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DATA ENHANCEMENT ON FOREIGN INSTITUTIONAL INVESTMENTS AND ITS IMPACT ON INDIAN STOCK MARKET

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ABSTRACT

FIIs have a huge financial strength and invest for the purpose of income and capital appreciation. They are not interested in taking control of a company. FIIs are permitted to trade in securities in primary as well as secondary markets and can trade also in dated government securities, listed equity shares, listed non-convertible debentures/bonds issued by Indian company and schemes of mutual funds but the sale should be only through recognized stock exchange. Foreign institutional investors have gained a significant role in Indian stock markets. Besides, FIIs investment flows, there may be other reasons as well that may have some degree of influence on market volatility and return. While the FIIs investment flows and contemporaneous Sensex, Nifty, market capitalization and market turnover have been strongly correlated in India the correlation between FIIs Investments and market volatility and market return has been comparatively low. It means volatility in Indian market is not the function of FIIs investment flows.

Keywords: *Foreign institutional investors, Sensex, stock market,Regulation Relating to FII Operation*.

I. INTRODUCTION

Foreign institutional investors have gained a significant role in Indian stock markets. The dawn of 21st century has shown the real dynamism of stock market and the various benchmarking of sensitivity index (Sensex) in terms of its highest peaks and sudden falls. In this context present paper examines the contribution of foreign institutional investment in sensitivity index (Sensex).The term Foreign Institutional Investor is defined by SEBI as an institution established or incorporated outside India which proposes to make investment in India in securities. Provided that a domestic asset management company or domestic portfolio manager who manages funds raised or collected or brought from outside India for investment in India on behalf of a sub-account, shall be deemed to be a Foreign Institutional Investor.Entities covered by the term 'FII' include "Overseas pension funds, mutual funds, investment trust, asset Management Company, Nominee Company, Bank, Institutional portfolio manager, University funds, Endowments, Foundations, Charitable trusts, Charitable societies etc. FIIs can invest their own funds as well as invest on behalf of their overseas clients registered as such with SEBI.These client accounts that the FII manages are known as 'sub-accounts'. The term is used most commonlyin India to refer to outside companies investing in the financial markets of India. International institutional investors must register with Securities & Exchange Board of India (SEBI) to participate in the market. One of the major market regulations pertaining to FII involves placing limits on FII ownership in Indian companies. They actually evaluate the shares and deposits in a portfolio.

II. LITERATURE REVIEW

SanjanaJuneja (2013) explained how FII investments cause sudden capital outs causing stock markets unstable. This will have worst effect mostly on individual investors savings and concluded that the domestic investors should be encourage to maintain liquidity in the stock markets even in cash crush periods.

Krishna Prasanna, P (2008) has examined the contribution of foreign institutional investment particularly among companies included in sensitivity index (Sensex) of Bombay Stock Exchange. Also examined is the relationship between foreign institutional investment and firm specific characteristics in terms of ownership structure, financial performance and stock performance. It is observed that foreign investors invested more in companies with a higher volume of shares owned by the general public. The promoters' holdings and the foreign investments are inversely related. Foreign investors choose the companies where family shareholding of promoters is not substantial. Among the financial performance variables the share returns and earnings per share are significant factors influencing their investment decision.

Anand Bansal et al (2009) studied the impact of market opening to FIIs on Indian stock market behaviour. They empirically analyze 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.

Kumar (2001) investigated the effects of FII inflows on the Indian stock market represented by the Sensex using monthly data from January 1993 to December 1997. Kumar (2001) inferred that FII investments are more driven by Fundamentals and they do not respond to short-term changes or technical position of the market. In testing whether Net FII Investment (NFI) has any impact on Sensex, a regression of NFI was estimated on lagged values of the first difference of NFI, first difference of Sensex and one lagged value of the error correction term (the residual obtained by estimating the regression between NFI and Sensex). The study concluded that Sensex causes NFI. Similarly, regression with Sensex as dependent variable showed that one month lag of NFI is significant, meaning that there is causality from FII to Sensex. This finding is incontradiction with the findings of any causation from FII to return in BSE using similar data between 1994 and 2002. However, they have also found significant impact of return in BSE on NFI.

Mishra P. K et al (2009)attempts to study the dynamics of the causality between FII inflows and stock returns in Indian capital market.It is also found from the Johansen's cointegration analysis that there exists a long-run equilibrium relation between these two variables. Further, the Granger causality test suggests a unidirectional causality running from FII flows to stock returns in Indian economy. But no causality is seen from stock returns to FII flows. Thus, the policy makers should organize green pastures to attract the foreign institutional investment so as to enhance the process of capital formation and hence, to foster the pace of economic growth of India.

III. OBJECTIVES

1. To determine the relationship between FIIs and Stock Market
2. To find out the pattern of investment by FII
3. To graphically represent the trading pattern of FII in Indian stock market during the sample period
4. To investigate the determinants that augment investment in The Indian Stock Market
5. To measure the relationship between FII and the Stock Indices of Indian Stock Markets.

SEBI's of FIIs: Presently includes foreign pension funds, mutual funds, charitable/endowment/university funds, asset management companies and other money managers operating on their behalf in a foreign stock market. Foreign institutional investment is liquid nature investment, which is motivated by international portfolio diversification benefits for individuals and institutional investors in industrial country. Currently, the following entities are eligible to invest under FII route:

As FIIs: Overseas pension funds, mutual funds, investment trusts, asset management companies, nominee companies, banks, institutional portfolio managers, university funds, endowments foundations, charitable trusts, charitable societies, a trustee or power of attorney holders incorporated or established outside India proposing to make proprietary investment or investment on behalf of a broad-based funds (i.e. fund having more than 20 investors with no single investors holding more than 10 percent of the shares or units of the fund).

As Sub-Accounts: The sub account is generally the underlying fund on whose behalf the FII invests. The following entities are eligible to be registered as sub-account, viz. partnership firms, private company, public company, pension fund, investment trust and individuals.

Domestic Entities:A domestic portfolio manager or a domestic asset management company shall also be eligible to be registered as FII to manage the funds of sub-account.

Requirement of FII's in Indian stock market

As shown in the FIIs contribute to the foreign exchange inflow as the funds from multilateralfinance institutions and FDI (Foreign direct investment) are insufficient. Following are thesome advantages of FIIs.

1. It lowers cost of capital, access to cheap global credit
2. It supplements domestic savings and investments.
3. It leads to higher asset prices in the Indian market.
4. And has also led to considerable amount of reforms in capital market and financialsector.

According to SEBI, FII includesMutual Funds, endowments, Charitable trusts, Foundations, Banks, Asset management companies (AMC), Trustees, Pension funds, Power of attorney holders, University funds, Insurance companies, Institutional portfolio managers and Charitable trusts/societies. Because of the volatility and dominant nature, FII become most popular across the variety of foreign investments flowing into India.

Investment opportunities given to FII in India:

Primary and secondary market securities including

a) Shares

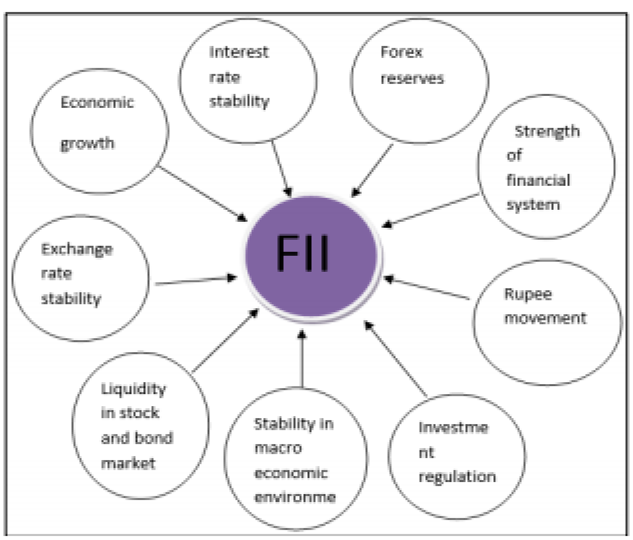
b) Debentures and

c) Warrants of companies (listed, unlisted, to be listed on a recognized stock exchange in India)

1. Mutual funds
2. Government securities
3. Derivatives

Welcoming the FII has been changing the face of the Indian stock market uninterruptedly. As a result, the number of securities going to list in stock exchanges are grooming like ever.

Factors affecting FII inflows in Indian market



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IV. INDIAN STOCK MARKET

National Stock Exchange (Nifty) The National Stock Exchange of India was incorporated in 1992 and recognized as a stock exchange in 1993, at a time when PV Narasimha Rao was the Prime Minister of India and Dr. Manmohan Singh was the finance minister. In this time the Indian governments announce that open market for foreign players. This was became a mile stone in Indian history. The total stock market is watch onforeign investment and the potential of Indian stock market become strong.

At the level of the National Stock Exchange (NSE) is India's top most leading stock exchange covering different cities and various segments in all towns across the country. NSE was set up by leading institutions to provide a modern, fully automated screen based trading system with national reach. The Exchange has brought about unparalleled transparency, speed &efficiency, safety and market integrity this was important phenomena in stock market. It has set up facilities that serve as a role model for the securities industry in terms of top systems, top most practice sand easy procedures.

The National Stock Exchange (NSE) changed the way the Indian markets functioned, in the early nineties, by replacing floor-based trading with nationwide screen based electronic trading, which took trading to the doorstep of the investor. The National Stock Exchange was mainly set up to bring in transparency in the Indian Stock Market. Instead of trading membership being confined to a group of brokers, the NSE ensured that anyone who was well qualified, lo ng experienced and met minimum financial requirements was allowed to trade.

Influence of FIIs on Indian Stock Market:
The current investments of FIIs isRs. 2,55,464.40 Crores. This is almost 9% of the total market capitalization. If we explain the thingsin simple terms, market pundits often attribute the rally of stock market and fall of stock market to the flow of funds by FIIs. We often hear the terms "FIIs Fuel the Market Run". If we analyze the impacts, then the major impacts are:-

1. They increased depth and breadth of the market.
2. They played major role in expanding securities business.
3. Their policy on focusing on fundamentals of the shares had caused efficient pricing of shares.

These impacts made the Indian stock market more attractive to FIIs and also domestic investors, which involve the other major player MF (Mutual Funds). The impact of FIIs is so high that whenever FIIs tend to withdraw the money from market, the domestic investors become fearful and they also withdraw from market. Indian economy's growth prognosis remains strong, which, in turn, is attracting major capital inflows from foreign institutional investors (FIIs).

Data Assessment:
Foreign Institutional Investment in India: India opened its stock market to foreign investors in September 2014and has since 2015, received considerable amount of portfolio investment in the form of Foreign Institutional Investor's (FIIs) investment in equities. This has become one of the main channels of international portfolio investment in India for foreigners. In order to trade in Indian equity markets, foreign corporation need to register with the SEBI as Foreign Institutional Investors.

Table 1: Sources of Foreign Institutional Investment in India

Name Of Country	%Age
Us	48
Uk	28
West Europe	19
Hongkong	7
Singapore	5
Australia	5
Canada	3

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Middle East	2
Japan	2
India	3
Others	4

It is obvious from table 1 that, in term of the country of origin, the USA topped the list with a share of 42 percent of the number of FIIs registered in India, followed by UK's 28 percent. Beside UK, and US other investing countries include Luxemburg, Hong Kong, Australia and Singapore. European and Japanese FIIs have also started taking an increasing interest in India and of the FIIs that registered with SEBI in October 2014; a significant number belonged to them.These developments have helped improve the diversity of the set of FIIs operating in India.

Some major impact of FIIs on stock market:

1. This increase depth and breadth of the market.
2. This play major role in expanding securities business.
3. Policy on focusing on fundamentals of share had caused efficient pricing of share.

These impacts made the Indian stock market more attractive to FII & also domestic investors. The impact of FII is so high that whenever FII tend to withdraw the money from market, the domestic investors fearful and they also withdraw from market.

Table 2: Net Investment made by FIIs (Rs. In Millions)

Financial Year	Equity	Debt	Net Investment
2000-01	10,206.7	-273.3	9,933.4
2001-02	8,072.2	690.4	8,762.6
2002-03	2,527.2	162.1	2,689.3
2003-04	39,959.7	5,805.0	45,764.7
2004-05	44,122.7	1,758.6	45,881.3
2005-06	48,800.5	-7,333.8	41,466.7
2006-07	25,235.7	5,604.7	30,840.4
2007-08	53,403.8	12,775.3	66,179.1
2008-09	-47,706.2	1,895.2	-45,811.0
2009-10	110,220.6	32,437.7	142,658.3
2010-11	110,120.8	36,317.3	146,438.1
2011-12	-311.2	8814.9	(Nov30,2011)8503.7

It is observed from the table that from the year 2000-01 till November 30th 2011, there was an increase in net investment till 2005-06 and investment increased by 317 per cent and there was decrease in investment in the year 2006-07 by 25.62 per cent and then again increase in 2007-08 by 144.58 per cent. But finally there was a sudden increase in the year 2009-10 and 2010-11 by 115.56 per cent and 121.27 per cent respectively. This was the best period in Indian stock market where stock prices were increased and the market was in goodmood.

V. CONCLUSION

The Flow of FII has advanced significantly enhance in the year 2014 – 2015 and there is a correlation between such FII flows and changes in stock market with foreign investment. In stock market other factors might be contributing towards volatility of Indian stock market. Indian market is regarded on par with the developed markets as so many developments have taken place in the stock market during the last fifteen years**.** Further it is evident that the sensex has increased when there are positive inflows of FIIs and there were decrease in sensex when there were negative FII inflows.

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