FPI/FII INVESTMENT TRENDS IN INDIA FINANCIAL MARKETS

C. VISHAL-research scholar department of economics himachal pradesh university

ABSTRACT

The study was conducted in order to understand the investment behavior of foreign institution investors in india's financial markets and to found the changes taken place in the form and amount of investment from last 28 years since liberation of indian economy. for conducting the research data from 1992-2020 of fii investment in equity and debt markets of india has been collected and analyzed with the help of descriptive and regression methods. it has been found that fii investments in equity and debt market has shown compound annual growth rate of 36 and 30 percent with average investment of 33594 crore per year in equity and 13790 crores in debt market. it was also predicted that by 2023-24 fiis equity and debt investments in indian markets will grow by 124 and 198 percent.

KEYWORDS-*behaviour, investment, financial markets, equity, debt, fii.*

INTRODUCTION

The economic growth of any country depends on its growth in financial markets. in financial economics a financial market is considered as a mechanism that allows people to easily buy and sell various financial products or services at low transaction cost and at prices that reflects the existing market conditions. a financial market is considered to be a place where financial instruments are bought and sold at a certain price. There

fore, a financial market can be defined as a market place where commercial transactions in financial assets are executed. the main role of financial markets is to facilitate transfer of financial resources from those who saves it to those who are in need of financial resources for undertaking economic activities. thus, financial markets facilitate growth in savings and investment which is prerequisite to achieve economic development and sustainable growth. the financial markets consist of formal and informal markets. the informal financial markets are nothing but private money lenders.

They are partially regulated by the government. There fore, participants are not interested to participate in the informal financial markets. as against this, formal markets like money market, capital market and foreign exchange market etc. are recognized and well regulated by the specified regulator as wells by the government.

there fore, financial markets are divided into various following segments:

MONEY MARKET: the money market is an important component of the financial markets. it provides a platform where surplus funds of lenders are made available for borrowers to meet their short-term financial needs. this is the market for short term financial instruments. in this market funds are raised for a period up to 365 days. the various financial instruments such as call/notice, term money, treasury bill, commercial papers, etc., are available in these markets. this is a wholesale market. the participants in this market use money market instruments for managing liquidity on daily basis. in india money market is regulated by the reserve bank of india (rbi). while regulating money market the main aim of the rbi has been to ensure that the liquidity and short-term interest rates are maintained at levels consistent with its monetary policy objectives.

DEBT MARKET: debt market consists of government debt securities and corporate debt securities. in india, the government debt market is well developed in terms of instruments, size, participants and regulatory frame work. both the government of india and state governments raise funds from this market through issue of various debt instruments. by and large these instruments are issued under the auctions. investors prefer to invest in the government debt instruments because there is no credit risk at all. the corporate debt market in india consists of debt instruments issued by banks and financial institutions, public sector undertakings, local bodies and private companies. such bonds are issued with varied terms and conditions such as bonds with fixed coupon, floating rate bonds, bonds with put and call options and zero-coupon bonds etc.

EQUITY MARKET: equity market is one of the most important segments of financial markets. this market helps the companies to raise long term funds. this facilitates capital formation in the country. in india under the company law provisions the companies are allowed to issue both equity and preference shares. issue of equity shares helps the companies to have permanent source of funds unless it decides to purchase these shares and return money back to the share holders. this market is comprised of primary and secondary market. the primary market is more about issue of new shares. that is why it is called as new issue market. while raising funds from the primary market the companies have to ensure that the cost of raising of funds is lower. they also require to disclose all the information in the offer document. the secondary market is also important as it ensures liquidity for the existing securities. in order to support primary market, the secondary market needs to be i) active, ii) disclose all information, iii) less volatile and efficient in terms of lowering transaction cost. both primary and secondary markets are linked with each other. the secondary market for equity is nothing but stock exchange which provides liquidity and price discovery. the equity market in india is well developed and is regulated by sebi.

a number of measures were taken by the sebi to increase liquidity in the stock market therefore stock market was opened to foreign institutional investors (fii) for investment in 1992 with (foreign institutional investors) regulations,1995, defining fii as an institution established or incorporated outside india, which purposes to make investment in india in securities. fiis changes the face of the indian stock market while easing pressure on the rupee from the balance of payments position and lowered the cost of capital to indian business. it is due to fiis that a concept like corporate governance is being increasingly adopted by the indian companies therefor benefiting domestic investors also. fiis are the trendsetters in any market and are the first ones to identify the potential of the indian technology stocks and booked the profits therefore creates a bull run and leads to more capital formation in the indian economy. the study was conducted to bring to light the impact of fii net investment in equity on the indianstock market returns. two major indian stock market indices (bse –sensex and nse- nifty) and 12 other sectoral indices were chosen to analyse the impact of fii investment on theindian capital market returns. karl pearson’s coefficient of correlation was used to measure the relationship between fii net investment in equity and the stock market returns. the correlation co-efficient between the fii net investment in equity and returns of the chosen indices were calculated and teste dat 5% and 1% significant levels. after the analysis of results, it was observed that there is significant positive correlation between the fii net investment in equity and returns of most of the indian stock market indices. the resultsindicate significant impact of fii investment on indian stock market returns even at sectoral level (natchimuthu.n,2014).

therefore, from the current paper one will try to understand the fiis investments trends in the indian security markets and to reveal the debt and equity investment flow of fiis in the indian financial market therefore also to predict the future fiis investment flow in the indian financial markets.

MATERIALS AND METHODS

the present study has been conducted on fii investments in indian equity and debt market andfor the purpose of study data of 28 years from 1992-2020 of indian financial markets has been collected from the security exchange board of india and further being analyzed with the help of descriptive and regression methods in order to found the answers of the objectives being framed in the paper.

RESULTS AND DISCUSSION

fii equity investment:

fii investment depends upon multiple factors which not only governs by the principles of international factors but also by the domestic one which determines the earning per share. from the table 1.1 one can observe the fii equity investment trend in india from the time when indian economy was opened for the first time in 1992 for the foreign investments till today and have found that the equity investment has shown a compound annual growth rate of 36.16 percent with average investment of 33594 crore per year. when one look towards the figure 1.1 one can see elasticity coefficient of 2384which specifies that with every changing year investment is increasing by 2384 crores and therefore predicting the investment of 75328 crores by 2023-24 which when compared with current average of 33594crores reveals a growth rate of 124 percent hence showing a tremendous improvement in fii equity investments since 1991 from 13 cores to 54140 crores by 2019-20 and explains good foreign investments flow in indian markets which also reveals good and sound indian economic growth rate picture.

FII DEBT INVESTMENT:

as one understand that the investment in debt instrument are less risky and returns from the investment are less therefore from the table 1.1 it is clear that the investments in debt market by fii investors has reached from 0 in 1992 to 14206 crores in 2020 which is showing compound annual growth rate of 30 percent with the average of 13790 crores investment per year. from figure 1.2 one can observe the elasticity coefficient value of 1566 which reveals the marginal investment picture of the fii investment in indian debt market therefore specifies that with every changing year investment has increased by 1566 crores hence revealing a strong growth picture of fii investment in indian debt market. as far as future investment picture is concern from the figure it is clear that by 2023-24 debt market investment will reach to rs 41210crores which is very high from current average of 13790 hence revealing growth rate of 198 percent therefore specifies the growth and strength of indian financial markets and economy which has shown tremendous improvement in terms of reforms and development.

CONCLUSION

investment works on the principle of self-interest which further is guided by the fundamentals of risk and return therefore from the study one tried to understand the fii equity and debt investments in indian financial markets and was revealed that investment has shown a tremendous growth in both equity and debt investments with cagr of 36 and 30 percent since 1991. as both the investments are associated with the returns and therefore is determined by the company's growth and profit which further is dependent on the soco economic condition of the economy hence also revealing the growth and development picture of the country. therefore from the study it is evident that with the changing time fii investments has shown growth in indian financial markets and possible reason for the same is post 1991 changing structure of indian economy with reforms and high gdp growth and therefore recommends government to take the reform(labour,land) process further in order to boost the economic growth rate of a country which could generate more foreign investments in the economy.

REFERENCES

1. bhole, l.m.(1999), financial institutions and markets: structure, growth and innovations, tata mcgraw-hill, new delhi.
2. government of india, economic survey.
3. maheshwari, anant (1996),'money market-taking off,' analyst, pp.21-34.
4. natchimuthu.n.(2014). a study into the trends in foreign institutional investment (fiis) and its impact on indian stock market prices, global journal of arts & management,4 (1), pp.15-19.
5. patil, r.h. (2002), 'reforming indian debt markets,' economic and political weekly, feb 2-8, pp.409-20.
6. pathak, b. (2016), indian financial system, pearson india, new delhi.
7. reserve bank of india, annual report.
8. reserve bank of india, report on currency and finance.
9. securities and exchange board of india, reports and statistics on foreign portfolio investors investments.

table 1.1

fpi/fii investments detail

inr crores			
sr. no	**year**	**equity**	**debt**
1	1992-93	13	0
2	1993-94	5127	0
3	1994-95	4796	0
4	1995-96	6942	0
5	1996-97	8546	29
6	1997-98	5267	691
7	1998-99	-717	-867
8	1999-00	9670	453
9	2000-01	10207	-273
10	2001-02	8072	690
11	2002-03	2527	162
12	2003-04	39960	5805
13	2004-05	44123	1759
14	2005-06	48801	-7334
15	2006-07	25236	5605
16	2007-08	53404	12775
17	2008-09	-47706	1895
18	2009-10	110221	32438
19	2010-11	110121	36317
20	2011-12	43738	49988
21	2012-13	140033	28334
22	2013-14	79709	-28060
23	2014-15	111333	166127
24	2015-16	-14172	-4004
25	2016-17	55703	-7292
26	2017-18	25635	119036
27	2018-19	-88	-42357
28	2019-20	54140	14206
	average	33594	13790
	cagr	36.16%	30.91%
	elasticity coefficient	2384	1566
	r2	0.20%	0.10%
	investment forecasting by 2023-24	75328	41210
	growth percentage between current average & forecasted investment	124%	198 %

note: cagr-compound annual growth rate.
r2-cofficeent of determination.

figure 1.1

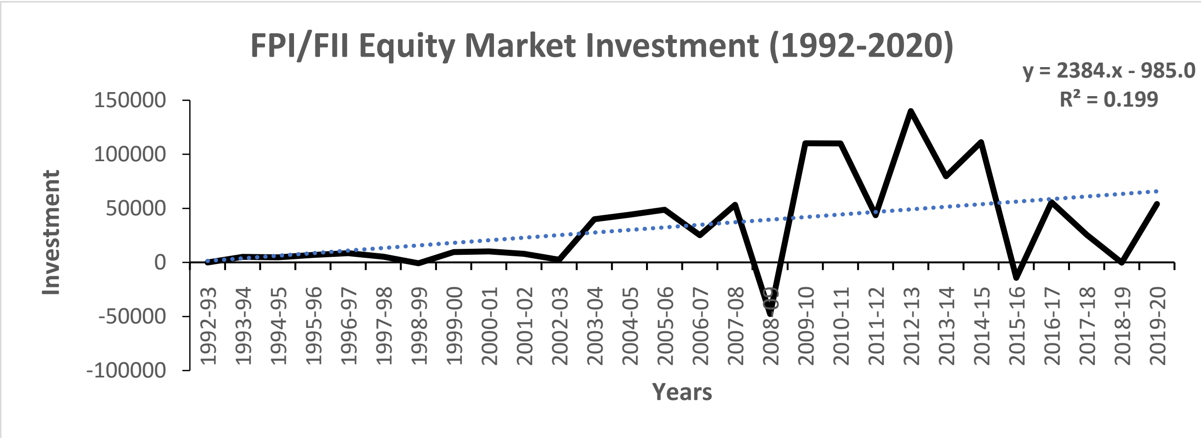

figure 1.2