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An empirical study on FII investment pattern in Indian capital market

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Abstract
Since decade, Indian economy has been fluctuating like ever. Majority of the influences caused to the volatility in the capital market. As it is known that Capital market is the index for any economy, focus turned on primary and secondary markets through which economy is going to initiate. This was witnessed by the tremendous inflow of foreign investments in to its markets. It is not only the effect of domestic investments; it's truly from the international investments. Of that FII become the major discussion after the economic reforms. The main intention of this paper mainly focusing on the major contributions and role of FII investments in current scenario. For this purpose economic indicators like GDP was considered. This paper makes an attempt to focus and study the nature and pattern of FII investments into Indian capital market. This paper also reveals the sector wise investments of FII into various investment segments of the stock market especially focused on NSE.

Keywords: Indian capital market, foreign Institutional Investors, GDP, NSE

Introduction

After the economic reforms in 1991, India become the target destination for the foreign investments across the globe. Initially India's strategy is to self-sustainability and import substitution. To overcome current account deficit, planning committee during 1991, has proposed to invite Liberalization, Privatization and Globalization as a route to open the doors for foreign capital. Gradually, the financial system also undergone the necessary systematic changes according to. India started initiation in 1980, but the FII investments were recorded in 1993 with 2595.10 Cr.Rs.. Now they are investing 135459.08 Cr.Rs. if we observe the overall balance of payment statements since a decade, there was a gradual and continual growth of foreign investments from abroad to India. Of them, FII become more popular than FDI. FII were allowed to invest in India through stock markets. Even though the stock markets cannot provide additional capital to the companies, but provide them a platform for liquefying their assets. The Liberalisation of economy helped India with the ease of borderless trade and services. These stock exchanges serve as catalysts between the listed companies and investors by means of providing liquidity for the securities, pooling of investments for the companies. FII can investment in any listed, unlisted, to be listed securities. During the Budget 1992-93, Pension funds were allowed to invest as reputed foreign institutional investors in to the Indian Capital market. They can invest in the instruments of both the primary and secondary markets. Until 1996, there was a stubborn growth in terms of investments of FII and only 350 members are registered as FII (Jasneek Arora, 2015). Stock exchanges like NSE, BSE serves the investors by transparent, ease of transaction, settlements in trading through well-established technical support. Sometimes, they provide trainings and awareness programmes for the investors also.

The reasons for FII in choosing India as Destination include "India being one of the Developing Asian countries, has always scope for good returns for investors, the major 3M's of production i.e., Money, Men and Material are avail at lower costs and Ease of trading, transparent mechanisms and means of settlement, Tax benefits and locking periods.

In the same way India also benefited by FII as

- Majority of FII were habituated and allowed to invest in risky equity investments.
- Foreign Institutional Investors being professional bodies of asset managers and financial analysts can provide effective and efficient platform for trading securities.

- FII can help by replaces and reduces uncertainties and controls risks.
- These provide great appetite for equity than debt thus can improve the capital structure of the country.

According to SEBI, FII includes

- Mutual Funds, endowments, Charitable trusts, Foundations, Banks, Asset management companies (AMC), Trustees, Pension funds, Power of attorney holders, University funds, Insurance companies, Institutional portfolio managers and Charitable trusts/societies.

Because of the volatility and dominant nature, FII become most popular across the variety of foreign investments flowing into India.

Investment opportunities given to FII in India

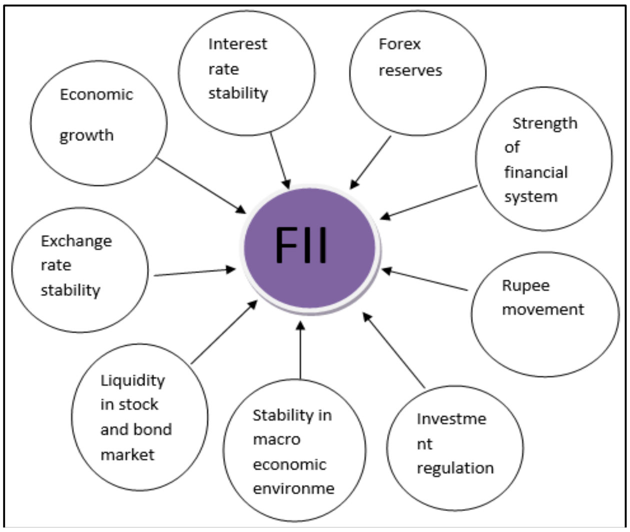
- Primary and secondary market securities including

a) Shares
b) Debentures and
c) Warrants of companies (listed, unlisted, to be listed on a recognized stock exchange in India)

- Mutual funds
- Government securities
- Derivatives

Welcoming the FII has been changing the face of the Indian stock market uninterruptedly. As a result, the number of securities going to list in stock exchanges are grooming like ever.

Factors affecting FII inflows in Indian market



FII at SNAPSHOT:

Financial Year	FII Equity (in Cr.Rs.)	FII Debt (in Cr.Rs.))	Total (in Cr.Rs.)
1992-93	13	0	13
1993-94	5127	0	5127
1994-95	4796	0	4796
1995-96	6942	0	6942
1996-97	8546	29	8575
1997-98	5267	691	5958
1998-99	-717	-867	-1584
1999-00	9670	453	10122
2000-01	10207	-273	9933
2001-02	8072	690	8763
2002-03	2527	162	2689
2003-04	39960	5805	45765
2004-05	44123	1759	45881
2005-06	48801	-7334	41467
2006-07	25236	5605	30840
2007-08	53404	12775	66179
2008-09	-47706	1895	-45811
2009-10	110221	32438	142658
2010-11	110121	36317	146438
2011-12	43738	49988	93726
2012-13	140033	28334	168367
2013-14	79709	-28060	51649
2014-15	111333	166127	277461
2015-16	-14172	-4004	-18176
2016-17	55703	-7292	48411
2017-18 **	17505	117460	134965

Source: SEBI annual reports

SEBI as an apex and regulatory body for the Stock exchanges:
To regulate the growing dimensions of capital market activities, the government realized to frame a broad based fully secured environment for investments in business opportunities. Thus SEBI was formed to look after the activities like issue of prospectus, disclosure of accounting and financial information, listing of securities, market manipulation and price rigging, issues related to manipulation, insider trading, takeovers etc. SEBI can solely take decisions regarding the listings, suspensions, issuing warnings letters/deficiency observations/advice letter, refunding the investment to investor, passing of adjudication orders, giving options to the company, prohibitive directions posing etc.

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
No. of registered FII	1319	6602	7086	7408	8087	8092	8054	8216	8505	8779

Source: SEBI annual reports

It is clear from the above data that the number of Foreign Institutional Investors registering with SEBI is continuously increasing. The critical period in world economic history like "Recession", FII came forward to invest in Indian markets where they felt hopes to bet for their return on investments. If we observe the GDP of that particular period, there was an increase in the GDP as it raised from Rs. 4,582,086 Cr. to Rs 5,303,567 Cr. Nearly 15.74% increase.

Literature review

- Jasnik Arora and Sanhosh kumar (2015) [15] proved analytically that FII investments does not only effect the returns in NSE.for this purpose he tested the stationarity of FII investments. He explained that FII is not the major determinant of returns in share markets. but it can explain about 13% of the reason behind stock market returns.
- Hemkant Kulshrstha (2014) [14] observed that FII and indices of NSE and BSE have closely correlated. He also proved that FII were emerged as most pre dominant investor in Indian stock market. Thus, they were significantly become a part of capital market.
- K. Mallikarjuna rao (2013) [11] observed that FII helps in the overall financial development through development of financial markets. He also referred that FII registered with SEBI were continuously increasing even in recession period.
- Sanjana Juneja (2013) [18] explained how FII investments cause sudden capital outs causing stock markets unstable. This will have worst effect mostly on individual investors savings and concluded that the domestic investors should be encourage to maintain liquidity in the stock markets even in cash crush periods.

Objectives

The main objectives of present research paper include

- ❖ To graphically represent the trading pattern of FII in Indian stock market during the sample period.
- ❖ To study the share holding pattern of FII in different segments of NSE.
- ❖ To analyze the relationship between FII and GDP.

Research methodology

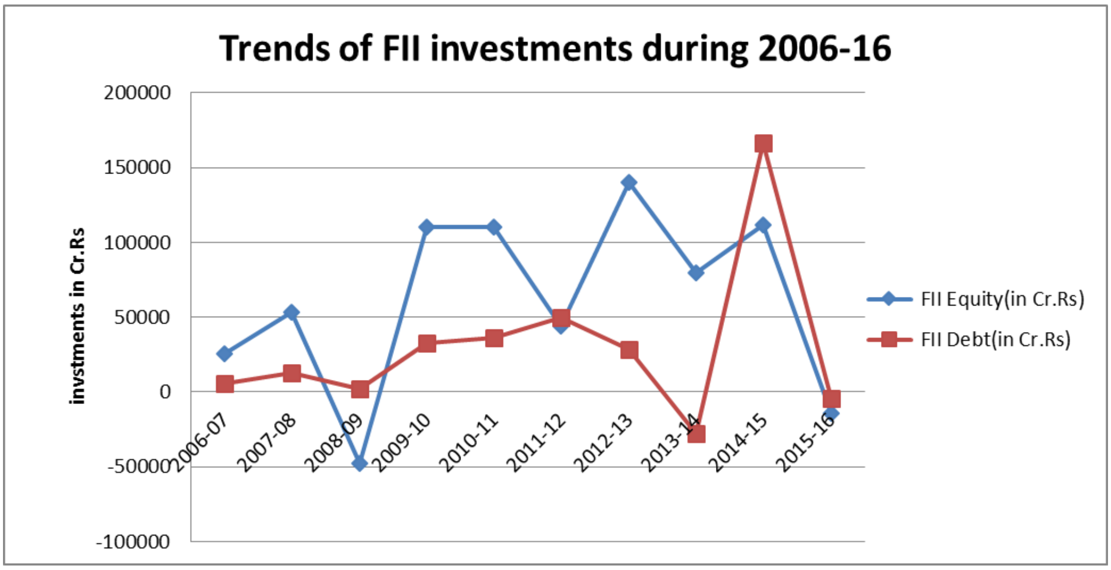
Content	Reference
Source of data collection	Secondary data (official websites)[1]
Period of study	Financial year 2006-2016
FII investments	SEBI annual reports, CSDL,NSDL official websites
GDP	IMF manual
Sector-wise FII investments in NSE	NSE Fact book and annual reports
Tools using for analysis	For FII investment trends: graphical presentation Relationship between GDP &FII: Correlation test

Data Analysis, Interpretation and Discussion

Table 1

FII investment(in Cr. Rupees)				
Year	**Equity**	**Debt**	**Net investment**	**% Change in investment**
2006-07	25236	5605	30840	-
2007-08	53404	12775	66179	114.588
2008-09	-47706	1895	-45811	-169.22
2009-10	110221	32438	142658	411.40
2010-11	110121	36317	146438	2.64
2011-12	43738	49988	93726	-35.99
2012-13	140033	28334	168367	79.63
2013-14	79709	-28060	51649	-69.32
2014-15	111333	166127	277461	437.20
2015-16	-14172	-4004	-18176	-106.55

Source: SEBI annual reports



It is clear from the above data that FII were suddenly withdrawn during 2008-09. This was happened because of the change in investment climate especially in U.S economy. U.S. economy undergone recession with FII tried to reallocate their funds from risky emerging markets to stable developed markets this type of situation was happened during 2015-16. Not only the India, Most of the developed and developing countries were undergone recession. But, it is evidently proven that India was not that much affected by the global recession and most of the foreign investors chosen India as a safe and less risky zone to invest during that period. During 2014-15, the FII investment touches the period high with nearly 438% increase from its previous results. A part from the above data, during 2012-13, Equity investment of FII was recorded high as Rs. 140033 Cr. Whereas the Debt investment of FII was maximum during 2014-15 as Rs. 166127 Cr. The average investment was Rs. 91333.1 Cr.

Table 2: Sector-wise share holding % of FII in NSE

Year / sectors	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	average
Banks	18.93	19.15	14.27	16.02	17.02	15.90	16.9	18.1	19.3	16.7	17.229
Engineering	10.87	10.63	7.34	8.28	9.36	5.13	4.6	10.1	9.1	3.6	7.901
Finance	20.40	17.44	13.01	16.53	23.35	8.44	8.8	20.8	23.6	19.7	17.2307
FMCG	11.59	14.07	12.72	14.09	16.34	9.36	9.2	18.3	15.4	10.5	13.15
IT	14.48	16.00	12.44	11.68	21.16	7.30	7.2	9.2	11.4	13.5	12.43
Infrastructure	6.54	8.86	7.31	8.90	7.87	5.93	6.3	8.6	8.7	11.3	8.03
Manufacturing	9.62	9.46	7.28	8.79	9.41	4.81	4.6	10.2	10.1	8.4	8.26
Media & Entertainment	15.79	11.71	11.42	7.06	10.97	5.77	6.1	15.2	14.7	8.7	10.74
Petro chemicals	5.27	4.73	4.71	6.08	13.65	4.51	5.1	13.2	9.0	5.1	7.13
Pharmaceuticals	11.46	10.69	7.88	8.78	6.52	6.18	6.8	9.2	14.7	13.1	9.53
Services	11.79	10.70	8.39	8.05	10.19	5.44	5.2	15.3	11.1	5.0	9.116
Tele Communications	12.71	9.12	6.85	8.64	7.41	5.72	5.6	10.0	14.1	13.0	9.315
Miscellaneous	7.65	9.30	8.39	8.10	8.44	6.07	5.8	11.1	13.2	0.9	7.895

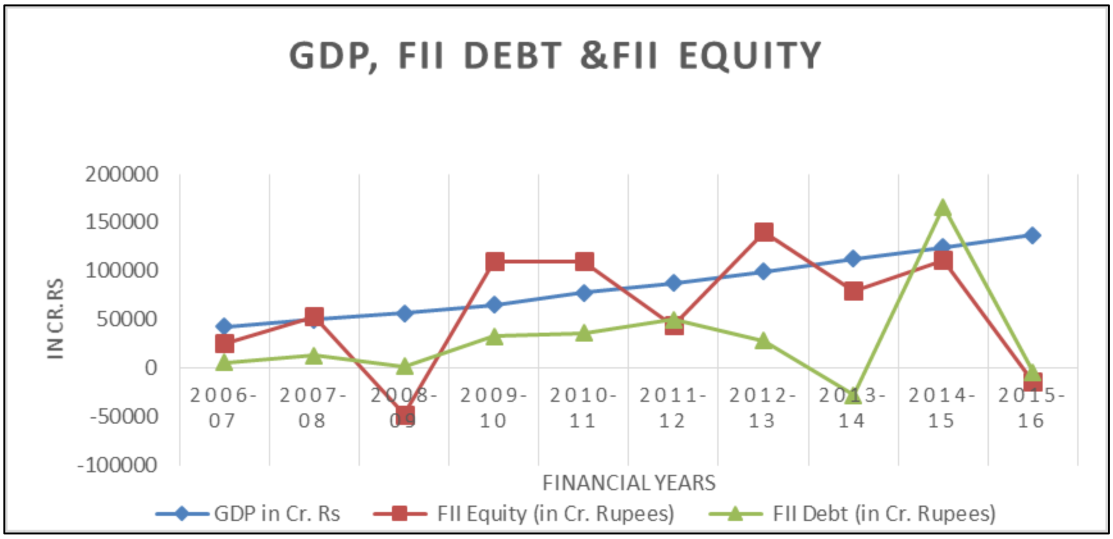
Source: Compiled from NSE annual reports

Interpretation

It is very clear from the NSE annual reports that FII is gaining the lions share in the market. Other share holders include promoters, public non-institutional investors, custodians etc. if we observe the trend of share holding pattern of investors in NSE, Indian promoters were playing a lion's share. FII gaining second majority share followed by financial institutions/banks/central government/state government/insurance companies. Individual investors were very much forwarded to invest in IT sector. Sometimes, individuals were dominating FII in IT sector shares. If we observe the trend of FII investments, majority of them were flowing in to the Banking and Finance sector. But on an average, Banking sector getting the high score rather than Finance and other sectors. During 2009-11, FII were turned to Finance sector. Some of the authors explained it as the effect of Asian crisis. During this period, FII equity was affected more than the debt component. The internal composition was altered giving priority to the Finance sector. But the trend was not continuous. They again shifted to banking sector in two more years. The past years history showing that FII were prone to Finance hoping that investments will get sure and safe return. During the sample period, the average percentage of investment made by FIIs has seen in Finance sector. But it can be evident from the above given data that majority of the investments were going hand by hand between banking and finance sector.

Table 3: FII and GDP during 2006-16

Year	GDP in Cr. Rs	FII Equity (in Cr. Rupees)	FII Debt (in Cr. Rupees)
2006-07	42947.59	25236	5605
2007-08	49,870.90	53404	12775
2008-09	56300.6	-47706	1895
2009-10	64778.3	110221	32438
2010-11	77841.2	110121	36317
2011-12	87363.3	43738	49988
2012-13	99440.1	140033	28334
2013-14	112335.2	79709	-28060
2014-15	124451.3	111333	166127
2015-16	136820.4	-14172	-4004



Interpretation

It is very clear from the above data that GDP of India is continuously growing whereas, the related FII investments are not following any particular and sequential trend. During the global recession period 2008-09, India was not that much affected in terms of GDP. This may be because of Indian capital structure.

Summary statistics (Quantitative data):							
Variable	**Observations**	**Obs. with missing data**	**Obs. without missing data**	**Minimum**	**Maximum**	**Mean**	**Std. deviation**
GDP in Cr. Rs	10	0	10	42947.590	136820.400	85214.889	32470.315
FII Equity (in Cr. Rupees)	10	0	10	-47706.000	140033.000	61191.700	60614.839
FII Debt (in Cr. Rupees)	10	0	10	-28060.000	166127.000	30141.500	52901.845
Correlation matrix (Pearson):							
Variables	GDP in Cr. Rs	FII Equity (in Cr. Rupees)	FII Debt (in Cr. Rupees)				
GDP in Cr. Rs	1	0.183	0.284				
FII Equity (in Cr. Rupees)	0.183	1	0.427				
FII Debt (in Cr. Rupees)	0.284	0.427	1				
Values in bold are different from 0 with a significance level alpha=0.05							
p-values (Pearson):							
Variables	GDP in Cr. Rs	FII Equity (in Cr. Rupees)	FII Debt (in Cr. Rupees)				
GDP in Cr. Rs	0	0.612	0.427				
FII Equity (in Cr. Rupees)	0.612	0	0.218				
FII Debt (in Cr. Rupees)	0.427	0.218	0				
Coefficients of determination (Pearson):							
Variables	GDP in Cr. Rs	FII Equity (in Cr. Rupees)	FII Debt (in Cr. Rupees)				
GDP in Cr. Rs	1	0.034	0.081				
FII Equity (in Cr. Rupees)	0.034	1	0.183				
FII Debt (in Cr. Rupees)	0.081	0.183	1				

Discussion

The range of GDP during the study period was 42947.59 Cr. Rs to 136820.4 Cr. Rs. The range of FII debt was -28060 Cr. Rs. to 166127 Cr. Rs. and that of FII Equity was -47706 Cr. Rs to 140033 Cr. Rs. The correlation coefficient (r) between FII Equity, FII Debt and GDP is less than 0.5 thus said to be very weak. The correlation coefficient (r) between FII Equity and GDP IS 0.183 and that of ‘r ‘between FII Debt and GDP is 0.284 which is also very weak. It is very clear from the above result that there is very weak relation between FII Debt with GDP and FII Equity with GDP. Here the researcher also taken the coefficient of determination(R) among the given parameters. FII Debt can explain only 3% of GDP, whereas, FII Equity can explain 8% of GDP. Thus it makes the researcher easy to understand that GDP was not that much effected by FII.

Conclusion

From the above analysis, it is very clear that Indian economy was not only determined and explained by its investment sources. Further, single parameter like GDP is not only represent and forecast the economic growth rate of emerging economies like India. The recent reforms and amendments were taken by Central bank of India like allowing domestic pension funds to invest in mutual funds to initiate more liquidity and return for the instruments. This will also enhance the race among domestic institutional and foreign institutional investors.

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