

## A STUDY ON IMPACT OF FIIs ON INDIAN STOCK MARKET

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### ABSTRACT

*This study provides evidence that Foreign Institutional Investors impact negatively for the growth of Indian stock market. The increase in the investment by FIIs will lead to decrease in the points of NIFTY 50 and SENSEX for the period of 2013 – 2022. The study shows that the investment made by FIIs are very volatile in nature. The growth trend analysis, correlation analysis and regression analysis methods were used to know how the FIIs impact on Indian stock market. The empirical research methodology was used for study, the Independent variable is Foreign Institutional Investors and Dependent variables are NIFTY50 and SENSEX.*

**Keywords:** Foreign Institutional Investors, NIFTY50, SENSEX, Volatility, Indian stock market.

### I. INTRODUCTION

Foreign Institutional Investors are an institution, individual or group entity attempt to invest in a financial market outside of their formal home country. An FII is often an investor, investment fund, or asset that makes investments outside of its place of residence or registration. FIIs have an important role on the total amount of money entering an economy. In September 1992, FII's were given the opportunity to invest in all the listed securities that are traded on the Indian stock market. FII investments in India rely on the state of the market. Foreign institutions make short-term investments in the financial markets of other nations. It comprises institutional portfolio managers, university funds, endowments, and offshore pension funds. It has been one of the main drivers of the Indian financial market as it grows and thrives, but at the same time, significant withdrawals would have a negative impact on share prices and the value of the rupee.

### STATEMENT OF THE PROBLEM

India attracts a large sum of Foreign Institutional Investments every year. These Foreign Investments have a remarkable impact on Indian economy. The relationship of foreign exchange and Foreign Institutional Investments with stock market is important because international reserves accumulation has been the preferred policy recently adopted by developing economies to achieve financial stability. Indian Stock Market, which being among one of the indicators of economies status, is also affected by the foreign investments made. This portfolio flows by FIIs bring with them a great advantage as they are engines of growth while lowering the cost of capital in the emerging market.

### OBJECTIVE OF THE STUDY

1. To examine the relationship of Foreign Institutional Investors on Indian Stock Market.
2. To know the change in NIFTY and SENSEX points by Foreign Institutional Investments.

### II. REVIEW OF LITERATURE

Paramita Mukherjee, Sweta Tiwari (2022). This study investigates if prominent investor group foreign institutional investors (FIIs) use these tactics in India. The research attempts to determine if FIIs are engaging in PFT and herding, two common trading behaviors seen in both developed markets and the majority of developing markets.

Chitraben Rajnikant Sheth, Dr. Sejal Christian (2021). This paper's primary goal is to demonstrate the significant contributions and portion of FII investment in the current situation. This research project's goal is to examine the nature and trends of FII investment in the Indian capital market.

Upadhyaya, Dr. Tanka Prasad (2020). This article attempts to analyze how FIIs' evolving position in Indian capital markets has changed as a result of their growing market dominance. The study's goals include learning about the increasing role of FIIs in the Indian capital market, comprehending FIIS rules in India, and examining FII flows in the Indian stock market.

Mr. Omer Fareed Mohammed, Dr. S C Behl (2020). According to this article, FIIs have a growing influence over the performance of the Sensex and the Indian stocks market. As a result, we may infer that foreign investment in the Indian securities market is vital to the country's economic growth and development.

Meenakshi Sharma, Anil Kumar Mittal (2020). The causal relationship between foreign portfolio investments and Indian Stock Market NSE index Nifty Return is examined in the current article. It is determined that there was unidirectional causation during the research period for various foreign portfolio investment variables, including FPIN, FPIP, and FPIS Ratio.

Prof. (Dr.) Anil Vashisht, Mr. Naresh Kedia (2020). The purpose of this study is to determine how FIIs have affected the Bombay Stock Exchange (Sensex). The Augmented Dickey Fuller test and the GARCH model were employed in the study to examine the stationarity of the timeseries and the effect of FIIs on the volatility of the BSE-Sensex, respectively. The volatility data from the prior period has no effect on the volatility of the Sensex.

Sadashiva Sai Siddartha Goud, Sohail Baba (2019). The study's goals are to determine if FIIs have an influence on the securities market, determine whether they have an impact on the UN agency or the securities market. This article offers a preliminary examination of FII inflows to Asian nations and their effects on stock prices on the Indian stock market.

Mr. R. Kanagaraj, Dr. B. Kirubashini (2019). This study examines the influence that foreign institutional investors have on the Indian stock market. In India, FIIs and SENSEX movements are fairly tightly correlated, and FIIs have a major impact on market mood and price patterns. As FII trading accounts for an increasing percentage of stock market turnover, FIIs are becoming more significant on the margin.

Krishna Prasanna, Bharat Bansal (2014). This paper intends to analyse how foreign institutional investments affect the liquidity of the Indian stock market. Institutional investments from outside helped the Indian stock market to flourish. The market capitalization, volume, and value traded in the Indian market all benefited significantly from FII inflows.

Bashir Ahmad Joo, Zahoor Ahmad Mir (2014). The current study makes a modest effort to comprehend FII investment and its influence on stock market volatility in order to establish the relationship between the two.

### III. DATA AND METHODOLOGY

The descriptive research method is used because it enables the description of how variation in the independent variable affect the change in the dependent variable. The study period is for 10 years commencing from 2013 and ending on 2022. The data used for analysis is the secondary source. To analyze the data and to test the hypothesis the statistical tool such as regression, correlation is used. Growth trend analysis also forms part of the analytical tool used for the present study.

#### Hypothesis of the study:

**H<sub>0</sub>:** There is no significant impact of foreign institutional investors on Indian stock market.

**H<sub>1</sub>:** There is a significant impact of foreign institutional investors on Indian stock market

### IV. DATA ANALYSIS AND FINDINGS

**Table 1: Growth Trend of FIIs for the period 2013 – 2022**

<b>YEAR</b>	<b>NET PURCHASES/SALES</b>	<b>GROWTH RATE</b>
2013	112381.6	
2014	98177.9	-12.63881276
2015	-1,10,130.10	-212.1740229
2016	28173.36	-125.5818891
2017	166589.25	491.3006116
2018	88174.92	-47.07046223
2019	-25000.76	-128.3535953
2020	49880.89	-299.5174947
2021	15102.5	-69.72287383
2022	13055.57	-13.55358384
<b>TOTAL</b>	<b>4,36,405.13</b>	<b>-417.312123</b>

**Interpretation:**

It is shown that foreign investors withdraw investments in the year 2015 and 2019 there is decline in the Growth rate except 2017 because investors sold their shares rather than investment. Even though Net purchase/Sales of foreign institutional investment are increasing growth rate is decreasing compared to previous years.

**CORRELATION ANALYSIS**

**Table 2: Correlation analysis of FII on NIFTY**

	<b>NIFTY</b>	<b>FII</b>
<b>NIFTY</b>	1	
<b>FII</b>	-0.10253	1

**Interpretation:**

In the above table we found that FII has a low degree negative correlation on NIFTY which is -0.10253. The negative value of correlation shows that when there is a decrease in FII, s the NIFTY will increase.

**Table 3: Correlation analysis of FII on SENSEX**

	<b>SENSEX</b>	<b>FII</b>
<b>SENSEX</b>	1	
<b>FII</b>	-0.095709	1

**Interpretation**

In the above table FII has low degree negative correlation on SENSEX of -0.095709. The negative value of correlation shows that when there is a decrease in FII, s the SENSEX will increase.

**Table 4: Regression Analysis of FIIs on NIFTY and SENSEX**

<b>Regression Statistics</b>	
Multiple R	0.099119342
R Square	0.009836269
Adjusted R Square	0.001445056
Standard Error	7812.300185
Observations	120

**ANOVA**

	<b>df</b>	<b>SS</b>	<b>MS</b>	<b>F</b>	<b>Significance F</b>
<b>Regression</b>	1	87420680.45	87420680.45	79195748.4	0.2817678
<b>Residual</b>	118	9345098312	79195748.4		
<b>Total</b>	119	9432518993			

	<b>Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>P-value</b>	<b>Lower 95%</b>	<b>Upper 95%</b>
Intercept	23149.62	727.3993	32.01381	8.8E-60	21709.17	24590.1
FII	-0.0418	0.039379	-1.08206	0.28177	-0.1198	0.03618

**Interpretation:**

The R-Square value in the table above is 0.0098, which means that FII explains 0.98% of the volatility in NIFTY and SENSEX. This indicates that FII is affecting NIFTY and SENSEX by 0.98%. For every unit movement in the FII, NIFTY and SENSEX are negatively impacted by 4.18%. If the FII rises by 1 unit, the NIFTY and SENSEX will decrease by 4.18%. If FII falls by 1 unit, NIFTY will increase by 4.18%. Since the p value is 0.28177 more than 0.05 accept H<sub>0</sub> There is no significant impact of foreign institutional investors on Indian stock market (NIFTY and SENSEX).

**Findings:**

- It was observed that FIIs are not a major factor in the economic performance of an emerging market.
- The total growth rate is in negative for the last 10 year from 2013 to 2022 but from last 2 years it can be seen that the growth rate of FII is increasing.
- There is an increase in NIFTY and SENSEX from last 10 years but there is only 1.05% and 0.9% contribution by FII's for the increase of SENSEX and NIFTY respectively for the period of 2013 to 2022.
- NIFTY and SENSEX both has low degree negative correlation on FII's.
- There is no strong relationship between the FII and NIFTY and SENSEX.
- The Foreign Institutional Investors perform poor in Indian Stock Market their investment in the market is very volatile.
- The study says that when there is an increase in foreign institutional investment the NIFTY and SENSEX will starts falling.
- From the trend analysis it can be said that according to the country's economy and according to the trend FII's make investment in a particular country.

**Conclusion:**

We found that there is a low degree negative relation between FII, NIFTY and SENSEX. Influence on the variables is also less which is 0.98%. Average growth of FII in India's stockmarket is in negative that we can see in growth trend analysis where the growth rate has felled down between the years 2013-2022. When Foreign Institutional Investor's saws an increase in the market then only they purchase stocks from India and if the market is decreasing, they will make sales of those stocks. Also, they are one of the factors for the movement of the stockmarket and it can be concluded that foreign institutional investors impact the Indian stocks market. For the period of 2013 to 2022 FII's negatively impacted on the stock market.

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