INVESTMENT BEHAVIOUR OF INSTITUTIONAL INVESTORS: A COMPARISON OF FIIs & INDIAN MUTUAL FUNDS

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Abstract :
Foreign institutional investors and investors in mutual fund are the major participants of Indian stock market. this study aims to investigate the factors influencing investment behaviour of FIIs and mutual fund investors. Various statistical tools were applied to check the effect of various factors such as regression and Granger's Causality Test. This study reveals that return in stock market and exchange rate are major components influencing investment behaviour. Study revealed that causality direction is from investment by foreign Institutional investors to MFIs. The study suggested that strong economic policy must be formed to encourage domestic investors and to provide good platform for FIIs so they can invest their money with confidence. Some efforts also need to made for attracting FDIs.

Keywords: FIIs, Stock Market, Mutual Fund, Volatility

Introduction:

Foreign institutional investors and foreign direct investor are the pool of fund which are invested in securities, real estate and various other places and assets. The amount is collected from various small investors and retail investors and invested in capital market of country. Investment through these kind of institutions are very useful for the retail investor because investment is managed by the professional fund managers. In last two decades' Indian capital market is growing like anything and investment is also increasing after implementation of LPG. The major institution who invest their money in large quantity are IDBI, commercial banks, NBFC, mutual fund, Insurance companies and FIIs. Study of investor's behaviour is of interest for policy maker and researchers. Economic development is dependent on foreign investment due to the large amount invested in capital market. it also serves and provide opportunities for economic growth in developing countries. it has also provided speed for fast development. In India, international firms are setting joint venture and subsidiaries. Indian economy become more flexible and open for investment to contribute in development (Levine, 2001). Capital inflow can also create some unwanted situation related to inflation, monetary expansion and deficit in current account. As per the guidelines of SEBI any FIIs can invest their money in the following categories: pension fund, investment trust, mutual funds, insurance companies, endowment funds etc. Mutual funds are the pool of number of investors of common goal. Fund raised by mutual fund is invested in various financial instruments. The earning and profit earned by mutual fund is distributed among all mutual fund unit holder in proportion to the unit held by them.

Remainder of the research article is as follow: second part of the study exhibits review of literature, third part of study show methodology adopted for examination, fourth part of study exhibits analysis and last part of study conclude the study.

Review of Literature

Allerdice and Farrar (1967) examined five categories of factor to investigate mutual fund growth such as, sales effort, condition of economy, objectives of fund, size of fund and performance of fund. According to them growth based funds are more popular among investors. Warther (1995) found that flow in mutual fund and stock price move together due to effect of information and price movement. Mosebach and Najand (1999) conducted study to investigate relationship

between stock return and mutual fund. They have used monthly data and used VAR model to test the hypothesis. Study concluded that FIIs has significant impact over stock returns. Irissappane (2000) tried to investigate performance of various MF schemes and efforts of fund managers. Study concluded that Indian mutual fund industry lacks in innovation and diversification. Study of (Chang and Wang 2002) investigated relationship of mutual fund and market volatility and found significant relationship between these two.
The study of Cai and Zheng (2004) focused on relationship between institutional fund flows and stock return. They suggested that institutional investors depend on information when they want to increase their stake in stock market. Coondo and Mukherjee (2004) found high volatility in stock market. Aggarwal (2011) conducted study to examine impact of FIIs on stock market and his findings indicated that FIIs do not have any impact on return and volatility of stock market. Garg and Bodla (2011) concluded that investment by FIIs effect volatility of Indian stock market. another study of Gupta (2011) conducted study to examine the cause and effect relationship between FIIs and stock market. he has applied various statistical tools such regreesiona nd correlation and found that FIIs and Indian stock market are correlated to each other and influences each other.

Research Methodology

This study aims to examine the investment behaviour of FIIs and comparison of FIIs and Mutual funds. For the purpose of study secondary data has been collected. The time period for study is of five years and daily data has been collected for this time period. Sampling is also very important for the examination of data (Clark & Adle 2010). In present study selective sampling has been used to collect the data. The variables related with stock market and macroeconomics has been chosen to test the hypothesis. In this present study data collected as FIIs Investment Ratio (FIIIR), Exchange Rate (ER), Gross Domestic Product (GDP), Inflation Rate (IR), Investments by DIIs (DIII) and Nifty Returns (NR).

Data Analysis and Interpretation

ADF Test

Important aspect for Secondary data analysis is to check whether the data is stationary or not. To check the stationarity ADF test was used. The following hypothesis taken to check the unit root H_o: all the variables are having unit root and H_a: all the variables are not having unit root.

Table: 1 ADF Test

Augmented Dickey-Fuller test statistic	
Variables	**Probability**
FIIIR	0.0000
ER	0.7906
GDP	0.8853
IR	0.6231
DIII	0.0000
NR	0.0000

(Source: Author compilation)

According to Table 1 results shows the ADF unit root test. FIIR, DIII and NR found stationary so there is no need to transformation and ER, GDP and IR found Non- Stationary so data has been transform with First difference.

Table 2 Unit-Root Test (Based on Quarterly Data)

Variables	ADF Statistics with Intercept	ADF Statistics with Intercept and Trend
FIIIR	6.174558	6.225416
ER	8.735225	8.996422
GDP	9.380044	9.588098
IR	8.437798	8.406991
DIII	5.461434	5.451621
NR	7.989156	7.942045
Critical Values 5 per cent	3.798096	4.37286

(Source: Author compilation)

Table 2 shows the ADF results after the transformation of different variables. These al results indicates that all the variables are stationary because the values is >0.05 Level of significance.

Table 3 Correlation Analysis

	FIIIR	ER	GDP	IR	DIII
FIIIR	1				
ER	-0.082088				
GDP	0.201	0.107416			
IR	-0.384704	-0.034347	-0.130757		
DIII	0.018259	-0.021932	-0.22167	0.085653	1

(Source: Author compilation)

Table 3 shows the correlation analysis between all the variables. Analysis shows that the coefficient of correlation is not significant so all the variables are free from multicollinearity.

Multiple regression

This regression shows that the impact of dependent variables on the all independent variables at one analysis. Following equation used to calculate the regression

$FIIs = \alpha + \beta 1X1 + \beta 2X2 + \ldots\ldots\ldots\ldots\beta nXn + \varepsilon$

In this Equation α *is constant and* $\beta 1 \beta$ *are the Independent variables coefficient.*

Table 4 Multiple Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.41744	0.092049	15.39875501	0
ER	-0.059838	-0.009097	6.577772892	0.0204
GDP	-0.276875	0.088708	-3.121195383	0.0168
IR	-0.0183	-0.020942	0.87384204	0.0161
DIII	-0.027108	-0.020697	1.309755037	0.0598

(Source: Author compilation)

Table 4 represents the Multiple regression analysis in this the R-square value is 65% and Adjusted R-square value is 62.23%. In this equation FII treated as Independent variable and other are dependent variables. The p- value shows that only DIII value is not found significant and other variables are significant in this aspect. So in this case we can concluded that there is a significant relationship among the variables.

Granger Causality test

Granger Causality test used to find out the relation direction and the cause or influence behaviour of one variable on another. The following equation is used to analysis this test

$Yt = C1t + \alpha 1\ Yt\text{-}i + \beta\ Xt\text{-}i + \upsilon 1t$

Table 5 Granger Causality test

Null Hypothesis	F-Statistic	Probability	Criterion
NR does not Granger Cause FIIIR	23.3125	0.0002	Reject
FIIIR does not Granger Cause NR	0.6750	0.0041	Reject
ER does not Granger Cause FIIIR	0.6273	0. 9821	Accept
FIIIR does not Granger Cause ER	0.0253	0.4404	Accept
IR does not Granger Cause FIIR	5.4152	0.0017	Reject
FIIIR investment does not Granger Cause IR	4.20150	0.0034	Reject

(Source: Author compilation)

Table 5 shows the results of Granger Causality test. In this null hypothesis will accepted at 5% level of significance. According to results Nifty returns and Interest Rate have Bi-direction causality with FIIs Return.

Conclusion

Results of regression analysis shows that inflow and outflow of FIIs is dependent or effected by the exchange rate and Nifty return in India. Further, the results shown negative coefficient of both the independent variables. Test of Granger Causality FIIs investment have Granger cause effect and bidirectional in nature. Bidirectional relationship also observed between exchange rate and Nifty return. It can be concluded that FIIs investment decision are dependent on return in stock market of host country, exchange rates.

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