ROLE AND IMPACT OF FII’S ON INDIAN CAPITAL MARKET

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Abstract: FII’s can be said to include investors or investment funds that are from or registered in a country outside of the one in which they are currently investing. It includes hedge funds, insurance companies, pension funds and mutual funds. It also includes banks, large corporate buyers or representatives of large institutions. At the same time the entire economy was going through a phase of transformation. The increasing use of technology inter-linkage of the economies and markets and increased investment avenues resulted in flow of funds from one country to another country. Similarly, when they find another alternative in the global market, this money is withdrawn and invested in another emerging market. This creates instability in the economy in general and the capital and stock markets in particular. This paper tries to highlight the role and impact of FIIs in Indian capital market. Most developing economies have high volume of FIIs and these economies provide high growth potential than in developed economies. This study aims is to find out whether there exists any vital relation between the Indian securities markets (NSE-CNX NIFTY) and FII. We have further done some statistical analysis to find out the dominance of FIIs in Indian stock market. The paper concludes that FIIs affect the Indian stock market, and thus the Indian economy.

Keywords: FIIs, CNX NIFTY, Stock Market, Net Investments

INTRODUCTION:

In the development of the financial sector, the role of capital market is indispensable apart from the money market. Therefore, it is obvious that capital market development also has a strong impact on the economic development of the nation. Well-developed stock markets in a country have the potential to offer innovative financial services and can thus provide push to the economic activities. Capital markets in any country play an important role in supporting technological progress and in the process, economic development by channelizing the funds for productive and long term growth prospects. This facilitates economic development as a whole. After the emergence of the new economic policy, the foreign investment in various ways started growing rapidly. The Indian financial markets were flooded with various forms of foreign investment like Foreign Direct Investment (FDI) Portfolio Investment (PI) as well as Foreign Institutional Investment (FII). The Union Government allowed the entry of FIIs in order to encourage the capital market and attract foreign funds to India. Today, FIIs are permitted to invest in all securities traded on the primary and secondary markets, including equity shares and other securities listed or to be listed on the stock exchanges.
The original guidelines were issued in September 1992. Subsequently, the Securities and Exchange Board of India (SEBI) notified the SEBI (Foreign Institutional Investors) rules, in Nov 1995.

Over the years, different types of FIIs have been allowed to operate in Indian stock markets. They now include institutions such as pension funds, mutual funds, investment trusts, asset management companies, nominee companies, incorporated/institutional portfolio managers, university funds, endowments, foundations and charitable trusts/societies with a track record. Proprietary funds have also been permitted to make investments through the FII route subject to certain conditions.

**OBJECTIVES OF STUDY:**

- To study the role of foreign institutional investment in the Indian capital market.
- To critically examine the impact of foreign institutional investment on Indian capital market.
- To study the behavior of foreign institutional investment during the period of recession

**REVIEW OF LITERATURE:**

Avadhani V.A. (1999) hints at the future of the Indian capital market, while commenting on the future, he also notes the possibility of small investors being wiped out of the markets.

‘The future capital market should be sophisticated with less developed segments of all types namely cash market, forward market, options and futures etc. These segments will attract more foreign funds to come in through the FFIs and FIIs. The individuals and small investors may be out of this market due to strict capital adequacy norms and high margins.’

*Bhasin Niti (2004)* further puts forward the challenges posed by the globalization before the Indian markets. Here also the author gives importance to the efficiency of the markets.

A major issue which will influence India’s securities markets in future is the challenge of globalization. In terms of information efficiency, India markets are not efficient, like most markets of the world. Markets do not as such follow a random walk, especially when they seldom satisfy the stringent criteria of stationary, independent, identical and normally distributed stock returns.

Avadhani V.A. (2006) has further stated that that the policy changes have facilitated the inflow of funds. Apart from this, raising the funds from abroad has also been facilitated by these reforms.

With the recent economic reforms, markets have become free, competitive and globalized. The FIIs and FFIs are allowed to operate in Indian financial markets. Current account convertibility facilitates inflows and outflows of funds. These policy changes widened the avenues or sources of funds as also the instruments through which they can raise the funds.

Biswa Joy deep (2007) commented that volatility in the stock exchange is seen where there is no integration of the market. In case of globally integrated markets, there is less volatility.
‘The big stock markets are highly volatile and trade in high volumes, while the stock markets that are more integrated globally are likely to be less volatile.’

Reddy B.B., Ramaiah M.V., Reddy B.P. (2008) have concluded that there is significant impact of FIIs on the prices and volatility in Indian market.

‘The fortune of investors in stock market is often determined by behavior of FIIs. This has been proved several times. Though there is high degree of volatility due to investments made by FIIs, it is proved that the FIIs are one of the main factors for the growth of Indian capital market.’

**DATA ANALYSIS AND INTERPRETATION:**

FII Investment in Indian Capital Market

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Equity</th>
<th>Debt</th>
<th>Total net FIIs</th>
<th>Change in FIIs investments</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>110121</td>
<td>36317</td>
<td>146438</td>
<td>3780</td>
<td>2.649694</td>
</tr>
<tr>
<td>2011-2012</td>
<td>43738</td>
<td>49988</td>
<td>93726</td>
<td>-52712</td>
<td>-35.9961</td>
</tr>
<tr>
<td>2012-2013</td>
<td>140033</td>
<td>28334</td>
<td>168367</td>
<td>74641</td>
<td>79.63745</td>
</tr>
<tr>
<td>2013-2014</td>
<td>79709</td>
<td>-28060</td>
<td>51649</td>
<td>-116718</td>
<td>-69.3236</td>
</tr>
<tr>
<td>2014-2015</td>
<td>111333</td>
<td>166127</td>
<td>277461</td>
<td>225812</td>
<td>437.205</td>
</tr>
<tr>
<td>2015-2016</td>
<td>-14172</td>
<td>-4004</td>
<td>-18176</td>
<td>-295637</td>
<td>-106.551</td>
</tr>
<tr>
<td>2016-2017</td>
<td>29573</td>
<td>1028</td>
<td>30601</td>
<td>48777</td>
<td>-268.359</td>
</tr>
</tbody>
</table>

Correlation among FII & Sensex from Jan 2016-23 March 2018

<table>
<thead>
<tr>
<th></th>
<th>Sensex</th>
<th>Gross purchase</th>
<th>Gross sales</th>
<th>Netlnvst</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensex Pearson correlation Sig.(2-tailed) N</td>
<td>1</td>
<td>.605</td>
<td>.337</td>
<td>.437</td>
</tr>
<tr>
<td>Gross purchase Pearson correlation Sig.(2tailed) N</td>
<td>.605</td>
<td>1</td>
<td>.614</td>
<td>723</td>
</tr>
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<td>Gross sales Pearson correlation Sig.(2tailed) N</td>
<td>.337</td>
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<td>1</td>
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</tr>
<tr>
<td>Netlnvst Pearson correlation Sig.(2tailed) N</td>
<td>.437</td>
<td>.723</td>
<td>-0.95</td>
<td>1</td>
</tr>
</tbody>
</table>
Findings:

- Growth capability of Indian Capital Market has pulled in the consistent increment in the quantity of enlisted FIIs and the Gross buys made by them.
- The developments in Midcap and Small cap Indices and Sensex are very connected with FII value interest in Indian Capital market.
- The high level of instability in Indian securities exchange is brought about by the expansion in venture by FIIs which expands stock lists that thusly builds the cost and supports further speculations. In this occasion when any rectification happens the stock costs decay and there will be haul out by the FII in an expansive number as procuring per shares decreases.
- The FIIs control the circumstance of blast in such a way, that they will hold up till the file ascends to a specific tallness and exit at a proper time. This propensity builds the unpredictability further.

CONCLUSION:

From all the discussions and data analysis, we conclude that FIIs have major impact on Indian Capital market. The correlation coefficient between FII and Sensex for both analyses is positively correlated. It is clear that major falls in stock market were aftereffects of withdrawal of money by FII. So there is a direct relation between the FII's money flow and the movement of SENSEX. The Correlation Test also establishes the degree of association between the FII and Sensex and the analysis indicates the impact of FIIs on Indices.

The FIIs are playing an important role in bringing in funds needed by the equity market. However, the fact remains that FII investments are volatile and market driven, but this risk has to be taken if the country has to ensure steady inflow of foreign funds. It is also equally important to note that since recent past! &IIs have made Indian capital markets more volatile. Further, due to recession, there is sharp fall in the net investment by the FIIs in the Indian capital market.

REFERENCES: