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GROWTH OF FOREIGN INSTITUTIONAL INVESTORS IN INDIA

Dr. Pankaj Kumar Shrivastav
Assistant Professor, Department of Commerce, MLKPG College, Balrampur.

Abstract
The Indian market is steadily& firmly growing and had attracted domestic investors' community and foreign investors group in the past .the major part of investment in Indian market is attributed to institutional investors among whom foreign investors are of primary importance. One prominent concern in the matter is whether these foreign investors (FII) direct the Indian stock market .This paper examines whether market movement can be explained by these investors and their impact on the stock markets. FII, because of its short-term nature, can have bidirectional causation with the returns of other domestic financial markets such as money markets, stock markets, and foreign exchange markets. Hence, understanding the determinants of FII is very important for any emerging economy as FII exerts a larger impact on the domestic financial markets in the short run and a real impact in the long run. The present paper is an attempt to find out determinants of foreign institutional investment in India, a country that opened its economy to foreign capital following a foreign exchange crisis. The objective of the study is to find out whether there exist relationship between FII and Indian stock market.

Key Words: FII, Indian Capital Market, Investment Constraints, Balance Of Payment, GDP.

Introduction
India's like Economies, which offer relatively higher growth than the developed economies, have gain favour among investors as attractive investment destinations for foreign institutional investors (FIIs). Investors are optimistic on India and sentiments are favourable following government's announcement of a series of reform measures in recent months. According to a poll conducted by Bank of America Merrill Lynch recently, in which 50 investors participated, India was the most favourite equity market for the global investors for the year 2015 at 43 per cent, followed by China at 26 per cent. The global investment bank is of the view that India remains to be in a structural bull market. India is poised to become the second biggest ecosystem option after the US in the next two years on account of the on-going high growth rates. Several technology based start-ups have received over US$ 2.3 billion in funding since 2010, while over 70 private equity and venture capital funds remain active in the segment. The Union Government permitted the entrance of FIIs in order to inspire the investment arcade and invite external capitals to India.[1] Today, FIIs are permitted to participate in all securities traded on the primary and secondary arcades, comprising equity shares and other securities listed or to be listed on the stock exchanges. The original guidelines were delivered in September 1992. Subsequently, the Securities and Exchange Board of India notified the Foreign Institutional Investors Regulations, 1995 in November 1995.

Objective of the Study
Following are the objective of the study.

- To find out the relationship between FII and Indian Stock Market.
- To determine the behaviour and trend of FII's on Indian stock market.
- To determine the factors that influence investment decision of FII's.
- To examine whether FIIs have any influence on various BSE indices.

Research Methodology
The report examines The Influence of Foreign Institutional Investments on Equity Stock Market in India. The scope of the research comprises of information derived from secondary data from various sources. The various information and statistics were derived from the different sources e.g. websites journals, books etc. Sensex and Nifty was a natural choice for inclusion in the study, as it is the most popular market indices and widely used by market participants for benchmarking. The study period covered under this is for the years 2001- 2015. The study conducted is empirical in nature and hence descriptive research has been conducted. The main source of obtaining necessary data for the study was Secondary Data. This study is empirical in nature and hence secondary data is used to conduct the research. The secondary data constitutes of daily FII flows data and the daily returns of SENSEX and NIFTY from BSE and NSE websites respectively. The analysis has been made by, correlating the FII purchases, sales and net investment with equity market returns to identify whether a relation exists between them. Findings are included which transmits the important points, which were gathered from the study. Regression and correlation techniques have been used for analysis.

Channels of Foreign Institutional Investments in India
Portfolio investments in India include investments in American Depository Receipts & Global Depository Receipts, Foreign Institutional Investments and investments in offshore funds. Before 1992, only Non-Resident Indians and Overseas Corporate

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Bodies were allowed to undertake portfolio investments in India. Thereafter, the Indian stock markets were opened up for direct participation by FIIs.[2] They were allowed to invest in all the securities traded on the primary and the secondary market including the equity and other securities/instruments of companies listed/to be listed on stock exchanges in India.

Market Size

FII's net investments in Indian equities and debt have touched record highs in the past financial year, backed by expectations of an economic recovery, falling interest rates and improving earnings outlook. FIIs have invested a net of US$ 89.5 billion in 2014-15 expected to be their highest investment in any fiscal year. Of this, a huge amount US$ 57.2 billion was invested in debt and it is their record investment in the asset class, while equities absorbed US$ 32.3 billion. India continues to be a preferred market for foreign investors. India-focused offshore equity funds contributed US$ 0.5 billion, whereas India-focused ETFs added a much higher US$ 1.2 billion of the total net inflows of about US$ 1.7 billion into the India-focused offshore funds and ETFs during the quarter ended June 2015.India companies signed merger and acquisition (M&A) deals worth US$ 31.16 billion in January-November 2015.[3]The total M&A transaction value for the month of November 2015 was US$ 2.97 billion involving a total of 47 transactions. In Private Equity, a total of 91 deals worth disclosed value of US$ 1.43 billion were reported in November 2015.

Financial Year Wise Foreign Institutional Investors Investments in INR Equity as on 2015

Financial Year	Equity (INR Crore)	Equity (USD billion)	Equity (USD billion) Cumulative
2001-02	8072	1.49	1.49
2002-03	2527	0.47	1.96
2003-04	39960	7.4	9.36
2004-05	44123	8.17	17.53
2005-06	48801	9.04	26.57
2006-07	25236	4.67	31.24
2007-08	53404	9.89	41.13
2008-09	-47706	-8.83	32.3
2009-10	110221	20.41	52.71
2010-11	110121	20.39	73.1
2011-12	43738	8.10	81.2
2012-13	130284	24.13	105.33
2013-14	81003	13.70	119.03
2014-15	1,09413	18.09	137.12
2015-16	-14,454	-1.93	135.19
Total	744743	135.19	135.19
Source: India Brand Equity Foundation			

All that put together gave them a good arbitrage opportunity in interest rates," Sinha said, adding by and large, FII limits for government securities has been exhausted and the limits for some corporate debt have also been utilized."However, as we get into 2015, US interest rates are expected to rise and Indian rates are expected to fall, which means that these yield differentials will narrow. That may have some negative impact on flows into the Indian debt markets."According to data on the National Securities Depository Ltd (NSDL) website, FIIs have exhausted more than 99% of their total $30 billion investment limit in government securities In the corporate bond market, 74% of the total limit has been exhausted and no fresh investments are allowed in the short term commercial paper segment, according to the NSDL website."The prime reason for the strong inflows in debt is the interest rate trajectory in India. We have already seen a 50 basis points (bps) cut and we will see more in days to come. Apart from yields, it is more about pricing of bonds. FIIs tend to gain on mark to market and in terms of capital gains," said Vaibhav Sanghavi, managing director of Ambit Investment Advisors Pvt. Ltd "Also, India has been a relatively stable currency compared with other emerging markets; and that makes it attractive to invest in Indian debt," added Sanghavi. The Indian rupee has fallen a mere 4.9% in fiscal year 2015, compared with a 30.1% decline in Brazil's real and a 43.5% fall in Russian rouble. Sanghavi. Who expects interest rate cuts 75-100 basis points between now and the end of FY16, expects the flows are likely to continue. But the fact that FIIs' limits to invest in government securities was exhausted could act as a hitch, he said. One basis point is one-hundredth of a percentage point. Inflows into equities were backed by strong expectations that the Narendra Modi government that took charge in May could turn around the sluggish economy and steer it to a strong growth path."It's a long-term story. India is one of the best placed emerging markets in terms of improving economic fundamentals. On a relative scale, India is going to attract continuous flows and going to be a preferred destination," said Sanghavi of Ambit. According to the Economic Survey released on 27

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February, Asia's third-largest economy is set to grow by 8.1-8.5% in 2015-16, up from an estimated 7.4% in the financial year ending on 31 March, and accelerate to a double-digit pace in a couple of years. The estimates are based on a revised way of calculating gross domestic product adopted recently by the government's statistical arm. Sinha of Emkay pointed out that the investments in equities picked up around May, after the general election brought the National Democratic Alliance (NDA) to power.[4]Expectations that the new government's strong mandate will help it revive investments and boost earnings prompted investors to put their money into equities. However, corporate earnings have not really matched the heightened expectations.

Factor Influencing Foreign Institutional Investment Flows in India
Interest Rates: For the business, cost of borrowing rises this has a negative result on their profit margins. As a result they might even delay any investment activity which may be funded by borrowing to some later period when the interest rates are lower so as to reduce their investment costs. Over the past year RBI has increased the repo rate reverse repo rate, CRR and SLR. This has led to an increase in the Prime Lending Rate (PLR) and hence the general interest rate in the economy. Good News /Bad News: If say there is some bad news in the nation, which affects that is decreases the asset price, which in turn decreases the return and hence FII would withdraw from the market. However on the other hand, if there is good news, asset prices would increase; thereby increasing return and hence FII would be attracted. But the sensitivity with which investors withdraw is greater than with which they invest i.e. they would be more cautious while investing than at the time of withdrawing. This is primarily due to their basic nature of being risk averter, thus they would react more vigorously to bad news than to good news.[5]

GDP of India: Both have more or less direct relationship. The reason is change in capital account. When interest rates were high India was attracting lot of investments so the credit balance was high for that period. It kept on increasing form 2003-04 to 2007-08 and interest rates also kept on increasing from 2003-04 to 2007-08. Besides there are various other factors like rules and regulation, taxation, govt. policies etc. Impact of FII on Economic Indicators in India-FII flow affects the economy of country.

Balance of Payment: A net positive swing in invisibles (due to increase in software exports and remittances sent by Indians working abroad) and increase in investments (both FDI and FII), has been improving the Balance of Payment (BOP) of the Indian economy and increasing the demand of rupee in the international currency market. In view of this the RBI had been following a policy of buying dollars (by selling rupee) in the international market, thereby avoiding an appreciation of rupee viz-a-viz the dollar.

Risk: Whenever risk in home market increases, the foreign investors would start to pull out their money to their home country thereby creating a deficiency of funds in domestic market, so to attract the foreign investment domestic interest rate would increase thereby to ensure that the above equality is restored.

Inflation: At the time of high inflation, the real return on fixed income securities like bonds and fixed deposits declines. Thus a bond which gives say around 8.5% interest rate actually gives a real return of just 1% if the inflation is 7.5%. If the inflation increases further, the real return would decline more.

Investments
Singapore-based investment firm, Temasek Holding, has acquired 73 per cent stake in Hyderabad-based Care Hospitals, India's fifth largest private healthcare network, for Rs 1,800 crore. Macquarie Infrastructure and Real Assets (MIRA), the realty investment arm of Australian Macquarie Group Ltd, plans to invest in real estate projects in India and is in talks with Tata Housing Development Co. to jointly set up an investment platform to invest in luxury residential projects.KKR India, the Indian arm of global private equity firm KKR & Co. L.P., has planned to raise its second alternative investment fund (AIF) of Rs 1,500 crore (US$ 226.4 million) which will offer credit solutions to Indian companies. Global private equity major Warburg Pincus plans to invest Rs 1,800 crorein Primal Realty, which will help the real estate company to expand its portfolio and to acquire land parcels in and around Mumbai. Sequoia Capital, one of the leading venture capital firms, will invest Rs 125 crore (US$ 20 million) in Bengaluru-based Med Genome, a genomics-based diagnostics and research firm specialising in DNA sequencing and data analytics. Viacom, one of the leading American global mass media companies, has acquired 50 per cent stake in Prism TV for Rs 940 crore. Prism TV owns and operates regional entertainment channels under the 'Colors' umbrella. Global funds such as Macquarie Infrastructure and Real Assets, I Squared Capital, Brookfield Asset Management Inc. are investing in Indian road construction and power projects as a result of government's efforts to improve infrastructure and ease the operating environment for such projects. Japanese conglomerate Soft Bank has led a group of investors to pump Rs 630 crore in Gurgaon-based OYO Rooms, which helps local hotels and select set of vendors to spruce

up room amenities. Acumen, a not-for-profit global venture fund, has invested US$ 1.8 million in Sahayog Dairy, an integrated company that sources milk from 272 centres across five districts adjoining Harda district in Madhya Pradesh. Infrastructure investment manager I Squared Capital, has decided to invest US$ 150 million in Amplus Energy Solutions Private Ltd, which sets up distributed solar power generation projects in India.[6]Zomato, a restaurant search and discovery platform, has raised US$ 60 million from Singapore government-owned investment company Temasek, along with existing investor Vy Capital, in order to explore new business verticals.

Investment Constraints

Portfolio investments in primary or secondary arcades were initially subject to a ceiling of 25 per cent of issued and paid up share capital for the total holdings of all registered FIIs in any one company, taking into account the conversions arising out of the fully and partly convertible debentures issued by the company. Further, the maximum holding of 24 per cent, for all FII investments did not include portfolio investments by non-resident Indians, overseas corporate bodies, direct external investments, offshore single/regional funds, global depository receipts and euro convertibles. In the case of public sector banks, the overall limit is 20 per cent of the paid-up capital. In 1997, it was decided to increase the limit of aggregate investment in a company by FIIs to 30 per cent of issued and paid-up share capital, subject to the condition that the board of directors of the company approved the limit and the general body of the company passed a special resolution in this behalf.[7] Further, the Finance Minister in his budget speech in February this year announced that, subject to approval by the board of directors and a special resolution of the general body of the company, this limit of external portfolio investment was being increased to 40 per cent of issued and paid-up capital of a company. The holdings of a single FII in any company are also subject to a ceiling of 10 per cent of total issued capital. For this purpose, the holdings of an FII group will be counted as holdings of a single FII. In addition to FIIs, NRIs, OCBs and Persons of Indian Origin are allowed to invest in the primary and secondary capital arcades in India through the portfolio investment scheme. Under this scheme, NRIs/OCBs/PIOs can acquire shares/debentures of Indian companies through stock exchanges in India. The ceiling on overall investment is 10 per cent for NRIs/OCBs/PIOs. This ceiling can be raised to 24 per cent, subject to the approval of the general body of the company passing a resolution to that effect. Further, the ceiling for FIIs is independent of the ceiling of 10/24 per cent for NRIs/OCBs/PIOs. If one adds the amount that can be raised by Indian companies in the form of FDI and euro issues, one realises that the external investment norms applicable to Indian companies have become liberal. The RBI monitors the ceilings on FII/NRI/OCB/PIO investments in Indian companies on a daily basis. In order to prevent crossing of the ceilings, the RBI has fixed cut-off points that are two percentage points lower than the actual ceilings. The cut-off point, for instance, is fixed at 8 per cent for companies in which NRIs/OCBs/ PIOs can invest up to 10 per cent of the company's paid up capital.[8]The cut-off limit for companies with 24 per cent ceiling is 22 per cent and for companies with 30 per cent ceiling, is 28 per cent. Similarly, the cut-off limit for public sector banks (including State Bank of India) is 18 percent.

Government Initiatives

Government of India has accepted the recommendation of A.P. Shah Committee to not impose minimum alternate tax (MAT) on overseas portfolio investors retrospectively for the years prior to April 01, 2015, thereby providing significant relief to foreign portfolio investors (FPIs).[9]The RBI has also allowed a number of foreign investors to invest, on repatriation basis, in non-convertible/redeemable preference shares or debentures issued by Indian companies listed on established stock exchanges in India. The investment should be within the overall limit of US$ 51 billion allocated for corporate debt. Long-term investors registered with SEBI will also be deemed as eligible investors. The Government of India is also planning to relax some of the safe harbour rules set for offshore fund managers, in order to allow private equity investors to shift their base to India without attracting a tax on capital. The People’s Bank of China has invested US$ 500 million in Indian bonds for the first time since the Indian government eased restrictions on foreign investors.[10]

Conclusion

The study conducted observed that investments by FIIs and the movements of BSE Sensex and CNX nifty are quite closely correlated. According to findings and results, foreign institutional investors (FIIs) have significant impact on the movement of Indian capital market. Therefore, the alternate hypothesis is accepted. FII’S have positive impact on BSE Sensex and Nifty. However there are other macroeconomic factors also influence the bourses in the stock market, but FII is definitely one of the factors. This signifies that market rise with increase in FII’s and collapse when FII’s are withdrawn from the market. In the absence of any other substantial form of capital inflows, the potential ill effects of decrease in the FII flows into the Indian economy can be severe which was evident at the time of U.S subprime lending crisis. The findings of this study also indicate that Foreign Institutional Investors have emerged as the most dominant investor group in the domestic capital market particularly, in the companies that constitute in BSE Sensex and CNX Nifty. "The FII participation has been very consistent as far as India is concerned and we see the trend continuing. We have been overweight India in the context of Asia and emerging markets since November 2013 and that stance very much continues. Domestic sources of outside finance are

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restricted in many countries, particularly those with emerging arcades. Through capital arcade liberalization, external capital has become increasingly significant source of finance. Since India is a labour intensive country. Therefore, in developing countries like India external capital supports in snowballing the productivity of labour and to figure up external exchange reserves to meet the current account deficit. External Investment delivers a channel through which country can have access to external capital. It is requisite to understand when they withdraw their funds and when they pump in more money. Higher Sensex indices and high price earnings ratio are the country level.

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