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TO STUDY THE FACTORS AFFECTING INVESTMENT BEHAVIOUR OF FOREIGN INSTITUTIONAL INVESTORS

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ABSTRACT

Economic policies' liberalization in 1992 permitted foreign institutional investors (FIIs) to invest in Indian capital markets. Still, FIIs actually began investing in India from 1997 onwards. Moreover, the investment by FIIs saw factual growth only after 2002. Since then, the participation of FIIs in Indian stock market has risen steadily. Having emerged as one of the largest investors, FIIs have acquired non-promoter shares' ownership of a substantial proportion. Becoming dominant market players in the Indian stock market, FIIs contribute a considerable proportion (41.73%) of the total stock exchange turnover of BSE and NSE put together. In the Indian markets, FIIs are seen as large and sophisticated investors having a considerable impact on stock market returns. A number of investors and market participants steer their stock market strategy in accordance with FII's investment pattern. They also base their stock market analysis on their perception pertaining to the factors considered by FII in their investment decision. In this context this paper studies perception of market participants about major determinants of FII investment decision and extent to which investors are influenced by FII investment.

KEYWORDS: FII, Indian Stock Market, Perception, Market Makers.

INTRODUCTION:

The foundation of Indian economy is Indian capital market, the strength of which supports the growth of Indian economy. Development of a strong capital market requires an easy flow of capital and funds. Emerging economies such as India require funds owing to a shortage of internal sources of capital for further development.

Today, various emerging economies are competing for Foreign Investment. This is so because Foreign Capital brought in by Foreign Institutional Investors (FIIs) and the Foreign Direct Investments (FDIs) can solve the dearth of funds. So, emerging markets should study FIIs and FDIs to ensure they deliver a balanced growth of their capital market. Ever since 1992, FIIs are allowed to invest in all the new issue markets and Indian stock exchanges' traded securities. FIIs have actively participated in Indian stock market since 1997 and overtime their dominance has risen.

FOREIGN PORTFOLIO INVESTMENT (FII):

Foreign portfolio investment meant the venturing of funds into the market of a country where foreigners deposit money in that nation's bank or buy in the stock and bond markets of that country, at times speculatively.

International portfolio flows relate to individuals' or investors' capital flows. Those who want to develop a portfolio that is internationally diversified as against acquiring foreign companies' management control. International portfolio diversification is a known way to minimize the portfolio risk and earn elevated returns. Developed countries' investors can by buying stocks in developing countries strengthen their portfolio. In such developing economies, where stock markets have considerably low correlations with those in developed countries in relative terms.

The determination of FII's amount is done by assessing the stocks' performance in the countries where the investors intend to invest their money compared to world markets. As various emerging economies' stock markets open to foreign investors, industrial countries' investors soughting increasingly to realize the potential for portfolio diversification that these markets represent.

LITERATURE REVIEW:

Prasuna (2000) studied FII determinants of India and found that primarily the return in the stock market of the host country actually attracts the FII investments. While other factors also create an impact on the incoming of FII, but these are insignificant on a statistical basis.

The investigation made by Kumar (2001) were on the FII inflows' effects on the Indian stock market shown by the Sensex via January 1993 to December 1997 monthly data. He inferred that FII investments are actually highly driven by Fundamentals, they don't respond to short-term changes or technical market positions. In testing if Net FII Investment (NFI) impacts Sensex, a NFI regression was estimated on lagged values of the NFI's first difference, Sensex's first difference and one lagged value of the error correction term (the residual gained by estimating the regression among NFI and Sensex).

A causation running from FII inflows to return in BSE was found by Gordon and Gupta (2003). Per their observation, FIIs act as market makers. They book profits by investing at lower prices and selling at high prices. Therefore, contradictions exist between findings by various researchers concerning the causal relationship among FII Net Inflows, stock market capitalization, and returns of BSE / NSE. So, a need to investigate if FIIs are the cause or effect of stock market fluctuations in India exists.

Bose and Coondoo (2004) studied the liberalisation policies directed towards enlarging the FII categories' membership. They also studied their investment scope in the Indian market, their enhancement of the sectoral and individual caps. They also developed provisions for hedging FII's risk investing in the Indian stock markets by permitting them to enter the foreign exchange and derivatives market. They also noted that simplified procedures and reduction of fees look like having a considerable expansionary effect on net inflows. Steps to enhance the SEBI and RBI's FII investments' control including banning the NRIs or OCBs, and introducing strict disclosure stipulations also didn't exhibit any considerable negative impact on the net inflows. Overall, they found the policies in question many times render FII investments sensitive to domestic market returns, thereby raising the FII flows' inertia.

The monthly data from 1994 to November 2002 is used by Rai and Bhanumurthy (2004). They observed that FII inflow is a variable dependent upon stock market returns, domestic and foreign inflation rate, and ex-ante risk.

The forms of herding behavior and changes in them over time are studied by Chen, Wang, and Lin (2008). Per the suggestions of their results, an industry effect that occurs when Qualified Foreign Institutional Investors (QFIls) select stocks to pick, securities classified in particular industries are herded by them. Their findings also convey that they prefer stocks having high past returns and large firm sizes. They support the argument that QFIIs are momentum traders. In Taiwan, characteristic herding and investigative herding describe QFlls' trading behavior.

P. K. Prasanna (2008) examined the FII and firm specific characteristics' relationship in regards to ownership structure, financial performance and stock performance. Per his observations, foreign investors did more investments in companies having a higher shares' volume owned by the general public. The financial performance variables they consider significant are share returns and earnings per share (EPS). They consider these factors significant enough to influence their investment decision.

The relationship between FIIs and four economic variables, viz. Foreign Exchange Rates, BSE Sensex, Exchange Rates, and Inflation is studied by Amita (2014). She used Secondary data of a period of 12 years - 2001-02 to 2012-13 - is used by her.

She found that the correlation coefficient among FIIs and Sensex, FII and FERs, FERs and Sensex, and WPI and Sensex were found to be positive. Although, exchange rates and inflation shared a negative relationship with FIIs in the study. Granger Causality Model's results indicated bi-directional causality among FIIs and Sensex, and FIIs and Exchange rate. Although, no causality among FIIs and Foreign Exchange Reserves is found.

Per the reporting of Anand (2015), Janet Yellen's rate move has resulted in some good times for emerging markets (EMs), including India, experts opine. The ingredients, viz. strong growth, reform push, stable currency, better macros, the Indian story is getting good, they opine. In September 2015 (Anand, 2015b), it was also reported that experts opine that selling by FIIs is temporary, and that they must be the net buyers as and when a corporate earnings' revival is visible, and global slowdown fears minimize. Per the reports of Anand (2015c) in October 2015, commodity prices are soft, inflation is much below RBI's comfort level, the U.S. looks to raise the interest rates, signaling economic strength. During this time, the stock valuations look more reasonable following around 10% correction from the record high of 30,024.74.

RESEARCH OBJECTIVES:
On the basis of above literature review following objectives are formed for the study.

1. To study perception of Indian investors towards impact of Foreign Institutional Investors (FII) on Indian Stock Market
2. To study perception of Indian Investors regarding extent to which FII consider various macro economic factors while investing in Indian stock market.

RESEARCH METHODOLOGY:
To fulfill above objectives following methodology has been followed.

Research design:
Descriptive research design is applied to describe various factors affecting FII investment decision in India.

Population:
The population of the study is group of all the investors and potential investors of industrial security market in Surat city.

Sampling:
In the study, stock trading business investors are referred to as respondents. They were selected via a convenient sampling method. The respondents' data is collected from a total of 200.

Sources of Data and Data Collection Method:
Collection of primary data is done via a personal survey using structured questionnaire: The questionnaire has 43 variables focusing on a number of factors concerning types of companies, industries, current government initiatives and failures, macroeconomics factors, fundamental factors, etc. It also accounts for a reaction of FIIs on such factors. Secondary data is collected via a number of newspaper articles, stock market websites, and from research papers published in various journals.

DATA ANALYSIS:
1. Perception about relation between Sensex and Nifty fluctuations and FII flows

	Frequency	Percent	Cumulative Percent
Highly Negative	0	0	0
Negative	11	5.5	5.5
No relation	43	21.5	27.0
Positive	84	42.0	69.0
Highly positive	62	31.0	100.0
Total	200	100.0	

The results of this study state that 21.5% of the respondents don't see any relation among Indian stock market fluctuations and FII investment flows (Sensex and Nifty used as major representatives). Among the respondents, 78.5% are of the belief that a relation exists among FII flows and Indian stock markets. Among these, 73% respondents carry the belief that a positive (wherein, 31% are highly positive) relation exists among FII flow and Indian stock market. Findings by Joshi and Desai (2015) found that FII Investment and Sensex have a positive correlation when the trend is bullish as compared to correlation in a bearish trend. Therefore, it is vital to study the behaviour of FIIs to comprehend the movement and reasons for the Indian stock market movement. The results below exhibit a number factors impacting FII investment behaviour.

A. Companies Related Factors:
The following factors are perceived by investors that FII consider eminent in selecting companies for Indian stock market investment. Such factors carry a value higher than 4 (out of 5 point scale) and have a standard deviation lesser than 1.

Most Important Factors	S.D.	Mean
Banking	0.818	4.204
Dividend Per Share	0.855	4.185
Earnings Per Share	0.897	4.204
Financial Services	0.775	4.283
IT	0.812	4.224
Large Cap	0.872	4.273
Oil & Gas	0.985	4.234

Similar results are received by other researchers as well. Chen et al. (2008) having found that QFlls select stocks by herding on securities classified in particular industries. They also found that they prefer stocks having high past returns and large firm size. The studies by K. P. Prasanna (2008) reveals that among the financial performance variables, earnings per share (EPS) is a significant factor that influences their investment decision.

Other factors which are considered by FII, which has mean value up to 3.7 and standard deviation around 1 or lesser, are as follow.

Other Important Factors	S.D.	Mean
Liquid Firms.	0.961	3.655
Low Stake of DII in Company	0.960	3.636
Old Firms	0.935	4.018
Pharmaceuticals	1.014	3.930
Telecom Services	1.075	3.842
Young Firms	0.880	3.626

FIIs also consider other factors having a mean value of up to 3.7 and standard deviation of close to 1 or below. Factors having mean values below 3.7 and their standard deviations above, aren't concerned much as perceived by investors for FII to pick companies when investing in Indian stock market. Such factors are enlisted in the following table.

Other Less Important Factors	S.D.	Mean
Aviation	1.057	3.283
Corporate Governance.	1.033	3.587
High Stake Of DII In Company.	1.035	3.401
High Volatile Stock.	1.039	3.577
Highly Levered Firms.	0.889	3.538
Low Volatile Stock.	0.980	3.312
Manufacturing.	0.956	3.538
Mid Cap.	0.984	3.557
Real Estate.	1.247	3.107
Small Cap.	1.009	3.489
Tourism & Hospitality.	1.157	2.979

CONCLUSION:
This study finds that while FIIs are professional investors, they tend to be cautious when investing in Indian capital market when selecting companies for their investment. They have found that FIIs mostly prefer large cap companies, considering their EPS and DPS. FIIs prefer investing in Oil & Gas, Information Technology, and Banking scrips as against any other sectors in the Indian capital market. Attempt is also made by us to summarise the six major factors that the FIIs are concerned about while investing in India: Bureaucratic issues slowing down decision-making in the economy, issues pertaining to other developing (competitor) countries, inflationary concerns, FII origin country issues, new government initiatives, and current events of the Indian economy.

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