Design Thinking View On Foreign Institutional Investments In India

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Abstract

Since the 1980s, international capital flows have expanded considerably. Gross capital flows soared by 300 percent between industrial countries in the 1990s, while trade flows expanded by 63 percent. Increased capital flows are largely attributable to transactions in the equities and debt markets, altering the distribution of assets around the world. There should have been a burst of cash flowing into the foreign debt and equity markets after debt and equity market integration. The post-reforms period in India's investment landscape has been marked by a dramatic shift in the role played by Foreign Institutional Investments (FIIs), a subset of foreign capital flows. The unusual pandemic of the 2020s had repercussions across several industries, FIIs included. As a result, the current research is an attempt to examine the shifts among FIIs in India.

Keywords: International Capital Flows, Debt and Equity Markets and Foreign Institutional Investments (FIIs)

Introduction

Following the release of the New Economic Policy, India shifted its focus from a reliance on debt-inducing funds to one on foreign direct investment and foreign portfolio investment.The High-LevelCommittee on Balance of Payments, led by Dr. C. Rangarajan, is largely responsible for this liberalisation.Foreign institutional investors (FIIs) have been allowed into the Indian financial market under certain conditions since September 14, 1992 (Indian Securities Market Review, 2000). Since then, FIIs have been investing heavily in India's economy. Since the Indian stock market opened to FIIs in 1992, the flow of capital from overseas has been quite consistent, with only a few brief fluctuations.

There are a number of factors that have led to the substantial FII inflow into the Indian stock market. India's position as the world's seventh-largest economy serves as the basis for this argument. India is also one of the few global markets with exceptionally promising development potential across the board. The potential for expansion, both domestically and internationally, for Indian businesses is enormous. Indian enterprises have shown their mettle to the globe by merging with and acquiring multinational corporations. In addition, the ever-increasing purchasing power of Indian customers and the ever-increasing demand for goods and services are also indicators of India's rapidly expanding population.

The fact that FDI does not directly affect stock markets gives FII a disproportionately large role among the major foreign capital sources. However, the market return, volatility, and overall evolution of stock markets are all affected by FII share purchases. Through greater diversification, FIIs have bolstered the market, lessened risk, and enhanced return. At the same time, it does not add to the country's debt load. It's a useful addition to domestic savings for boosting investment activity.

Problem Discussion

The financial structure of India's economy has undergone radical transformation as a result of globalisation and financial sector reforms. Financial market actions and their links to the real economy are of paramount importance in the current context. There has been a significant shift in the financial sector's performance since the reforms began in the early 1990s, when numerous structural and institutional changes were made to various parts of the financial markets. The link between the Indian stock market and the country's international sector needs to be reevaluated in light of the many institutional reforms that have been introduced as part of the globalisation programme.In recent years, FIIs have become major players in India's stock market. The globalisation of economies has an impact on stock market behaviour. There are a lot of reasons why the Asian markets, and India in particular, are appealing to investors from outside the region. For starters, the growth potential in Asian markets is greater; secondly, it's less expensive to invest in countries like India due to low costs; thirdly, there is a larger investor base; and fourthly, most Asian economies are developing; as a result, governments are welcoming to foreign investors because they play a crucial role in the development of the country. Over the past two decades, both domestic and international institutional investors have become increasingly active participants in the market. There is also concern that fluctuations in foreign institutional investment flows will have a negative effect on the Indian stock market and economy.

Their holdings will affect the success of particular companies regardless of the market's reaction to them. Foreign institutional investors will always be crucial to India's stock market. The aforementioned conditions allow for the pursuit of the following research goal:

1. To examine the impact of FIIs in select sectors of Indian capital market

Literature Samples

The current account deficit can be covered and a country's economy can become more productive thanks to the influx of foreign investment, as proposed by Khanna, Monika et al. (2018). When deciding whether or not to invest in a foreign company, FII uses firm performance as a key metric because it increases trust in the company's operations and protects the FII's capital. This research uses annual and pooled regressions to examine the impact of business performance on FII in the Indian financial services industry over a five-year period, highlighting the importance of financial performance in FII investment decisions. The size of the firm, return on equity, and exports were all found to positively affect FII. A negative relationship between FII and leverage and book-to-market ratios has emerged, as predicted.The effects of allowing foreign institutional investors into the Indian stock market were evaluated by Anand Bansal and J.S. Pasricha (2019). They conducted an empirical study on the effect of FIIs on the Indian stock market and found that while average returns were unaffected, volatility was greatly reduced after India opened its stock market to foreign investors. The study's methodology and data sources will be discussed in the following section.

Research Methodology

Secondary resources were used for the research. This analysis relies on information about FII flows gathered from the Money Control and Equity Master websites as well as the daily returns of the sectors of the NIFTY on the NSE. The RBI website provides the data needed to assess the trend in FII flows, whereas the SEBI website provides information regarding FII.The research spans 10 years, from the 2011-12 fiscal year to the 2019-2020 fiscal year. The FII data from the past two years is being used to determine the differences caused by Covid 19. The statistical methods employed include the paired samples t-test, regression analysis, and descriptive analysis.

Analysis and discussion

Table 1: Descriptive Statistics(In INR Crores)

	N	Range	Mean	Std. Deviation	Coeff. of Variation	CAGR
Equity	10	188945.18	41856.26	49321.02	98.14	0.00
Debt	10	211254.06	18147.30	52140.36	123.21	0.00
Net FII	10	400199.24	56823.55	78214.14	112.55	0.00
Valid N (listwise)	10					

The table 1 defines the descriptive statistics of various components of Foreign Institutional Investments in India during the study period between 2011-2012 to 2019-2020. During the long run in the country, the coponents had both positive and negative investment scenario topping. The equity form of invetsments have the better consistenncty which is witnessed thotigh coefficient of variation at 98.14 per cent. The growth rate is null in case of the components as well as the total FIIs in the nation woing to the fact of constant ups and downs in the years of study. The mean value of Net FIIs is INR 56823.55 crores having the standard deviation of INR 78214.14 crores.

Table 2: Results of ADF Unit Root Test for Automobile Sector

Variables	T-Statistic	p–value
NFII	-8.06	**0.00***
Auto_Return	-6.95	**0.00***
Ban_Return	-1.21	**0.00***
IT_Return	-6.85	**0.00***
Infra_Return	-4.14	**0.00***
Man_Return	-8.87	**0.00***
Pow_Return	-9.54	**0.00***
Real_Return	-3.25	**0.00***
Tele_Return	-7.89	**0.00***

*Significance at 5 per cent level

Table above shows the results of Augmented Dickey Fuller Test. ADF Test was applied in Trend and Intercept method using lag structure indicated by Schwarz Information Criterion (SIC). The null hypothesis is rejected. Hence all the variables FIIP, FIIS, NFII and return of selected sectors in NSE are stationary.

Table 3: Granger Causality Test

Sectors	Null Hypothesis	F- Statistic	p-value
Automobile	Return does not Granger cause NFII NFII does not Granger cause Return	5.32 3.62	0.02 0.36
Banking and Finance	Returndoesnot Granger cause NFII NFII does not Granger cause Return	8.44 6.11	0.24 0.03
IT	Returndoesnot Granger cause NFII NFII does not Granger cause Return	0.89 2.55	0.98 0.83
Infrastructure	Return does not Granger cause NFII NFII does not Granger causeReturn	1.66 5.01	0.33 0.04
Manufacturing	Return does not Granger cause NFII NFII does not Granger causeReturn	8.44 1.87	0.46 0.02

Power	Return does not Granger cause NFII NFII does not Granger causeReturn	9.14 7.01	0.15 0.72
Real estate	Return does not Granger cause NFII NFII does not Granger cause Return	2.88 9.11	0.13 0.02
Telecommunication	Return does not Granger cause NFII NFII does not Granger cause Return	1.10 5.05	0.00 0.00

Table 3 reveals the results of granger causality test between the returns of selected sectors with net foreign institutional investments. It can be concluded that there are unidirectional impact between return and NFIIs of automobile sector, NFIIs and return of banking and finance,NFIIs and return of infrastructure, NFIIs and return of manufacturing and NFIIs and return of real estate. The relationship is bidirectional in the telecommunication sector. Hence, the null hypothesis is rejected for these variables concerned.

Conclusion

The research demonstrates that FIIs are placing large bets on the Indian economy. As a result, this kind of flow could have a major effect on the market's volatility and liquidity. Funds in the form of portfolio investment might be drawn to a country for a variety of reasons. Securities investment is widely regarded as the most lucrative investment option. Due to globalisation, there is now no longer any restriction on the transfer of money. It is widely held that the presence of FIIs contributes in some way to the volatility of the Indian stock market, which is widely regarded as one of the most volatile markets in the world. The impact of FIIs on the Indian capital market has been shown to be positively correlated with their activity (Loomba, 2012). As a result, the influx of FIIs is likely to raise market volatility. Much advancement in the stock market sector over the past decade has led to the Indian stock market being viewed as comparable to developed markets.

The rapid up and down tendency of market movements may be observed in the post liberalisation period, notably from 2001.Foreign direct investment (FII) may also influence market development, return, volatility, and liquidity. The growth of the market and economy depends on properly overseeing FII. Foreign institutional investors (FIIs) are increasingly influential in today's market. Given the rising significance of FIIs for the Indian economy, it is important to analyse the potential of cross-border portfolio investment in light of India's current economic expansion.

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