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Impact of Foreign Portfolio Investors (FPI/FII) on Stocks of Public Sector Banks

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Abstract

An economy like India, contributing comparatively higher growth opportunities than the developed economies like USA. Foreign portfolio investments (FPI) are an imperative element of the globalization of the world economy as it would largely affect the domestic financial sectors in the short run and genuine effect over the long haul. India had opened up its economy to the worldwide players during the year 1991 through Liberalization, Privatization and Globalization (LPG) policy. The purpose of present paper is to find out impact and the relationship between FII/FPI and market prices of major Public Sector Banks (PSB) of India. For this secondary data has been used for 8 years from the duration of 2011 to 2019. The study also examines the effect of FII/FPI on market prices of public sector banks using regression analysis models.

Keywords: FII, FPI, PSB, Stock Market, Market Price, NSE, BSE, India

1. Introduction

An economy like India, contributing comparatively higher growth opportunities than the developed economies like USA. India is a striking investment destination for Foreign Institutional Investors (FIIs). India had opened up its economy to the worldwide players during the year 1991through Liberalization, Privatization and Globalization (LPG) policy. There were various changes started during the New Economic Policy time. Different strategies and changes were presented in the money area. India as non-industrial nations consistently has a deficiency of assets for the improvement of economy. So the passage of FII and FPI (Foreign Portfolio Investors) gave truly necessary cash-flow to the financial advancement of India. It was felt that vigorous financial area was key for consistent development of capital and currency markets. FIIs were allowed to put resources into every one of the registered securities of Indian capital market to decrease country's reliance on obligation making capital streams, right the equilibrium of balance of payment position and create the capital and security markets. With encourage changes in the economy because of monetary changes (LPG), FPIs also make active investment in banking sector stocks. The present study analyses the trends of foreign portfolio investment in the Public Sector Banks (PSB) and investigates that is there any significant relationship between market prices of PSB and FPI investment in these banks. Banking and monetary administrations area is growing quickly in India because of government strategy of monetary consideration and the speed up development of business. The monetary exhibition, the expense of capital, pace of endlessly return on value, and net interest edge are a portion of the determinants of banking stock prices. This paper has been organized in four sections: section first is introductory, section second is related to literature review, section third objective of the study, section four explain about the research methodology used in the study, section fifth explain the data analysis and interpretation and section sixth draws conclusion and findings of the study.

2. Literature Review

A few examinations endeavor to research the elements that impact the proficiency of banks. A few examinations inspect just bank-explicit elements and others inspect both bank-explicit qualities and ecological determinants.

Dr. K. Lakshmi: The review shows that FII's investments are essentially unique across the two classes of banks separated by possession, for example public sector banks and private sector banks. FIIs hold a larger number of offers in private sector banks than public area banks when FII's shareholding is estimated as a level of all out extraordinary offers. The outcomes show that the arrangement push by Government in weakening its shareholding to expansive base the proprietorship and control has empowered investment by unfamiliar institutional financial backers to put resources into public sector banks however much they do in private sector banks. They find that FII's share assumes a huge and positive part in deciding the exhibition of public sector banks.

Anubha Srivastav (2013) endeavored to figure out the determinants of FIIs in India, whether there is any correlation between FII speculations and Indian financial exchanges. The review, utilizing Pearson correlation coefficients determined for the time span from 2001 to 2010, found that FIIs decidedly affect BSE Sensex and NSE Nifty, markets ascend with expansion in FIIs' speculations and fall due to FIIs' withdrawals from the market.

Joo and Mir (2014) tracked down the effect of Foreign Institutional Investors on unpredictability in Indian Stock Market. It was observed that there is a huge effect of Foreign Institutional Investors on Indian Stock Market. Further, the review uncovers that there is likewise a critical connection between financial exchange unpredictability and the speculations made by FIIs. The pattern examination affirmed that the capital progression of FIIs have filled altogether in most recent one year. It was seen that vacillations in NIFTY and SENSEX follows same example with no guarantees seen if there should arise an occurrence of Foreign Institutional Investors capital stream yet converse may not be valid for each situation.

3. Objectives of the Study

(1) To find out impact of FII/FPI on the market prices of the Public Sector Banks.
(2) To find out the relationship between FII/FPI net investment and market prices of public sector banks.

4. Research Methodology

4.1. Scope of the Research Study

The present study is based on secondary data which is collected from various sources such as magazine, newspapers, websites etc. It is an attempt to find out the impact of FII/FPI investment market price of public sector banks stocks. The study will cover only FII/FPI net investment in equity. The time period is limited 8 years divided in to 4 quarter starting from 1st April 2011 to 31st March 2019 as it gives exact impact in both the bullish and bearish trend.

4.2. Hypothesis of the Study

Following are the hypothesis formulated for the present study:

(1) **Null Hypothesis:** There is no significant relationship between FII/FPI investment and Market Price of Public Sector Banks. **(H_0: $\beta = 0$)**

(2) **Alternative Hypothesis:** There is significant relationship between FII/FPI investment and Market Price of Public Sector Banks. **(H_1: $\beta \neq 0$)**

4.3. Statistical Tools for Data Analysis

Correlation coefficient is used to analyses the relationship between market prices of PSB and FII/FPI investments. Regression analysis model will be used to measure the overall significance of response variable FII/FPI investments on predicted variable market price of public sector banks. T-test has been used for testing significant relationship between FII/FPI investments and market prices of PSBs by assuming regression coefficient (**β**) is not equal to zero.

4.4. Level of Significance

In the present study, we have assumed 5% level of significance.

5. Data Analysis and Interpretations

Table 5.1: Quarterly FII/FPI Investments and Closing Market Prices of PSB

Quarter & Year	Market Price of PNB	FII/FPI Investments of PNB	Market Price of BOB	FII/FPI Investments of BOB	Market Price of SBI	FII/FPI Investments of SBI
Jun, 2011	1089.25	610.99581	873.35	629.63007	2404.65	690.91414
Sep, 2011	953	594.43858	762.3	561.34989	1911.05	549.40125
Dec, 2011	780.8	589.68217	665.35	532.70667	1619.05	500.37438
Mar, 2012	925	589.42145	796.15	556.66571	2096.35	583.60275
Jun, 2012	808.3	587.17975	732.9	569.49993	2159	571.71994
Sep, 2012	840.3	589.05714	797.8	611.59426	2240.6	613.41849
Dec, 2012	871.3	608.53979	866.45	662.55054	2385.5	650.20546
Mar, 2013	717.9	634.94519	675.4	702.11403	2072.75	734.50644
Jun, 2013	650.85	635.89563	574.15	646.05720	1953.8	669.84162
Sep, 2013	461.45	631.81086	493.55	653.56214	1614.9	607.12635
Dec, 2013	626.45	633.98007	645.55	654.52515	1766.5	604.05501
Mar, 2014	743.9	622.68939	720.25	670.66741	1917.7	722.67285
Jun, 2014	992.2	628.84916	876.45	727.93168	2686.25	824.90638
Sep, 2014	887.3	628.43920	902.3	773.10963	2445.7	834.98853

Dec, 2014	219.1	3138.63130	1083.9	771.16313	311.85	8924.14953
Mar, 2015	144.4	3009.42937	163.5	3656.31944	267.05	8747.64937
Jun, 2015	138.8	2778.55260	144.15	2995.52783	262.75	8732.68723
Sep, 2015	133.25	2546.11721	183.2	2773.66144	237.15	8050.77861
Dec, 2015	115.7	364.46349	156.65	2737.18591	224.45	7897.16273
Mar, 2016	84.7	2034.33467	147	2637.71697	194.25	7047.14558
Jun, 2016	105.9	2034.84382	153.95	2618.07613	218.8	6870.64333
Sep, 2016	140.7	2355.27082	167.4	2748.04045	251.25	7266.47693
Dec, 2016	115.45	2210.16363	164.15	2684.32930	250.2	7180.86440
Mar, 2017	149.9	2119.24416	172.95	2720.47194	293.4	7436.26615
Jun, 2017	137.3	2217.88376	161.65	2773.79972	273.65	9481.01461
Sep, 2017	129.05	2127.07025	137.6	2969.29482	253.85	9239.23358
Dec, 2017	171.4	3046.72972	160.65	3469.63766	309.9	10494.04303
Mar, 2018	95.3	2522.83956	142.3	3686.63759	249.9	9817.97343
Jun, 2018	76.15	2337.29389	112.65	3465.67856	259.35	9105.63426
Sep, 2018	59.7	1143.54188	99.5	2737.97627	265.5	8987.53544
Dec, 2018	78.1	1168.76105	118.8	2480.58963	295.9	8240.00142
Mar, 2019	95.5	1569.45120	128.65	2590.01949	320.75	8692.67969

Source: Bombay Stock Exchange (bseindia.com)

Table 5.2: Model Summary of Regression Analysis between FII/FPI Investments and Market Prices of PNB, BOB and SBI Banks

	PNB	**BOB**	**SBI**
Multiple R	0.758	0.919	0.952
R Square	0.575	0.844	0.907
Adjusted R Square	0.561	0.839	0.904
Standard Error	241.08	131.49	292.51
Observations	32	32	32

Table 5.2 reveals that value of multiple R of all the three banks are highly correlated where as r square is also known as coefficient of determination which shows that how many points fall on the regression line and it elucidate how well regression model approximates the real data. R^2 0.575 shows that 57.5%, 84.4%, and 90.7% variation in the market prices of PNB, BOB and SBI (X) are due to change in FII/FPI investments and 42.5%, 15.6% and 9.3% variation are responsible for change in macro economic factors such as rupee-dollar value, price of crude oil, inflation rate, GDP data and industrial output.

Table 5.3: T-test for Relationship between FII/FPI and PSBs

		Coefficients	Standard Error	t- statistics	P-value
Punjab National Bank (PNB)	**Intercept (Y)**	857.275	80.2651252	10.680	0.0001
	FII/FPI (X)	-0.293	0.04600514	-6.383	0.0001
State Bank of India (SBI)	**Intercept (Y)**	2195.404567	83.95467268	26.14987941	0.0001
	FII/FPI (X)	-0.224572533	0.013115659	-17.12247366	0.00001
Bank of Baroda (BOB)	**Intercept (Y)**	908.0638119	43.6044205	20.82504025	0.0000
	FII/FPI (X)	-0.25353835	0.019851793	-12.77155937	0.0000

The Table 5.2 above shows that the value of slope (**β**) of regression line for PNB, SBI and BOB is -0.293, -0.224, -0.253 respectively which means that any change in FII/FPI investments brings -0.293 times market prices of PNB, -0.224 times change in market prices of SBI and -0.253 times change in market prices of BOB. So the table shows indirect or negative relationship between FII/FPI investments and market prices of PNB, SBI and BOB respectively. It means for a unit change in **β** value the market prices of all 3 banks are adversely affected. In the above table value of intercept (**α**) reveals that there are some other factors such as rupee-dollar value, exchange rate, crude oil prices, rate of inflation, economic policies and political condition of the country more dependable for the changes in these two variables. Here it is clear from the above table that p-value of regression coefficient for FII/FPI of all the three banks are less than the level of significance (0.05) hence null hypothesis should be rejected or alternative hypothesis i.e. there is significant relationship between FII/FPI investments and market prices of public sector banks as the slope of regression line is not equal to zero.

6. Conclusion

Banking has developed as a significant framework for social and financial advancement of the country. Today, in the period of development and information innovation, the accessibility of banking administrations in all pieces of the nation has become essential. The ongoing unfamiliar venture strategy for unfamiliar financial sector gives a wide extension to interest in banks from abroad. The present study reveals that there has been decreasing trend in foreign investments in public sector banks due to increasing Non-Performing Assets (NPA). Knowledge into the investigation uncovered that this arising pattern of foreign portfolio investments can be ascribed to prohibitive furthest reaches of 20% on FPI in PSB Indian Banking sector starting around 2005. From the present research study it can be fulfilled that there is a significant relationship between FII/FPI investments and market prices of public sector banks (PNB, SBI, BOB). It can also conclude from the review that there is a need to improve and make accessible the financial services in each space of the country. The public authority ought to find appropriate ways to guarantee continuous flow of foreign investments in banking sector. The impediment of the review is that there are some different factors that influence the stock market of India which have not been considered for this concentrate like way of behaving of the individual, news on the lookout, war enmity, GDP development, and so on. The review is centered exclusively on macroeconomic elements as there is extreme absence of accessible information on conduct of people, and so on.

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