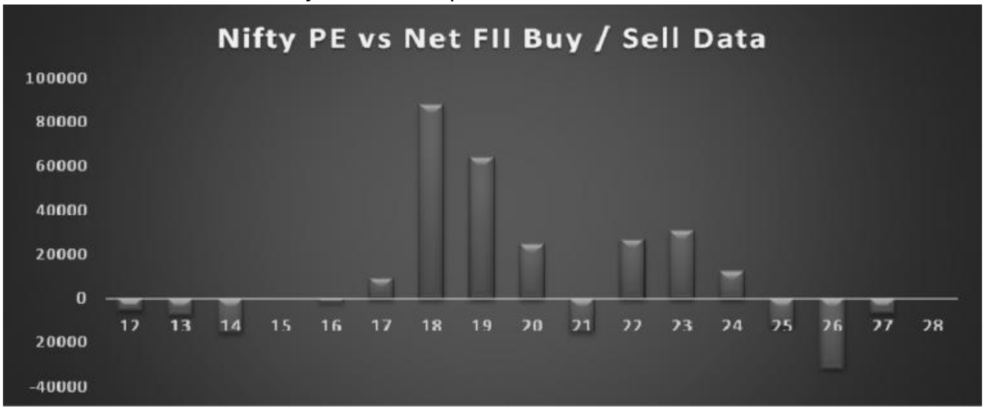



* All figures are in INR Crores

- Net investment positive/negative months by FII, DII and Total




- Valuations at which FII Buy/Sell since April 2007




* All figures are in INR Crores

- Valuations at which DII buy/sell since April, 2007


* All figures are in INR Crores

## Findings

- FII to DII ratio is significant in Indian equity markets, still FII's have 69% more influence on Indian equity markets.
- FII's purchases were found to be significant in 2010, 2012, 2013 and 2014.
- According to market participants understanding FII's sell maximum in December, however empirical evidence shows that FII's sell maximum of their holdings in the month of August.
- Out of 127 months in this research FII's figures were positive for 68 months.
- Out of 127 months in this research DII's figures were positive for 76 months.
- During 2007 to 2017, it is found that FII's buy at low PE and sell at high PE.
- During 2007 to 2017, it is found that DII's buy at high PE and sell at low PE.

## Conclusion

FII's buy at lower market valuations and sell at higher market valuations in Indian equity market, where as DII's buy at higher market valuations and sell at lower market valuations, the reasons for the DII's investment decision at higher valuation is the scope for further research.

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