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IMPACT OF FOREIGN INSTITUTIONAL INVESTORS IN INDIAN STOCK MARKET (A REVIEW OF LITERATURE)

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ABSTRACT

Investment of FDI and FII in Indian economy or in stock market directly or indirectly affects the growth of economy. The FII contributions have brought change in the development of stock market in India to see the impact of FII on Indian stock market SENSEX and NIFTY have to be considered. Huge amounts of FII fund inflow into the country creates a lot of demand for rupee, and the RBI pumps the amount of Rupee in the market as a result of demand created. FIIs profit from investing in emerging financial stock markets. The FII buying pushes the stocks up and their selling shows the stock market the downward path. This creates problems for the small retail investor, whose fortunes get driven by the actions of the large FIIs.

KEYWORDS: *FII, Indian Stock Market, Indian Economy.*

Introduction

The SEBI (Security Exchange Board of India) has plays the vital role to regulate, control and develop the stock market in India. Most of the trading takes place under BSE and NSE. Almost all the firms are listed in both the exchange. For making portfolio investment in India, it should be registered with FII (foreign institutional investor).

FIIs are Foreign Institutional Investors. A term that is commonly found whenever there's a discussion on stock markets. FIIs are entities (banks, insurance companies, mutual funds etc.) registered in a country other than in which they are investing. For e.g. a US Mutual Fund which invests in the Indian Stock Market. FIIs usually pool large sums of money and invest those in securities, real property and other investment assets.

Objectives

- To get the knowledge of stock market.
- To look for investment opportunities.
- To analyse the relation and impact of foreign institutional investment on Indian stock market.
- To study the share holding pattern of FII in different segment of NSE.
- To know the market trends due to FIIs inflow and outflow.

Review of Literature

Stanley Morgan (2002) has examined that FIIs have played a very important role in building up India's forex reserves, which have enabled a host of economic reforms. Secondly, FIIs are now important investors in the country's economic growth despite sluggish domestic sentiment. The Morgan Stanley report notes that FII strongly influence short-term market movements during bear markets. However, the correlation between returns and flows reduces during bull markets as other market participants raise their involvement reducing the influence of FIIs. Research by Morgan Stanley shows that the correlation between foreign inflows and market Returns are high during bear and weaken with strengthening equity prices due to increased participation by other players.

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Basabi Bhattacharya & Jaydeep Mukherjee (2002) explored the relationship between the stock market and Exchange rate, foreign exchange reserves Value of trade balance in India. The researchers used unit-root tests, co integration and the long-run Granger .Non causality test to conclude that the BSE Index and the macro-economic variables exhibit no casual linkage.

Sivakumar S (2003) has analyzed the net flows of foreign institutional investment over the years, it also briefly analyses the nature of FII flows based on research, explores some determinants of FII flows and examines if the overall experience has been stabilizing or destabilizing for the Indian capital market.

Richards (2004) analyze data of six Asian emerging equity markets and found two interesting findings. The trading behaviour of foreign investors was largely influenced by the return in global market that is positive feedback trading. The price impact associated with foreign investors trading was much large than estimated earlier.

Anupa Chakraborty (2007) studied title of the study was foreign institutional investment flows and Indian stock market return. Period of eight years ranging from April 1997 to March 2005 was selected for empirical study. The empirical study aims at determining whether FII flows to India are caused by or are the causes of national stock market returns Data under this was analyzed by using correlation and regression tool of SPSS software. He found that that monthly net FII flows exhibit a near similar trend as that of monthly returns on BSE National Index.

According to “Mukherjee and Bose” (2008) They investigated the integration of India with the developed countries such as US, Japan, and five other Asia Pacific market for period in between 1999 to 2005. It founded that stock returns in India were led by major stock exchange return in US, Japan, Singapore, and South Korea. They also founded Indian market exerted considerable influence in stock return in Japan and South Korea along with Malaysia

Anand Bansal and J.S. Pasricha 2009 studied the impact of market opening to FIIs on Indian stock market behaviour. They empirically analyse the change of market return and volatility after the entry of FIIs to Indian capital market and found that while there is no significant change in the Indian stock market average returns; volatility is significantly reduced after India unlocked its stock market to foreign investors. In the next section we are discussing the data sources and methodology of the study.

According to “Ranpura Darshan, Patel Bhavesh K.” (2011) in this research paper the author tries to show Indian stock market is interdependent on foreign stock market. For this purpose the study examines the linkages between different markets. The aim of the study was to identify the extent the events happening in one stock market affects the other stock market and to study the co movement of stock market of India with other developed and developing countries.

Loomba, J. (2012), attempted to testify the behaviour of FII trading and its effect on Indian stock market. He observed that in the course of capital market liberalization, foreign capital has become increasingly significant source of finance and institutional investors are growing their influence in developing markets. He concluded that the Indian stock markets have come in age where there were significant developments in the last 15 years make the markets at par with the developed markets.

Shrikanth, M. and Kishore B. (2012), in their paper investigated a cause and effect relationship between FII and Indian capital market. They observed that FIIs carried the institutional favour in terms of market expertise and fund management by way of pooling small savings from retail investors. The main objective of FIIs is maximizing returns and minimizing risk while keeping liquidity of the investments intact. They concluded that net FII inflows had a positive impact on the Indian stock market and foreign exchange reserves.

Dr. Renuka and Dr. Kiran Mehta (2012) studied Foreign institutional investors and Indian stock market with the time period of 2000-2011His objective was to examine the degree of dependence of performance of Indian stock market on the movement of Indian stock market.

K. Mallikarjuna Rao (2013) observed that FII helps in the overall financial development through development of financial markets. He also referred that FII registered with SEBI were continuously increasing even in recession period.

Sanjana Juneja (2013) explained how FII investment cause sudden capital outs causing stock markets unstable. This will have worst effect mostly on individual investors saving and concluded that the domestic investor should be encourage to maintaining liquidity in the stock market even in cash crush periods.

Hemkant Kulshrstha (2014) observed that FII and indices of NSE and BSE have closely correlated. He also proved that FII were emerged as most pre dominant investor in indices stock market. Thus, they were significantly become a part of capital market.

Jasnik Arora and Santosh Kumar (2015) proved analytically that a FII investment does not only affect the returns in NSE. For this purpose he tested the stationary of FII investments. He explained that FII is not the major determinant about 13% of the reason behind stock market returns.

Findings

This study of impact of FII(foreign institutional investment) on Indian stock market shows that FII(foreign institutional investment) significant impact on Indian stock market but other factors like government policies, inflation, and other economic condition are also affect on Indian stock market. To see the impact on Indian stock market SENSEX and NIFTY have to be considered. FIIs and movement of SENSEX are quite closely correlated in India. NSE observes that in Indian stock market FII have a high level of influence on market and price trend.

Conclusion

- FIIs are Foreign Institutional Investors. A term that is commonly found whenever there's a discussion on stock markets. "Net buyers" implies that foreign investors poured more money into the stock market than they took out, which is generally seen as a positive development While analysing a stock, the percentage of FII holding is an important factor to be noted. If an FII invests in a company, it also means that they see growth potential in that company.
- If the number is too large then it's easier for the individual entities to move out of a stock which would make stock price of the company very volatile and risky. So, investing in a company which has smaller number of FIIs could be a safer investment option.
- A fundamentally sound company which has a consistent and stable FII shareholding would be an ideal candidate for investment. When some FIIs exit from a good stock, its price actually falls thus giving a good chance to invest in it.

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