

## **EFFECTIVENESS OF FII ON PERFORMANCE OF NSE INDICES**

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### **ABSTRACT**

The Indian Stock Markets in the ten years have observed both upward and downward trends and one of the main causes for both of it were FIIs net inflows. This research paper consist a sample of twenty different market indices and ten years FII. The study used correlation, regression and descriptive statistics to proving the hypothesis. The study enables them to take correct investment decisions. The study period confined to ten years from 2006-2016. Further it will motivate them to contribute their small savings and surplus towards the capital market thus making the market more liquid, effective and transparent. These activities may increase the number of participants in the capital market and securities listed in the capital market may actively trade.

**Key words: NSE Indices, FII, Investment decisions, correlation and regression**

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## **INTRODUCTION**

The Indian Stock Markets in the ten years have observed both upward and downward trends and one of the main causes for both of it were FIIs net inflows. The maximum number of investors burned their fingers very badly in the downward trend. Moreover the improvements that were introduced in developing countries made them financially integrated internationally and attractive to Foreign Institutional Investors (FIIs). Another related issue is the volatility of host country's stock markets. That is, to what degree FIIs buying & selling of securities determine the volatility of NSE Indices values. It has become very important for the investors to know the bond among the FIIs and the main stock exchange of India (NSE stock exchange) and the latest instituted Volatility index. The study enables them to take correct investment decisions.

Further it will motivate them to contribute their small savings and surplus towards the capital market thus making the market more liquid, effective and transparent. These activities may increase the number of participants in the capital market and securities listed in the capital market may actively trade. Ultimately it will help the economic development of the country.

## **OBJECTIVES OF THE STUDY**

- To study of the conceptual frame work FIIs.
- To investigation the relationship between Indian Capital Market and FIIs.
- To analysis to impact of net Foreign Institutional Investment on Indian Capital Market.

## **Methodology**

### **Type of Research:**

This research paper considering empirical data for the testing of performance of FII compare with stock market indices. Therefore, the researcher is used exploratory and analytical type of research

### **Data:**

- Monthly closing price of twenty different indices of NSE.
- Monthly net FIIs flows to Indian capital market have to be collected to analysis.
- Twenty index names are: CNX NIFTY, CNX MIDCAP, CNX NIFTY JUNIOR, CNX

NIFTY 50, CNX NIFTY 100, CNX NIFTY 500, BANK NIFTY, CNX IT, CNX REALITY, CNX INFRA, CNX ENERGY, CNX FMCG, CNX MNC, CNX PHARMA, CNX PSE, CNX PSU BANK, CNX SERVICE, CNX MEDIA, CNX METAL and CNX AUTO.

### **Sources of Data:**

- Monthly closing index value and monthly net Foreign Institutional Investment have been collected from money control database.com

### **Period of Study**

The period of ten years is between from April 2006 to March 2016 and is used to examine the relationship of FIIs net fund flows and index value twenty different indices Indian capital market. It also studies the ten-year (i.e.. 2006-2016) impact of FIIs net flows on index value on Indian capital market.

### **Statistical Tools Used**

Correlation, Regression and descriptive statistics

**Regression:** Regression tool to be used to analysis the impact of net FIIs on Indian capital market.

### **Hypothesis:**

H<sub>0</sub>: There is no impact of net FIIs inflows on the performance of selected stock indices of NSE.

H<sub>1</sub>: There is an impact of net FIIs inflows on the performance of selected stock indices of NSE.

### **Review of Literature**

Dr. C Dharmaraj (2009) found that impact of FIIs investments in Indian equity market on NSE Indices for the period of 10 years. This was the period when the world witnessed both economic ups and recession. The authors found that a positive relationship between FII inflow and Prices of selected indices. Mohanamani.P and Dr. sivagnansthi ( 2012) These two fond that paper analyses the role ahead for the Foreign Institutional investors in the present Indian economic Scenario with the focus on the positive impact on the Indian Capital Market. Ashish Kumar and

B S Bodla (2009) Found that FIIs flow and other related variables have been taken for a period of 15 year running from Jan 1993 to Dec 2007. The study found that Net Inflow FIIs in India stock Market proved as casual force of market capitalization. A.Q Khan and Sana Ikramv( 2010) Found that FII's do have significant impact on Indian Capital Market, which leads to the conclusion that Indian Capital Market is semi-strong form efficient. In this study Prof Abhijethchandru (2012 ) found that Bi-directional causality between net FII investment and Indian stock market return is observed. In general, the FIIs seem to be chasing the Indian stock market returns. It is found that FII trading behavior resulting in heavy trading volumes may cause variations in stock market returns only in the very short-term, but afterwards, it is the stock market returns which cause changes in FII trading behavior.

### **Theoretical background**

Foreign investment refers to the investment made by the resident of a country in the financial assets and production processes of another country. The cause and benefits of foreign investment, however, varies from country to country. It can persuade the factor productivity of the recipient country and also shape the balance of payments. Foreign investments provide a direction through which developing countries can gain access to foreign capital for their economic development. It can come in two ways: Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII).

### **Types of institutions that are involved in the FII are as follows**

- Mutual Funds
- Hedge Funds
- Pension Funds
- Insurance Companies

FII's net investments in India equities and debt have touched the record highs in the past financial year, backed by the expectations if an economic recovery, falling interest rates and improving earnings outlook. FIIs net investments stood at Rs.18,106 crores(US \$ 2.48 billion) in march 2016, out of which Rs. 16,731 crores (US\$ 2.48 billion) Reuters, total mergers and acquisitions deals involving in Indian companies grew by 82% to US\$27 billion during January to June 2016. Total private equity (PE) investments during January to June period reported

US\$9.8 billion. The study consider study period from 2004 – 2014, during that study period the indices and FII were reported more volatility. Therefore the study helps to the investor's and stake holders to take effective decisions on their investment

### Data Analysis & Interpretation

**Table-1** calculation of descriptive statistics

Sl No	Index	Durati on	N	Mean	Media n	S D	Kurto sis	Skewn ess	Minim um	Maxim um
1	NIFTY 50	April 06- Mar 16	120	4377.22	4851.08	1417.08	-0.96	-0.54	1483.60	6704.20
2	CNX Midcap Index	July 07 - Mar 16	105	6454.35	7004.80	1665.31	-0.96	-0.44	3175.70	9360.70
3	CNX NIFTY JUNIOR	Mar 06- mar 16	121	8378.66	9089.95	3026.38	-1.29	-0.26	2846.90	13469.05
4	CNX Nifty 50	Jan 10- Mar 16	75	2222.92	2231.30	451.07	0.42	-0.63	1088.85	3085.45
5	CNX 100	Oct 08 - Mar 16	90	4916.61	5115.15	930.88	0.15	-0.81	2574.75	6597.05
6	CNX 500	Apr 06 - Mar 16	120	3549.69	3883.10	1100.92	-0.92	-0.57	1226.55	5354.70
7	Bank	Jun 08	10	8257.9	8912.7	2791.	-1.35	-0.15	3638.4	12742.0

	NIFTY	- Mar 16	6	8	5	59			0	5
8	CNX IT	Apr 06 - Mar 16	12 0	5068.3 5	5155.1 5	1857. 35	-0.08	0.39	2042.1 5	10338.5 5
9	CNX Reality	July 12 - Mar 16	45	255.20	237.60	84.59	1.50	1.32	149.55	491.75
1 0	CNX Infra	July 12 - Mar 16	45	2643.4 5	2525.9 5	437.5 1	-0.08	0.88	1957.3 5	3719.30
1 1	CNX Energy	Feb 12 -July 16	50	8255.0 3	7979.8 5	788.6 5	-0.60	0.65	6968.1 0	10026.9 4
1 2	CNX FMCG	Feb 12 -July 16	50	12318. 48	11048. 05	3505. 97	-1.43	0.26	6885.7 1	18085.2 5
1 3	CNX MNC	Feb 12 -July 16	50	5229.1 6	5140.3 8	500.5 5	-0.72	0.44	4498.1 8	6453.00
1 4	CNX PHARMA	Feb 12 -July 16	50	5464.1 2	5042.1 3	1191. 67	-0.53	0.75	3693.8 1	8276.50
1 5	CNX PSE	Feb 12 -July 16	50	3122.5 2	2912.0 5	492.9 5	-0.93	0.48	2253.8 0	4122.00
1 6	CNX PSU BANK	Feb 12 -July	50	3350.8 1	3287.6 5	724.6 8	-0.29	0.28	1990.2 0	4987.35

		16								
1 7	CNX SERVICE	Feb 12 -July 16	50	6741.0 7	6723.5 0	576.7 1	-0.61	0.13	5600.9 5	8100.10
1 8	CNX MEDIA	Oct13- Mar 16	30	1514.5 2	1609.2 0	236.1 7	-1.50	-0.42	1114.3 0	1819.85
1 9	CNX METAL	Oct 13- Mar 16	30	2537.5 6	2537.7 3	388.7 0	-0.75	-0.09	1736.3 0	3236.65
2 0	CNX AUTO	Oct 13- Mar 16	30	4458.7 8	4428.9 8	579.5 8	-0.15	0.34	3390.5 5	5803.20

(Source: Developed by Researcher)

Table – 2 Calculation of Correlation and Regression

Index	N	$\alpha$	FII	$R^2$	$\beta$	F
NIFTY 50	120	4113.41	0.052	0.108	0.329	3.787*** ( 0.000)
CNX MIDCAP INDEX	105	6092.11	0.067	0.146	0.382	4.201*** ( 0.000)
CNX NIFTY JUNIOR	121	7769.55	0.128	0.147	0.383	4.503*** (0.000)
CNX NIFTY 50	75	2135.46	0.015	0.122	0.349	3.178*** (0.002)
CNX 100	90	4693.17	0.039	0.177	0.421	4.349*** (0.000)
CNX 500	120	3339.05	0.042	0.114	0.338	3.905***

						(0.000)
BANK NIFTY	106	7603.09	0.122	0.168	0.41	4.586*** (0.000)
CNX IT	120	4741.65	0.064	0.097	0.311	3.555*** (0.001)
CNX REALITY	45	229.615	0.003	0.157	0.396	2.829*** (0.007)
CNX INFRA	45	2553.32	0.011	0.073	0.27	3.258* (0.073)
CNX ENERGY	50	8091.28	0.021	0.075	0.274	1.977* (0.054)
CNX FMCG	50	11970.9	0.044	0.017	0.131	1.553 (0.365)
CNX MNC	50	5109.27	0.015	0.1	0.316	2.311** (0.025)
CNX PHARMA	50	53386.8	0.01	0.007	0.086	0.596 (0.554)
CNX PSE	50	3051.35	0.009	0.016	0.191	1.346 (0.185)
CNX PSU BANK	50	3212.3	0.017	0.0064	0.253	1.808 * (0.077)
CNX SERVICE	50	6553.59	0.024	0.185	0.43	3.295 *** ( 0.002)
CNX MEDIA	30	1442.24	0.008	0.125	0.53	1.999* (0.055)_
CNX METAL	30	2428.09	0.012	0.106	0.325	1.82 * ( 0.079)
CNX AUTO	30	4296.64	0.018	0.104	0.323	1.807 * (0.082)

Note: \*, \*\*, and \*\*\* Significant at the 10%, 5% and 1 % levels respectively. (Source: Developed by Researcher)



From the above table it clearly indicates that. The R Square value is 0.104 clearly explain that 10.4% of variation in the CNX Auto index

From the Coefficients Table it's clearly shows that the coefficient of FII is positively significant at 10% level for, CNX Infra, CNX Energy, CNX Auto, CNX PSU Bank, CNX Metal, CNX MEDIA and CNX AUTO. Further, the coefficient of FII is positively significant at 5 % level for one stock index CNX MNC. Additionally, the coefficient of FII is positively significant at 1 % level for 10 stock index - NIFTY 50, CNX MIDCAP INDEX, CNX NIFTY JUNIOR, CNX NIFTY MIAP 50, CNX 100, CNX 500, BANK NIFTY, BANK NIFTY, and BANK NIFTY. Thus, it clearly indicates that there is strong impact of FII on index values of NSE, India.

So the hypothesis is significant means unable to accept null hypothesis. So it can be conclude that FII truly impact on CNX AUTO index

## **FINDINGS & SUGGESTION**

- The study found that the net inflow of FIIs investment greater impact on these indices values. This is positive relationship between inflows of FIIs and these NSE indices values.
- It clearly indicates the net inflow of FIIs investment greater impact on these indices values. This is positive relationship between inflows of FIIs and these NSE indices values.
- The net inflows of FIIs investment were grater impact on these indices values. This is positive relationship between inflows of FIIs and these NSE indices values.
- The net inflow of FIIs investment does not impact on these indices values. This is negative relationship between inflows of FIIs and these NSE indices values.

There is positive relationship between net inflow of FIIs and selected indices values. So that investor should be thoroughly know about the FIIs and FIIs net inflows. Investment made by the investors in these indices of NSE, investor does not consider the net inflows of FIIs, and fluctuations net inflows FIIs. Net inflows of FIIs does not effect of NSE indices. This is negative relationship between net inflows of FIIs and these three-index values.

## Conclusion

FII's flows will continue to be a major impact on the Indian stock market. The study has attempted to test the effect of FII's monthly net flows on index value. The outcomes also show that FII's have become an important share of India's stock market. Their investments have a vast impact on the Index values movements and a minor impact on the stock market instability. This study provides suggestions to the investors, FII's brokers and the regulators. The study thus supports the views that FII's are valid to be the main players in the Indian stock market in the forthcoming.

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