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ROLE OF FOREIGN INSTITUTIONAL INVESTORS [FIIs] IN INDIAN STOCK MARKET



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ABSTRACT

This research paper refers to analysis the emerging issue of FII and to study the relationship between the FII equity investment pattern and Indian stock indices and study the scope and trading mechanism of Foreign Institutional investors in India under this research "**Role of Foreign Institutional Investors [FIIs] in Indian stock market**". An important feature of the development of stock market in India the growing participation of Institutional Investors.

The research is very broader and covers both the stock indices and its comparison with foreign institutional investments it gives exact impact in both the bullish and be bearish trend. The study provides a very clear picture of the impact of foreign institutional investors on Indian stock indices. In this paper, examines the impact of FIIs inflow and outflow on the volatility of the Indian stock market and Industrial sectors indices by studying the impact of net investment by FIIs.

The study based on secondary. The collected data duly edit, classified and analysis using all types of relevant Descriptive Statistics techniques. The data present through classification through a monthly average, co-relations, the data analysis and obtain empirical results.

1. Who is FIIs?

FII's can be said to include investors or investment funds that are from or registered in a country outside of the one in which they are currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds. In other words, Foreign Institutional Investor means an entity established or incorporated outside India that proposes to make investment in India. Positive reports about the Indian economy combined with a fast-growing market have made India an attractive destination for foreign institutional investors.

Foreign Institutional Investor invests in different avenue which are as follow:

One who propose to invest their proprietary funds or on behalf of "broad based" funds or of foreign corporate and individuals and belong to any of the under given categories can be registered for FII.

1. Pension Funds
2. Mutual Funds



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3. Investment Trust
4. Insurance or reinsurance companies
5. Endowment Funds
6. University Funds
7. Foundations or Charitable Trusts or Charitable Societies
8. Asset Management Companies
9. Nominee Companies
10. Trustees
11. Bank

2. Research Methodology

Researcher has used a following research methodology for study entitled "ROLE OF FOREIGN INSTITUTIONAL INVESTORS [FIIs] IN INDIAN STOCK MARKET" which is as follow:



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3. Literature Reviews

Karimullah, ICSSR Fellow, GB Pant Social Science Institute, Jhusi, Allahabad, FIIs Investment Behaviour and Indian Stock Market: A Causality Test Appejay Journal Of Management And Technology, Volume 4, Number 1. Pages 35-46, Year- 2009.

The Research examined the impact of Foreign Institutional Investors' (FII) equity investment behaviour in the Indian stock market. It attempt to found out the two-way (bidirectional) causality between foreign institutional investors (FIIs) behaviour and performance of Indian stock market for the period of January, 1997 to June, 2007.

Granger Causality Test has been applied to test the bidirectional causality. Apart from net investment of FIIs, the 'Purchase' and 'Sales' behaviour of FIIs are analyzed separately. The result indicates that stock market performance is a major determinant of both the FIIs purchase and sales behaviour. But researcher did not find any strong evidence that the variations in the stock market indices are determined by FIIs



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investment behavior.

Corporate Governance CLSA, 2001

The capital market reforms like improved market transparency, automation, dematerialization and regulations on reporting and disclosure standards were initiated because of the presence of the FIIs. But FII flows can be considered both as the cause and the effect of capital market reforms. The market reforms were initiated because of the presence of FIIs and this in turn has lead to increased flows.

The Economic Times of India, 2006

Heavy selling by the FII's was experienced in this period, with the total equity sales amounting to Rs. 82.47 bn. However, they regained interest thereafter in the Indian market and the net investment in September 2006 amounted to Rs. 62.32 bn.

Prasanna. P. K. (2008), "Foreign Institutional Investors: Investment Preferences in India", JOAAG, Vol. 3. No. 2, PP: 40- 51.

Researcher found that more foreign investors prefer companies which had high return and earnings per share are also high. FII prefer companies which had higher volume of public shares and choose companies where family shareholding of promoters was not substantial. The impact of FII in unexpected flows was greater than in expected flows on stock market. Thus trading of FII had a great impact on both the stock market and the stock price. This also influences the company's performance.

Anand Bansal, (2009), "Foreign Institutional investor's Impact on Indian Stock Prices", Journal of academic research of economics, vol 1(2), PP:181- 189.

Researcher opined that when there was a decline in return after the entry of FII in India, the volatility had been reduced. The volatility of Indian stock market was not only because of FII inflow. There were also some other factors which influence the volatility of Indian stock market.

4. Objectives of the Study

1. To find the relationship between the FIIs equity investment pattern and Indian stock index.
2. The empirical study aims at determining whether FII flows to India are caused by or are the causes of national stock market performance.



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3. To study the trend of FIIs investments in India stock market and BSE Index.

5. Nature and Scope of the Study

Scope of the study is very broader and covers both the stock indices and its comparison with foreign institutional investments. But, study is only going to cover foreign investments in form of equity. The time period is limited from 2014 to 2018 as it gives exact impact in both the bullish and bearish trend. The study would be helpful for further descriptive studies on the ideas that will be explored. Moreover, it would be beneficial to gain knowledge regarding foreign institutional investments their process of registration and their impact on Indian stock market and different industrial sectors.

A number of studies in the past have observed that investments by FIIs and the movements of Sensex are quite closely correlated in India and FIIs wield significant influence on the movement of sensex. There is little doubt that FII inflows have significantly grown in importance over the last few years. In the absence of any other substantial form of capital inflows, the potential ill effects of a reduction in the FII flows into the Indian economy can be severe. From the point of attracting foreign capital, the initial expectations have not been realised. Investment by FIIs directly in the Indian stock market did not bring significantly large amount compared to the GDR issues. GDR issues, unlike FII investments, have the additional advantage of being project specific and thus can contribute directly to productive investments. FII investments seem to have influenced the Indian stock market to a considerable extent.

6. Variables of the Study

1. BSE Indices.: NIFTY50
2. FIIs Investment : FIIS purchases, FIIS sales, FIIS net

7. Period of the study: Period of the study restricted and bounded for 5 years which started from 2014 to 2018 as it gives exact impact in both the bullish and bearish trend.

8. hypothesis

H0: there is no significant cause and effect relationship between fiis activities and nifty.

H1: there is significant cause and effect relationship between fiis activities and nifty.

9. Data Collection :The study is based on secondary data, so it takes from the various types of new paper



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The Economic times and The Finance Express, and fortnight magazines as Dalal Street, Capital Market, and Research report of Marwaadi share and finance services ltd. Moreover, many companies web-sites.

10. Limitations of the Study

1. The study relates to the Indian stock market only. Not for global markets.
2. The study pertinent for the NSE and industrial sectors indices only. Other indices do not included like as BSE, Dollex etc.
3. The study narrated with only FII investments, FDI investments do not consider.
4. This study is base on secondary data derived from published annual reports of the selected units. The reliability and finding are contingent upon the data published in annual report.
5. The inferences made is purely from the past year's performance
6. The study use different statistical tools and techniques, so its own limitation which also apply to this study.



11. data analysis and findings

Table 11.1 trend of fii investments and nifty in Indian stock market during 2014-2018

year	gross purchase	gross sales	net investment	nifty
2014	1001752.4	928095.94	73656.42	8282.7
2015	1116463	1132898.4	-16435.56	7946.35
2016	1087344.5	1099183.2	-11838.65	8185.8
2017	1278001.1	1319122.8	-41121.63	10530.7
2018	1209810	1276679.2	-66869.3	10862.5
mean	1138674.2	1151195.9	-12521.74	9161.61
s.d.	107642.86	155530.72	52948.26	1411.47

Foreign institutional investors(Fiis)purchased stocks worth about Rs.1001752.4 crore in 2014 and sold equities to the tune of rs. 928095.94 crore translating into a net inflow of rs. 73656.42 crore and end of the



year nifty was 8282.7 point. In year 2015 fiipurchased stock worth rs.1116463 crore and sold stock worth rs. 1132898.4 crore and net out flow of rs.16435.56 and end of the year nifty was 7946.35 its down to previous year. Fii highest purchased in year 2017 rs. 1278001.1 crore and lowest purchased of rs.1001752.4 crore in the year 2014. FII highest sales rs. 1319122.8 in the year 2017 and lowest sales rs. 928095.94 in the year 2014. In FII net investments was continuously out flow during the study period expect year 2014. Gross purchases meas was 1138674.2 and standard deviation was 107642.86, gross sales mean was 1151195.9 and standard deviation was 155530.72, net investment mean was -12521.74 and standard deviation was 52948.26 and nifty mean was 9161.61and standard deviation was 1411.47. Above table data shows the mix trend in gross purchase, gross sell, net investment and nifty during the study period.

Mean of fii purchase is rs.1138674.2, sales rs.1151195.9, net investment -12521.74and nifty 9161.61 during the study period. Standard deviation of fii gross purchase is 107642.86, gross sales 155530.72, net investment rs.52948.26 and nifty 1411.47 point during the study period.

Table 11.2 result of regression among nifty and fiinvestmets activities

<i>Regression Statistics</i>	
Multiple R	0.68
R Square	0.46
Adjusted R Square	0.28
Standard Error	44833.93
Observations	5.00

The above table 11.2 shows the correlation value 0.68, coefficient of r square 0.46 and adjusted r square 0.28. it shows

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1.00	5183827150.29	5183827150.29	2.58	0.21
Residual	3.00	6030243695.60	2010081231.87		
Total	4.00	11214070845.89			