International Journal on Arts, Management and Humanities **8**(2): 09-14(2019)
ISSN No. (Online): 2319–5231

A Study of Mutual Funds (MF) & Foreign Institutional Investor (FIIs) Flows in India and Role of Technology

Surbhi Jain
Assistant Professor(Ad-hoc), Department of Commerce,
Kamala Nehru College, Delhi University India.

(Corresponding author: Surbhi Jain)
(Received 18 May, 2019, Accepted 18 Augest, 2019)
(Published by Research Trend, Website: www.researchtrend.net)

ABSTRACT: FIIs and MF are the major institutional investors that play a vital role in Indian stock market. This article lays down the analytical framework to test relationship of FIIs flows, and Mutual Funds flows in Indian stock market. The study also analyses role of technology in shaping Mutual funds flow in India. Correlation between FIIs and MF flows in equity, and debt market is found to be significant and positive. Also, it has been found that over the period of study i.e. 2001-17, investment made by mutual funds has surpassed FIIs investment with technology playing a crucial role in developing mutual funds as a stronger institutional investor in the market.

Keywords: FIIs, MF, Technology.

I. INTRODUCTION

Foreign institutional investor (FIIs) and Mutual Funds (MF) are the two major institutional investors in Indian stock market. Institutional investment refers to investment made by institutions or organizations such as banks, insurance companies, mutual fund houses, etc. in the financial or real assets of a country. During calendar year 2017 (till Nov 10) MFs pumped in a net Rs. 102,810 crores and FIIs infused Rs. 47,730 crores in the equity market. In debt market, during the same period MF invested 356,654 crores while FIIs supplied Rs. 104,819 crores. Hence, the combined fund flows from these institutions form a major chunk of the total funds flows to the Indian stock market and thus have direct implications for the overall fund flows to the market. Also, FIIs are regarded as market drivers but in current scenario MF has led the market mainly due to technological advancement. However, FIIs and MF investment strategy varies to a large extent and are expected to play a significant role in broadening and deepening financial markets. FIIs are well known for a greater appetite for equity than debt in their asset structure. While, Mutual funds investment are regarded as a safe investment option. They are more concerned with long term gain and prefers debt or gilt instruments over equity. In this paper, we have explored the dynamics of the relationship between FIIs flows and Mutual funds flows individually in equity and debt market segments of the Indian stock market and also the role of technology in shaping Mutual fund industry.

II. OBJECTIVES OF THE STUDY

1. To highlight the advantages of using technology in mutual funds industry.
2. Comparison of investment pattern in debt and equity market.

Foreign institutional investor (FIIs): A foreign institutional investor (FII) is an investorwhois registered outside the country in which it wishes to invest. FII include investors and investment funds investing in the financial market of a country other than the home country in which they are registered.E.g., if an entity incorporated outside India invests in Indian stock market, then it will be referred as a foreign institutional investor in India. To invest in Indian stock market, FIIs need to register with Securities & Exchange Board of India (SEBI). They can be categorized into broad categories such as Banks, Mutual Funds, Endowments, Pension Funds, Investment Trust, Insurance or reinsurance companies, University Funds, Foundations, Charitable Trusts or Charitable Societies. FIIs can either invest their funds directly in financial markets of host country or on behalf of foreign corporates and individuals. Foreign corporates and individuals on whose behalf FIIs invest are known as sub-accounts. To invest funds of sub-accounts, a domestic entity i.e. an entity which is registered in the same country in which it invests can also be registered as FII in India. In 1992, FIIs were permitted to trade only in equity securities traded in primary or secondary stock market. It was in 1995, SEBI allowed FIIs to trade in gilt and debt securities. Hence, FII's can be registered with SEBI as follows (a) Regular FII's – These investors need to invest atleast 70% of their investment in equity related instruments and maximum 30 per cent in non-equity instruments (b) 100 per cent debt fund FII's – they are allowed to invest 100% of their investment only in debt instruments.

Mutual funds (MF): Any investor who wishes to invest in a stock market can either invest directly or can take help of professional managers who invest on his/her behalf. Investors require technical knowledge and time to analyse stocks and securities before making a direct investment. However, they may lack technical knowledge or may have insufficient funds to purchase securities of blue chipcompanies or may not have ample of time to analyse the fundamentals of various securities [12]. Hence, to overcome all these difficulties a new mechanism came into place called Mutual Funds. Mutual funds refer to a scheme in which savings of various investors are pooled in to invest such funds in corporate securities. These combined saving of investors are then invested in highly diversified manner in corporate securities after their proper analysis by the fund managers. The earnings from such investments are distributed among the investors after deducting fees of the corporate manager and administrative expenses of the fund.

Domestic institutional investors can be defined as an entity which is registered in the same country in which it invests. Like FIIs, DIIs can be categorised as banks, insurance companies, mutual funds etc. Mutual funds form a major portion of DIIs activity in India.

Mutual funds play an importantrole of channelizing domestic savings into financial market. In developing countries like India their role become more significant where a large number of individual investors are not comfortable in investing directly in financial market. In India, mutual funds are expected to play a dual role of enhancing stock market investments (along with foreign investors) and providing a cushion against any adverse effects of large scale withdrawals by foreign investors in times of crisis.

Role of technology in shaping Indian Mutual Fund Industry: Gone are the days when Mutual Fund investors needed to wade through mountains of paperwork to get started with their investments, or to execute future transactions on investments already made. Technology has now become a crucial aspect of each and every element of Mutual Fund operations be it transaction processing, fund management, customer service or distribution. It's worth noting that besides retail banking, Mutual Funds is the only other industry which can comfortably do the entire transaction chain from receiving money to investing and back to redeeming it everything on technology platforms, without any physical presence or paperwork. At first, technology has led to overall ease of transaction for first time investors for instance the "e-KYC" process now allows non-KYC compliant investors to cross the first hurdle of KYC compliance by logging on to the KYC Registration Agency Website and using their Aadhar Card number, followed by a simple OTP based verification and subsequent document upload process. In 2014, Sebi paved the way for future growth by permitting distributors to redeem mutual fund units as well as transact on Non-Demat units through the stock exchange. Using feature rich platforms such as BSE's STAR MF, AMFI Registered Mutual Fund Advisors can now buy, sell or switch Mutual Fund units on behalf of their clients without the obvious inefficiencies of moving papers back and forth to complete transactions. Secondly, besides facilitating transactional ease, technological advancements have been instrumental in creating efficiencies for distributors as well. A case in point is the IFAXpress platform by DSP BlackRock Mutual Fund, which provides (besides transaction capabilities), advanced analytics to its distributors – such as trends in AUM growth, client acquisition trends and in-depth analyses of their AUM mix. Properly crunched, such data can prove to be extremely valuable for distributors in the long run. Thirdly, technolgy has made its greatest contribution in portfolio selection and comparison. Evaluation and comparison of portfolio with the help of technology allows one to generate post performance data which sets various investment indicators, reinvestment predictors and parameters for investments such as lodaing charges, taxes and brokerage fees.SEBI chairman with a foresighted vision and hope, mentioned that the sale of Mutual Fund units on e-Commerce platforms could become effective soon. What this essentially means is that you may be able to purchase your Mutual Fund units 'online' on Flipkart or Amazon, as you would do with any other product. Hence, all these technological improvements have facilitated increased investor investment in MF to an great extent.

Investment pattern of FIIs and MF in Indian Equity and Debt Market: FIIs are well known for a greater appetite for equity than debt in their asset structure. The possible reason for such preference can be attributed to the fact that FIIs are more interested in short-term gains which they try to earn by increasing volatility of the market. They are also referred to as "Hot Money" which flows in a market during a boom period and flushes out in case they suspect chances of stress in the market. Whereas Mutual funds investment are regarded as a safe investment option as they are more concerned about long-term gain be it capital appreciation, moderate income growth or safety of capital invested. Mutual funds invest their funds in a vast diversified portfolio of stock and other securities to minimize risk. Thus, FIIs operate on the principle of "Higher the risk, Higher the return" while MF follows "Less risk and Less return" principle.

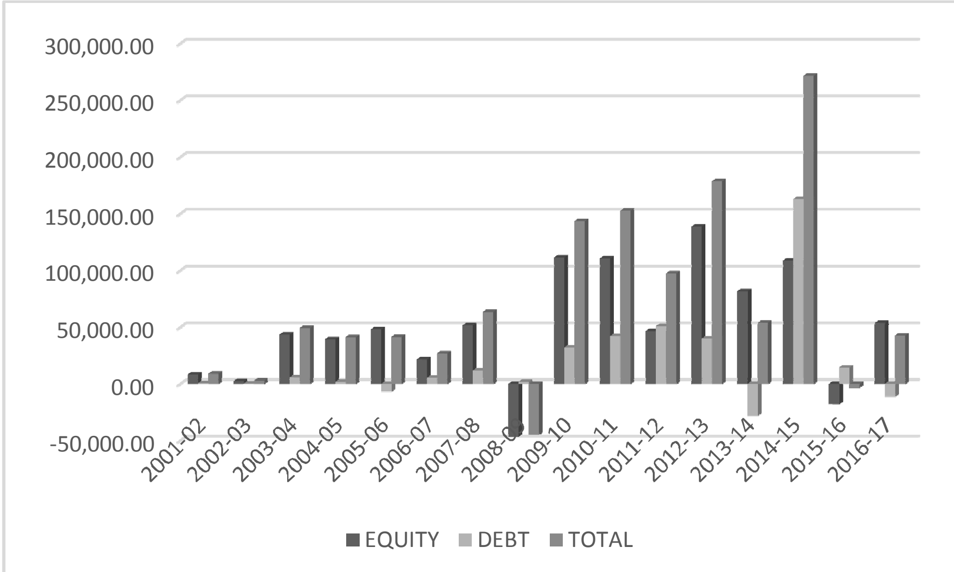

Fig. 1. Net Investment by FIIs in Equity and Debt market.

Table A (appendix) is anatomized and it's been inferred that FIIs had a very different investment pattern according to the relative theory. Initially, FIIs were more inclined to equity, but 2003-04 witnessed a substantial growth of FIIs investment in the debt market. The financial year 2014-15 was the year in which investment in debt market by FIIs surpassed investment in equity market. Increase in the investment cap of government securities market as well as of corporate bond market lead to rise of FIIs investment in the debt market.

In case of mutual funds, from the very beginning, they were inclined to debt only and kept on investing in debt at a growing rate till 2014-15. In 2007-08, mutual funds investment in equity almost gets doubled as compared to the previous year2006-07, but from 2009-10 to 2013-14 a reversal was seen when they started disinvesting in equity at an alarming rate. However, 2014-15 onwards mutual funds again reversed their strategy with high investment in equity market and sale in debt market.

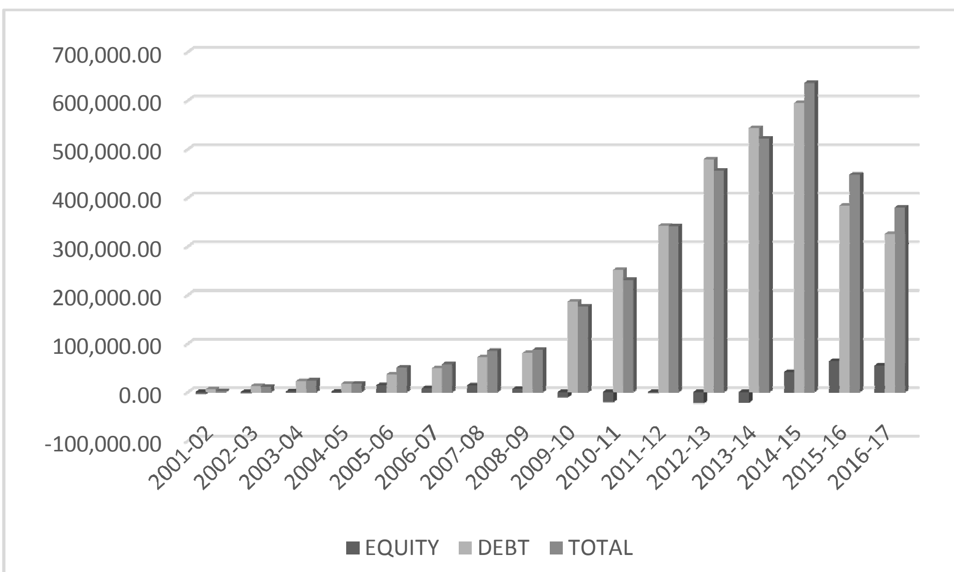

Fig. 2. Net Investment by Mutual Funds in Equity and Debt market.

At the time of global crisis of 2008, FIIs withdrew huge funds from equity market whereas they still invested in debt market. After crisis of 2008, they aggressively invested in debt market. Same pattern has been observed in case of mutual funds also, during pre and post crisis period.

Hence, this shift in investment strategy of FIIs from equity to debt and mutual funds continuous disinvestment in equity and investment in debt invoked few questions and lead to motivation of the present study. Firstly, Is there an association between flows of FIIs in equity and debt market? Secondly, is there any cause and effect relationship between FIIs flows in debt market to FIIs flows in equity market and vice-versa? Similarly, is there an association between flows of Mutual funds in equity and debt market? Also, is there any role of technology in shaping Mutual fund industry?

III. REVIEW OF LITERATURE

Several studies have been conducted in past to establish relationship between FIIs, DIIs, Mutual funds and their impact on Indian stock market. Arora (2016) [1] studied behaviour of FIIs and DIIs in the Indian stock market and the relation between stock returns (BSE Sensex) and equity flows by FIIs and DIIs. This study uses a wider definition of DIIs that includes not only MFs but also banks, domestic financial institutions and insurance companies. Correlation analysis, Granger causality test and the VAR model methodology has been used. Authors analysed daily data on equity flows by FIIs, DIIs and BSE Sensitive Index (BSE Sensex). The dataset covers the period from 16 April 2007 to 31 December 2013. A significant contemporaneous negative correlation (–0.48) was evidenced bynet investment of FIIs and DIIs. This indicates that their investment strategies totally differ from each other. DIIs sell when FIIs buy and DIIs buy when FIIs sell. The research supports the opposite investment behaviour of DIIs and FIIs as it is only 31 percent of the time during the sample period that the DIIs and FIIs have been on the same side (buy or sell) of the trade. Hence, both of them were either net buyer or net seller on the same date. This finding is in confirmation with earlier studies of Bose (2012) [2].

This present paper can be called as an extension of study titled. The Relation between Investment of Domestic and Foreign Institutional Investors and Stock Returns in India.The paper studied tradingbehaviour of Institutional Investors (both FIIs and DIIs) in Indian Stock Market. As to data and research methodology, daily data starting from 5th March 2007 till 30th June 2016 and Multivariate VAR approach is used [4].

After ananlysing the purchase and sale trade behaviour of FIIs and DIIs separately, authors conclude that FIIs appear to be very short-term momentum buyer in their purchase trade while DIIs showed indistinct buying pattern at the aggregate level. Coming to sale trade, FIIs reflected indistinct selling pattern at the aggregate level whereas DIIs have contrarion trading pattern of selling. Indistinct trade pattern means that "the players are neither momentum nor contrarion trader". The reason for indistinct trade pattern can be attributed to different investment objectives and information analysis skills of the two distinct groups.

Tripathi & Maggo (2015) [6] carried a study with an objective to estimate whether there is any relationship between the flows of FII investment in equity market and debt market in India or not and to estimate the short and long run relationship among the FII flows in two markets. Granger causality test and impulse response analysis are applied on monthly data for the period starting from April 2000 to March 2013. Firstly, a positive and significant correlation between FIIs purchases in debt and equity market has been found. Similar results are evident for FII sales in both the market as well. Secondly, Impulse response analysis revealed that FII flows to debt market are significantly responsive to a shock in FII flows to equity market and vice-versa.

Venkataraman & Chandramouli, (2017) **[7]** studied MF, FII and Sensex returns to find relationship among the three variables and to conclude which between the MF and FIIs influences market the most. Unit–root test, Correlation, and VAR methodology is adopted. Data has been taken from 2004 to 2015. There is a break in data period due to economic slowdown/recession. The sample period was divided into two parts the earlier period from 02-01-2004 to 31-07-2009 and the later period from 03-08-2009 to 31-12-2015.

It was found that during the period under study, FII drives Indian stock market with a greater force as compared to Mutual funds. Sensex was found self-reliant (84%) for its performance in the market which later marginally fell to (84%). Also, MF Gross purchase were highly self-reliant (97%) but later was caused by other variables (42%). However, MF Gross sales were less self-reliant earlier (47%) but later it became almost self-reliant (95%). Lastly, FII Gross Purchases were effected by MF Gross Purchases (38%) and laterwas majorly effected by FII Gross Sales (57%).

A large number of researches have been conducted in the past to analyse the relationship between the major two institutional investors of the stock marketi.e. FIIs and Mutual funds. But there are very few empirical tests which study the behaviour of FIIs and MF fund flows in equity and debt market segments. In this paper, we have tried to study the relationship of FIIs and Mutual funds flows in equity and debt market of Indian stock market and also the role of technology in development of Mutual fund industry.

IV. CONCLUSION

FIIs and MF are the major institutional investors that play a vital role in Indian stock market. This paper lays the analytical framework to test the relationship of FIIs flows and Mutual Funds flows in equity and debt market segments of Indian stock market. The study also analyses role of technology in Mutual funds flow in India.

In case of FIIs, a positive and significant correlation between FIIs gross purchase in equity and debt market is found. Similar relationship is noticed between FIIs gross sale in equity and debt market. Also, FIIs gross sales in equity are highly correlated with gross purchase in debt market and a strong positive association between FIIs gross purchase in equity and gross sale in debt market is observed.In case of Mutual funds, MF gross purchase in equity and debt market has a positive but less significant relationship with each other. Whereas, MF gross sale in equity and debt market are moving in same direction and a significant association is found between them. A strong positive relation between MF gross purchase in equity and gross sale in debt market is also observed. Finally, mutual funds gross sales in equityare highly correlated with gross purchase in debt market. Hence, results of Mutual funds are to some extent similar to FIIs only with a lower level of significance.
As MF combined investment in equity and debt market has surpassed FIIs investment, Mutual funds have emerged as one of the strongest pillars contributing to the long term growth of the country. Technology is undoubtedly, one of the crucial factor in shaping Mutual fund industry in India. Also, FIIs increased investment on yearly basis cannot be ignored for its contribution in growth of the country and helped in repealing FIIs image as “Hot Money”.

APPENDIX

Table 2: Investment pattern of FIIs and MF in Equity and Debt.

Net Investment by FIIs and MF in Equity and Debt						INR(crores)
	FII			MF		
Year	Equity	Debt	Total	Equity	Debt	Total
2001-02	8,293.00	659.90	8,952.90	-3,808.04	5,419.05	1,611.01
2002-03	2,534.27	338.85	2,873.12	-2,070.49	12,585.78	10,515.29
2003-04	43,483.50	5,709.84	49,193.34	1,304.19	22,718.20	24,022.39
2004-05	39,346.00	1,878.90	41,224.90	458.62	17,040.24	17,498.86
2005-06	48,069.90	-6,765.60	41,304.30	14,162.28	36,360.41	50,522.69
2006-07	21,518.93	5,367.11	26,886.04	8,127.78	49,041.39	57,169.17
2007-08	51,595.30	11,771.00	63,366.30	13,669.70	71,344.00	85,013.70
2008-09	-46,700.70	1,860.80	-44,839.90	6,627.60	80,206.60	86,834.20
2009-10	111,442.80	32,046.60	143,489.40	-10,235.10	186,137.60	175,902.50
2010-11	110,529.70	42,145.10	152,674.80	-20,573.00	251,227.30	230,654.30
2011-12	46,493.10	50,997.30	97,490.40	-1,117.40	342,177.70	341,060.30
2012-13	138,586.10	39,951.70	178,537.80	-22,857.30	478,787.00	455,929.70
2013-14	81,728.90	-27,892.20	53,836.70	-21,274.00	542,969.70	521,695.70
2014-15	108,672.79	162,821.87	271,494.66	41,154.30	594,481.70	635,636.00
2015-16	-17,579.17	14,382.41	-3,196.76	63,888.70	383,536.80	447,425.50
2016-17	53,696.06	-11,059.15	42,636.91	54,734.70	325,026.10	379,760.80

REFERENCES

[1]. Arora, R. K. (2016). The Relation between Investment of Domestic and Foreign Institutional Investors and Stock Returns in India. *Global Business Review,* **17**(3), 654-664.
[2]. Bose, S. (2012). Mutual Fund Investments, FII Investments and Stock Market Returns In India. Money & Finance, ICRA Bulletin.
[3]. Jalota, D. S. (2017). FII and DII in Indian Stock Market: A Behavioral Study. *International Journal of Research in Finance and Marketing,* **7**(5), 20-28.
[4]. Mishra, S., & Debasish, D. S. (2017). An Econometric Study of Trading Behaviour of Institutional Investors in Indian Stock Market: The Vector Auto Regression Approach. *IIMS Journal of Management Science*, **8**(2), 155-172.
[5]. Murthy, K. B., & Singh, A. K. (2013). Do Foreign Institutional Investors Really Drive the Indian Stock Market? *Asia-Pacific Journal of Management Research and Innovation*, **9**(1), 45-53.
[6]. Tripathi, V., & Maggo, S. (2015). An Empirical Analysis of Foreign Institutional Investments in Equity & Debt Market in India. *Journal of International Economics,* **6**(1), 107-117.
[7]. Venkataraman, 1. R., .V.R, P. S., & Chandramouli, P. A. (2017). Institutional Investments and Their Influence on Stock Returns – An Empirical Study. *IRA-International Journal of Management & Social Sciences*, **6**(3), 332-344.
[8]. Bulsara, H. P., Dhingra, V. S., & Gandhi, S. (2015). Dynamic Interactions between Foreign Institutional Investment Flows and Stock Market Returns –The Case of India. *Contemporary Economics*, **9**(3), 271-298. doi:10.5709/ce.1897-9254.170
[9]. Lao, P., & Singh, H. (2011). Herding behaviour in the Chinese and Indian stock markets. *Journal of Asian Economics,* **22**, 495-506.
[10]. Sehgal, S., & Tripathi, N. (2009). Investment Strategies of FIIs in the Indian Equity Market. Vision: *The Journal of Business Perspective,* **13**(1), 11-18.
[11]. Rajaram, S. (2015). Dynamics of FII Inflows in the Indian Debt Market. The Clearing Corporation of India Limited, Monthly Newsletter, 1-25.

[12]. John, D. C., Saraf, V. & Malviya, A. (2014). Performance of Private Mutual Funds in India: (Comparison of AUM between Mutual Fund Industry and Private Mutual Funds). *International Journal on Arts, Management and Humanities*, **3**(1), 1-4.