FOREIGN INSTITUTIONAL INVESTORS IN INDIA

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INTRODUCTION

Foreign institutional investors are likely to have similar characteristics to domestic institutional investors. Nonetheless, there are policy relevant implications of the choice between domestic and foreign institutional investors. Foreign institutional investors may be able to tap larger amounts of capital than domestic institutional investors. Involving foreign investors may also insure world standards in information disclosure and managerial accountability. On the other hand, involving foreign investors potentially will allow foreigners to reap the benefits from an appreciation in the value of the enterprises. Such a concern is particularly relevant if, for some economically sensible reason, the offering has to be made at a "low" price. Foreign institutional investors (FIIs) were net sellers from November 1997 through January 1998. The outflow, prompted by the economic and currency crisis in Asia and some volatility in the Indian rupee, was modest compared to the roughly $ 9 billion which has been invested in India by FIIs since 1992.

MEANING

An investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds. The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies

INVESTMENT RESTRICTIONS

Portfolio investments in primary or secondary markets were initially subject to a ceiling of 24 per cent of issued and paid up share capital for the total holdings of all registered FIIs in any one company, taking into account the conversions arising out of the fully and partly convertible debentures issued by the company. Further, the maximum holding of 24 per cent, for all FII investments did not include portfolio investments by non-resident Indians (NRIs), NRI-OCBs (overseas corporate bodies), direct foreign investments, offshore single/regional funds, global depository receipts and euro convertibles. In the case of public sector banks, the overall limit is 20 per cent of the paid-up capital. From 1997, it was decided to increase the limit of aggregate investment in a company by FIIs to 30 per cent of issued and paid-up share capital, subject to the condition that the board of directors of the company approved the limit and the general body of the company passed a special resolution in this behalf.

For carrying out transactions, the FIIs should designate a bank branch and open accounts in that branch. The investment operations of FIIs will be conducted through the bank branch designated by them. The RBI will permit the designated bank branch to open a foreign currency denominated account and a special non-resident rupee account in the name of the FII. The FII will also be permitted to (a) transfer funds from foreign currency account to rupee account and vice versa, (b) make investments out of the balance in the rupee account, (c) credit the sale proceeds of shares and other investments as also dividend/interest earned on the investments in the rupee account, and (d) transfer the repatriable proceeds (net of taxes) from the rupee account to the foreign currency account. The RBI will make available to the designated bank branches a list of companies where no further investment will be allowed. FIIs can also appoint as custodian, an agency approved by SEBI. The custodian will be in charge of all securities of the FII and

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will report to SEBI/RBI in order to comply with the disclosure and reporting guidelines. At present there are 14 registered custodians. There are however some restrictions. An FII will not engage in any short selling in securities. Also, it has to take delivery of securities purchased and affect delivery of securities sold.

FOREIGN BROKERS IN INDIA

With a view to facilitating the operational procedures for foreign institutional investment in India and encouraging the present investment trends, it was decided to increase the role of foreign brokers in transactions of FIIs by allowing them to provide assistance to the FIIs registered with SEBI in their dealings in India. A few foreign broking firms have set up fully owned subsidiaries in India. These broking outfits can deal directly in the Indian stock markets. Custodians approved by SEBI could render further, custodial services. The FIIs have been playing a major role in the Indian capital market with cumulative investments having reached $11.24 billion by March-end 2000. As compared to this, the cumulative amount of foreign direct investment (FDI) since 1991 up to December end 1999 has been estimated at $19.2 billion. The market capitalisation varies depending on share market prices.

IMPACT ON PRICES

Along with the domestic mutual funds, the FIIs have started playing a critical role in the movement of stock prices. The assets under management of domestic mutual funds have crossed Rs. 100,000 crores. About half of these funds are income funds, and the remaining balanced funds and equity funds. Hence, the FIIs and the domestic mutual funds play an important part in the movement of stock prices. A few other developments have strengthened the role of the FIIs. The Unit Trust of India's share in mutual fund collection has been going down. In fact, the UTI today is more successful with its income funds rather than with equity funds. In recent months, privately managed domestic mutual funds have been the most successful in garnering fresh funds from the public. Not surprisingly, a few of these foreign owned fund managers are also well known names among FIIs. Another development during recent years has been the declining role of development financial institutions (DFIs) such as IDBI, ICICI and IFCI in the capital markets. This is partly on account of their limited access to cheap funds and partly because of the withdrawls of the convertibility clause under which these DFIs managed to acquire equity shares of companies which were financed by them.

FEES FOR FII LICENSES

On June 26, 2006, SEBI announced that fees for FII licenses had increased from $5,000 to $10,000 and that fees for each FII sub account had increased from $1,000 to $2,000. SEBI also announced that licenses must be renewed every three years, rather than every five years under the previous fee schedule. The new policy, which took effect immediately, effectively tripled the fees FIIs must pay to invest in India largely. India is the only country in the world, to our knowledge, that charges foreign investors significant fees to be able to invest in its markets. Other countries that have, or have had, foreign investor licensing regimes charged nominal filing fees to cover the administrative costs associated with registration. Besides, FIIs seeking initial registration with SEBI will be required to hold a registration from an appropriate foreign regulatory authority in the country of domicile/incorporation of the FII.

The FIIs are playing an important role in bringing in funds needed by the equity market. Additionally, they are contributing to the foreign exchange inflow as the funds from multilateral finance institutions and FDI are insufficient. However, the fact remains that FII investments are volatile and market driven, but this risk has to be taken if the country has to ensure steady inflow of foreign funds

FOREIGN INSTITUTIONAL INVESTOR – FIRST INDIAN COMPANY

MFSL is the first domestic company registered as a Foreign Institutional Investor (FII) with Securities and Exchange Board of India (SEBI). Foreign companies/individuals are now permitted to invest in Indian Stocks by opening a Sub Account with a FII. MFSL opens Sub Accounts for foreign Corporates/Individuals to make investments in Indian capital market. The Sub Accounts are registered with SEBI and enjoy the Income Tax benefit available to FII.MFSL is one of the few companies licensed by SEBI to offer Portfolio Management Services. It offers Discretionary and Non Discretionary schemes. The Stock Trading division of MFSL is backed by a strong research team. MFSL has tied up with HDFC Bank Limited for banking and custodial services for its Sub Accounts.

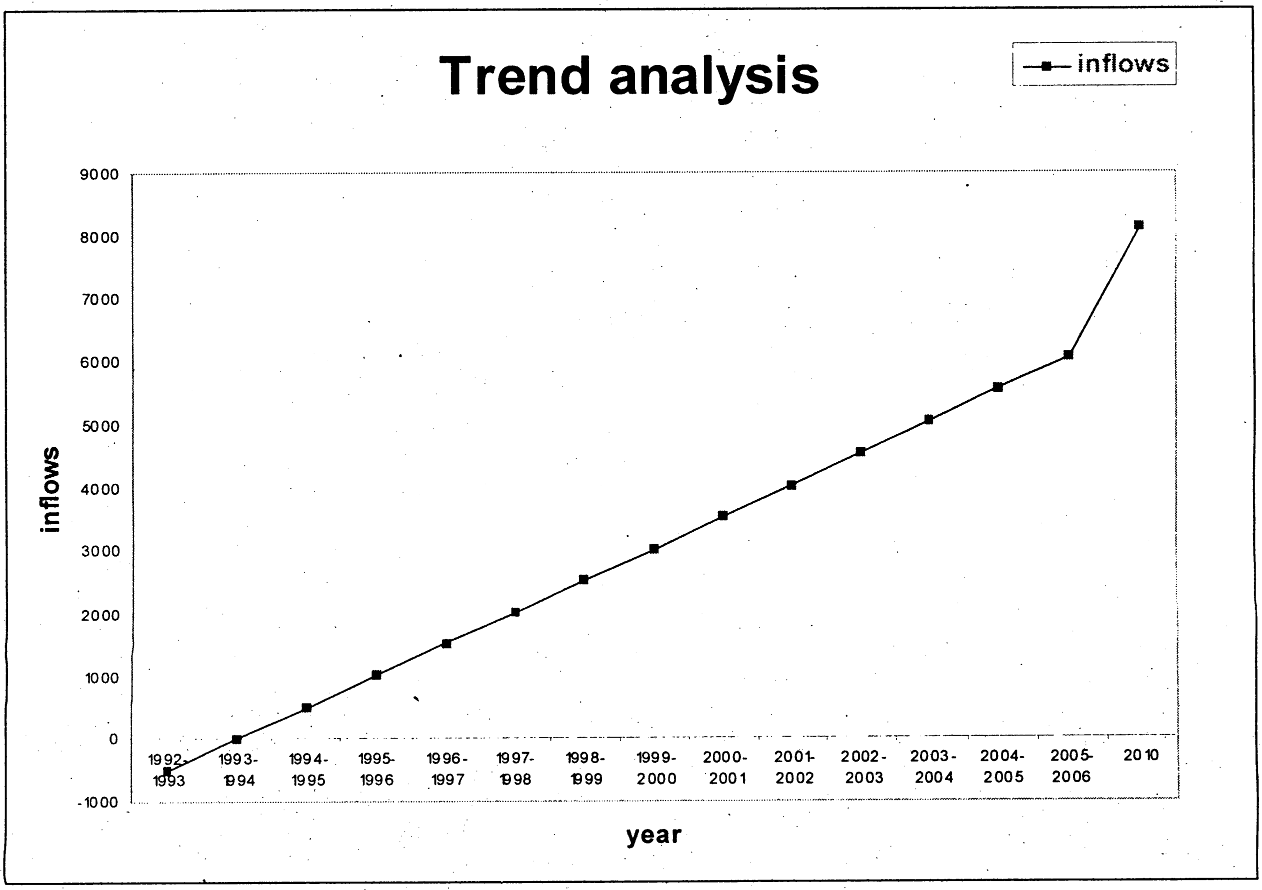
Table No-1

Foreign Institutional Investor's Investment in India From the Year 1992-2006

Year	Inflows (US$ million)	Trend analysis
1992-1993	1	-500.5
1993-1994	1665	5.5
1994-1995	1503	511.5
1995-1996	2,009	1017.5
1996-1997	1,926	1523.5
1997-1998	979	2029.5
1998-1999	-390	2535.5
1999-2000	2,135	3041.5
2000-2001	1,847	3547.5
2001-2002	1,505	4053.5
2002-2003	377	559.5
2003-2004	10918	5065.5
2004-2005	8686	5571.5
2005-2006	9926	6077.5
2010		8101.5

Source: RBI bulletin

CHART NO-1



The current list of companies allowed to attract investments from FIIs with their respective ceilings is:

TABLE NO – 2
INVESTMENT IN INDIAN COMPANIES BY FIIs

Serial Number	Upto 24% OF THEIR PAID UP CAPITAL	UPTO 49% OF THEIR PAID UP CAPITAL	UPTO 40% OF THEIR PAID UP CAPITAL	UPTO 30% OF THEIR PAID UP CAPITAL
1	Alembic Chemical Works Co. Ltd.	Blue Dart Express Ltd.	Balaji Telefilms Ltd.	Aptech Ltd.
2	Amar Investments Ltd. Calcutta	CRISIL	M/s. Burr Brown (India) Ltd.	Asian Paints (India) Ltd.
3	Anglo-India Jute Mills Co. Ltd.	HDFC Bank Ltd.	M/s. Elbee Services Ltd.	Capital Trust Ltd.
4	Arvind Mills, Ahmedamad	Hindustan Lever Ltd.	Hero Honda Motors Ltd.	Container Corporation of India
5	Ashima Syntex Ltd. Ahmedabad	Himachal Futuristic Communications Ltd	Jyoti Structures Ltd.	Ferro Alloys Corporation Ltd.
6	Ashoka Viniyoga Ltd.	Infosys Technologies Ltd.	Maars Software International Ltd.	Garware Polyester Ltd.
7	Bharat Nidhi Ltd.	NIIT Ltd.	Padmini Technologies Ltd.	GIVO Ltd. (formerly KB & T Ltd.)
8	BLB Shares & Financial Services Ltd	Dr. Reddy's Labroatories	Pentamedia Graphics Ltd.	Gujarat Ambuja Cements Ltd.
9	BPL Ltd.	Panacea Biotec Ltd.	Thiru Arooran Sugars Ltd.	Infotech Enterprises Ltd.
10	Burr Brown (India) Ltd.	Reliance Industries Ltd.	UTV Software Ltd.	Mastek Ltd.
11	Carrac Commercial Company Ltd.	Reliance Petroleum Ltd.	VisualSoft Technologies Ltd.	Orchid Chemicals and Pharmaceuticals Ltd.
12	Ceenik Exports (India) Ltd.	Sofia Software Ltd.	M/s. Silverline Technologies Ltd.	Pentasoft Technologies Ltd. (Pentafour Communications Ltd.)
13	CIFCO Finance Ltd, Mumbai	Sun Pharmaceutical Industries Ltd.	Ways India Ltd.	Polyplex Corporation Ltd.
14	Classic Financial Services & Enterprises Ltd. Calcutta	United Breweries Ltd.	SSI Ltd.	Ranbaxy Laboratories Ltd.
15	CPPL Ltd.(Reliance Ind. Infrastructure Ltd).Mumbai	United Breweries(Holdings) Ltd.		Software Solutions Integrated Ltd.
16	CRISIL	Zee Telefilms Ltd.		Sonata Software Ltd.
17	DCM Shriram Consolidated Ltd.	Mercator Lines Ltd (70%)		The Credit Rating Information Services of India Ltd.
18	Dharani Sugars & Chemicals Ltd.	Moser Baer India Ltd. (74%)		The Paper Products Ltd.
19	Dolphin Offshore Enterprises (I) Ltd	Opto Circuits (India) Ltd (40%)		Vikas WSP Ltd.
20	Essar Oil Ltd.	Prajay Engineers Syndicate Ltd (74%)		
21	Essar Shipping Ltd. B'lore	Pritish Nandy Communications Ltd (60%)		
22	Essar Steel Ltd	Punjab Tractors Ltd. (64%)		
23	Eveready Industries India Ltd	Pvr Ltd (40%)		
24	Fabworth (I) Ltd	Sakthi Sugars Ltd (50%)		
25	Ferro Alloys Corporation Ltd. Tumsar	Sanghavi Movers Ltd. (35%)		
26	Global Tele Systems Ltd.	Satnam Overseas Ltd. (51%)		
27	Grasim Industries Ltd.	Satyam Computer Services Ltd. (60%)		
28	Hamco Mining & Smelting Ltd.	Srei Infrastructure Finance Ltd. (64%)		
29	Hindustan Development Corp Ltd. Calcutta	Subex Systems Ltd. (74%)		
30	Hindustan Nitroproducts(Gujarat) Ltd.	Ssi Ltd. (74%)		
31	Hindustan Transmission Products Ltd. Mumbai	Tata Motors Ltd. (35%)		
32	HMG Industries Ltd, Mumbai	Tata Tea Ltd. (35%)		
33	India Securities Ltd.	The Tata Power Company Ltd. (35%)		
34	IVP Ltd	The Jammu & Kashmir Bank Ltd. (33%)		
35	Jagatjit Industries Ltd. New Delhi	Unichem Laboratories Ltd. (39%)		
36	Jai Parabolic Springs Ltd. New Delhi	Vaibhav Gems Ltd (60%)		
37	Jaysynth Dyechem Ltd	Zicom Electronic Security System Ltd. (74%)		
38	Jindal Strips Ltd.			
39	Jindal Iron & Steel Co. Ltd.			
40	JJ Spectrum Silk Ltd			
41	Kartjikeya Paper & Boards Ltd.			
42	Lakhani India Ltd.			
43	Matsushita Television and Audio India Ltd.			
44	M P Agro Fertilisers Ltd. Bhopal			
45	Macleod Russel (I) Ltd.			
46	Mazda Enterprises Ltd. Mumbai			
47	Media Video Ltd.			
48	Multimetals Ltd. Mumbai			
49	National Steel Industries Ltd.			
50	Nicholas Laboratories India Ltd. Mumbai			
51	O.P. Electronics Ltd. Mumbai			
52	Oriental Housing Development Finance Corp Ltd.			
53	Padmini Technologies Ltd.			
54	Panacea Biotech Ltd.			
55	Pearl Polymers Ltd. New Delhi			
56	Piramal Healthcare Ltd.			
57	PNB Finance & Industries Ltd.			
58	Rajath Leasing & Finance Ltd.			
59	Rama Petrochemicals ltd.			
60	Rama Phosphates Ltd.			
61	Reliance Industries Ltd. Mumbai			
62	Rishra Investment Ltd. Calcutta			
63	Rossell Industries Ltd. Calcutta			
64	Sahu Properties Ltd.			
65	Sanghvi Movers Ltd.			
66	Saurashtra Paper & Board Mills Ltd.			
67	Saw Pipes Ltd.			
68	Sayaji Hotel Ltd.			
69	Sharyans Resources Ltd.			
70	Shrenuj & Company Ltd.			
71	Shibir India Ltd. Calcutta			
72	Shriram Industries Enterprises Ltd. New Delhi			
73	Silverline Industries Ltd.			
74	Sonata Software Ltd.			
75	SRF Ltd.			
76	Sterling Lease Finance Ltd. Mumbai			
77	Svam Software Ltd.			
78	Synthetics and Chemicals Ltd. Mumbai			
79	The Champdany Industries Ltd. Calcutta			
80	The Dharamsi Morarji Chemical Company Ltd.			
81	The Investment Trust of India Ltd.			
82	The Morarjee Goculdas Spinning & Weaving Copmany Ltd. Mumbai			
83	Tolani Bulk Carrier Ltd.			
84	Uniworth International Ltd.			
85	Valecha Engineering Ltd.			
86	Sonata Software Ltd.			
87	The Credit Rating Information Services of India Ltd.			
88	The Paper Products Ltd.			
89	Vikas WSP Ltd.			

Source: RBI

TABLE NO-3
TRENDS IN FOREIGN INSTITUTIONAL INVESTORS INVESTMENT IN INDIA

Year	Purchase (Rs. Crore)	Sales (Rs. Crore)	Net investment (Rs. Crore)	Net investment (US $ mn.)	Net cumulative investment (US $mn)
1992-93	17	4	13	4	4
1993-94	5,593	466	5,126	1,634	1,638
1995-96	7,631	2,835	4,796	1,528	3,167
1996-97	15,554	6,979	8,574	2,432	7,634
1997-98	18,695	12,737	5,957	1,650	9,284
1998-99	16,115	17,699	-1,584	-386	8,898
1999-00	56,856	46,734	10,122	2,339	11,237
2000-01	74,051	64,116	9,934	2,159	13,396
2001-02	49,920	41,165	8,755	1,846	15,242
2002-03	47,061	44,373	2,689	562	15,805
2003-04	1,44,858	99,094	45,765	9,950	25,755
2004-05	2,16,953	1,71,072	45,881	10,172	35,927
2005-06	3,46,978	3,05,512	41,467	9,332	45,259
Mean	76944.7	62522.0	14422.6		
Standard deviation	102405.7	87605.5	17465.7		
Co –variance	133.08	140	121.09		

Source: SEBI Bulletin

r^1 correlation between purchase and sales 0.955

r^2 correlation between purchase and net investments 0.871

r^3 correlation between sales and net investments 0.819

The above table shows that purchase have a mean value of Rs 76944.7 crores and standard deviation of Rs102405.7crore during the period from 1992-1993 to 2005-2006.The co-variance for the purchase is 133 percent. Sales have a mean value of Rs 62522.0 crores and standard deviation of Rs 87605.5 crores. The co-variance for the sales is 140 percent. Net investments have a mean value of Rs 14422.6 crores and standard deviation of Rs 17465.7 crores. The co-variance for the net investment is 121.09 percent from above these purchases have highest mean and standard deviation compared to other variables. Sales have highest co-variance as compared to other variables. The correlation analysis for foreign institutional investor's investment in India during the period 1992-93 to 2005-06, the positive correlation is observed between purchase and sales is 0.955, purchase and net investment 0.871 and also sales and net investment 0.819. The above variables are positively correlated.

The Indian financial market was opened to the foreign institutional investors in 1992 to widen and broaden the Indian capital market. Since then, the net investment by FIIs in India has been positive every year except in 1998-99. During the last three years, there has been a phenomenal increase in the portfolio investment by FIIs in the Indian market. The Gross purchase has increased every year except in the years 1998, 2001, and 2002. The gross Sales by FIIs have increased every year except in 2001. However, the net investment by FIIs in 2005-06 declined to Rs.41, 467 crore in 2005-06 from Rs.45, 881 crore in 2004-05 mainly due to large net outflows from the debt segment. The cumulative net investment by FIIs at acquisition cost, which was US$15,805 billion at the end of March 2003, rose to US$ 45,259 billion at the end of March 2006.

CHART NO- 2

TRENDS IN FOREIGN INSTITUTIONAL INVESTOR'S ANNUAL NET INVESTMENT AND CUMULATIVE INVESTMENT

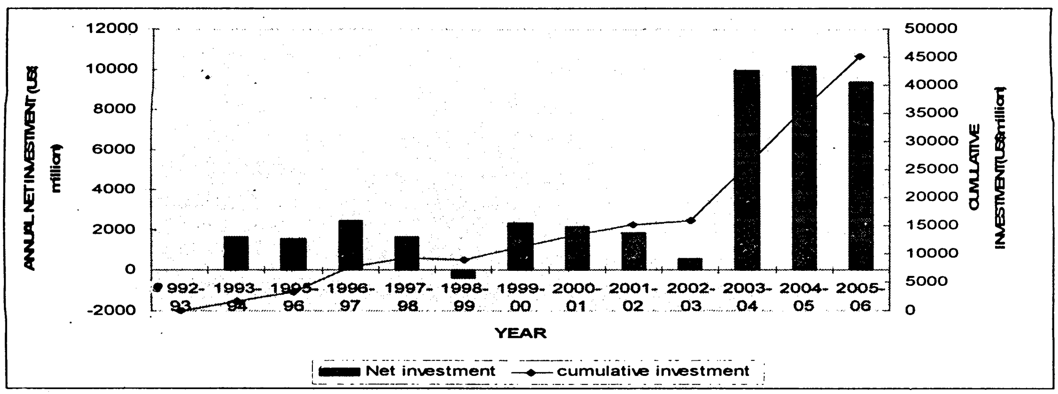


TABLE NO -4
MONTHLY FII INVESTMENTS FOR THE YEAR 2007 FROM JANUARY TO JUNE

Month	Equity (Rs. Crores)			Debt (Rs. Crores)		
	Gross Purcahse	Gross Sales	Net Purchase/Sales	Gross Purchase	Gross Sales	Net purchase/Sales
June-2007	51,949.20	43,567.80	8,381.40	643.90	1,544.80	-900.90
May-2007	51,574.90	47,000.00	4,574.50	2,376.10	1,016.00	1,360.10
April-2007	44,701.50	39,269.70	5,431.80	2,045.50	1,425.40	620.10
March-2007	50,552.60	49,149.30	1,403.30	3,654.80	1,490.80	2,164.00
February-07	51,568.90	45,503.90	6,065.00	2,339.20	1,917.70	421.50
January-07	47,506.77	47,412.32	94.45	1.191.38	2,938.95	-1,747.57

The above table shows that monthly investment in India by FII. It implies that in the month of June gross purchase is high as compared to other months. The gross sale is high in the month of March. The above changes are due to some monetary and financial policy. In the month of January, the net investment is negative mainly due to large net outflows from debt segment.

CONCLUSION

The presence of FIIs in the Indian markets demands the growing role of the capital market and the evolution of the institutions and financial structures to support it. Foreign investors may be especially concerned about the macro-economic policy because of the greater perceived currency, political and inflation risk. It is certain that the bargaining power and hence flexibility and ability for the market is greater with the FIIs than with the domestic investors.

Thus, the government will have to move fast to improve the functioning of stock markets and the regulatory system, which can curb undesirable speculation and ensure an ordering functioning of the markets during the crisis situation. It is very necessary that we take steps to ensure that our entire financial system does not get affected to a large extent with the investment of the foreign institutional investors.

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(continued from page 37)

calculated F-ratio value is 0.530, which is less than the table value of 2.620 at 5 percent level of significance. Since the calculated value is less than the table value it is inferred that there is no significant difference among the monthly investments in the average expected rate of return scores. Hence, the Hypothesis is accepted.

6.Conclusion:

An attempt has been made by the researcher to study the profile and expected rate of return on their investments. 48.7 percent of sample investors wanted to have 11-12 percent of return on their investments, followed by 18.0 percent of sample investors wanted 9-10 percent return, 14.2 percent of sample investors wanted 13-14 percent return, 8.4 percent of sample investors wanted to have 15 percent & above return on their investments and only 10.7 percent of sample investors wanted to have below 9 percent return on their investment.

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