AN EMPIRICAL STUDY OF FOREIGN INSTITUTIONAL INVESTMENT AS FUEL OF INDIA'S GROWTH

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Abstract

Despite a plethora of lucrative investment opportunities, Institutional Investors are turning to India as a preferred destination for FII's as it has developed a strong and professionally competent technical marketing and business empower in live stocks , production , information & technology following China and the UK. Even though many developing countries are giving better return, but they still prefer India, because of the sustained long-term growth in the Indian economy and because of the inherent strength of the fundamentals on which the economy operates. The growing Indian market had attracted the foreign investors, which are called Foreign Institutional Investors (FII) to Indian equity market. This study aims to explain the impact and extent of foreign institutional investors in Indian stock market and examining whether market movement can be explained by these investors.

Keywords: Foreign Institutional Investment, Investors, Reforms, Financial markets

Introduction

Foreign Institutional Investor" means an institution established or incorporated outside India, which proposes to make investment in India in securities. (Regulation 2(f) of the FII Regulations). Foreign investment refers to investments made by the residents of a country in the financial assets and production processes of another country. The effect of foreign investment, however, varies from country to country. It can affect the factor productivity of the recipient country and can also affect the balance of payments.

Foreign investment provides a channel through which countries can gain access to foreign capital. Foreign direct investment involves in direct production activities and is also of a medium- to long-term nature. But foreign institutional investment is a short-term investment, mostly in the financial markets.

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FII, given its short-term nature, can have bidirectional causation with the returns of other domestic financial markets such as money markets, stock markets, and foreign exchange markets.

Institutional investors include "Overseas pension funds, mutual funds, investment trust, asset Management Company, Nominee Company, bank, institutional portfolio manager, university funds, endowments, foundations, charitable trusts, charitable societies etc." Hence, understanding the determinants of FII is very important for any emerging economy as FII exerts a larger impact on the domestic financial markets in the short run and a real impact in the long run. India, being a capital scarce country has taken many measures to attract foreign investment since the beginning of reforms in 1991.They can invest their own funds as well as invest on behalf of their overseas clients registered as such with SEBI. These client accounts that the FII manages are known as 'sub-accounts' are said to be one of the major contributors to the on-going stock market rally.

Objectives of Study

1. To study the contribution of FIIs to the foreign exchange inflow as the funds from multilateral finance institutions and FDI (Foreign direct investment).
2. To study the relationship between lowering cost of capital and access to cheap global credit.
3. To study how FIIs supplements domestic savings and investments and leads to higher asset prices in the Indian market.
4. To study how it led to considerable amount of reforms in capital market and financial sector in India.

History of FII's in Indian Stock Market

India opened its stock market to foreign investors in September 1992, and in 1993, received portfolio investment from foreigners in the form of foreign institutional investment in equities. This has become one of the main channels of FII in India for foreigners. Initially, there were terms and conditions which restricted many FIIs to invest in India. But in the course of time, to attract more investors, SEBI has simplified many terms such as:

1. The ceiling for overall investment of FII was increased 24% of the paid-up capital of Indian company.

2. Allowed foreign individuals and hedge funds to directly register as FII.
3. Investment in government securities was increased to US$5 billion.
4. Simplified registration norms.

This has become one of the main channels of international portfolio investment in India for foreigners. To, trade in Indian equity markets, foreign corporations need to register with the SEBI as Foreign Institutional Investors.Stock markets refer to a marketplace where investors can buy and sell stocks. The price at which each buying and selling transaction takes place is determined by the market forces (i.e. demand and supply for a stock. Let us take an example for a better understanding of how market forces determine stock prices. ABC Co. Ltd. enjoys high investor confidence and there is an anticipation of an upward movement in its stock price. More and more people would want to buy this stock (i.e. high demand) and very few people will want to sell this stock at current market price (i.e. less supply). Therefore, buyers will have to bid a higher price for this stock to match the ask price from the seller which will increase the stock price of ABC Co. Ltd. On the contrary, if there are more sellers than buyers (i.e. high supply and low demand) for the stock of ABC Co. Ltd. in the market, its price will fall.

In earlier times, buyers and sellers used to assemble at stock exchanges to make a transaction but now with the dawn of IT, most of the operations are done electronically and the stock markets have become almost paperless.

One of the oldest stock markets in Asia, the Indian Stock Markets has 200 years old history of 18th Century East India Company was the dominant institution and by the end of the century, business in its loan securities gained full momentum.

1830's Business on corporate stocks and shares in Bank and Cotton presses started in Bombay. Trading list by the end of 1839 got broader.

1840’s Recognition from banks and merchants to about half a dozen brokers.

1850’s Rapid development of commercial enterprise saw brokerage business attracting more people into the business.

1860’s the number of brokers increased to 60.

1860-61 The American Civil War broke out which caused a stoppage of cotton supply from United States of America, marking the beginning of the "Share Mania". 1862-63 the number of brokers increased to about 200 to 250.

1865 A disastrous slump began at the end of the American Civil War (as an example, Bank of Bombay Share which had touched Rs. 2850 could only be sold at Rs. 87).

Dissimilarity between Foreign Direct Investment and Foreign Institutional Investment

India's economy is characterized by wage rates that are significantly lower than those in most developed countries. These two traits combine to make India a natural destination for foreign direct investment (FDI) and foreign institutional investment (FII). Until recently, however, India has attracted only a small share of global foreign direct investment (FDI) and foreign institutional investment (FII), primarily due to government restrictions on foreign involvement in the economy.

But beginning in 1991 and accelerating rapidly since 2000, India has liberalized its investment regulations and actively encouraged new foreign investment, a sharp reversal from decades of discouraging economic integration with the global economy.

Basis	Foreign Direct Investment	Foreign Institutional Investment
1.Explanation	Foreign direct investment means funds committed to a foreign enterprise. The investor may gain partial or total control of the enterprise.	Foreign institutional investor means an investment in a foreign stock market by the specialized financial intermediaries managing savings collectively on behalf of investors.
2.Investors	That can be done through Joint Ventures, technical That can be done through joint ventures, technical Collaborations and by taking part in management of a	FIIs presently include foreign pension funds, mutual funds, charitable/endowment/university funds etc. as well as asset management companies and other

	concern.	money managers operating on their behalf.
3. Control	The basic motive of the FDI is to have control on the enterprise in which they are investing.	FIIs are not interested in managing control.
4.Termination Period	FDI have lasting interest in their company and stay with it through thick or thin.	FIIs are fair weather friends, who come when there is money to be made and leave at the first sign of impending trouble.
5.Interfernce	FDI have the active power to make the interference in the decisions of the enterprise.	FIIs are the investors who share the project and business risk without interfering in the critical decisions of the company.
6.Volitility	FDI bring stability in the market because they contribute to fundamental strength in the economy.	FIIs might make market more volatile because they are called fair weather friends.

SOURCES OF FIIs IN INDIA

FIIs not only enhance competition in financial markets, but also improve the alignment of asset prices to fundamentals. FIIs are known to have good information and low transaction costs. By aligning asset prices closer to fundamentals, they stabilize markets. In addition, a variety of FIIs with a variety of risk-return preferences also help in dampening volatility.

FII AND INDIAN STOCK MARKET

Foreign Institutional Investors is used to denote an investor, it is mostly of the form of an institution or entity which invests money in the financial markets of a country. The term FII is most used in India to refer to companies that are established or incorporated outside India and is investing in the financial markets of India. These investors must register with the Securities & Exchange Board of India (SEBI) to take part in the market. Over the past ten years, foreign investment has grown at a significantly more rapid pace than either international trade or world economic production generally.

From 1980 to 1998, international capital flows, a key indication of investment across borders, grew by almost 25% annually, compared to the 5% growth rate of international trade. This investment has been a powerful catalyst for economic growth. But as with many of the other aspects of globalization, foreign investment is raising many new questions about economic, cultural, and political relationships around the world.

Flows of investment and the rules that govern or fail to govern it can have profound impacts upon such diverse issues as economic development, environmental protection, labour standards, and economic stability. India opened its stock market to foreign investors in September 1992, and in 1993, received portfolio investment from foreigners in the form of foreign institutional investment in equities. This has become one of the main channels of FII in India for foreigners. Initially, there were many terms and conditions which restricted many FIIs to invest in India. But in the course of time, in order to attract more investors, The major source (almost 50%) of money the FIIs invest is from the issue of Participatory Notes (P-Notes) or what are sometimes called Offshore Derivatives. They are instruments used by foreign investors that are not registered with the SEBI (Securities & Exchange Board of India) to invest in Indian stock markets. For example, Indian-based brokerages buy India-based securities and then issue Participatory Notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors. That is why they are also called Offshore Derivative Instruments.

According to analysts, the upward revision of economic growth from 5.8 per cent to 6.1 per cent, better-than-expected performance of companies in the quarter ended-June 30, the proposed new direct taxes code that might lead to savings in the tax payer’s money, and the trade policy with an ambitious target of US$ 200 billion exports for 2010-11 have all revived the confidence of FIIs investing in India. FIIs have made net investments of US$ 10 billion in the first six months (April to September) of 2009-10.

A major portion of these investments have come through the primary market, than through buying via secondary markets. FII inflows into Indian equities have been steady ever since the markets were opened to FIIs in 1993. Apart from FY99 and FY09, net flows have been positive. FIIs own a dominant 16% of Indian equities (worth US$147bn) and account for 10-15% of the equity volumes. *(Source: CLSA Asia-Pacific Markets) Although FIIs pulled out US$ 9.77 billion of the Indian equity markets during FY09, they have been quick to return in FY10 and within just the first four months they have nearly made up for the exit, reinvesting US$ 8.50 billion or 87% of the amount that they had pulled out in FY09.

FII TRENDS IN INDIA

Inflow of foreign investments in the post-liberalization period

Table 2. Inflow of Foreign Investments in the Post-liberalisation Period

(Amount in US$ mn.)

Year (1)	Total Inflows (Direct+ Portfolio) (2)	Of which, Portfolio Investments: Total (3)	Of which FIIs# (4)	GDRs@ (5)
1992-93	559	244	1	240
1993-94	4,153	3,567	1,665	1,520
1994-95	5,138	3,824	1,503	2,082
1995-96	4,892	2,748	2,009	683
1996-97	6,133	3,312	1,926	1,366
1997-98	5,385	1,828	979	645
1998-99	2,401	-61	-390	270
Total	28,661	15,462	7,693	6,806

Represent fresh inflow/outflow of funds by FIIs.

Table – Yearly Trend of FII flow

FIIs could invest in capital market securities since September 1996.

YEAR	YEARLY TREND	Change	Percentage change
2013	141627.1	56259.49	66%
2012	85367.6	138419.3	261%
2011	53051.7	123992	175%
2010	70940.05	39658.97	127%
2009	31281.08	-14544.5	-32%
2008	45825.6	7137.2	18%
2007	38688.4	8735.2	29%
2006	29953.2	26325.97	726%
2005	3627.23	9667.47	73%
2004	13294.7	6941.94	111.92%
2003	6202.51	-220.26	-3.43%
2002	6422.77	7343.73	789.91%
2001	-930.96	-7369.49	-114.46%
2000	6432.53	-3130.84	-31.71%
1999	9559.37	5554.34	137.93%
1998	4015.53	-2877.63	-41.79%
1997	6842.66	4283.53	164.26%
1996	2608.13		

The net inflow has risen from Rs. 2608.13 crores in 1996 to Rs. 141627.1 crores in 2013 with relative ups and downs during the period as per the above table .during the period of 18 years there has been increase in in nine years while decline in the rest years It may be concluded that there are significant variations in the yearly inflow of FIIs into the Indian capital market during 1993-2010. During the initial year **1992-93**, the FII flows started in September 1992, which amounted to Rs. 13 crores because at this moment government was framing policy guidelines for FIIs.

However, within a year, the FIIs rose to 39338 i.e. 46% of 1992-93 during **1993-94** because government had opened door for investment in India. Thereafter, the FII inflows witnessed a dip of 6.45%. However, the year **1995-1996** witnessed a turnaround, gliding up the contribution by FII to enormous amount of Rs. 6942 crores. Investments made by FIIs during **1996-1997** rose a little i.e. 23.52% of that of the preceding year.

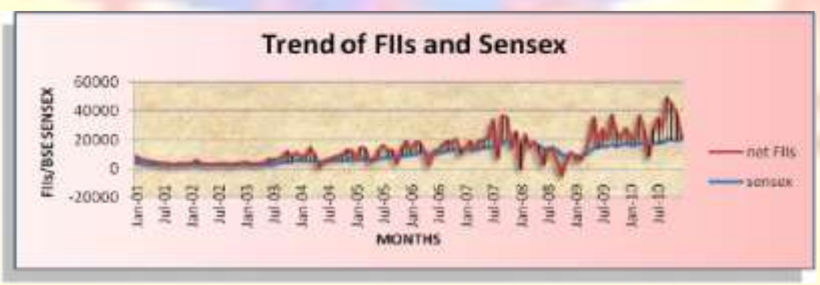
This period was ripe enough for FII Investments as that time the Indian economy posted strong fundamentals, stable exchange rate expectations and offered investment incentives and congenial climate for investment of these funds in India. During **1997-98**, FII inflows posted a fall of 30.51%. This slack in investments by FIIs was primarily because of the S-East Asian Crisis and the months of volatility experienced during November 1997 and February 1998. The net investment flows by FIIs have always been positive from the year of their entry. However, only in the year 1998-99, an outflow nearly of Rs. 17699 crores were witnessed for the first time. This was primarily due to the economic sanctions imposed on India by Japan, US, and other industrialized economies. These economic sanctions were the result of the testing of series of nuclear bombs by India in May 1998.FII investment posted a year-on-year decline of 1.8 % in 2000-01, 11.87 % in 2001-02 and 69.29 % in 2002-03. Investments by FII posted a fall of 80 % in 2002-03 as compared with investments in the period of 1999-00.

Investments by FIIs rebounded from depressed levels from the year 2003-04 and witnessed an unprecedented surge. FIIs flows were recycled to India following readjustment of global portfolios of institutional investors, triggered by robust growth in Indian economy and attractive valuations in the Indian equity market as compared with other emerging market economies in Asia. The slowdown in 2004-05 was on account of global uncertainties caused by hardening of crude oil prices and the upturn in the interest rate cycle. The resumption in the net FII inflows to India from August 2004 continued till end 2004-05. The inflows of FIIs during the year 2004-05 was Rs. 45881 crores. During 2006-07 the foreign institutional investors continued to invest large funds in Indian securities market. Strong FII flows had been a key characteristic of the period prior to December 2007.

TABLE 3: SEBI Registered FIIs in India

Year	End of March
1992-93	18
1993-94	158
1994-95	308
1995-96	367
1996-97	439
1997-98	496
1998-99	450
1999-00	506
2000-01	556
2001-02	482
2002-03	489
2003-04	517
2004-05	639
2005-06	822
2006-07	993
2007-08	1219
2008-09	1594
2009-10	1648

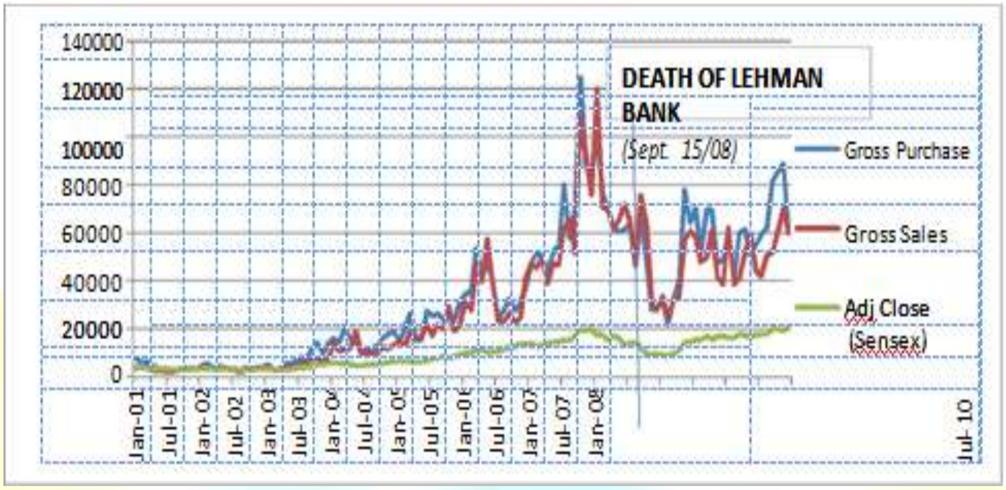
Graph- Trends of FII and Sensex



From the chart it is evident that FIIs and Sensex move in the same direction that is there exists a positive correlation between the BSE Sensex and FII fund flows.

It can be observed that FIIs have significant influence on the sentiments and price trends in the Indian equity market as other market participants tend to follow their moves as they perceive the FIIs to be intelligent investors with deep assessment of the markets. Such 'herd mentality' amplifies the role of the FIIs in the Indian stock market.

GRAPH - FII PURCHASES, SALES V/S SENSEX



It can be seen from the above graph that with the advent of Sub- Crime crisis in US and its spillover effects, soon after the Sensex touched its record high of 1,20,000 points, the market soon tumbled with increase in FIIs selling's and a decrease in FII purchases thereby resulting in a decline in net FIIs. In FY 07-08, the net FII inflow in India amounted to $20.3 billion (at fund cost) and as compared to this they pulled out $11.1 billion (more than half of which they brought in 2007), of which $8.3 billion occurred over the 1st 6.5 months of FY 08-09. The pullout resulted in the fall of stock prices, as a result the Sensex fell from its closing peak of 20,0873 on Jan 8,2008 to less than 10,000 by Oct 17,2008.

FII holdings in PSUs is increasing because Overseas investors are increasingly reposing their faith and money in PSUs, with as many as nine public sector firms including Coal India, Power Grid Corp and NTPC, recording an increase in FII holdings over recent months. The trend of increased FII holdings in PSUs can be attributed to the strong balance sheet and long-term prospects of these entities. Also, most of the PSUs come out a lower price band for their initial stake sales than private sector companies and their operations are based on sound business practices, so the chances of facing corporate governance issues are very less. It is, however, instructive to bear in mind that these national affiliations do not necessarily mean that the actual investor funds come from these countries.

Given the significant financial flows among the industrial countries, national affiliations are very rough indicators of the 'home' of the FII investments. Institutions operating from Luxembourg, Cayman Islands or Channel Islands, or even those based in Singapore or Hong Kong are likely to be investing funds largely on behalf of residents in other countries.

FII KEY STATISTICS

Foreign investors have immense faith in Indian financial markets. The fact is substantiated through statistics which show that they pumped massive US$ 10 billion in Indian markets in October – December 2013 quarter.

Moreover, FII ownership in top 500 companies is highest at 21.2 per cent for the reported quarter. It increased by 1.28 per cent in the January-March quarter alone and 2.87 per cent in 2012-13.

Moreover, value of FII inflows stood at US$ 25.8 billion for the financial year ending March 2013, the second best.

Data compiled by Citi Research and the Centre for Monitoring Indian Economy indicated that the value of FII portfolio stood at $236.2 billion.

The number of registered FIIs in India stood at 1,757 in FY 2012-13 while the number of FII sub-accounts rose to 6,335, from 6,322 at the end of 2011-12.

FII KEY INVESTMENTS AND DEVELOPMENTS

Germany-based Software Company Graebert is planning to enter computer aided design (CAD) market in India. The company has formulated a wholly owned subsidiary (WOS), Graebert India Software (Noida), for the marketing of its "ARES" software. The CAD Software market in INDIA is anticipated to grow at a compounded annual growth rate (CAGR) of 26 percent till 2014, according to a report from research firm Technavio. Graebert intends to tap this potential and is keen to form alliances with Indian software companies and channel partners to introduce cost-effective products for CAD users in India.

Japanese electronics giant Panasonic Corporation has decided to invest Rs 1, 500 crores (US$ 251.15 million) over 2013-16 in India to revitalize its operations. The company is keen on signing new partnership agreements with Indian majors like Ambanis and Tatas to hike its turnover by 2015 and eventually increase the share of its enterprise business in the country.

Having tasted success in consumer goods segment, the company now lays a renewed focus on the business to business (B2B) segment. Going according to its global business expansion plan, Panasonic aims to double the contribution of its B2B segment in the overall revenue by 2015 and introduce new product ranges in the category. New products would majorly include energy solutions, security, and surveillance systems.

Finland-based energy company Fortum has acquired a 5 megawatt (MW)-photovoltaic solar power plant in Rajasthan. The facility, which was constructed as part of the Jawaharlal Nehru National Solar Mission, has nominal peak capacity of 5.4 MW and its annual production is about 9 giga watt hours.

Solar power is a gaining a lot of attention as an industry segment in India and is expected to account for a major part of power generation in the future.

'Fast technological development is boosting competitiveness and on best markets, wholesale parity can be expected already within a few years' time,' said Matti Kaarnakari, Managing Director, Fortum India Pvt Ltd.

World's biggest packaging company Tetra Pak has increased its investment in India by building its largest plant outside home market Sweden, with an outlay of Rs 700 crore (US$ 117.20 million). The company, which caters to international majors like Nestle and Danone, has witnessed a very rapid growth in India of over 20 per cent in the 3-5 years. Tetra Pak looks at the Indian Diary Market, the largest in the world, as a big opportunity. The new facility at Chakan near Pune has a manufacturing capacity of over 8.5 billion packages per annum.

Italian manufacturers of high-end and super-expensive shoes are considering India as a replacement for their production base in Europe. The luxury brands are looking for local partners to drive their growth in the Indian markets. Some of these are leading brands such as Baldinini, LORIBLU, Giovanni Fabiani, NERO GIARDINI , Janet & Janet , FABI and FRATESI.

Overall, the Indian footwear market is valued at about Rs 19, 900 crores (US$ 3.33 billion), growing by 8-10 per cent per annum. The market includes casual, formal, and semi-formal and sports shoes, along with sandals, for men and women. The men's segment accounts for 59 per cent of the market. The overall share of organized retail is 20 per cent and is projected to reach 25-30 per cent by 2.

IMPACT OF FII ON ECONOMIC INDICATORS IN INDIA- FII FLOW AFFECTS THE ECONOMY OF COUNTRY

1. Balance of payment- A net positive swing in invisibles (due to increase in software exports and remittances sent by Indians working abroad) and increase in investments (both FDI and FII), has been improving the Balance of Payment (BOP) of the Indian economy and increasing the demand of rupee in the international currency market. In view of this the RBI had been following

a policy of buying dollars (by selling rupee) in the international market, thereby avoiding an appreciation of rupee viz-a-viz the dollar.

2. Fluctuating Rupee- FIIs convert Dollars to Rupees to invest in Indian Markets- FII money comes in India at high Dollar rates. FII money would go out when Dollar dips to low values. Thereby the new nomenclature for this FII dollars let be SMART MONEY which finds more money.

Some major points on Sensex from 2003 with peaks of dollar as that could trigger money push into India:

- Jan - May 2003 - USD/INR roughly 47-48. Sensex moved from 3000 to 6000 and dollar dipped till 43 by May. Market corrected to 4200 after that.
- July - Sept 2005 - USD/INR 46 Sensex again moved from 5k to 12k and dollar dipped to 44-43.5. Market corrected to 8800 after that.
- July - Sept 2006 - USD /INR 46 -47 Sensex moved from 9k to 21k and dollar dipped to 39. Market corrected to 13k. Maybe this is confusing but from the data it seems FII dollars starts entering India when Dollar is quoting at a price of 45-47 or tops out and this money creates the next Bull Run.

This withdrawal by the FIIs lead to a sharp depreciation of the rupee. Between January 1 and October 16, 2008, the RBI reference rate for the rupee fell by nearly 25 per cent, in relative to dollar, from Rs 39.20 to the dollar to Rs 48.86. This was despite the sale of dollars by the RBI, which was reflected in a decline of $25.8 billion in its foreign currency assets between the end of March 2008 and October 3, 2008. The result has been the observed sharp depreciation of the rupee. While this depreciation may be good for India's exports that are adversely affected by the slowdown in global markets, it is not so good for those who have accumulated foreign exchange payment commitments. Nor does it assist the Government's effort to rein in inflation.

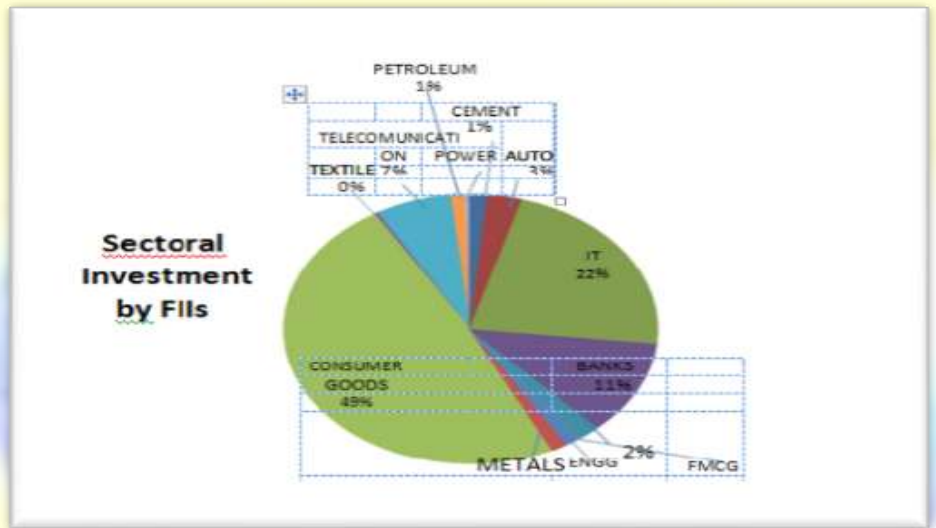
3. Stock Market-Mathematicians and Statisticians use a measure known as the correlation coefficient, which is used to depict a relationship between two variables mathematically. This coefficient ranges from minus 1 to plus 1. So, if we consider two variables, and the coefficient is -1, it means that when one moves up, the other moves down in the same proportion. When it is 1, it means when one moves up or down, the other also moves in the same manner, and when it is zero, it means there is no correlation. So, when one moves up (or down), there is no way to

figure out how the other variable will behave. So, one can compute the correlation coefficient between the Sensex and FII flows.

FIIS: FUEL OF INDIA'S GROWTH ENGINE

SECTORAL STUDY OF FIIS

To find out impact of FIIs on Indian growth, there are six major sectors of Indian economy namely, Real Estate, Automobile, Iron and Steel, Banking, IT and FMCG.



It can be seen from the diagram that the major proportion of FII investments is into consumer goods and then followed by investments in the IT and the banking sector. It can be observed from the table below that India is one of the preferred investment destinations for FIIs over the years. The total number of FIIs in India has almost grown 99 times since the beginning they could enter the Indian equity markets.

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**

Table 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 a 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.

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**

The 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.

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**

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 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 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 of more foreign branches etc.

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**

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 Mahindra 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.

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**

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.

Percentage of FII shareholding in total shares in selected FMCG companies

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**

Findings of the Study

The following are the major findings of this study:

1. Investment made by FIIs has experienced drastic decline in the year 2008. This is mainly because of the global economic meltdown.
2. Despite the global crisis the number of registered FII"s has increased.
3. In 2008 the SENSEX crash swept with it many 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.
4. 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.
5. 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.
6. 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 an 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 Maruti Suzuki, there is no downfall in FII inflow even during recession period. This shows the power of Indian buoyant middle class.

CONCLUSION

Foreign Institutional Investments are very much needed for India. They are necessary for the continuous development of our country. The economy of our country has shown a better performance and has led to the economic growth due to FII's. Though there are threats from the Foreign Institutional Investments we should be positive e and see the future of our country. In last 50 years, India has developed a strong and professionally competent technical, marketing and business manpower in live-stock production and information technology.

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