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FOREIGN INSTITUTIONAL INVESTMENTS IN INDIA – A COUNTRY-WISE ANALYSIS OF INFLOWS SINCE 2012

Dr. G. Lakshmi Vishali	*Department of Commerce& Business Administration, Acharya Nagarjuna University, Guntur, Andhra Pradesh, India*
Prof. R. Siva Rama prasad	*Department of Commerce& Business Administration, Acharya Nagarjuna University, Guntur, Andhra Pradesh, India*

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ABSTRACT

India is considered to have gained a lot of foreign investment in the transition age, particularly after our liberalization policy in 1991.Foreign Institutional Investors ranked the top third position by the means of the Assets Under Custodian (AUC) of Indian Capital market. FII plays a vital role in Indian economy by the means of non-debt means of capital. In this paper, year wise and country wise FII were highlighted. The reasons for the reluctance of FII investments were also explained.

KEYWORDS: *Foreign Institutional Investors, Country-wise analysis*

INTRODUCTION

FII is a strategically situated institution in a foreign country and invests in the domestic country through stock markets. FII provides liquidity and value trading, the pricing of the stocks published by the enterprise in inventory exchanges. FII plays a key role and creates volatility in the market. This has a higher impact on national financial sector such as stock markets, financial markets and foreign exchanges. Compared to FDI, foreign portfolio investors are deemed as 'good climate buddies' when money is to be gain and leave the nation at the first indication of imminent difficulty. The following table illustrates the top 5 countries flooded by FII investments during the financial years 2013-2017.

Table 1: Top countries served by FII inflows during 2013-2017 (in billion Dollars)

Investments	India	Brazil	Taiwan	South Korea	Indonesia	Total FII investments
2013	19.6	4.9	9.2	4.9	-1.8	36.8
2014	16.2	9.0	13.2	5.7	3.8	47.9
2015	3.3	5.7	3.4	-3.6	-1.6	7.2
2016	2.9	3.9	11.0	10.5	1.3	29.6
2017	8.0	3.0	6.0	8.1	-2.9	22.2

***Source**: "Market outlook-2018", Mirae asset mutual fund*

Foreign Institutional Investors contribute a major portion of Indian capital market as a result of which they are imposing difficulties to economy too. FII are more sensitive during pre- and post-election period. They suddenly withdraw their investments during the pre-election period and if the election results are favoured them, they rally with their investments in to India. Following are the few recent incidents observed in FII investments.

Table-2: FII strategies in Indian capital market

Date	Result	Reason
January 22, 2008	FII withdrawn Rs. 4625 crore worth funds from Indian capital market	As a result of US recession, Sensex hit by 2273 points and Nifty fall by 310 points
2016	FPI poured Rs. 20,568 Cr. In to equities and withdraw Rs. 43,079 Cr from Debt instruments.	Expecting higher returns in advanced economies.
2017-18	Stocks of BSE Sensex gained P/E ratio of 23.8 which is the highest since 2000-01	FPI invested Rs. 6.62 trillion in Indian stocks and Rs. 3.93 trillion in Indian debt.
February 6,2018	FPI pulled off Rs.2326 Crore from Indian debt markets	Sensex crashed 1275 points and Nifty over 300 points.
May 2-17,2018	FII pulled out Rs. 6,399 Crores from the Indian capital market.	Pre-election uncertainty.
May 2-3, 2019	Infused Rs.7919.73 crore into equities and Rs. 1111.42 in to debt markets	Announcement of election results.
May 23, 2019	FPI pumped Rs. 1,352.20 Crore in Equities	Announcement of election results.

Source: various news articles especially from Economic Times and Business standard.

OBJECTIVES

- To study the country wise FII investments in India
- To explore the factors that causing the fluctuations in investment behaviour of FIIs

RESEARCH METHODOLOGY

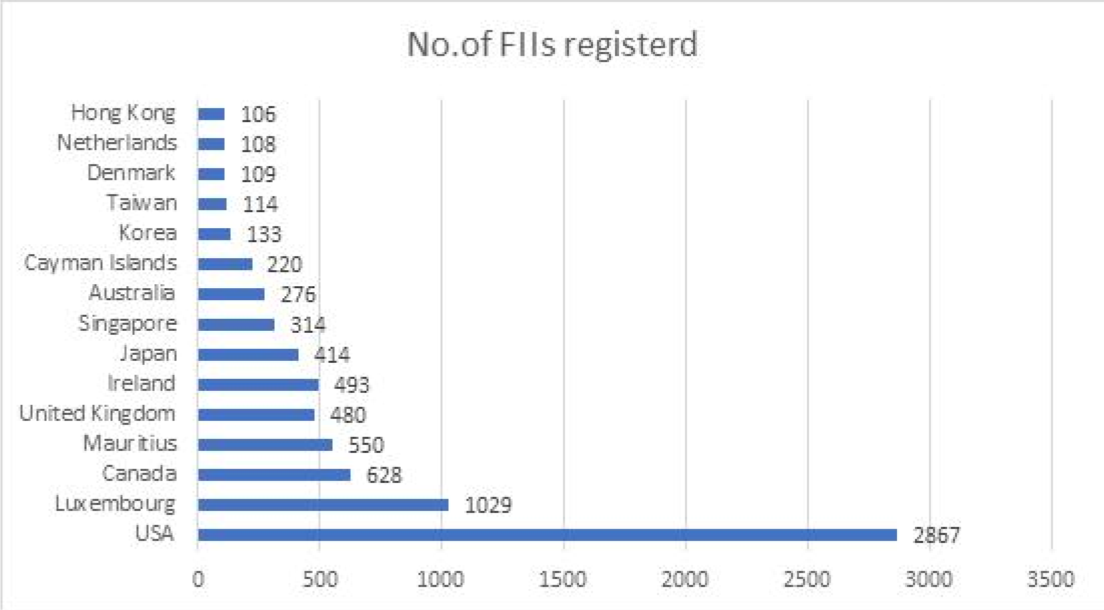
To study the FII inflows from various countries, the data was collected from CDSL Official reports, SEBI annual reports. Various Business magazines such as Business standard, Economic Times, Business Line, Financial Express, retrieved articles from Economic Intelligence from Economic Times group were studied to study the occasional and incidental news on FII investments. Exploratory research has done to study the annual inflows from various countries.

Table-3: Country-wise Total registered FII during 2018

Country Name	No. of Registered FIIs	Country Name	No. of Registered FIIs
1	2	1	2
USA	2867	Switzerland	34
Luxembourg	1029	Saudi Arabia	29
Canada	628	Bermuda	28
Mauritius	550	Austria	27
United Kingdom	480	Norway	23
Ireland	493	Cyprus	22
Japan	414	Georgia	20
Singapore	314	Finland	19
Australia	276	Kuwait	18
Cayman Islands	220	Oman	16
Korea	133	Russia	14
Taiwan	114	Italy	13
Denmark	109	Mexico	13
Netherlands	108	Belgium	12
Hong Kong	106	British Virgin Islands	12
Germany	84	Indonesia	8
France	70	Brunei	8
Malaysia	67	Bahrain	5
Sweden	59	Qatar	4
Kuala Lumpur	53	New Zealand	3
Jersey	52	Cook Islands	1
Philadelphia	48	Greece	1
UAE	48	Turkey	1

Source: *www.sebi.org*

Graph-1: country wise registered FIIs during 2018.



***Source**: Researcher compilation from above table*

It is evident from the above graph that, USA is leading FII investor to India with 2867 FIIs were registered only from this country. Out of 8653 registered FIIs, 1/3rd of FII were from USA.

Table-4: Top ten countries of FII investments in to Indian economy*

Years	2012	2013	2014	2015	2016	2017	2018
USA	3584139	4582310	6832023	8611383	8941216	11160788	9612131
Mauritius	3721019	3798074	8901157	6158443	5430153	6166502	4490780
Singapore	1702357	1772387	2606260	3289523	3165363	3588194	2661900
Luxembourg	1125083	1436745	1843306	2412545	2467630	3190914	2977198
UK	796718	843708	1087740	1250404	1176042	1611802	1373332
UAE	437243	533173	613445	767643	472436	59309	0
Netherlands	239005	333909	496293	529418	624718	733483	673781
Canada	256864	327018	448210	569310	606626	939038	894640
Japan	114818	0	0	96956	339401	1068803	1044720
Norway	140429	378508	622387	780569	765235	751430	671085

***Source:** NSDL official database, www.nsdl.com*

***Investments by countries are in Rupees in Crores**

During the financial year 2012-13, Mauritius contributed 31% of the total FII investments followed by USA. U.S.A, Mauritius and Singapore together filled 3/4 of the total FII inflows.

From the above table, researcher found that USA, Mauritius, Singapore and Luxembourg are the major contributors of Foreign Institutional Investments to India. Asummarised discussion about their investments are discussed below.

a) USA:

Graph-2: Year-wise FII inflows from U.S.A during 2012-2018

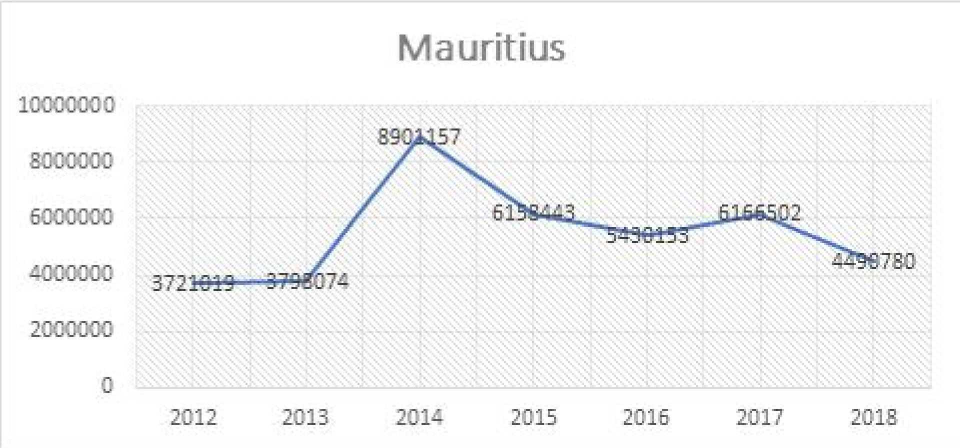
Source: researcher compilation from NSDL reports

DISCUSSION

Most of the researches agreed that USA and India have built a bi-lateral trade agreement since the beginning of the Liberalisation era. As per the Asset Under Custodian data by NSDL, FII investments coming from USA to India were shown an increasing trend except the financial year 2017-2018. The period of 2016-17 shown 24% of raise in the investments. The FII investments were largely depends on the Fed rates. If the fed rate increases, the FII investments from USA tuned to their domestic markets only.

b) Mauritius:

Graph-3: Year-wise FII inflows from Mauritius during 2012-2018

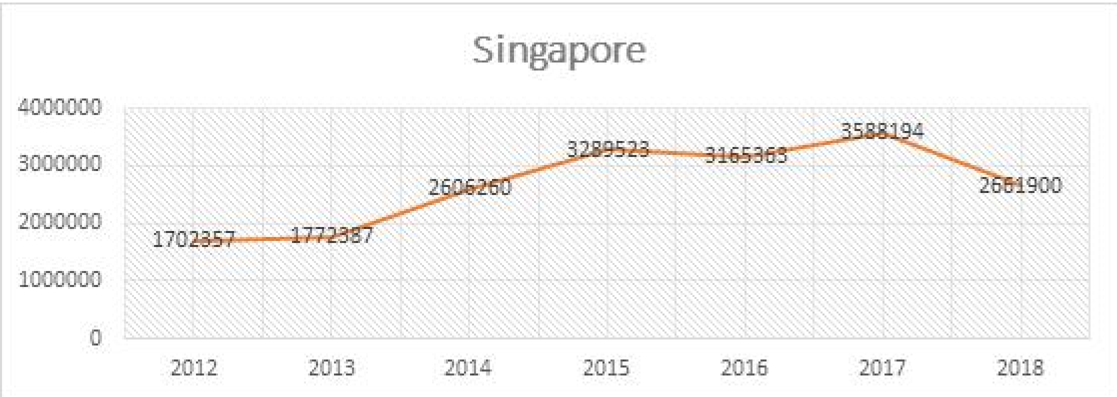


Source: researcher compilation from NSDL reports

The above graph depicts the FII investment trends of Mauritius since 2012. Being a tax-heaven country, Mauritius, Unlike USA investments, showing a multi-trend during the study period. During the financial years 2013-14, their investments were shown a growth rate of 134%. On February 14, 2014 RBI reduced existing sub limit for FII/QFI from USD 3.5 billion to USD 2 billion in Commercial paper and majority of FII from this country's contribution is poured in commercial paper. As a result, FII investments shown a negative/downward trend during 2014-15.

c) Singapore:

Graph-4: Year-wise FII inflows from Singapore during 2012-2018

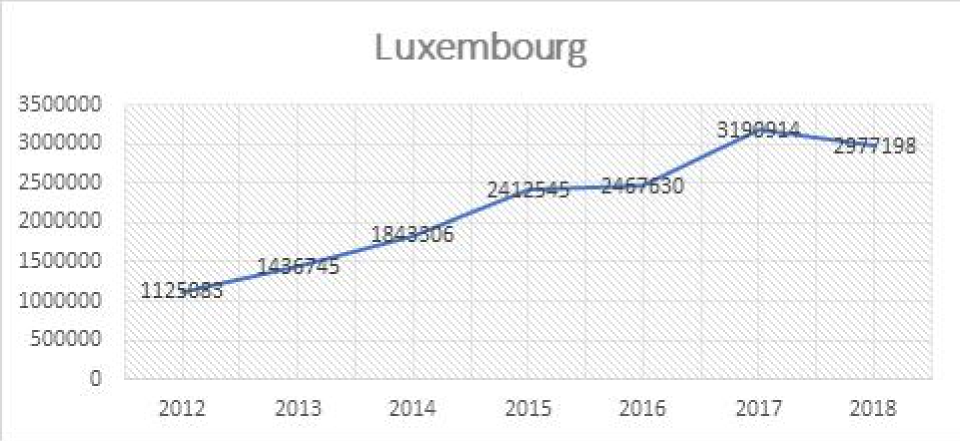


Source: researcher compilation from NSDL reports

The above graph depicts the FII investments from Singapore showing an uptrend since 2012. During the financial years 2013-14, SEBI allowed FIIs and sub-accounts for re-investment facility those who attained 50% of debt in their investments. As a result of that, most of the countries increased their investments during the financial year 2013-14. Here, FII investments from Singapore were shown a growth rate of 47%. Again, it shown a negative/downward trend during 2015-16.

d) Luxembourg

Graph-5: Year-wise FII inflows from Luxembourg during 2012-2018



Source: researcher compilation from NSDL reports

DISCUSSION

The above graph shows the FII investments to India from Luxembourg during 2012-2018. Until 2016, the trend of their investments is positive. A gradual increase in these investments witnessed the stability of their investments irrespective of the market sentiments and socio-political factors. On February 3,2015 FPIs are allowed to invest in liquid and money market mutual funds. Lock in period was disabled for FPI. This turned most of the small FII investors to remain in Indian market for acquiring a good weather.

CONCLUSION

India has DTAA agreement with 85 countries. But still few among them only actively investing in Indian capital market. The reason must be the delay in legal formalities associated with the registration formalities. Recent Marginal hikes in FPI inflows were not shown any hike in Indian bond market. Recently, Foreign institutional investors (FIIs) have ditched the Indian stock market, as they withdraw nearly Rs 1 trillion, in 2018, the highest ever. This could be a result of depreciating Indian Rupee (INR), the possibility of a future rate hike by the Federal Reserve and the crisis triggered by the IL&FS, in addition to the uncertain geopolitical factors.so, government of India must focus to detect and fill the investment gap with the inactive DTAA countries to encourage more investments.

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