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# Impact of Foreign Institutional Investors on Indian Stock Market

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**ABSTRACT:**

The practice of institutional investors, such banks, hedge funds, and mutual funds, investing in financial assets outside of their native nation is referred to as foreign institutions investment. As the financial markets continue to become more globalized, this kind of investment is becoming more widespread. The economies of the nations in which foreign institutions invest can be significantly impacted. These investments have the potential to provide developing nations with much-needed finance, which can spur economic expansion and job creation.Institutional investors weigh a variety of factors before deciding whether to make an investment in a given nation. Governments and institutional investors should collaborate to ensure that foreign institutional investment is sustainable, responsible, and beneficial to all parties involved. This necessitates carefully weighing the advantages and disadvantages, as well as creating laws and policies that support sustainable growth while safeguarding the rights of local populations and the environment.

**Key words**: FII (Foreign Institutional Investor), Sensex, Nifty, SEBI, Stock, Money Market.

## Introduction:

An investor is any individual or other entity (such a business or mutual fund) who invests money with the hope of making a profit. Investors depend on a variety of financial instruments to generate a rate of return and achieve crucial financial goals like saving for retirement, paying for a child's school, or just collecting more wealth over time. Stocks, bonds, commodities, mutual funds, exchange traded funds (ETFs), options futures, foreign currency, gold, silver, retirement plans, and real estate are just a few of the many investment vehicles available to achieve objectives. Investors are able to examine opportunities from a variety of perspectives, and they often aim to reduce risk while maximising returns.Owners of stock in a publicly traded corporation are referred to as investors, stockholders, or shareholders. They are granted a number of advantages, including the right to fair and equitable treatment, the right to vote and to exercise related rights, the right to earn dividends and other benefits due investors, and the right to vote. Investors do not all behave the same way. Their risk tolerance levels, financial resources, personal preferences, and time horizons differ.

## Foreign Institutional Investors (FII)

Investors that are interested in investing in overseas companies form a company and begin making investments in those companies. All of these investors are FIIs according to SEBI in India. India and other developing nations frequently lack access to money. This is due to low income levels compared to other industrialised nations, which also means that investments and savings are lower. So how do poor countries escape from this predicament? They take out loans. Thus, nations are able to use this borrowed money to fund a variety of social and physical infrastructure projects, gain a profit from those investments that aids in debt repayment, and simultaneously propel the nation's economic growth.There is yet another technique for a nation to draw in foreign capital. This.There is, nevertheless, a tiny distinction between them. According to the definition of FDI, it is "long-term investment/acquisition and is associated with investment in capital assets that a parent company makes in a foreign country which ultimately results in creating employment in India." It takes many different forms, such as changing management, transferring technology, increasing output, etc. Examples of FDI include Tata purchasing Arcelor (out-bound FDI), POSCO establishing a steel plant in Orissa, and so forth. It is seen as advantageous because it boosts output, brings in more and better goods and services, as well as creating more job possibilities and bringing in more tax income for the government. While FII is a short-term investment by foreign institutions in the financial markets of other nations, it cannot be promptly transformed into cash and is frequently only liquidated in the worst-case scenario. These organisations typically include insurance companies, mutual funds, investment firms, and pension funds. FIIs must first register with SEBI, which serves as the central agency for dealing with them. The SEBI considers the FII's track record, professional competency, financial soundness, experience, and any other factors it deems pertinent while deciding whether to give registration to a FII. Additionally, FIIs seeking initial registration with SEBI will need to possess a registration from a suitable foreign regulatory authority in the country where the FII is based or was founded. There are not many restrictions on entering the Indian market. Since investors can withdraw their money from the market at any time, FII investments are typically to blame for market swings. The stock exchanges are widened and deepened by FII, and the price discovery process for the scripts is improved as a result.

## Role of stock exchanges & SEBI

In order to control the securities market, the Securities and Exchange Board of India (SEBI) was first constituted as a non-statutory entity in 1988. With the passage of the SEBI Act 1992 by the Indian Parliament, it was given statutory powers and became an independent organization on January 30, 1992. SEBI is headquartered in Mumbai's Bandra Kurla Complex, and it also has regional offices in New Delhi, Kolkata, Chennai, and Ahmadabad for its northern, eastern, southern, and western regions. In the Financial Year 2017–2022, it launched offices locally in Bangalore and Jaipur as well as in Guwahati, Bhubaneshwar, Patna, Kochi, and Chandigarh.In nations like India, statutory organizations like SEBI have established standards to register FIIs and control the flow of such investments through FIIs. However, we are aware that the FIIs are crucial to the market since they initiate a rise that draws subsequent flows from all investment classes. The market acts like a self-organized system at this point.The market finally reaches the self-organized criticality stage. Any unfavourable news at this time could have a nonlinear impact on the market.During this phase as well, the FIIs are quite important. So why are FIIs often blamed for market increases or decreases? How important are FIIs in sustaining the market upturn?It can be seen that FII investments, changes in their investments, and market returns do not drive returns using a straightforward model. If returns are taken into account with a time lag, the link is also not noteworthy. This brings up the subject of the market's and FIIs' joint influence. The FIIs are significant because their entrance triggers a market rally. FII investments are still risky and influenced by the market, but if the nation wants to guarantee a consistent stream of foreign capital, this risk must be accepted.

## Review of the Literature:

**FII transfers to India (CHAKRABARTI, 2001).** India has become more significant throughout time. It was discovered that FII is a large player on the Indian Stock Market in an effort to understand these processes and how they relate to other components. The influence of the global market is also growing.

**(PALIWAL, 2011)** Ten consecutive days, or informal monetary years, spanning the period of time between January 1992 and December 2010 were employed to assist better comprehend the relationship between FII flow and stock market performance. Shukla (2011) looks into the effect foreign institutional investors have on the Indian stock market. They also noticed changes in the market spurred on by FII entry and withdrawal.

**(PARTHASARATHY, 2012)** examined how FDI and FII affected mobility. Analysing the impact on the Indian stock market can help you understand it. If secondary statistics from the 11-year (2001–2011) period are used, there is a strong positive association between FII and the Indian Stock Market that is statistically significant.

**(CHANDRA, 2012)** evaluated the FII transactions' causal chain. The bulk of the Indian market is in the distance. Market returns and the lengths of FII payments proved to be causally connected in a single direction across samples. His goal was to see if there had been a shift in net FII trading activity.

**(K.D, 2012)** This study explores the relationship between and effects of FDI and FII on Indian companies using association coefficient and multiple regression in the financial market's 12 years of statistics (2001–2012).

**(MEHATA, 2012)** Investigations are done into FII and the Indian equity market. The primary goal was to determine how closely FII participation and the success of the Indian stock market are related. The results demonstrated that the financial market as a whole serves as a source of funding for FII and that FII are frequently generated on a short-term basis.

**(JUNEJA, 2013)** Research was done on "Understanding the Relationship between the FII and the Stock Market." This study's goal is to investigate the financial activities of FIIs and how they connect to the SENSEX and NIFTY. The impact of FIIs on the Indian stick market is investigated in this paper. This looks at the outcome of a beneficial relationship. Additionally, it requires that FII net transfers in India accurately reflect changes in the stock market.

## Research Methodology:

A methodical, rigorous examination with the goals of generating new information, supporting accepted theories, or resolving practical issues is known as research. Data is gathered, evaluated, and analysed to produce insights and conclusions using a planned and organized approach. Numerous techniques, such as experimental, survey, observational, or case study methodologies, can be used to conduct research. As research often entails dealing with human or animal subjects, ethical considerations are crucial. In order to protect participants' safety and well-being, researchers must abide by established ethical standards and norms.

**Descriptive Research** -

Without altering any variables or testing any hypotheses, a descriptive study design tries to describe and document the traits or behaviours of a certain population or phenomenon. In social science and psychology research, descriptive research designs are frequently employed to collect data on attitudes and demographics. Surveys, case studies, observational research, and correlational research are a few illustrations of descriptive research techniques.

## Need for the Study:

Foreign institutional investment (FIIs) has greatly increased in importance since the beginning of deregulation. Foreign capital flow is one of the most important sources of funding for any company. Foreign money is more likely to grow more quickly than local savings rates. The immense potential of the Indian market keeps luring in outside capital. Nearly $15 billion worth of FII imports were made in total in 2009. On January 21, 2008, the BSE Sensex saw its largest-ever fall, losing 2000 points per day. Everyone was unsure as to whether the FIIs' predicament caused the collapse of the Sensex or vice versa.

## Objectives of the study:

1. To research the effect of stocks on the Indian stock market
2. To research the Indian FIIs' trading practises.
3. To research the FIIs' patterns of investment behaviour on the Indian stock market.

## Data Analysis:

**Foreign institutional investment from 2017 through 2022(In crores)**

| Financial Year | INR crores | | | | |
|---|---|---|---|---|---|
| | Equity | Debt | Debt-VRR | Hybrid | Total |
| 2017-2018 | 25634.20 | 119035.75 | 0.00 | 10.30 | 144680.21 |
| 2018-2019 | -87.72 | -42355.96 | 0.00 | 3514.25 | -38929.45 |
| 2019-2020 | 6152.27 | -48710.25 | 7331.18 | 7697.62 | -27529.19 |
| 2020-2021 | 274031.97 | -50443.61 | 33264.58 | 10247.08 | 267099.97 |
| 2021-2022 | -140009.62 | 1628.54 | 12642.85 | 3498.40 | -122239.82 |

**Interpretation**

Regarding significant foreign investments in the Indian stock market, inquiries are being made. The categories of equity, debt, and debt-VRR hybrid are all applicable to this transaction. In this chart shows year-by-year FII investments in India for the five years from 2017 to 2022, equity, debt, and debt-VRR, hybrid fund investments are bigger than those in the other two categories.

**Growth Trend of FIIS for the Period 2017-2022**

| Year | FIIs in India (in crore rupees) | FIIs Purchases (in crore rupees) | FIIs Sales (in crore rupees) | Net Investment by FIIs (in crore rupees) | Growth Rate |
|---|---|---|---|---|---|
| 2017 | 2,72,641 | 1,49,780 | 1,22,861 | 26,919 | - |
| 2018 | 2,73,152 | 1,90,310 | 1,53,719 | 36,591 | 0.19% |
| 2019 | 2,75,682 | 2,02,317 | 1,66,364 | 35,953 | 0.91% |
| 2020 | 3,02,476 | 2,47,056 | 1,71,724 | 75,332 | 9.80% |
| 2021 | 3,57,541 | 2,87,641 | 1,74,096 | 1,13,545 | 18.71% |
| 2022 | 3,76,548 | - | - | - | 5.32% |
| TOTAL | 18,58,040 | 10,77,104 | 7,88,764 | 2,88,340 | 0.3493 |

**Formula**

$$\text{Growth trend} = \frac{\text{Current Year} - \text{Previous Year}}{\text{Previous Year}} \times 100$$

**Interpretation**

Between 2017 and 2022, there was a continuous increase in the total amount of foreign institutional investments (FIIs) in the Indian equity market, rising from 2,72,641 crore rupees in 2017 to 3,76,548 crore rupees in 2022. The growth rate in 2022 was 5.32%, demonstrating that FIIs in India are still behaving well despite a little slowdown. The graph demonstrates that, overall, international investors continue to perceive the Indian stock market to be attractive, and this tendency is expected to continue in the future.

## Conclusion:

The Indian Capital Market has changed a lot since financial laws were put in place in 1991. The Indian Stock Market has witnessed substantial changes since liberalization started. It is currently thought to be one of the markets with the greatest appeal to foreign institutional buyers. (FII).Due to ongoing globalization, huge investors are now much more significant. India is considered a developing market, and its stock markets provide all Indian purchasers a broad selection of tempting business options.

The Indian Stock Market has undergone some major modifications and adjustments during the last five years, which are a result of an increase in FII trust. In the study, it is explored how foreign institutional investors (FIIs) affect the Indian stock market. The second half of the study offers convincing proof that FII participation in the Indian stock market is significant. The presence of institutional buyers has increased market efficiency, as seen by the minor positive correlation between FII inflows and Nifty inflows that was also identified. It also reveals the strong link between FIIs and Indian Stock Market indices. (Nifty). Indian stock markets are a desirable investment opportunity because they are not dependent on the global economy. Indian markets also provide a wide variety of firms and sectors.

It is essential to maximise FII's positive effects on the local economy while minimising risks like hazardous behaviours. In conclusion, a well-balanced and well-diversified FII investment strategy helps promote a stable and active stock market, which can help an economy thrive and develop.

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