

FOREIGN INSTITUTIONAL INVESTMENTS IN INDIAN MARKETS: JOURNEY SINCE SEPTEMBER 1992

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Abstract

A milestone policy decision in September 1992 of allowing Foreign Institutional Investors (FIIs) to enter Indian primary and secondary markets was a unique decision of Government of India and had remarkable impact on Indian economy. In real terms there exist a need for foreign currency in India. So when foreign capital is allowed in terms of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) in Indian economy, country could minimise deficit in Balance of Payment and gain momentum towards growth and permissible developmental projects. Even though FIIs seems to be very volatile on Indian stock market, yet play lead role in terms of dominating Indian stock market. It was noticed that Domestic Institutional Investors and retail investors also move in accordance with FIIs in Indian Capital market. This is an attempt to know the status of FIIs since 1992 in Equity, Debt, Debt Voluntary Retention Route and Hybrid securities till 2020 and hence systematic year wise review of FIIs is undertaken with respect to its number and Asset Under Custody in value. In 1992 FIIs were permitted only in equity segment and in 1996 debt segment was made open to them. The top ten countries with highest FII investment .yealy study of FIIs inflow and outflow shows that major global financial crises have lead to outflow of funds from Indian capital market. Outbreak of Covid 19 also showed the impact on FIIs due to which last month of Financial year 2019-2020 observed more outflow of funds.

Key words: FIIs, AUC, SEBI , NSDL, CDSL

Introduction

Dynamic phenomena have success or failure implications. Such remarkable decision was of introducing Foreign Institutional Investments in India. The decision focuses on Government of India permitting FIIs to enter into Indian markets on 14th September 1992. A decision of Government of India paved way for reducing the deficit in Balance of Payment of country. Hence Foreign Institutional Investors were allowed to enter into Indian economy through different routes. Since India is considered to be the Emerging Market Economies (EMEs) for foreign investors, it was the utmost crucial decision after globalisation, privatisation and liberalisation of Indian economy.

Objectives of the study:

1. To understand SEBI FIIs Regulations 1992 and SEBI FIIs Amendments Regulations 2014 in India.
2. To identify the trend of FIIs flow in number and Asset Under Custody in Indian market since 1992
3. To highlight the movement of FIIs during the normal and crucial times of economy
4. To analyse the top 10 FPIs in number and AUC in Crores for the year 2019-2020

The first part of the paper introduces to the Foreign Institutional Investments in India in 1992 and amendments thereafter in 2014.

Data Collection :

The data required to conduct a study is collected from Securities Exchange Board of India (SEBI) and Reserve Bank of India (RBI) websites. SEBI annual report since 1992 forms the bases for study.

The paper considers the descriptive analysis from 1992 to 2020 period data, year wise data related to FIIs is described in order to know the journey since 1992.

The first objective focuses on FIIs Regulation 1992 and SEBI FIIs Amendments Regulations 2014 in India.

Overview of FIIs in 1992 and 2014

Definition of Foreign Institutional Investment (FIIs)

As per (Securities Exchange Board of India Foreign Institutional Investors Regulation 1995) FII includes:

FIIs

Broad Based Fund

Sub Account Holders

Let us understand each in detail with respect to meaning and type of fund included in it.

FIIs : FII means an institution who is registered under the SEBI (Foreign Institutional Investors) Regulations 1995. FIIs includes: Pension Fund, Mutual Fund, Investment Trust, Insurance or Reinsurance Company, Multilateral Organization, an Asset Management Company, Investment Manager or Advisor Bank or Institutional Portfolio Manager , Trustee Company, Portfolio Manager, University Fund, Endowments, Foundations or charitable Trusts or Charitable Societies.

Broad Based Fund: Fund established or incorporated outside India which has at least 20 investors

with no single individual investor holding more than 49 % of the shares or units of the fund and more than 49 percent held by single investor than it itself becomes a broad based fund.

Sub Account Holders: Investment being made on behalf of person resident outside India by FIIs and who is registered as a sub-account under the SEBI (FII) Regulations, 1995

In the year 2014 amendments were made to the SEBI (Foreign Institutional Investors Regulation 1995) and the Act became SEBI (Foreign Portfolio Investors Regulation 2014) and on 1st June 2014 SEBI brought the Act into force.

From this date onwards, the FII/FPI related information is disseminated from NSDL & CDSL websites. Hence Securities Exchange Board of India (Foreign Portfolio Investors Regulation 2014) includes Foreign Portfolio Investment.

Definition of FPI given by SEBI (Foreign Portfolio Investors Regulation 2014) is as follows

“FPI means a person who satisfies the eligibility criteria prescribed under regulation 4 and has been registered under chapter II of these regulations which shall be deemed to be an intermediary in terms of provision of Act.”

Any FIIs or QFIs who holds a valid certificate of registration shall be deemed to be a Foreign Portfolio Investor, and it includes FIIs, Qualified Foreign Investors (QFIs) and Sub accounts. As per Exhibit 1.

Where FII includes pension fund, mutual fund, investment trust, insurance or reinsurance Company, Multilateral Organization, an asset management company, investment manager or advisor, bank or institutional portfolio Manager, trustee company, portfolio manager, university fund, Endowments foundations or charitable trusts or charitable societies

Qualified Foreign Investors (QFIs) means an individual group or association which is a resident in foreign country. QFIs should be compliant with Financial Action Task Force Standards and should be a signatory to the international organisation of securities Commission .

Sub accounts : means a person who is registered under the SEBI (FII)Regulations 1995.

Figure 1 Diagrammatical view of Foreign Portfolio Investment (compiled by author)



Foreign Portfolio Investor can apply for registration in any of the three categories:

Category I: Government and Government related foreign Investors such as Central Bank and Sovereign Wealth fund

Category II: Funds which are broad based and (i) Appropriately regulated or(ii) whose investment manager is appropriately regulated

It includes: Mutual Fund, Investment Trust, insurance / reinsurance companies and also includes banks, Asset Management Companies, Investment Manager / Advisor, Portfolio Managers , brokers , Dealers and Swap Dealers , University Fund and Pension Fund.

Category III: foreign portfolio investor" which shall include all others not eligible under Category

I and II. Foreign portfolio investors such as Endowments, Charitable Societies, Corporate Bodies, Trusts, Family offices, Individuals As far as individuals are concerned, Non Resident Indians (NRIs) are not permitted to register as FPIs however they can invest in FPIs subject to conditions. Policy framework for Foreign Institutional Investment in India as given by RBI is as follows The policy framework for permitting FIIs investment was provided under the Government of India guidelines vide Press Note dated September 14, 1992, FIIs to obtain an initial registration with SEBI and also RBI's general permission under Foreign Exchange Regulation Act (FERA). Both SEBI's registration and RBI's general permissions under FERA were to hold good for five years and were to be renewed after that period.

The equity shares and convertible debentures of the companies within the prescribed ceilings are available for purchase under Portfolio Investment Scheme subject to: the total purchase of all Non Resident Indians and Persons of Indian Origin (NRIs/PIOs) both, on repatriation and non-repatriation basis, being within an overall ceiling limit of
 (a) 24 per cent of the company's total paid up equity capital and
 (b) 24 per cent of the total paid up value of each series of convertible debenture

As per Figure 2 Foreign Institutional Investors (FIIs), Non-Resident Indians (NRIs), and Persons of Indian Origin (PIOs) are allowed to invest in the primary and secondary capital markets in India through the Portfolio Investment Scheme (PIS). Under this scheme, FIIs/NRIs can acquire shares/debentures of Indian companies through the stock exchanges in India.

Figure 2 : Pictorial view of Policy framework for investment in Indian Companies

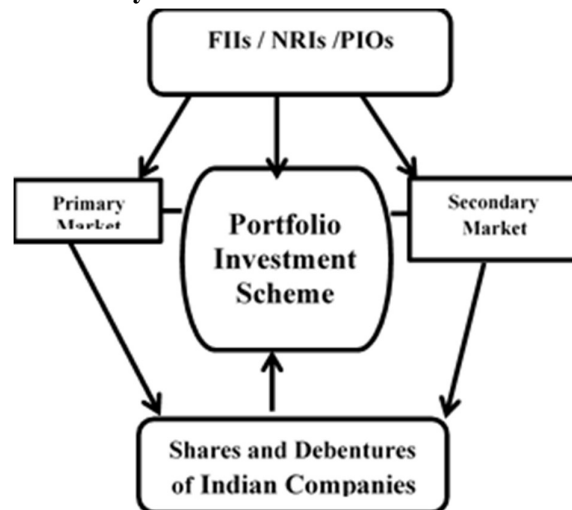


Figure 2A Show overall investment for FIIs and NRIs in case of Indian companies

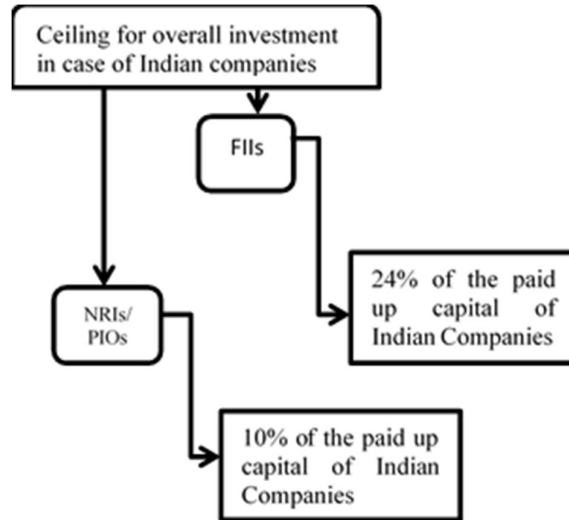


Figure 2A

Figure 2A shows the ceiling for overall investment for FIIs is 24 percent of the paid up capital of the Indian company and 10 percent for NRIs/PIOs.

Figure 2B shows The limit is 20 per cent of the paid up capital in the case of public sector banks, including the State Bank of India.

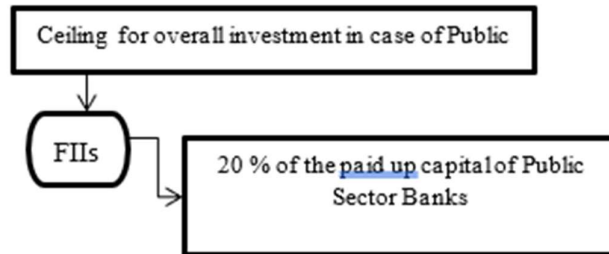


Figure: 2B

Figure 2C Show criteria for increase in Investment limit

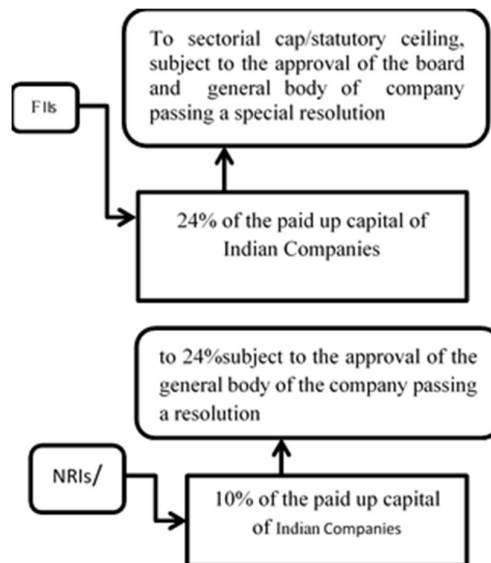


Figure 2C

Figure 2C shows The ceiling of 24 per cent for FII investment can be raised up to sectoral cap/statutory ceiling, subject to the approval of the board and the general body of the company passing a special resolution to that effect. And the ceiling of 10 per cent for NRIs/PIOs can be raised to 24% subject to the approval of the general body of the company passing a resolution to that effect.

Sample period and Data sources: The sample period considered for study ranges from 1992 to 2020. Data is accumulated from SEBI annual reports, National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). Data is considered for net investments made by FIIs in India and number of FIIs since 1992 in Indian markets. Further the RBI database is used for collecting the information with respect to regulations , entry routes and raising the ceiling of investment by companies in Indian market.

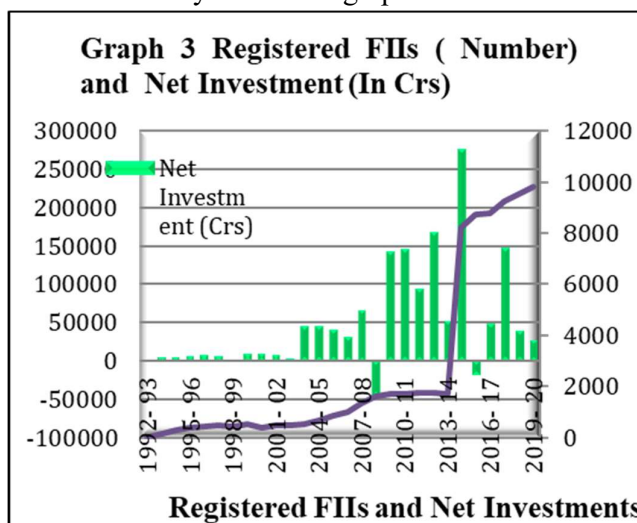
The second objective is to identify the trend of FIIs flow in number and Asset Under Custody in value in Indian market since 1992.

Table 3 : Details of registered FIIs with SEBI in number and net investment in crores since 1992

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Year	Number of FIIs	Net Investment (Cr)
1992- 93	18	13
1993- 94	158	5,127
1994- 95	308	4,796
1995- 96	367	6,942
1996- 97	439	8,575
1997- 98	469	5,958
1998- 99	450	-1,584
1999- 00	506	10,112
2000- 01	410	9,933
2001- 02	490	8,763
2002- 03	502	2,689
2003- 04	540	45,765
2004- 05	685	45,881
2005- 06	882	41,467
2006- 07	997	30,840
2007- 08	1319	66,179
2008- 09	1635	-45,811
2009- 10	1713	142,658
2010- 11	1722	146,438
2011- 12	1765	93,726
2012- 13	1757	168,367
2013- 14	1710	51,649
2014-15	8214	277,461

2015- 16	8717	-18,176
2016- 17	8781	48,411
2017- 18	9227	144,682
2018- 19	9556	-38,930
2019- 20	9823	-27,528
<i>Source: SEBI Annual Report since 1992</i>		

In third objective author tries to highlight the movement of FIIs during the normal and crucial times of economy which can be easily noticed in graph 3.



In a major step towards globalisation , in the year 1992 the FIIs were allowed to enter into Indian capital market. Entities established abroad as Mutual Fund, Pension Fund, Investment Trust, Asset Management Companies are allowed to invest in tradable securities in primary and secondary market under the guidelines issued by Government of India in September 1992. These FIIs are required to be registered by SEBI. As a result 18 FIIs were registered by SEBI, followed by multifold increase in FIIs registration in 1993-1994.

In the year 1996, FII regulations permitted 100% debt funds to invest , hence 9 debt funds which amounts to 29 Crores was the net investment in the said year. Credit worthiness of south East Asian nations were damaged by crises started in July 1997. Till 2000- 2001 , there was increase in FIIs investment, which was the indication of confidence of FIIs in Indian Capital market.

The crises like Global recession in 2001- 2002 and war in Afghanistan and Iraq have greatly added to negative sentiments. still highest investment was noticed for continuous three years ie for 2003-2004, 2004 - 2005, 2005 - 2006 . By 2006, FIIs have completed 14 years in Indian market and FIIs registration started showing entry from unconventional countries like Malaysia, Saudi Arabia, Trinidad, Tobago, Denmark, Italy and so on.

In the year 2014 FPI regime came into existence and QFIs, FIIs and Sub Accounts

were accommodated in FIIs, which showed a steep slope of increase in number of FIIs as well as Net investment in Indian Capital Market. In 2017 - 2018 as well there was remarkable increase in net investment of FIIs. During the Year 2019 -2020 , FPIs continued to liquidate investment from

Indian securities market after sharp liquidation in their investment in previous year due to global

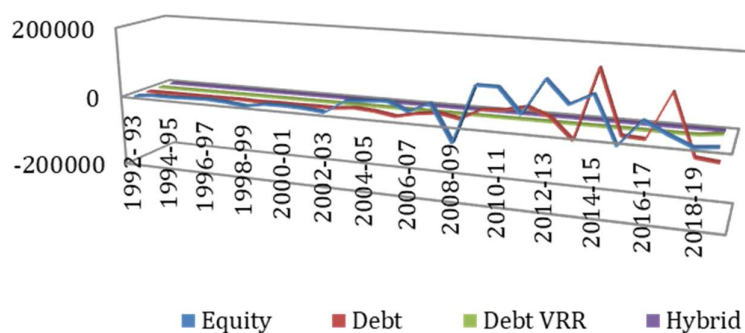
turbulence for Novel Carona Virus pandemic.

Table 4 Classification of Net Investments in Equity, Debt , Debt VRR & Hybrid in Crores (Since 1992 till 2020)

Financial year	Equity (Cr)	Debt (Cr)	Debt VRR (Cr)	Hybrid (Cr)	Total (Cr)
1992-93	13	0	0	0	13
1993-94	5,127	0	0	0	5,127
1994-95	4,796	0	0	0	4,796
1995-96	6,942	0	0	0	6,942
1996-97	8,546	29	0	0	8,575
1997-98	5,267	691	0	0	5,958
1998-99	-717	-867	0	0	-1,584
1999-00	9,670	453	0	0	10,112
2000-01	10,207	-273	0	0	9,933
2001-02	8,072	690	0	0	8,763
2002-03	2,527	162	0	0	2,689
2003-04	39,960	5,805	0	0	45,765
2004-05	44,123	1,759	0	0	45,881
2005-06	48,801	-7,334	0	0	41,467
2006-07	25,236	5,605	0	0	30,840
2007-08	53,404	12,775	0	0	66,179
2008-09	-47,706	1,895	0	0	-45,811
2009-10	110,221	32,438	0	0	142,658
2010-11	110,121	36,317	0	0	146,438
2011-12	43,738	49,988	0	0	93,726
2012-13	140,033	28,334	0	0	168,367
2013-14	79,709	-28,060	0	0	51,649
2014-15	111,333	166,127	0	0	277,461
2015-16	-14,172	-4,004	0	0	-18,176
2016-17	55,703	-7,292	0	0	48,411
2017-18	25,635	119,036	0	0	144,682
2018-19	-88	-42,357	0	0	-38,930
2019-2020	6,153	-48,710	7331	0	-27,528

Source: <https://www.fpi.nsdl.co.in/>

FPI investments in Crs. Since 1992 till 2020



Graph 4

Graph 4 indicates that investment of Foreign Institutional Investors increased year after year since 1992. Initially SEBI allowed only Fund Managers, Institutional funds, Nominee company to invest in Indian capital. At the beginning of 1992 SEBI had 18 FIIs in Equity, in which there were Fund

Managers, 9 Institutional Funds and 2 Nominee Companies. Net FIIs inflow stood at ₹ 566 Crores which was equivalent to US \$ 1.826 Million. At the end of March 1994, the number of FIIs registered with SEBI increased to 158 FIIs (Refer to table 3). And their cumulative net investment stood at US \$ 1.66 Bn. In 1996-97 debt was permitted to enter into Indian economy In the year 2011- 2012, 2014-15, 2017-18 the investment in debts was more as compared to equity.

The objective four analyses the top 10 FIIs in number and AUC in Crores for the year 2019-2020

Table 5 - Country wise number of registered FIIs and AUC in Crores for the year 2019-2020

Table 5 - Country wise number of registered FIIs and AUC in Crores for the year 2019-2020		
Country	Number of FIIs	Amount ₹ Crores
United States of America	3309	827,258
Luxembourg	1143	230,497
Canada	662	92,769
Ireland	617	93,544
Mauritius	608	283,487
United Kingdom	499	120,915
Singapore	434	227,831
Japan	421	82,827
Netherlands	123	65,116
Norway	25	65,114
Other	1982	4,00,834
Total	9,823	24,90,223

Source : SEBI Annual Report 2019-2020

Table 5: On the basis of country of incorporation, as on March 31, 2020 a total of 9,823 FIIs were registered in India from 59 different countries with a total AUC of ₹ 24,90,223 crore.

Based on the country of incorporation, the number of FIIs registered was the highest from USA (3,309), followed by Luxembourg (1143), Canada (662), Ireland (617) and Mauritius (608). In terms of AUC as well, FIIs from the USA had the maximum AUC (₹ 827,258 crore) followed by Mauritius (₹ 283,487 crore), Luxembourg (₹ 230,497 crore), Singapore (₹ 227,831 crore) and United Kingdom (₹120,915 crore).

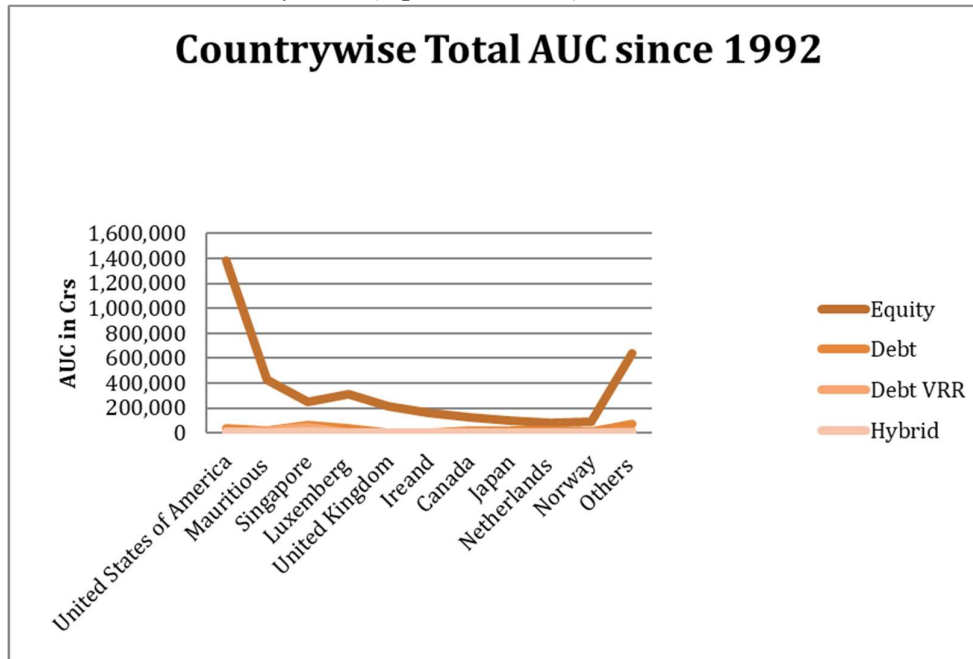
Table 6: FII/FII AUC Country-wise (top 10 countries) till December 2020

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Sr.No	Country	Equity	Debt	Debt VRR	Hybrid	Total
1	United States of America	13,79,919	33300	230	7449	14,20898

2	Mauritius	427483	16548	20065	245	464341
3	Singapore	247379	62234	47399	10746	367758
4	Luxemburg	314730	40478	2599	776	358583
5	United Kingdom	216326	2409	1223	785	220744
6	Ireland	162383	5040	0	571	167993
7	Canada	123066	16904	1751	1837	143558
8	Japan	98471	17699	218	26	116414
9	Netherlands	81531	18,100	1585	5	101221
10	Norway	92162	8010	0	124	100295
11	Others	635576	68421	13046	3365	720408

Source: <https://www.fpi.nsdI.co.in/>

Graph 6 FPI/FII AUC Country-wise (top 10 countries) till December 2020



Source: <https://www.fpi.nsdI.co.in/>

Exhibit 11 and 12 indicates that by the end of December 2020 foreign Institutional Investments from 59 countries showed its presence in Equity, Debt, Debt VRR and Hybrid investments. United States of America retained its top most position in Equity investments in December 2020 as well. Mauritius, Singapore, Luxemburg, United Kingdom showed equal interest in four types of investment.

Findings of the study

Rigorous study on FIIs indicates that descriptive research content is not developed for a period of 1992-2020. From time to time FIIs entry routes were made simpler, since 1992 Reserve Bank of India and Securities Exchange Board of India have opened up various alternatives. Crucial world economic crises showed adverse impact of Foreign Institutional Investments in Indian markets. Topmost players withdrew investments from Indian markets over alarming incidents and global economic crises. Corona virus pandemic showed its impact on FIIs flow in Indian Markets in the beginning of year 2020.

Some relaxation during the annual budget paved way for increase in FIIs inflow. FII showed widespread growth in number and Assets Under Custody which indicates that FIIs are very much eager to invest in Indian stock markets. FIIs tremendously increased in number as well as Asset

Under Custody in crores. Investment in Equity, Debt and Debt vrrand Hybrid funds have substantially increased in Indian markets by December 2020.

Conclusion

Concluding remarks on FIIs includes , it has been a wise decision of Government of India to allow FIIs to enter in Indian economy. India was in very weak position as far as Balance of payment of country is concerned. Foreign capital was very crucial to minimise the deficit in Balance of payment of country. Government of India initiative to implement the structural changes as suggested by International Monetary Fund and to take quick step to permit FIIs to enter in India. Thereafter Time to time measures were taken up in entry route of FII to make entry easier and simpler which shows that Government is keen in foreign capital Since 1992, FIIs /FPIs have showed a tremendous growth in Indian markets. FOREX reserve accumulation have implications on recovery over BOP deficit and diverting the reserve towards taking up developmental projects. FOREX reserve accumulation could be utilised by RBI appropriately and increase in reserve at IMF can bring up the position of India in long run.

Outcome of the study

The descriptive content developed with the help of SEBI annual report, NSDL and CDSL websites with respect to FIIs can help researchers, academicians and others interested a lot , in examining the year wise facts and figures related to FIIs in Indian markets. Growth of FIIs in number as well as Asset Under Custody in value implies that in near future FIIs can increase in India

Details of category 1 and category 2 FIIs gives broad view on inclusion of different funds from different countries of the world. As a result one could make out the new countries showing interest to enter in India as Foreign Institutional investors.

The data from 1992 onwards focuses on thorough information on FIIs which is very essential to depict the impact of FIIs entry on Indian stock market .Different entry routes meant for FIIs also needs to be studied which forms the part of study. Year 2014 was crucial as amendment was brought in (FIIs SEBI Regulations 1992) and it was taken over by (Foreign Portfolio Investment Regulations 2014).

Phase wise changes incorporated in Foreign Institutional Investments is very essential part of studying foreign capital in India.

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