

IMPACT OF FIIS ON THE INDIAN STOCK MARKET

(2010 TO JUNE 2022)

Gurjeet Singh

Assistant Professor -Chandigarh School of Business Jhanjeri

Jivtesh Singh Bamrah

Assistant Professor -Chandigarh School of Business Jhanjeri

Abstract

Due to India's development policy, which prioritized self-sufficiency and import substitution, there was a general aversion to foreign investment and private commercial flows until the 1980s. But the new economic reform was implemented in 1991 due to which the Indian stock market attracted Foreign Institutional investors with huge money flow which was initially good for the overall growth of Indian companies and Indian stock market. The FIIs started their investment in the market in 1992. From 1992 to 2007 they increased their capital in Indian stock market except year 1998 as they withdrew Rs- 930.96 Crore in year 1998 and the net capital was also in negative by Rs52375.96 Crore in 2008 due to crash in the Indian Stock market[2]. From year 2010 they again started investing money in the Indian market but their net steady growth in their net investment, it was fluctuating unexpectedly. But still the Indian Sensex was not reacting much on their net investment decrease and the Sensex was increasing steadily. There was a negative correlation between FIIs net Investment and Sensex. Though the Sensex moved upward in year 2014 due to huge investment by Foreign Investment Institutions, there was not much relation in other years except 2021 and 2022, In year 2021 FIIs started withdrawing money from October and the withdrawing is still continuous from their end due to which the Indian Sensex is going down since Oct 2021.

Keywords: FIIs, Sensex, Indian Stock Market

1. Introduction

Foreign Institutional Investors play a vital role nowadays in the Indian Stock market as they are dealing in stocks, derivatives, and warrants also, but their involvement started in 1992 when the Indian government implemented the new economic reform. The economic reform was implemented in 1991, before this reform the government was focusing on being independent in terms of manufacturing and the government wanted to reduce the trade deficit Indian stock market became successful in attracting the investment from FIIs after the reform and till 4, June 2009 1662 FIIs got registered in Security Exchange Board of India with a huge investment of Rs. 2,52,233.10 crore. At the end of 2011 the number of Foreign Institutional Investors went up to 1767, However, the number of registered FIIs went down to 1755 till December 2021.

The companies founded or organized from outside India that invest in Indian financial markets by registering with SEBI are most frequently referred to as "foreign institutional investors" in India (SEBI). FIIs have the ability to invest both their own money and the money of foreign clients who have registered with SEBI in India. Foreign institutional investment is typically done in the financial markets and is generally short-term in nature. In September 1992, India opened its stock market to outside investors. In January 1993, international institutions invested in Indian shares as a result of foreign portfolio investments. This has developed into one of the primary FII channels for foreign investment in the Indian market. FIIs can now invest in stocks, securities, and derivatives, but only up to a certain limit because they invest according to the 70:30 rule. They can invest 70% in stocks and the rest 30% can be invested into debts or debt related securities. The net investment of FIIs is almost Rs. 2608.13 Crore in 1993 which was increasing year by year but in 1998 the Net investment was Rs. -930.96 Crore. FIIs investment had been increasing drastically since 1998 but in 2008 there was a crash in the market and their net investment went down in 2008 by Rs -52,375.96 Crore. 2012 to 2014 was one of the best periods of Indian stock as it was a bull run due to FIIs investment which was increased to Rs. 165482.70 Crore and the market followed the same positive trend in 2014 also just because the investment of FIIs in the Indian stock market was Rs. 256,936.59 Crore in both primary and secondary markets. The investment of FIIs has been fluctuating since 2010, as there was no continuous pattern of added funds in Indian stock market by FII. They are investing money in some years and withdrawing in the other, But they are

withdrawing huge money in since oct 2021 and till date they withdraw almost Rs 228,576.31 Crore.

2. Data and Methodology

The paper shows the relationship between FII investment in India and the performance of the Indian stock market is empirically analyzed in this research. We chose the Stock Exchange, Mumbai (BSE) as the Indian stock market's representative due to its undeniable appeal to academics and market analysts. BSE, which was founded in 1875, is not only the oldest stock exchange in Asia but also in India. More than one-third of all trading in the nation takes place there. SENSEX's base year is 1978–1979, and its base value is 100. The index is widely

covered by print and electronic media in both domestic and foreign markets. FIIs are most likely to invest in the stocks represented by this index. In order to determine how net FII flows affecton the performance of the Indian stock market, the study uses annual data on the Sensex and Net Investments by FIIs for the period of January 2010 to June 2022. The pertinent data are gathered from the SEBI, Stockedge, moneycontrol, and RBI databases. Through the most crucial stock market indicator namely Stock Return .The most common statistical approach, Correlation Analysis, is used to see the relation between FIIs and indian stock market.

3. Analysis

The net investment of FIIs was mostly since 1992 but it drastically declined due to the recession in 2008, but after 2010 the net investment kept on fluctuating. There was no steady gain in investment but still the investment was positive till 2015, and it went negative for the first time in 2016 after 2008. Even though FIIs were withdrawing money in 2016, the Indian Sensex was positive till August 2016 and slightly declined after August 2016. It took a jump in 2017 as there was a huge involvement of FIIs with a net investment of Rs. 200,439.67 Crore. They withdraw money in 2018 and there net investment was Rs -80.687.63 Crore which is highly negative. They again put some money in 2019 and there net investment comes positive by Rs 124,208.7 Crore but they are continuously withdrawing money from Indian market since Oct 2021 to till date.

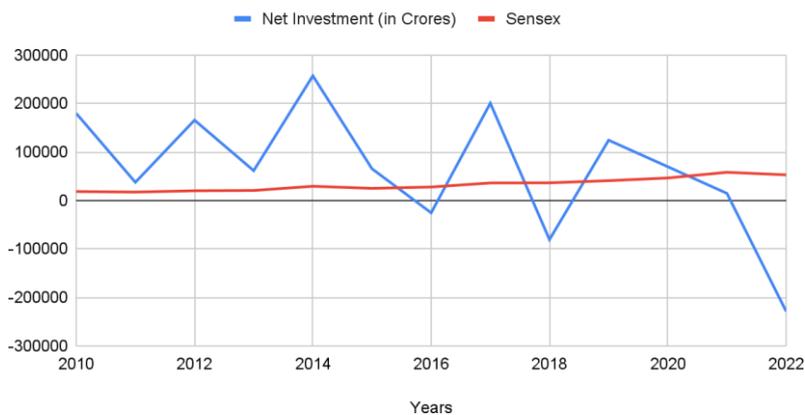
Investment of FIIs in Equity and Debentures (2010- 2022)

Years	Net Investment (in Crores)	Sensex
2010	179,525.20	18327.76
2011	37,352.60	17193.55
2012	165,482.70	19894.98
2013	61,366.90	20513.85
2014	256,936.59	29182.95
2015	65,276.38	24870.69
2016	-25,514.25	27655.96
2017	200,439.67	35965.02
2018	-80,687.63	36256.29
2019	124,208.57	40723.49
2020	69,475.10	46285.77
2021	14,486.39	58014.17
June 2022	-228,576.31	52742.50

4. Correlation Analysis

$$S_{XY} = \frac{\sum(x - \bar{x})(y - \bar{y})}{n - 1}$$

Net Investment (in Crores) and Sensex



Sample Size (n) = 13 Pearson’s Coefficient of Correlation = -0.4491

P-Value= -0.1237

Results of the Pearson correlation indicated that there is a non significant very small negative relationship between X and Y, (r = .449, p = .124).

From the data interpretation it can be said that the FIIs are the major player in Indian stock market but there is a slight negative correlation between FIIs net investment and Sensex’s Yearly data and we can see in line chart above that even though the FIIs net investment is fluctuating in the line chart but still the Sensex is increasing steadily. But from Oct 2021 to June 2022 the withdraw huge amount of money due to which the Sensex was on 52742.50 point in June 2022 which was at 58014.17 point in Jan 2021, But overall in last 13 years there was not huge impact of FIIs’ on Indian stock market.

5. Conclusion

In this paper, the effect of foreign institutional investors' trading on the performance of the Indian stock market is examined. The empirical relationship between stock market return and FII flows is examined, and it is discovered that the two variables are unrelated. Even though FIIs were net sellers for a few years, the Sensex was increasing. In some years, like in 2014, the Sensex is developing quickly thanks to their investment. They have been taking their capital out since October 2021, and as of today, the Sensex was at 52742.50, a loss of 5271.67 points since January 2021. Additionally, FIIs saw a lot of potential for investment in the Indian economy due to improved regulatory standards, high-quality disclosure and corporate governance requirements, accounting standards, but due to increased interest rates in USA by FED and increased price of crude oil due to war between Ukraine and Russia they are continually withdrawing money from Indian market till date. Overall there is not much affect of their withdrawals on Indian stock market except few years like 2015 and 2022.

References

- [1] Garg A., Bodla B.S, 2011. Impact of Foreign Institute Investments on Stock Market: Evidence from India, Indian Economic Review , Vol XXXXVI, No-2 , Page 303-322
- [2] Mishra P.K, 2009. Role of FIIs in Indian Capital Market, The Research Network Vol.4, No.2, Page 30-

34

- [3] Government of India, Ministry of Finance (2005): Report of the Expert Group on Encouraging FII Flows and Checking the Vulnerability of Capital Markets to Speculative Flows, New Delhi, November.
- [4] Chakrabarti, R., 2002. FII Flows to India: Nature and Causes. Money and Finance, Volume 2, Issue 7, Pages: 61-81.