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Impact of Foreign Institutional Investments on Equity Stock Market of India

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Abstract

Capital inflows play a substantial role in developing countries. It used to increase accumulation and rate of investments to create conditions for more intensive economic growth. Institutional Investor is any investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds. The growing Indian market had attracted the foreign investors, which are called Foreign Institutional Investors (FII) to Indian market, and in this paper, we are trying a simple attempt to explain the impact and extent of foreign institutional investors in Indian stock market. International institutional investors must register with the Securities & Exchange Board of India (SEBI) to participate in the market.

Keywords: *FIIs, Portfolio, Stock Market, SEBI, Economic Growth.*

1. Introduction

Foreign capital has significant role for every national economy, regardless of its level of development. For the developed countries it is necessary to support sustainable development. For the developing countries, it is used to increase accumulation and rate of investments to create conditions for more intensive economic growth. For the transition countries, it is useful to carry out the reforms and cross to open economy, to cross the past long term problems and to create conditions for stable and continuous growth of GDP, as well as integration in world economy. But, to realize the potential exist in the developing countries, foreign capital plays a very crucial role. FII is defined as an institution organized outside of India for the purpose of making investments into the Indian securities market under the regulations prescribed by SEBI. 'FII' include "Overseas pension funds, mutual funds, investment trust, asset management company, nominee company, bank, institutional portfolio manager, university funds, endowments, foundations, charitable trusts, charitable societies, a trustee or power of attorney holder incorporated or established outside India proposing to make proprietary investments or investments on behalf of a broad-based fund. FIIs can invest their own funds as well as invest on behalf of their overseas clients registered as such with SEBI.

These client accounts that the FII manages are known as 'sub-accounts'. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies.

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They actually evaluate the shares and deposits in a portfolio. The major source (almost 50%) of money the FIIs invest is from the issue of Participatory Notes (P-Notes) or what are sometimes called Offshore Derivatives. There are over 1484 FIIs and 38 foreign brokers registered to Securities & Exchange Board of India (SEBI). We are also examining whether market movement can be explained by these investors. We often hear that whenever there is a rise in market, it is explained that it is due to foreign investors' money and a decline in market is termed as withdrawal of money from FIIs. But the sub-prime crisis and other economic conditions had caused a liquidity crunch for these institutions. So they are forced to withdraw money from Indian market so as to repay loans they had taken. These withdrawals had caused panic in market, and even domestic investors are making them sell their shares. But one aspect we should agree on is that the FII's increased role had changed the face of Indian Stock Market. It has brought both qualitative and quantitative change. It had also increased the breadth and depth of market.

Institutional investors will have a lot of influence in the management of corporations because they will be entitled to exercise the voting rights in a company. They can actively engage in corporate governance. Furthermore, because institutional investors have the freedom to buy and sell shares, they can play a large part in which companies stay solvent, and which go under. Influencing the conduct of listed companies, and providing them with capital are all part of the job of management. One of the most important features of the development of stock market in India in the last 20 years has been the growing participation of FIIs.

Overview of Indian Stock Market

The working of stock exchanges in India started in 1875. BSE is the oldest stock market in India. The history of Indian stock trading starts with 318 persons taking membership in Native Share and Stock Brokers Association, which we now know by the name Bombay Stock Exchange or BSE in short. In 1965, BSE got permanent recognition from the Government of India. National Stock Exchange comes second to BSE in terms of popularity. BSE and NSE represent themselves as synonyms of Indian stock market. The history of Indian stock market is almost the same as the history of BSE. The 30 stock sensitive index or Sensex was first compiled in 1986. The Sensex is compiled based on the performance of the stocks of 30 financially sound benchmark companies. In 1990 the BSE crossed the 1000 mark for the first time. It crossed 2000, 3000 and 4000 figures in 1992. The reason for such huge surge in the stock market was the liberal financial policies announced by the then financial minister Dr. Man Mohan Singh.

The up-beat mood of the market was suddenly lost with Harshad Mehta scam. It came to public knowledge that Mr. Mehta, also known as the big-bull of Indian stock market diverted huge funds from banks through fraudulent means. He played with 270 million shares of about 90 companies. Millions of small-scale investors became victims to the fraud as the Sensex fell flat shedding 570 points. To prevent such frauds, the Government formed The Securities and Exchange Board of India, through an Act in 1992. SEBI is the statutory body that controls and regulates the functioning of stock exchanges, brokers, sub-brokers, portfolio manager's investment advisors etc. SEBI oblige several rigid measures to protect the interest of investors. Now with the inception of online trading and daily settlements the chances for afraud is nil, says top officials of SEBI. Sensex crossed the 5000 mark in 1999 and the 6000 mark in 2000. The 7000 mark was crossed in June and the 8000 mark on September 8 in 2005. Many foreign institutional investors (FII) are investing in Indian stock markets on a very large scale. The liberal economic policies pursued by successive Governments attracted foreign institutional investors to a large scale. Experts now believe the sensex can soar past 14000 marks before 2010. The unpredictable behavior of the market gave it a tag – 'a volatile market.' The factors that affected the market in the past were good monsoon, Bharatiya Janatha Party's rise to power etc. The result of a cricket match between India and Pakistan also affected the movements in Indian stock market. The National Democratic Alliance led by BJP, during 2004 public elections unsuccessfully tried to ride on the market sentiments to power. NDA was voted out of power and the sensex recorded the biggest fall in a day amidst fears that the Congress-Communist coalition would stall economic reforms. Later prime minister Man Mohan Singh's assurance of 'reforms with a human face' cast off the fears and market reacted sharply to touch the highest ever mark of 8500. India, after United States hosts the largest number of listed companies. Global investors now ardently seek India as their preferred location for investment. Once viewed with skepticism, stock market now appeals to middle class Indians also. Many Indians working in foreign countries now divert their savings to stocks. This recent phenomenon is the result of opening up of online trading and diminished interest rates from banks. The stockbrokers based in India are opening offices in different countries mainly to cater the needs of Non Resident Indians. The time factor also works for the NRIs. They can buy or sell stock online after returning from their work places. The recent incidents that led to growing interest among Indian middle class are the initial public offers announced by Tata Consultancy Services, Maruti Udyog Limited, ONGC and big names like that. Good monsoons always raise the market sentiments. A good monsoon means improved agricultural produce and more spending capacity among rural folk. The bullish run of the stock market can be associated with a steady growth of around 6% in GDP, the growth of Indian companies to MNCs, large potential of growth in the fields of telecommunication, mass media, education, tourism and IT sectors backed by economic reforms ensure that Indian stock market continues its bull run.

2. Review of Literature

Ravi Akula, (2011): "An Overview of Foreign Institutional Investment in India" Most of the under developed countries suffer from low level of income and capital accumulation. Though, despite this shortage of investment, these countries have developed a strong urge for industrialization and economic development. As we know the need for Foreign capital arises due to shortage from domestic side and other reasons. It is observed that the FIIs investment has shown significant improvement in the liquidity of stock prices of both BSE and NSE. However, there is a high degree of positive co-efficient of correlation between FIIs investment and market capitalization, FIIs investment and BSE & NSE indices, revealing that the liquidity and volatility was highly influenced by FIIs flows. Further, it is also proved that FIIs investment was a significant factor for high liquidity and volatility in the capital market prices.

Anand Bansal, (2009): "Foreign Institutional Investor's Impact on Stock Price in India" The impact of market opening to FIIs, on Indian stock market behavior. India announced its policy regarding the opening of stock market to FIIs for investment in equity and related instruments on 14th September 1992. Using stock market data related to Bombay Stock Exchange, for both before and after the FIIs policy announcement day. An empirical examination has been conducted to assess the impact of the market opening on the returns and volatility of stock return. We found that while there is no significant changes in the Indian stock market average returns, volatility is significantly reduced after India unlocked its stock market to foreign investors.

S. V. Aditya Vidyasagar (2007): "Role of FIIs in Indian Capital Market" The second fastest growing economy after China has lately been a major recipient of foreign institutional investor (FII) funds driven by the strong fundamentals and growth opportunities. Both consumption and investment-led industries linked to domestic demand, such as auto, banking, capital goods, infrastructure and retail, are likely to continue attracting FII funds. India on the other hand despite recession's dark clouds lingering around it, has been able to manage a decent growth rate and the best part is that inspite of some early sell outs, FIIs have reposed their faith in the fundamentals of Indian economy by reinvesting in India. Thus India even though has certain issues which are to be sorted out but still remains a potent FII attractor and retainer which is generating wealth for everyone concerned.

Kulwant Rai & N R Bhanumurthy (2007):"Determinants of Foreign Institutional Investment in India" The role of Return, Risk and Inflation his study tries to examine the determinants of Foreign Institutional Investments in India, which have crossed almost US$ 12 billion by the end of 2002. Given the huge volume of these flows and its impact on the other domestic financial markets understanding the behavior of these flows becomes very important at the time of liberalizing capital account. In this study, by using monthly data, we found that FII inflow depends on stock market returns, inflation rate (both domestic and foreign) and ex-ante risk. In terms of magnitude, the impact of stock market returns and the ex-ante risk turned out to be major determinants of FII inflow. This study did not find any causation running from FII inflow to stock returns as it was found by some studies. Stabilizing the stock market volatility and minimizing the ex-ante risk would help in attracting more FII inflow that has positive impact on the real economy. Kumar (2005): "An important feature of the development of stock market in India" In the last 15 years has been the growing participation of Institutional Investors, foreign institutional investors and the Indian mutual funds combined together, the total assets under their management amounts to almost 18% of the entire market capitalization. This paper examines the role of these investors in Indian stock markets and finds that the market movement can be explained using the direction of the funds flow from these investors.

Rajesh Chakrabarti (2001): "FII Flows to India: Nature and Causes" Since the beginning of liberalization FII flows to India have steadily grown in importance. In this paper we analyze these flows and their relationship with other economic variables and arrive at the following major conclusions: (a) While the flows are highly correlated with equity returns in India, they are more likely to be the effect than the cause of these returns; (b) The FIIs do not seem to be at an informational disadvantage in India compared to the local investors; (c) The Asian Crisis marked a regime shift in the determinants Of FII flows to India with the domestic equity returns becoming the sole driver of these flows since the crisis. Given the thinness of the Indian market and its susceptibility to manipulations, FII flows can aggravate the equity market bubbles, though they do not actually start them.

P. K. Mishra (1980):FII Inflow and The Indian Equity Market There was a general disinclination towards foreign investment or private commercial flows as India's development strategy was focused on self-reliance and import substitution and current account deficits were financed largely through debt flows and official development assistance. After the launch of the reforms, Foreign Institutional Investors (FIIs) have been allowed to invest in all securities traded on the primary and secondary markets, including shares, debentures and warrants issued by companies which were listed or were to be listed on the Stock Exchanges in India and in schemes floated by domestic mutual funds. From September 14, 1992, with suitable restrictions, FIIs were permitted to invest in financial instruments. Since then foreign portfolio inflows through FIIs, in India, have been important from the policy perspective, especially when the country has emerged as one of the most attractive investment destinations in Asia. As on June 4, 2009, the net equity investment by FIIs in India is `. 2, 52,233.10 crore.

3. Objectives of the Study

1. To examine whether FIIs have any influence on Equity Stock Market.
2. To know the volatility of stocks due to FIIs.
3. To analyze the trends of Foreign Institutional Inflows.
4. To study the activities such as investments and sales by the FIIs in the recent past

4. Hypothesis

Null Hypothesis (Ho): There is no influence of FIIs on the equity stock market

Alternative Hypothesis (Ha): There is an influence of FIIs on equity Stock market.

5. Research Methodology

There are two types of data i.e. primary and secondary. The present study is mainly based on secondary data. The researcher has used various websites relating to stock market and FII for the study. The surveys and articles publish in newspaper, journals, various books, periodicals, relating to the subject has provided useful data. The collected data will be classified, analyzed and tabulated as per the requirement.

6. Data Analysis

Impact of FII on Indian Stock Market

The Indian government has established a regulatory framework for three separate investment avenues: foreign direct investment; investment by foreign institutional investors; and investment by foreign venture capital investors. While these investment alternatives have created clear avenues for foreign investment in India, they remain subject to many conditions and restrictions which continue to hamper foreign investment in India. Foreign direct investment is proven to have well-known positive effect through technology spillovers and stable investments tied to plant and equipment, but portfolio capital is associated more closely with volatility and its capacity to be triggered by both domestic as well as exogenous factors, making it extremely difficult to manage and control. Chakrabarti (2001) has examined in his research that following the Asian crisis and the bust of info-tech bubble internationally in 1998-99 the net FII has declined by US$ 61 million. But there was not much effect on the equity returns. This negative investment would possibly disturb the long-term relationship between FII and the other variables like equity returns, inflation, etc. has marked a regime shift in the determinants of FII after Asian crisis. The study found that in the pre-Asian crisis period any change in FII found to have a positive impact on the equity returns. But in the post-Asian crisis period it was found the reverse relation that change in FII is mainly due to change in equity returns.

FIIs have played a very important role in building up India’s forex reserves, which have enabled a host of economic reforms. FIIs are now important investors in the country’s economic growth despite sluggish domestic sentiment. The Morgan Stanley report notes that FII strongly influence short-term market movements during bear markets. However, the correlation between returns and flows reduces during bull markets as other market participants raise their involvement reducing the influence of FIIs. The correlation between foreign inflows and market returns is high during bear and weakens with strengthening equity prices due to increased participation by other players. The equity return has a significant and positive impact on the FII. But given the huge volume of investments, foreign investors could play a role of market makers and book their profits, i.e., they can buy financial assets when the prices are declining thereby jacking-up the asset prices and sell when the asset prices are increasing. Hence, there is a possibility of bi-directional relationship between FII and the equity returns. India opened its doors to foreign institutional investors in September, 1992. This event represents a landmark event since it resulted in effectively globalizing its financial services industry. The decision to open up the Indian financial market to FII portfolio flows was influenced by several factors such as the disarray in India's external finances in 1991 and a disorder in the country's capital market. Aimed primarily at ensuring non-debt creating capital inflows at a time of an extreme balance of payment crisis and at developing and disciplining the nascent capital market, foreign investment funds were welcomed to the country.

Trends in FII Investment in India

The term "trend analysis" refers to the concept of collecting information and attempting to spot a pattern, or trend, in the information. Although trend analysis is often used to predict future events, it could be used to estimate uncertain events in the past. In statistics, **trend analysis** often refers to techniques for extracting an underlying pattern of behavior in a time series which would otherwise be partly or nearly completely hidden by noise.

Table1 : Trend in FII Investment (Year: 2006)

Month	Equity (` crores)		
	Gross purchases	Gross sales	Net Investment
Apr-06	40,415.60	39,826.40	589.2
May-06	49,338.20	57,585.50	-8,247.20
Jun-06	39,845.60	38,427.40	1,418.20
Jul-06	24,983.10	23,535.20	1,447.90
Aug-06	28,104.60	23,330.60	4,774.00
Sep-06	33,014.20	26,782.50	6,231.70
Oct-06	27,591.94	23,013.30	4,578.54
Nov-06	31,146.96	24,572.22	6,574.74
Dec-06	37,419.50	40,830.40	-3,410.90

Source: compiled data

On observation of the above table of trends in monthly Gross Purchases, the Gross Purchases of FIIs in India registered a record of ` 37420 crores in the month December 2006, a growth rate of 83% compared to the previous month November 2006. However it is less than to month May but it shows increase trend which shows the positive impact. During the month December 2006 FIIs Gross Sales amounted an increase ` 40830 crores when compared to ` 24572 crores. The FIIs Gross Sales shows an upward trend with reference to the base month of April 2006 when the Gross Sales where only ` 39826 crores. From the above given table, we can see that the net inflow of FII shown huge decline in MAY-06. The decline is because of the lower portfolio inflows, as a result of which the net investment has dropped in this month. However, after that there was gradually increase in trend. But again there was sharp reversal in the month DEC-06. The country has to work on specific measures to encourage more FII investments.

Table 2 : Trends In FII Investment (Year: 2007)

Month	Equity (` crores)		
	Gross purchases	Gross sales	Net Investment
Jan-07	47,506.77	47,412.32	94.45
Feb-07	51,568.90	45,503.90	6,065.00
Mar-07	50,552.60	49,149.30	1,403.30
Apr-07	44,701.50	39,269.70	5,431.80
May-07	51,574.90	47,000.40	4,574.50
Jun-07	54,748.50	46,808.90	7,939.60
Jul-07	80,216.20	62,083.40	18,132.80
Aug-07	58,223.20	65,750.00	-7,526.80
Sep-07	70,694.60	51,746.10	18,948.50
Oct-07	124,882.30	109,304.70	15,577.60
Nov-07	89,510.00	94,107.40	-4,597.40
Dec-07	80,988.10	76,091.40	4,896.70

Source: compiled data

On observation of the above table of trends in monthly Gross Purchases, the Gross Purchases of FIIs in India registered a record of ` 80988 crores in the month December 2007, a decline rate of 90% compared to the previous month November 2007. However it is more than the month January but it shows decrease trend compare to the month October. During the month December 2007 FIIs Gross Sales amounted a decrease ` 76091 crores when compared to ` 94107 crores. The FIIs Gross Sales shows a downward trend. However it is comparatively more than the month January 2007. Above table concludes that**,** there were fewer declines in net inflow of FII during YEAR-07 compared to YEAR-06 but there were more fluctuations in 2007 compared to 2006 which shows instability of FII in our country due to various reasons.

Table 3 : Trends in FII Investment (Year: 2008)

Month	Equity (` crores)		
	Gross purchases	Gross sales	Net Investment
Jan-08	103,129.00	120,455.30	-17,326.30
Feb-08	76,437.10	71,017.20	5,419.90
Mar-08	70,322.70	70,198.30	124.04
Apr-08	62,969.60	61,990.60	979.00
May-08	60,640.30	65,557.60	-4,917.30
Jun-08	61,490.60	72,068.30	-10,577.70
Jul-08	64,526.30	65,539.20	-1,012.90
Aug-08	46,401.90	48,467.70	-2,065.80
Sep-08	68,029.60	75,966.60	-7,937.00
Oct-08	49,339.30	63,587.90	-14,248.60
Nov-08	28,273.80	31,094.10	-2,820.30
Dec-08	29,197.60	27,866.70	1,330.90

Source: compiled data

On observation of the above table of trends in monthly Gross Purchases, the Gross Purchases of FIIs in India registered of ` 29198 crores in the month December 2008, it is comparatively high from the month November but actually it shows a downward trend while compare it with the base month January 2008. During the month December 2008 FIIs Gross Sales amounted a decrease ` 27867 crores when compared to ` 31094 crores. The FIIs Gross Sales shows a downward trend with reference to the base month of January 2006 when the Gross Sales were ` 120455 crores.

Above given table shows huge decline in many months during year-08.This shows critical position of FII inflows in our country. Market analysts attribute this largely to redemption pressures, triggered in part by uncertainty in the global markets coupled with the expected slowdown in economy. As per data furnished by companies, of the 50 Nifty companies that have disclosed their shareholding details as on 2008, there has been a decline in the FII holding in 18 companies.

Table – 4 Trends in FII Investment (Year: 2009)

Month	Equity (` crores)		
	Gross purchases	Gross sales	Net Investment
Jan-09	30,764.70	33,774.20	-3,009.50
Feb-09	21,863.20	24,553.70	-2,690.50
Mar-09	32,177.40	31,908.40	269.00
Apr-09	40,881.70	33,497.50	7,384.20

May-09	77,886.40	57,279.50	20,606.90
Jun-09	64,250.00	61,025.10	3,224.90
Jul-09	70,256.40	58,631.10	11,625.30
Aug-09	51,979.90	47,951.20	4,028.70
Sep-09	69,884.90	49,945.40	19,939.50
Oct-09	69,514.80	61,210.70	8,304.10
Nov-09	47,457.10	42,139.30	5,317.80
Dec-09	49,088.00	38,720.80	10,367.20

Source: compiled data

On observation of the above table of trends in monthly Gross Purchases, the Gross Purchases of FIIs in India registered of `49088 crores in the month December 2009; a growth rate of 97% compared to the previous month November 2006.However it is less than to month May 2009 but it shows increase trend which shows the positive impact. During the month December 2009 FIIs Gross Sales amounted a decrease trend ` 38721 crores when compared to it with previous month i.e., ` 42139 crores. In the year 2009 he FIIs Gross Sales shows a fluctuation in the gross sales amount sometimes it peak the height and sometime it fall apart. From the above given data, we can see that after the major decline in the last year, in 2009 FII flocked back to bet on the India. This is the highest ever inflow in the country. However, this was the sign of revival of economies, the trend turned positive during this year and overseas investors started betting big on the domestic bourses.

Table - 5 Trends in FII Investment (Year: 2010)

Month	**Equity (` crores)**		
	Gross purchases	**Gross sales**	**Net Investment**
Jan-10	62,070.30	62,373.20	5,902.40
Feb-10	40,795.70	38,682.20	2,113.50
Mar-10	60,009.60	41,176.00	18,833.60
Apr-10	61,602.90	51,838.40	9,764.50
May-10	50,614.80	59,244.70	-8,629.90
Jun-10	54,930.60	44,686.00	10,244.60
Jul-10	59,332.40	42,211.80	17,120.60
Aug-10	61,973.40	50,788.10	11,185.30
Sep-10	81,024.80	51,829.00	29,195.80
Oct-10	85,490.20	60,719.40	24,770.80
Nov-10	89,082.60	70,562.70	18,519.90
Dec-10	61,475.30	59,999.20	1,476.10

Source: compiled data

On observation of the above table of trends in monthly Gross Purchases, the Gross Purchases of FIIs in India registered a record of ` 61475 crores in the month December 2010, a decline rate of 70% compared to the previous month November 2010. We can see that it fall in the month February but after that it continuously increasing but it again fall in the month December 2010. During the month December 2010 FIIs Gross Sales shows a decrease trend ` 59999 crores when compared to it with previous month i.e., ` 70563 crores. In the year 2010 the FIIs Gross Sales shows a fluctuation in the gross sales amount sometimes it peak the height and sometime it fall apart. From the above data we can see that an increase trend of FIIs in the stock market continues in the YEAR 2010 also. However there is a decline in the month May 2010 but after that it continues to rise. At the last quarter of the year it shows the downward trend but not shows the negative impact.

F-Statistic:

$$F = \frac{\text{explained variance}}{\text{unexplained variance}}$$

Testing the Hypothesis

Null Hypothesis (H_0): There is no influence of FIIs on the Stock market

Alternative Hypothesis (Ha): There is an influence of FIIs on Stock market.

Table- 6 F-statistics FII and S&P CNX Nifty (Year: 2006)

Month	Mean		Variance		NET Investment	Indices
	Buy Value	Sell Value	Buy Value	Sell Value		
Apr	2194.29	2332.11	1144062.94	653198.32	589.02	3495.28
May	1991.71	2517.10	278533.17	561361.14	-8,247.20	3437.41
Jun	1646.30	1611.88	339868.17	276253.11	1,418.20	2914.91
July	1151.83	1181.08	125869.97	45909.05	1,447.90	3092.11
Aug	1155.17	1062.48	104544.30	49068.33	4,774.00	3305.58
Sep	1421.73	1272.56	131607.38	66975.26	6,231.70	3492.13
Oct	1752.05	1595.70	411820.97	272630.19	4,578.54	3649.43
Nov	2307.74	2161.80	384830.91	359021.11	6,574.74	3868.61
Dec	1702.88	1748.44	449668.16	425554.16	-3,410.90	3910.18

Source: compiled data

From the above table of f-test analysis we can see that the net investment of FIIs becomes negative in the month May 2006 and December 2006. However, the all over result shows the rosy picture of the inflow of the foreign investment. Because of negative amount of FIIs net investment, its impact can be seen on the Indian equity stock market. In the month of May 2006, the indices amount falls from 3495.28 to 3437.41. Therefore we can say that FIIs have significant influence on Equity Indexes Nifty**.**

Tabale 7 : F-statistics FII and S&P CNX Nifty (Year: 2006)

Month	Observations		Degree of freedom		F test	critical value	Description-on
	Buy Value	Sell Value	Buy Value	Sell Value			
Apr	17	17	16	16	1.75	2.33	Accepted
May	22	22	21	21	0.50	0.48	Rejected
Jun	23	23	22	22	1.23	2.05	Accepted
July	21	21	20	20	2.74	2.12	Rejected
Aug	22	22	21	21	2.13	2.08	Rejected
Sep	21	21	20	20	1.97	2.12	Accepted
Oct	20	20	19	19	1.51	2.17	Accepted
Nov	20	20	19	19	1.07	2.17	Accepted
Dec	20	20	19	19	1.06	2.17	Accepted

Source: compiled data

Above table shows the calculation table of F-test for the year 2006. Hypothesis: Null Hypothesis (H_0): There is no influence of FIIs on the equity stock market Alternative Hypothesis (Ha): There is an influence of FIIs on Stock market. Comparing the F-test to the critical value at the 5% level the last column shows the result of analysis. From that result we can exhibit that the in the year 2006 the null hypothesis are mostly accepted which shows that there is no influence of FIIs in the Indian equity stock market.

Table 8 F-statistics FII and S&P CNX Nifty (Year: 2007)

Month	Mean		Variance		NET Investment	Indices
	Buy Value	Sell Value	Buy Value	Sell Value		
Jan	2283.80	2305.46	429790.32	370295.9464	94.45	4037.07
Feb	2423.62	2437.44	351314.81	634584.9037	6,065.00	4083.74
March	2227.03	2252.49	512241.54	622423.675	1,403.30	3731.13
Apr	2182.38	2095.65	329078.78	213304.4899	5,431.80	3947.28
May	2205.54	2211.25	379124.56	328052.7875	4,574.50	4178.82
Jun	2174.95	2239.77	149356.27	229373.5808	7,939.60	4222.17
July	3170.79	2813.12	547414.38	595357.8791	18,132.80	4474.18
Aug	2385.43	2946.27	456857.18	1531275.874	-7,526.80	4301.36
Sep	3383.23	2565.33	2355414.39	691572.4002	18,948.50	4659.92
Oct	5562.94	5198.56	1636022.69	3525772.627	15,577.60	5341.95
Nov	3784.93	4407.17	1948699.29	1820611.156	-4,597.40	5748.58
Dec	3760.72	4119.66	1062295.04	1575241.098	4,896.70	5963.57

Source: compiled data

Above table exhibit that in the month of August 2007 and November 2007, there is negative amount of net investment which means in that month the sell value is higher than the buy value which adversely affects our stock market. However, in this year mostly the amounts of net investments are positive, which indicates that there was much foreign investments in our market. This is very beneficial for our country.

Table 9 : F-statistics FII and S&P CNX Nifty (Year: 2007)

Month	Observations		Degree of freedom		F test	critical value	Description-on
	Buy Value	Sell Value	Buy Value	Sell Value			
Jan	20	20	19	19	1.16	2.17	Accepted
Feb	19	19	18	18	0.55	0.45	Rejected
March	21	21	20	20	0.82	0.47	Rejected
Apr	20	20	19	19	1.54	2.17	Accepted
May	21	21	20	20	1.16	2.12	Accepted
Jun	21	21	20	20	0.65	0.47	Rejected
July	22	22	21	21	0.92	0.48	Rejected
Aug	22	22	21	21	0.30	0.48	Accepted
Sep	20	20	19	19	3.41	2.17	Rejected
Oct	22	22	21	21	0.46	0.48	Accepted
Nov	22	22	21	21	1.07	2.08	Accepted
Dec	19	19	18	18	0.67	0.45	Rejected

Source: compiled data

Above table shows the calculation table of F-test for the year 2007. Comparing the F-test to the critical value at the 5% level the last column shows the result of analysis. From that result we can exhibit that the in the year 2007 the null hypothesis are neither mostly rejected nor mostly accepted, which shows that we cannot predict the impact of FIIs in the Indian equity stock market.

Table 10 : F-statistics FII and S&P CNX Nifty (Year: 2008)

Month	Mean		Variance		NET Investment	Indices
	Buy Value	Sell Value	Buy Value	Sell Value		
Jan	4242.59	5522.91	1361640.83	4403394.0567	-17,326.30	5756.35
Feb	3060.36	3253.27	639296.53	977469.4201	5,419.90	5201.56
March	3804.03	4013.13	526322.95	691369.3475	124.04	4769.50
Apr	2977.35	3104.19	270143.72	260958.5189	979 .00	4901.91
May	2949.15	3283.93	377483.64	558153.3615	-4,917.30	5028.66

July	2697.86	2898.03	849767.31	406711.5317	-1,012.90	4124.60
Aug	2223.03	2495.83	998016.64	595283.5792	-2,065.80	4417.12
Sep	3139.63	3735.00	2013768.79	2018369.683	-7,937.00	4206.69
Oct	2420.68	3203.36	816649.19	1388087.068	-14,248.60	3210.22
Nov	1560.77	1864.05	221270.56	127758.8965	-2,820.30	2834.79
Dec	1398.22	1348.95	419214.51	248106.8937	1,330.90	2895.80

Source: compiled data

The above table shows more negative amount of net investments of FIIs which shows that there is negative impact of FIIs on our stock market. This indicates that foreign investors made more selling Indian equity stock due to adverse economic situations. This in turn negatively affected our stock market.

Table 11 : F-statistics FII and S&P CNX Nifty (Year: 2008)

Month	**Observations**		**Degree of freedom**		**F test**	**Critical value**	**Description-on**
	Buy Value	**Sell Value**	**Buy Value**	**Sell Value**			
Jan	23	23	22	22	0.31	0.49	Accepted
Feb	21	21	20	20	0.65	0.47	Rejected
March	18	18	17	17	0.76	0.44	Rejected
Apr	20	20	19	19	1.04	2.17	Accepted
May	20	20	19	19	0.68	0.46	Rejected
Jun	21	21	20	20	0.54	0.47	Rejected
July	23	23	22	22	2.09	2.05	Rejected
Aug	20	20	19	19	1.68	2.17	Accepted
Sep	21	21	20	20	1.00	0.47	Rejected
Oct	20	20	19	19	0.59	0.46	Rejected
Nov	18	18	17	17	1.73	2.27	Accepted
Dec	21	21	20	20	1.69	2.12	Accepted

Source: compiled data

Above table shows the calculation table of F-test for the year 2008. Comparing the F-test to the critical value at the 5% level the last column shows the result of analysis. From that result we can exhibit that the in the year 2008 the null hypothesis are rejected which shows that there is an impact of FIIs in the Indian equity stock market. Though the rejected values are more than the accepted value but we can t ignore the accepted values because there is a minor difference between them.

Table 12 : F-statistics FII and S&P CNX Nifty (Year: 2009)

Month	Mean		Variance		NET Investment	Indices
	Buy Value	Sell Value	Buy Value	Sell Value		
Jan	1422.39	1681.03	426142.74	583350.3949	-3,009.50	2854.36
Feb	1161.38	1310.51	91123.20	100296.5909	-2,690.50	2819.21
March	1582.35	1616.52	389341.04	150271.1724	269.00	2802.27
Apr	2286.56	1959.50	608892.83	382724.1844	7,384.20	3359.83
May	3650.85	2956.54	6789271.01	3302690.611	20,606.90	3957.96
Jun	2807.61	2811.48	720172.74	634878.3333	3,224.90	4436.37
July	2564.80	2624.13	826936.51	672191.3774	11,625.30	4343.10
Aug	2177.26	2356.65	166398.41	266679.7846	4,028.70	4571.11
Sep	3219.89	2587.73	1596087.87	460632.2502	19,939.50	4859.31
Oct	3200.33	3200.31	976410.50	1177624.735	8,304.10	4994.11
Nov	2438.10	2352.69	219642.36	223391.7663	5,317.80	4953.54
Dec	2144.29	1942.34	315124.09	244787.6491	10,367.20	5099.74

Source: compiled data

The above table shows the positive amount of net investments which indicates that FIIs had positively influence on our stock market. Because there is more buying of our stock than selling due to good economic situations of our country. Foreign investors are been attracted to our stock market during this year.

Table 13 : F-statistics FII and S&P CNX Nifty (Year: 2009)

Month	Observations		Degree of freedom		F test	Critical value	Description-on
	Buy Value	Sell Value	Buy Value	Sell Value			
Jan	20	20	19	19	0.73	0.46	Rejected
Feb	19	19	18	18	0.91	0.45	Rejected
March	20	20	19	19	2.59	2.17	Rejected
Apr	17	17	16	16	1.59	2.33	Accepted
May	20	20	19	19	2.06	2.17	Accepted
Jun	22	22	21	21	1.13	2.08	Accepted
July	23	23	22	22	1.23	2.05	Accepted
Aug	21	21	20	20	0.62	0.47	Rejected
Sep	20	20	19	19	3.46	2.17	Rejected
Oct	20	20	19	19	0.83	0.46	Rejected
Nov	20	20	19	19	0.98	0.46	Rejected
Dec	21	21	20	20	1.29	2.12	Accepted

Source: compiled data

Above table shows the calculation table of F-test for the year 2009. Comparing the F-test to the critical value at the 5% level the last column shows the result of analysis. From that result we can exhibit that the in the year 2007 the null hypothesis are mostly rejected. Therefore we conclude from the test analysis that there is an influence of FIIs in the Indian equity stock market.

Table 14 : F-statistics FII and S&P CNX Nifty (Year: 2010)

Month	Mean		Variance		NET Investment	Indices
	Buy Value	Sell Value	Buy Value	Sell Value		
Jan	2881.29	3225.07	911163.91	1290321.19	5,902.40	5156.22
Feb	1950.48	2049.08	3703429.07	2192238.99	2,113.50	4839.57
March	2842.50	2138.11	540713.80	349394.83	18,833.60	5178.15
Apr	2753.05	2619.68	372899.35	329375.82	9,764.50	5294.76
May	2394.39	2994.81	454337.46	582742.27	-8,629.90	5052.97
Jun	2358.09	2007.46	520939.14	202034.79	10,244.60	5187.78
July	2429.51	2051.30	525225.28	226760.84	17,120.60	5359.75
Aug	2716.34	2386.31	235776.36	293004.52	11,185.30	5457.24
Sep	3738.01	2613.61	1434195.32	350160.51	29,195.80	5811.48
Oct	3700.29	3015.14	931791.24	800151.80	24,770.80	6096.11
Nov	3816.27	3553.50	3703429.07	2192238.99	18,519.90	6055.33
Dec	2672.86	2702.02	911163.91	1290321.19	1,476.10	5971.32

Source: compiled data

From the above table, it is indicated that the year 2010 is most beneficial year compared to above four years. During this year there is huge buying of our stock by the FIIs. This means that foreign investors had made huge investments in our equity stock market due to analyst's prediction that the FII inflow was to double and even triple in 4 years. There was another major change made in year 2009-10 that there increased the equity participation from 51% to 71% for foreign investors.

Table 15 : F-statistics FII and S&P CNX Nifty (Year: 2010)

Month	Observations		Degree of freedom		F test	Critical value	Description-on
	Buy Value	Sell Value	Buy Value	Sell Value			
Jan	20	20	19	19	0.58	0.46	Rejected
Feb	20	20	19	19	0.79	0.46	Rejected
March	21	21	20	20	1.55	2.12	Accepted

Apr	20	20	19	19	1.13	2.17	Accepted
May	13	13	12	12	0.78	0.37	Rejected
Jun	22	22	21	21	2.58	2.08	Rejected
July	22	22	21	21	2.32	2.08	Rejected
Aug	22	22	21	21	0.80	0.48	Rejected
Sep	21	21	20	20	4.10	2.12	Rejected
Oct	21	21	20	20	1.16	2.12	Accepted
Nov	21	21	20	20	1.69	2.12	Accepted
Dec	22	22	21	21	0.71	0.48	Rejected

Source: compiled data

Above table shows the calculation table of F-test for the year 2010. Comparing the F-test to the critical value at the 5% level the last column shows the result of analysis. From that result we can exhibit that the in the year 2010 the null hypothesis are mostly rejected, which shows that there is an influence of FIIs on the equity stock market.

7. Limitation of the Study

- The selected sample size is only from NSE 50.
- This study is based on secondary data which has been taken from published Annual report and from published journals and magazines and therefore its findings depend entirely on the accuracy of such data
- The inference made is purely from the past years performance.
- The present study is largely based on accounting techniques and statistical techniques and they have their own limitations which also apply to the study.

8. Findings of the Study

1. It is an accepted fact now that FIIs have significant influence on the movements of the stock market indexes in India. If one looks at the total FII trade in equity in India and its relationship with the stock market major indexes like Nifty, it shows a steadily growing influence of FIIs in the domestic stock market.
2. NSE also observes that in the Indian stock markets FIIs have a disproportionately high level of influence on the market sentiments and price trends. This is so because other market participants perceive the FIIs to be infallible in their assessment of the market and tend to

follow the decisions taken by FIIs. This „herd instinct displayed by other market participants amplifies the importance of FIIs in the domestic stock market in India.

3. Results of this study show that not only the FIIs are the major players in the domestic stock market in India, but their influence on the domestic markets is also growing. Data on trading activity of FIIs and domestic stock market turnover suggest that FII s are becoming more important at the margin as an increasingly higher share of stock market turnover is accounted for by FII trading.

4. The findings of this study also indicate that Foreign Institutional Investors have emerged as the most dominant investor group in the domestic stock market in India. Dominant position of FIIs in the Nifty companies, it is not surprising that FIIs are in a position to influence the movement of Nifty in a significant way.

9. Conclusion

This paper provides a preliminary analysis of FII flows to India and their influence on the prices of stocks in the Indian stock market. A more detailed study using daily data of equity returns for a longer period or, better still, disaggregated data showing the transactions of individual FIIs at the stock level can help address questions regarding the extent of herding or return-chasing behaviour among FIIs which now account for a significant part of the capital account balance in our balance of payments. The extent to which FII participation in Indian markets has helped lower cost of capital to Indian industries is also an important issue to investigate. Broader and more long-term issues involving foreign portfolio investment in India and their economy-wide implications have not been addressed in this paper. Such issues would invariably require an estimation of the societal costs of the volatility and uncertainty associated with FII flows. A detailed understanding of the nature and determinants of FII flows to India would help us address such questions in a more informed manner and allow us to better evaluate the risks and benefits of foreign portfolio investment in India.

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