

Impact of FII's on Indian Stock Markets: An Empirical Study

* Arvind A. Dhond

Abstract

Today most of the market entities are interested in attracting foreign capital as it not only helps in creating liquidity for the firm's stock and the stock market but also leads to lowering of the cost of the capital for the firms and allows them to compete more effectively in the global market place. The growth of institutional investors in the market is having its own advantages as well as its own share of problems on the brighter side almost always purchase stocks on the basis of fundamentals. And this means that it is essential to have information to evaluate, so research becomes important and this leads to increasing demands on companies to become more transparent and more disclosures. This will lead to reduction in information asymmetries that plagued the Indian markets for quite a while. Also, the increasing presence of this class of investors leads to reform of securities trading and transaction systems, nurturing of securities brokers, and liquid markets. It is seen that the numbers of FII flows is increasing every year. On the flip side the increase of foreign investors in particular will bring a very welcome inflow of foreign capital, but there are always some dangers if certain limits are exceeded. Firstly, the foreign capital is free and unpredictable and is always on the lookout of profits. FII's frequently move investments, and those swings can be expected to bring severe price fluctuations resulting in increasing volatility. Here the comparative trend of SENSEX and FII and how it affected the market can be analyzed. This research paper studies the relationship between FII's investment and SENSEX. For this purpose India's major index i.e. SENSEX is selected. This index in a way, represent the picture of India's stock markets.

Keywords: Foreign Institutional Investors (FII), Stock Markets, SENSEX, Index.

*Associate Professor in Commerce, St. Xavier's College, Mumbai - 400 001: E-mail: arvinddhond@gmail.com