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IMPACT OF FII ON THE INDIAN STOCK MARKET: STUDY WITH SPECIAL REFERENCE TO BSE-SENSEX

M.S.Ramaratnam[1], R.Jayaraman[2] and V. Krishnamoorthy[3]

[1]Assistant Professor (Stage –III), Faculty of Management Studies, SCSVMV University, Kanchipuram, Tamil Nadu, India
Email: hellomsraman@gmail.com
[2]Assistant Professor (Stage –II), Faculty of Management Studies, SCSVMV University, Kanchipuram, Tamil Nadu, India
Email: jayarawman@gmail.com
[3]Assistant Professor, Department of Management Studies, Kongu Engineering College, Erode, Tamil Nadu, India
Email: krishnamoorthydd@gmail.com

ABSTRACT

Stock market is regarded as a barometer of any country's economy. A country's growth is determined by its investment towards the infrastructural development and the industry performance. The stock market acts as a bridge in procuring the funds from the investor and the same is utilized for the purpose of industrial growth and in turn results in corporate growth. In terms of growth measurement of stock market, the index is used as proxy to ascertain the level of the growth over the period of the years. Normally stock market indices show ups and downs with respect to their movement due to the price fluctuation and the price of the script is operated under market condition i.e. demand and supply factors. As long as the influx of investment is at the larger extent, the indices of the stock market react positively showing upward trend. In this context the role of Foreign Institutional Investment has become inevitable towards the stock market development. Since retail investors are considered to be minor player, foreign institutional investors and corporate investors emerge as major players in the market. In order to measure the impact of FII on stock market, this study has made an attempt to find the correlation between net FII flows and the select market index of sensex. This study further attempt to assess the FII investment and movement of sensex on the basis of empirical data and also tests any significant difference exists in terms of FII investment towards equity and debt through application of t-test.

Keywords: FII, Sensex, Debt, Equity, Indian Capital Market

INTRODUCTION

Indian economy has witnessed radical change in the era of post liberlisation in terms of micro economic indicators as well as macro economic indicators. The substantial growth in GDP for the last one decade has increased the national income of our country which in turn upsurges the disposable income of individual resulting capital formation through the savings of the individual. Now common man is ready to park his surplus in this stock market shows the change in preferences among the individual in selecting his/her investment avenues. The available data leaves a message that the growth of the stock market in the recent years is proved to be the strong fundamental on the country's economic development. Stock market is regarded as a barometer of any country's economy. A country's growth is determined by its investment towards the infrastructural development and the industry performance. The stock market acts as a bridge in procuring the funds from the investor and the same is utilized for the purpose of industrial growth and in turn results in corporate growth. In terms of growth measurement of stock market, the index is used as proxy to ascertain the level of the growth over the period of the years. Normally stock market indices show ups and downs with respect tot heir movement due to the price fluctuation and the price of the script is operated under market condition i.e. demand and supply factors. As long as the influx of investment is at the larger extent, the indices of the stock market react positively showing upward trend. The growth of the stock market depends on both retail investors and foreign institutional investors. Since the contribution by the retail investors is far away from the expectation, the role of FII has become a key factor in determining the success of Indian capital market. FIIs have been allowed to invest in all securities traded on the primary and secondary markets, including shares, debentures and warrants issued by companies which were listed or were to be listed on the Stock Exchanges in India. The number of FIIs registered with SEBI was 3 in 1992-93 and since then it has increased to 1713 in 2009-2010. The FIIs have been playing a significant role in the Indian capital market in capital formation and economic development of the country. Foreign institutional investors are permitted to invest in the primary market and secondary capital markets in India by a way of Portfolio Investment Scheme (PIS) under which FIIs can acquire shares/debentures of Indian companies through the stock exchanges of India. The overall investment ceiling for FIIs is 24 percent of the paid capital of the Indian company. This limit is set as 20 percent of the paid up capital in case of public sector banks, including the State Bank of India. However, this ceiling of 24 percent can be raised up to sectorial cap/statutory ceiling, provided approval of the board is obtained and the general body of the company passes a special resolution to the effect.

REVIEW OF LITERATURE

Mishra. P.K. Das K.B & Pradhan (2009) studied the performance of Indian capital market by way of establishing relationship between net equity investment by FII and stock return. By using monthly data of sensex and Net FII inflows over a period of 17 years i.e. from January 1993 to May 2009, It was proved that there was a positive correlation between FII net flows and stock market return and there was substantial evidence to vindicate that Indian capital market was fairly explained by FII net flow.

Prasanna (2008) investigated the relationship between FII and the firm's specific characteristic with respect to ownership structure, financial performance and stock performance. The study revealed that the FIIs were interested in investing their fund with the firm those who have large number of public participation in terms of subscription of shares and further the FIIs choose the companies where family shareholding of promoter is not substantial. EPS and share return were regarded as the major variables of financial performance in terms of deciding their investment in the company.

Anantha Narayanan (2004) found that after allowing FIIs in to the Indian stock market, the unexpected flow of FII had greater impact than expected flow of FII. He also found that there was strong evidence consistent with the base broadening hypotheses.

Lin, A. and Chen,C.Y. (2006) in his paper entitled, ― "The Impact of Qualified Foreign Institutional Investors on Taiwan‘s Stock Market" has explored the relationship between qualified foreign institutional investors (QFIIs) and Taiwan‘s stock market and evaluates the effect of QFIIs‘ investment transactions on Taiwan‘s stock market. By taking the date of easing regulatory restrictions on foreigners‘ stock investment holdings as a cutoff point, the research uses the highest and lowest 10 stocks of QFII holdings in three industry sectors as sample portfolios to study the prior- and post event returns.

Soumyen,S. (2006) in his paper entitled, ― "Foreign Capital Inflow into India: Determinants and Management", held that the surge in inflows has not been matched by a corresponding growth in the absorptive capacity of the Indian economy. The major reason is the persistent slowdown of industrial activity since 1997. At the same time, the Reserve Bank of India (RBI) has been reluctant to let the rupee find its market-clearing level under the circumstances. This has resulted in steady accretion to our foreign exchange reserves (FER) over the last few years.

Sivakumar, S. (2003) in his paper entitled, ―" FIIs: Bane or boon?" has analyzed the net flows of foreign institutional investment over the years, in his paper also discusses the nature of FII flows based on research, explores some determinants of FII flows and examines if the overall experience has been stabilizing or destabilizing for the Indian capital market.

Kumar, S.S.S., (2002) in his research paper ― "Role of Institutional Investors in Indian Stock market" observed that the main reason behind the development of the stock market in India in the last 15 years has been the growing participation of Institutional Investors and the Indian Mutual funds combined together and the total assets under their management amounts to almost 18% of the entire market capitalization. This paper examines the role of these investors in Indian Stock market and finds the market movement with the help of using the direction of the funds flow from these investors. To study the role of FIIs regression test and Granger Causality test was carried out by the researcher. On the basis of regression results they concluded that the direction of the flow of funds from FIIs and the mutual funds lead to market rise or fall. On the basis of empirical work carried out the author concluded that the market become more efficient with the growing presence of institutional investors.

Dr.K.B.Singh & Dr.S.K.Singh (2012) found that there was a significant impact of FIIs on CNX-Nifty Index and there was a moderate impact of FIIs investment in the fluctuation of the CNX-Nifty Index for their study period.

OBJECTIVES

1. To find the Investment made by FIIs in terms of equity and debt during the period of 2010-12.
2. To examine the correlation if any exists between the FII net equity flow and sensex.
3. To assess the impact of FII net equity flow on the select market index of sensex.
4. To find the investment made by FIIs in terms of debt and equity has any significant difference.

HYPOTHESES

H0: There is no significant impact of FIIs investment on BSE Sensex.

H1: There is significant impact of FIIs investment on BSE Sensex.

H0: FIIs Investment on Debt and equity does not differ significantly.

H1: FIIs Investment on Debt and equity does differ significantly.

PERIOD OF THE STUDY

The study period was confined to only three years i.e. 2010 – 2012. The above said years show more of fluctuations due to the slow growth of Indian economy; the researcher was convinced in taking those years for the purpose of study to test whether the inflow of FIIs has improved the stock market condition.

Collection of Data

The data pertaining to stock market indices was collected from the official website of Bombay stock exchange and the data pertaining to FIIs net flow was collected from the official website of SEBI. Data was collected on monthly basis of net inflow and stock market index.

RESULTS AND DISCUSSIONS

Table 1. Showing the Descriptive Statistics

	Mean	Std. Deviation	N
sensex	17877.8863	1220.93054	35
fii	6680.7086	9933.39991	35

Source: computed data

Table 2. Showing the Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.492[a]	.242	.219	1078.78848

Source: computed data

Table 3. Showing ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12277935.649	1	12277935.649	10.550	.003[a]
	Residual	38404891.645	33	1163784.595		
	Total	50682827.295	34			

Note: a. Predictors: (Constant), FII, b. Dependent Variable: sensex

Source: computed data

Table 4. Showing Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	17473.731	220.757		79.154	.000	17024.598	17922.864					
	FII	.060	.019	.492	3.248	.003	.023	.098	.492	.492	.492	1.000	1.000

Note: a. Dependent Variable: sensex

Source: computed data

Table 5. Showing Correlations

		sensex	fii
Pearson Correlation	sensex	1.000	.492
	fii	.492	1.000
Sig. (1-tailed)	sensex	.	.001
	fii	.001	.
N	sensex	35	35
	fii	35	35

Source: computed data

Table 6. Showing Group Statistics

	VAR00001	N	Mean	Std. Deviation	Std. Error Mean
Fii	equity	35	6680.7086	9933.39991	1679.05104
	debt	35	3478.8657	5537.08272	935.93780

Source: computed data

Table 7. Showing Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
fii	Equal variances assumed	12.411	.001	1.666	68	.100	3201.84286	1922.28821	-634.02354	7037.70926
	Equal variances not assumed			1.666	53.269	.102	3201.84286	1922.28821	-653.32537	7057.01108

Source: computed data

DISCUSSIONS

In order to find out the impact of FIIs net flow on Sensex, regression model is used. The model investigates that the variable FIIs Net flow has explained the variance nearly 25% (Table 1.2) of the total variable in the capital market. This means that whatever the changes happened in the BSE-Sensex for the study period the FII investments are accountable for the extent of 25% (Table 1.2). This further indicates that apart from FII factor some other major factors are responsible for the changes happen in the stock market. The ANOVA (table 1.3) shows the significant level of 5% indicating that there is model fit for linear regression model. The table 1.4 shows that the t value is 3.248 which is greater than the table value, the null hypothesis is rejected at 5% level o significance indicating that there is significant impact of FIIs inflow on the stock market index (BSE-Sensex) movement.

Further to find out the relationship between FIIs investment and BSE-Sensex, Pearson correlation test is carried out. From the table 1.5, it is established that the correlation between net FIIs investment and BSE-Sensex index is 0.49 nearly 0.50. This shows that there is good relationship between the both variables and further both variables are positively correlated. Further the correlation is significant at 1% level.

In addition to that Independent sample t-test was employed to ascertain the difference between the investment made by FIIs in debt and equity segment. The table 1.7 indicates that the t-value is 1.66 with degree of freedom of 68; the null hypothesis is rejected at 5% level of significance stating that there exists a significant difference on FII investments between the debt and equity segment.

CONCLUSION

The paper examined the inter-linkage between the net FII investment and stock market by applying linear regression model indicating that there is significant impact of FIIs on the BSE-Sensex and further the study finds that there is a good relationship between the variables of FII investment made by FIIs significantly differs in terms of equity and debt segment.

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