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A STUDY ON DOMESTIC INSTITUTIONAL INVESTORS IN INDIA

Dr.B.Kirubashini*   Ms.E.Ranjitha**
**Associate Professor and Head,PSG College of Arts and Science.*
***Research Scholar, PSG College of Arts and Science.*

Abstract
The purpose of this paper was to know the performance of Domestic Institutional Investors in India. Fluctuations of Indian rupee value were also the major fact in the trading activity of Domestic Institutional Investors. The objective of the study is to analyze the overall investment pattern of Domestic Institutional Investors during the period extending from 2009 to 2014. The major findings of the study revealed that to have a positive trend of the upcoming years, DII should focus on long term investments instead of focusing on immediate returns. Our Indian stock exchanges (BSE & NSE) can provide more data on the securities traded in the market.

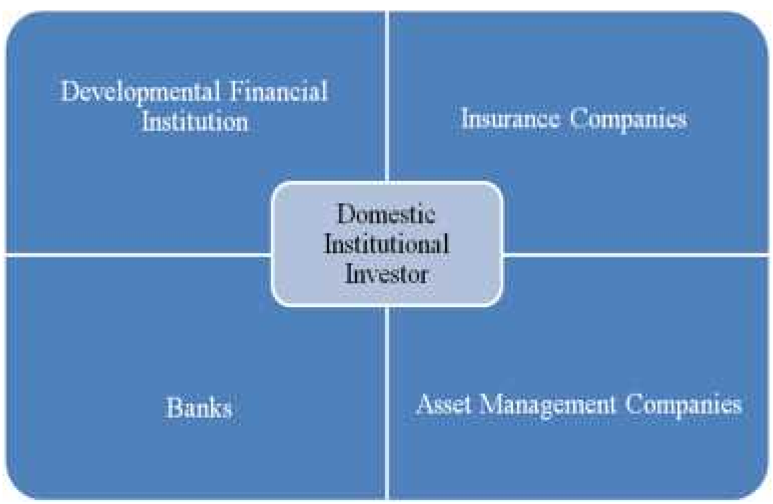
Keywords: Domestic Institutional Investors, Trading Activity, Indian Stock Exchanges and Investment.

Introduction

Domestic institutional investors are those institutional investors which undertake investment in securities and other financial assets of the country they are based in Institutional investment is defined to be the investment done by institutions or organizations such as banks, insurance companies, mutual fund houses, etc in the financial or real assets of a country. Simply stated, domestic institutional investors use pooled funds to trade in securities and assets of theircountry. These investment decisions are influenced by various domestic economic as well as political trends. In addition to the foreign institutional investors, the domestic institutional investors also affect the net investment flows into the economy. Domestic Institutional Investors or DII refers to the Indian institutional investors who are investing in the financial markets of India. The Domestic Institutional Investors activity is also based on BSE and NSE on capital market Segment and it is assembled from trades that are executed by Insurances, DFIs, MFs, Banks and New Pension System.

Domestic institutional investor (DII) is a term which refers to Indian mutual fund companies, life insurance companies and banks. Traditionally, Indian stock market were dependent on the money flow from outside the country for sustainable rallies. These players are foreign financial institutions which trade in Indian stock markets. FIIs have consistently dominated the Indian stock market and its rise and fall is directly related to their investments in India.

DIIs will invest most their funds in Indian equity market so they are more secured and reliable and therefore rise in their investment is definitely a very positive indication for Indian investors.
Domestic institutional investors are,



Importance of the Study

India has been one of the favorite investment destinations for the foreign institutional investors but post economical recession in west which included most part of the Europe and USA, India became even better for their investment decisions. Indian stock market out performed most of its peers. It helped local Indian investors to garner huge returns over their investment but at the same time, it increased the dependability of Indian stock market on FIIs for its up move. Indian stock market has been

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struggling for last few months and each time there is positive news regarding economical development in west, Indian stock markets tumble down. In the meantime, there is one extremely positive development in India which went almost ignored and that is – rise of DIIs. DIIs have always existed; there is nothing like they never existed. It's just that they have emerged as net buyers in last few months. And now as markets are stabilizing, discussion regarding their role in stability of Indian stock market is heating up. It is imperative for Indian investors to have strong DIIs because the factors outside can easily influence FIIs where as DIIs are much more stable than them. Hence, the study on DII have been undertaken to identify its performance.

Objectives of the study

The overall objective of the study is to analysis the domestic institutional investors trading activity during 2009 to 2014.
Based on the above objective, the following specific objectives were framed:

- To analyze the overall investment pattern of the domestic institutional investor during the period extending from 2009 to 2014.
- To infer the trend in the investment of domestic institutional investor in equity.
- To identify the correlation between the investment of domestic institutional investor and SENSEX.
- To offer suggestions based on the findings.

Methodology

Collection of data

The research is based on the secondary data collected from BSE for SENSEX and various other sectors listed from January 2009 to August 2014.

Tools Used for Analysis

- Descriptive statistics-mean, standard deviation and variance.
- Correlation
- Moving average

Review of Literature

Patnaik, Ila shah, Ajay (2013) made a study on "the investment technology of foreign and domestic institutional investors in an emerging market". In this report they compared the investment technology of foreign versus domestic investors with a focus on decomposing outcomes attributable to asset allocation and security selection. The report provides the significant differences in exposure to systematic asset pricing factors between foreign and domestic investors. A quasi-experimental strategy is introduced, for comparing security selection after controlling for differences in asset allocation. The results show that foreign investors in India fare poorly at security selection, while domestic investors fare well.

Chotibhak Jotikasthira, Christian Lundblad, Tarun Ramadorai (2013) made a study on "How do foreign investors impact domestic economic activity? Evidence from India and China". In this report there has been renewed advocacy for restrictions on international financial flows in the wake of the recent financial crisis. Motivated by this trend, they explore the extent to which cross-border flows affect real economic activity. Unlike previous research efforts that focus on aggregated capital flows, exploit novel data on forced trading by global mutual funds as a plausible source of exogenous flow shocks. Such forced trading is known to generate large liquidity and price effects, but its real impacts have not been studied extensively. They find that both country- and firm-level investment growth rates are significantly affected by these exogenous capital shocks, and that their effect is more pronounced for firms whose marginal investment decisions are more equity-reliant.

Ugur Lel (2012) made a study on "Can Institutional Investors Restrain Earnings Management Activities in Weak Investor Protection Countries? The Role of Foreign and Domestic Institutional Investors". This paper investigates the role that institutional investors play in restraining earnings management activities of firms under varying investor protection environments. Distinguishing between foreign and domestic institutional ownership in a non-US sample of about 190,000 firm-year observations from 75 countries over the 1999 to 2012 period, we find that foreign institutional ownership is associated with lower earnings management. This effect is present almost exclusively for independent foreign institutional investors and for firms in weak investor protection countries. A similar effect of independent foreign investors is documented for firms with greater growth opportunities and capital expenditures, especially in countries with weak investor protection. These results are robust to controlling for unobserved firm heterogeneity, factors that can influence institutional investors' decision to invest in the firm, and alternative earning management measures. We also find weak evidence that domestic institutional investments are associated with higher (lower) earnings management when investor protection is weak (strong).

Overall, our results suggest that independent foreign institutional investors provide an effective cross-border governance mechanism in curbing earnings management activities of firms in absence of strong legal protection, thereby helping reduce the governance disparity across countries.

Analysis and Interpretation

Table No.1, Descriptive Statistics of DII Trading Activity during 2009 – 2015

Year	Gross Purchase (In Crores)	GrossSales (In Crores)	Net Purchase/Sales(In Crores)
2015	393783.25	343217.0	50566.25
2014	227548.84	257756.2	-30207.36
2013	259310.21	332361.9	-73051.69
2012	238655.43	294455.52	-55800.09
2011	285186.72	255980.95	29205.77
2010	325309.97	344537.36	-19227.39
2009	307843.4	281737.24	26106.16
Mean	2.9109E5	3.0144E5	--1.6392E4
Std Deviation	57488.05	38666.62	39694.37
Variance	3.305E9	1.495E9	1.576E9

Interpretation

The above table shows that the mean, standard deviation and variance of gross purchase were 2.9109E5, 57488.05 and 3.305E9.The mean, standard deviation and variance of gross sale were 3.0144E5, 38666.62 and 1.495E9.The mean, standard deviation and variance of net purchase/sales were -1.6392E4, 39694.37 and 1.576E9.

Table No.2 Moving Average During The Months Of 2009 To 2015

YEAR	Net Purchase	4-Figure Moving Total	2-Figure Moving Total	4-Figure Moving Average	% Of 4-Figure Moving Average
2015	26224.3				
2014	-21478.3				
2013	27814.8	-24246.9	-148802.5	-18600.3125	76.71
2012	-56807.7	-124555.6	-257375.4	-32171.925	25.83
2011	-74084.4	-132819.8	-228646.5	-28580.8125	21.52
2010	-29742.5	-95826.7			
2009	64807.9				

Interpretation

The above table reveals that there was a high percentage of 4-moving average from the year 2012 to 2015 and there is a low percentage of 4-moving average from the year 2009 to 2012. This shows the increasing performance in the percentage of DII trading activity.

Table No.3 Correlation between DII And Sensex

Year	2009	2010	2011	2012	2013	2014	2015	Correlation
DII (in crores)	26106.1	-19227.39	29205.77	-55800.09	-73051.69	-30207.36	50566.25	
SENSEX	17464.81	20509.09	15454.92	119426.71	21170.68	26492.51	29681.77	**1**

Interpretation

From the table, it was inferred that the trading activity of DII and SENSEX are positively correlated. This shows that change in the SENSEX affect the trading activity of DII.

Findings and Suggestions

- The moving average of net purchase/sale has showed a positive impact in the recent months of 2015. In order to continue this positive trend for the upcoming years, DII should focus on long term investments instead of focusing on immediate returns. Our Indian stock exchanges (BSE AND NSE) can provide more data on the securities traded in the market.

- The trading activity of DII and SENSEX are positively correlated. It shows that they are inter related and the changes in SENSEX reflects purchase and sales of DII. The DII can make more returns by investing on sectors which have positive impact when the SENSEX are high.
- The lack of trading volumes on the exchange makes DII a risky proposition. The gross sale of DII is increasing gradually and that impact is on the net purchase/sale.
- The RBI can support DII by implementing monetary and credit policies as regulator payment and settlement systems.
- SEBI has to regulate or promote DII for effective participation of investors by protecting, promoting and regulating their interest in Indian securities market.
- The government can support for a positive trend by allowing to access debt schemes, dedicated trading platforms, reducing transaction cost, reduction in the rate of long term capital gains for tax and tax exemption to “Angel” investors.

Conclusion

The study observed that due to the fluctuation in the currency rate which affects investments of DII and on SENSEX is closely correlated in India and DIIs yield significant influence on the Indian economy. There is little doubt that DII inflows have significantly grown in importance over the last few years. According to findings and results, concluded that DII have high significant impact on the Indian capital market.

However, there are other major factors that are influenced by fluctuation in the currency rate such as crude oil, imports and exports the bourses in the stock market, but DIIs are definitely one of the factors. This signifies that as the value Indian rupee is inflated there will be more investment from the FIIs side because of the capital market is affected the most and on the counterpart DIIs will take hold position as market is going vulnerably to upward direction and will not make any new investment as due to the risk in the market. In the absence of any other substantial form of capital inflows, the potential effects of a reduction in the DII flow into the Indian economy.

Data on trading activity of DIIs are becoming more important at the margin as an increasingly higher share of stock market turnover. Moreover, the findings of this study also indicate that the change in BSE affect DII.

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