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IMPACT OF FOREIGN INSTITUTIONAL INVESTMENTS ON NATIONAL STOCK EXCHANGE

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ABSTRACT
Indian economy has been one of the stars of global economy in recent years. The foreign institutional investment [FIIs] has emerged as noteworthy players in the Indian stock market and their growing contribution adds as important features of the development of stock market in India. This study has conducted to examine the influence of Foreign Institutional Investment on the different Sectoral Indices of National Stock Exchange. For this purpose, the data from January 2008 to June 2014 is analyzed with the help of regression model on SPSS. Besides this Granger Causality test has also used for testing the causal relationship between National Stock Exchange and Foreign Institutional Investments. It is concluded that FIIs have a significant impact on the NSE, although the degree of influence is not much high on NSE Sectoral Indices.

KEYWORDS
FII flow, National Stock Exchange, NSE sectoral indices.

INTRODUCTION
Indian economy has been one of the prominent economies in the world. This growth has been supported by market reforms, huge inflows of FIIs, real estate booms and a flourishing capital market. Generally, a strong financial system is needed for strengthening the economy of our country. During liberalization, the one of the important thing was the opening of Indian markets for foreign investment. This market access to the foreign investors was made an important contribution in improving the capital flow of our country. FIIs play an imperative role for developing as well as enhancing the Indian stock market.

FOREIGN INSTITUTIONAL INVESTMENT
FII is defined as an investment into the Indian securities market by the foreign investors under the regulations of Security Exchange Board of India. Institutional investors are organizations, which pool large sums of money and invest those sums in securities, real property and other investment assets in another country. These FIIs are controlled by the Reserve Bank of India (RBI). Foreign Institutional investments are made for short term period, so this money is also termed as 'Hot Money', because any time this money can be invested or withdrawn. FII can be categorized as mutual funds, investment companies, pension funds and insurance houses etc. The entrance of FIIs in India, was allowed by the recommendations of Narsimhan committee Report on Financial system but that time there were not any type of suggested policies for FIIs. During budget presentation in 1992-93, Dr. Manmohan Singh (The Finance Minister) had announced the proposal regarding remarkable channels for foreign investments like pension funds etc. There is no doubt that FIIs are the biggest market holder in India that dominate the market by holding significant portion of the free float. There are lots of Indian companies which are preferred by the FIIs to invest in. Infosys, HDFC, HDFC Bank, Asian Paints are some of the darling companies of FIIs….
India is world's third largest tech start-up hub in terms of number of technology-driven start-ups, after the US and the UK, according to a report by The Associated Chambers of Commerce of India in association with Thought Arbitrage Research Institute. India's tech start-ups numbered around 4,200 in 2015.

INVESTMENT LIMITS FOR FIIs
As per RBI policy- The ceiling for overall investment for FIIs is 24% of the paid up capital of the Indian company and 10% for NRIs/PIOs. The limit is 20% of the paid up capital in case of public sector banks, including the State Bank of India

TABLE 1: NUMBER OF REGISTERED FIIs

Year	*No of registered FII in India*
2008	1279
2009	1609
2010	1697
2011	1,767
2012	1,759
2013	1742

Source: www.sebi.gov.in

FII's net investments in Indian equities and debt have touched record highs in the past financial year. FIIs net investments stood at Rs 18,106 crore (US$ 2.68 billion) in March 2016, out of which Rs 16,731 crore (US$ 2.48 billion) was invested in equities and Rs 1,375 crore (US$ 203.83 million) was invested in debt.

NATIONAL STOCK EXCHANGE (NSE)
NSE was set up for providing a modern, fully automated screen-based trading system with national reach. NSE has played a catalytic role in reforming the Indian securities market in terms of microstructure, market practices and trading volumes. NSE was promoted by leading financial Institutions at the behest of the government of India and was incorporated on November 1992 as tax paying company. It is Located in Mumbai. It has market capitalization of US $1.65 trillion and around 1,696 companies are listed on NSE (as on July 2013). NSE have three broad Indices i.e. CNX Nifty, CNX Nifty Junior and CNX 500. The managing director and CEO is Ms. Chitra Ramakrishna. The **CNX Nifty** is a well diversified 50 stock index in National Stock Exchange [NSE]. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds. CNX Nifty is owned and managed by India Index Services and Products Ltd. (IISL). IISL is India's first specialized company focused upon the index as a core product.
SECTOR INDICES: there total 12 Sectoral indices under CNX Nifty i.e. CNX auto index, CNX bank index, CNX energy index, CNX finance index, CNX FMCGs index, CNX media index, CNX metal index, CNX realty index, CNX It index, CNX PSU index, CNX petrochemical index, CNX pharma index and Nifty 500 industry indices. First 11 sector indices are taken for analysis. Brief explanation of these Sectoral indices are given through Table 1 (Annexure)

REVIEW OF LITERATURE
Srinivasan Kalaivani (2014), explored the determinants of foreign institutional investments in India through the Autoregressive Distributed Lag (ARDL) bounds testing approach. Using quarterly time series data, the empirical analysis was carried out for the period from January 2004 to December 2011. Their study concluded that exchange rate has significant negative impact on FII inflows both in the short-run and long-run.
Kumar Venkateswara K.S. &Rama Devi V. (2013), examines the relationship and impact of FDI &FII on Indian stock market using statistical measures correlation coefficient and multi regression for 12 years data starting from 2001 to 2012. **Loomba Jatinder** (2013), studied by using daily data on BSE Sensex and FII activity

over a period of 10 years spanning from 01st Jan 2001 to 31st Dec 2011. It provides the evidence of significant positive correlation between FII activity and effects on Indian Capital Market.

Kulwant raj Bindu N. (2004), found out the determinants responsible for the flow of FIIs and their degree of impact. With the help of monthly data they concluded that FII inflow depends on stock market returns and inflation rates. **Chakrabarti and Vimal** (2001), concluded that in the pre-Asian crisis period any change in FII was found to have a positive impact on the equity returns, whereas in the post- Asian crisis the reverse relationship was noticed.

STATEMENT OF THE PROBLEM

Due to the global integration, capital started flowing freely across the world in quest of higher return. FIIs holds a strong position in the Indian market and influence it greatly. After studying the numbers of research papers, which have been done with regard to FII policy effect on the Indian capital market, determinates for FIIs, effect of FIIs on Indian market, relationship of FIIs and FDI etc., one question is raised in my mind that is the volatility of the different Nifty Sectoral Indices inflicted by FII flows? So this study is conducted to analyze the impact of FIIs flow on different Nifty Sectoral Indices.

OBJECTIVES OF THE STUDY

1. Examine the volatility due to FIIs in Nifty Sectoral Indices.
2. To analyze the interrelationship between foreign institutional investments (FII) and National stock exchange (NSE).

HYPOTHESIS OF THE STUDY

H0: there is no significant casual relation in the mean of FII flows and different Nifty Sectoral Indices.
H1: there is significant casual relation in the mean of FII flows and different Nifty Sectoral Indices.

RESEARCH METHODOLOGY

For completing the first objective, regression model is used for analyzing the Volatility due to FII flows in Nifty Sectoral Indices. For this purpose, the daily basis, data (from Jan. 2012 to Jun 2014) of all 11 Sectoral indices has been compiled from the NSE site and converted into monthly data series. The data of FII flows are collected from the www.moneycontrol.com. Regression model is separately used on all selected sectors of NSE. The regression equation is: y= a+bx (where y is dependent variables i.e. 11 sectors of NSE and x is independent variable i.e. FII flows). Bi-directional relationship is examined by using Granger Causality Test on the monthly data of NSE closing price and FII flows from Jan. 2008 to Jun 2014. For analyzing, the rate of % change is calculated from both series data.

For achieving the second objective, Granger Causality test is used to find out the cause and effect relationship between the variables. In this study to identify the interrelationship between the FII and NSE, Granger Causality test has been applied with the help of E Views software. For this the monthly data of CNX Nifty Indices and FII Flow are extracted from NSE Site and RBI Site. The data are taken from Jan 2008 to Jun 2014. For applying the causality test, the percentage rate of change of both series has calculated.

RESULTS & DISCUSSION

FIRST OBJECTIVE

For analyzing the volatility in Nifty Sectoral Indexes due to the foreign institutional investments, regression tool is used with the help of SPSS on the monthly data of FIIs flow and Nifty Sectoral indices. Results are presented through the Table 2. Interpretations are given in following way:

CNX bank index has positive correlation of 0.208 with the FII Flow. The unstandardized Beta is 0.001, it refers that if FII Flow increase by 1, the dependent variable will change in the multiple of this slope value. The standardized Beta is 0.372, it is less than 1. It interpreted that the dependent series is less volatile in comparison to the independent variable. The t-test results of **CNX Auto index** interpreted that at 5% level of significance, these coefficients are not good estimators, because the p value is more than the 0.05. Although this sector has positive correlation with FII flows, but the degree of correlation is not strong. Its standardize Beta is less than 1, it refers that CNX Auto index is less volatile in comparison to the independent variable (FIIs). **CNX Energy index** has positive correlation of 0.15. FII flow explains around 40% variances in CNX Energy Indices. According to the t-test results the p value is more than 0.05 at 95% level of confidence, it refers that these all coefficients are not good estimators. The standardized Beta is less than 1, it refers that the independent variables are more volatile than the dependent variable. In case of **CNX Finance**, FII Flow explains only 6% variances in the dependent variable i.e. CNX Finance Index of NSE. It has positive correlation with FII Flow. Any change in FIIs will make change in this index in the multiple of 0.001. the standardized Beta is less than the 1, it means the dependent variable is less volatile in comparison to the independent variable i.e. FII Flow.

CNX FMCG Index has positive correlation with FII Flow, but the degree of this correlation is very low. The slope of these Indices is also negative. It means that if FIIs increase by one, the CNX FMCG Index will decrease in the multiple of 0.001. It also interpreted the lesser influence of FIIs on the dependent variable i.e. CNX FMCG. The p value of ANOVA table is more than 0.05 at 5% level of significance that refers that this model is not good predictor. **CNX IT** Index has positive but very less degree of correlation with the FII Flow. The standardized Beta of CNX IT Index is.211 i.e. less than 1, it refers that the dependent variable (CNX IT Index) is less volatile than the independent variable (FII Flow). The p value of t-test is greater than 0.05 at 95% level of confidence; it means that these coefficients are not good estimators. The R square value explains that the independent value explains only 5% variances in the dependent variable, remaining are occurred because of other external variables. The standardized Beta of **CNX Media** is less than 1 (0.564< 1), it refers that the CNX Media Index is less volatile than the independent variable (FII Flow). This index has positive correlation with the independent variable (FII Flows), but the degree of correlation is very less. The p value is shown in the ANOVA table is more than 0.05 at 5% level of significance, it means that the used model is not a good predictor. **CNX Metal** has positive, but very low degree of correlation with FII Flow. It has negative slope. It means that if there is any change in FII Flow, there will be negative change in the CNX Metal in the multiple of 0.008. The results of t-test show the highest p value i.e. more than 0.05 at 5% level of significance. It interprets that these coefficients are not good predictors. The standardize beta of this indices are less than 1, it means that the dependent variables are less volatile in comparison to the independent variables. **The CNX Pharma** has positive correlation with the FII Flow. The p value of t-test is higher than the 0.05 like the above sectors, it means that the calculated coefficients are not good estimators. R square refers that only 4.4% variances are explained by the FII Flow in the dependent variables (CNX Pharma). The above graph shows that the variables have less linear relationship. The standardize Beta of **CNX PSU Bank** is less than 1, hence the dependent variable (CNX PSU Bank) is less volatile than the independent variable (FII Flows). CNX PSU Bank has positive correlation with the independent variable, it means that this sector has the influence of FII, but the degree of correlation is very low. The p value shown in the ANOVA table is more than 0.05 at 95% level of confidence, it refers that the used model is not good predictor. The **CNX Realty** has positive correlation with FII Flow. Although it is only moderate degree of correlation but this degree is higher than the above sectors. The result of t-test gives the p value of 0.481 that is not less than 0.05 at 5% level of significance, it means that these coefficients are not good estimators. The graph shows that the values of dependent variables are not frame the linear trend line.

From the above analysis, it is revealed that although all Sectoral indices have positive correlation with the independent variable i.e. FIIs. It means that FIIs have influence over all Sectoral indices, but this degree of correlation is not much strong. Thus, it can be concluded that FII Flow has very less degree of influence on the different Sectoral indices of NSE.

SECOND OBJECTIVE

The results are as following:

TABLE 1

Pair wise Granger Causality Tests			
Sample: 2008M01 2014M06			
Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Prob.
NSE does not Granger Cause FII	77	0.44032	0.5090
FII does not Granger Cause NSE		6.89997	0.0105

INTERPRETATION

The first hypothesis i.e. NSE does not granger cause FII, is accepted as the p value is more than 0.05, whereas the second hypothesis, FII does not granger cause the NSE is rejected because the p value is less than the 0.05. These both hypotheses are tested at 5%level of significance. Thus, NSE does not have any effect in FII Flows, but FII Flows have the effect in NSE. In other words, FII Flow significantly influences to the NSE.

Although all Sectoral indices have positive correlation with FII Flow, but the indices of Media, Finance, IT, Bank and Pharma sectors have comparatively higher degree of correlation. The R Square value of Media, Finance, Bank, IT and Pharma indices are more in comparison to other Sectoral indices. It means the independent variable (FII Flow) explains more variances in these sectors. CNX Metal has highest Standard Error, it interprets, the more deviation from mean value and there is high error in its' linear relationship. The value of standardized Beta of almost all Sectoral indices are less than one, it reveals that the dependent variables (NSE Sectoral Indices) are less volatile than the independent variables (FII Flow). The p value from ANOVA table of almost all Sectoral indices are more than the value 0.05 at 95% level of confidence, it means that the used model is not the good predictor. The reason is that the existing environment is very volatile in nature and it is not possible to cover all variables of the environment. The stock market is very sensitive in nature and change frequently. Granger Causality test refers that NSE does not have any effect in FII Flows, but FII Flows has the effect in NSE.

CONCLUSION

Although the options for external finance in domestic manner are in limited number in many countries, still due to the globalization and liberalization the channel for foreign capital has been opened. This capital is helpful in facilitating for the development of the financial system of any country, especially for the emerging markets. From the above analysis, it can be concluded that FII flow has a major impact on the NSE, although the degree of influence is not much higher on NSE Sectoral Indices. This signifies that market rises with increase in FII's and collapse when FII's are withdrawn from the market**.** As shown in the results, there is a positive correlation between various NSE stock indices and FIIs, but the degree of correlation is not strong in any case for the period ranging from January 2008 to June 2014. It shows the existence of a weak relation between FII and various Sectoral indices. The reason of weak relation is the presence of other external as well as internal factors in the market like change in political structure, government policies, inflation, changes in investment policies and market conditions etc. these factors increase the volatility rate in the stock market. Anisha Damania, (head of institutional equities at IDFC Securities) said that the inflows have largely come from funds with broader mandates rather than those with a country-specific focus. A large amount of this money has come from regional and global funds. India funds have been under pressure, and facing redemptions. They have been hit by the depreciation in the rupee and so their assets under management has also shrunk.

Now the Government of India has accepted the recommendation of A.P. Shah Committee to not impose Minimum Alternate Tax (MAT) on overseas portfolio investors retrospectively for the years prior to April 01, 2015, thereby providing significant relief to foreign portfolio investors (FPIs). The Reserve Bank of India has stated that it will promote FIIs in India by simplifying processes and creating an enabling framework for receiving foreign venture capital, in line with the Government of India's 'Start-up India' initiative. Thus India is being viewed as a potential opportunity by investors, with the economy having the capacity to grow tremendously. Buoyed by strong support from the government, FIIs investments have been strong and are expected to continue to improve going forward.

LIMITATIONS OF THE STUDY

1. The stock market is very sensitive in nature. Since there are number of the fluctuations in the FIIs data series, thus the daily data would be more authentic for analysis but the daily data was not available.
2. The duration for conducting the study is too short.

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ANNEXURE

TABLE 1

	Name of NSE Sectoral indices	% of free float market capitalization of the NSE stock listed	% of free float market capitalization of the concerning sector stock	Number of included stocks in concerning sector	Base date for Index computation to base value 1000
1.	Nifty Auto Index	8.6%	91.1%	15 stocks	Jan 1, 2004
2.	Nifty Bank Index	15.6%	93.3%	12 stocks	Jan 1, 2000
3.	Nifty Financial Services Index	19.2%	75.8%	15 stocks	Jan 1, 2004
4.	Nifty FMCG Index	8.6%	80.4%	15 stocks	Dec, 1995
5.	Nifty IT index	12.15%	91.9%	10 stocks	Jan 1, 1996
6.	Nifty Media Index	NA	72.8%	15 stocks	Dec 30, 2005
7.	Nifty Metal Index	2.6%	87.9%	15 stocks	Jan 1, 2004
8.	Nifty Pharma Index	6.1%	79.95%	NA	Oct, 11, 2010
9.	Nifty Private Bank Index	13.9%	97.7%	10 stocks	Apr. 1, 2005
10.	Nifty PSU Index	2.3%	91.1%	NA	Jan., 2004
11.	Nifty Realty Index	0.4%	71.1%	NA	Dec 29, 2006

TABLE 2

SECTORS	R	R^2	SLOPE	ANOVA RESULT (p value)
Bank	.208	.043	.001	.280
Automobile	.001	.001	4.8	0.9
Energy	.149	.022	.001	.442
Finance	.239	.057	.001	.212
FMCG	.145	.021	.001	.459
Information Technology	.211	.045	.001	.271
Media	.364	.133	.001	.052
Metal	.032	.001	-0.008	.869
Pharmaceutical	.210	.044	.001	.274
PSU Bank	.078	.006	.001	.687
Realty	.136	.019	.001	.481

Source: table prepared on the basis of results calculated by SPSS.

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