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Impact of FIIs on Indian Stock Market with special reference to NSE Nifty-50 Index

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Abstract

India is a developing nation, domestic capital is insufficient to meet the country's financial needs. On 14th September 1992, India unlocked its security market for overseas investors. The GOI's investor-friendly policies and country's higher growth rate allure foreign investors for investment across the world. In the month of March 2025, the net FII inflow in the equity segment was ₹8053.44 Crore. This study attempted to probe the impact of FIIs on Indian security market for a timeframe of 5 years from 2019-20 to 2023-24. The secondary data was analyzed with the assistance of statistical tools growth rate, correlation and simple linear regression. The outcomes of the study indicated that there exists a moderate positive correlation among the variables, and the predictor variable of FIIs have an insignificant impact on the outcome variable of the Nifty-50 Index.

Keywords: Nifty-50, FII, growth, correlation, impact, linear regression

1. Introduction

In late 1980s and early 1990s, many emerging nations opened their economies to foreign portfolio investment (Mallapally & Sauvant, 1999; Jacob *et al.*, 2022) ^[15, 7], India was one of them. In the year 1991, India globalized its economy and also changed its foreign investment policy. With this, on 14th September 1992, India unlocked its economy and allowed overseas institutional investment in its domestic security market (Joshi & Saxena, 2011; Paliwal & Vashishtha, 2011; Bose, 2013) ^[11, 19, 4] and received approximately four million dollars of foreign investment in FY 1992-93 in the form of overseas institutional investment in equities segment (Yadav *et al.*, 2011) ^[33]. Foreign investment provides a means through which emerging countries can gain access to overseas capital for their economic progress. It can come in two possible ways, one is foreign direct investment and the other is foreign institutional investment. According to the SEBI of India (FII) Regulations, 1995, a "Foreign Institutional Investor" means an entity incorporated abroad which intends to make investments in India in securities (Kedia & Vashisht, 2017) ^[13]. FIIs mainly comprise pension funds, mutual funds, hedge funds, and insurance companies (Jain & Swarup, 2010; Sikarwar & Sharda, 2018; Anusha & Karpagam, 2023) ^[8, 28]. These FIIs are allowed to subscribe to new securities or trade in already issued securities. This is just one form of foreign investment in India. India is regarded as the second-most desirable place in the world by investors to make investments.

The Indian stock market, one of the oldest in Asia, has a rich history. The year 1875 marked a significant milestone in the history of the Indian security market with the establishment of "The Native Share and Stock Brokers Association," which later became the BSE (Sandhu & Mankotia, 2018; Preetha & Manjula, 2023; Bhaisora, 2024) ^[24, 23, 3]. It was the first stock exchange in the country to obtain permanent recognition in 1956 from the GOI under the Securities Contracts (Regulation) Act, 1956 (Babu *et al.*, 2023) ^[2]. At present, there are only two stock exchanges in India, BSE and NSE. The NSE is the key stock exchange of India, and it is located in Mumbai (Khan & Devi, 2023) ^[14]. It was established in 1992 (Mukherjee, 2007; Sharma *et al.*, 2023) ^[16, 26]. The NSE was the first stock exchange in India to offer a screen-based system for trading (Uddhav, 2014) ^[32] to bring greater transparency and efficiency to the market. On April 22, 1996, the NSE launched the Nifty-50 index with a base date of November 3, 1995, and a base value of 1000 (Rahman & Rajib, 2014; Sudhin, 2017) ^[22].

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The Nifty-50 is a well-diversified 50-stock index (Chaplot *et al.*, 2024)^[6], tracking the performance of the top 50 Blue-chip stocks (Sharma *et al.*, 2024)^[25] across thirteen sectors of the Indian economy (Prasad, 2016)^[21]. The weightage of these stocks and sectors keep changing over the time due to changing market dynamics. According to NSE, on 31st March, 2025, there were 2720 companies registered on the NSE with a market capitalization of ₹410.87 Lakh Crore.

2. Review of earlier studies

In this section an endeavor has been made to review the earlier academic research works undertaken in the domain of capital markets to detect the research problem and methodology undertaken by researchers in the earlier studies. The analysis pursued by Yadav *et al.* (2011)^[33] studied the 10 years of statistics from 2001 to 2010 and observed an inverse association between the FII and Sensex. The analysis led by Siddiqui and Azad (2012)^[27] found a significant impact of FIIs on IT, Auto, and Metal Indices. A minor significant impact was detected in the case of BSE Capital, BSE 100, BSE 500, PSU and Sensex Indices. In addition, study confirmed a non-significant impact in the case of Oil, Gas, Power, FMGC and Realty Indices. According to Patel (2013)^[20], he found a positive relationship among FII and Security market index. He also detected the bidirectional causality between predictor variable of FII and outcome variable of stock market Index. In a landmark research paper by Joo and Mir (2014)^[10] noticed a significant nexus between FIIs and security market volatility. Further, the search also approved the influence of FIIs on the volatility of both indices, Nifty-50 and Sensex. A similar kind of finding was reported by Nagpal *et al.* (2016)^[17] that there exists a progressive relation among security market and flow of overseas capital. On application of the regression model, the analysis confirmed the outstanding impact of FII and FDI on the Indian stock market. Kedia and Vashisht (2017)^[13] inspected a study titled "Impact of FIIs on Indian Stock Market (Specific to Sensex)." The authors found a positive association between FII activity and effects on Indian capital market. The study, carried out by Sikarwar and Sharda (2018)^[28], revealed that FII flows have a significant influence on both indices and there exists a unidirectional association among FII flows and Sensex as well as Nifty-50 returns. According to Pradip and Chitnis (2019)^[31], they found the positive association between FII and BSE Sensex, and at the same time they noticed that FIIs do not influence the BSE index of Sensex. Jegadeeshwaran and Ramapriya (2022)^[9] pursued a study on "Impact of FII on the share price of selected companies in NSE in India." The study inferred that net cumulative investment indicates the rise in FII inflows in Indian stock markets. In a research, Babu *et al.* (2023)^[2] scrutinized the growth patterns of Nifty-50 and Sensex. They reported in their study that both indices exhibit identical growth patterns. Further, they quantified that there was no statistically significant variation in the mean values during the course of the investigation. Recently, a research conducted by Kadve and Gowda (2024)^[12] observed that there exists a very close nexus between FIIs and stock market. The authors also highlighted that FII inflows are having a positive influence on capital market.

3. Research Gap

The Indian security market is regarded as one of the most

erratic marketplaces in the world. The market generates plenty of data on a daily basis, or even, we can say, hourly basis, and this data is considered imperative for decision-making by several stakeholders. So, it becomes essential to scrutinize the data on a recurring basis in short intervals. Although lots of the scholarly efforts have been pursued on Indian capital market. But all these scholarly efforts have not remained quite significant enough to expose the current scenario of the market. In this context, this study will be an attempt to update and fill the knowledge gap and evaluate the extent of influence of FIIs in determining the direction of Nifty-50 Index.

4. Need of the study

India is a developing nation, and domestic capital is insufficient to meet the economy's necessities. For a developing nation like India, foreign capital inflow is one of the imperative sources of funding to keep the economy on track. FIIs have had importance since the beginning of the liberalization of the economy. In the last decade, Indian security market has been considered one of the highly volatile and attractive markets in the world. FIIs play a critical role in the volatility of the market; when FIIs buy heavily, the market climbs, and when they leave, the market plunges. It creates the direct impact on the stock market and influences the decision-making of several beneficiary participants. This state of affairs has propelled a researcher to conduct a research on the influence of FII on Indian security market.

5. Research Objectives

- To analyze the annual growth of the Nifty-50 Index during the past 5 years.
- To examine the relationship between FII and Nifty-50 Index.
- To study the impact of FII on Nifty-50 Index.

6. Limitations

This study has certain limitations, just like all others. First, the study is based on secondary data, which was collected from various websites. Second, FIIs do investment in various segments, while study considered only one segment, i.e., Nifty-50 index. It may be or not justify the impact of FII on Indian security market. Lastly, only a five-year timespan was taken, which does not seem appropriate.

7. Significance of the study

The significance of this research is to discover the impact of FIIs on Nifty-50 Index. This study will serve as a useful source and offer valuable reference material for existing and prospective national and international investors, researchers, and policymakers associated and interested in foreign investment inflows in Indian share market.

8. Research Methodology

The present study is empirical in nature, and it is entirely based on secondary sources. The collection of data was ensured from the online websites of NSE, Yahoo Finance and CDSL. The study has adopted the quantitative approach to ascertain variables.

8.1 Hypotheses

- **H₁:** There is no significant correlation between FII and Nifty-50.

- **H₂:** There is no significant impact of FII on Nifty-50.

8.2 Scope of the study

In general, the scope of the research was confined to Indian security market, and empirically, it was restricted to inspect the impact of FIIs on Nifty-50 index.

8.3 Period of the study

The study analyzed the net investment by FII in the last five years in Indian stock market with the specific timeframe of 2019-20 to 2023-24 so that the outcomes are pertinent to the current market scenario.

8.4 Variables of the study

The present study is based on three variables. To study the

growth, opening and closing values of Nifty-50 Indices are taken. While studying impact, FII is considered as the independent variable, and the closing value of Nifty-50 Index is regarded as the dependent variable.

8.5 Tools and techniques of the study

The collected data was processed and tabulated with software applications of Excel and SPSS. For analysis of the data, descriptive and inferential statistical techniques of growth rate, bivariate correlation and simple linear regression were employed.

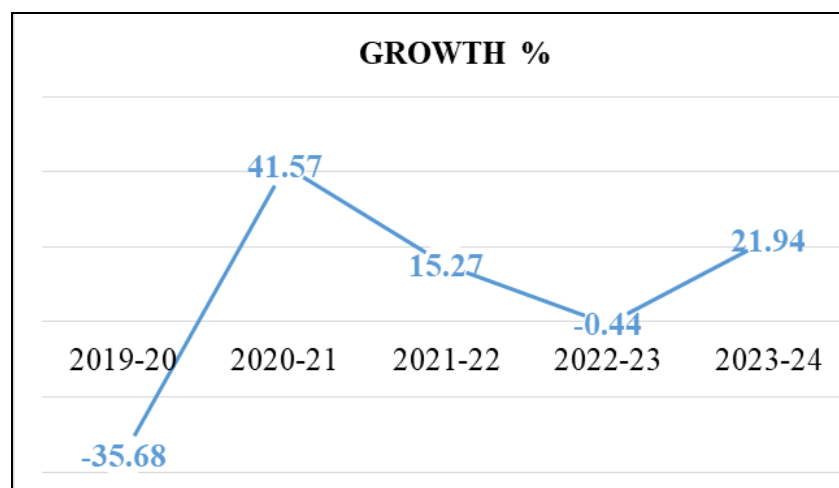
9. Analysis and Interpretation

9.1 Growth of Nifty-50 Index

Table 1: Growth of Nifty-50 Index

Year	Nifty-50		Growth %
	Opening Value	Closing Value	
2019-20	11665.20	8597.75	-35.68
2020-21	8584.10	14690.70	41.57
2021-22	14798.40	17464.75	15.27
2022-23	17436.90	17359.75	-0.44
2023-24	17427.95	22326.90	21.94
Total			47.75

Source: Author's Computation



Source: Author's Computation

Fig 1: Growth of Nifty-50 Index

It is observed from the table and chart that in the last few years Indian security market witnessed extreme volatile phases. Over the 5-year period, Nifty-50 Index has shown positive growth in most of the years. In 2020-21 it has revealed the highest growth rate, i.e., 41.57%. In the year

2019-20, Nifty-50 has shown the highest negative growth rate of -35.68%. Overall, NSE Nifty-50 has shown growth in three years.

9.2 Correlation Analysis

Table 2: Correlation between FII and Nifty-50 Index

Correlations			
FII		FII	Nifty-50
	Pearson Correlation	1	.419
	Sig. (1-tailed)		.241
Nifty-50	N	5	5
	Pearson Correlation	.419	1
	Sig. (1-tailed)	.241	
	N	5	5

Source: Author's Computation

In this table, correlation has been employed to detect the statistical association between FII and the closing value of the Nifty-50 index. Analysis indicates the moderate positive (0.419) correlation between FII and Nifty-50 index. Since the p-value 0.241 is higher than the standard limit of 0.05, it means the null hypothesis is accepted and the alternative is rejected. Therefore, it can be summarized that there exists an insignificant association between net FII and Nifty-50 index.

9.3 Regression Analysis

Table 3: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.419	.176	-.099	5254.86349

Source: Author's Computation

The coefficient of determination, commonly referred to as R-squared, has been determined to be 0.176. This implies that the predictor variable of FII is able to explain 17.6% of the variation of the outcome variable, the Nifty-50 index. This specifies that only 17.6% of movements in the Nifty-50 is driven by FII, and the remaining 82.4% is driven by other factors.

Table 4: Anova

ANOVA					
Model	Sum of Squares	DF	Mean Square	F	Sig.
1 Regression	17652183.195	1	17652183.195	.639	.482
Residual	82840770.988	3	27613590.329		
Total	100492954.183	4			

Source: Author's Computation

It is quite clear from the statistical information available in the ANOVA table that the p-value is 0.482, above the predetermined significance level of 0.05. Which means the null hypothesis is accepted and the alternative hypothesis is rejected. Therefore, it can be summarized that FIIs have no impact on the Nifty-50 index.

Table 5: Coefficients

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	15239.170	2578.710		5.910	.010
FII	.010	.013	.419	.800	.482

Source: Author's Computation

The coefficients determine the degree of the association. The result shows that every one-unit change in FII is associated with a 0.419 unit change in Nifty-50 in the same direction. And 0.482 p-value indicates the association is statistically insignificant at the 5% level.

10. Findings of the study

The findings are presented

- The overall Nifty-50 has shown the growth during the study period.
- The study has found a reasonable positive nexus between FII and Nifty-50 index.
- The statistical model R-square has reported that 17.6%

of the movement in Nifty-50 is driven by FII.

- Likewise, study has described that for every one-unit change in FII is associated with a 0.419 unit change in Nifty-50 in the same direction.
- Further study has found that FIIs have no impact on Nifty-50 Index.

11. Conclusion

India unlocked its economy for foreign investors in September 1992. Since then, India has emerged as a prime destination for foreign investments worldwide. The GOI's favorable economic policy and country's higher growth rate continuously attract the foreign investors. In fiscal year 2025, foreign investors made net investments of ₹20,018 crore in India. In conclusion of the study, analysis indicates that overall the Nifty-50 Index has revealed significant progress in the last five years. From the results of bivariate correlation analysis, study validates the moderate positive nexus between FII and Nifty-50 index. The most relevant finding of the study demonstrates that the predictor variable of FIIs have an insignificant impact on the outcome variable of Nifty-50 index. From all the above discussions it may be inferred that FII is not the factor which influences the Nifty-50 Index.

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