Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 12, Issue 6, June 2021: 1160 - 1165

Impact of Foreign Institutional Investors on Indian Stock Market during Covid Induced Lockdown Period

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Abstract

Covid-19 outbreak has traumatized people across the world. The contagious pandemic created a dicey situation and had a deep impact on various sectors globally. The overall economic picture turned topsy-turvy. This study focuses on how Covid-19 affected the instability of capital market and the ramifications of FII on the same during lockdown period. The global spread of the pandemic casted a shadow upon the Institutional investors which they find difficult to escape. The sudden withdrawal of capital by the investors melted the global markets. However, Indian market managed to tackle this economic recession when foreign institutional investors came up pouring money. Reports suggest that the country witnessed a rise of 15% yearlong to Rs.29,400 Crore. The study also infers the role played by FIIs in molding back the market, which has undergone a drastic crash down during lockdown and the extent to which FII has aided for the same.

Keywords : FII , Economy, stock exchange, Covid-19

Introduction

Stock Exchanges are the exclusive hubs facilitating trading of securities. The two main principal exchanges in India are the National Stock Exchange of India Ltd (NSE) and the Bombay Stock Exchanges (BSE). There were around 25 Stock Exchanges in India so far, out of which only below 10 were operating at present. Stock exchanges will also render provisions for issue and vindication of securities and other financial devices, and capital events. These exchanges often function as "continuous auction" markets, where buyers and sellers perform transactions at a central location. (“Stock Exchange”) It gives required mobility to capital and direct move of the capital into feasible and successful enterprise. The prices of distinct securities mirror the demand and supply. In fact, the stock exchange is said to be a parameter of an economy and financial health. The stock market will reflect the economic conditions of an economy. The Securities and Exchange Board of India mandates that stock exchanges in India follow a set of laws and regulations. The aforementioned regulatory organisation is responsible for protecting investors' interests and advancing the Indian stock market in general.. (“List of Stock Exchanges in India”).

The National Stock Exchange of India Limited (NSE) is India's major financial market and the world's fourth largest exchange in terms of equities trading volume. It was founded in 1992 (Singh). The NIFTY 50 Index, which reports as the top asset in the Indian equities market, is the most important index offered by NSE..(Chen)

“BSE formerly known as **Bombay Stock Exchange** is the oldest stock exchange of Asia. It was established by Mr Premchand Roychand in 1875 as the Native Share and Stock Brokers Association” (Rai). The benchmark index of the BSE, the Sensex, which was an index of 30 of the BSE's largest and most actively traded equities from 12 sectors, can be used to assess the BSE's overall performance.

Whenever a stock is traded in any Stock Market, there will be a movement of the stock price every time. It can be upwards or downwards or even sideways. So there is a need for measuring the movement in stock prices. **Stock price index** is a methodology adopted for calculating and predicting the movement, which is commonly called as trend. So this index will help the investors and traders to identify the trend and to compare current price levels with past price levels with the objective of finding overall market performance. Index is calculated from prices of some selected stock from some selected Industry.

SEBI defined **Foreign Institutional Investors** as, "Means an institution established or incorporated outside India which proposes to make investment in India in securities. Provided that a domestic asset management company or domestic portfolio manager who manages funds raised or collected or brought from outside India for investment in India on behalf of a sub-account, shall be deemed to be a Foreign Institutional Investor"(Vyas and Shah, 1). . For investing in securities in India, they are required to register themselves with SEBI. RBI has designated some banks with authorization to deal with these Foreign Institutional Investors. FII activities are made under the strict regulations of SEBI.FII's can invest in two ways which are equity investments and investment in Debt instruments.

Importance of Stock Indices

- A Stock Market index will help Investors in easy picking of stock by classifying stock in several ways such as the type of Industry, Size of Company, Sectors in which the companies are operating etc
- Studying and analysing stock with the index will helps in getting an overall picture about the particular Stock's performance
- Index reflects the Investors sentiments, so new investors can make a decision on the basis of existing sentiment in the market
- Stock Market index is a forecasting tool. Analysing the historical performance of index will help in forecasting the trends in the market.

Impact of COVID

The financial market across the globe came to a standstill due to the Covid-19 outbreak. It had a negative influence on the economy in an unparalleled way. As a result of the disorder that appeared in the world market; Indian financial market was also affected and beheld an excruciating volatility. The SARS-CoV-2 virus, which originated the COVID-19 pandemic initially affected China in December 2019, and eventually got outspread all over the world. In order to the further outspread of the epidemic, many nations have declared lockdown including India (Bora and Basistha,1). "The World Health Organisation (WHO) proclaimed Covid-19 as a 'pandemic' on 11th of March 2020, Wednesday" (Hasan et.al, 1). On 12th of March,2020 the Indian stock market witnessed a heavy crash down, falling down of the benchmark indices, Sensex from 2919 points and closed at 32,778 and shedding down of Nifty by 900 points and closed nearly below 9,590. The net outflows of foreign institutional investments (FII) was the primary reason for this issue. Newspapers have reported that more than ₹34,000 Crores were backed out by the foreign investors from Indian equities and bonds during the month of March. Foreign investors have been net clientele of equities in India since September 2019. When India, like most of the countries, thrusted numerous limitations to travel and other formal affairs, these investors tend to turn out as net sellers. After continuous outpours of four weeks, this week, these investors have reverted the buyers. As the state governments are executing further lockdown actions regionally, as happened in the previous year, economic activity is averted from declination. But things may turn upside down if the pandemic spreads further which might result in inflating restrictions.

Review Of Literature

Anand Bansal and **J.S. Pasricha** (2009) conducted a study on " Foreign institutional investors impact on stock prices in India", in which they says that when India unlatched before international lenders, its stock market , an empirical investigation revealed that profit on the stock market have not changed considerably, however volatility has decreased dramatically. **Dr B J Queensly Jeyanthi** (2006), on her study titled "Impact

Of FII's on National Stock Exchange Of India" found that Fluctuation of FII's investment had also created fluctuation in Indian stock market and they came to a conclusion that FII's have a moderate notable effect on stock market of India**. Rajesh Chakraborty** (2001)conducted a study titled "FII Flows To India: Nature and Causes", a research probing into the nature and cause of FII flows to India and concluded that FII flux into India have regularly ascended in importance since the beginning of liberalization. **Pal, P**. (2004) on his study discovered that FIIs have a pivotal part in the Indian stock market and are having an increasingly significant impact on the domestic market, as FII trading accounts for a growing share of stock market turnover in India. **Stanley Morgan** (2002) conducted a study titled "FII's influence on Stock Market" which analysing the role played by FIIs in building up India's Foreign exchange reserves and how FII's investments helped in flourishing of economy of the nation despite slacking private view. The author also looked into the impact of FII on short-term market fluctuations during bad markets. Morgan Stanley looked at the relationship between foreign inflows and market returns and discovered that it is strongest during downturn markets and weakens as share prices rise due to hiking involvement of other market makers.

Objective of the Study

- To determine the effects of foreign institutional investors on the Indian stock market during the COVID induced Lockdown period

Research Methodology

Descriptive Research has been used in this paper and the data used is secondary in nature. We have taken two variables for our Research, one is stock market represented by BSE index (SENSEX) which is the dependant variable and FII net flow as Independent variable. As our goal is to examine the influence of FII on the stock market during the lockdown period, the data used for analysis is confined to a short time frame.. We have collected ten months data from March 2020 to December 2020. BSE data have obtained from Official website of BSE and FII data from NSDL website. The degree of FII's impact on the Indian stock market during the epidemic was determined using correlation and regression analysis.

HYPOTHESIS

$H_{o\,=}$ There is no significant impact created by FII's on Indian Stock Market during lock down period

$H_{a\,=}$ There is significant impact created by FII's on Indian Stock Market during lockdown period

ANALYSIS

Table showing Monthly FII investment and SENSEX Monthly closing value

Month	FII Investments (In CRORES)	BSE Monthly Closing value
March	-118203	29468.49
April	-14859	33717.62
May	-7356	32424.1
June	26009	34915.8
July	3301	37606.89
August	49879	38628.29
September	-1196	38067.93
October	21826	39614.07

November	62782	44149.72
December	71046	47751.33

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	FII Monthly Investment	.	Enter

a Dependent Variable: SENSEX Monthly Closing Value

b All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R square
1	.840[a]	.705	.668

R = R refers to Correlation. The value of R is between +1 and -1, and it measures the level of relationship between two variables.

Interpretation : In our findings the value of R is .840 , which implies a positive correlation between FII monthly investment and SENSEX monthly Closing value. So we can understand that FII is creating a strong impact on SENSEX

R Squared : it refers to a statistical measure that depicting the proportion of a variance for a dependant variable that explained by an independent variable

Interpretation : In our study the R Squared value is .705. So we can interpret that 70% variance in SENSEX is explained by FII's. This means FII investments are 70% responsible for the changes in the market capitalization of Bombay Stock Exchange

Adjusted R Square : It's nothing but a refined version of R squared that accounts for the amount of observations in the model.

Interpretation : Here the adjusted R squared value is .668, , implying that the dependent variable has a 66 percent variance.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Significance.
1	Regression	187882583.0	1	187882583.0	19.129	.002[b]
	Residual	78575963.72	8	9821995.465		
	Total	266458546.8	9			

Regression analysis is a statistical method used for analysing the relationship between a dependent and independent variable. So it has been used to determine the dependency between FII monthly investment and SENSEX value during lockdown period

Interpretation: The significance level is 0.002 which is less than 0.05. As a result, the null hypothesis is rejected and the alternate hypothesis is supported, implying that FII had a major impact on the Indian stock market during the lockdown period

CONCLUSION

On the basis of our Data Analysis and its interpretations, it is evident that FII's have created a strong positive impact during lockdown period. By analysing the correlation between Foreign Institutional Investors inflow and BSE closing value , the obtained correlation value is 0.840, which infers that there exist a positive correlation between FII's Investment and BSE monthly closing value. R Square value suggests that FII's are able to explicate 70% of movement in BSE during lock down period. It was the sudden lock down that compelled the FII's to withdraw their investments from Indian Stock Market which finally resulted in Stock Market crash. But their comeback brings stock market into the right track. So we reject the null hypothesis and accept the alternate hypothesis because our findings show that FII has a major impact on the stock market during the lockdown.

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