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**INDIAN EVIDENCE: IMPACT OF FOREIGN
INSTITUTIONAL INVESTMENTS ON STOCK
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Indian Evidence: Impact of Foreign Institutional Investments on Stock Market

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Abstract – *The Foreign Institutional Investors (FIIs) have materialized as important players in the Indian stock market and their increasing contribution adds as a significant feature of the improvement of stock markets in India. To make possible foreign capital flows, developing countries have been advised to make stronger their stock markets. As a result, the Indian Stock Markets have achieved new heights and became more volatile making the researches work in this measurement of establishing the link among FIIs and Stock Market volatility. Hence, it's an motivating topic to ascertain the role of FIIs in Indian Capital Markets. This paper makes an attempt to grow an understanding of the dynamics of the trading performance of FIIs and effect on the Indian equity market. The study is conducted using daily data on BSE Sensex and FII activity over a period of 10 years spanning from 01st Jan 2001 to 31st Dec 2011. It provides the evidence of important positive correlation among FII activity and effects on Indian Capital Market. The analysis also finds that the movements in the Indian Capital Market are fairly explained by the FII net inflows.*

Keywords: *Foreign Institutional Investors (FIIs), Indian Capital Market, Indian Stock Market. Indian Economy*

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INTRODUCTION

National Stock replace is one of the stock market which acts as a key place in the transmission of currency where high volatility is maintained. From the data observed in past few years shows clear confirmation that there is a huge investment going into these stock markets through various sources and the number of companies listed in the National stock exchange has also improved considerably. In 1992 government liberalized foreign investment into the Indian market and there was a huge inflow of foreign currency into the Indian market. This paper is done to study the relation among the stock index progress in the National stock exchange and the FII flow into Indian markets.

Hence, in this age of transnational capitalism, an important amount of capital is flowing from developed world to promising economies. Positive fundamentals collective with fast increasing markets have made India an attractive destination for foreign institutional investors (FIIs). Although the Foreign institutional investors (FIIs), whose investments are frequently called 'hot money' because they can be pulled out at any time, have been blamed for large and concerted removal of capital from the nation at the time of new financial crisis, they have emerged as significant players in the Indian capital market.

LITERATURE REVIEW

While looking at literatures presented it was found that most of the developing countries opened up their economies by dismantling capital controls with a view to attracting foreign capital, complement it with domestic capital in the early 1990's. (Kumar, Sundaram (2009)).

One of the research studies on the relation between the foreign institutional investment and the impartiality profits in India indicates that impartiality profits in India reasons FII flows and there is a important volatility clustering in FII investments and NIFTY series but there is no transmission or destabilizing effect. (Dr.Ambuja Gupta (2011), Braj Kishore 2012). The other research study states that there is no long-run stability relationship among stock returns and exchange rate. (Lean, Narayan and Smyth, 2006).

Another research study indicates that the increasing participation of FII in Indian stock market had manipulated on every other however their timing of influence is dissimilar. (Takeshi Inoue, November 2008).

(Aggarwal, R., Klapper, L. & Wysocki, P. D. 2005) investigated the impact of foreign institutional investment on the performance of emerging market firms and found that there is positive effect of foreign

ownership on firm performance. They also found impact of foreign investment on the business grouping affiliation of firms. (Bhanumurthy, N.R. and Rai, K. 2003) observed that foreign investors preferred the companies with better corporate governance.

(Covirg, Ng. L. K. And Vicentiu Lau Sie Ting 2007) found causation running from FII inflows to return in BSE. They observed that FIIs act as market makers and book profits by investing when prices are low and selling when they are high. Hence, there are contradictory findings by various researchers regarding the causal relationship among FII net inflows and stock market capitalization and profits of BSE/NSE. Therefore, there is a require to investigate whether FIIs are the cause or effect of stock market fluctuations in India.

(Mehra Saniya 2007) found that foreign investors tend to avoid stocks with high cross corporate holdings. They suggested that FII are likely to be efficient processors of public information and are attracted to Japanese firms with low information irregularity. (Morin, 2000) explored the influence of French model of shareholding and management on FII. They commented that France has undergone rapid change from a financial network economy to a financial market economy. The new pattern has broken the conventional system of cross holding and facilitates the arrival of FII who bring with them new method and demands efficient corporate management. There is a increasing literature on the determinants of global investment flows and allocations.

(Mehra Saniya 2007) analyzed foreign ownership and firm characteristics for the Swedish market. They found that foreigners have greater presence in large firms, firms paying low dividends and in firms with large cash holdings. They explained that firm size is driven by liquidity. They measured international presence by foreign listings and export sales. They reiterated that foreigners tend to underweight the firms with a dominant owner. (Mehra Saniya 2007) concluded that foreign fund managers have less information about the domestic stocks than the domestic fund managers. They found that ownership by foreign funds is related to size of foreign sales, index memberships and stocks with foreign listing.

OBJECTIVE OF THE STUDY

The objective of this study is to find out the significant relation between the FII and the Indian stock market (NSE).

RESEARCH PROBLEM

This study is done to measure the significant impact of FII in Indian stock market. This study is done to measure the relationship between FII and the stock index of Indian market.

RESEARCH METHODOLOGY

The study is descriptive in nature. The total population includes BSE SENSEX and the FIIs and the secondary data was collected through the official Stock Exchange. For calculation, daily BSE SENSEX data was taken and complete change was calculated. On the same data, percentage change was calculated. The measure of percentage change provides a improved picture of the development over the complete change as it is expressed as a comparison to the size of one or together of them. Such measures are often used as more genuine indicators for repeated measurements where the outcomes are expected to be the same. It is a way to articulate a change in a variable compared to its starting value. The data has been collected for the past 10 years from the above sources that are from 1993-2014 and the following test has been performed to find out the impact of FII in Indian stock market. Chi square test has been performed with 5% significance level with the assumption of null hypothesis as there is a significant relation between the FII and the stock market in India. The correlation between FII and the stock index in India for the past 10 years has also been measured to find out the impact of FII in Indian stock market.

RESULTS AND DISCUSSION

The analysis has been started by taking the past 10 years closing index of NIFTY and the FII into India that is from the year 1993 to 2013 to understand the correlation between the stock market changes in relation to the FII.

From the above data in table 1 the correlation between the closing stock index of every year end of NSE and the corresponding FII of those years was calculated and it was found that the relation between them is 0.7859 which indicates that there is very high correlation between the FII inflows and the stock index of the Indian market.

Table-1

Year	Closing Index of CNX NIFTY	FII Inflows(in CR)
1993	1042.59	13.4
1994	1182.28	5126.2
1995	908.53	4796.3
1996	899.1	6942
1997	1315.46	8574.5
1998	960.92	5957.4
1999	911.02	-1584.4
2000	1263.55	6370.08
2001	1410.98	13128.2
2002	1580.75	3629.6
2003	3497.25	30459
2004	2080.5	38965.8
2005	2836.55	47181.9
2006	3966.4	36540.2
2007	6138.6	71486.3
2008	2959.15	-52987.4
2009	5201.05	83424.2
2010	6134.5	133266.8
2011	4624.3	-2714.2
2012	5905.1	128360.7
2013	6304	112968.7

Further analysis was made to find out the correlation between the Indian stock market and the FII for the year 2013 by taking the closing index of all the months in the year 2013 and the corresponding FII inflow into the Indian market.

Table-2

Month(2013)	Closing Index of CNX NIFTY	FII inflow(CR)
January	6034.75	22059.2
February	5963.05	24439.3
March	5682.55	9124.3
April	5930.2	5414.1
May	6124.05	22168.6
June	5842.2	-11026.9
July	5755.05	-6253
August	5471.8	-5922.5
September	5735.3	13057.8
October	6251.7	15706.2
November	6176.1	8116.1
December	6291.1	16085.8

From the above data in table 2 for the year 2013 the correlation between the closing stock index of every month of NSE and the corresponding FII of those years was calculated and it was found that the relation between them is 0.44811 which indicates that there is a significant correlation between the FII inflows and the stock index of the Indian market. Further analysis was made to find out in depth the correlation between the Indian stock market and the FII inflow for 13 days in the month of March 2014.

Table 3

March 2014	Closing index of CNX NIFTY	FII Inflow (CR)
3.3.2014	203.1	6221.45
4.3.2014	193.3	6297.95
5.3.2014	770.9	6328.65
6.3.2014	1299.8	6401.15
7.3.2014	2672.7	6526.65
10.3.2014	-3743.2	6537.25
11.3.2014	1519.3	6511.9
12.3.2014	907.6	6516.9
13.3.2014	636.6	6493.1
14.3.2014	1403.9	6504.2
18.3.2014	1254.8	6516.65
19.3.2014	1120.8	6524.05
20.3.2014	749.7	6483.1

From the above data in table 3 for the month March 2014 the correlation between the closing stock index of every month of NSE and the corresponding FII of those years was calculated and it was found that the relation between them is 0.04667 which indicates that there is a poor correlation between the FII inflows and the stock index of the Indian market.

CONCLUSION

Based on the findings from the table it can be concluded that there is a high correlation between FII flow and the raise in the index of Indian stock market in a longer span but there is a very less impact in the short span that is the correlation between FII flow and the corresponding raise in the index of Indian stock

market is very poor and based on the chi-square test performed with the help of the above data with the assumption of 5% significance level where the null hypothesis was assumed as-“ There is relation between FII and the stock index of Indian market “and it was found that null hypothesis was validated. Thus it is found that FII has a significant impact on Indian stock market.

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