Original Research Paper | Commerce | Volume : 6 ¦ Issue : 3 ¦ Mar 2021 ¦ e-ISSN : 2456-5040

A STUDY ON IMPACT OF FII ON INDIAN STOCK MARKET

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ABSTRACT

Investors play a crucial role in ensuring that the economy is market-driven. Foreign Institutional Investors (FIIs) spend their wealth in the markets, thus it's critical that they put their money into the most profitable areas of the economy. FIIs are a prominent investor group that has recently emerged to have a significant impact in stock market performance. Every year, the developing nation of India attracts a wide range of FII-led investments. Foreign investments have a significant impact on the Indian economy. The Indian stock market reflects the country's economic situation and is influenced by international investments. The goal of this study is to test the null hypothesis that FII investment in India has an influence on the stock market and the Indian economy. The stock market data comes from the BSE website, while the FII data comes from the Government of India report.

KEYWORDS: FII, India, Stock Market, NSE, BSE, GOI.

INTRODUCTION:
The stock market's platform brings together securities buyers and sellers, governments, financial institutions, business houses, and others to trade securities. This is a high-risk market. Stock exchanges may also assist the issuance and redemption of securities and other financial instruments, as well as capital events such as the payment of income and dividends. The listed firms' issued stock, unit trusts, derivatives, pooled investment products, and bonds are all examples of stock exchange traded securities. Buyers and sellers initiate transactions to a centrally located site, and stock exchanges operate as "continuous auction" markets. It provides crucial capital mobility and promotes direct capital flow into potentially successful firms. The prices of specific securities reflect demand and supply. The stock exchange serves as a barometer for the overall health of the economy.

Foreign portfolio investment refers to funds investing in a country's market, when foreigners deposit money in the country's bank or purchase the country's stock and bond markets, sometimes speculatively.

Individual or investor capital flows are related with international portfolio flows. Those looking to build a globally diversified portfolio as opposed to gaining managerial control of overseas companies. Portfolio diversification across borders is a well-known method of lowering portfolio risk while increasing profits. To diversify their portfolios, developed-country investors frequently purchase stocks in emerging countries. These developing economies have minimal stock market correlations when compared to those in developed countries.

The amount determined by the FII is determined by comparing the performance of stocks in countries where investors desire to put their money to global markets. With emerging economies' stock markets now welcoming foreign investors, investors in developed countries are likewise eager to take advantage of the portfolio diversification opportunities offered by these markets.

LITERATURE REVIEW:
Study by Braj Kishor et. al. (2012) found that various developing countries opened the doors to their economies by eliminating capital controls altogether. This was done with the intention of inviting foreign capital, and substituting it with domestic capital in the early 1990s.

Study by Sundaram Kumar (2009) found that long-run equilibrium relationship is non-existent among stock returns and exchange rate. Study by Ambuja Gupta (2011) found that the increasing participation of FIIs in the Indian stock market had left an influence, but their timing of influence still differs.

Behera (2010) investigated the effects of FII investment on equities return and volatility using the ordinary least squares (OLS) GARCH model. According to the study's findings, FIIs investments have a favourable impact on liquidity and returns, whereas GARCH estimations show that FIIs investments increase volatility in the Indian stock market.

Mamta et al. (2012) used Karl Pearson's coefficient of correlation statistical method to investigate the influence of FIIs on the stock market. The study attempted to investigate the FIIs' pattern and its impact on the BSE Sensex's volatility. It was discovered that FII investment and the Sensex have a strong positive link.

Anubha (2013) used daily FII investment data and daily Sensex and Nifty stock market results from 2001 to 2010 to investigate the FII's investment influence on the Indian stock market. The research was carried out using correlation and regression methods. It has been observed that FIIs' investments have a significant beneficial impact on the stock market and the pricing of major equities. The findings also show that the extent to which FIIs have an impact varies by sector of the economy.

RESEARCH OBJECTIVES:
1) To study the concept of the stock market and FII

2) To study the impact of FII on stock market of India

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

Period of Data Coverage:
Quarterly data from the year March 2010 to March 2020 has been covered in this study.

Sample Size:
In this study 5 companies have been selected from Forbes top 50 companies' list

Sources of Data:
Secondary data has been used in this paper. Data has been collected from BSE website.

DATA ANALYSIS:
1. YES BANK LTD

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Stock Prices	42	20459.2	487.1238095	141343.2906
No. of shareholder	42	18809	447.8333333	43037.84959

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	32418.5719	1	32418.5719	0.351647374	0.554814065	3.957388
Within Groups	7559626.75	82	92190.57012			
Total	7592045.321	83				

H0 = There is no significant difference in stock price and No. of shareholder Yes Bank Ltd

H1 = There is significant difference in stock price and No. of shareholder Yes Bank Ltd

Interpretation:
From above table for 1 and 82 degree of freedom

Fcal is 0.352 and Ftab is 3.957

Thus, Fcal<Ftab and p-value is higher than specified α of 0.05

So, null hypothesis is accepted and it is concluded that there is no significant difference in stock price and No. of shareholder Yes Bank Ltd

2. WABCO INDIA LTD

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Stock Prices	42	174527.1	4155.407143	6055084.699
No. of shareholder	42	1700	40.47619048	631.5238095

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	355585791.6	1	355585791.6	117.438063	1.69593E-17	3.957388
Within Groups	248284365.1	82	3027858.111			
Total	603870156.7	83				

H0 = There is no significant difference in stock price and No. of shareholder of Wabco India Ltd

H1 = There is significant difference in stock price and No. of shareholder of Wabco India Ltd

Interpretation:
From above table for 1 and 82 degree of freedom

Fcal is 117.438 and Ftab is 3.957

Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05

So, null hypothesis is rejected and it is concluded that there is significant difference in stock price and No. of shareholder of Wabco India Ltd

3. TVS MOTOR COMPANY LTD

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Stock Prices	42	11284.85	268.6869048	45345.45562
No. of shareholder	42	3216	76.57142857	882.1533101

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	775075.48	1	775075.48	33.5330119	1.24707E-07	3.957388
Within Groups	1895331.966	82	23113.80446			
Total	2670407.446	83				

H0 = There is no significant difference in stock price and No. of shareholder of Tvs Motor Company Ltd

H1 = There is significant difference in stock price and No. of shareholder of Tvs Motor Company Ltd

Interpretation:
From above table for 1 and 82 degree of freedom

Fcal is 33.533 and Ftab is 3.957

Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05

So, null hypothesis is rejected and it is concluded that there is significant difference in stock price and No. of shareholder of Tvs Motor Company Ltd

CONCLUSION:
Since the summer of 1991, a number of changes have occurred in the Indian stock market as a result of financial reforms. The Indian capital market underwent significant changes as a result of the liberalisation event. The Indian capital market is becoming one of the most appealing to foreign investors. Since then, India has attracted significant portfolio investments. As a result of globalisation, institutional investors now play a significant role in foreign capital flows. Making them a major role in financial globalisation. It can be seen that FII investment has increased slowly and steadily over the last ten years. The FII's trust has risen as a result of this. The stock market indices in India are heavily influenced by foreign institutional investors (FIIs). As seen by the total FII trade in equity, FIIs have been progressively increasing their impact in the local stock market.

In India, FIIs and SENSEX movements are inextricably linked. The FIIs have a significant impact on market sentiment and pricing patterns. The reason for this is that other market participants see the FIIs' market assessments as perfect, and they also follow the FIIs' choices.

Apart from demonstrating that foreign institutional investors (FIIs) are the most important domestic stock market players in India, the findings also reveal that their influence on the domestic market is growing by the day. Due to a rising share of stock market turnover accounted for by FII trading, data on FII trading activity combined with domestic stock market movements imply that FIIs are essential at the margin. The Indian stock market is being driven by FIIs, who are putting money into the market and encouraging other investors to start investing. When indices' prices rise, they withdraw their invested funds to jolt the market. Particularly, funds invested in firms that make up the BSE Sensitivity Index (SENSEX) and NIFTY.

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