

**Impact Of Fii's On Stock Market<sup>1</sup>****ABSTRACT**

Indian capital market (Stock Market) is huge and allure Domestic as well as foreign investors as their investment destination. The major part of investment in Indian capital market (Stock Market) is credited to foreign institutional investors (FII's). One distinguished concern in the matter is whether these FII's regulate the Indian capital market (Stock Market). This paper examines whether market movement can be explained by investment of these investors and their impact on the stock markets. FII's, because of their short-term nature, can have bidirectional causation with the returns of other domestic financial markets such as money markets and foreign exchange markets. Hence, the understanding of determinants of FII's is very important for any emerging economy as FII's exerts a larger impact on the domestic financial markets in the short run and a real impact in the long run. The present paper is an attempt to find out determinants of FII's in India that opened its economy to foreign capital due to their foreign exchange crisis. The objective of the study is to find out whether there exist relationship between FII's and Stock market.

**Key terms** – FII, Indian capital market, Stock market, correlation and regression, Trends of FII in India etc.

**INTRODUCTION**

FII's means an institution established or incorporated outside India which proposes to make investment in securities in India. They are registered as FII's in accordance with Section 2(f) of the SEBI (FII) Regulations 1995. FII's are allowed to subscribe to new securities or trade in already issued securities. In the Union Budget 2013-14, announced on 28 February 2013, vide Para 95, Honorable FM announced his intention to go by the internationally accepted definition for FII's and FDI's, as follows "In order to remove the ambiguity that prevails on what is Foreign Direct Investment (FDI) and what is Foreign Institutional Investment (FII's), it is proposed to follow the international practice and lay down a broad principle that, where an

---

<sup>1</sup> Dr Hemkant Kulshrestha, Assistant Professor, DSPSR, 9, Institutional Area, Sector-25, Rohini, New Delhi-110085

investor has a stake of 10 percent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 percent, it will be treated as FDI”

### **INDIAN CAPITAL MARKET (STOCK MARKET)**

A capital market is a market where both government and companies raise long-term funds to trade securities on the bond and the stock market. It consists of both the primary market and secondary market. In primary market new issues are distributed among investors, and in secondary market already existent securities are traded. In the capital market, mortgages, bonds, equities and other such investment funds are traded. The capital market also facilitates the procedure whereby investors with excess funds can channel them to investors in deficit. The capital market provides both overnight and long-term funds and uses financial instruments with long maturity periods.

### **REGULATORY FRAMEWORK FOR FII's**

The following entities, established or incorporated abroad, are eligible to be registered as FII's:

- Pension Funds.
- Mutual Funds.
- Investment Trusts.
- Asset Management Companies.
- Nominee Companies.
- Banks.
- Institutional Portfolio Managers.
- Trustees.
- Power of Attorney holders.
- University funds, endowments, foundations or charitable trusts or charitable societies.

The general permission from the RBI will enable the FII's to:

- (1) Open foreign currency account(s) in a designated bank (there can be more than one account in the same bank branch, in different currencies, if so required by the FII for its operational purpose).
- (2) Open a special non-resident rupee account in which all receipts from the capital inflows, sale proceeds of shares, dividends and interest credited.

- (3) Transfer sums from the foreign currency accounts to the rupee accounts and vice-versa, at the market rates of exchange.
- (4) Make investment in securities in India out of the balances in the rupee accounts.
- (5) Transfer repatriable (after tax) proceeds from the rupee account to the foreign currency accounts.
- (6) Register FII is holding without any further clearance under FERA.
- (7) The maximum holding of 24% for all non-residential portfolio investments, including those of the registered. FIIs will also include NRI corporate and non-corporate investments, but will not include; direct foreign investment (which are permitted up to 51% or 74% or even full in all priority sector) and investments by FIIs through the following alternatives offshore single/regional funds, global depository receipts and euro convertibles
- (8) Disinvestment will be allowed only through stock exchanges in India including OTCEI. SEBI may permit sales other than through stock exchanges, provided the sale prices are not significantly different from the stock market quotations, where available.

## REVIEW OF LITERATURE

**Shrikanth, M. and Kishore B. (2012)**<sup>2</sup>, in their paper investigated a cause and effect relationship between FII and stock market. They observed that FIIs carried the institutional flavor in terms of market expertise and fund management by way of pooling small savings from retail investors.

**Loomba, J. (2012)**<sup>3</sup>, attempted to testify the behavior of FII's trading and its effect on stock market. He observed that in the course of capital market liberalization, foreign capital has become increasingly significant source of finance and institutional investors are growing their influence in developing markets.

**Bohra, N. Singh and Dutt, Akash. (2011)**<sup>4</sup>, studied the behavioral pattern of FII's and figure out the reasons for indifferent responses of BSE Sensex due to FII's inflows. They found the correlation between FII investment and turnover of different individual groups at BSE sensex. They concluded that there is a positive correlation between FII investment and stock market.

<sup>2</sup> Shrikanth, Maram and Kishore Braj (2012) 'Net FII Flows into India: A Cause and Effect Study' *ASCI Journal of management*, Vol. 41 (2), pp. 107-12.

<sup>3</sup> Loomba, Jatinder. (2012) 'Do FIIs Impact Volatility of Indian Stock Market?' *International Journal of Marketing, Financial Services & Management Research* Vol.1 Issue 7.

<sup>4</sup> Bohra, N. Singh and Dutt, Akash. (2011) 'Foreign Institutional Investment in Indian Capital Market: A Study of Last One Decade' *International Research Journal of Finance and Economics*, Retrieved 24 Jan. 2012 <<http://www.eurojournals.com/finance.htm>>

**Shukla, K. Rajeev et al (2011)<sup>5</sup>**, investigated the impact of foreign institutional investors on Indian stock indices. He revealed that India, after United States hosts the largest number of listed companies and Global investors now enthusiastically seek India as their preferred destination for investment.

**Kaur, Manjinder. and Dhillon, S. Sharanjit (2010)<sup>6</sup>**, focused on the determinants of FII's in India. Market capitalization and stock market turnover of India have significant positive influence only in short-run.

**Saha, Malayendu. (2009)<sup>7</sup>**, investigated the participation of foreign institutional investors (FII's) and the other financial institutions in India and the performance of the Indian stock markets and she concluded that Indian stock market is regarded at par with the developed markets.

**Singh, Sumanjeet. (2009)<sup>8</sup>**, revealed that the size of net capital inflows to India increased from US \$ 7.1 billion in 1990-91 to US \$ 108.0 billion in 2007-08. India has one of the highest net capital inflows among the EMEs of Asia.

**Sethi, Narayan. and Sucharita, Sanhita. (2009)<sup>9</sup>**, attempted to explain the effects of private foreign capital inflows (FINV) on some macroeconomic variables in India using the time series data. They found that Foreign Direct Investment (FDI) is positively affecting the economic growth, while Foreign Institutional Investment (FII) is negatively affecting the economic growth.

**Prasanna, P.K. (2008)<sup>10</sup>**, discussed role of FII in Indian Capital market (Stock Market) and examined the contribution of foreign institutional investment particularly among companies included in sensitivity index (Sensex). She found that Higher Sensex indices and high price earnings ratio are the country level factors

---

<sup>5</sup> Shukla, K. Rajeev et al (2011) 'FII Equity Investment and Indian Capital Market: - An Empirical Investigation.' *Pacific business review international*.

<sup>6</sup> Kaur, Manjinder. & Dhillon, S. Sharanjit (2010) 'Determinants of Foreign Institutional Investor's Investment in India' *Eurasian Journal of Business and Economics* 2010, 3 (6), 57-70.

<sup>7</sup> Saha, Malayendu. (2009) 'Stock Market in India and Foreign Institutional Investments: An Appraisal' *Journal of Business and Economic Issues*, Vol.1 No.1.

<sup>8</sup> Singh, Sumanjeet. (2009) 'Foreign capital flows into India: Compositions, regulations, issues and policy options' *Journal of Economics and International Finance* Vol. 1(1), pp. 014-029.

<sup>9</sup> Sethi, Narayan. & Sucharita, Sanhita. (2009) 'Impact of Private Foreign Capital Inflows On Economic Growth In India: An Empirical Analysis' *Singapore Economic Review Conference (SERC) 2009*, Singapore Economic Review and National University Singapore, Swissotel-The Stamford, Singapore, held from 6th-8th August, 2009.

<sup>10</sup> Prasanna, P.K. (2008) 'Foreign Institutional Investor: Investment preference in India' *JOAAG*, Vol. 3, No. 2, pp 40-51.

attracting more foreign investment in India. The promoters' holdings and the foreign investments are inversely related.

**Chittedi, Krishna. Reddy. (2008)**<sup>11</sup>, analyzed a performance of the sensex Vs FIIs in the Indian stock market. She revealed that the liquidity as well as the volatility was highly influenced by FII inflows in BSE sensex. She concluded that the FII's have been consequently bullish in India.

**Sethi, Narayan. (2008)**<sup>12</sup>, evaluated the impact of international capital flow on economic growth, trends and composition and suggested the policy implication thereof. He observed that the foreign institutional investors (FII's) have negative impact on growth, but it is very negligible. He concluded that India should move to influence both the size and composition of capital flows, strengthened their banking system rather than promoting financial market.

**Poshakwale, Sunil. and Thapa, Chandra. (2007)**<sup>13</sup>, compared the influence of foreign institutional investments in the long and short run on Indian equity market with the main developed equity markets of the US and the UK by Using daily return series and portfolio investments made by foreign institutional investors.

**Dhamija, Nidhi. (2007)**<sup>14</sup>, described that the increase in the volume of foreign institutional investment (FII's) inflows in recent years has led to concerns regarding the volatility of these flows, threat of capital flight, its impact on the stock markets and influence of changes in regulatory regimes.

**Singh, Manmohan. (2007)**<sup>15</sup> attempted to explain the use of participatory notes (PNs) by foreign investors, as a conduit of portfolio flows into Indian capital markets for more than a decade. The broadening of India's foreign investor base, in recent years, has a bias towards hedge funds/unregistered foreign investors who invest primarily via participatory notes (PNs).

## **SCOPE OF THE STUDY**

---

<sup>11</sup> Chittedi Krishna Reddy (2008) 'Volatility of Indian Stock Market and FIIs' *The Indian Economy Review*, Vol.5, No. 31.

<sup>12</sup> Sethi Narayan (2008). Op.cit pp.560-580.

<sup>13</sup> Poshakwale, Sunil. & Thapa,Chandra.(2007). 'Impact of foreign Portfolio investments on market investment market co movements: Evidence from the Emerging Indian stock market.' presented in the *Emerging Market Group ESRC Seminar on International Equity Markets Comovements and Contagion* 11 May 2007 Cass Business School, London.

<sup>14</sup> Dhamija, Nidhi. (2007). 'Foreign Institutional Investment in India' *Research on Indian Stock Volatility*. Vol. 14, Publisher: Emerald Group Publishing Limited.

<sup>15</sup> Singh, Manmohan. (2007). 'Use of Participatory Notes in Indian Equity Markets and Recent Regulatory Changes' IMF Working paper, *Monetary and Capital Markets Department*, WP/07/291.

Since economic liberalization FII's flows to India have steadily grown its importance. Foreign capital inflows have been acknowledged as one of the important sources of funds for developing economies that would grow at a rate higher than domestic savings can support. This resulted in the integration of global financial markets. As a result, capital started flowing freely across national borders seeking out the highest rate of return. India is considered as one of the best investment destinations for foreign institutional investors (FII's) in spite of political differences and lack of infrastructure facility etc. Since Indian market has vast potential, so it alluring and encouraging foreign investors continuously. Foreign portfolio inflows through FIIs, in India, are important from the policy perspective, especially when the country has emerged as one of the most attractive investment destinations in Asia

### **OBJECTIVE OF THE STUDY**

- To find out the impact of FII's on Indian capital market.
- To determine the behavior and trend of FII's on Indian stock market
- To determine the factors that influence investment decision of FII's.
- To examine whether FII's have any influence on BSE Sensex and CNX Nifty

### **RESEARCH METHODOLOGY**

The paper examines the Impact of Foreign Institutional Investors (FII's) on stock market. The scope of the research comprises of information derived from secondary data from Sensex, Nifty and FII investment was a natural choice for inclusion in the study, as it is the most popular market indices and widely used by market participants for benchmarking. The study period covered under this is for the years 2000-2011. The main source of obtaining necessary data for the study was Secondary Data. This study is empirical in nature and hence secondary data is used to conduct the research. The secondary data constitutes of daily net FII inflows and the daily SENSEX and NIFTY from BSE and NSE websites respectively. Findings are included which transmits the important points, which were gathered from the study. Regression and correlation techniques have been used for analysis purpose. The sample data consists of 2931 observations for FII, BSE Sensex and S&P CNX Nifty starting from Jan 2000 to December 2011.

### **HYPOTHESIS OF THE STUDY**

Null Hypothesis (Ho): There is no significant impact of foreign institutional investors (FII's) on stock market

Alternative Hypothesis (Ha): There is significant impact of foreign institutional investors (FII's) on stock market.

**LIMITATION OF THE STUDY**

Since the subject is very vast the study is mainly focused on identifying whether there exist a relationship between FIIs and stock market. It is mainly based on the data available in various websites. The impact made on purely from the past eleven year's performance.

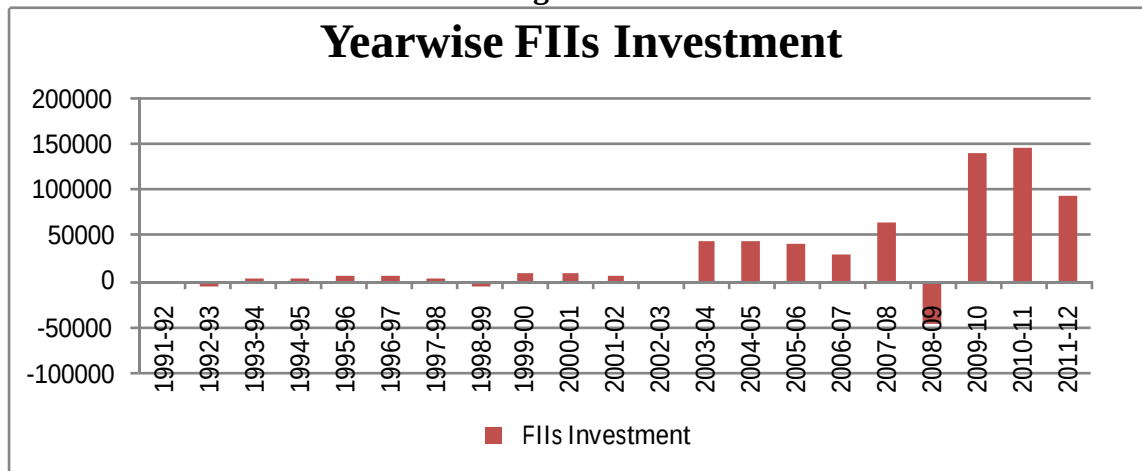
**FIIs Trends in India since liberalization****Table 1**

**FII investment in Indian capital market (Rs in Crore)**

| Year    | FIIs Investment | Change in FIIs investment | % change |
|---------|-----------------|---------------------------|----------|
| 1991-92 | 0               |                           |          |
| 1992-93 | 13              |                           |          |
| 1993-94 | 5126            | 5113                      |          |
| 1994-95 | 4796            | -330                      | -6.43777 |
| 1995-96 | 6942            | 2146                      | 44.74562 |
| 1996-97 | 8575            | 1633                      | 23.52348 |
| 1997-98 | 5998            | -2577                     | -30.0525 |
| 1998-99 | -1584           | -7582                     | -126.409 |
| 1999-00 | 10122           | 11706                     | -739.015 |
| 2000-01 | 9933            | -189                      | -1.86722 |
| 2001-02 | 8763            | -1170                     | -11.7789 |
| 2002-03 | 2689            | -6074                     | -69.3142 |
| 2003-04 | 45764           | 43075                     | 1601.897 |
| 2004-05 | 45880           | 116                       | 0.253474 |
| 2005-06 | 41467           | -4413                     | -9.61857 |
| 2006-07 | 30841           | -10626                    | -25.6252 |
| 2007-08 | 66179           | 35338                     | 114.5812 |
| 2008-09 | -45811          | -111990                   | -169.223 |
| 2009-10 | 142658          | 188469                    | -411.406 |
| 2010-11 | 146438          | 3780                      | 2.649694 |
| 2011-12 | 93725           | -52713                    | -35.9968 |

Source: Various Issues of SEBI Handbook

**Figure 1**



Source: Table 1

Number of registered FII's increases from the year to year when they are allowed to invest in stock market. Year wise registration of FIIs is given by the following table 2

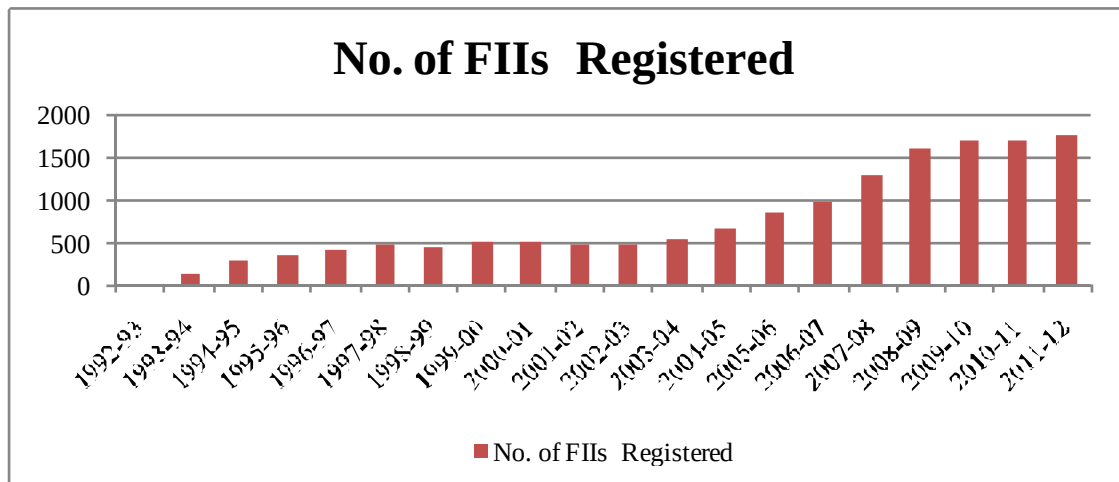
**Table 2**

**Year wise registration of FIIs Registered with SEBI**

| Year    | No. of FIIs Registered | Trend % |
|---------|------------------------|---------|
| 1990-91 |                        |         |
| 1992-93 | 18                     |         |
| 1993-94 | 158                    | 777.77  |
| 1994-95 | 308                    | 94.93   |
| 1995-96 | 367                    | 19.15   |
| 1996-97 | 439                    | 19.61   |
| 1997-98 | 496                    | 12.98   |
| 1998-99 | 450                    | -9.27   |
| 1999-00 | 506                    | 12.44   |
| 2000-01 | 527                    | 4.15    |
| 2001-02 | 490                    | -7.02   |
| 2002-03 | 502                    | 2.44    |
| 2003-04 | 540                    | 7.56    |
| 2004-05 | 685                    | 26.85   |
| 2005-06 | 882                    | 28.75   |
| 2006-07 | 997                    | 13.03   |
| 2007-08 | 1319                   | 32.29   |
| 2008-09 | 1635                   | 23.95   |
| 2009-10 | 1713                   | 4.77    |
| 2010-11 | 1722                   | 0.52    |
| 2011-12 | 1765                   | 2.49    |

Source: - Compiled from Various Issues of SEBI Handbook

**Figure 2.**



Source:-Table 2

From the table 2 and figure 2 it is revealed that India is the important destination for foreign investment therefore the number of FIIs is going on increasing year to year. The number of FIIs in 1992-93 was only 18 which are increased to 1765 in 2011-12; maximum number of FIIs registered 322 in 2007-08 subsequently 316 in 2008-09. No. of FIIs registration was decreased in 1998-99 due to Asian financial crises in 1997 and subsequently in 2001-02 due to early 2000s recession in USA. Major increase in the trend of registration of FIIs in 1993-94 and 1993-94 i.e. 777.77 % and 94.93 %.

Country wise domination of FIIs registered with SEBI in Indian Capital market is as follows-

**Table 3**

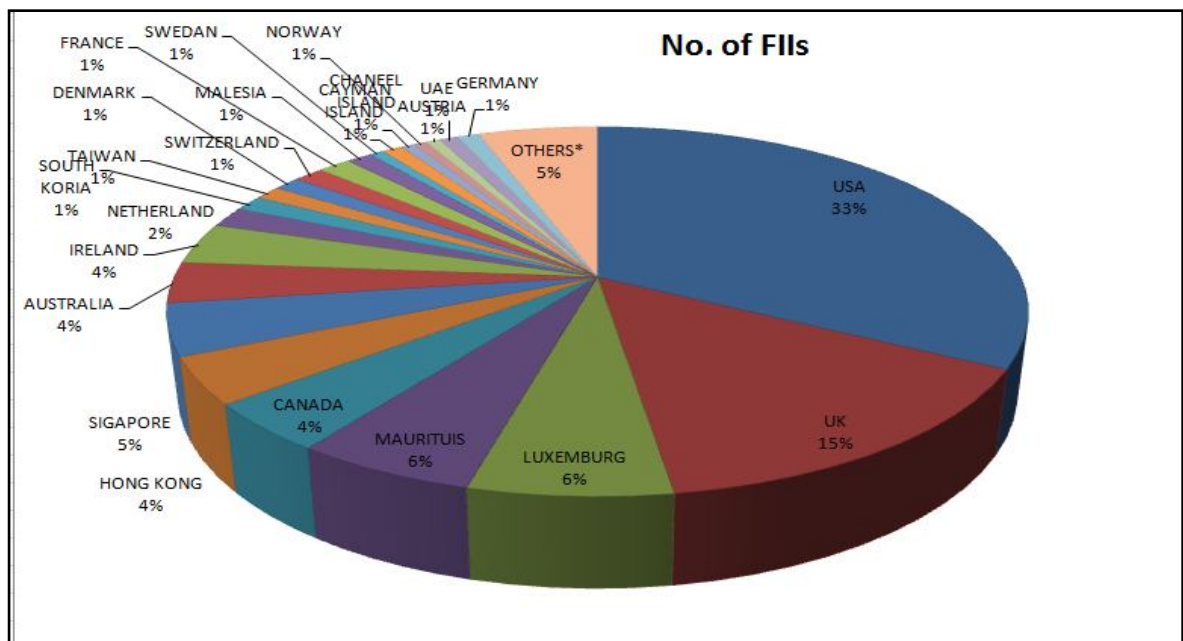
**Country wise domination of FIIs Registered with SEBI**

| Name of the country | No. of FIIs |
|---------------------|-------------|
| USA                 | 576         |
| UK                  | 259         |
| LUXEMBURG           | 113         |
| MAURITIUS           | 101         |
| CANADA              | 75          |
| HONG KONG           | 71          |
| SINGAPORE           | 80          |
| AUSTRALIA           | 63          |
| IRELAND             | 63          |
| NETHERLAND          | 32          |

|                |      |
|----------------|------|
| SOUTH KORIA    | 23   |
| TAIWAN         | 21   |
| DENMARK        | 21   |
| SWITZERLAND    | 24   |
| FRANCE         | 26   |
| MALESIA        | 20   |
| SWEDAN         | 11   |
| CAYMAN ISLAND  | 16   |
| CHANEEL ISLAND | 11   |
| NORWAY         | 10   |
| AUSTRIA        | 11   |
| UAE            | 15   |
| GERMANY        | 17   |
| OTHERS*        | 94   |
| TOTAL          | 1753 |

Source: Compiled from FII Index (sebi.org.in)

**Figure 3**



Source: Table 3

From the above mentioned table 3 and Pie - chart 3, it is revealed that number of FIIs from USA is about 33% therefore any economic destabilization in USA causes heavy turmoil in Stock Market. After USA numbers of FIIs are from Europe is about 27% ( U.K., Luxemburg, Ireland and Netherland) which also causes the volatility in the Indian stock market and after Europe numbers of FIIs from Asia is about 15%

(Mauritius, Hong Kong and Singapore) also causes the volatility in the Indian stock market.

### **DETERMINANTS OF FII's FLOW IN INDIA**

1. **Risk:** Whenever risk in home market increases, the foreign institutional investors (FII's) would start to pull out their money to their home country thereby creating a deficiency of funds in domestic market, so to attract the foreign investment, domestic interest rate would increase thereby to ensure that the above equality is restored.

2. **Inflation:** At the time of high inflation, the real return on fixed income securities like bonds and fixed deposits declines. Thus a bond which gives say around 8.5% interest rate actually gives a real return of just 1% if the inflation is 7.5%. If the inflation increases further, the real return would decline more.

3. **Interest rates** -For the business, cost of borrowing rises this has a negative result on their profit margins. As a result they might even delay any investment activity which may be funded by borrowing to some later period when the interest rates are lower so as to reduce their investment costs. Over the past year RBI has increased the repo rate reverse repo rate, CRR and SLR. This has led to an increase in the Prime Lending Rate (PLR) and hence the general interest rate in the economy.

4. **Good news/bad news** -If say there is some bad news in the nation, which affects that is decreases the asset price, which in turn decreases the return and hence FII would withdraw from the market. However on the other hand, if there is good news, asset prices would increase; thereby increasing return and hence FII would be attracted.

5. **GDP of India** -Both have more or less direct relationship. The reason is change in capital account. When interest rates were high India was attracting lot of investments so the credit balance was high for that period.

**Impact of FII on economic indicators in India**-FII flow affects the economy of country.

1. **Balance of payment:** A net positive swing in invisibles (due to increase in software exports and remittances sent by Indians working abroad) and increase in investments (both FDI and FII), has been improving the Balance of Payment (BOP) of the Indian economy and increasing the demand of rupee in the international currency market.

2. **Currency Fluctuation:** FIIs convert Dollars to Rupees to invest in Indian Markets- FII money comes in India at high Dollar rates. FII money would go out when Dollar dips to low values. Thereby the new nomenclature for this FII dollars let be SMART MONEY which finds more money.

**3. Stock Market:** Mathematicians and Statisticians use a measure known as the correlation coefficient, which is used to depict a relationship between two variables mathematically. So when one moves up (or down), there's no way to figure out how the other variable will behave. So basically, one can compute the correlation coefficient between the Sensex and FII's flows

## **DATA ANALYSIS AND INTERPRETATION**

### **(a) BSE Sensex and FII's**

In running the regression analysis, daily BSE Sensex has been taken as the dependent variable and the daily FII investment is considered as the independent variable. To test the above-mentioned hypothesis, linear regression model fitted with the econometric technique of ordinary least square (OLS) has been done. Regression equation looking at relationship between BSE Sensex and FII's flows is as follows:

$$Y(\text{BSE Sensex}) = \alpha + \beta (\text{FII}) + \epsilon$$

Y (BSE Sensex) is dependent variable, FII investment is independent variable,  $\alpha$  is the intercept and  $\epsilon$  is white-noise (Random shock)

**Table 4**  
**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |      |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|------|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | df1 | df2  | Sig. F Change |
| 1     | .138 <sup>a</sup> | .019     | .019              | 5775.387                   | .019              | 57.135   | 1   | 2923 | .000          |

a. Predictors: (Constant), FII

**Table 5**  
**Coefficients<sup>a</sup>**

| Model        | Unstandardized Coefficients |            | Standardized Coefficients | T      | Sig. |
|--------------|-----------------------------|------------|---------------------------|--------|------|
|              | B                           | Std. Error | Beta                      |        |      |
| 1 (Constant) | 9688.501                    | 109.117    |                           | 88.790 | .000 |
| FII          | 1.197                       | .158       | .138                      | 7.559  | .000 |

a. Dependent Variable: BSE

**Interpretation:-** From the above table, it is found that the correlation between Daily net FII investment and Daily BSE Sensex is 0.138 which shows a very low degree of relationship between Daily FII investment and Daily BSE Sensex . The positive

correlation between the two reveals the fact that the daily FII investment is an important factor in enhancing the Daily BSE Sensex of Bombay stock exchange consequently have a positive impact on Indian capital market. But the extent of the enhancement in BSE Sensex by FII flows can be examined by running the regression analysis. It can be observed from the above table that all explanatory variables, taken together establish a relationship nearly 1.9 % because the coefficient of determination  $r^2$  is 0.019 of the total variables in the daily BSE Sensex of Bombay stock exchange. This means that whatever changes have taken place, in the daily BSE Sensex, the FII investments is responsible up to 1.9 % only. This implies that there are many other macro economic factors have indirectly affected the daily BSE Sensex of Bombay stock exchange. The regression equation  $Y(\text{BSE Sensex}) = \alpha + \beta (\text{FII}) + \epsilon$  shows that for every unit change in  $\beta$  (that is FII) there is 1.197 unit change in  $Y$  (that is BSE Sensex). The value of  $\alpha$  (Alpha) is 9688.501 which show that the other factors are more responsible for this relationship. The t value is 7.559 and significant value is 0.000 which is less than 0.05, therefore the alternative hypothesis is accepted and null hypothesis is rejected. So we can say that there is significant impact of Foreign institutional investment (FII) on BSE Sensex.

### (b) CNX Nifty and FIIs

In running the regression analysis, daily CNX Nifty has been taken as the dependent variable and the daily FII investment is considered as the independent variable. To test the above-mentioned hypothesis, linear regression model fitted with the econometric technique of ordinary least square (OLS) has been done. Regression equation looking at relationship between CNX Nifty of NSE and FII flows is as follows:

$$Y(\text{CNX Nifty}) = \alpha + \beta (\text{FII}) + \epsilon$$

$Y$  (CNX Nifty) is dependent variable, FII investment is independent variable,  $\alpha$  is the intercept and  $\epsilon$  is white-noise (Random shock)

**Table 6**  
**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |      |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|------|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | df1 | df2  | Sig. F Change |
| 1     | .139 <sup>a</sup> | .019     | .019              | 1690.319                   | .019              | 57.673   | 1   | 2923 | .000          |

**Table 6**  
**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |      |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|------|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | df1 | df2  | Sig. F Change |
| 1     | .139 <sup>a</sup> | .019     | .019              | 1690.319                   | .019              | 57.673   | 1   | 2923 | .000          |

a. Predictors: (Constant), FII

**Table 7**

**Coefficients<sup>a</sup>**

| Model        | Unstandardized Coefficients |            | Standardized Coefficients | T      |      |
|--------------|-----------------------------|------------|---------------------------|--------|------|
|              | B                           | Std. Error | Beta                      |        |      |
| 1 (Constant) | 2927.416                    | 31.936     |                           | 91.665 | .000 |
| FII          | .352                        | .046       | .139                      | 7.594  | .000 |

a. Dependent Variable: NSE

**Interpretation:-** From the above table, it is found that the correlation between daily FII investment and daily CNX Nifty is 0.139 which shows a very low degree of relationship between daily FII investment and daily CNX Nifty. The positive correlation between the two reveals the fact that the daily FII investment is an important factor in enhancing the daily CNX Nifty of National stock exchange consequently have a positive impact on Indian capital market. But the extent of the enhancement in daily CNX Nifty by daily FII flows can be examined by running the regression analysis. It can be observed from the above table that all explanatory variables, taken together establish a relationship nearly 1.9 % because the coefficient of determination  $r^2$  is 0.019 of the total variables in the daily CNX Nifty of NSE. This means that whatever changes have taken place, in the daily CNX Nifty of NSE, the FII investments is responsible up to 1.9 % only. This implies that there are many other macro economic factors have indirectly affected the daily CNX Nifty of NSE. The regression equation  $Y (\text{CNX Nifty}) = \alpha + \beta (\text{FII}) + \epsilon$  shows that for every unit change in  $\beta$  (that is FII) there is 0.352 unit change in  $Y$  (that is CNX Nifty). The value of  $\alpha$  (Alpha) is 2927.416 which show that the other factors are more responsible for this relationship. The t value is 7.594 and significant value is 0.000 which is less than 0.05, therefore the alternative hypothesis is accepted and null hypothesis is rejected. So we can say that there is significant impact of Foreign institutional investment (FII) on CNX Nifty.

**FINDINGS OF THE STUDY-**

1. Daily BSE Sensex and daily CNX Nifty has very low degree of positive correlation with daily FII's investment. This implies that there are many other macro economic factors have indirectly affected the daily BSE Sensex and daily CNX Nifty but their influence on the stock prices cannot be completely ignored. Hence both indices move in direction of FII's investment.
2. Largest number of FII is from USA ultimately the foreign investment from USA is maximum.
3. Economic growth i.e. IIP and GDP, inflation and interest rate are the basic parameters used by FII's to invest in any countries. FII's investments also guide to economic growth of country since they bring the much needed capital.
4. FII's helped in the improvement of market efficiency. Since investment of FII's increasing therefore SEBI have to improve market trading efficiency in order to sustain FII's investment.

**CONCLUSION**

The study conducted observed that investments by FII's and the movements of BSE Sensex and CNX nifty are quite closely correlated. According to findings and results, foreign institutional investors (FII's) have significant impact on the movement of stock market. Therefore, the alternate hypothesis is accepted. FII's have positive impact on BSE Sensex and Nifty.

However there are other macroeconomic factors also influence the bourses in the stock market, but FII's is definitely one of the factors. This signifies that market rise with increase in FII's and collapse when FII's are withdrawn from the market. In the absence of any other substantial form of capital inflows, the potential ill effects of decrease in the FII flows into the Indian economy can be severe which was evident at the time of U.S subprime lending crisis. The findings of this study also indicate that FII's have emerged as the most dominant investor group in the domestic capital market particularly, in the companies that constitute in BSE Sensex and CNX Nifty.

**REFERENCES**

**Shrikanth, Maram and Kishore Braj (2012)** 'Net FII Flows into India: A Cause and Effect Study' *ASCI Journal of management*, Vol. 41 (2), pp. 107-12.

**Loomba, Jatinder. (2012)** 'Do FIIs Impact Volatility of Indian Stock Market?' *International Journal of Marketing, Financial Services & Management Research* Vol.1 Issue 7.

**Bohra, N. Singh and Dutt, Akash.(2011)** 'Foreign Institutional Investment in Indian Capital Market: A Study of Last One Decade' *International Research Journal of Finance and Economics*, Retrieved 24 Jan. 2012<http://www.eurojournals.com/finance.htm>

**Shukla, K. Rajeev et al (2011)** 'FII Equity Investment and Indian Capital Market: - An Empirical Investigation.' *Pacific business review international*.5

**Kaur, Manjinder. & Dhillon, S.Sharanjit (2010)** 'Determinants of Foreign Institutional Investor's Investment in India' *Eurasian Journal of Business and Economics* 2010, 3 (6), 57-70.

**Saha, Malayendu. (2009)** 'Stock Market in India and Foreign Institutional Investments: An Appraisal' *Journal of Business and Economic Issues*, Vol.1 No.1.

**Singh, Sumanjeet. (2009)** 'Foreign capital flows into India: Compositions, regulations, issues and policy options' *Journal of Economics and International Finance* Vol. 1(1), pp. 014-029.

**Sethi, Narayan. & Sucharita, Sanhita.(2009)** ' Impact of Private Foreign Capital Inflows On Economic Growth In India: An Empirical Analysis' *Singapore Economic Review Conference* (SERC) 2009, Singapore Economic Review and National University Singapore, Swissotel-The Stamford, Singapore, held from 6th-8th August, 2009.

**Prasanna, P.K. (2008)** 'Foreign Institutional Investor: Investment preference in India' *JOAAG*, Vol. 3, No. 2, pp 40-51.

**Chittedi Krishna Reddy (2008)** 'Volatility of Indian Stock Market and FIIs' *The Indian Economy Review*, Vol.5, No. 31.

**Sethi Narayan (2008).** Op.cit pp.560-580.

**Poshakwale, Sunil. & Thapa,Chandra.(2007).** 'Impact of foreign Portfolio investments on market investment market co movements: Evidence from the Emerging Indian stock market.' presented in the *Emerging Market Group ESRC Seminar on International Equity Markets Comovements and Contagion* 11 May 2007 Cass Business School, London.

**Dhamija, Nidhi. (2007).** 'Foreign Institutional Investment in India' *Research on Indian Stock Volatility*. Vol. 14, Publisher: Emerald Group Publishing Limited.

**Singh, Manmohan. (2007).** 'Use of Participatory Notes in Indian Equity Markets and Recent Regulatory Changes' IMF Working paper, *Monetary and Capital Markets Department*, WP/07/291.

**Rakshit, Mihir. (2006)** 'On liberalizing Foreign Institutional Investments' *Economic & Political weekly*, p. 991-1000.

**Chakrabarti, Rajesh.(2006)** 'Foreign Institutional Investments' Retrieved 18 May 2011 <[www.isb.edu/faculty/RajeshChakrabarti/FII\\_Basu.](http://www.isb.edu/faculty/RajeshChakrabarti/FII_Basu.)>

**Bhattacharya, Basabi. & Mukherjee, Jaydeep. (2006).** 'An analysis of stock market efficiency in the light of capital inflows and exchange rate movements; The Indian context' Retrieved 13 Mar. 2011

<[http://www.igidr.ac.in/money/mfc\\_08/An%20Analysis%20of%20Stock%20Market%20Efficiency...Basabi%20%26%20Jaydeep.pdf](http://www.igidr.ac.in/money/mfc_08/An%20Analysis%20of%20Stock%20Market%20Efficiency...Basabi%20%26%20Jaydeep.pdf)

**Pal, Prithapritam. (2006).** 'Foreign Portfolio Investment, Stock Market and Economic Development: A Case Study of India' *Annual conference on Development and change Mission: Promoting Development in a globalize World*, Sao Paulo, Brazil, November pp 18-20.

**Mohan, Ram T.T. (2005)** 'Taking Stock of Foreign Institutional Investors' *Economic & Political weekly*, p.2395-2399.

**Saini, Rohit. (2005).** 'Foreign Institutional Investment in India- A study of issue, facts and determinants' Securities Market- Operations and Reforms, Deep and Deep publication Pvt. Ltd. p 68-80.

**Lakshmi, V.D.M.V. (2005).** 'The Entry of FIIs in India' Portfolio Organizer, *ICFAI University Press*.

**Pal, Parthapratim. (2005)** 'Recent volatility in stock markets in India and Foreign Institutional Investors' Special Articles Issue, *Economic and Political Weekly*. Vol. 40, No. 8.

**Bandyopadhyay, Sankhanath. (2005).** 'Foreign Institutional Investment: issue and challenges' Foreign Institutional Investments-Perspective and Experiences, *ICFAI University press*, p.

**Rai, Kulwant. & Bhanumurthy, N.R. (2004).** 'Determinants of Foreign Institutional Investment in India-The role of return, risk and inflation' *The Developing Economies*, XLII-4, December, p.479-93.

**Bose, Suchismita. and Coondoo, Dipankor. (2004).** 'The Impact of FII regulations in India-A Time Series Intervention Analysis of Equity flows' *Money & Finance*, pp.54-83.

**Ananthanarayanan, Sandhya. (2004).** ‘Foreign Institutional Investors and Security Returns: Evidence from Indian Stock Exchanges’ *International Journal of foreign money supply Management* Vol: 28. Publisher: MCB UP Ltd.

**Trivedi, Pushpa. and Nair, Abhilash. (2003).** ‘Determinants of FII investment inflow in India’ Presented in 5<sup>th</sup> *Annual conference on Money & Finance in the Indian economy* , Indira Gandhi Institute of Development Research, Jan 30- Feb 01 and again published in The ICFAI Journal of Applied Finance in April 2006 .

**Mukherjee, Paramita., Bose, Suchismita. & Coondoo, Dipankor. (2002)** ‘Foreign Institutional Investment in the Indian Equity Market- An analysis of Daily flows during Jan 1999-May 2002’ *Money & Finance* , ICRA Bulletin Ltd. p. 21-51.

**Pasricha, J.S. & Singh, Umesh. C. (2001).** ‘Foreign Institutional Investors and Stock market volatility’ *The Indian Journal of Commerce*, Vol.54, No. 3.

**Chakrabarti, Rajesh. (2001)** ‘FII Flows to India: Nature and Causes’ *Money & Finance*, Vol. 2, No. 7.