

# Impact of foreign institutional investors on indian stock market



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## **Chapter 1**

### Generalizations of Study

#### **Introduction**

In the initial period the economic growing of all the states were started by authorities planning and action by developing the agricultural, fabrication and the substructure installations of the state. Though these installations were equal for the economic system but it did n't hike the domestic growing of the state as it did non take to much economy or any farther investing. Since these domestic nest eggs were unequal, states had to depend on the loans from different states for the development of their state through different public administrations. This led to growing of economic systems by increased foreign investings which came in the signifier of abroad loans. Foreign capital plays a important function in the development of any economic system. It fills the spread between domestic nest eggs and its needed investing for growing. But this investing limited the range of growing as loans were non easy available. So states induced foreign investings by leting them to put in the companies listed on stock markets to a major extent. This led to development of stock markets.

Stock Markets ab initio were merely a manner for people to put their money into different companies and they were non that large. But as of today they have become an of import portion in the growing procedure of any state.

Due to development of stock markets, economic systems are acquiring

globalised and universe is acquiring smaller. Hence the significance of stock markets has grown above springs and bounds. As of today the Gross Domestic Production of a state mostly depends on stock markets. As a consequence each state is seeking to heighten its stock markets in order to pull foreign investings and to hike the growing procedure of their ain state.

The best determination of the century has been the fiscal liberalization of the equity markets all over the universe which gave chance for foreign investors to put in domestic markets particularly of the emerging economic systems. Harmonizing to Lalitha, S ( 1992 ) , the chief ground for opening stock market for FIIs was to pull foreign investings and stop state from raising more debts. Harmonizing to Cerny ( 2004 ) , the behavior of stock market is affected by the globalization of the universe economic system.

The Foreign Investors are eyeing these yearss on the Asiatic markets specially India due to many obvious grounds. First of all growing potency in Asiatic Markets is higher, secondly its cheaper in states like India to put as the costs are low, thirdly there is a higher investor base and fourthly largely the Asiatic economic systems are developing and therefore the Governments are welcoming to Foreign investors as they play a major function in hiking the growing of the state.

Now the inquiry that arises is who are Foreign Institutional Investors?

Harmonizing to SEBI, FII means an entity which is established or incorporated outside India and which proposes to do investings in India. Harmonizing to Sehgal and Tripathi ( 2009 ) FIIs are speculators alternatively of investors as they tend to put in stock for short term and after achieving short term

additions they tend to travel off to different company and this might take to volatility in stock monetary values and may take to fiscal crisis. FII's investments in stock market additions volatility in market due to inordinate liquidity but it besides leads betterment in value of stocks.

Harmonizing to Choe et al. , ( 1999 ) & A ; Froot et al. , ( 2001 ) & A ; Griffins et al. , ( 2002 ) , Foreign Investors run after returns from stocks, in a manner they will purchase portions in those companies whose returns they expect to be high. Harmonizing to Syste et Al. ( 2003 ) , Foreign Investors invest in big liquid companies which enable them to go out rapidly at lower cost. Another research by Prasana ( 2008 ) Foreign Institutional Investors have been eyeing on Indian Markets because of the positive basics of the economic system and possible to turn fast. Since foreign investors are freely available and are unpredictable, hence FIIs are ever on expression out for net income. FIIs move their investments on a regular basis and because of these swings there is a inclination to be fluctuations in monetary values and hence increased volatility in the market. Another survey by Clark and Berko ( 1997 ) finds that stock monetary values rises due to increase in capital flows by foreign institutional investors but they could non reason that the rise in monetary values are for short term or for long term. Another determination which indicates positiveness of presence of FIIs was produced by Banaji ( 2000 ) . Harmonizing to him, due to presence of FIIs in Indian market there has been improved transparence in the processs, mechanization and ordinances sing revelation and coverage criterions were initiated. So it becomes the necessity to analyze the Impact Foreign Institutional Investors have on Indian Stock Market.

## **Background of Indian Economy**

India was ruled for about 200 old ages by British regulation and in 1947 it gained its independency. ( <http://www.iloveindia.com/history/modern-history/british-india.html> ) So the growing of India has come in the last 60 old ages in which Indian economic system has been booming to put its bridgehead in the universe. Under the British regulation India was chiefly dependent on its agricultural production and few basic industries were in being as in fabric industry which was fundamentally for the benefit of the British settlement to back up them in their trade for European goods by exporting Indian basic agricultural goods and fabric industries.

After Independence, India carried on with its policy of achieving self sufficiency and closed the doors for the foreign investors. But this policy of authorities limited the growing of economic system. So in order to finance the demands to economic system of supplying basic necessities to its citizen ' s and for acquiring over with the load of loans as the foreign militias were at their all clip low, Government of India took support from World Bank and International Monetary Fund to acquire the state on to revival way. These administrations agreed to assist Indian economic system on the status that they will let foreign investors to come in India.

So fundamentally a reform procedure was initiated in India after balance of payment crisis of 1991 which was recommended by M. Narsimham, president of commission of fiscal system. This became get downing point of deregulating of fiscal sector and development of assorted sectors of fiscal markets. This resulted in important alterations in Indian market from dull to extremely floaty stock market. As a consequence Indian markets were <https://assignbuster.com/impact-of-foreign-institutional-investors-on-indian-stock-market/>

opened to foreign institutional investors in September 1992 and this event led to effectual globalising of the fiscal services and since so the Foreign Institutional Investings have been lifting positively twelvemonth on twelvemonth. These investings helped India in developing infrastructural installations which were necessary for the growing of the state. These investings were led due to increasing assurance in Indian stock markets which were based on strong macro-economic basicss of the economic system, abolishment of long term capital addition revenue enhancement, improved public presentation of Indian companies and transparence in the regulative system.

The gap up of markets for foreign investors had its ain pros and cons. Professionals of fiscal liberalization are that foremost stock markets had to better its trading mechanism and fit up to universe criterions and secondly with the presence of foreign investors, information system saw a drastic alteration. Con of fiscal liberalization was that it brought destabilization in the economic system and increased more volatility in stock motions. But overall it increased assurance of foreign investors in Indian stock market. The last two decennaries has led to turning engagement of Institutional Investors which includes non merely the foreign Institutional investings but besides investings by domestic institutional investors.

Indian economic system has been an attractive avenue for foreign investors as about 16 % of the universe population lives in India and besides India has joined the elect nine of 12 states to traverse trillion dollar economic system. Other states which have in past breached this trillion dollar economic system grade in the past includes states like U. S, Japan, Germany, China, France, U. <https://assignbuster.com/impact-of-foreign-institutional-investors-on-indian-stock-market/>

K, Italy, Spain, Canada, Brazil and Russia. Besides this state ' s stock Market capitalization has besides risen to \$ 944 billion which is close to trillion dollar degree. As per Credit Suisse Report, stock markets have risen in eight out of 10 states after making this grade.

Foreign Institutions have played a major function in Foreign Investments in India which resulted in altering the face of Indian Stock Market. Harmonizing to M Puri, ICICI Securities Chief, ( 2009 ) India has been looked upon as the safest finish for foreign investors. Foreign Institutional Investors are the companies which are registered outside India. They are registered with Securities and Exchange Board of India and they are guided by SEBI in take parting in stock market through bounds placed by it. The major beginning of their investing in Indian Stock market is through Participatory notes which are about 50 % of the money invested in markets. The disadvantage of participatory notes is that the investor is anon. and hence it could be an investing by any administration including terrorist administrations. Foreign Institutional Investors have invested more than \$ 41trillion of financers in India in the past four old ages which resulted in bull market witnessing unprecedented growing with BSE Sensex lifting in absolute footings. India has witnessed over a decennary of FIIs portfolio flows and these flows have gained significance and have played a cardinal function in the overall Indian Economy.

The impact of foreign investings in India is important. The increasing function of Institutional investors led to both qualitative and quantitative developments in Indian Stock Markets. The Foreign institutional investors has besides impacted the domestic investors to a big extent in the sense that if <https://assignbuster.com/impact-of-foreign-institutional-investors-on-indian-stock-market/>

FII's sell the stocks so there is a state of affairs of panic created among the domestic investors and they tend to sell every bit good. Hence there is a demand to analyze its impact on Indian companies and economic system in general taking into consideration all the factors impacting motion of stocks on Indian Stock Market.

### **Significance of Study**

Indian economic system is turning at a really fast gait. Most of the FII's are putting in India due to its important growing. These FII's though they are putting in the state, they non merely put for net income they besides are impacting the motion of stocks in stock markets. Hence they are impacting the stock market in a big manner which is an of import margin of the Indian economic system as it contributes to the growing procedure of Indian Economy. So it is important to analyze the impact of Foreign Institutional Investments on Indian Stock Market.

### **Aims of Study**

The chief aims of survey are:

1. To analyze the impact of FII's investings on the shareholding form of Stock exchange companies.
2. To happen manner to cut down hazard associated with putting in stock market and to cognize when to go out.
3. To look for investing chances

## **Chapter 2**

Reappraisal of Literature and Surveys

Determinants of FII's

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Foreign Institutional Investors play a major function in the economic growing of India. Their impact is important even though their market capitalization is non much and is bettering twelvemonth on twelvemonth. Several efforts have been made to understand the impact FII's have on Indian Stock markets. Harmonizing to Aggarwal 1997, Chakrabarti 2001 and Trivedi and Nair 2003 ( cited in Rai and Bhanumurthy ) equity returns have positive impact on FII's. But Gordon and Gupta, 2003 ( as cited in Rai and Bhanumurthy ) contradict by stating that foreign investors are here for gaining net incomes, they invest in a company and do the monetary value travel up as other investors follow and so book their net incomes and leave. So it can be said that there is a bidirectional relationship between FII's and equity return.

After the bursting of infotech bubble in 1998 and Asiatic crisis, Chakrabarti ( 2001 ) analysed and found a displacement in government in the determiners of FII's. He analysed that before the Asiatic crisis, any alteration in investing form by FII's had a positive impact on equity returns but after Asiatic Crisis he found that if there is a alteration in equity return so the behavior of FII's alteration. But Trivedi and Nair ( 2003 ) are of a different position point, they feel that any investings made depend a batch on the hazard associated with it. They further divide realised hazard into two factors, ex-ante and unexpected hazard. Harmonizing to them, ex-ante hazard is negatively related to FII's whereas the relation of FII with unexpected hazard is non certain. This is because unsure activities can convey impossible loss or addition depending on the state of affairs. Take for

illustration U. S subprime crisis. Those crises were unexpected and they led to unexpected motion in stock markets and FII's activity.

Surveys in the yesteryear have concluded that the return in beginning state and rising prices in that state does not exercise force per unit area on FII. But this theory has been contradicted by the recent subprime recession in US which led to most of FII's retreating their investments in order to get by up with crisis in their ain state. Hence if stock markets of foreign investor 's place state are making good and there is stableness in their economic system so it leads to a positive impact on the investments by FII's.

Harmonizing to Aggarwal 1997 ( as cited in Rai and Bhanumurthy 2004 ) universe stock market capitalization has a positive impact on growing of FII's in India. Harmonizing to literature study shows that most of the bing surveys do non reflect the consequence of stock volatility and besides they do non account for accomplished hazards in foreign and domestic markets.

Another observation by Ahmadjian and Robbins ( 2005 ) after analyzing houses in Nipponese economic system showed that foreign investors are more inclined towards net income devising than traveling in for long term ownership. They tend to do money and travel off towards other company.

#### Investing Preferences of FII's

Harmonizing to Douma, Pallathiatta and Kabir ( 2006 ) there is a positive impact of foreign ownership on steadfast public presentation and particularly on the emerging economic systems. They besides found the impact on concern group associations of FII's But FII's do not put in any house, they

invest in those houses which have good corporate administration as the houses with hapless corporate administration are least protective about the investors and alternatively they are concerned about their ain involvement merely, this was observed by Aggarwal, Klapper and Wysocki ( 2005 ) . Harmonizing to them companies which are controlled by block of stockholders they find it hard to happen external investors as they are derived by private benefits and may pull strings things consequently. This was already concluded by Cho and Padmanabhan 2001 ( as cited in Prasana 2008 ) that block stockholders influence house public presentation. They besides said that corporate administration of listed companies play an of import function in pulling foreign investings. They besides clarified that block stockholders mean fundamentally concerns run by household groups and distinguished them from times when authorities acts as block stockholders ; they act quiet otherwise from private investors. Bhanumurthy and Rai ( 2003 ) made an effort to analyze the determiners of FIIs by utilizing the monthly informations from January 1994- November 2002 by analysing the consequence of return, hazard and rising prices in domestic and foreign economic system. They foremost calculate the domestic and foreign returns from day-to-day returns on BSE Sensex and S & A ; P 500. After the analyses they find out that FIIs inflow depend on stock market returns, rising prices rate and Ex-ante hazard.

Harmonizing to Yin-Hua and Woidtke 2005 ( cited in Prasana 2008 ) investor ' s protection is weak when company board is dominated by members of commanding household and it gets hard to divide the ownership from direction so house value is reciprocally related to household ownership

houses. Their position was supported by Choe, Kho, Stulz ( 2005 ) who analysed US investors and concluded that they hold fewer portions in companies where ownership concentration is more contributing to insiders. Another observation by LI ( 2005 ) was that if there was hapless corporate administration so foreign investors tend to prefer other path of Foreign Direct Investment alternatively as Foreign Institutional Investors. Traveling further in accessing the information on house ownership, Leuz, Nanda and Wyoski ( 2003 ) assessed the steadfast degree features and found household control increases insider trading which gives less benefit to foreign investors. They were supported by Haw, Hu, Hwang and Wu ( 2004 ) who concluded that house degree features cause information dissymmetry jobs for FIIs.

In order to analyze the investing penchants of FIIs, Dahlquist et Al ( 2003 ) analysed the foreign ownership and steadfast features of Swedish Stock Market and they concluded that FIIs prefer houses which are big, pay low dividends and have a immense hard currency retentions. Whereas Covrig et Al ( 2007 ) were of the position that foreign directors have relatively less information than domestic directors and hence they concern FIIs penchant to be based on size of gross revenues and stocks which are listed on foreign dirt.

Harmonizing to Li and Jeong-Bon 2004 ( as cited in Prasana 2008 ) , FIIs are in a better place to analyze the public information and hence they tend to avoid stocks with high cross-corporate retentions whereas harmonizing to Morin 2000 ( as cited in Prasana 2008 ) as they analysed the Gallic

theoretical account of shareholding and direction of FII form concluded that <https://assignbuster.com/impact-of-foreign-institutional-investors-on-indian-stock-market/>

France has undergone a rapid alteration and has gone off with the traditional system of FII keeping and facilitated with new techniques which demands corporate direction.

### Stock Market Volatility

Research by Forbes and Rigobon ( 2002 ) , Bekaert, Harvey and Lumsdaine ( 2002a, B ) , Edwards ( 2000 ) and others focussed on stock market volatility concentrating on traveling of volatilities among different economic systems and besides of the fiscal crisis which happened thenceforth. Bakaert and Harvey 2000 ( as cited in Batra 2004 ) analysed equity returns of a group of emerging markets before and after fiscal reforms. Harmonizing to Aggarwal, Inclan and Leal 1999 ( as cited in Batra 2004 ) local events and occurrences make the stock markets to turn volatile in emerging economic systems. In order to pull this decision they analysed emerging stock markets for volatility for period of 1985-95 and by utilizing ICSS algorithm they identified points of sudden alteration when some event occurred or when there was big motion in stock market volatility. They calculated the discrepancy at each point. Harmonizing to De Santis and Imrohroglu 1997 ( cited in Ranjan Kumar Dash and Sumanjeet Singh ) studied the behavior of volatility in emerging markets and the consequence of liberalization on fiscal markets and concluded that volatility decreased after liberalization. Their survey was contradicted by Singh ( 1993 ) , Gabel ( 1995 ) , Levine and Zervous ( 1998 ) , Kamminsky and Schmickler ( 2001 and 2003 ) , Nission ( 2002 ) and Edwards et Al. 2003 ( cited in Ranjan Kumar Dash and Sumanjeet Singh ) by stating that fiscal liberalization additions stock market volatility. In Indian context, Samal 1997 and Pal 1998 ( cited in Ranjan Kumar Dash and <https://assignbuster.com/impact-of-foreign-institutional-investors-on-indian-stock-market/>

Sumanjeet Singh ) found that FIIs investing is the major beginning of volatility whereas stock market volatility was lower in liberalized economic system. This position was supported by Richards 1996 who took three different methodological analysis and two different sets of informations to cipher the volatility in emerging markets and came with the decision that there was no empirical grounds which supports that liberalisation of economic system additions volatility in stock markets.

Hamao and Mei 2001 ( as cited in Batra 2004 ) examined Nipponese market at a clip when foreign portfolio investings in Japan were little and found no proper grounds to turn out that foreign investings tend to increase volatility more than addition in volatility due to domestic investors. Folkerts - Landau and Ito 1995 ( as cited in Batra 2004 ) computed market volatility in emerging economic systems at different periods in which there was a difference in flow of portfolio and found in instance of Mexico that stock monetary values were less volatile when Foreign flows were more volatile and frailty versa for Hong Kong. Harmonizing to Nilsson ( 2002 ) by utilizing Markov government exchanging theoretical account in Nordic Stock markets, liberalization in stock markets leads to increase in volatility. Nilsson besides evidenced that higher volatility and higher expected returns have strong links with international stock markets.

Considerable attending has been paid these yearss to stock market volatility and particularly after planetary recession. Stock Markets had been extremely volatile in emerging markets like India and its survey becomes of import.

Investing schemes of FIIs

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There has been a considerable sum of research done on the investing schemes of FIIs which show the Positive feedback and herding schemes being followed by FIIs. Research done by Lakonishok, Shleifer and Vishny ( LSV ) 1992 ( cited in Sehgal and Tripathi 2009 ) looked at the investing behavior of 769 US revenue enhancement exempt equity financers managed by 341 money directors for the period of 1985 to 1989. They concluded that there was no herding by money directors but it was predominating in the behavior of stock monetary values of little companies than in big companies. The ground given by LSV is that information on big stocks is easy available whereas little companies do not supply much information to public, so money directors look at the investments by other large investors into little stock and follow them. Harmonizing to LSV, it is hard to happen the consequence of crowding as at times a little sum of crowding can convey important motion in stock monetary values. An statement was put forward by Dornbusch and Park ( 1995 ) that foreign investors follow positive feedback scheme which leads to stock unusual motion in stock monetary values.

Wermers 1998 ( cited in Sehgal and Tripathi 2009 ) used LSV steps to look into the presence of crowding among common financers. He took the quarterly informations of common financers from 1975 boulder clay 1994 and concluded that common financers showed being of crowding. He besides analysed stocks and concluded that crowding among those stocks tend to be higher which had reported higher sums stock returns in the old one-fourth. He concluded that investors buy those stocks which had good returns in the old one-fourth and sell those stocks which had hapless

quarterly consequences. After calculating mean degree of crowding by Wermers model it was concluded that crowding is more in common financers than in stocks. But after analysis of merchandising behavior of big pool of common financers it was found that the crowding behavior in fact reduces in common financers and it was justified as big pool of common financers carry stock which have big sum of capitalization and companies with big capitalization tend non to make any herding. Another analysis by Bonser-Neal et al 2002 ( cited in Sehgal and Tripathi 2009 ) analysed the foreign trading behavior on Jakarta Stock exchange between 1995 and 2000 and found positive feedback trading and herding by foreign investors but they did n't happen any grounds bespeaking destabilising of markets due to foreign investors during Asiatic crisis. Richards 2002 ( cited in Sehgal and Tripathi 2009 ) used informations referring to net purchases by foreign investors in six Asiatic emerging markets over 1999-2001 and found an grounds of positive feedback trading.

Harmonizing to Kim and Wei ( 2002 ) foreign investors who live outside Korea are more likely to indulge in positive feedback trading and crowding schemes as compared to their subdivisions and subordinates who are populating in Korea or any foreign national staying in Korea. Harmonizing to them this difference in merchandising behavior arises due to different sort of processing of information by those populating outside Korea than those living interior.

### **Chapter 3**

#### Data and Methodology



## Research Methodology and Design

Harmonizing to Collis and Hussey ( 2003 ) , Methodology refers to overall attack to research procedure which includes underpinning of theory, aggregation of informations and analyzing it. However the research procedure adopted depends to a great extent on the attack taken by the research worker. Research design is the general program of how to travel about replying the research inquiry. It gives the logic behind every reading. Due to nature of research carried out the premier focal point has been on garnering the secondary information which is relevant to analysis being carried out. Harmonizing to Collis and Hussey ( 2003 ) , there are two chief paradigms of research that is qualitative and quantitative. Qualitative research is followed by those people who have phenomenological set as it deals with understanding the behavior of human existences. Therefore it is besides known as Phenomenological Paradigm. On the other manus Quantitative research refers to those who relate to positive position of the universe and hence this sort of research is besides called as Positivistic Paradigm. Positivistic paradigm is used fundamentally in natural scientific disciplines as this attack gathers facts with subjectiveness of the nature of research and single prejudice.

For the intent of research both qualitative and quantitative informations will organize portion.

Qualitative Datas: this information has been collected by:

- Analyzing into the certain yearss on which markets fluctuated in top or downside way to a great extent

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- Analyzing the alterations in ordinances by the Securities and Exchange Board of India in relation to foreign institutional investors.
- Analyzing the behaviour of domestic investors and other factors impacting the market.
- Analyzing the footing on which the foreign institutional investors entered Indian Stock Market and at that place enter and issue scheme and its impact on Indian economic system.

Quantitative Datas: this information has been collected by:

- Analyzing the market capitalisation of foreign institutional investors and their cumulative consequence on stock market
- Looking in the growing of figure of institutional investors and the portion of their investings twelvemonth on twelvemonth.

The research onion below in the diagram gives an overview, how to accomplish the aims by utilizing the techniques in each bed of the onion.

In order to transport on with the research each onion of the Research Onion has been peeled consistently so as to acquire in the right way. The doctrine adopted for the intent of research is Positivism doctrine as research has been undertaken largely from the informations already published in diaries, articles, old researches etc. Approach taken by the research worker is chiefly inductive as maximal informations is qualitative and it has been of extreme importance to cover every facet of research. Researcher has taken the instance survey scheme to analyze the information. The Researcher has used Mixed Method research pick in the sense the information collected comprises of both qualitative and quantitative informations. The clip skyline

for research has been longitudinal as this research has been carried on after detecting the behavior of stock markets over a long period of clip and on going of any event.

While transporting out the research it has been kept in head that the research aims and the features of the information collected lucifer. In order to analyze the Impact of FIIs on Indian Stock market, a thorough research has been done from different beginnings which includes RBI and SEBI publications, newspaper articles, diaries, old research done on the subject and besides from cyberspace.

For the intent of our research survey we are looking into the informations boulder clay fiscal twelvemonth 2008-09.

Restrictions of Survey:

This survey has been taken during the clip when impact of recession has non been to the full analysed and its exact nature and impact on the motion of stock markets and Financial Institutional Investors can non be justified as it is a planetary recession. So research may lose out some of the deductions of recession and may non correlate to impact which FIIs may hold during the normal market conditions.

Data has been collected largely through online beginning. It was non possible to carry on forces interviews with top agents in India due to distance barriers. Hence the findings and analysis has been derived on the footing of informations available online.

Summary of Research:

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The bulk of this research is conducted by doing usage of secondary beginnings of informations which includes diaries, articles, books, magazines, newspapers, Internet and other electronic beginnings. The research in this country has already been conducted but the intent of this research is to bring forth new thoughts and to derive farther understanding into the topic by looking into each and every item of it. This research is conducted at the clip of recession, the status which was non prevailing before, so it is expected to convey new constructs and theories into existent and it will besides over rule some of the surveies that have already been conducted.

## **Chapter 4**

### Analysis of Indian Stock Market

#### **Overview of Indian Stock Market**

Stock markets were foremost introduced to India in 1875 as a non net income devising administration. Bombay Stock exchange is the oldest stock market in whole Asia. Stockss in India are traded on the stock exchanges which are around 23 which includes Bombay Stock Exchange and National Stock Exchange. Stock exchange is a corporation which provides its agents to merchandise stocks of companies which are listed with them. The administration of Stock Exchange, its systems and patterns are regulated by Securities Contract, ( Regulation ) Act ( SC ( R ) ACT ) , 1956. They are extremely efficient administrations which have led to growing of securities market. Stock exchanges trade securities which include portions, unit trust, pooled investings and besides bonds which are listed on them. Members of the stock exchange act as its agents as they are merely allowed to

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merchandise on behalf of their clients who pay securities firm to them for the services provided by them. Stock exchanges besides provide plentifulness of services as in issue and redemptive portions and besides in payment of dividends to its stockholders through its participants or members.

Stock exchanges are of import even though it is non necessary to publish portions via stock exchange. Shares are usually issued through Initial Public Offering ( IPO ) . Stock exchanges play a major function in the economic system as of today as they help with enlargement programs of the state by call uping the nest eggs to investings and besides by redistributing wealth among the economic system.

Stock exchanges maintains the records of all the stockholders at one cardinal location but portions that are traded on stock exchange they are non dependent on that cardinal location as the computerisation has made it easier to merchandise stocks. All stock exchanges have become an of import portion of universe market for securities as planetary investors can put in any market from anyplace.

### **Importance of Stock Markets in India:**

Stock markets play an of import function in the economic system as they are now the fiscal indexes of growing in any state. They represent the Southern Cross of operation of all the sectors of state. NSE NIFTY comprises of 50 top Indian companies from each sector and BSE SENSEX comprises of 30 companies from all the sectors. The undermentioned points describe the function stock markets play in India:

1. Bettering Corporate Administration: Since Stock markets are regulated by SEBI, companies are bound to follow the regulations and ordinances in order to hold a good market value of their stocks on stock markets. This is possible merely if they keep their stockholders satisfied. So they by and large tend to better their company processes and direction criterions to maintain up with other companies. They make their fiscal public presentation and other of import company determination available to its stockholders and besides take all necessary stairs to do their company basically strong in order to pull foreign investing.
2. Diversification of Investment chances: Everybody wants to hold their wealth increased and in order to make so they need to put in topographic points where they think is most profitable. Take for illustration little investors ; If an investor wants to put its money into existent estate as their is expected to be a roar in that sector but he does n't hold big amount of money to put in belongings, so in order to take advantage of chance, alternatively of truly putting into belongings which he can non afford he can put in company covering in existent estate sector through stock market. This manner he can hold the advantage of roar in the sector with his investing and he will besides hold the chance to put in any other sector which he thinks is profitable.
3. Call uping Savings: Peoples earn money and so they save it for their hereafter but this attack is non favorable for the growing of the economic system of any state. So savings demands to be mobilised and converted them into investings to hold a turning economic system. Stock markets have created a good platform for investors to put money as they can put or retreat anytime they want. Indian investors

which include little investors every bit good as domestic and foreign institutional investors have seen a growing in figure of investors over the old ages. This has helped India to call up investings in under developed sectors and have a balanced growing.

4. **Redistribution of Wealth:** By putting in different stocks, stock markets give opportunity to its investors to go portion of the different companies and assist them to do net incomes in their stocks and have a systematic growing in their money. This helps in money flow and helps in cut downing inequalities of income. This manner income gets distributed among broad spectrum of investors and it helps in bettering criterion of life of different investors by redistributing wealth.
5. **Raising of Money by Corporate and Government:** In order to travel in front with the enlargement, the large corporate and even the authorities needs money. In order to travel for big scale enlargement it is non reasonable to put all the money from your ain pocket. So in order to cut down the hazard, large corporate and Governments divide the hazard by raising money from public. Public fundamentally are investors who want to be portion of the enlargement programs lend money to these corporate and authorities and anticipate return on their investings. Companies come up with IPO and authorities may publish bonds. These investings do n't hold any fixed duties to pay but they tend to pay returns to its investors. Stock markets facilitate issue of IPO and bonds and aid companies and authorities in raising money. Investors so go the stockholders of the company and hold right to take part in the determination devising of the company as they have right

to vote. SEBI protects the right of these investors and avoid any disagreements from going on.

6. Barometer of Economy: Stock markets are the mirror of any economic system. They represent the state in footings of its advancement and its economic mentality. If the stock markets are volatile so the foreign investors tend to remain off from the markets but if the stock markets are stable in their public presentation and basicss of the company are strong, foreign investors tend to blush the money in economic system and aid in maintain a positive balance of payments. Economic stableness besides helps in acquiring the currency strong against other states. Indian companies are based on strong basicss and stock market looks positive and hence foreign investors are eyeing Indian stock market with top penchant among all the emerging economic systems.

## **Chapter 5**

### Analysis of Foreign Institutional Investors

#### **Foreign Institutional Investors:**

Foreign Institutional investors are those investors which are registered with Securities and Exchange Board of India to take part in the market. This term is fundamentally used in context to India and it refers to those establishments or administrations which invests their money into fiscal market of India. These administrations are incorporated in states outside India and they may include:

- Hedge Fundss
- Pension Fundss
- Common Fundss



- Insurance companies
- Investing trusts
- Banks
- Endowments
- Foundations
- University Funds
- Charitable Trusts

Following entries proposed to put on behalf of wide based finances, are besides eligible to be registered as FII's:

- Asset Management Companies
- Institutional Portfolio Directors
- Trustees
- Power of Attorney Holders

( [hypertext transfer protocol: //www. sebi. gov. in/Index. jsp? contentDisp= SubSection & A ; sec\\_id= 5 & A ; sub\\_sec\\_id= 5 \)](http://www.sebi.gov.in/Index.jsp?contentDisp=SubSection&A;sec_id=5&A;sub_sec_id=5)

1. Eligibility Criteria for make up one's mind FII's Application by SEBI
  1. Applicant ' s path record, professional competency, fiscal soundness, experience, general repute of equity and unity.
  2. The applier should be registered and regulated by appropriate Foreign Regulatory Authority in the same capacity in which application is filed with SEBI
  3. The applier should be fit and proper individual
  4. The applier should hold been in being for past one twelvemonth.

In order to put in Indian Stock markets, FIIs have to stay by regulations and ordinances imposed by SEBI. FIIs have to register themselves with SEBI. Registration procedure takes seven working yearss and these yearss start from the twenty-four hours FIIs give complete paperss to SEBI for enrollment with enrollment fees of US \$ 5000.

## 2. Fiscal Instruments Applicable to FIIs

The fiscal instruments applicable to FIIs are:

1. Securities in primary and secondary markets which includes portions, unsecured bonds, warrants of companies, listed companies, unlisted companies or companies in the procedure of listing.
2. Unit of measurements of Common Fundss
3. Dated Government Securities
4. Derived functions traded on a recognized stock exchange
5. Commercial documents

## 3. Regulations for Foreign Investors:

Foreign Institutional Investors, Persons of Indian Origin and Non-Resident Indians are allowed to put in Indian stock market through Portfolio Investment Scheme to get an involvement in Indian companies through Stock exchange on the undermentioned footing:

- FIIs can put in Indian company up to 24 % of the paid up capital of the company. This bound can be enhanced to statutory ceiling bound of the company if a particular declaration is passed by the board of managers and the general organic structure of the company.

- NRIs and PIOs can put in Indian company to the bound of 10 % of the paid up capital of the company. This bound can be increased to 24 % by go throughing a declaration topic to blessing of general organic structure of the company.
- There is no co-relation between the ceiling bound of FII and NRI or PIO.
- The bound mentioned above is the overall bound of FIIs/NRIs/PIOs regardless of figure of FIIs/NRIs/PIOs

( Beginning: [hypertext transfer protocol: //bseindia. com/invdesk/coforeign. asp](http://bseindia.com/invdesk/coforeign.asp) )

Now since these bounds have been sanctioned to foreign investors, it is necessary to supervise these bounds. These bounds are monitored by Reserve Bank of India by seting a cut of 2 % lower than their existent investings bounds. So when these investings reach their cut off bound, RBI informs the Bankss who make investings on the behalf of foreign investors to halt any farther purchasing for them. If they need to purchase further they need to take permission from RBI which gives permission on first come first footing. This measure by RBI helps to control inordinate control by foreign investors and hence attempts to avoid extra volatility in stock market. In order to safeguard investors RBI notifies investors to halt purchasing in these companies in order to cut down the hazards associated with puting in these companies.

( Beginning: [hypertext transfer protocol: //www. rbi. org. in/advt/FIINRI. html](http://www.rbi.org.in/advt/FIINRI.html) )

Foreign Institutional Investors have become a portion of of import mechanism for the growing of any state as they mobilise nest eggs and

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change over them to investments and since the cost of capital of these investments is low, they are most efficient manner of investments. These investors by increasing their investments assist in beef uping the currency of the state and economic prosperity of the state. These investors have changed the Indian stock market by conveying in qualitative and quantitative alterations as they have increased the comprehensiveness and deepness of market. They focus on fundamental of portions and lead to efficient pricing of the portions and hence they play an of import function in the growing of stock market. These FII's map by conveying in the money from the economic systems where adoption costs in lower and by puting in economic systems which are turning. These FII's have such an impact on the economic system that their motion affects the motion of stocks on the stock market in such a manner that if they flush money into stock market, markets rise and if they withdraw money so the markets fall miserably. Government is doing tonss of attempt to pull these investors to Indian economic system as they have realised the importance of these investments.

The major part of investments by foreign institutional investors goes to equity market impacting the shareholding form of the companies listed on the Indian Stock exchanges. About 95 per centum of their investments contribute to identify indices and about half of their investing is into top five companies listed on the stock exchange and hence holding a big consequence on the public presentation of the Indian Stock market.

### **Securities and Exchange Board of India ( SEBI )**

The Securities and Exchange Board of India was established on 12th April 1988 as a non statutory organic structure in order to cover with affairs

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related to development and ordinance of securities market, investor protection and to redre authorities on all the affairs. ( hypertext transfer protocol: //www. sebi. gov. in/bulletin/glossarycover. pdf ) It became an independent organic structure in 1992 when it was given more powers.

### 1. Aims of SEBI

- The chief aim of SEBI is to look after the involvement of the investors, so that they do n't endure due to any abnormalities of the companies.
- Another aim of SEBI is to invariably affect with regulation and development of its securities market so that it becomes easier for its investors to merchandise on it and for issuers of securities by simplification of its procedures.

In order to accomplish these aims SEBI has introduced regulative steps, codification of behavior for its participants, bounds of their engagement, fiscal duty which its participants may hold to incur in instance of divergence from their class of action and it has besides taken stairss to halt uses in order to do it convenient for investors to put by doing all the processs transparent.

### • Functions of SEBI

Harmonizing to Section 11 of the Securities and Exchange Board of India Act, maps of SEBI are:

1. To modulate the concerns of Stock Exchanges by reexamining their market operations and holding an administrative control over the exchange.

2. To register and modulate the working of its depository participants, foreign institutional investors and other mediators.
3. To control any unjust trade patterns and fraud occurrence in the securities market by taking necessary steps and rigorous actions to hold a normal operation of securities market.
4. To forbid insider trading by beef uping the market surveillance.
5. To educate its investors by giving them developing and besides by maintaining them updated about the recent developments going on in the securities market by issue of its diary and publications and by other imperativeness releases.

**Government Initiative:**

Initially FII's restricted themselves from coming into India as there were many footings and conditions to put in India. But easy and steadily SEBI simplified the norms for FII's to come in into Indian market by taking assorted steps:

- SEBI increased the ceiling of investments of FII's to 24 % of the paid up capital of the company or up to the statutory bound of the company topic to blessing by the company.
- They allowed foreign persons to straight register as FII's by simplifying enrollment norms. They besides simplified norms for gap of Sub-accounts.
- FII's are allowed to put in Indian primary and secondary market through portfolio investing strategy which allows them to get portions and unsecured bonds of Indian companies.

- SEBI increased the bound of FIIs investing in corporate bonds to US \$ 15 billion.
- SEBI increased the bound of FIIs in Government securities to US \$ 5 billion.
- SEBI allowed FIIs to put in equities or debts in any ratio they want. This measure was taken to let flexibility to foreign investors to make up one's mind them to put in any instrument they want.
- SEBI reduced the securities firm ' paid by FIIs to pull them to put in India by giving them cost salvaging advantage.
- SEBI besides allowed Institutional portfolio directors and other investing directors belonging to NRI class to register themselves as FIIs.
- SEBI lifted prohibition on 40 % bound on investments through Participatory Notes.

( Beginning: [hypertext transfer protocol: //www. mydigitalfc. com/stock-market/fiis-pull-out-13-billion-2008-356](http://www.mydigitalfc.com/stock-market/fiis-pull-out-13-billion-2008-356) )

## **Chapter 6**

### Findings and Analysis

#### **Investing climate in India:**

India has been confronting the fiscal crisis since the clip it attained independency. The turnaround for Indian economic system came after balance of payment crisis which led to opening up of Indian economic system for foreign investors as India got support from International Monetary Fund. These crisis led India to growing procedure as India went on towards the globalization as reforms were introduced to do the state conducive to

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free flow of resources from one state to other. Government took stairs to advance Indian investors to open up for foreign know how and proficient support.

Foreign Investors came to India in two signifiers ; foremost as Foreign Direct Investors and Second as Foreign Institutional Investors. Though both these investors bring money into Indian Economy but there is difference between the two. Foreign Direct Investors invest in different sectors irrespective of its portion monetary value. They are fundamentally the long term investors as they develop the different resources in the state. Foreign Institutional Investors are in state for short period of clip, they invest in company and withdraw every bit shortly as they get net incomes and so put in any other company. Indian authorities is acute on pulling Foreign Direct Investors to state because they affect the long term growing of the state. But state needs both the Investors. Foreign Institutional Investors provide liquidness to economic system.

India realized the importance of Foreign Investors after the crisis as they knew that domestic investings will be deficient to set the state into growing way. Since so the investing clime in India has been really positive. India has been able to accomplish GDP growing of 8 % and has brought down the rising prices costs. India has tons of resources ready to be unleashed merely waiting for the right chance. The low costs of investing and labor has brought the state on a high platform. The best thing about India is that it non merely has immense supply but it besides has immense demand. So it can be said that India has a positive investing clime with long term narrative which foreign investors are cognizant.

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**Present Investment Scenario:**

The worst twelvemonth in the history of Indian Stock Market has been 2008 in which the markets crashed from High of 21000 points to low of 9000 points. Harmonizing to SEBI, foreign institutional investors from March to November 2008 were net Sellers to the extent of US \$ 8 billion whereas in the same period a twelvemonth before they were net investors to the extent of US \$ 16 billion, about double in the old twelvemonth in the same period. This was chiefly due to planetary recession and besides Satyam Computers Ltd ' s corporate administration issue. Despite these Indian economic system is flourishing and has been pulling investments by FIIs. This has been possible due to changeless attempt by SEBI by advancing the fiscal market of India and by taking steps such as loosening the steps for FIIs to come in in India and by other steps bringing investments.

Harmonizing to informations given by Securities and Exchange board of India as on 17th March 2009, entire figure of FIIs registered with SEBI peers 1626 and registered sub-accounts peers 4972 and their cumulative investments in equity market stands at US \$ 50950. 20 million and Investments in Debts stand at US \$ 6541. 50 million. This sum is about 25 % of the entire investments by FIIs coming into Asia, Africa and Latin America which was around 15 % in 2007. Harmonizing to US planetary direction based consulting house A T Kearney, India is the most attractive finish among the top 30 emerging economic systems of the universe. India has been ranked as most attractive finish for foreign investors in retail section for the 4th clip in five old ages.

Foreign Institutional Investors have invested in Indian economic system in the month of May the sum peers to US \$ 4. 17 billion in equity which is highest in past one and half twelvemonth. There are tons of new fiscal institutional investors coming in the market despite the planetary meltdown which includes Morgan Stanley, HSBC, Goldman Sachs, etc. These all are the large investors who have planetary acknowledgment.

Some cases of recent trades by some of the large investors explain the narrative of continued growing of Indian Economy:

- Kotak Mahindra ' s purchase of bets in NIIT in March'09 for over US \$ 897414.
- Goldman Sachs purchased interest in NDTV to the extent of 8. 16 %
- Morgan Stanley purchased interest in IDFC to the value of US \$ 11. 61 million.
- HSBC bought portions of Intellivisions for US \$ 144. 94 billion.

These are merely few from many foreign investments which entered in 2009.

Due to increase in these investments, the consequences for one-fourth stopping June 2009 have been promoting. Harmonizing to Prateek Agrawal, Head-Equity, Bharti Investment Managers out of 30 BSE Sensex companies 25 of them have reported that their net incomes are level which is good as compared to anticipations by analysts to be falling as an impact of recession. The Net incomes Before Interest Tax and Depreciation are besides up by 5. 9 % for the overall market. There has been a volatile market overall but the sector-wise growing has been dead

Net Flows are Gross Purchases by FIIs minus Gross sales by FIIs. In other words, Net flow is equal to inflows subtraction escapes.

Looking at above it can be seen that Net flows by FIIs have been positive for the whole twelvemonth of 2007 except in the months of August and November. But 2008 gave a bad start with FII flows traveling into negative which means that FIIs withdrew money from Indian market and they had been a net marketer for about Rs 18000 Crores. They turned positive in February, March and April so went into negative once more all the manner down till terminal of November 2008. This period had been the worst period in the history of Indian Stock Market as markets fell miserably. But the consequence of recession impacted Indian Economy severely till February 2009 but after that things started to turnaround and FIIs turned out to be net purchasers once more in Indian Stock Market. They invested about Rs 21000 crores in the month of May 2009. The chief ground for rise in investing by FIIs in the month of May has been due to formation of UPA led authorities with full bulk which gave a encouragement towards market sentiment as authorities will be able to travel in front with its programs of advancement which they were non able to make during last government due to coalition authorities formed with minority support. By putting in Indian stock markets merely after the elections consequences, FIIs had shown their support to UPA Government. Hence it can be said that India is still a favorite finish by FIIs for investing.

Now let us hold a expression at the growing factors of India boulder clay last twelvemonth.

Indian stock market had lag in 2008 after four old ages of strong additions in the market. Indian market had been turning due to positive flows by FIIs and development in other sectors due to development by FDIs. But due to sub-prime recession, FIIs had started drawing money back from Indian market due to bad place of FIIs in their ain state. This led to fall in Indian stock market which created terror among Indian investors. One of the indexes of economic growing of state is Gross Domestic Production ( GDP ) .

After looking at the GDP growing of India year-on-year, it looks assuring even though it slipped down a spot in 2001 and 2002. This betterment in GDP has been pealing bells in the foreign investors and they are puting in India as the long term narrative of India looks good with its strong basicss. GDP has besides been high due to FDI in Indian economic system and besides due to self sufficiency of Indian economic system in agricultural and fabricating goods. Due to this ego sufficiency exports of these goods leads to betterment in foreign currency and makes our currency strong against other currencies.

Now let us hold a expression at above tabular array and figure to analyze biggest intraday falls in past three old ages. On 18/5/06, Sensex lost 856 points and Gross purchases of FIIs were Rs 761. 80 crores and Gross Gross saless were Rs 527. 40 crores eventually taking to sack positive investing of Rs 234. 40 crores. If we look at it any layperson would believe that since FIIs purchased more that is why markets crashed. But the 1 who deals in stocks and has knowledge about workings of stock market will recognize that since markets fell, FIIs did tonss of purchasing to take advantage of the autumn.

Here markets did n't fall due to FIIs engagement alternatively FIIs took <https://assignbuster.com/impact-of-foreign-institutional-investors-on-indian-stock-market/>

advantage of the state of affairs. Now let us look at other day of the month which is 1/8/07 on which market crashed by 615 points. On analysis it can be seen that FIIs were net Sellers to Rs 147. 50 crores. Though markets crashed by less points as compared to old twenty-four hours but FIIs were net Sellers. The ground buttocks is that markets crashed because FIIs withdrew money. FIIs short merchandising created terror among the market and market crashed. Now let us look at the biggest clang which was on 21st Jan 2008. Sensex crashed by 1408 points and still FIIs were net purchasers to Rs 2001. 80 crores. This clang was triggered due to failing in planetary markets but it impacted India the most as compared to other universe markets. FIIs took advantage of it and did purchasing.

So now after looking above it can be seen that FIIs take advantage of each and every state of affairs that arises. They invest when the markets crash and they besides lead to crash in markets when they withdraw. They have a great impact this manner on the stocks. They ever take benefit out of it. If a close ticker is kept on FIIs by investors, they can take advantage of the motion of FIIs and have additions from stock market investings and cut down their hazards as FIIs have strong web, extremely capable staff and they do proper research before putting and they by and large invest in Index stocks which represents the whole sectors.

In Figure 8 above Monthly Trends has been shown of Investings made by FIIs in Indian Stock Market. This tendency has been shown from the period of January 2008 boulder clay April 2009. This period is of significance to our survey as January 2008 has been the clip when impact of planetary recession started demoing marks on Indian economic system and it is shown till April <https://assignbuster.com/impact-of-foreign-institutional-investors-on-indian-stock-market/>

2009 as marks of recession had started to be slowed down with the economic development and steps taken by the Government. Above gross purchases, gross gross revenues and net purchases/sales by FIIs in equity and debt market has been shown. As it can be seen that investments by FIIs had been negative in equities during most of 2008 except for few months and this consequence continued on boulder clay February 2009 and after that FIIs had started pouring money back into economic system due to strong basics of economic system. As respects to Investments in Debt market is concerned FIIs had been net investors in most of the months except few months as Debt carries a fixed rate of return and is at that place for a fixed period of clip. During the month of February and March 2009 FIIs were net Sellers in Debt securities and the ground buttocks was that Indian economic system was back on its way of growing and in a turning economic system returns a more in equity investments so in Debt investments, so there is a chance that the after selling the debt instruments the investments were flushed into equity market and it can be seen from above that equity markets were flushed by FII investing during March and April 2009.

From above following analysis can be drawn:

- Due to planetary recession FII flows into India might hold slowed down a spot but long term narrative is good. Markets have fallen down from high of Sensex 21000 points to 8000 points but it is easy and steadily picking up. So it is a good clip to put into Indian Market.
- Indian economic system is driven by domestic ingestion and investing and hence the consequence of planetary recession has non impacted it every bit bad as to other states.

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- Peoples of India have been concentrating on salvaging their money and hence nest eggs are high and therefore the long term economic growing of state looks certain.
- Due to lift in rising prices there was a fringy force per unit area on the resources of the state but this had been due to lift in rough oil monetary values and hence this was impacting the foreign currency militias of state. Harmonizing to Centre for Monitoring Indian Economy ( CMIE ) for the fiscal twelvemonth 2009-10 has been down to 0. 3 % as compared to 2008-09 which was around 8. 3 % . ( hypertext transfer protocol: //www. bankofmaharashtra. in/newsletter/NEWS21MAY09. pdf )
- After looking at the basicss of growing of Indian economic system, FII's which had turned out to be net Sellers in 2008 are come ining back strongly into Indian economic system which is evidenced after looking at the growing in the figure of FII's registered boulder clay foremost half of 2009 which increased from last twelvemonth. There are tonss of new FII's come ining into Indian Economy which is besides due to Government ' s attempts by giving certain relaxations to FII's and doing processs for them to come in to India easy.
- Due to volatility in stock markets in recent yesteryear, there have been many new chances coming up for investors in India as stock markets are at low and its good clip to put.
- The chief driver for FII's has been the corporate administration of Indian companies which is making strong basicss for portfolio stocks.
- As of today stock ratings are attractive as Indian economic system is on a low as compared to last twelvemonth. Hence it is a good chance

to put but investments in stocks has to be done after careful analysis. Even though FIIs before putting in any stock do the background research about the company but before doing a determination as an investor it becomes our responsibility to make our research every bit good in order to understate the hazards associated with following FIIs blindly.

- The subprime crisis in US had not affected India to a big extent but it sent shockwaves among Indian investors and as a consequence in twelvemonth 2008 Indian stock Market had to see one of its greatest falls which was chiefly led by retreating of money by FIIs. This made Indian investors scared to put in stock markets but the thing to observe here is that investors forget it that markets will not ever travel in upward way. Even though increasing engagement of FIIs has increased volatility in the stock markets but Indian markets are basically strong so monetary values may fall for a while but in long tally they will lift.

## **Chapter 7**

### **Decisions**

One of the most important factors in the growing of Indian economic system has been foreign investments. India has been the most favorite finish for investors from all over the universe and every twelvemonth the entire figure of foreign investors acquiring registered with SEBI are increasing significantly. The growing of Indian economic system is on one hand due to the strong basics of