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Stock Market Return and FIIs – Kinship Analysis

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KEYWORDS

Balance of Payment,
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A B S T R A C T

The Indian economy had experienced the balance of payment crises in the year 1990's. So the Prime Minister was give sanction to the foreigners to invest their amount on Indian capital market as in the form of foreign institutional investments. The core objectives of this study is to find out the relationship between stock market return and FII for the period o 2008-2009 to 2013-2014 with the help correlation analysis. The study area is limited to BSE.

Introduction

Most of the under developed countries are depends upon the foreign capital for their developments and it arises due to the low level of income and insufficient capital for their growth. Indian economy had experienced the balance of payment crises in the year 1990's.Therefore, the Finance Minister permitted Foreign Institutional Investors to invest in all the listed securities of Indian capital market in 14th September 1992 to reduce country dependence on debt-creating capital flows, correct the accurate balance of payment crisis and develop the capital markets. The Indian government had paved a way to the foreigners to invest their money in the Indian Stock Market. The FII are made their investment in FII either debt or equity form.

The journey had start from Rs.13 Cr to RS. 51,649 in the period 2014-2015(SEBI).

Aggarwal, Klapper, & Wysocki (2005) examined the investment allocation choices of actively-managed US Mutual funds in emerging market equities after the market crisis of the 1990s. They found that US funds invest more in the companies with strong shareholders rights, accounting standards and legal frameworks. Further the study emphasized that investors preferred more on such companies which have greater corporate governance practices. Ultimately better corporate governance practices attracted large amount of investors to invest in particular company.

Chakraborty, (2007) examined the causality between FII flows and Indian stock market return during April 1997-March 2005. The study found that those two variables are highly correlated.

Vikram, K, Joshi & Richa Saxena., (2011) in this study they study the degree of relationship between the various FII movement and Sensex and turn over. The researcher found that the BSE Sensex and turn over with FII.

Thanu Agarwal. (2013), in this analysis the author is trying to find out the Correlation between FIIs Net Investment and Sensex and FIIs Net Investment and MFs Net Investment The study concluded that FIIs Net Investment has positive correlation with Sensex as well as with MFs Net Investment but it is more positively correlated with Sensex than MFs Net Investment.

Jain., Meena., & Mathur. (2012), have also examined the contribution of FIIs Investment in Sensitivity index and found that these two have high degree of positive correlation with each other.

The Main Intension of the researcher is to find out the relationship between Stock Market Return and FII in India and to check the FII has related to debt or equity during the study period.

Hypothesis

H_o: There is no significant relationship between the return and FII.

H_I: There is a significant relationship between the return and FII.

H_0: There is no significant relationship between debt and FII

$H_{1:}$ There is a significant relationship between debt and FII

H_0: There is no significant relationship between equity and FII

H_1: There is a significant relationship between debt and FII

Research Methodology

The researcher has selected historical data of monthly BSE Sensex and FII and includes 96 observations. The data had been collected from the BSE, SEBI and Annual Reports etc. The sample period of the study spans from 2007-2008 to 2014-2015 i.e., seven years. The correlation analysis is used to check the prime objectives. The study period include Financial Crises Period (2008-2009) and Recovery Period (2011-2012). The BSE Sensex is calculated on the basis of return. The debts and equities forms of investment are used for this analysis.

Limitations of The Study

1. The study area is limited to BSE.
2. The study period is limited to 2007-2008 to 2014-2015

Theorical background

FIIs regulation

Securities and Exchange Board of India (SEBI) has been provides regulations Securities and Exchange Board of India (FIIs Regulation), 1995 after their introduction into Indian Capital Market. Time to time various amendments have taken place in this regulation via SEBI (FIIs Regulation) amendment regulations 2001, 2004, 2005, 2006, 2007, 2010, 2011 etc. This is to provide some simplification to movement of foreign investors into Indian Capital Market.

Foreign institutional investors'

The term FIIs have defined by Securities and Exchange Board of India (FIIs) Regulations, 1995 chapter-1section: 2(f) as "An institution established or incorporated outside India which proposes to make investment in India in Securities."

According to Consolidated FDI Policy (2012), "Foreign Institutional Investor'(FII) means an entity established or incorporated outside India which proposes to make investment in India and which is registered as a FII in accordance with the SEBI (FII) Regulations 1995.

Figure.1 Foreign Institutional Investment

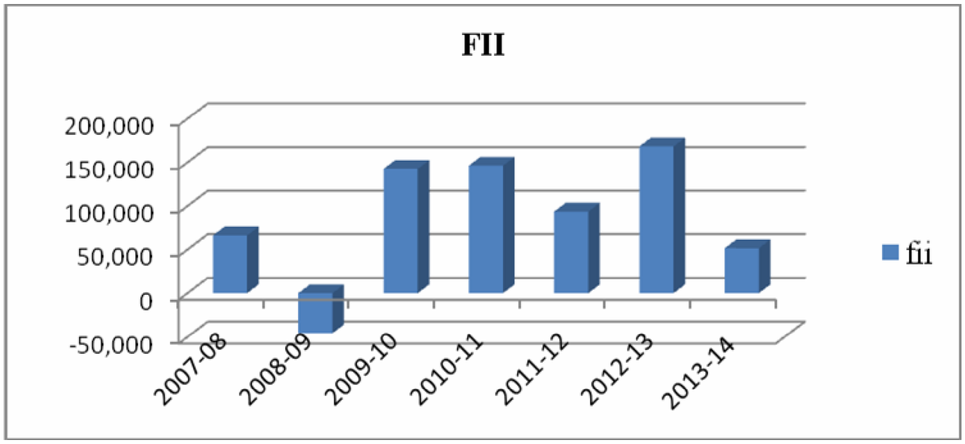

Figure.2 Debt And Equity Investment

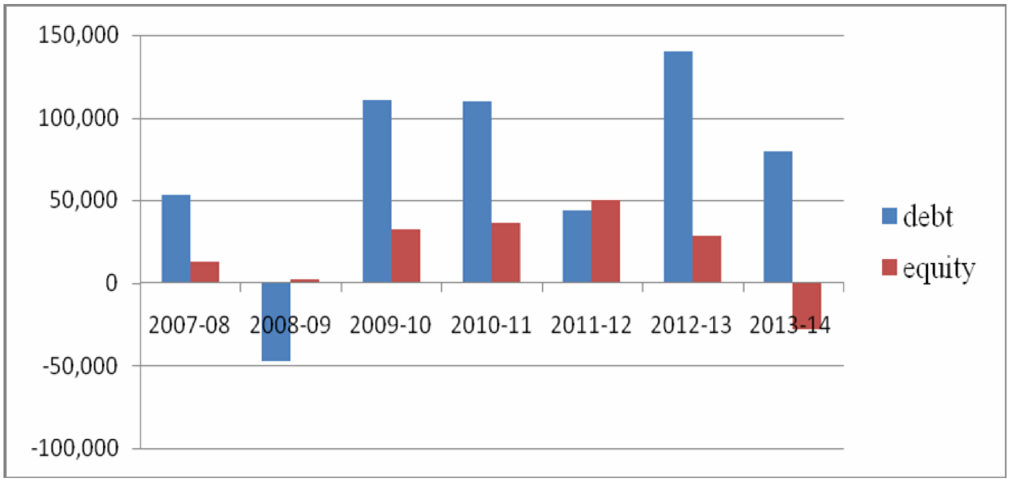

Table.3 Relationship Between FII And Return

H_o: There is no significant relationship between the return and FII.
H_I: There is a significant relationship between the return and FII.

		FII	Return
FII	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	96	
Return	Pearson Correlation	-.087	1
	Sig. (2-tailed)	.032	
	N	96	2829

**. Correlation is significant at the 0.01 level (2-tailed).

Table.3 expresses the relationship of FII and return. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected. Therefore, we can conclude that the return and FII has significant relationship with return and vice-versa. The p-value of the null hypothesis is less than five percentage.

Table.4 Relationship Between Debt And Equity With FII

H_0: There is no significant relationship between debt and FII.
$H_{1:}$ There is a significant relationship between debt and FII.
H_0: There is no significant relationship between equity and FII.
H_1: There is a significant relationship between debt and FII.

		Debt	Equity	FII
Debt	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	84		
Equity	Pearson Correlation	.230*	1	
	Sig. (2-tailed)	.035		
	N	84	84	
FII	Pearson Correlation	.831**	.732**	1
	Sig. (2-tailed)	.000	.000	
	N	84	84	84

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.2 shows that relationship of Debt and Equity with FII. The FII has relationship with Debt and Equity as per the P-value. Here, the null hypothesis of no significant relationship between debt and equity with FII is accepted and the alternative hypothesis is rejected.

Findings of the Study

The researcher found that

1. The return and FII has relationship with each other during the study period.
2. The FII has good relationship equity and debt and the equity has relationship with FII during the study.
3. The financial crises and recovery period has affect the FIIs investment in Indian.
4. The FII investment values has negative in the year 2008-2009.
5. The debt and equity values have come to negative in the year 2008-2009 and 2013-2014 respectively.
6. The financial crises period has badly affects the FII in Indian Market.
7. The debt, equity and FII values has reached peak level in the year 2012-2013.

Suggestions of the Study

The Indian stock market has highly fluctuated during the study period. This fluctuation is arises from the external forces. The government has tried to control stock market instability with the help of policy formation and good decision.

Conclusion

The study concludes that the FII and Indian stock has good relationship with each other. The government gave sanction to the foreigners to the invest their money in Indian Market since 1992 due to lack of industrialization and low income. The market has high fluctuation during the study period and includes recession and recovery period. The transactions had negative value and show the low performance during the recession period and the recovery period shows high performance.

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