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INDIAN FIIS DURING THE COVID19 WAVE I

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Abstract

Foreign Institutional Investors (FIIs) recently emerge as significant positions in the Indian stock market. The procurement of stocks by FIIs via the share market has a significant impact on the stock market, particularly in terms of dividend yield, turbulence, and general market growth. FIIs are now investing in financial products in India and creating incentives for capital flows in the country since September 14, 1992. FIIs are recently get to be the market's power brokers. Despite the substantial relevance of FIIs in the Indian economy, it is critical to maintaining the momentum of these cross-border asset prices in the backdrop of the country's economic growth. Through greater diversification, FIIs have strengthened the market, decreased risk, and enhanced return. The purpose of this research is to look into the condition of FIIs in India throughout Covid 19 Phase I.

Keywords: Foreign Institutional Investors, Foreign Institutional Investments, Indian Stock

Introduction

The foreign equity investment was limited in many developing countries, including India, until the 1990s. Official Development Assistance (ODA), commercial borrowing, multilateral borrowing, and government securities were the key sources of cash for these countries. However, these sorts of the financing were not widely available. It also resulted in a significant debt burden, resulting in a financial crisis. Since independence, India has seen four instances of macroeconomic crisis. The very first catastrophe (1966-67) was marked by high agricultural inflation as a result of famine and the armed conflict with Pakistan; the second catastrophe (1973-75) was marked by high inflation as a result of the oil crisis; the third catastrophe (1978-81) was marked by high inflation and a current account deficit, and the fourth crisis (1990-92) was marked by the balance of payment crisis. High inflation and a large current account deficit were the main repercussions of these crises.

The fourth catastrophe was very terrible. For example, the balance of payments deficits climbed to 7.85 % and 3.5 percent of GDP, correspondingly, in June 1991, while the GDP growth rate and industrial rate of growth fell to 1.3 and 0.5 %, including both, in 1991-92. (Hand Book of Statistics of Indian Economy 2006). The debt service load increased to 30%, inflation surged to 16.7%, and India's foreign exchange reserves fell to the point that it could barely fund three weeks' worth of imports. As a result, the Indian government had no choice but to guarantee its gold reserves to the Bank of England to get loans to address the balance - of - payments deficit. To address the crisis, the government launched a macroeconomic stabilization program backed by the IMF's Structural Adjustment Program. On July 24, 1991, the New Economic Policy was introduced as part of this agenda.

Following the launch of the New Economic Policy, India shifted its policy away from debt-creating funds and toward non-debt-creating funds such as FDI and FPI. The advice of the High-Level Committee on Balance of Payments, chaired by Dr. C. Rangarajan, was largely followed in this opening up. FIIs have been allowed to invest in the Indian financial sector since September 14, 1992, with appropriate limits (Indian Securities Market Review 2000). Ever since FIIs have made significant investments in the Indian market. Except for a few years, foreign institutional investment (FII) data shows that their capital expenditure in Indian markets has remained consistent since the financial system was started opening to FIIs in 1992. There have been a variety of reasons why foreign institutional investors (FIIs) are making such large investments in Indian equities markets. This is based on India's position as the world's seventh world's biggest economy. India is also one of the little under economies in the world with strong growth prospects across all industries. Companies in India have enormous potential for expansion both within and outside of the country. MNC mergers and acquisitions by Indian corporations have demonstrated their mettle to the rest of the world. Furthermore, India's growing population means there will always be a demand for goods and services, and Indian consumers' spending power will continue to rise.

For almost a year, the world has been gripped by the Coronavirus Disease 2019 (COVID-19) epidemic. Due to a lack of understanding of the disease's natural history, the pandemic's impact and future path cannot be accurately predicted. Even though this infection has wreaked havoc in both affluent and low- and middle-income countries (LMIC), it has highlighted the disparities in health conditions and public health responses based on race and societal hierarchy. The Covid 19 Outbreak, which began in March 2020 and continues to influence numerous sectors of the economy, has been affected by an unprecedented circumstance, with FIIs being no exception. As a result, the goal of this research is to look at the FIIs inflow during Covid19 Phase I.

The objective of the study

1. To Examine the inflows of international institutional investments into India during the first phase of Covid 19.

Review of Literature

According to Desai and Joshi (2018), FIIs have become one of the most powerful groups of investors, owning a considerable portion of traded assets. In comparison to domestic financial institutions, Reddy and Saleem (2013) found that because of the large quantity of FII, they have become the dominating force guiding and shaping the market. Institutional investors' purchases have a bigger impact on price movement in optimistic markets than their sales, according to Chiyachantana et al. (2004), whereas institutional sales have a greater impact in negative markets. According to Stanley (2002), foreign institutional investors (FIIs) played a critical role in building up India's foreign exchange reserves, which permitted a slew of economic reforms. Second, despite poor local sentiment, FIIs are now significant investors in the country's economic progress. According to Chakrabarti (2001), any shift in FII had a beneficial impact on equities returns during the pre-Asian crisis period. However, in the aftermath of the Asian crisis, it was discovered that the change in FIIs is primarily attributable to changes in equities returns. As a result, any empirical study of FII must account for this phenomenon.

Limitations of the study

1. The research paper only looks at FIIs, not another role of international capital.
2. The study would be conducted for three months as well during the March 2020 countrywide lockdown.

Analysis

Table 1: Top 10 countries of Foreign Institutional Investments during December 2019 and May 2020

S. No.	Country	Total (INR Cr.)					
		Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
1	UNITED STATES OF AMERICA	1,171,312	1,162,579	1,102,233	827,258	9,40,258	9,01,950

2	MAURITIUS	436,011	436,745	401,816	283,487	3,14,668	3,04,799
3	LUXEMBOURG	335,970	333,610	311,663	230,497	2,50,690	2,35,642
4	SINGAPORE	314,955	305,473	305,584	227,831	2,71,362	2,74,209
5	UNITED KINGDOM	165,149	165,881	154,049	120,915	1,37,451	1,33,364
6	IRELAND	117,730	115,062	106,059	93,544	1,05,717	1,01,861
7	CANADA	127,238	125,877	120,576	92,769	1,03,139	99,903
8	JAPAN	121,217	121,363	115,527	82,827	92,157	88,956
9	NORWAY	83,964	82,921	77,065	65,144	72,235	72,538
10	NETHERLANDS	84,217	84,313	80,522	65,116	70,314	69,399
11	OTHER	558,706	566,410	542,318	400,834	4,61,849	4,61,113
Total		3,516,469	3,500,234	3,317,414	2,490,223	28,19,841	27,43,734

Source: *SEBI*

The top 10 nations making Foreign Portfolio Contributions to The economy during December 2019 and May 2020 are shown in table 1. The United States of America leads the list, followed by Mauritius, which has established a network of world-leading enterprises from various industries in the country to take advantage of the Indian government's exemption. Due to the escalating corona pandemic, all nations invariably cut their investments in the country during this time. Regardless of government action in the form of favorable policies to entice additional investment, the rate remains negative.

Table 2: Top 10 countries of Equity form of Foreign Institutional Investments during December 2019 and May 2020

S. No.	Country	Total (INR Cr.)					
		Dec-19	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**
1	UNITED STATES OF AMERICA	1,108,234	1,101,254	1,039,157	782,031	9,00,092	8,70,133
2	MAURITIUS	396,653	398,394	363,379	248,653	2,78,770	9,01,950
3	LUXEMBOURG	264,820	266,393	248,440	179,857	2,05,023	1,97,868
4	SINGAPORE	213,573	212,376	201,165	139,593	1,55,564	1,58,135
5	UNITED KINGDOM	160,784	162,335	150,770	117,951	1,34,738	1,31,204
6	IRELAND	94,196	92,502	84,163	87,999	1,00,238	96,615
7	CANADA	121,915	120,892	114,744	76,274	85,216	82,846
8	JAPAN	104,042	104,469	98,919	62,995	73,262	71,376
9	NORWAY	59,781	59,060	54,151	51,211	59,215	59,640
10	NETHERLANDS	70,107	70,718	66,327	42,149	47,532	46,517

11	OTHER	481,949	489,736	465,716	328,853	3,83,358	3,82,544
Total		3,076,054	3,078,129	2,886,931	2,117,567	24,23,008	23,68,500

Source: *SEBI*

Table 2 shows the top ten nations that made equity-based corporate equity profits between December 2019 and May 2020. All countries investing in India have seen their equity form gradually decline since the beginning of the study period.

Table 3: Top 10 countries of Debt form of Foreign Institutional Investments during December 2019 and May 2020

S. No.	Country	Total (INR Cr.)					
		Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
1	UNITED STATES OF AMERICA	59,269	57,516	58,983	41,853	35,923	27,976
2	MAURITIUS	39,186	38,188	38,279	34,718	21,250	18,491
3	LUXEMBOURG	70,535	66,738	62,727	50,265	44,302	36,453
4	SINGAPORE	97,151	88,929	97,747	82,070	70,951	70,207
5	UNITED KINGDOM	3,514	2,751	2,484	2,408	1,472	938
6	IRELAND	23,463	22,495	21,824	5,413	5,301	5,073
7	CANADA	5,078	4,746	5,617	16,298	15,976	15,132
8	JAPAN	16,886	16,612	16,304	19,785	18,852	17,540
9	NORWAY	24,179	23,857	22,911	13,933	13,020	12,898
10	NETHERLANDS	14,110	13,595	14,195	22,964	21,358	21,356
11	OTHER	74,346	74,251	74,225	69,714	67,999	67,708
	Total	427,717	409,678	415,296	359,422	3,16,405	2,93,773

Source: *SEBI*

Table 3 shows the top ten nations that made debt-based Foreign Institutional Investments in India during December 2019 and May 2020. During the study period, the debt form of investment has experienced a significant decline in comparison to the capital form of investment in all countries involved in FII investments.

Table 4: Top 10 countries of Hybrid form of Foreign Institutional Investments during December 2019 and May 2020

S. No.	Country	Total (INR Cr.)					
		Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
1	UNITED STATES OF AMERICA	3,810	3,809	4,093	3,374	4,210	3,808
2	MAURITIUS	172	162	158	116	124	114
3	LUXEMBOURG	616	480	496	375	367	323

4	SINGAPORE	4,231	4,167	6,672	6,168	6,433	6,556
5	UNITED KINGDOM	851	795	795	555	626	607
6	IRELAND	71	65	73	132	178	172
7	CANADA	245	239	216	196	196	174
8	JAPAN	289	282	304	46	43	40
9	NORWAY	4	4	4	0	0	0
10	NETHERLANDS	0	0	0	3	3	3
11	OTHER	2,412	2,422	2,377	2,268	2,330	2,317
	Total	12,701	12,425	15,187	13,235	14,511	14,113

Source: *SEBI*

Table 4 shows the top 10 nations that made Foreign Institutional Investments in India in hybrid form during December 2019 and May 2020. When compared to equity and debt forms of investment in India, the hybrid source of financing is the sole ray of hope that is practically consistent.

H_{01}: The difference in the FIIs in India before and after Covid – 19 pandemic is insignificant.

Table 5: Significance of FIIs in India before and after Covid 19 Pandemic

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	Before Covid 19 Wave I	3444705.67	3	110536.28	63818.15
	After Covid Wave I	2684599.33	3	172582.41	99640.50

Paired Samples Correlations				
		N	**Correlation**	**Sig.**
Pair 1	Before Covid 19 Wave I & After Covid 19 Wave I	3	-.366	.761

Paired Samples Test									
		Paired Differences					**t**	**df**	**Sig. (2-tailed)**
		Mean	**Std. Deviation**	**Std. Error Mean**	**95% Confidence Interval of the Difference**				
					Lower	**Upper**			
Pair 1	Before Covid 19 Wave I - After Covid 19 Wave I	760106.33	236579.07	136588.99	172411.34	1347801.33	5.56	2	**.031***

Source: *SEBI * Significant at 5 %*

The paired sample t-test for evaluating the significance of FIIs in India before and after the Covid-19 Pandemic is shown in table 5. Before the Covid-19 Pandemic, the mean value of FII was INR 3444705.67 crores, with a standard deviation of INR 110536.28 crores. After the Covid-19 Pandemic, the average value is INR 2684599.33 crores, with a standard deviation of INR 172582.41 crores. The t value is 5.56, with a p-value of 0.031 at a 5% level of significance, according to the table. As a result, the null hypothesis is rejected, and it is determined that there is a significant difference in FIIs in India before and after the Covid – 19 epidemic.

Conclusion

Since independence, India has placed a strong emphasis on the importance of investment in encouraging economic growth. However, economists and development planners have recently debated the importance of foreign institutional investment in India's economic development. Although since the early 1990s, when new economic policies were implemented, India has become a popular investment destination for international investors. FII is indeed an important component that aids in the development of financial markets and overall financial development, allowing a country's capital flows to follow its economic growth path. Based on the foregoing arguments and data analysis of the study, it can be concluded that FII inflows into Indian stock markets are increasing, as evidenced by net cumulative contributions.

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