TREND ANALYSIS OF FOREIGN INSTITUTIONAL INVESTMENTS IN INDIA

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Abstract
Foreign institutional investors (FIIs) are established or incorporated outside India, making investment in Indian securities. Foreign investments as crucial sources of capital inflow increases labor productivity in India as well as build up foreign exchange reserves to meet the current account deficit. Considering the importance of foreign investment in an emerging economy like India, the present study by using the least square method of time series, shows the trend analysis of total foreign investments in India over a period of six years. It further presents the trend of foreign investments in debt and equity over a period of six years.

Keywords: Foreign Institutional Investors (FIIs), Foreign Institutional Investment (FII), Foreign Direct Investment (FDI)

1. INTRODUCTION
The Government of India by realising the need to review its policies of self-dependence during 1990s replaced import substitution and took the decision to finance its current account deficit by foreign investments. This thinking opened the doors of Indian economy for foreign investments which in turn creates economic integration and stimulation of Indian economy. Foreign investment in India is allowed in basically two ways, namely, foreign direct investment (FDI), and foreign institutional investment (FII). FDI, usually treated as a long-term investment with a significant influence and control over the invested sectors or units, created more employment opportunities in the country, more productivity, complementary skills and transfer of technology. While, FII, ensure a comparatively short-period investments by foreign institutions in Indian securities (Sharma, 2014).

Initially due to strict norms, the inflow of FII was restricted. But increment in ceiling for overall investment, augmentation in limits of government securities and simplification of registration norms, dramatically increased net investment by FIIs. Portfolio of FIIs usually comprise of financial instruments like, shares / debentures / warrants of companies-listed or to be listed on a recognised stock exchange, dated government securities, units of domestic mutual funds, units floated under collective investment schemes, derivatives, commercial paper, and security receipts (Kulshreshtha, 2014).

2. LITERATURE REVIEW
This part provides literature review on studies relating to trend analysis in previous studies. According to Sharma (2014), foreign investment showed a remarkable growth during the
period of study from 2001-2013. However, financial years 2003 and 2012 registered declining FII with a negative investment during 2009. Accordingly, FIIs undoubtedly bring huge capital to the market thereby enhancing liquidity, but since they are active investors, thus, frequently change their portfolio which in turn leads to volatility in the stock market. Sethi and Sucharita (2009) explained the effects of private foreign capital inflows on macroeconomic variables in India, using the time series data from 1995 to 2007. They found that FDI is positively, while FII is negatively affecting the economic growth. Singh and Sumanjeet (2009) 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 emerging market economies of Asia. Capital inflows, however, not an unmitigated blessing, the main danger posed by large and volatile capital inflows is that they may destabilize macroeconomic management. They concluded that the intensified pressures are due to large and volatile capital flows in India in the recent period in an atmosphere of global uncertainties. Similarly, Sethi (2008) evaluated the impact of international capital flow on economic growth, trends and composition, and policy implication thereof. They observed that the FIIs have negative impact on growth, but it is very negligible. Further, India should move to influence both the size and composition of capital flows, strengthen their banking system rather than promoting financial market, as banks can provide the surest vehicle for promoting long term growth and industrialization.

Poshakwale et al., (2007) compared the influence of FI 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 FIIs. They found that Indian stock returns are significantly influenced by the short and long term innovations in the US and UK stock market. Dhamija, (2007) described that the increase in the volume of FII 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. It was suggested that as the pace of foreign investment began to accelerate, regulatory policies have changed to keep up with changed domestic scenarios. Singh (2007) 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). Lensik et al., (1999) examined the impact of uncertain capital flows on the growth of 60 developing countries during the 1990’s. They distinguished between total, official and private capital flows. For the three types of capital flows, they derived a yearly uncertainty measure. They have used the yearly uncertainty measures in Ordinary Least Square (OLS) and Generalized Method of Moments (GMM) estimates, to explain the impact of uncertain capital flows on growth. They conclude that both types of estimates suggest that uncertain capital flows have a negative effect on financial market and growth in developing countries.

The FII investment was initially limited to a selected group of stocks and they were excluded from the growing market for bonds, and government securities. Their entry into the
latter was permitted only in the late 1990s. The total amount of funds raised by India through GDR constituted roughly 40 percent of total inflows. However, during the second half of the 1990s there was a sharp decline in the funds raised through GDR and FII in the Indian equity (and recently bond market) became the main form of portfolio inflows (Khanna, 2002).

3. NEED OF THE STUDY
There are number of studies examining the causality relationship between foreign investment and return from the Indian stock market (e.g., Trivedi and Nair, 2005; Ramaratnam et al., 2013; Kulshrestha, 2014). This paper attempts to show the trend of investments made by FII made in India over a period of six years including the introduction of new SEBI (FPI) regulation. Results will suggest that whether Indian stock market is still an attraction for foreign investments and what kind of graph (increasing or decreasing) it has registered during the period of study.

4. OBJECTIVES OF THE STUDY
- To conduct the trend analysis of total FII in India over a period of time;
- To do the trend analysis of FII in debt and equity in India over a period of time.

5. RESEARCH DESIGN
Trend analysis has been conducted by applying least square method of time-series to FII data over a period of six years, i.e., from financial year 2009 to financial year 2015. All required data has been obtained from the website of National Stock Exchange (www.fpi.nsdl.co.in).

6. TREND ANALYSIS
This section presents the results of trend in tabular form, for total FII, FII in debt, and equity, respectively, over a period of six years.

Table 1: Trend Analysis of FII (Total, Debt, and Equity, ₹ in crores)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Trend- FII (Total)</th>
<th>Trend- FII (Debt)</th>
<th>Trend- FII (Equity)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,13,553.00</td>
<td>15,119.72</td>
<td>98,434.00</td>
</tr>
<tr>
<td>2011</td>
<td>1,26,818.40</td>
<td>28,081.43</td>
<td>98,737.40</td>
</tr>
<tr>
<td>2012</td>
<td>1,40,083.80</td>
<td>41,043.14</td>
<td>99,040.80</td>
</tr>
<tr>
<td>2013</td>
<td>1,53,349.20</td>
<td>54,004.86</td>
<td>99,951.00</td>
</tr>
<tr>
<td>2014</td>
<td>1,66,614.60</td>
<td>66,966.57</td>
<td>99,647.60</td>
</tr>
<tr>
<td>2015</td>
<td>1,79,880.00</td>
<td>79,928.28</td>
<td>99,344.20</td>
</tr>
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As shown by the results of Table 1, total FII in India have increased from ₹1,13,553.00 cr in financial year 2010 to ₹1,79,880.00 cr in financial year 2015. Over all the years under analysis, total FII have shown an increasing trend. Similar results have been obtained from the trend analysis of FII in debt. These have also shown an increasing trend with ₹15,119.72 cr in financial year 2010 to ₹79,928.28 cr in financial year 2015. However, FII in India in equity have shown more or less a constant trend with not much change in the investments over a period of study. They recorded a trend of ₹98,434 cr in financial year...
2010 to ₹ 99,344.20 cr in financial year 2015. Pattern of trend in total FII, FII in debt, and equity has also been shown by graphical presentation.

As evident by the above graph, total FII remained more or less constant from 2010 to 2011, while decreases in financial year 2012 and increases in 2013. Financial year 2014 registered a significant decline in total FII in India, however, 2015 showed the highest increase in total FII ever during the period of six years.

As evident by the Trend of FII (Debt), FII in debt showed an increasing trend from financial year 2010 till financial year 2012. Thereafter, investments start declining and reached even negative, implying that FII started withdrawing their investments in debt in the financial year 2014, which may be due to introduction of new amendment SEBI (FPI) act, 2014, under which existing FIIs on expiry of their license if wants to renew it and newcomers FIIs will now be registered under this new act, to make trading at ease and cumbersome free this initiative was taken. However, the entire scenario changes with an increasing trend registered in the financial year 2015.
Graph of Trend- FII (Equity) showed that FII in equity remained constant in 2010 and 2011 with a significant decline in 2012 and the steep increase in 2013. Financial year 2014 showed a slight decrease in FII as per the above mentioned reason of new amendment which again increased back in 2015.

7. CONCLUSION
FII behavior is primarily influenced by economic factors of the country which includes stock market returns and risk associated with them, but there are other factors also which influence the trend of FII inflows and outflows in India. In all the years of study period, total FII was kept on increasing from Rs. 1,13,553 in 2010 to Rs. 1,79,880 Cr in 2015, including maximum investments in equity market (₹98,434.00 to ₹99,344.20) as compared to debt market (₹15,119.72 to ₹79,928.28) and still evolving as compared to equity market. Thus, it is evident that FII is a major contributor to the stock markets and for developing countries like India, foreign capital is of utmost importance as it helps in increasing productivity and meeting the current account deficit. There is a need to study the trend of their investment future also, in the light of new amendments in FII regulations, further, to identify the driving forces behind FII in India.

REFERENCES


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