

Impact of Foreign Institutional Investment (FII) on Indian Stock Market: An Empirical Study

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Abstract: In September 1992 India opened its stock markets to foreign investors and since then; significant amount of portfolio investment from foreigners in the form of Foreign Institutional Investor's (FII) investment in equities is upcoming in India. For foreigners, this has become one of the main channels of international portfolio investment in India. The FII's need to register with SEBI and obtain approval from the Reserve Bank of India under the Foreign Exchange Regulation Act (FERA) for buying & selling of securities, open foreign currency and rupee bank accounts, and to remit and repatriate funds. The present study attempts to analyse the rising trends of the Foreign Institutional Investment (FII) in India. An attempt has been made to study the relationship between the FII and the NIFTY 50 index returns. The study can be categorized under the descriptive research design. The variables in the study are the closing amounts of the FII and the stock prices ranging from the year 2013 – 2018. The growing trends of FII in the debt market and equity market have been analysed using the graphs. Correlation and regression analysis have been used as statistical tools. MS Excel has been used to study the relationship between the two variables and the impact of FII on the stock returns. The study has been conducted using the monthly closing prices and is confined to only one index NIFTY 50. The study with reference to the daily closing prices or another index may provide different sets of results. Also the regression only indicates the dependent and independent relationship and does not guarantee the causation effect. Based on the findings, various investors can learn the behaviour of the relationship and impact of FII with the index returns which can further be used to earn above average returns. Also the significance relation between the two suggests that FII is vital to the growth and development of the stock market. This may bring attention of the SEBI to undertake measures so that the interest of foreign investors can be protected.

Keywords: FII, Correlation, Regression Analysis, Nifty 50.