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A Study on Factors Determining Foreign Institutional Investments in Mumbai

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Abstract: *Emerging nation like India will actually want to create with satisfactory progression of unfamiliar capital. Unfamiliar Institutional Financial backers help to enhance the homegrown reserve funds and meet the capital necessities. FII streams are fluctuating in nature and India is among the best entertainers in the financial exchange. India turning into an appealing objective for unfamiliar financial backers can be ascribed to many variables. This paper is a work to recognize the variables deciding the development of FIIs in India by taking month to month information for a time of fifteen years. Granger causality test was applied to find the circumstances and logical results of FII speculations with the macroeconomic factors and it was found that CPI and cash supply causes an impact in FII and FIIs are affecting an adjustment of the conversion standard and IIP*

Keywords: FIIs, IIP, expansion, MIBOR, cash supply

I. INTRODUCTION

In India, the significant change in the capital streams, especially in portfolio streams, occurred because of the changes in exchange and modern arrangement. FIIs are elements that are consolidated external India however put resources into India. FIIs are permitted to put generally in optional business sectors and dated Government Protections. Permitting FIIs diminished the reliance on outer business acquiring. Private unfamiliar capital represented 70.29% of the absolute net capital record in 2001-02 against 21% in 1985-86. There has been a steady upsurge in FIIs beginning around 2002-03. The inflow of FII speculations has assisted the financial exchange with rising colossally. The arrangements of progression and changes have driven to a great full scale monetary climate. According to the reports, net FII speculations added to almost 28% of the country's unfamiliar trade saves. The advancement of different arrangement changes on FIIs attempted by the Indian Government made the presence of FIIs felt in the financial exchange of India. FIIs are by and large keen on putting resources into capital market and this gives liquidity to capital business sectors and raises assumptions for higher exchanging volume. Expansion in the progression of capital would build the stock costs. the expense of capital for an organization would diminish with the higher progression of interests in the essential business sectors by FIIs. This would likewise assist a company with having more exorbitant cost income proportion. FII inflows are an option for the homegrown reserve funds and accommodates the development and execution of the economy.

II. LITERATURE REVIEW

Reetika Garg and Pami Dua (2014), concentrated on the macroeconomic determinants of portfolio streams to India and observed that the FII speculations are drawn in by the lower swapping scale unpredictability and a superior chance for risk expansion. Aside from this FIIs are too impacted by the presentation of homegrown organizations, higher loan fee and the development of the host country. The review was led on BSE and the ADR/GDR streams were additionally thought of. Results recommend that India might have the option to draw in FPI streams by keeping up major areas of strength for with development, lower conversion standard unpredictability and making homegrown monetary market execution, less helpless against worldwide shocks and this can be accomplished by expanding the financial backer base in monetary business sectors. Sonia Chawla and Priyanka Sharma (2014) introduced a survey of concentrates on FIIs. However different examinations have shown that FDI speculation is high in assistance area, development of FDI and FPI in India is impacted by quite a few people macroeconomic factors like Equilibrium of exchange, cash supply which might be M1 or M2 or M3, expansion addressed in India by CPI or WPI, monetary pointers like Gross domestic

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product or IIP, unfamiliar conversion scale, and so forth., this study has led a survey of concentrates in order to lay out a connection between macroeconomic factors and the progression of FIIs in India Sunil Kumar (2014) dissected the patterns of Unfamiliar Institutional Speculations during and past financial emergencies and observed that there is a change of FIIs which is impacted by unfamiliar trade holds and market capitalisation. The effect of market capitalisation on FII was seen as huge over the long haul. VanitaTripathi and ShilpaMaggo (2014), examined the determinants of unfamiliar institutional interest in the Indian obligation market utilizing multivariate relapse examination and element investigation to recognize the significant determinants of FIIs in the obligation market. It was found that IIP and trade rates were the significant determinants of FII streams to obligation market in India.

Krishnan Dandapani and Edward R.Lawrence (2013) concentrated on the impact of FII on the securities exchange in India and found that FII meaningfully affects the profits of the Indian stock. They likewise concentrated on the elements affecting the FII interest in India.

Vinod K.Bhatnagar, (2011) dissected the patterns of month to month inflows of FIIs interest in India during 2004-2010, and saw that as, FIIs venture still up in the air by the financial exchange returns and chance in monetary variables of India. Higher Sensex records and highPrice-earning relationships are the nation level elements drawing in FIIs in India and there is a development pattern in FIIs interest in India.

Mishra. P.K (2010) endeavored to examine the elements of connection between FIIs speculation streams and the monetary development in India over the period 1993-2009. It was found that the development of genuine Gross domestic product might advance FIIs interest in India. The measurable outcomes and understanding can be delimited by the way that FIIs stream can likewise impact the financial development of the country.

Ashish Garg and Bodla. B.S (2009) analyzed the determinants of FIIs in Indian financial exchange and found that the Indian value market return is the central player of the net FII inflows into India.

Nidhi Dhamija (2008) made and exploratory examination of the speculation of FIIs designs across firms to analyze the job of different variables connecting with individual firm level qualities and large scale level circumstances affecting FII ventures. It was seen that as the administrative climate of the host country assumes a significant part influencing the FIIs.

Tripati Rao and Rudra Sen Sarma (2007) concentrated on the unique connection between financial strategy, securities exchange and FII inflows and found that a decent money related arrangement settling the unfamiliar trade market to draw in capital streams, along with financial exchange returns decide FII inflows.

Indrani Chakraborty (2006), analyzed the capital inflows during post advancement period in India by examining the quarterly information from 1993 to 2003. The econometric outcomes demonstrated that a blunder remedy system was working between net inflows of capital and the genuine conversion standard in India. A co reconciliation relationship existed between net inflows of capital, genuine swapping scale and loan fee differential and the mediation of RBI in the forex market assisted with forestalling the unpredictability of the genuine conversion standard despite the instability in the capital inflows.

Pushpa Trivedi and Abilash Nair (2006) concentrated on the determinants of FIIs speculations inflows to India, their outcomes demonstrate that the profits and unpredictability in the Indian Business sectors arise as the primary determinants of FIIs inflow. Slam Mohan T.T (2005) had assessed FIIs as far as unpredictability and found that the genuine issue brought about by the variety in FIIs inflows was not because of financial exchange unpredictability but rather the trouble presented in administration of cash supply and conversion standard.

Kulwant Rai and N.R.Bhanu Murthy (2004) concentrated on the job of chance, return, and expansion as determinants of FIIs. They tracked down that settling the financial exchange unpredictability and limiting the normal gamble in future would assist with drawing in more FIIs which will emphatically affect the genuine economy.

III. NEED FOR THE STUDY

Concentrating on the effect of central point impacting FII streams will be more viable in aiding the leaders, strategy producers and financial backers. It will assist with understanding the market influences and to break down a more extensive range which is past the simple interest and supply levels. This will likewise assist with understanding the large scale monetary elements that straightforwardly or in a roundabout way influence the appreciation/deterioration of the market and thusly could affect the venture choices. Large scale factors like expansion, month to month returns in

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the financial exchange, unpredictability in the securities exchange. Scarcely any variables influence the unpredictability called as the easygoing elements. They are macroeconomic effects, worldwide business sectors, job of institutional financial backers and industry execution.

OBJECTIVES OF THE STUDY

- To concentrate on the development of unfamiliar institutional interests in India.
- To distinguish the elements impacting the FII interests in India.

METHODOLOGY

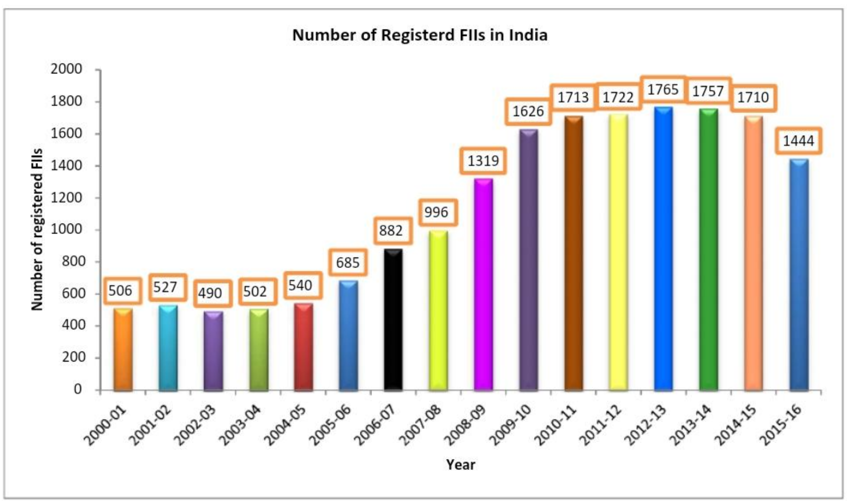
The expected information for the review has been gathered from optional sources from the authority sites of BSE, SEBI and RBI. Since the information is time series, tests for checking the stationarity was directed. To figure out the slack lengths at which the information could be investigated, Auto Backward Circulated Slacks technique was followed and the circumstances and logical results of the determinants of FII was figured out utilizing Granger causality test.

PERIOD OF THE STUDY

The review was directed for a time of a long time from 2001-2016 furthermore, month to month information was utilized for the review. To find the effect of worldwide monetary emergency, the period is separated into two as April 2001 to August 2008 and November 2008 to Walk 2016. The long stretch of September and October 2008 were taken as the emergency period and not considered for the review and this was chosen subsequent to fitting a pattern to recognize the emergency time frame.

GROWTH OF FIIs

CHART 1: NUMBER OF REGISTERED FIIs



Source: SEBI

The above outline obviously portrays the expansion in the quantity of FIIs enrolled with SEBI to exchange India. The number enlisted contacted a pinnacle of 1765 in the year 2012-13 however has gradually declined to 1444 in the year 2015-16.

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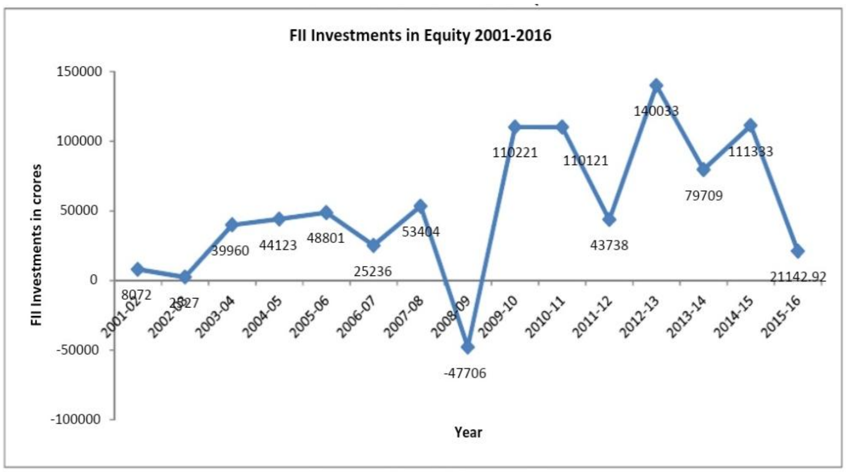
CHART: 2 FIIs INFLOWS INTO INDIA IN EQUITY



Source: SEBI

The above outline shows the development in FII ventures from the year 2001-02 to the year 2015-16.

- From Rs. 8072 crores in 2001-02, there was a steady increment up to 2007-08 and the speculations have contacted Rs. 53404 crores.
- Because of the worldwide monetary emergency in the year 2008-09, there was an unexpected fall in the net FII speculations where the surges were more than the inflows [Rs. 47706].
- The year 2009-10 has seen a sharp ascent in the inflows and it has contacted Rs. 110121 and it can be related to the trust in the Indian Securities exchange by the FIIs.
- FII ventures contacted its pinnacle of Rs. 140033 crores in the year 2012-13.
- Constantly 2015-16, there is a decrease in the streams and is at Rs. 21143 crores.

DETERMINANTS OF FOREIGN INSTITUTIONAL INVESTMENT FLOWS

There is no agreement about the variables still up in the air as impacting the progression of FIIs. This is on the grounds that, the elements leaning toward or being horrible for drawing in FIIs vary from one country to another including the miniature and large scale financial variables winning in that country. Comprehensively, coming up next are considered as the central point affecting FII speculations in the wake of surveying past examinations in this angle.

1. **INFLATION**

INFLATION has a reverse connection with the unfamiliar speculation inflow, as the financial backer will continuously keep into thought, the buying force of the assets contributed and the expansion increment. At the point when there is an expansion in expansion rate, it prompts the decrease in the buying force of the financial backer. Hence, the financial backer would like to pull out his assets contributed. Additionally, assuming the expansion in unfamiliar nation expands, the buying force of assets put resources into outside countrywould decline. This would make the financial backer to pull out and put resources into the region where expansion is lesser.

2. **INDEX OF INDUSTRIAL PRODUCTION (IIP)**

IIP is additionally as significant reflex on the development of an economy. IIP mirrors the development of various areas of an economy like assembling, mining, quarrying, power, and so on. IIP in India demonstrates the transient changes in the creation volume of specific modern items which are covered together for a specific period in connection with the base time frame taken for computation. Since FIIs are propelled by the development of the organizations/areas in which they are effective financial planning, IIP as an element deciding FII streams into India is legitimate.

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3. **INTEREST RATES IN INDIA AND OTHER COUNTRIES [MIBOR]**

At the point when the loan fees in India are high, it expands the expense of capital for an organization and thusly will influence the productivity of the organization. Diminishing corporate productivity, thus, will decrease the market worth of an organization's value share. This will be less alluring for homegrown as well as unfamiliar financial backers. In such a circumstance, FIIs will move their concentration from value markets to obligation markets since they will get more significant yields in the obligation market. Subsequently, increasing loan fees in an economy will influence FII speculation streams in value and value related instruments.

4. **FOREIGN EXCHANGE RATE**

Foreign Exchange Rate winning between the money of host country and the cash the financial backer's homegrown cash changes in view of the interest and supply of monetary forms against one another. The swapping scale influences the viable or anticipated pace of profit from speculations. At the point when the worth of home money is more grounded, the FII speculations will increment. This is on the grounds that; the level of profits of FIIs will increment with the solid worth of cash and its appreciation. All in all, in the event that the cash worth of the host nation is more fragile or deteriorates, this will give a superior appreciation in the worth of FII ventures.

5. **MONEY SUPPLY**

In an economy, how much cash available for use at a given mark of time is called as cash supply. It incorporates cash, coins, balance in bank account, transient ventures and so forth., held by people and business houses. The expansion in cash supply will assist with diminishing the financing costs and when the cash supply decreases, there will be a decrease in the development of an economy. M3 is a more extensive idea which incorporates the investment funds and time stores held by banks.

6. **IMPACT COST**

Influence cost is generally called as the exchange cost which would be caused by a purchaser or vender of the stock at the hour of executing the agreement and it is a decent measure for really looking at the liquidity of a market.

7. **GOVERNMENT POLICIES**

Venture streams of FIIs likewise to a great extent rely on the Public authority Strategies of a country in which the speculation is to be finished. For Example, when the Indian Government reported capital increases expense and least substitute duty for FII's that conveyed an extremely regrettable message and FII's begun taking out their speculations prompting unpredictability in the securities exchange. Since the Public authority strategies can't be estimated mathematically, it isn't viewed as in this review.

TABLE 1: STATIONARITY TEST- AUGMENTED DICKEY FULLER TEST RESULTS FOR SELECTED VARIABLES

Variable	Form	t-statistic	Probability
FII RATIO	Original Form	-9.215674	0.0000
MIBOR [Mumbai Inter Bank Offered rate]	Original Form	-2.896766	0.0477
	First Differenced	-51.74174	0.0001
FOREX	Original Form	-0.146044	0.9414
	First Differenced	-10.95268	0.0000
CONSUMER PRICE INDEX[CPI]	Original Form	-1.683589	0.4379
	First Differenced	-13.21869	0.0000
INDEX OF INDUSTRIAL PRODUCTION [IIP]	Original Form	-2.341777	0.1601
	First Differenced	-18.56862	0.0000
MONEY SUPPLY [M_3]	Original Form	-0.937551	0.9483
	First Differenced	-1.961706	0.6414
	Second Differenced	-12.07298	0.0000
IMPACT COST	Original Form	-5.535268	0.0000

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The above table presents the consequences of Unit Root Test directed on the FII proportion and different factors like MIBOR, FOREX, CPI, IIP, Cash Supply[M3] and Effect Cost (cost of exchange). Unit Root Test has been led by utilizing Expanded Dickey Fuller (ADF) Test. The invalid speculation of the test is that the variable isn't fixed. In the event that the factors are not fixed at their unique structure or level structure, then, at that point, the test must be directed in the first differenced level or the second differenced level till the variable becomes fixed.

Results

FII proportion is fixed at the first form[P<0.01]

MIBOR is fixed at the first differenced structure.

FOREX is fixed at the first differenced structure.

CPI is fixed at the first differenced structure.

IIP is fixed at the first differenced structure.

Cash Supply[M3] is fixed at the second differenced structure

7.Impact expense is fixed at level structure.

As the factors considered for the review are becoming fixed at various orders, Auto Backward Dispersed Slack Model [ARDL] must be applied. This model is utilized to analyze on the off chance that there exists any connection between the factors over the long haul.

TABLE 2: RESULTS OF ARDL MODEL

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
FII RATIO(-1)	0.166511	0.071326	2.334498	0.0208
FII RATIO(-2)	0.046201	0.071843	0.643082	0.5211
FII RATIO(-3)	0.10563	0.07386	1.430137	0.1546
FII RATIO(-4)	0.133086	0.067794	1.963103	0.0514
MIBOR	0.000271	0.008681	0.031193	0.9752
FOREX	-4.08718	0.66233	-6.17091	0
FOREX(-1)	3.991583	0.649841	6.142395	0
CPI UNIFORM BASE	0.083632	0.044424	1.882609	0.0616
IIP UNIFORM BASE	0.333544	0.157824	2.113389	0.0361
IIP UNIFORM BASE(-1)	-0.36616	0.160444	-2.2822	0.0238
LNM3	-0.0625	0.069726	-0.89629	0.3714
IMPACT COST	-0.14351	0.18847	-0.76142	0.4475
IMPACT COST(-1)	-0.21907	0.185652	-1.18001	0.2397
IMPACT COST(-2)	-0.35209	0.184025	-1.9133	0.0575
IMPACT COST(-3)	0.346688	0.186383	1.860083	0.0647
CRISS DUMMY	0.109333	0.063467	1.722675	0.0869
C	1.453795	0.722144	2.013164	0.0458
R-squared				0.437510
Adjusted R squared				0.381261
S.E. of regression				0.158966
Log likelihood				83.29834
F statistic				7.778093
Prob(F statistic)				0.000000

The consequences of ARDL model uncover that one month slacked FII proportion has critical positive on the ongoing month upsides of similar factors. While, the second, third and the fourth months slacked FII proportion however has a positive impact, it isn't huge genuinely.

MIBOR doesn't altogether affect the FII proportion.

3.Current month FOREX has huge adverse consequence while the one month slacked FOREX has critical positive effect.

CPI decently affects the FII inflows, yet its effect is huge at 10 % level of importance.

Current month IIP has huge positive effect while one month slacked IIP has critical adverse consequence.

6.Money inventory fundamentally affects FII streams.

7. Influence cost likewise fundamentally affects the progression of FIIs.

8. 'R' squared esteem signifies that the adjustment of FII streams can be ascribed to the above determinants and it very well may be anticipated at 43.75%.

Analyzing the causal connection between FII proportion and different factors by applying Granger Causality Test.

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TABLE 3: ESTIMATION OF DIRECTION IN DIFFERENT LAG LENGTHS BETWEEN FII RATIO AND EXCHANGE RATE

Null Hypothesis	Lag Length	N	F statistic	Prob.
FOREX does not Granger Cause FII RATIO	1	180	0.02542	0.8735
FII RATIO does not Granger Cause FOREX			8.13272	0.0049
FOREX does not Granger Cause FII RATIO	2	179	0.63132	0.5331
FII RATIO does not Granger Cause FOREX			2.75196	0.0666
FOREX does not Granger Cause FII RATIO		178	0.19539	0.8994
FII RATIO does not Granger Cause FOREX	3		1.93930	0.1251

Result:

Slack 1 [5% Level Of Significance]

At 5% degree of importance, there is uni-directional causality between the FII proportion and unfamiliar conversion scale, where the FII proportion is the reason for the swapping scale deterioration or appreciation yet the conversion scale doesn't cause the increment or lessening in the progressions of FII.

Slack 2 and Slack 3 [5% Level Of Significance]

At 5%, Level Of Importance in the second and the third slack for example in the second and the third month, there is no causation between the FII proportion and the swapping scale. Both the factors cause no impact on one another commonly.

TABLE 4: ESTIMATION OF DIRECTION IN DIFFERENT LAG LENGTHS BETWEEN FII RATIO AND CONSUMER PRICE INDEX

Null Hypothesis	Lag Length	N	F-statistic	Prob.
CPI uniform base does not Granger Cause FII RATIO	1	180	10.2255	0.0016
FII RATIO does not Granger Cause CPI uniform base			0.34800	0.5560
CPI uniform base does not Granger Cause FII RATIO	2	179	4.60629	0.0112
FII RATIO does not Granger Cause CPI uniform base			0.41456	0.6613
CPI uniform base does not Granger Cause FII RATIO		178	2.11544	0.1001
FII RATIO does not Granger Cause CPI uniform base	3		1.74574	0.1595

Result:

Slack 1 [5% Level Of Significance]

At 5% degree of importance, there is uni-directional causality between the FII proportion and unfamiliar conversion scale, where the FII proportion is the reason for the swapping scale deterioration or appreciation yet the conversion scale doesn't cause the increment or lessening in the progressions of FII.

Slack 2 and Slack 3 [5% Level Of Significance]

At 5%, Level Of Importance in the second and the third slack for example in the second and the third month, there is no causation between the FII proportion and the swapping scale. Both the factors cause no impact on one another commonly.

TABLE 5: ESTIMATION OF DIRECTION IN DIFFERENT LAG LENGTHS BETWEEN FII RATIO AND INDEX OF INDUSTRIAL PRODUCTION:

Null Hypothesis	Lag Length	N	F-statistic	Prob.
IIP uniform base does not Granger Cause FII RATIO	1	180	0.77998	0.3783
FII RATIO does not Granger Cause IIP uniform base			0.00309	0.9558
IIP uniform base does not Granger Cause FII RATIO	2	179	1.48759	0.2288
FII RATIO does not Granger Cause IIP uniform base			2.87865	0.0589
IIP uniform base does not Granger Cause FII RATIO	3	178	0.56582	0.6383
FII RATIO does not Granger Cause IIP uniform base			4.10727	0.0076

Result:

Slack 1 [5% Level Of Significance]

There is no causation between FII proportion and File of Modern Creation in the main slack as the 'p' esteem is more than 0.05 at 5%.

Slack 2 [5% Level Of Significance]

At 5%, there is no causation between FII proportion and IIP in the subsequent month.

Slack 3 [5% Level Of Significance]

FII ventures are Granger causing the IIP in the third month, however there is no impact brought about by IIP on the FII streams at 5%. It is found that FII speculations cause the adjustment of the List of Modern Creation in the second and the third months of their interests in India.

TABLE 6: ESTIMATION OF DIRECTION IN DIFFERENT LAG LENGTHS BETWEEN FII RATIO AND MONEY SUPPLY [M3]

Null Hypothesis	Lag Length	N	F-statistic	Prob.
M3 does not Granger Cause FII RATIO	1	180	5.03930	0.0260
FII RATIO does not Granger Cause M3			0.03991	0.8419
M3 does not Granger Cause FII RATIO	2	179	2.92745	0.0562
FII RATIO does not Granger Cause M3			0.22159	0.8015
M3 does not Granger Cause FII RATIO	3	178	1.57470	0.1973
FII RATIO does not Granger Cause M3			0.38277	0.7656

Result:

Slack 1 [5% Level Of Significance]

In the principal slack, Cash supply is causing an impact on the FII speculations as there is uni-directional causality between the two factors. Then again, FII speculations are not causing any effect on the cash supply in India in the main month at 5%.

Slack 2 [5% Level Of Significance]

Both the factors are not causing any impact on one another in the second month at 5%.

Slack 3 [5% Level Of Significance]

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In the third slack, there is definitely no causation between the two factors. Neither FII ventures nor the cash supply are impacted by one another at 5. It is found that a decent cash supply position is causing an effect on the progression of FIIs in the primary slack at 5% Degree of Importance.

TABLE 7: ESTIMATION OF DIRECTION IN DIFFERENT LAG LENGTHS BETWEEN FII RATIO AND IMPACT COST

Null Hypothesis	Lag Length	N	F-statistic	Prob.
IMPACT COST does not Granger Cause FII RATIO	1	180	0.71358	0.3994
FII RATIO does not Granger Cause IMPACT COST			3.24232	0.0735
IMPACT COST does not Granger Cause FII RATIO	2	179	0.75238	0.4728
FII RATIO does not Granger Cause IMPACT COST			2.14253	0.1204
IMPACT COST does not Granger Cause FII RATIO		178	2.21624	0.0880
FII RATIO does not Granger Cause IMPACT COST	3		2.22314	0.0873

Result:

Slack 1, 2 and 3 [5% Level of Significance] In every one of the three slacks, at 5%, there is no causation between the FII proportion and the effect cost in both the bearings.

It is found that the effect cost isn't meaningfully affecting the progression of unfamiliar speculations as well as the other way around in the principal month. This situation changes gradually and by the third month, both the factors are impacted by one another.

IV. CONCLUSION

The FII inflows into a nation rely on different variables and there are sure factors which are particularly persuasive. In this review, it was tracked down that there WA unidirectional causation from FII speculations towards the conversion scale and IIP in India. Likewise it was observed that there was a unidirectional causation from cash supply and CPI towards the FII inflows and there was no causation between influence cost and MIBOR towards the FII ventures.

LIMITATION OF THE STUDY

The elements impacting the FII ventures are exceptionally wide, however just the full scale financial factors are considered for the review.

SCOPE FOR FURTHER STUDY

A review can be directed considering miniature monetary factors likewise like the cost profit proportion, returns and unpredictability of the organizations comprising the record.

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