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Study on Impact of FII in Indian Stock Market

V. Sri Raman [a], *P. Gomu Prakash* [b], *K.V. Dinesh Kannaa* [c]

[a,b] *Student, Department of Management Studies, Sri Sairam Engineering College, Chennai.*

[c] *Assistant Professor, Department of Management Studies, Sri Sairam Engineering College, Chennai*

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A B S T R A C T

The study investigates the intricate relationship between Foreign Institutional Investors (FII) and the Indian stock market, aiming to unravel the multifaceted impact of FII inflows on market dynamics, volatility, and sectoral performance. Over the years, the Indian stock market has witnessed substantial participation from Foreign Institutional Investors, influencing market sentiment, liquidity, and overall stability. This research explores the nuanced effects of FII investments, encompassing an analysis of historical trends, market movements, and regulatory frameworks governing FII participation. The study focuses on delineating the impact of FII on market volatility and stability, scrutinizing the varying effects across different sectors, and evaluating the efficacy of regulatory measures in governing FII behaviour. By examining these dimensions, the research aims to provide valuable insights into the interplay between FII activities and the Indian stock market's development. The findings seek to aid stakeholders, policymakers, and investors in making informed decisions amidst the evolving financial landscape, thereby contributing to a comprehensive understanding of the role played by FIIs in shaping India's stock market.

Keywords: Foreign Institutional Investors, stakeholders, Indian stock market

Introduction

The Indian stock market has emerged as a significant player on the global financial stage, attracting substantial attention from domestic as well as international investors. Among the various influencing factors, the role of Foreign Institutional Investment (FII) stands out as a pivotal force shaping the dynamics of the Indian stock market. Over the past few decades, the participation of Foreign Institutional Investors (FIIs) in India's equity market has undergone significant evolution. These institutional investors, comprising foreign entities like mutual funds, pension funds, hedge funds, and insurance companies, have become substantial stakeholders, exerting a notable influence on market trends, liquidity, and overall market sentiment.

The allure of India's burgeoning economy, coupled with its growing influence in the global economic landscape, has attracted considerable FII inflows into the Indian stock market. These investments have played a crucial role in infusing capital, facilitating liquidity, and diversifying the market portfolio. However, the impact of FII inflows isn't unidimensional; it presents a complex interplay of opportunities and challenges, influencing various facets of the Indian financial system. This study endeavors to delve deeper into the multifaceted impact of FII on the Indian stock market. By examining the historical trends, analyzing the correlation between FII activities and market movements, and scrutinizing the regulatory frameworks governing FII participation, this research aims to shed light on the nuanced effects and implications of foreign institutional investment.

Review of Literature

KapilChoudhary, Parminder Singh, Amit Soni (2023), The study examines how foreign institutional investors (FIIs) impact the Indian stock market by investigating their herding behavior and its relationship with market returns, volatility, and trading volume from 1999 to 2017. Existing literature highlights FIIs' positive feedback trading tendencies and their correlation with market movements. However, gaps exist in understanding this behavior in the Indian context. The study addresses this gap, using the LSV model to measure herding, Nifty50 for market returns, and GARCH for volatility. Empirical models like VAR and regression reveal a positive link between FII herding and past market returns. Results suggest herding behavior responds to previous-day volatility, while asymmetry in information doesn't significantly impact herding. Overall, the study supports the idea that FIIs engage in short-term strategies aligned with market returns and volatility, offering implications for investors, regulators, and market efficiency. Further research avenues include exploring individual stock herding and comparative studies across industries and emerging markets.

MdNasim Ansari, Jamaluddeen (2023), The literature on the Indian stock market initially emphasized Foreign Institutional Investors (FIIs) as prime market influencers. However, recent shifts showcase the emergence of Domestic Institutional Investors (DIIs) as a formidable force, countering FIIs with distinct investment strategies. While FIIs historically dictated market movements, studies now suggest DIIs significantly contribute to market resilience. This evolving landscape prompted research investigating DIIs' and FIIs' roles in influencing BSE Sensex returns. Utilizing statistical tools like Granger causality tests and vector auto-regressive models, the study analyzed monthly data from various financial sources. Findings highlight the growing impact of DIIs in stabilizing the market amid FIIs offloading shares consistently. Both investor categories react to market returns, yet neither notably steers market shifts. The ascending influence of DIIs has reduced FIIs' sway, signifying a transformative phase in market dynamics.

SangeetaSahni (2021), The literature surrounding Foreign Institutional Investors (FIIs) in India's stock market delves into multifaceted aspects. It navigates through the regulatory landscape, emphasizing the impact of SEBI and RBI regulations on FII investment patterns. Tracing the evolution from the market opening in 1992, studies showcase how FIIs have become pivotal contributors to India's market growth. Analyzing their influence on indices like CNX NIFTY 50, research illuminates the intricate relationship between FII inflows and market performance. Moreover, it contextualizes FII behavior within global economic events, such as the 2008 financial crisis, spotlighting their crucial role during critical economic junctures. Employing statistical tools like correlation and regression, studies consistently highlight the significant positive correlation between FII inflows and market dynamics. Alongside, these analyses advocate policy measures aimed at safeguarding foreign investor interests, underlining the indispensable role FIIs play in driving market development within India's financial landscape.

Dr.ChBalaji, Dr. A Srikanth, Dr. P Raja Babu (2020), The Researcher says that Emerging economies like India, offering higher growth prospects, have become favoured investment destinations for FIIs. The Indian stock market is characterized by high volatility, and both FIIs and DIIs play pivotal roles in influencing market movements. The study's objectives are to examine the impact and relationship between FIIs and DIIs on BSE and NSE, analysing data spanning 11 years from 2009 to 2019. The research reveals that DIIs have a more substantial influence on the stock markets compared to FIIs, suggesting that government measures should be implemented to attract DIIs. The study also assesses the relationship between foreign and domestic institutional investors and the inherent risks and returns associated with market participation. By focusing on annual index prices, the study aims to capture long-term fluctuations and market dynamics influenced by both internal and external factors. The study concludes that a competitive economy can be achieved through targeted measures to attract both FIIs and DIIs, promoting sustainable market growth and, by extension, economic development.

Mohit Jain (2019), the literature on FII impact in the Indian stock market highlights the transformative role of Foreign Institutional Investors (FIIs) and their influence on market dynamics, particularly on indices like SENSEX and NIFTY. Studies underscore the significant impact of FII inflows on market movements, albeit in conjunction with other economic factors like government policies and inflation. Research investigates the relationship between FII investment patterns and market trends, emphasizing the correlation between FII activity and stock market behavior. While acknowledging FII influence on market volatility, studies also stress the need to consider various factors beyond FII activities, such as government regulations and broader economic conditions, to comprehensively understand stock market fluctuations. The literature points out that FII holdings in a company are pivotal in gauging growth potential and market volatility, indicating that a company's stability amidst FII movements could signal safer investment opportunities. It also underscores the nuanced impact of FII exits on stock prices, providing insights into market dynamics and investment decisions.

Saptarshi Roy, Sujit Deb (2019), the literature surrounding the Indian stock market focuses on the transformative impact of Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs). Initially, FIIs significantly altered India's market dynamics, influencing qualitative and quantitative shifts in market depth and breadth. However, market vulnerabilities emerged, especially during volatile periods, attributing a role to FIIs in market fluctuations and downturns. Studies aim to dissect the relationship between FIIs, DIIs, and the BSE Sensex, exploring causality and correlation dynamics. The research period from 2008 to 2018 captures key market fluctuations and highlights the evolving roles of FIIs and DIIs in influencing market volatility. While correlations suggest interdependencies, Granger causality tests reveal that the BSE index significantly influences FIIs and DIIs, indicating their critical role in market stability and price volatility.

G. Swapna (2018), this study delves into the impact of Foreign Institutional Investors (FIIs) on the Indian stock market, focusing on the BSE and NSE indices. Analyzing data spanning 12 years (2005-06 to 2016-17), the study examines the influence of FIIs' purchases, sales, and net investments on these indices. The research reveals a positive relationship between FIIs' flows and both SENSEX and NIFTY 50 INDEX movements, highlighting their significant impact on the Indian capital market. Additionally, the study finds that downturns in the stock market often coincide with FIIs' withdrawals. The research adopts statistical tools, including correlation and regression analysis, to establish these connections and emphasizes the key role of FIIs in shaping the Indian stock market.

NareshKedia, Prof. (Dr.) Anil Vashisht (2017), this study delves into the significant influence of foreign institutional investors (FIIs) on the Indian stock market, exploring their role and contributions to the market's development. Using data from the BSE Sensex and FII activity spanning from January 2003 to December 2012, the research establishes a noteworthy positive correlation between FII activity and its impact on the Indian stock market. The primary objective is to examine the relationship between FII investments and the stock market, employing regression and correlation analyses. The findings reveal that FIIs exert a substantial influence on the stock market, with a 60% positive impact. This suggests that FII inflows are associated with bullish trends in the Indian stock market, particularly impacting the Bombay Stock Exchange's Sensex index.

S. Raghavan, Dr. M. Selvam (2017), the study investigating the determinants and impact of Foreign Portfolio Investment (FPI) on India's financial markets provides insights into the factors influencing FPI flows and their consequences. The study focuses on a set of determinants, including Exchange Rate (ER), Consumer Price Index (CPI), Index of Industrial Production (IIP), SENSEX, NIFTY, and Foreign Exchange Reserve (FER), to analyse their correlation, co-integration, and causal relationships with FPI. Existing literature highlights the significance of FPI as a means of harmonizing foreign portfolio investments and entry norms, emphasizing the need for comprehensive analysis. The findings reveal that ER significantly influences FPI, SENSEX, and NIFTY, suggesting a need for FPI limits to prevent excessive money supply and inflation. This study sets the stage for further research encompassing additional variables and longer time periods, offering valuable insights for policy considerations in India's financial markets.

V. Aditya Srinivas (2016), this study investigates the significance of Foreign Institutional Investment (FII) in the Indian stock market, focusing on the period from 2008 to 2013, marked by the Global Financial Crisis of 2008 and the Eurozone Crisis of 2011. The research employs statistical tools such as correlation, regression analysis, and t-tests to explore the relationship between FII flows and the stock market. The findings reveal a strong correlation between FII investments and the market's performance, emphasizing the dominant role of FII in the Indian stock market. The study underscores the vital influence of FII on Indian financial markets during times of global turmoil and proposes measures like a safety net and early financial education to enhance market depth.

Amanjot Singh, Manjit Singh (2016), this study investigates the impact of financial stress in both the Indian and US financial systems on Foreign Institutional Investment (FII) flows in the Indian equity market from 2004 to 2014. The study constructs Indian Financial Stress Index (IFSI) and uses Kansas City Financial Stress Index (KCFSI) to measure financial stress. It employs logistic regression to analyze the relationship between financial stress and FII flows. The results show that increased financial stress in both countries reduces the probability of positive FII flows and increases the likelihood of negative flows. These findings are significant for international and Indian investors and policymakers. The study suggests that investors should prepare for potential FII flows by hedging in derivative markets, and policymakers should consider strategies to manage financial stress's impact on FII investments. This research offers valuable insights into managing FII flows in emerging markets like India.

Mrs.PoojaNagpal, Mrs.Chandrika R (2016), the study investigating the impact of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) on the Indian stock market provides valuable insights into the relationship between foreign capital flows and stock market dynamics. The study underscores the growing significance of foreign investments as a measure of economic development in both developed and developing countries. The global integration of equity markets and the impact of FDI and FII on stock market volatility are central themes explored in the literature. Researchers have employed statistical tools, including correlation and regression analysis, to understand the linkage between FDI and FII and the movements of the BSE Sensex and NSE Nifty indices. The findings indicate that both FDI and FII have a significant impact on these stock market indices, with a positive correlation between foreign capital flows and stock market performance. However, it is acknowledged that stock market movements are influenced by a myriad of factors beyond FDI and FII.

Dr.ShikhaJalota (2015), this study focuses on the relationship between Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) in the Indian stock market. It highlights that the Indian economy's attractiveness to investors, particularly FIIs, is driven by factors such as favourable government reforms and optimism. The study aims to explore the behavioural aspects of FIIs and DIIs and their correlation, as well as the impact of FIIs on DII behaviour in a highly volatile stock market. The results indicate a strong negative correlation, suggesting that FIIs and DIIs move in opposite directions. The research recommends that fluctuations in FII movements can influence DII movements, and during the study period, when FII decreased, DII increased, and vice versa. This research is vital as India is viewed as a significant investment opportunity, attracting substantial FII investments and further potential for growth. Several experts and reports support the idea that India's equity market remains an appealing investment destination. Additionally, the study acknowledges the potential for future growth in impact investments and private equity investments in India, with expectations of a substantial influx of funds into the economy. However, the study underlines the impact of internal and external factors on the dynamics of FII and DII movements and their consequent effects on the stock market indices.

Dr. Sandeep Kapoor, Mr.RcokySachan (2015), this study delves into the influence of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) on the Indian stock market, particularly focusing on the Sensex and CNX Nifty indices during the period from 2002 to 2013. FDI and FII have emerged as pivotal components in the financial development of developing countries, including India, providing access to foreign capital and stimulating economic growth. The research finds that while FDI shows a weak correlation with the Indian stock market indices, FII has a strong and positive impact on both Sensex and Nifty. FII's role in driving the Indian stock market's movements is highlighted, underlining its significance in shaping India's capital markets.

Dr. K V Siva Prasad, Dr. K. Hari Hara Raju (2014), this study investigates the influence of Foreign Institutional Investors (FIIs) on the Indian equity market, particularly focusing on their trading behavior and the impact on key indices like Sensex and CNX Nifty during the period 2002-2012. It highlights the growing importance of FII flows in India, positioning foreign capital as a significant source of funds for the country's economic growth. The findings indicate a positive and moderate relationship between Net FII Investments and returns of the mentioned indices, emphasizing the substantial impact FIIs have on the Indian equity market. The study underscores India's attractiveness to foreign investors and its role as a destination for global investment, contributing to the development of the Indian stock market.

Need of the Study

- Comprehend the influence of Foreign Institutional Investment (FII) on the Indian stock market's behavior, considering its increasing significance in shaping market dynamics.
- Understand the implications of FII inflows for market stability, sectoral performance, and overall financial system resilience in India.

Objectives of the Study

- To get the knowledge about stock market in India.
- To find out the relationship between the FIIs and stock market in India.
- Analyze the historical trends and patterns of FII inflows to discern their impact on market volatility and stability.

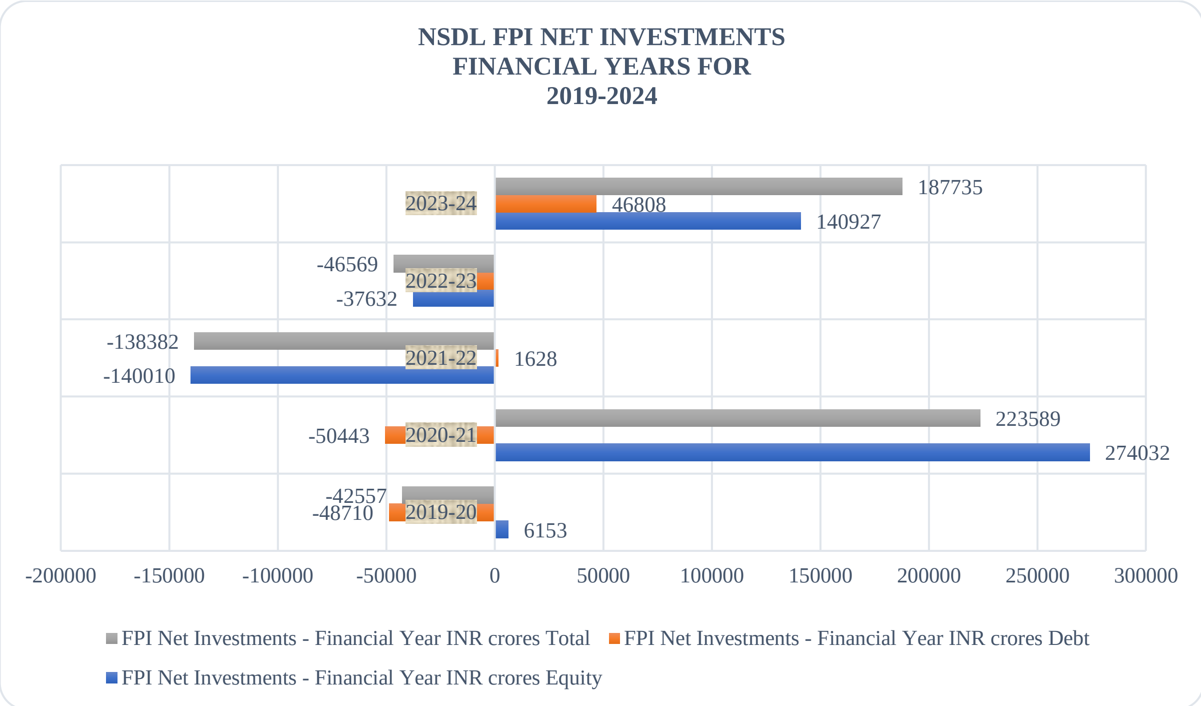
- Evaluate the differential effects of FII investments across sectors within the Indian stock market.
- Assess the effectiveness of regulatory frameworks in governing FII participation and its influence on market behaviour.
- Investigate the correlation between FII inflows and India's economic growth trajectory,highlighting the role of FIIs in market development and infrastructure.

Limitations of the Study

- Limitation on time.
- It is only taken for last 5 years.
- The Lack of clear data available in the open area.
- The data was found in NSDL and CDSL websites only.

Methodology

The current study is secondary in nature. The secondary data were used for the study. Secondary Data was collected from Websites, Journals and Books. The secondary data was taken mostly from website of the Depository which contains the FII details. The depository contains all the details of the stock markets in India. The depositories in India are National Securities Depository Limited (NSDL) and Central Depository Securities Limited (CDSL).



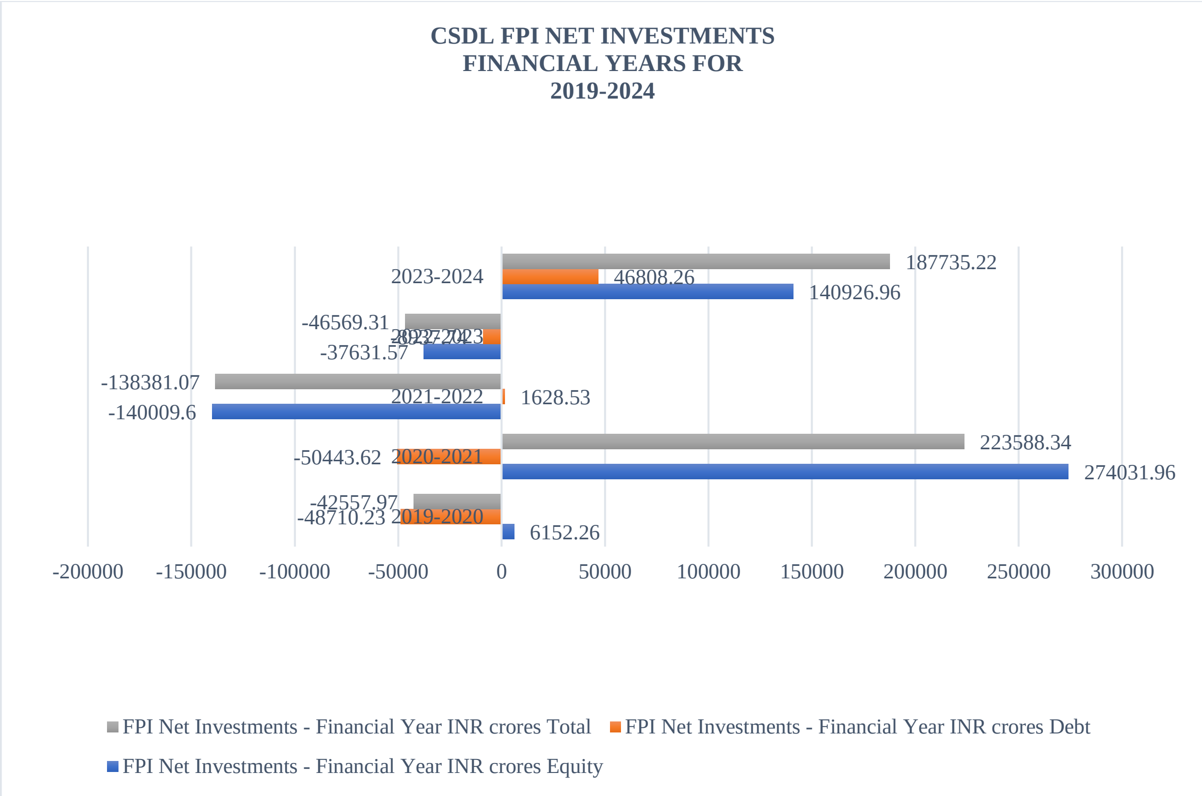
Interpretation

The bar graph you've shared represents the net investments of Foreign Portfolio Investors (FPI) in India for the financial years 2019-2024. The investments are categorized into two types: debt (represented in blue) and equity (represented in orange). The values are given in Indian Rupees (INR) crores.

Here are some key observations from the graph:

- The highest net investment in debt was in the financial year 2021-22, amounting to 187735 INR crores.
- The highest net investment in equity was in the financial year 2020-21, amounting to 274032 INR crores.
- The net investments in debt were negative for all years except 2021-22, indicating that the outflow of funds was greater than the inflow in these years for debt investments.
- The graph does not specify which financial year had the highest net investment in equity.

This data provides insights into the trends of foreign investments in India's debt and equity markets over the specified years. It can be useful for understanding the confidence of foreign investors in India's financial market and the country's economic health. However, without additional context or data, such as the global economic situation or policies affecting foreign investments during these years, the reasons behind these trends may not be clear.



The image you've shared is a bar graph that represents the net investments of CSDL FPI (Foreign Portfolio Investors) for the financial years 2020-2024. The investments are divided into two categories: debt (represented by blue bars) and equity (represented by orange bars). The values are given in Indian Rupees (INR) crores.

Here are some key observations from the graph:

- The net investments in debt are negative for all years except 2024, indicating that the outflow of funds was greater than the inflow in these years for debt investments.
- The highest net investment in equity was in the financial year 2020-21, amounting to 274031.96 INR crores.
- The net investments in debt were negative for all years except 2021-22 and 2023-24, indicating that the outflow of funds was greater than the inflow in these years for debt investments.
- The net investments in equity are positive for all years, suggesting that the inflow of funds was greater than the outflow in these years for equity investments.

This data provides insights into the trends of foreign investments in India's debt and equity markets over the specified years. It can be useful for understanding the confidence of foreign investors in India's financial market and the country's economic health.

Findings

- The interpretations says that the equity of the 2019 is different from 2023.
- The data on CDSL FPI's net investments indicates a consistent positive trend in equity investments across the years, showcasing the confidence and sustained interest of foreign investors in India's equity market.
- The consistent negative trend in debt investments, except for 2024, suggests a prevalent scenario where more funds flowed out than they came in, signifying challenges or reduced interest in India's debt instruments among foreign investors.
- This could be attributed to various factors such as global economic conditions, market sentiments, and differing risk appetites for debt versus equity.

- These findings underscore the importance of distinguishing between debt and equity investments by foreign entities, offering insights into the evolving preferences and perceptions of foreign investors regarding India's financial market.
- It highlights the need for strategies to attract and sustain FPI interest in debt instruments, complementing the positive trend witnessed in equity investments for a balanced and robust financial market growth.

Conclusion

The Indian stock market has witnessed a profound impact from Foreign Institutional Investments (FIIs), marking a significant transformation in its dynamics. The study unveiled the pivotal role FIIs play in shaping market trends, liquidity, and investor sentiments. While the allure of India's growing economy attracted substantial FII inflows, the research illuminated a nuanced scenario. The consistent positive trend in equity investments contrasted starkly with the persistent negative trend in debt investments, signifying an underlying challenge or waning interest among foreign investors in India's debt instruments. This dichotomy underscores the need for a balanced strategy to maintain FPI interest in both equity and debt, acknowledging varying global conditions and investor preferences. The study emphasizes the importance of regulatory frameworks to facilitate sustained FII participation, promoting market stability and sectoral resilience. Understanding the complex interplay between FII activities, market movements, and regulatory mechanisms remains crucial for India's financial system to harness FPI inflows effectively, fostering a diversified, resilient, and growth-oriented stock market landscape.

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