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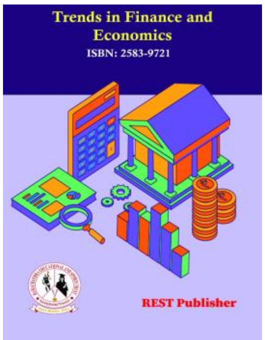

A study on impact of foreign institutional investment in Indian markets

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Abstract: *Enabling the readers to understand the impact of the foreign institutional investment in Indian markets. This will enhance the readers understanding importance of FII in the growing economies like Indian financial market. This about the opportunities that are brought by foreign institutional investors to the Indian market. Study also enables the readers to understand the importance of FIIs and easy access of the capital for different businesses and startups.*

Keywords: *Foreign direct investments, Foreign institutional investments, Stock markets, Capital.*

1. INTRODUCTION

Foreign institutional investors are investment funds that are based outside of a country, and which invest in a country's financial markets. FIIs Invest in hedge fund, insurance companies, pension funds, investments banks and mutual funds. FIIs act as one of the main sources of capital for developing nations which helps these investors earn higher return of investment on investing in developing nations as compared to developed nations. FIIs provide cheap capital and access to the global market. Institutional investors play a very crucial role in the financial markets of a country which motivates different kinds of businesses to grow themselves over and helps them to grow and enter new industries.

In the recent years these financial institutional investors have made a humongous investment in developing countries like India and China. India has attracted a lot of foreign institutional investments as it has been a fast-growing market and has been attractive destination for foreign investors who have got better return on investment than the mature developed nations. This acts as the motivation for foreign investors to make investment in developing nations. The limit for overall investment for FIIs in the Indian company is 24 percent of the paid-up capital and 10 percent for NRIs and PIOs.

The NSE and BSE have provided a steep growth in the past years which has attracted foreign investments in the Indian market. This has made many domestic as well as foreign investor more optimistic about Indian market and has made easy and cheap access of capital which helps in the growth of the economy.

FII flows in India:

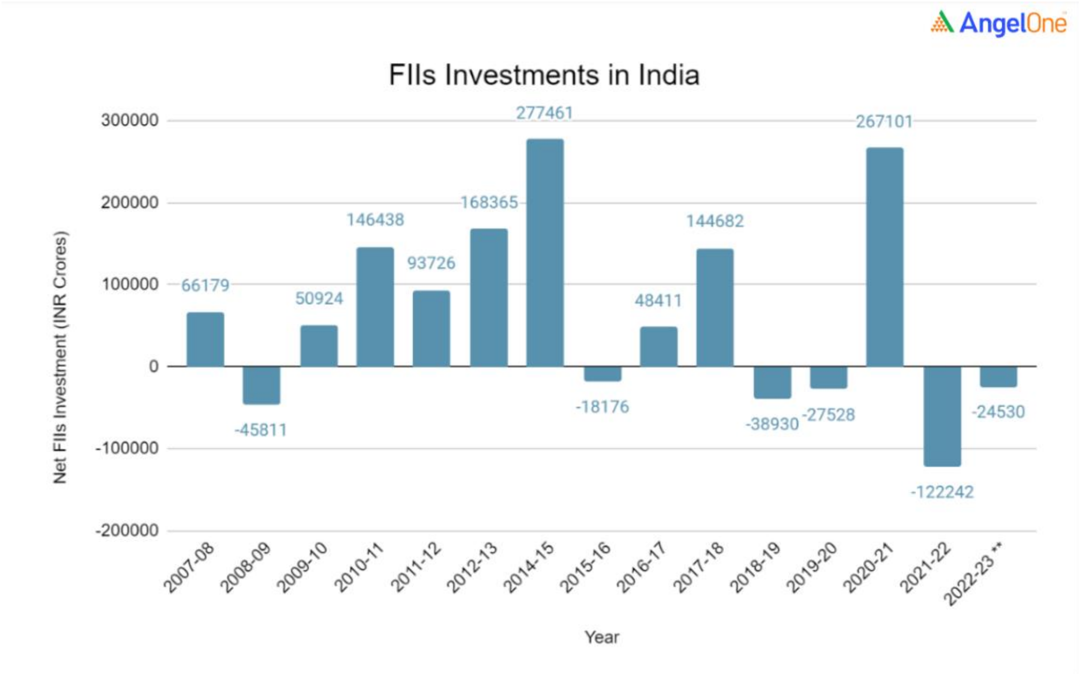

FIGURE 1. Shows the investment of foreign institutional investments in the Indian market. (Source: https://www.angelone.in/)

- The above table explains how in the recent years India has seen increased foreign direct investments in the Indian market.
- In the year 2007-08 where the investment force about Rs 66179 crores and it has approximately seen 4 times the growth in the upcoming 5 years.
- By the year 2022-23 the foreign institutional investments have a negative investment.

The domestic investors become more optimistic about the financial market when this kind of investment is increased in the economy and the domestic investor tends to invest more in the market which causes the market to rise. Similarly, when these withdraw their money from the market the domestic investor also tends to become pessimistic about the market which results in the market to fall.

2. LITERATURE REVIEW

Rahul Dhiman (2012) research work tells us how the market movement is made by the FIIs, and how they contribute to the volatility in the market. The study also tells of the sub-prime crisis and other economic conditions that has caused liquidity crunch for these institutions. This research concludes that the market is highly influenced by the FIIs but there are also other elements that affect the market.

Karan Walia, **Dr. Rimpi Walia** and **Monica Jain** research work makes us understand the behavioral pattern of FII during the period of 2001 to 2010 and it also examine the volatility of BSE Sensex due to FII. This research concluded that FII largely influences securities.

Dr. Jain Mamta, Ms. Meena Priyanka Laxmi, and Dr. Mathur T.N. (2012) tells us the impact of FIIs on Indian stock market and economy through the correlation between FII and BSE Sensex by the Karl Pearson' coefficient of correlation test. The research attempts to understand the market behavior during the period of 2001 to 2010.

Manjinder Kaur and Sharanjit s. Dhillon finding tells us about both negative as well as adverse impact of US interest rate on FIIs investment and the impact of liberalization policies on FIIs inflows which has helped the market to react positively. The research mainly tells us about the determinants of foreign institutional investors' investment in India. This research not only talks about foreign institutional investments but also other important elements that impact the NSE and BSE. The research also tells us about macroeconomic factors that have significant effect on in the long run investment. They concluded the paper by the view that the economic growth of India has positively seen a growth of FIIs, and this also influences the market positively,

Hemant Kulshrestha research work tells us about the determinants of FIIs affecting the Indian capital market and which play a very crucial role in Indian capital market. It lets us know on how that how liberalization and other economic factors have affected the growth of Indian capital market. This research concludes that FIIs have helped in the improvement of market efficiency and the largest number of FIIs is from the USA.

CH Rajakamal the study delves into various behavioral finance concepts such as overconfidence, perception, representative, anchoring, cognitive dissonance, regret aversion, limited framing, and mental accounting. The research involves surveying 181 investors in Bangalore using a conventional questionnaire to understand the impact of behavioral finance on their decision-making processes. The primary goal is to uncover attitudes towards financial investing, while the secondary objective is to explore the relationship between behavioral finance and investor psychology.

3. OBJECTIVE

- To know the impact of foreign investment in financial market.
- To know the benefit of foreign investment in Indian market.
- To know the disadvantages of foreign investment in financial markets.

4. METHODOLOGY

The study is based on the secondary data available in websites, Surveys, journals, and other research done in the past. This study mainly focuses on the foreign institutional investment and its impact on India. The secondary data have been taken from different relevant sources. The research shows how FIIs have made Indian market more optimistic and accessible to capital from all over the globe. The surveys were taken from google scholar and many other different sources available on google. The data and other information were taken from sites on google whose sources have been clearly mentioned.

5. OVERVIEW

India's FDI inflow have increased in a significant manner since 2000 to the year 2023. This is mainly due to the government's initiative to improve ease of doing business in India. According to the reports from the department for promotion of industry and internal trade India's total FDI inflow stood at 937.58 billion US dollars between April 2000 to June 2023. From April 2002 to June 2023 India's service sector has attracted the highest foreign direct investments equity in flow of 16% amounting to 105.40 billion US dollars. Foreign institutional investment is one of the reasons for the volatility in the stock market and a continuous flow of FIIs increases the financial capital market index and an irregular flow of FIIs decreases the financial capital market index. The Indian stock market is governed the foreign institutional investors. The Indian stock market has seen a steep growth since the commencement of NSE and BSE. The fast-growing Indian market have made foreign investors more interested in Indian market.

Relation between FII investment and Sensex index:

FIGURE 2. Shows the relation between FII investment and nifty50 index (Source: https://www.livemint.com/)

In the above figure we can see that with the increase in the FIIs in the Indian market the Nifty50 return have been positive. This shows us that the Indian Financial market is directly proportional to the FIIs. The FIIs invests in India when the Global market is not favorable or under the threat of recession. These investors invest in developing nations when their economy is under threat or cannot provide return that a developing nation can provide. But when the situation of the global market is favorable then they would withdraw their investment from the developing nation and would invest them where they can get better returns. This makes the Stock market of a country volatile, and the domestic investors suffer losses.

If we take an example FIIs had bought 9800 Cr and 50000 Cr in the cash markets in the months of November and December 2023 which took the market from a low of 18838 to an all-time high of 21835 in just a matter of 2 months. When in October 2021 when the market was at an all-time high of 18600 the FIIs were selling in the market they made the market reach to the bottom of 15180 in June 2022. This tells us that market is surely governed by the FIIs.

For a developing nation FIIs act as one of the most important aspects of the growth in their nation. Most of the developing nation in order to increase their foreign investment take several measures like imposing right policies and ease of doing business in a nation. This helps a nation to achieve their goal of getting foreign investments. The liberal economic policies have enabled the humongous FIIs mainly after the year 1991 when liberalisation, privatization and globalization have made the investment of FIIs easier, and the investors gain more and more returns on their investments.

Foreign institutional investors vs Domestic investors: Foreign institutional investors are the ones with large amount of funds from a developed nation who invest their money in a developing nation to have a good return. Similarly, the domestic investors are the one who invest their money in their own country. The impact of foreign institutional investors has had a positive effect on the domestic investors as when the foreign investor invests a huge amount of funds in Indian market it makes the market to increase which also helps the domestic investors to make their profit. In the past years the Indian stock market has been a perfect destination for FIIs as well as the domestic investor to invest their money in. The FIIs also influence the economic indicators like GDP growth, inflation rates and interest rates. The Indian stock market has had an increasing return due to this investment which has led the country to become economically advanced and improved the availability of funds to start businesses. The domestic investors have always analysed the market before investing and this makes the domestic investor make their savings a way to earn profit. If there is a political instability in the government of a country this may make the FIIs to pullback their money from the market. So, for a country to have a regular FII investment political stability is important. Whereas domestic investors also do the same if there is political instability in the country then domestic investor would avoid making investment of the savings and rely on other sources to earn returns.

6. SUGGESTIONS

Investors are suggested to make the maximum use of the past data to look onto the trends of the FIIs investment into the market and how their investments impact the stock market. This will help both domestic and foreign investors to make the most out of the market. Wars in different country has also made it possible for the foreign investors to park their money in other growing countries like India and China which are seeing a little or no impact of war. These growing economies are playing a major role in the growth of foreign investors, and they are relying on these countries to get more returns than their own countries. The domestic investors can take advantage of the growing Indian economy and FIIs to invest more and more savings into the market which can improve their returns. The NSE and BSE has been one of the growing stock exchanges in all over the world and investors are optimistic about these stock exchanges which has helped the companies to get more and more funds and has also boost the Indian economy.

7. CONCLUSION

By this study we conclude that the volatility of Indian stock market is directly related to the FIIs as their investment make the market move. The FIIs invest in growing nations like India and China where they can earn more returns to their investments than compared to developed economies. The growing economies get access to capital easily and the FIIs get to earn more returns. Before investing in a developed nation, the FIIs look after the rules and regulations imposed by the government in a country. It also looks after the ease of doing business in a country. They also look after the stability of a government in a nation before investing. These measures help the FIIs take better decisions to invest in a nation's capital market. Factors like government policies, budgets, inflation, economic and political conditions, etc. Foreign institutional investment is one of the important main reasons for the growth of a country's stock exchange growth. In recent years, due to the increased investment by FIIs has made the NSE and BSE to its highest ever. The paper also shows us how the FIIs impact the Indian stock market. These FIIs also help in the growth of Indian economy which has seen an exponential growth in recent years. The FIIs helps in reducing the cost of capital and provides cheap global credit. It can Improve domestic savings and investment and motivate the domestic investors to invest in the Indian market. These measures also make other people more optimistic about Indian economy a helps them to strengthen the economy. The major reasons for the Indian economy to improve is the policies, development project and political stability that attracts FIIs which mobilize more investment towards the Indian economy.

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