FIIS: FUEL OF INDIA'S GROWTH ENGINE

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ABSTRACT

A favorable business environment fostered Indian economy after 1991-92, when the government of India opened the door for foreign capital in the way of direct investment and through foreign institutional investors. Consequently, the international capital inflows have been increased tremendously during last two decades. The capital is being invested by foreign investor through mutual funs, investment trusts, banks, portfolio mangers, charitable trusts etc. and it has been boosting the growth of Indian economy since then. Moreover, the growth rates in GDP i.e. around 7 to 8 percent per year as compared to 2 to 4 percent in most of the developed economies and higher interest rate attracted the foreign capital the most. This paper is an attempt to analyze the relationship of FII investment with economic growth of India, in addition to comparative analysis of preferred investment stock of FII.

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FII is defined as an institution organized outside India for the purpose of making investments into the Indian securities market under the regulations prescribed by SEBI. The term 'FII' may be defined as overseas pension funds, mutual funds, investment trust, asset management company, nominee company, bank, institutional portfolio manager, university funds, endowments, foundations, charitable trusts, charitable societies, a trustee or power of attorney holder, incorporated or established outside India, proposing to make proprietary investments or investments on behalf of a broad-based fund. FIIs can invest their own funds as well as invest on behalf of their overseas clients registered as such with SEBI. These client accounts managed by FIIs are known as 'sub-accounts'. A domestic portfolio manager can also register itself as an FII to manage the funds of sub-accounts.

Foreign institutional investor means an entity established or incorporated outside India which proposes to make investment in India. Positive tidings about the Indian economy combined with a fast-growing market have made India an attractive destination for foreign institutional investors.

ENTRY OPTIONS FOR FII'S

A foreign company planning to set up business operations in India has the following options:

- Incorporated Entity
- By incorporating a company under the Companies Act,1956 through
- Joint Ventures; or
- Wholly Owned Subsidiaries

Foreign equity in such Indian companies can be up to 100% depending up on the requirements of the investor and subject to equity caps in respect of that particular sector.

BACKGROUND OF FIIs IN INDIA

On 14th September 1992, FIIs and Overseas Corporate Bodies (OCBs) were permitted to invest in India in financial instruments. Thereafter, the status of FIIs kept on improving steadily and cautiously. Then in June 1998, FIIs were also permitted to invest in Treasury Bills. As on 31st March 2004, there were 540 FIIs and 1542 sub-accounts operating in India. This was against 502 and 1350, respectively, a year earlier. On 31st January 2005, Indian finance ministry clearly indicated that FIIs were distinct entity from FDIs for determining the overall foreign investment ceiling. On 29th November 2006 FII's net investment crossed $50 billion mark. Then in October 2008, SEBI changed rule related to P-Note issuance and reporting by FIIs due to the discrepancies pointed out in Barclays Bank operating in India, crash of Lehman Brothers and huge withdrawals by FIIs from Indian markets. Thereafter till now, FIIs have persistently given impetus to Indian growth.

WHY DO WE NEED FOREIGN CAPITAL?

There can be various reasons for the requirement of foreign capital. Foreign capital may be required for development of basic infrastructure like Roads, Railways, Sea Ports, Warehouses, Banking Services and Insurance Services etc. Further rapid industrialization has further strengthened the need of foreign capital. Many developing countries suffer from severe scarcity of private investors in high risk areas such as infrastructure. This risk problem can be diverted to the foreign capitalists by allowing them to invest. Further international trade related agreements have also made it imperative to open up the economy for the institutions belonging to foreign countries. The variations in the cost of capital are also one of the important factors resulting in attracting foreign capital in India. For example; Interest rates are high in India as compared to developed economies. To reduce the cost of capital, companies/organizations are now looking for foreign capital. In several countries the interest rates are very low as 1% to 3%, where as in some countries the interest rates are very high as 8% to 10% per annum. Thus investors tend to invest in countries where interest rates are higher in order to gain maximum on their investments. Further the developing countries require technology for their development. This latest technology can be obtained from these developed countries through their MNCs which may invest through FIIs.

INVESTMENT IN INDIA: WHY?

India is one of the fast growing economies of the world with its economy growing at about 8.75% p.a. (2010) and expected to grow at 9-10% p.a. in future. Its robust market size is also very attractive. The capacity of the buoyant middle class is also very good. As a result the investors find it attractive to come and invest in India**.** India's GDP is currently US$1.3 trillion, making it the 8th largest economy in the world. However, in PPP terms, which recognizes India's low cost base, the GDP notionally can rise to three times this amount (US$3.8 trillion) which will keep it on a place similar to that of Japan in terms of size of economy and by 2013, it will become the third largest economy in the world (after the USA and China) in PPP terms. However, despite representing 7.5% of Global GDP (on a PPP basis) in 2010, India attracts less than 0.5% of investment inflows. An anomaly which is unlikely to continue for much longer! Further the Indian economy offers investors exposure to a wide range of opportunities from consumer goods and pharmaceuticals to infrastructure, energy and agriculture. With its strong services sector (comprising 50% of India's economy), particularly in knowledge-based services (IT, software and business services) India has proved that industrialization and the export of commodities and resources is not the only path for rapid economic development. Another reason for attracting foreign investment may be the fact that India is one of the youngest countries in the world, with an average age of 25 and likely to get younger. India's working age population will increase by 240 million over the next 20 years. Indian economy has also another advantage of high savings rate of 37% of GDP which fuels most of its investment and low public debt at 20%. In addition to above mentioned advantages, India has a highly diversified and well regulated financial sector. It was in fact the result of its strong economic fundamentals that India could overcome the global financial crisis of 2008. Further India can boast of well regulated banking sector with good quality assets shown in their balance sheets. Last but not the least, India has good quality investment market with BSE the second oldest market (165 Years) operating in the world. These markets offer investment a low cost, highly efficient, modern and well governed environment to prosper from extraordinary economic growth. The Indian stock market has generated investment return of over 15% for the last 10 years and experts expect this return to increase as the decade progress.

LITERATURE REVIEW

Chowdhary Rupal, Jore Shubhangi & Sharma Shuchi found in their paper that there is some relationship between FII, Stock Market & Exchange Rate. The result shown in that paper were based on daily data from January 1998 to July 2008 indicating that there was bidirectional causality between FII & S&P Nifty as the co-efficient were statically significant. Mazumdar Tanushree examined two consequences i.e. liquidity (positives) and volatility (negative) in the past decade on the Indian stock market. The results showed that FII flow have enhanced liquidity of the Indian stock market. FII investments improve liquidity in the stock markets for two reasons; they invest a large quantum of funds in the stock market and FII are known to be active traders. Dey Subarna & Mishra Bishnupriya in their study examined the casual relationship between net FII investment & the Indian stock market represented by market capitalization of BSE & NSE. The study also inferred that whenever market capitalization was high, FIIs were more attracted for investing. They gave importance to the policy makers as the Indian stock market was susceptible to changing investment patterns of foreign portfolio investors. Gupta Ambuj have studied the role of FII in volatility of the market and stock prices of individual securities, he found a high degree of relationship between the factors.

OBJECTIVES OF THE STUDY

The following are the main objectives of this study:

- To examine the need for foreign capital.
- To study the scope of Foreign Institutional Investors in India.
- To analyze the impact of FIIs equity investment on industrial sector.
- To find the relationship between the FIIs investment and Indian stock market.
- To make a comparative study among companies of different sectors attracting FIIs.

SCOPE OF THE STUDY:

In order to give better picture of role of FIIs in Indian growth, the study should cover both the stock indices and its comparison with foreign institutional investments. But seeing the vastness of the topic, the scope of the present study has been kept limited to cover foreign investments in form of equity only. Further the time period is limited from January 2007 to December 2010 as it can give exact impact of FIIs on Indian economy in both the bullish and bearish trend.

RESEARCH METHODOLOGY

In the present study, we have tried to show FIIs as growth engine of Indian economy. For this purpose, we have taken date from various published sources from 2007-08 to 2009-10. In order to show the position of FIIs in different sectors, we have selected top two companies of top six sectors of Indian economy i.e. Real Estate, Automobile, Iron and Steel, Banking, IT and FMCG etc.

Table 1: Net FIIs Investment in Equity (2007-10)

MONTH	2007	2008	2009	2010
JAN	94.45	-17326.30	-3009.50	5902.40
FEB	6065	5419.90	-2690.50	2113.50
MARCH	1403.30	124.40	269	18833.60
APRIL	5431.80	979.00	7384.20	9764.50
MAY	4574.50	-4917.30	20606.90	-8629.90
JUNE	7939.60	-10577.70	3224.90	10244.60
JULY	18132.80	-1012.90	11625.30	17120.60
AUG	-7526.80	-2065.80	4028.70	11185.30
SEPT	18948.50	-7937.00	19939.50	29195.80
OCT	15577.60	-14248.60	8304.10	24770.80
NOV	-4597.40	-2820.30	5317.80	18519.90
DEC	4896.70	1330.90	10367.20	1476.10

Source : www.moneycontrol.com

Table 1shows the position of FIIs investment in equity from 2006-10. It is clear from the above table that during 2007, apart from August 2007, FII's showed keen interest in purchasing the equity in the Indian market. But so far as the month of August was concerned, FII's turned towards net selling in equity for profit booking and seeing the massive sell out of shares in global markets including India especially on August 16 & 17 when there was massive equity selling. Consequently the SENSEX broke down to even 4 to 5% of its previous levels. Moreover, the bears took command of the market and some brokers also started off-loading their positions anticipating a further fall and stop loss button was pressed by many investors. So far as the month of October was concerned, the impact of supportive level was pulling the FII's money in India. As a result positive impact in the net position was seen. Again a bearing trend could be noticed during November due to the fact that new norms about PNs were announced which ordered the winding up of PNs within next 18 months.

The analysis of the above table depicts a negative view of the FII's investment in India during 2008. The main reason could be tremendous selling at the beginning of the year. The next three months i.e. February, March & April showed a consistent pattern in the trading activities. But from the month of May to November, FII's again showed the exit mode from the stock market. This was due to the fact that impact of international recession had started affecting Indian markets also. Further the famous subprime crisis of USA e.g. the crash of Banks and investment firms like Lehman Brother had also started impacting global economy. Market analysts feel that the foreign fund managers were trying to play safe and therefore rushed towards risk aversion and taking off their money. Due to this reason a negative impact of FII's was reflected showing immense selling and taking back their money from the Indian stock market.

During the year 2009, FII's investment in equity showed an initial sell off in the first two months, may be the impact of 2008 was still continuing. This year market sentiments seemed to improve from March onwards as the foreign investors starting returning with their investments. India emerged out as one of the better performing markets since October crash and the growth potential was seen. The trend turned positive with the sign of revival of economies. The trend of FII's inflows witnessed during quarter from April to June continued further and FII's proved to be the prime investors in the month of September. The reasons for such huge investments by FII's in this month could be attributed to number of positive news about Indian economy.

During the year 2010, the same trend of revival of economic activity could be observed. As a result, FIIs went on to purchase more equity during this year with the exception of the month of May. This showed positive view of FIIs about Indian market. FII's started pumping funds into emerging markets like India because of its growth potential and stability of Indian Stock Market.

Table No: 2 FII Inflows in Equity (2006-10)

YEARS	NET PURCHASE/ SALES RS. (IN CRORES)	TREND %
2006	32254.08	100.00
2007	70940.05	226.978
2008	-530517.70	-169.743
2009	85367.2	264.494
2010	140497.2	436.949

Source: www.moneycontrol.com

It is evident from this table that apart from the year 2008, in all other years, there has been a positive trend in FII inflows in India. The year 2008, as we all know, was the year of worldwide recession. The value of the trend is higher during last two years of this study i.e. 2009 and 2010 because of the fact that Indian economy could recover well from the shocks of worldwide recession due to its strong fundamentals and rules and regulations.

Table 3: FII Investments in Debt (2006-10)

YEARS	NET PURCHASE/ SALES RS. (IN CRORES) DEBT	TREND (%)
2006	3629.18	100.00
2007	8356.13	230.248
2008	12340.40	147.68
2009	3458.40	28.025
2010	54442.80	1574.219

Source: www.moneycontrol.com

The analysis of the above table depicts the positive trend of FII's investment in debt market. The sharp rise in the FII inflows into the debt market came after a sharp rise in the interest rates over the past couple of years which attracted the foreign investors towards the Indian market. Besides that market observers believed that the huge inflow into the Indian equity market also led to FIIs parking a portion of their capital into the debt market as a hedge against any potential downslide in the stocks. The sharp rally in rupee against the US dollar also led to an increase in the FII interest in the debt market.

Table 4: Comparison between FII inflows & Industrial Growth Rate

YEARS	NET FII INFLOWS	INDUSTRIAL GROWTH RATE (%)
2006	32254.08	7.4
2007	70940.05	7.6
2008	-530517.70	9.8
2009	85367.2	6.3
2010	140497.2	5.8

Source: www.moneycontrol.com

The analysis of above table shows that there is a Low Degree of Correlation between FII inflows & Industrial Growth Rate. It means that during the period under study, with the increase of FII inflows, the industrial growth of India also rose up. Industrial growth plays a pivotal role in increasing the GDP. In the year 2008, in spite of major outflows, the industrial growth rate still increased. During the next two years, a fall in industrial growth can be observed. Thus it can be safely said that industrial growth rate has not been much influenced by the FII inflows.

Table 5: Relationship between FII Inflows & SENSEX

YEAR	SENSEX	FII INFLOWS
2006	13786	31254.08
2007	20826	70940.05
2008	9647	-53051.70
2009	17464	85367.20
2010	20509	140497.20

Table 5 shows the impact of FII's on SENSEX. In 2006 the foreign institutional investors (FII) inflows were a bit slow, but they once again proved that they were the drivers of the Indian equity market. Interestingly, the dependence of the Indian equity markets on the foreign investors was further proved by the fact that in the period between May 10, 2006 to June 14, 2006, when the SENSEX moved from a high of 12,612.38 to a low of 8,928.44.

In the year 2007 when FIIs were pumping money in stock market and were Net Buyers of Equity worth Rs. 70940.05 Crores; the SENSEX was moving upwards on the weekly basis. It took nearly two months for the SENSEX to move from the level of 15000 to 17000. But from 17000 to 20000 it moved in a span of few weeks i.e. from 26th September 2007 to 29th October 2007. As the Indian markets move from one peak to another this year, foreign institutional investors (FIIs) have pumped top dollar into stocks. Investments during 2007 by foreign funds were the most influential group of investors in the market. In September, FIIs injected \$2.7 billion into the markets, sending the benchmark indices to record peaks. The bulk of this amount came in after the US Fed cut interest rates on September 18 which ultimately led to increasing liquidity in global markets.

In January 2008 the SENSEX touched the new height of 21000. This rally of 1000 points of SENSEX infused Rs. 2403 Crores during a period of just 49 trading days. But in the later part of 2008 the SENSEX crashed affecting large number of investors. The major cause of this crash was attributed to the recession in the global economies, especially with the US dollar losing its strength to the Indian rupee. A large amount of equity in the form of shares was floated in the Indian economy as an impact of Foreign Institutional Investors (FII's) withdrawing their money from the Indian markets. This has disturbed the demand and supply ratio to a great extent resulting in easy availability of shares of well-performing companies, thus leading to a dip in the selling price of these shares.

However, in 2009 with the sign of revival of economies, the trend turned positive and overseas investors started betting big on the domestic bourses as the liquidity conditions started improving. In 2010 most of the stocks which have shown an increase in prices were driven by huge FII buying. India continued to be a favored destination for FIIs and would continue to be so because of its strong fundamentals. This could well be reflected in the FII inflows towards the country, which had already reached all-time highs. Thus it can be observed that there is a positive correlation between FII inflows and SENSEX.

SECTORAL STUDY OF FIIS

In order to find out impact of FIIs on Indian growth, we have selected six major sectors of Indian economy namely; Real Estate, Automobile, Iron and Steel, Banking, IT and FMCG.

Real Estate:

This is perhaps one of the most upcoming sectors of Indian economy. The reasons may be its huge population at 1.2 billion, GDP growth rate of about 6% p.a. (average) throughout this LPG era, ever increasing demand for housing, increased urbanization and permission of 100% FDI in construction and housing sector and roads and highways sector etc. Ansal, DLF, GMR, Unitech Ltd. and Parsavnath Developers etc. are major players of this sector. In the present study we have taken DLF and GMR companies for comparison.

Table 6: Percentage of FII shareholding in total shares in Real Estate Companies.

	DLF				GMR			
	2007-08	**2008-09**	**2009-10**	**2010-11**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
June	5.92	6.55	15.4	15.05	7.7	8.95	8.28	13.65
September	7.3	6.78	15.55	15.78	8.21	8.52	9.38	13.04
December	7.9	6.85	15.23	15.66	11.72	8.51	9.47	12.95
March	7.56	6.24	14.7	15.74	10.13	9.22	8.94	12.59
Av.	**7.17**	**6.60**	**15.22**	**15.55**	**9.44**	**8.8**	**9.01**	**13.05**

Sources: www.bseindi.com/corporate/shareholding pattern.

Table 6 shows the comparative figures of FII investment in these two companies. It is evident from this table that apart from the year 2008-09, when there was global recession, FII inflows have continuously increased throughout the study period. GMR outperformed DLF during the first two years of the study while the reverse is true for the last two years of the study.

Automobile Sector: In this sector, Maruti Suzuki, Hero Honda, Tata Motors, Ford india, M&M, Bajaj Auto are some of the major players. At present there are approx. over 17.5 million vehicle owners in the country. This figure includes both 2 wheeler and 4 wheeler owners. This sector exports about 2.33 million vehicles every year. The size of this industry assumes larger space due to the expansion of allied service industry. The scope of this sector is ever increasing with an large middle class, high young age people, increasing income levels and facility of easy credit etc. reasons. This sector contributes about 5% of Indian GDP. Besides foreign capital this sector has invited foreign technology also.

Table7: Percentage of FII shareholding in total shares in selected automobile companies

	Hero Honda				MAURTI SUZUKI			
	2007-08	2008-09	2009-10	2010-11	2007-08	2008-09	09-10	10-11
June	27.86	24.25	28.56	31.16	12.85	14.81	20.73	20.09
September	27.95	22.82	28.52	31.75	14.09	15.65	21.75	20.09
December	27.41	24.7	28.75	33.47	15.8	14.39	22.82	21
March	24.64	27.03	29.96	15.74	15.7	19.36	21.12	19.23
Av.	**26.94**	**24.70**	**28.94**	**28.03**	**14.61**	**16.05**	**21.60**	**20.10**

Sources: www.bseindi.com/corporate/shareholding pattern.

This table shows that apart from slight decline in FII inflows during 2008-09, both these companies have attracted more FII during the study period. Again the reasons may be the vastness of the size of Indian market and strong economic fundamentals had kept up the level of trust of FIIs in this sector even during the recession period also.

Iron and Steel Sector: This sector has been another promising sector of Indian economy. The major players of this sector are Essar Steel, Hindalco, Tata Steel, Jindal Steel Works and Lloyds Steel etc. The demand of iron and steel is not going to decline in the next few years due to increasing demand for automobile, housing and infrastructural development. Apart from these two reasons lower tariff levels, labour intensity, increased exports and worldwide mergers and takeovers done by Indian steel giants are the testimony to the fact that this sector is a destination for FII inflows. The table given below gives a detailed account of the quarterly FII inflows during the last four years. It is evident from the table that during the study period Hindalco has outperformed Tata Steel in FII inflows.

Table8: Percentage of FII shareholding in total shares in selected steel companies.

	Hindalco				Tata steel			
	2007-08	2008-09	2009-10	2010-11	2007-08	08-09	09-10	10-11
June	15.39	13.75	14.79	29.5	22.65	19.8	14.54	15.5
September	14.29	14.54	18.5	30.77	21.35	17.65	16.34	15.77
December	15.67	11.61	26.7	32.67	20.55	12.98	16.87	16
March	14.67	11.48	31.67	34.03	19.48	13.2	19.5	17.36
Av.	**15.00**	**12.84**	**22.91**	**31.74**	**21.00**	**15.90**	**16.81**	**16.15**

Sources: www.bseindi.com/corporate/shareholding pattern.

Banking Sector:

There are 20 nationalized, 27 private and 46 foreign banks operating in India. The entire banking sector is regulated by Reserve Bank of India, the central bank of the country. This sector contributes approx. 7.7% in Indian GDP and this sector has grown at a CAGR of 51% since 2001. There is 100% FDI permitted in this sector. With the opening up of the economy in 1991, this sector has played a pivotal role in the development of Indian economy and its growth rate. All the housing sector and automobile sector development is due to this sector only. Now this sector has also diversified into various other activities like wealth management, life and general insurance, mutual funds and investment banking etc. fields. With opening up of new branches in even remote areas, providing of facilities like credit and debit cards, ATMs, internet banking and mobile banking, retail financing etc. facilities and higher rates of interest, this sector is also attractive destination for FIIs. The table given below presents a comparative study of the largest public and private sector banks of India. It is evident from the table that ICICI bank has attracted more FII inflows than SBI, though the rate of inflows is not stable during the study period. The difference in FII inflows in ICICI in comparison to SBI may be due to the reasons like more innovative banking methods adopted by ICICI, better customer services, opening up of more foreign branches etc.

Table9: Percentage of FII shareholding in total shares in selected Banks.

	ICICI BANK				SBI			
	2007-08	2008-09	2009-10	2010-11	2007-08	08-09	09-10	10-11
June	45.82	38.85	36.18	37.7	11.9	12.67	8.99	11.47
September	41.04	36.44	35.26	39.27	11.99	12.04	9.87	13.99
December	39.97	36.6	36.23	39.23	12.35	10.42	11.37	13.36
March	40.3	35.47	37.02	38.62	12.82	7.97	10.11	11.8
Av.	**41.78**	**36.84**	**36.17**	**38.70**	**12.26**	**10.77**	**10.08**	**12.65**

Sources: www.bseindi.com/corporate/shareholding pattern.

IT Sector:

From last so many years, this sector has been one of the most promising sectors of the Indian economy. Infosys, Wipro, TCS, Tech Mahindera etc. companies are its major players. This sector is benefitted with its approach of providing 24*7 services attitude. Further Indian IT professionals are very good at spoken English. The cost of Indian workers is also low. At present this sector is contributing 5.1% of Indian GDP and generating 35% of total export revenue. This sector is also providing opportunities to more young professionals to build a good career. The table given below shows a comparative study of the two largest IT companies in attracting FII investments. The table makes it clear that of the two companies, FIIs have invested more funds into the equity shares of INFOSYS than WIPRO. Further it is also evident that these two companies have faced the global slowdown of 2008-09 quite well.

Table10: Percentage of FII shareholding in total shares in selected IT companies.

	INFOSYS				WIPRO			
	2007-08	**2008-09**	**2009-10**	**2010-11**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
June	31.82	33.57	35.66	35.84	5.26	7.52	8.45	6
September	32.78	32.54	36.05	35.78	5.19	6.21	6.62	5.28
December	33.25	32.99	36.52	36.6	6.04	5.81	7.12	5.43
March	33.36	34.86	36.36	36.12	5.24	5.91	7.23	5.38
Av.	**32.80**	**33.49**	**36.15**	**36.08**	**5.43**	**6.36**	**7.35**	**5.52**

Sources: www.bseindi.com/corporate/shareholding pattern.

FMCG:

This is one of the most flourishing sectors of Indian economy because of the large market size of our economy with nearly 1.20 billion people and ever growing middle class with increased purchasing power. The major players of this sector are Bajaj Hindustan, Colgate-Palmolive Ltd, Dabur India Ltd, HUL ltd, ITC Ltd etc. It is the closest companion of retail sector which leads to good job opportunities. Average growth rate of this sector is 13% p.a. There is great scope in untapped rural and urban areas where the markets can expand. Most of the top brands of the world are present in India. The government has also permitted 100% FDI in retail sector. The following table gives a comparison between top two FMCG companies of India. It is evident from the table that in both these companies, FII investment growth is more than 13% mark during all these years. But in HCL, the rate of growth of FII investment is more than that in ITC.

Table12: Percentage of FII shareholding in total shares in selected FMCG companies.

	ITC				HCL			
	2007-08	**2008-09**	**2009-10**	**2010-11**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
June	12.74	13.45	13.74	13.48	12.32	14.37	14.39	16.17
September	13.55	13.51	13.07	14.15	13.16	13.93	14.66	17.19
December	13.96	13.89	12.75	14.1	14.29	14.85	14.04	17.47
March	14.02	13.64	13.4	14.04	15.15	14.35	14.48	17.66
Av.	**13.56**	**13.62**	**13.24**	**13.94**	**13.73**	**14.37**	**14.39**	**17.12**

Sources: www.bseindi.com/corporate/shareholding pattern.

FINDINGS

The following are the major findings of this study:

- Investment made by FIIs has experienced drastic decline in the year 2008. This is mainly because of the global economic meltdown.
- In spite of the global crisis the number of registered FII's has increased.
- In 2008 the SENSEX crash swept with it a large number of investors. The major cause of this crash was attributed to the recession in the global economies, especially with the US dollar losing its strength to the Indian rupee.

- In 2009 with the sign of revival of economies, the trend turned positive and overseas investors started betting big on the domestic bourses as the liquidity conditions started improving.
- The sharp rise in the FII inflows into the debt market comes after a sharp rise in the interest rates over the past couple of years, which has driven the foreign investors towards the Indian market.
- A positive correlation between SENSEX movement and net FII inflows has been seen. It can be safely said that as the FIIs inflows increases SENSEX also increases.
- FII inflows can contribute to the growth rate of host economy by augmenting the capital stock as well as infusion of new technology.
- In the major sectors of Indian economy, it is visible that in IT and FMCG sector, there is no decline in FII inflows even during global recession of 2008. But in all the other sectors, the impact of recession is visible. However, in these sectors also ICICI bank and Maurti Suzuki, there is no down fall in FII inflow even during recession period. This shows the power of Indian buoyant middle class.

FUTURE PROSPECTS OF FOREIGN INSTITUTIONAL INVESTMENTS

The future prospects of FIIs in India are very good. The following can be some points reflecting the future prospects of FII inflows in India:

- Sustaining the growth momentum and achieving an annual average growth of 9-10 % in the next five years.
- Simplifying procedures and relaxing entry barriers for business activities and providing investor friendly laws and taxation system.
- Boosting agricultural growth through diversification and development of agro processing industry.
- Developing world-class infrastructure for sustaining growth in all the sectors of the economy. It should develop infrastructure with what Finance Minister P Chidambaram (International Research Journal of Finance and Economics - Issue 5 (2006) 171) of India called "ruthless efficiency" and reduce bureaucracy by streamlining government procedures to make them more transparent and effective.
- Allowing foreign investment in more areas.
- Effecting fiscal consolidation and eliminating the revenue deficit through revenue enhancement and expenditure management.

- Reduction in budget deficit through proper pricing mechanisms and better targeting of subsidies.
- Providing universal education and health care for its huge population is must for India. India must maximize the benefits of its youthful demographics and turn itself into the knowledge hub of the world through the application of information and communications technology (ICT) in all aspects of Indian life although, the government is committed to furthering economic reforms and developing basic infrastructure to improve lives of the rural poor and boost economic performance.
- Reduction in controls on foreign trade and investment in some areas by GOI and indications of more liberalization in civil aviation, telecom and insurance sector in the future.

CONCLUSION

From all the above discussions and data analysis, we conclude that FIIs have major impact on Indian stock market. Particularly, the decline on October 17, 2007, in which just a speculation about government's plan to control P-Notes had caused the biggest fall in Indian stock market, even market had to be closed for one hour without trade. The impact is that even the domestic players and MFs also follow a close look on FIIs. Therefore, if FIIs are confident in Indian markets, there is a general perception that market is on a song.

But there is a note of caution too. The source of investment behind these FIIs should be crystal clear. Otherwise this can cause a negative impact on stock market as was the cause of fall on 17th October 2007. Further money launders and even terrorists can use this facility to pump money to Indian market and their sudden withdrawal can cause volatility in markets. Even during the current year also, the major fall in SENSEX has been caused amidst selling of FIIs due to reasons like increased net selling by foreign funds during January or fear of interest Rate hike by RBI or depreciation in the value of Rupee in comparison to dollars.

From above discussion it is clear that major falls in stock market were after effects of withdrawal of money by FIIs. So there is a direct relation between the FII's money flow and the movement of SENSEX. The biggest fall in stock markets occurred in 2007 and 2008. This means that the volatility of market was more because during this period there was an increase in registration of FIIs and the investments reached almost Rs. 283468.40 Crores by the end of 2007. From all this analysis, we can safely say prime facie that the FIIs influence market.

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