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Global Transformation Imprinting Indian Financial Markets

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Abstract:
The Economic reforms of 1991, namely Globalization and Liberalization were an endeavour to encourage growth and unleash Indian economy's potential. Introduction of liberal economic policies under financial sector reforms move, fascinated Foreign Institutional Investors (FIIs) towards Indian financial markets and their growing contribution acted as a facilitator to our stock markets' development. In the present study an attempt has been made to study the impact of foreign institutional investments on Indian capital markets by analysing twenty years data starting from Jan 1996 to 2016 (till July). This research is based on secondary data collected from official website of BSE, NSE and SEBI. In order to scrutinize the collected data statistical tools such as correlation and regression have been used. The aftermath of all the discussions and data analysis concludes that FIIs have major impact on Indian capital markets. The correlation coefficient between both FIIs and BSE Sensex, as well as between FIIs and NSE Nifty is positively correlated. Volatility or plummeting in stock market occurs as an effect of withdrawal of money by FIIs, along with other factors like speculative trading, interest rate prevailing in the market and government policies related to specific sectors etc.

Keywords: *foreign institutional investments, volatility, plummeting, turmoil, fiscal deficit*

1. Introduction

"The license Raj" of post-independence era handcuffed Indian economy and pushed it into a big financial turmoil in late 1980s. The country faced an acute foreign exchange crunch and was left with mere US $1.2 bn of foreign exchange reserves, hardly enough to finance 3 weeks' worth of imports. The gross fiscal deficit of the government which was 9.0% of GDP in the year 1980-81 kept soaring to 10.4 percent in 1985-86 and then 12.7% in 1990-91. India had to pledge its gold reserves with IMF to secure a meagre loan of US $457 mn. The Govt. had to increase its internal borrowings also to meet the deficit, which rose from 35% of GDP in the year 1980-81 to 53% of GDP by the end of 1990-91.

As per *'India Report, Astaire Research'*, the year 1991 proved to be a turning point for our economy.

- "A Balance of Payments crisis in 1991 pushed the country to near bankruptcy. In return for an IMF bailout, gold was transferred to London as collateral, the rupee devalued and economic reforms were forced upon India. That low point was the catalyst required to transform the economy through badly needed reforms to unshackle the economy. Controls started to be dismantled, tariffs, duties and taxes progressively lowered, state monopolies broken, the economy was opened to trade and investment, private sector enterprise and competition were encouraged and globalization was slowly embraced…"

Thus it was decided to open up the economy, the economic policies were liberalized and private sector was given the freedom to participate in the Indian economy more effectively. The Indian market was integrated with the world economy and international investors were invited to participate in India. Consequently, the committee on "the reforms of the financial system" under the chairmanship of Mr M. Narsimhan Rao was made which sought for reforms in the financial sector. One of its recommendation included developing an active government securities market and strengthening the open market operations as an instrument of monetary policy. These reforms paved way for foreign investments which were, in fact, need of the hour. As a result of this, Indian stock market witnessed a metamorphosis- a transition-from a "dull" to a highly "buoyant" stock market. An improved market surveillance system, trading mechanism and introduction of new financial instruments made it a centre of attraction for the international investors.

Until the 1980s, India's development strategy was focused on self-reliance and Import-substitution. Current account deficits were financed largely through debt flows and official development assistance. There was a general disinclination towards foreign investment or private commercial flows. But the initiation of the reform process in the early 1990s, aimed at harnessing the growing global foreign direct investment (FDI) and portfolio flows. The broad approach to reform in the external sector after the Gulf crisis was delineated in the Report of the High Level Committee on Balance of Payments under the Chairmanship of C. Rangarajan, which recommended mainly-

→ A compositional shift in capital flows away from debt to non-debt creating flows
→ Strict regulation of external commercial borrowings, especially short-term debt
→ Discouraging volatile elements of flows from non-resident Indians (NRIs);
→ Gradual liberalisation of outflows
→ Dis-intermediation of Government in the flow of external assistance.

A major development in our country post 1991 has been liberalization of the financial sector, especially that of capital markets.

1.1. Introduction to FII

Since 1990-91, the Government of India embarked on liberalization and economic reforms with a view of bringing about rapid and substantial economic growth and move towards globalization of the economy. The Indian Government under its New Industrial Policy revamped its foreign investment policy recognizing the growing importance of foreign direct investment as an instrument of technology transfer, augmentation of foreign exchange reserves and globalization of the Indian economy. Simultaneously, liberalization of financial sector especially, that of capital markets was introduced post 1991. For the first time it permitted portfolio investments from abroad by foreign institutional investors in the Indian capital market. The entry of FIIs seems to be a follow up of the recommendation of the Narsimhan Committee Report on Financial System. The committee only suggested that the capital market should be gradually opened up to foreign portfolio investments. From September 14, 1992 with suitable restrictions, FIIs were permitted to invest in all the securities traded on the primary and secondary markets, including shares, debentures and warrants issued by companies which were listed or were to be listed on the Stock Exchanges in India. In 1992-93, then Finance Minister Dr. Manmohan Singh also proposed to allow reputed foreign investors, such as Pension Funds etc., to invest in Indian capital market and to operationalise this policy announcement, it became necessary to evolve guidelines for such investments by Foreign Institutional Investors (FIIs).

Foreign Institutional Investors (FIIs) mean an institution established or incorporated outside India which proposes to make investment in securities in India. They are registered as FIIs in accordance with Section 2 (f) of the SEBI (FII) Regulations 1995 and are allowed to subscribe new securities or trade in already issued securities. With rapid changes in economy due to liberal economic policies under globalization move, Indian market became a centre of attraction for foreign investors. The International investments started pouring into our economy and acted as a propelling force for economic integration with world economies. These influenced productivity and started rectifying the balance of payments situation.

Currently, entities eligible to invest under the FIIs route are as follows:

- As FIIs: Overseas pension funds, mutual funds, investment trust, asset management company, nominee company, bank, institutional portfolio manager, university funds, endowments, foundations, charitable trusts, charitable societies, a trustee or power of attorney holder incorporated or established outside India proposing to make proprietary investments or with no single investor holding more than 10 per cent of the shares or units of the fund.
- As Sub-accounts: The sub account is generally the underlying fund on whose behalf the FII invests. The following entities are eligible to be registered as sub-accounts, viz. partnership firms, private company, public company, pension fund, investment trust, and individuals.

FIIs registered with SEBI fall under the following categories:

- Regular FIIs- those who are required to invest not less than 70 % of their investment in equity-related instruments and 30 % in non-equity instruments.
- 100 % debt-fund FIIs- those who are permitted to invest only in debt instruments.

2. Literature Review

The behaviour of FIIs trading and their effect on Indian stock market was testified (Loomba, 2012). He observed that in the course of capital market liberalization, foreign capital has become increasingly significant source of finance and institutional investors are growing their influence in developing markets. He concluded that the Indian stock markets have come in age where there were significant developments in the last 15 years make the markets at par with the developed markets.

The contribution of foreign institutional investment in sensitivity index (Sensex) was examined (Walia, Walia and Jain, 2012). They attempted to understand the behavioural pattern of FIIs during the period of 2001 to 2010 and examine the volatility of BSE Sensex due to FII. They found that the FIIs are influencing the Sensex movement to a greater extent. Further it is evident that the Sensex has increased when there are positive inflow of FIIs. There was decrease in Sensex when there were negative FIIs inflow.

A bi-directional causality existing between stock prices (Sensex) and net investment of Foreign Institutional Investors (FIIs) was explored (Kaur and Dhillon, 2015). The study concluded that FIIs investment is a major factor behind both financial and macroeconomic instability in India.

The Flow of FIIs has advanced significantly since year 2001 to year 2013. A correlation between such FII flows and changes in stock market indices like nifty has been studied over last 13 years (Shah, 2013). It has been found that other factors might be contributing towards volatility of Indian stock market. As the correlation is not found to be strong some other factors can have impact and relations with stock market.

The main purpose of the research done by (Goudarzi and Ramanarayana, 2010) was to investigate the co-integration and causality between the Indian stock market and foreign institutional investment (FIIs) in India during world financial turmoil of 2008. The co-integration and causal relationship using Engle-Granger (1987), Johansen (1991, 1995a) and Granger (1969) methodologies were investigated. The study found that BSE 500 stock index and FII series are co-integrated and causality between them is bilateral.

(Joshi &Saxena, 2011) analysed the impact of variation in FII on Sensex and to study the degree of relationship between them in various FII movement scenarios. They found that the daily transaction of FII is the reason behind the volatility in the stock markets and has strong impact on the various macro-economic variables and the economy as a whole.

The empirical relation between stock market returns and FIIs flows indicate that the Foreign Institutional Investors are key determinants of Indian stock market (Kumar, Singh & Kumar, 2013). Results of the study show the linkages between the FIIs inflows and the performance of SENSEX are robust and significant.

Various statistical tools like mean, variance, standard deviation, skewness and correlation facilitate in examining FIIs impact on Indian stock market volatility (Joo and Mir, 2014). In addition to these tools, GARCH model is also used to study the impact of FIIs capital flows on stock market volatility. The study revealed that there is significant relationship between FIIs capital flows and stock market volatility. Moreover, FIIs investment has statistically significant influence on volatility of NIFTY and SENSEX, used as proxy to Indian stock market.

(Ramaratnam, Jayaraman and Krishnamoorthy, 2012) attempted to find the correlation between net FII flows and the select market index of sensex and also assessed the FII investment and movement of sensex on the basis of empirical data and also tests any significant difference exists in terms of FII investment towards equity and debt through application of t-test. They found that there is significant impact of FIIs on the BSE-Sensex and further the study finds that there is a good relationship between the variables of FII investment made by FIIs significantly differs in terms of equity and debt segment.

The trend of FII flows in India for the period 1993-94 to 2011-12 has been analysed (Maggo, 2014) by observing the annual data. The growth rate of Gross FII flows as well as FII flows in equity and debt market in India using Multiple Regression analysis have been examined in this research. The Results of trend analysis revealed that since 1993 FII flows have always been positive in India except for the years 1998-99 and 2008-09. Growth rate analysis shows that growth rate of FII flows in equity market is more than that of debt market.

The Foreign Institutional Investors (FIIs) have emerged as remarkable players in the Indian stock market and their growing contribution adds as an important feature of the development of stock markets in India. As a result, the Indian Stock Markets have reached new heights and have become more volatile making the researchers work in this dimension by establishing the link between FIIs and Stock Market volatility. FIIs trends in Indian capital market since economic reforms can be viewed from the following table below-

2.1. FIIs Trends in India

Financial Year	**Equity**	**Debt**	**Total net FIIs**	**Change in FIIs investments**	**% change**
1992-93	13	0	13		
1993-94	5127		5127	5114	
1994-95	4796	0	4796	-331	-6.45602
1995-96	6942	0	6942	2146	44.74562
1996-97	8546	29	8575	1633	23.52348
1997-98	5267	691	5958	-2617	-30.519
1998-99	-717	-867	-1584	-7542	-126.586
1999-00	9670	453	10122	11706	-739.015
2000-01	10207	-273	9933	-189	-1.86722
2001-02	8072	690	8763	-1170	-11.7789
2002-03	2527	162	2689	-6074	-69.3142
2003-04	39960	5805	45765	43076	1601.934
2004-05	44123	1759	45881	116	0.253469
2005-06	48801	-7334	41467	-4414	-9.62054
2006-07	25236	5605	30840	-10627	-25.6276
2007-08	53404	12775	66179	35339	114.5882
2008-09	-47706	1895	-45811	-111990	-169.223
2009-10	110221	32438	142658	188469	-411.406
2010-11	110121	36317	146438	3780	2.649694
2011-12	43738	49988	93726	-52712	-35.9961
2012-13	140033	28334	168367	74641	79.63745
2013-14	79709	-28060	51649	-116718	-69.3236
2014-15	111333	166127	277461	225812	437.205
2015-16	-14172	-4004	-18176	-295637	-106.551
2016-17 *	29573	1028	30601	48777	-268.359

Table 1: FIIs Investment in Indian Capital Market (Rs. Crores)

Source: www.cdsl.in
**Till July 2016*

In a major step towards globalization of our markets, the government allowed Foreign Institutional Investors such as Mutual funds, Pension funds, Investment trusts, Asset management companies to invest in tradable securities in the primary and secondary's market under the guidelines issued by government in September 1992. However, these have invested from January, 1993 only. The net inflow has risen from Rs. 5127 crores in 1993-94 to Rs.277461 crores in 2014-15 with relative ups and downs during the period as per the above table. During the period of 20 years there has been increase in eleven 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 1993-94 to 2015-16.

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 5127 i.e. 99.76% 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 aturn around, gliding up the contribution by FII to enormous amount of Rs. 6942 crores. Investments made by FIIs during1996-1997 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 fund a mentals, stable exchange rate expectations and offered investment incentives and congenial climate for investment of these funds in India. In 1997 several changes were made to the SEBI regulations to diversify the foreign institutional investor base and to further facilitate inflow of foreign portfolio investment. The changes also aimed at facilitating investment in debt securities through FII route.

During 1997-98, FII inflows posted a fall of 30.05 % due to S-East Asian Crisis and the months of volatility were experienced during November 1997 and February 1998.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 of1.86 % in 2000-01, 11.78 % in 2001-02 and 69.31 % in 2002-03. Investments by FIIs rebounded from the year2003-04 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 to other emerging market economies in Asia. Several factors were responsible for increasing confidence of FIIs on the Indian stock market which include:

- Strong economic fundamentals and attractive valuations of companies.
- Improved regulatory standards, high quality of disclosure and corporate governance requirement, accounting standards, shortening of settlement cycles, efficiency of clearing and settlement systems and risk management mechanisms.
- Product diversification and introduction of derivatives.
- Strengthening of the rupee dollar exchange rate and low interest rates in the US

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 net FIIs inflow to India from August 2004 continued till end2004-05. The inflows of FIIs during the year 2004-05 was Rs. 45881 crore. 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. However, 2008-09 saw the highest FII outflow in any financial year since inception. This could be attributed to the global financial meltdown. The total net outflow of FIIs was Rs.45, 811 crore in 2008-09 as against a net inflow of Rs.66, 179 crore in2007-08. This was the highest net outflow for any financial year so far. In 2008, the BSE Sensex fell almost 50% due to the global financial meltdown, wiping out the gains of 2007. The year 2008 has seen the biggest ever FIIs sell-off for the Indian markets. FIIs made a record investment in the Indian equity market in 2009, surpassing the 2007 inflows. The total net inflow of FIIs was Rs.1, 42, 658 crore as against an outflow of FII was Rs.45, 811 crore in 2008-09.This was one of the highest net inflow for any financial year so far. FIIs made a record investment in the Indian equity market in2010-11, surpassing the 2009-10 inflows. The total net investment of FII was Rs 1, 46,438crore as compared to ofRs.1, 42, 658 crore in 2009-10. The total net inflow of FII was Rs93,725 crore in2011-12 compared to 1, 46,438 crore in 2010-11 decreased by 36%. Again FIIs flows increased to Rs 1, 68,367crore in 2012-13.In 2012, FIIs infused money into the Indian market mainly on account of easing inflation, a relaxing of foreign investor restrictions and the RBI's policy moves but, there was again outflow of FIIs in 2013-14 about Rs 116718crore. After the formation of NDA government in 2014 and policies made by the Prime Minister Mr Narendra Modi, FIIs again continue to invest in India, as inflow rise to Rs 2,77, 461 crore. Now as per latest data till July 2016 amount of inflow is Rs 30601 crore.

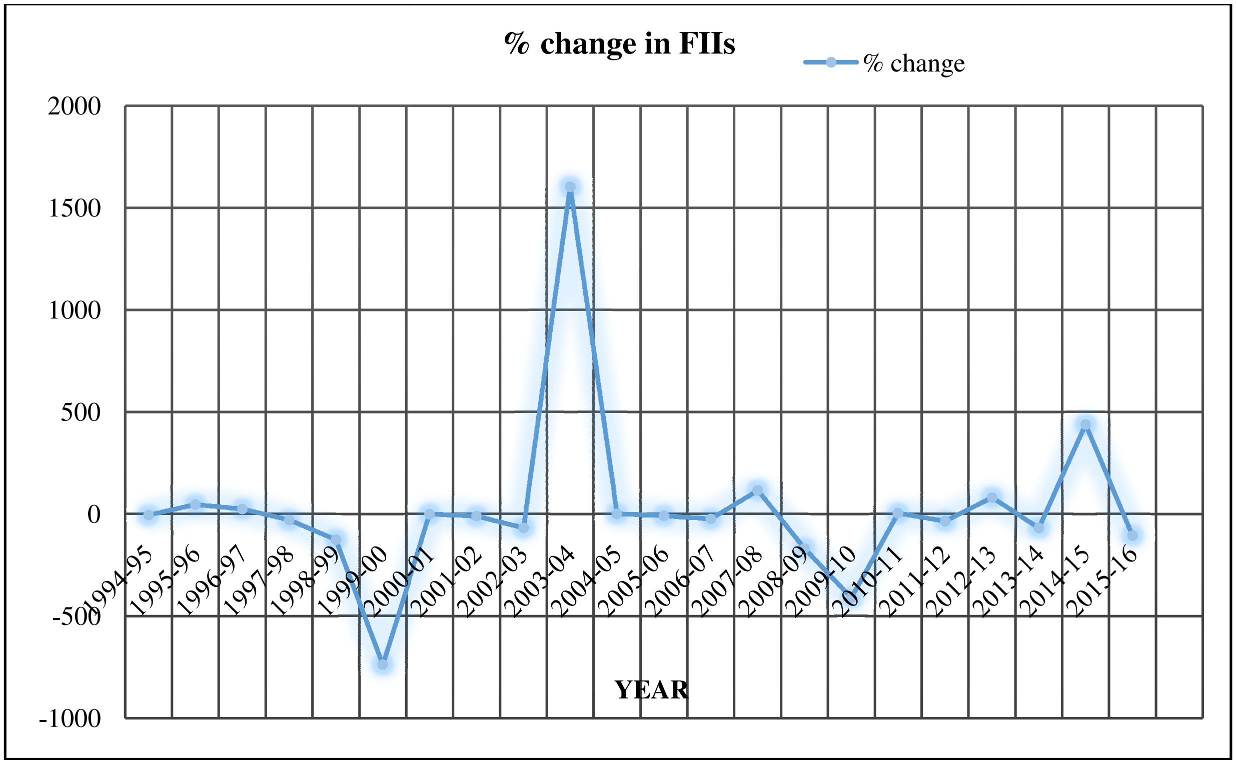

Figure 1: Year wise FIIs Net Investment
Source: Table 1

The above table shows the percentage change in FIIs between years 1995-2015. It can be clearly concluded that there is very high rate of fluctuation in FII between this periods. Highest negative percentage change was observed in financial year 1999 - 2000 i.e. 739.0151% because of the repercussions of South-East Asian Crisis, and other reasons behind their withdrawal from the market in 1998-99 were depreciation of rupee as a consequence of nuclear tests, political instability in economy which hurt the confidence of FIIs and they exited from Indian market. The next negative percentage change was observed in financial year 2008-2009 and 2009-2010 i.e. 169.223% and 411.406% respectively. After the global crises of 2008-09 foreign investors shown to invest money in Indian economy.

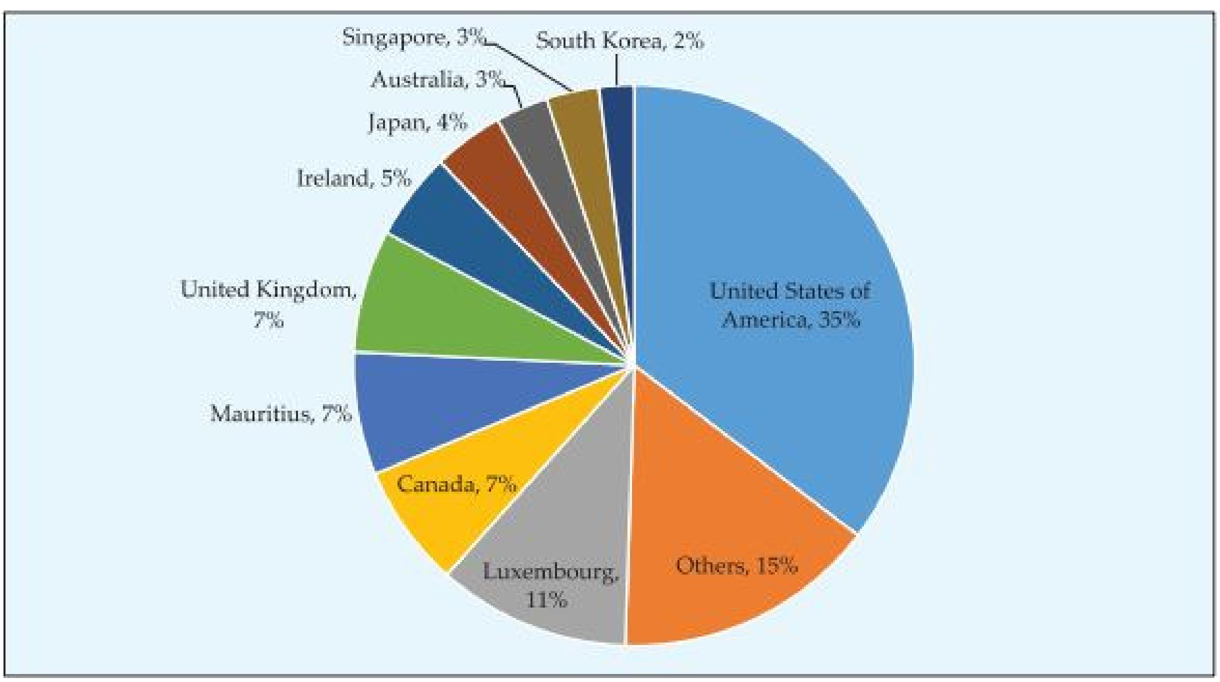

Figure 2: % of FIIs from Different Countries
Source: Annual report of SEBI 2015

From the above mentioned it is revealed that number of FIIs from USA is about 35% therefore any economic destabilization in USA causes heavy turmoil in Indian Stock Market. After USA numbers of FIIs are from Europe is about 23% (U.K., Luxemburg, and Ireland) which also causes the volatility in the Indian stock market and after Europe numbers of FIIs from Asia is about 16% (Mauritius, South Korea, Japan and Singapore) also causes the volatility in the Indian stock market.

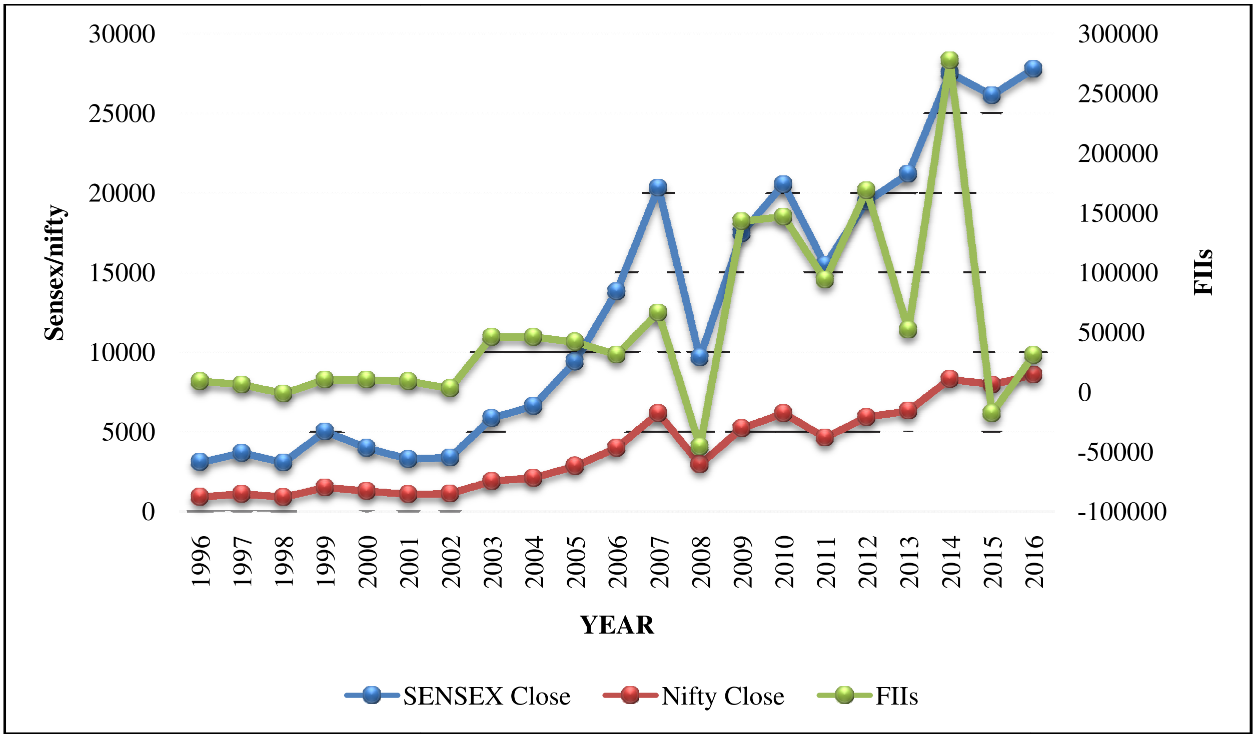

Figure 3: Trends of SENSEX NIFTY & FIIs

From the above chart it is evident that FIIs and Nifty, FIIs and Sensex move in the same direction that is there exists a positive correlation between the BSE Sensex and FII fund flows and between NSE Nifty and FII fund flows. It can be observed that FIIs have significant influence on the sentiments and price trends in the Indian equity market.

The graph also shows that the rise of Sensex in 2007 was largely fuelled by the money pumped in by the FIIs which led to the market touching 20,000, but in 2008, with the global economy in doldrums, the FIIs were net sellers and took the market down. FIIs pulling money from the market has resulted in a fall as There were many instances in the last decade when FIIs pulled out money from the stock market and at both these times the stock market went down. The pull-out was fairly severe in 2008, and the market fall was very bad as well. The pull-out 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 17,2008Again in 2010, Sensex touched 20,000 when FII were at its peak.

2.2. Objective of Study

The study has been made to analyse the trends and patterns of foreign capital flow into India in the form of FIIs. The specific objectives of this research paper are-

- To find relation between FIIs & Sensex.
- To find relation between FIIs & Nifty
- To examine whether FIIs have any influence on SENSEX and NIFTY

2.3. Research Methodology

To study the impact of FIIs on Indian stock market, Sensex and Nifty have been selected for the study, as these are the most systematic stock market indices and widely used by market participants for benchmarking.

This study is based on secondary data. In this research data has been collected from official website of BSE and SEBI. CNX Nifty data is downloaded from the websites of NSE. Monthly closing index value are taken. The current study considers 20 years data starting from Jan 1996 to 2016 (till July).

In order to analyse the collected data the statistical tools such as correlation and regression have been used, which have been calculated with the help of SPSS (Statistical Package for Social Sciences) Software.

2.4. Hypothesis

- For FIIs AND SENSEX
  (1) H_0: There is no significant impact of FIIs inflow on the stock market index (BSE-Sensex) movement
  (2) H1: There is significant impact of FIIs inflow on the stock market index (BSE-Sensex) movement

- For FIIs AND NIFTY
  (1) H_0: There is no significant impact of FIIs inflow on the stock market index (NSE-Nifty) movement
  (2) H_1: There is significant impact of FIIs inflow on the stock market index (NSE-Nifty) movement

3. Findings

	Mean	Std. Deviation	N
SENSEX	11623.8862	8131.64788	247
FIIs	4585.1599	10300.67791	247

Table 1: Descriptive Statistics

		SENSEX	FIIs
Pearson Correlation	SENSEX	1.000	.394
	FIIs	.394	1.000
Sig. (1-tailed)	SENSEX	.	.000
	FIIs	.000	.
N	SENSEX	247	247
	FIIs	247	247

Table 2: Correlations

Model	R	R square	Adjusted r square	Std. Error of the estimate
1	.394[a]	.155	.152	7489.91916

Table 3: Model Summary

Model		Sum of squares	Df	Mean square	F	Sig.
	Regression	2522201728.188	1	2522201728.188	44.960	.000[b]
	Residual	13744227800.095	245	56098888.980		
	Total	16266429528.283	246			
A. Dependent variable: SENSEX						
B. Predictors: (constant), FIIs						

Table 4: Anova

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. Error	Beta		
1	(constant)	10198.571	521.830		19.544	.000
	FIIs	.311	.046	.394	6.705	.000
Dependent variable: SENSEX						

Table 5: Coefficients

The above table exhibits the correlation and regression values of the independent variable FIIs on the dependent variables of Sensex. R square is the coefficient of simple determination. It expresses the extent of variation in the dependent variable as explained uniquely or jointly by the independent variables. The value of r square ranges from 0 to 1. From the Table 2, the value of r square for FIIs and Sensex is 0.155, implying that 15.5% of the change in dependent variable was explained by the independent variable. This further indicates that apart from FIIs factor some other major factors are responsible for the changes happen in the stock market. The regression equation y (BSE Sensex) = α + β (FIIs) + € shows that for every unit change in β (that is FIIs) there is .311 unit change in y (BSE Sensex). The value of α (alpha) is 10198.571 which show that the other factors are more responsible for this relationship. The anova (Table 4) shows the significant level of 5% indicating that there is model fit for linear regression model. The Table 5 shows that the t value is 6.705 which is greater than the table value, the null hypothesis is rejected at 5% level of significance indicating that there is significant impact of FIIs inflow on the stock market index (BSE Sensex) movement.

Further to find out the relationship between FIIs investment and BSE Sensex, pears on correlation test is carried out. From the Table 2, it is established that the correlation between net FIIs investment and BSE Sensex index is 0.39. This shows that there is good relationship between the both variables and both variables are positively correlated. Further the correlation is significant at 1% level.

	Mean	Std. Deviation	N
Nifty	3500.0696	2442.16585	247
FIIs	4585.1599	10300.67791	247

Table 6: Descriptive Statistics

		Nifty	FIIs
Pearson correlation	Nifty	1.000	.394
	FIIs	.394	1.000
Sig. (1-tailed)	Nifty	.	.000
	FIIs	.000	.
N	Nifty	247	247
	FIIs	247	247

Table 7: Correlations

Model	R	R square	Adjusted r square	Std. Error of the estimate
1	.394[a]	.155	.152	2249.25131

Table 8: Model Summary

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	227699607.627	1	227699607.627	45.008	.000[b]
	Residual	1239487211.708	245	5059131.476		
	Total	1467186819.335	246			
A. Dependent variable: nifty						

Table 9: Anova

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. Error	Beta		
1	(constant)	3071.815	156.707		19.602	.000
	FIIs	.093	.014	.394	6.709	.000
A. Dependent variable: nifty.						

Table 10: Coefficients

The above table exhibits the correlation and regression values of the independent variable FIIs on the dependent variables of Nifty. R square is the coefficient of simple determination. It expresses the extent of variation in the dependent variable as explained uniquely or jointly by the independent variables. The value of r square ranges from 0 to 1. From the Table 7, the value of r square for FIIs and nifty is 0.155, implying that 15.5% of the change in dependent variable was explained by the independent variable. This further indicates that apart from FIIs factor some other major factors are responsible for the changes happen in the stock market. The regression equation y (NSE-Nifty) = α + β (FIIs) + € shows that for every unit change in β (that is FIIs) there is .093 unit change in y (NSE-Nifty). The value of α (alpha) is 3071.815 which show that the other factors are more responsible for this relationship. The anova (Table 9) shows the significant level of 5% indicating that there is model fit for linear regression model. The Table 10 shows that the t value is 6.709 which is greater than the table value, the null hypothesis is rejected at 5% level of significance indicating that there is significant impact of FIIs inflow on the stock market index (NSE-Nifty) movement.

Further to find out the relationship between FIIs investment and NSE-Niftypearson correlation test has been carried out. From the Table 7, it is established that the correlation between net FIIs investment and NSE-Nifty index is 0.394. This shows that there is good relationship between the both variables and further both variables are positively correlated. Further the correlation is significant at 1% level.

4. Conclusion

From all the discussions and data analysis, we conclude that FIIs have major impact on Indian Capital market. The correlation coefficient between FII and Sensex for both analyses is positively correlated It is clear that major falls in stock market were after effects of withdrawal of money by FIIs. So there is a direct relation between the FII's money flow and the movement of SENSEX. The biggest fall in stock markets occurred in 2008. The Correlation Test also establishes the degree of association between the FIIs and Sensex and the analysis indicates the impact of FIIs on Indices. As we know the FIIs is not only the sole factor that influences the

SENSEX and NIFTY movement. The SENSEX is also influenced by other factors like company specific factors, speculative trading, interest rate prevailing in the market, political factors and Government policies related to specific sectors etc. which cause a significant change in the market.

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