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IMPACT OF FII ON INDIAN CAPITAL MARKET

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Abstract:

The FII's have emerged as important players in the Indian equity market in the recent past and are gradually becoming one of the major factors that contribute towards the growth of the financial market, more so in developing economies like India. The main objective was to study the impact of FII on Indian capital market. Since India is a developing country, India attracts a large sum of FII every year. FII plays a very critical role in the performance of stock market. In India the FII have a positive impact on the stock market, business transparency and government norms. FII"s helps to sustain the stock exchanges and provide a better price for the scrip and also create an adverse effect on the share prices and on INR.NSE nifty is been directly affected by FII. The CNX nifty has only 50 stocks although there are more than 3000 companies listed in National Stock Exchange. The share price and trading patterns of the investors change according to the inflow and outflow of foreign institutional investments. The high volatility in the stock market is also caused by foreign institutional investors. At the inception only the mutual fund companies, pension fund, investment trusts, institutional portfolio managers were allowed to invest in stock market directly. But now foreign portfolio investments are also allowed to enter into Indian capital market. Foreign institutional investors are major institutional investors in Indian capital market. Finally the paper concludes that FII affect the Indian stock market and also the Indian economy. This study is conducted using the data from NSE Nifty and FII accounting for the period from January 2020 to February 2021 and it provides the evidence of significant positive correlation between FII activity and effects on Indian stock market.

Key Words: FII, Portfolio Investment, Pension Funds, Indian Capital Market, CNX Nifty, Scrip & Financial Market

Introduction:

The Indian capital market is the barometer of the Indian economy. The FII's have bought tremendous changes in the development of capital market. Foreign investments in india can be done in the form of FDI & FII. The FII inflow and outflow have direct impact on capital market. In India the foreign investments were allowed to enter into India in 1991 either through Indian capital market and unlisted companies referred to as FDI.

Among these two FII plays a very important role in the Indian capital market indices and stock prices of different companies. The foreign institutional investments have increased the market breadth and depth. The FII have also expanded the securities business. Indian equities received more than Rs.1.6 lakh crore ($23 billion) from FII in 2020, the highest among the emerging markets.

This was the second year in a row when FII inflows into Indian equities were highest among emerging markets. In 2019 the inflow was $14.2 billion. There are many factors that are attracting FII into Indian capital market like weak dollar index, decline in covid 19 cases in India, while western countries are still struggling to come out of the second wave, vaccine progress and government and RBI policy stimulus measures. Generally weakness in dollar index is considered as a positive sign for emerging market currencies and indicates FII money flow into emerging markets. The following entities are eligible to get registered as FII.

- Pension funds
- Mutual funds
- Investment trusts
- Insurance companies
- Banks
- University funds
- Charitable trusts
- Trustees
- Asset management companies
- Institutional portfolio investments

Review of Literature:

Jones and Kaul (1996) evaluated quarterly data to test whether the reaction of international Indian capital markets to oil shocks can be justified by current and future changes in real cash flows and changes in expected returns. Using a standard cash-flow dividend valuation model they find that the reaction of Canadian and US stock prices to oil price shocks can be completely accounted for by the impact of these shocks on real cash flows.

Maysami and Koh (2000) examined the long-term equilibrium relationships between selected macroeconomic variables and stock indices using a VECM model through yearly data between 1988-2003. They found that changes in Indian capital market levels cause a co-integrating relationship with changes

in price levels, money supply, short- and long-term interest rates, and exchange rate except industrial production and trade. And also they detected that Indian capital market is significantly and positively co-integrated with Indian capital markets.

Al-Shubiri (2010) investigated the determinants of market stock price movements of Jordanian commercial bank. The study includes the commercial bank of Amman stock exchange for the period 2005-2008. The study used simple and multiple regression analysis to investigate the determinants of market stock price. The empirical findings showed highly positive significant relationship between market price of stock and the factor like net asset value per share, stock dividend percentage and GDP while inflation had a negative significant relationship with the share price.

Sharma (2011) examined the empirical relationship between equity share prices of different industry groups and variables such as book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of sale and net worth for the period 1993-2008. The results revealed that earning per share, dividend per share and book value per share has significant impact on the equity price of different industry groups in India.

Salma Akter and Naznin Sultana Chaity (2013) examined the impact of financial and macro-economic variables on determination of share prices of private commercial bank sat the secondary market in Bangladesh. Data from banking sector are analyzed by multiple regression analysis using Statistical Package for Social Science (SPSS 16.0). With this objective a sample of 24 commercial banks of Dhaka Stock Exchange (DSE) for the period 2008 -2012 was analyzed by multiple regressions. It was found that market price of stock is negatively related with money supply and lending interest rate.

Korhan K. Gokmenoglua and Negar Fazlollahi (2015), revealed that the aim of the study is to test whether gold price, oil price, gold price volatility (GVZ) and oil price volatility (OVX) have significant effect on Indian capital market price index (GSPC) or not. In this study, the ARDL co-integration approach has been used to check the long–run relationship among OVX and GVZ. The results of the study indicate the presence of long-run equilibrium among the variables under investigation and reveal that S&P500 Indian capital market price index converges to its long-run equilibrium level by 1.2% speed of daily adjustment by contribution of oil and gold market prices and their volatilities.

Shafie Mohamed Zabri and Khaw Khai Wah (2016) focused on corporate governance practices among Top 100 public listed companies in Bursa Malaysia. Descriptive and correlation analysis were used to examine the hypotheses in this study. There were two objectives established which were (1) to investigate the corporate governance practices among Top 100 listed companies, and (2) to study the relationship between corporate governance and firm performance. The first objective was achieved by using descriptive analysis whereas the second objective which consisted of four hypotheses was achieved by using correlation analysis.

Statement of the Problem:

The FII is facing many risks in investing their funds in a share market. There are many risks involved in predicting share price of a entities in a market to the share holders. If a FII inflows and outflows is predicted it will be helpful for the investor to invest in the Indian capital market. So that predicting the FII in Indian Capital Market plays a major role in investments.

Objective of the Study:

- To give an overview of Indian capital market.
- To find out the impact of FII on Indian capital market
- To study the growing trend of FII.

Scope of the Study:

This study helps us to understand the performance of the Indian capital market along with the inflow and outflow of FII.

Limitations of the Study:

- This study is done within one year data.
- This study is based on historical data and information provided in the reports.
- All the limitations of the primary data and secondary data are applicable for the study.

Research Methodology:

This study is a descriptive research. Descriptive research is used to describe characteristics of a population or phenomenon being studied. This study contains a secondary data from internet for one year. The financial data of the institutions have been collected from website of money control, morning star, and finance. The relevant data available from the stated publications and websites of the Indian capital market entities, FII inflows are collected, tabulated, analyzed and the finding is presented in this study. To examine the significance of factors that may have effect on share price movement, two step analyses have been done. For studying the two relationships multiple regression analysis was conducted and co linearity among the variables was examined.

Analysis and Interpretation:

Table 1: FII Flow

Month & Year	FII Flows (Crores)	NIFTY
Jan-20	-5360	11,962
Feb-20	-12684	11,201

Mar-20	-65817	8,597
Apr-20	-5209	9,859
May-20	13914	9,580
Jun-20	5493	10,302
Jul-20	2490	11,073
Aug-20	15750	11,387
Sep-20	-11411	11,247
Oct-20	14537	11,642
Nov-20	55553	12,968
Dec-20	53499	13,981
Jan-21	14511	13,634
Feb-21	19747	14,529

The above table shows that FII flow was Rs.5360 crores in January 2020. It decreased from January 2020 to april 2020. But it started gaining a positive sign from the May month as Rs.13914 crorers to Rs.15,750 Crores in August 2020. Again it decreased in September month and increased in October month. Hence FII flow shows a high ups and downs in the 2020-2021. In the month February it shows a positive impact of increasing Rs.19747 Crores. The nifty also shows a greater fluctuation then it started showing a positive impact from the month of October 2020.

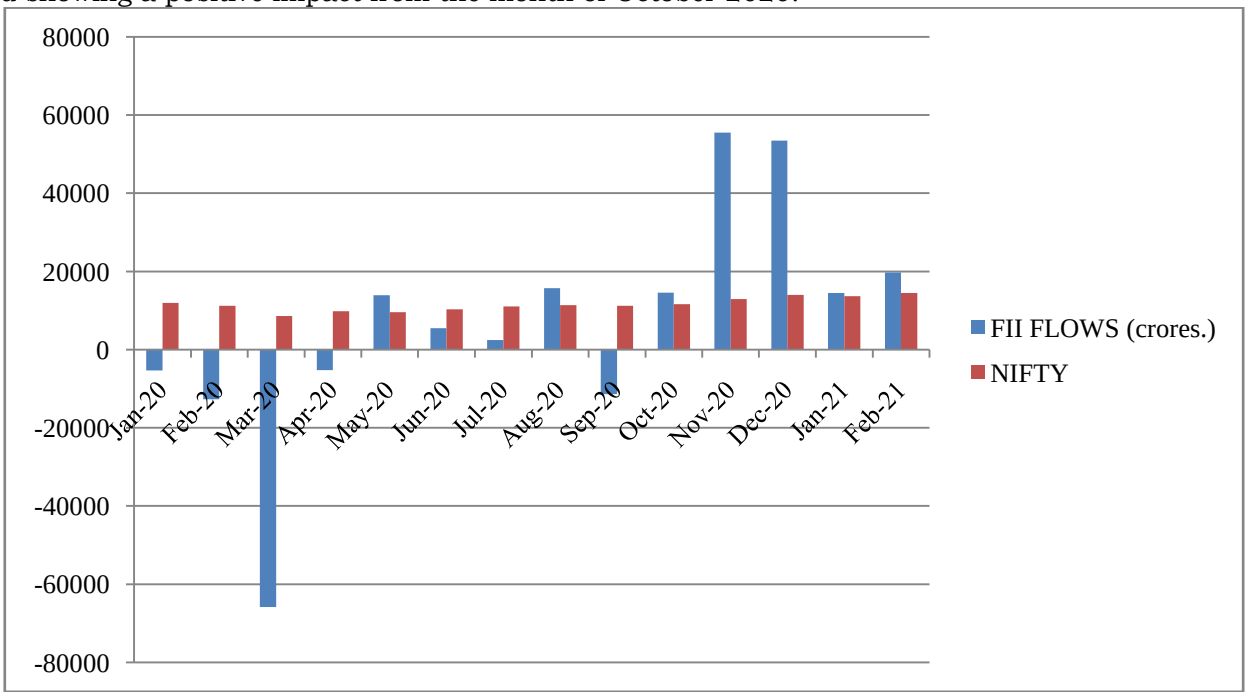

Table 2: Multiple regression value for Indian entities

Entities	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
Pension Funds	0.737	0.544	0.537	79.148	0.544	76.262	4	256	0
Mutual Funds	0.637	0.406	0.396	294.905	0.406	43.656	4	256	0
Investment Trusts	0.839	0.703	0.699	29.532	0.703	151.78	4	256	0
Insurance Companies	0.793	0.629	0.623	15.0905	0.629	108.63	4	256	0
Banks	0.575	0.331	0.32	10.6494	0.331	31.623	4	256	0
University Funds	0.487	0.237	0.225	54.3243	0.237	19.888	4	256	0
Charitable Trusts	0.526	0.277	0.265	18.1396	0.277	24.472	4	256	0
Trustees	0.691	0.477	0.469	40.2223	0.477	58.396	4	256	0
Asset Management Companies	0.560	0.313	0.302	7.26559	0.313	29.172	4	256	0
Institutional Portfolio Investments	0.876	0.767	0.764	0.00818	0.767	211.09	4	256	0

Table 2 shows that model summary R representing the multiple correlation coefficient, shows the linear correlation between all the independent and dependent variables. The maximum the value of R, there will be a strong relationship between the predictor and criterion variables. In this Institutional portfolio investments, the value of R is .876, which is high, representing a correlation among the variables. R- Square is a square is a squared value of multiple correlation coefficients. The value of R- square is .764, which depicts that 76.4 % of the variance in share price can be predicted through gold, silver, crude oil and US dollar. Similarly for all companies in this sector like Pension funds, Mutual funds, Investment trusts, Insurance companies, Banks, University funds, Charitable trusts, Trustees and Asset management companies

Table 3: Table Showing Coefficients of Indian entities

Indian Entities	**Model**	**Un Standardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
		B	Std. Error	Beta		
Pension Funds	(Constant)	4203.954	440.329		9.547	0
	Gold	0.009	0.017	0.021	0.493	0.623
	Silver	-10.008	2.474	-0.194	-4.046	0
	Crude oil	3.642	1.094	0.299	3.331	0.001
	US dollar	-23.97	6.354	-0.353	-3.773	0
Mutual Funds	(Constant)	8075.706	1640.664		4.922	.000
	Gold	.068	.064	.052	1.052	.294
	Silver	54.652	9.217	.325	5.930	.000
	crude oil	3.805	4.075	.096	.934	.351
	US dollar	-137.734	23.673	-.621	-5.818	.000
Investment Trusts	(Constant)	1513.819	164.297		9.214	.000
	Gold	.000	.006	-.002	-.054	.957
	Silver	-12.223	.923	-.513	-13.244	.000
	crude oil	2.011	.408	.357	4.928	.000
	US dollar	-4.517	2.371	-.144	-1.905	.058
Insurance Companies	(Constant)	1272.613	83.954		15.158	.000
	Gold	.002	.003	.018	.458	.647
	Silver	1.470	.472	.135	3.116	.002
	crude oil	-.775	.209	-.301	-3.718	.000
	US dollar	-15.790	1.211	-1.099	-13.035	.000
Banks	(Constant)	726.624	59.246		12.264	.000
	Gold	-.001	.002	-.014	-.264	.792
	Silver	.852	.333	.149	2.559	.011
	crude oil	-1.613	.147	-1.193	-10.962	.000
	US dollar	-8.064	.855	-1.069	-9.433	.000
University Funds	(Constant)	2101.889	302.226		6.955	.000
	Gold	-.015	.012	-.070	-1.262	.208
	Silver	1.795	1.698	.066	1.057	.291
	crude oil	-4.979	.751	-.771	-6.633	.000
	US dollar	-14.602	4.361	-.405	-3.348	.001
Charitable Trusts	(Constant)	1461.766	100.917		14.485	.000
	Gold	.001	.004	.020	.373	.709
	Silver	-.369	.567	-.039	-.651	.516
	crude oil	-1.600	.251	-.722	-6.382	.000
	US dollar	-12.522	1.456	-1.013	-8.600	.000
Trustees	(Constant)	1681.892	223.771		7.516	.000
	Gold	.004	.009	.022	.481	.631
	Silver	.815	1.257	.033	.649	.517
	crude oil	.799	.556	.138	1.437	.152
	US dollar	-18.679	3.229	-.580	-5.785	.000

Asset Management Companies	(Constant)	475.203	40.421		11.756	.000
	Gold	.000	.002	-.004	-.073	.942
	Silver	1.260	.227	.327	5.548	.000
	crude oil	-.635	.100	-.697	-6.322	.000
	US dollar	-5.746	.583	-1.131	-9.851	.000
Institutional Portfolio Investments	(Constant)	.340	.046		7.477	.000
	Gold	3.078E-06	.000	.053	1.721	.086
	Silver	-.001	.000	-.166	-4.844	.000
	crude oil	.001	.000	.355	5.539	.000
	US dollar	-.005	.001	-.459	-6.863	.000

Table 3 depicts the coefficients between variables when multiple regression analysis is applied. Beta coefficient reflects the change in the dependent variable for each unit change in the independent variable. It can be used to compare the relative strength of various predictors within the model. Larger will be the beta coefficient, the smaller will be the significant level.

As per the table 3, pension funds - gold (beta = .021, $p > 0.01$), silver (beta = - 0.194, $p < 0.01$), crude oil (beta = .299, $p < 0.01$) and us dollar (beta = - . 353, $p < 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold and share price and there is no relationship between silver, crude oil and us dollar in predicting the share price.

As per the table 3, mutual funds -gold (beta = .052, $p > 0.01$), silver (beta = - 0.325, $p < 0.01$), crude oil (beta = .096, $p < 0.01$) and us dollar (beta = - . 621, $p < 0.001$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, crude oil and share price and there is no relationship between silver and us dollar in predicting the share price.

As per the table 3, investment trusts- gold (beta = -.002, $p > 0.01$), silver (beta = - 0.513, $p < 0.01$), crude oil (beta = .357, $p < 0.01$) and us dollar (beta = - . 144, $p > 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, us dollar and share price and there is no relationship between silver and crude oil in predicting the share price.

As per the table 3, insurance companies - gold (beta = .018, $p > 0.01$), silver (beta = 0.135, $p < 0.01$), crude oil (beta = -.301, $p < 0.01$) and us dollar (beta = - 1.099, $p < 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, silver and share price and there is no relationship between us dollar and crude oil in predicting the share price.

As per the table banks - 3, gold (beta = -.014, $p > 0.01$), silver (beta = 0.149, $p < 0.01$), crude oil (beta = .147, $p < 0.01$) and us dollar (beta =. 855, $p > 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, silver and share price and there is no relationship between us dollar and crude oil in predicting the share price.

As per the table 3, university funds gold (beta = -.070, $p > 0.01$), silver (beta = 0.066, $p > 0.01$), crude oil (beta = -.771, $p < 0.01$) and us dollar (beta = -.405, $p > 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, silver and share price and there is no relationship between us dollar and crude oil in predicting the share price.

As per the table 3, charitable trusts - gold (beta = .020, $p > 0.01$), silver (beta = -0.039, $p > 0.01$), crude oil (beta = -.722, $p < 0.01$) and us dollar (beta = -1.456, $p > 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, silver and share price and there is no relationship between us dollar and crude oil in predicting the share price.

As per the table 3, trustees - gold (beta = .022, $p > 0.01$), silver (beta = 0.033, $p > 0.01$), crude oil (beta = .138, $p > 0.01$) and us dollar (beta = -.580, $p < 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, silver, crude oil and share price and there is no relationship between us dollar in predicting the share price.

As per the table 3, asset management companies- gold (beta = -.004, $p > 0.01$), silver (beta = 0.227, $p < 0.01$), crude oil (beta = .100, $p < 0.01$) and us dollar (beta = -.583, $p< 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, and share price and there is no relationship between silver, crude oil and us dollar in predicting the share price.

As per the table 3, institutional portfolio investments- gold (beta = .053, $p > 0.01$), silver (beta = -0.166, $p < 0.01$), crude oil (beta = .355, $p < 0.01$) and us dollar (beta = -.459, $p< 0.01$) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between gold, and share price and there is no relationship between silver, crude oil and us dollar in predicting the share price.

Conclusion:

The study would be quite useful in understanding the relationship between the Indian capital market entities and macro economic variables like gold, silver, crude oil, US dollar. FII's inflow and outflow is the benchmark index of the NSE Nifty representing Indian capital market entities. The study would help the investors in taking rational investment decisions considering the impact of FII in Indian capital market. The Indian capital market is influenced by various micro and macro factors, which affect the FII flow to a great extent. The findings of the study would help the researcher to understand the impact and growth of FII in Indian Capital Market.

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