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A Study on Impact of Foreign Institutional Investors on the Indian Stock Market

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ABSTRACT

This research seeks to thoroughly examine the effects of Foreign Institutional Investors (FIIs) on the Indian stock market. The surge of FIIs in developing markets such as India has markedly risen in recent decades, underscoring the necessity to grasp their impact on market dynamics. By utilizing empirical analysis and insights derived from data, we aim to comprehensively assess this influence.

this research delves into the correlation between FIIs and a range of stock market metrics, encompassing indices, trade volumes, market liquidity, volatility, and sectorial outcomes. Utilizing sophisticated econometric models, the study elucidates both immediate and prolonged impacts of FII investments, offering valuable perspectives for investors, government officials, and market stakeholders.

Keywords: Foreign Institutional Investors, Indian stock market, emerging markets, market dynamics, indices, trading volumes, liquidity, volatility, investment impact, investor behavior, policy implications.

Introduction

the globalization of financial markets has, in an age of heightened cross-border investments, yielded results, with the Indian stock market leading this transformation. Foreign Institutional Investors (FIIs) have emerged as pivotal players in this evolving scenario, wielding significant sway over the dynamics of the Indian stock market. Their involvement ushers in a fusion of global capital, expertise, and varied investment strategies, profoundly impacting stock valuations, trading volumes, liquidity, and overall market stability. This research embarks on an exploration of the intricate relationship between FIIs and the Indian stock market, with the objective of dissecting the mechanisms through which FIIs influence market behavior.

Need for the study

To gain deeper insights into the reasons behind the escalating Foreign Institutional Investment (FII) and the resultant capital inflows, as well as to explore how a nation can tap into foreign funds, it is crucial to delve into the trading behavior of FIIs and its impact on the Indian Stock Market (ISM). Understanding how Foreign Institutional Investors (FIIs) influence the overall market volatility in India is a fundamental aspect of this analysis.

Technical analysis

The study involved establishing a correlation between FII acquisitions and the year-end index closing values to determine if there exists a connection between them.

Literature review

Rajesh chakrabarti(2010): study titled "FII Flows to India concluded that FII inflows into India have gained increasing significance since the onset of liberalization. The author's analysis highlighted that Foreign Institutional Investors (FIIs) play a substantial role in the Indian Stock Market (ISM) and that their influence on the domestic market is on the rise.

Queenlyjeyanthi (2018): This research paper focused on investigating the "Effect of Foreign Institutional Investors (FIIs) on India's National Stock Exchange (NSE)." The main objectives of this study are to scrutinize the expansion patterns of FIIs and their associations with, as well as impacts on, the Indian stock market (ISM).

Objectives of study

- To examine the impact of Foreign Institutional Investors (FII) on the Indian Stock Market (ISM).
- To assess the linkage between the fluctuations in Foreign Institutional Investment (FII) and the stock market's performance.

Limitations of study

Time limitations and the subject's breadth, the primary objective of this research is to ascertain whether there exists a connection between FIIs and the stock market. It relies exclusively on data sourced from several websites, specifically from the prior calendar year.

Sources of data

This study includes data collected from international journals, articles, research paper and other various websites.

Research methodology

The research methodology employed in the study relies on gathering secondary data, with references drawn from sources such as books, journals, and websites as examples of secondary sources.

Sampling: This research study taking the period for last 4 years years from (year 2019 -year 2022 may).

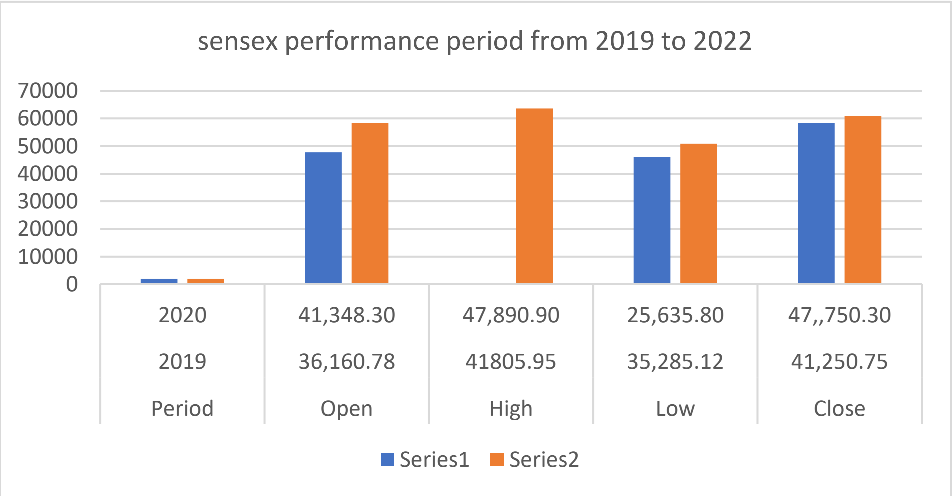
Tools for Data Collection

secondary data gathered from numerous online sources, primarily websites. Information regarding FII flows was obtained from the SEBI (Securities and Exchange Board of India) website, while the SENSEX and NIFTY Monthly Closing Values were sourced from the BSE (Bombay Stock Exchange) and NSE (National Stock Exchange) websites. The year-ending index values were carefully chosen to precisely depict the economic conditions of the period.

Analysis & interpretation

Sensex performance period 2019 to 2022

Period	Open	High	Low	Close
2019	36,160.78	41805.95	35,285.12	41,250.75
2020	41,348.30	47,890.90	25,635.80	47,,750.30
2021	47,780.25	62.240.40	46,158.43	58,250.80
2022	58,305.05	63582.03	50,920.20	60,838.74



Analysis

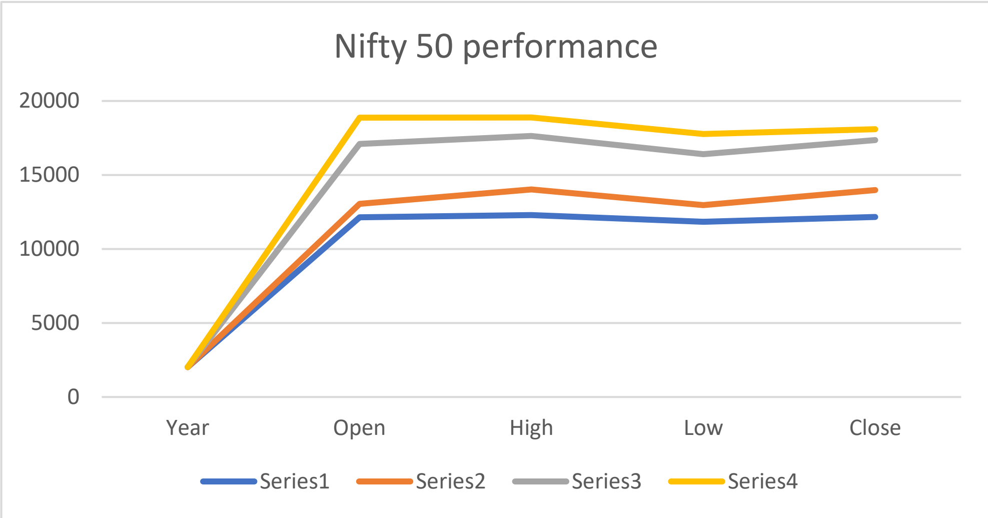
The table shows the closing price for the 2019 period stands at 41,250.75 It initiates at 36,160.78 as the opening value, reaches a peak at 41,805.95 and experiences a minimum at 35,285.12 Subsequently, it embarks on a gradual ascent, and in the 2022 period, it concludes on an upward trajectory.

Interpretation

The Bombay Stock Exchange, one of India's most prominent secondary markets, witnesses regular fluctuations. Commencing in 2019 with an initial rate of 36,160.78 and culminating at 41,250.75 in closing, the market scaled its pinnacle at 41,805.95 and touched a nadir at 35,285.12 Since then, the Sensex's worth has oscillated.

Nifty 50 performance for the period 2019 – 2022

Year	Open	High	Low	Close
2019	12,135.02	12,290.90	11,830.30	12,165.50
2020	13,060.15	14,022.82	12,960.80	13,980.75
2021	17,102.30	17,635.50	16,408.20	17,352.05
2022	18,870.92	18,885.60	17,772.22	18,102.30



Analysis

The table depicts that during the 2019 period, it initiates at 12,135.02 and concludes at 12,165.50 In the subsequent years, the market exhibits a consistent upward trend. In the year 2022, it commences at 18,870.92 and wraps up at 18,102.30

Interpretation

The line graphs suggest that the NSE NIFTY possibly mirrored the BSE SENSEX in terms of trends. Furthermore, the line graph portrays a 2019 closing figure of 12,165.50 which might be linked to Foreign Institutional Investment (FII). there has been a steady ascent, culminating in June 2022 with a figure of 18,102.30.

Sensex returns from 2019 to 2022

Price	Closing price	Returns/%
2019	41,250.75	16%
2020	47,750.30	-23%
2021	58,250.80	67%
2022	60,838.74	17%

Analysis

The table shows that we observe that in 2019, there was a 17% gain, but in 2020, it experienced a downturn with a negative return. Moving forward to May 2021, the return rebounded to 67%

Interpretation

The BSE SENSEX's performance is evaluated in terms of a percentage (%) from 2019 to 2022. This percentage gain is determined by assessing the percentage shift in the closing price of the Sensex from the preceding year to the present year.

NSE 50 returns from 2019 to 2022

Price	Closing price	returns %
2019	12,165.50	14%
2020	13,980.75	-25%
2021	17,350.05	70%
2022	18,102.30	18%

Analysis

The Nifty 50 returns, as displayed in the table above, span from 2019 to May 2022. Notably, the initial period of 2019 registered a substantial gain of 14%. However, in the subsequent year, 2020, there was a stark reversal, resulting in a negative percentage of -25%. Moving forward to 2021, it marked the pinnacle of returns, with an impressive 70% recorded. Finally, by June 2022, the returns inched close to 18%.

Interpretation

The fluctuations in Nifty 50 returns, spanning from 2019 to June 2022, are visually represented in the line graph above. The performance in June is denoted as a percentage change within the timeframe of 2019 to 2022. These returns are computed by assessing the percentage shift in closing prices between the preceding and current years.

Findings

- Foreign Institutional Investors (FIIs) have been established as a pivotal contributor to the economic progress of emerging markets.
- Over the previous 15 years, FII Net Purchases/Sales have shown consistent growth, with occasional declines.
- During the 15-year span from 2008 to June 2023, the Nifty has exhibited an upward trajectory.
- The correlation between FIIs and the Nifty (Stock Market) Index is moderately positive, indicating a close relationship between them.
- There exists a robust association between FIIs and the Nifty (Stock Market) Index, highlighting their strong connection.

Suggestions

Investments can be funded through borrowing funds or utilizing existing savings. Consequently, the interest rates (the expense of borrowing) wield substantial influence over investments. Thus, to stimulate increased investment, it is advisable to maintain the interest rate (%) at its lowest feasible level.

Investments are executed in anticipation of future demand, and investors tend to increase their investments when they perceive a brighter economic outlook, driven by anticipated demand growth. Therefore, it is crucial to bolster current economic trends.

Only those investors who possess confidence in their forecasts regarding future costs, demand, and economic prospects will engage in investments. Confidence is influenced by factors such as interest rates, economic growth, and the broader economic and political environment.

Long-term inflation rates can sway investment decisions. In cases of significant and unpredictable inflation, investors may remain uncertain about the ultimate cost of their investments. Hence, sustaining a low and stable inflation rate can attract higher levels of investment into our nation.

Technological advancements have the potential to impact the attractiveness of investments. If the pace of technological progress decelerates, investors may scale back their investments as returns on such investments might dwindle.

Conclusion

- Since the initiation of financial reforms in 1991, the Indian Capital Market (ICM) has witnessed numerous transformations. The Indian Stock Market has experienced substantial alterations since the commencement of liberalization.
- Presently, it is considered one of the most enticing markets for Foreign Institutional Investors (FII).
- Ongoing globalization has significantly augmented the significance of institutional investors.
- India is acknowledged as an emerging market, with its stock markets offering a diverse array of attractive investment prospects to all Indian investors.
- The primary emphasis was on assessing the contribution of Foreign Institutional Investors (FIIs) to the Indian Stock Market (ISM), and without a doubt, their proportion of all foreign investments serves as an unmistakable indicator of their substantial influence.
- When analyzing the growth trends of FIIs from 2019 to 2022, it becomes evident that despite significant fluctuations in market investments, there has been a persistent pattern of growth throughout these years.
- The latter portion of the study furnishes ample evidence showcasing the considerable stake that FIIs hold in the Indian stock market.
- Furthermore, the study also unveiled a modest positive correlation between FII inflows and Nifty inflows, suggesting that the presence of institutional investors has enhanced market efficiency.
- The Indian markets offer a wide array of companies and industries to choose from. FIIs' actions are solely influenced by the prospect of making profits; if they perceive a market as having this potential, they will make investments.

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