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RESEARCH ARTICLE

“A STUDY ON DOMESTIC INSTITUTIONAL INVESTMENTS AND ITS IMPACT ON MEJOR SECTORS OF ECONOMY”

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Abstract

India is a developing economy, which has undergone a series of developmental events in last two years. Covid -19 Pandemic has created a lot of challenges across various sectors of the economy. Major sectors of the economy has underwent a series of changes during this phase. IT industries adopted work from home as a long-term cost cutting strategy bringing in necessary changes in work culture. The government has also made all the possible efforts to keep up the phase of development in spite of the challenges posed by the pandemic. Pandemic gave a new dimension to the Indian stock market as many DII & FII became active leading to the further growth of the market in spite of the pandemic. The paper attempts to identify Impact of DIII in the Indian Stock Market. An attempt is made to study the relationship between Selected Nifty Indices movements, DII Inflow/Outflow, by evaluating their investments in equity, Debt and Future & Options segments by applying Statistical Tools. Thus, overall impact of these Players on the Stock Market & Economy is studied. Paper concludes suggesting the measures to identify the major players and empower them as it is necessary to build future developing India.

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Introduction:-

The investment that is carried out by organizations or institutions like banks, insurance companies, mutual fund houses, and more in the real or financial assets of a country is known as institutional investors. In simple words, domestic investors will use funds that they pool together so they can trade in the securities and assets of their country.

What is DII in stock market?

DII stands for 'Domestic Institutional Investors.' DIIs are a particular class of investors that undertake to invest in financial assets and securities of the country they are currently residing in. These investment decisions of DIIs are impacted by both political and economic trends. Similar to foreign institutional investors (FIIs), domestic institutional investors (DIIs) can also impact the economy's net investment flows.

In India, domestic institutional investors have quite a decisive role when it comes to the performance of the Indian stock market, especially when foreign institutional investors are the country's net sellers. As of March 2020, DIIs invested a cumulative ₹ 55,595 crores in the Indian equity market. This was a record investment for the country within a single month.

Types of DIIs in India

In India, there are a total of four sets of domestic institutional investors. These are:

Indian Mutual Funds

Mutual funds invest the pooled investments of shareholders in a range of securities which vary with the goal of the mutual fund. There are a broad range of fund types that are available for purchase which depends on both the risk tolerance and needs of the investor. As of the March quarter in 2020, Indian mutual funds held a total of ₹ 11,722 crores in equity holdings. In India, mutual funds are a popular investment option for beginners, intermediate and expert investors due to their flexibility and versatility. Investors can pick and choose their funds based on their risk tolerance and wealth creation goals, and accordingly indirectly become domestic institutional investors by contributing to Indian mutual funds investments.

Indian Insurance Companies

Another type of domestic institutional investor in India is all India-based and Indian-owned insurance companies. Insurance companies offer their clientele a range of insurance options from life insurance, term insurance, health insurance, retirement options, and more. Depending upon the scope of what the company offers, one can usually also secure loans and other types of financial instruments such as ULIPs from Indian insurance companies. Insurance companies are a massive contributor to the overall DII equity holdings and were contributing about ₹ 20,000 crores in the March quarter.

Local Pension Funds

The purpose of these pension schemes is for individuals to lead a hassle-free retirement by creating a retirement corpus through their pension plan. India's government-run pension schemes such as the National Pension Scheme, Provident Public Fund, and Employees' Provident Fund Organisation are also a contributor to the country's DIIs. As of the March 2020 quarter, local pension schemes were the biggest domestic institutional investors totalling at ₹ 33,706 crores in equity holdings.

Banking & Financial Institutions

A final contributor to domestic institutional investing is India's banks and financial institutions themselves. Although they were not a key driver of India's stock market performance in the March 2020 sector, since the beginning of 2020, the AUM or 'Assets under management' of banks grew by 20%. As a domestic institutional investor, this is a record growth in AUM, even though the total institutional AUM has fallen by about 16.5% since the start of 2020.

FII vs DII Competitive Analysis for 2020

Asset under Management (AUM)

As of April 2020, DIIs had a total of ₹ 20.4 lakh crores in their assets under management whereas foreign institutional investors had about ₹ 24.4 lakh crores. Since January of 2020, domestic institutional investors experienced a fall of about 10% in their AUM while FIIs saw a fall of double that at about 21.3%.

Inflows/Outflows YTD

Since January of 2020, DIIs have invested about ₹ 72,000 crores year to date. Foreign institutional investors have removed about ₹ 39,000 crores from Indian equity markets at the year to date.

Ownership Ratio

The FII to DII 'ownership ratio' is equal to the total FII equity holdings divided by the total DII holdings for any given duration. From its peak ratio in April 2015, this ratio has dropped to 1.2 in April of 2020.

What is Nifty?

The Nifty meaning is a derivation from the mix of two words, i.e. "National Stock Exchange" and "fifty". It is an abbreviation of the National Stock Exchange Fifty. It is a collection of top performing 50 equity stocks that are actively trading in the index. However, 51 stocks are currently trading on Nifty. Hence, Nifty is also known as Nifty50 or CNX Nifty.

Nifty is a popular stock index. The National Stock Exchange of India introduced it. This index was founded in 1992 and started trading in 1994. It is owned and managed by India Index Service & Products Limited (IISL). IISL is an

Indian specialized company which focuses on an index as its focus product. It has a variety of financial products like index funds, index futures and options, stock futures and options, etc.

What is an Index?

A stock index is a measurement of the changes that take place in the stock market. It measures price movement and market performance. For creating an index, one has to group some stocks from the list of stocks with similar characteristics. This grouping of stocks can be on the type of industry, total market capitalization or the size of the company.

To calculate the value of the stock market index, one can use the values of the underlying group of stocks. Any change in the value of underlying stock also leads to a change in the stock index value. If the price of most of the stocks rises, the index will again rise and vice-versa.

Thus, an index is indicative of changes in the market. It reflects the overall market investing sentiment and price movements. Investors and financial managers use this to measure the value of portfolio holding. They can also use it for comparing the performance with the benchmark index.

Some of the standard indices in India are

1. Benchmark indices like NSE Nifty and BSE Sensex
2. A broad-based index like Nifty 50, BSE 100, Nifty Next 50, etc.
3. Market capitalization indices like BSE Smallcap, BSE Mid Cap, Nifty Small cap, Nifty Mid Cap, etc.
4. Sectoral indices like the Nifty FMCG index, Nifty Bank index, Nifty IT, Nifty Auto, etc.

NIFTY 50 is a benchmark index by NSE. It is one of the two national indices and a broad-based index of the National Stock Exchange NSE. Also, NSE is a leading stock exchange in India. It is the largest trading platform in India. Another national index is Sensex which is a product of the Bombay Stock Exchange BSE.

Automotive, Engineering Metals & Mining, Banking/Finance Food & Beverage, Oil & Gas, Cement/Construction, Technology, Pharmaceuticals, Chemicals, Manufacturing Retail/Real Estate, Consumer durables & non-durables, Media, Telecom

Which companies are a part of Nifty?

For the latest stock performance, the Nifty index reconstitution happens every six months. It checks the 6-month performance of the stocks. It also checks if the companies fulfil the eligibility criteria. Following these criteria, it eliminates or adds stocks in the stock list, respectively. In case of any elimination or addition, the respective company is given a notice four weeks prior to reconstitution.

The NSE indices have an excellent team of professionals that manage the Nifty index. It is an advisory committee that offers guidance and expertise on issues that relate to equity indices.

The following is the eligibility criteria for companies for Nifty Index listing –

1. The company must be registered with the National Stock Exchange. It must be an Indian company.
2. The company's stock must be highly liquid. The liquidity is measurable by the average impact cost. Impact cost is the trading price of single security in relation to the index's weight to the company's market capitalization. For six months, the company's impact cost should be less than or equal to 0.50%. Otherwise, it should be lower with 90% of the observations made on a portfolio of Rs.10 crores.
3. For the last six months, the company's trading frequency should be 100%
4. The company should have a free-floating average market capitalization. This should be 1.5 times greater than the smallest company on the index.
5. Shares of the companies that have DVR or Differential Voting Rights can also be eligible for the Nifty 50 Index.

Apart from the periodical routine, the index also goes through a reconstitution when the company undergoes certain events—for instance, company events like spin-offs, mergers or acquisitions, suspensions or compulsory delisting.

Additionally, Nifty conducts quarterly screening of the companies to keep track of whether they are adhering to regulations.

The companies must also adhere to specific mandates given by the Securities and Exchange Board of India (SEBI). Otherwise, the companies may be delisted from the indices.

How is Nifty calculated?

Nifty 50 indices calculation uses the float-adjusted and market capitalization method. Here, the level index demonstrates the aggregate market value of the stocks present in it for a specific duration. This particular base duration for the Nifty index is 3rd November 1995. The base value of stocks is 1000, and the base capital is Rs.2.06 trillion

The formula for calculating the index value is as follows –

Market capitalization = Price * Equity Capital

Free Float Market Capitalization = Price * Equity Capital * Investable Weight Factor

Index value = Current market value / (1000 * Base market capital)

Investable Weight Factor (IWF) is a factor to determine the number of shares available for trading. The index calculation is on a real-time basis as the value of stock also changes daily.

The formula calculates not only the value but also the changes in the corporate procedures. For instance, changes in corporate can be stock splits, rights issues, and many more. Nifty share market is a benchmark for measurement against all equity shares markets in India. It regularly conducts index maintenance checks. Therefore, this ensures that it is stable and working effectively. This can persist as a benchmark index of the Indian stock market.

Nifty V/S Sensex

Nifty and Sensex both are Indian stock market indices which depict the strength of the securities markets. Despite their similarity to the broad-based index, there is a difference between Sensex and Nifty.

What are the benefits of investing in the Nifty 50 Index?

There are different ways of investing in Nifty 50. A few of them are index funds, Nifty futures and options, and ETFs. One cannot directly invest in the index; instead, they have to buy all the 50 shares in the same proportion or invest in index funds and ETFs. Following are the benefits of investing in Nifty based index funds and ETFs:

Good returns in the long run:

Nifty 50 was launched in 1996 with a base value of 1000. It reached the 15000 mark in 2021. Hence investing in index-based funds will provide good returns in the long run.

No bias by the fund manager:

The index fund's portfolio depends on the index directly, and the fund manager doesn't have control over it. Hence it is free from fund manager bias.

Lower expense ratio:

Index funds have a lower expense ratio when compared to other types of mutual funds. Since they are passive funds, the fund manager's role is minimal, and hence the fund management fees are also low.

Market returns:

The index funds offer market returns as they are a replica of the index. Their performance is directly dependent on the movement of the index. Hence it is easier to track investments.

Major Milestones of NIFTY

Following are the major milestones of Nifty 50

1. 1993: NSE was recognized as a stock exchange.
2. 1996: The Nifty 50 index was launched with a base value of 1000. It is the flagship index of NSE.
3. 2000: Nifty touched 1800 due to IT-boom.
4. 2006: A service sector boom led to Nifty reaching 3000.

5. 2007: Nifty grew to 5000
6. 2014: After NDA has formed government at the centre, the nifty has touched 7,000.
7. 2017: Strong FII participation led to an increase in Nifty to 9,000.
8. 2017: GST rollout, good monsoon, and strong corporate earnings increased Nifty to 10,000.
9. 2018: Nifty touched the 11,000 mark due to a fall in crude oil prices and a positive update from the World Bank on the Indian economy.
10. 2021: Nifty touched the 15,000 mark due to COVID 19 vaccine rollout.

Need For The Study

The study under taken with a need to identify the role of DII in the financial market. In the recent years DII are playing a very important role in the volume of turnover in NSE and BSE

Objectives Of Study:-

The objective of this study is to find out the relationship between DII and the Major Nifty Indices.

Scope Of Study

This study will help us to know the importance of financial Investment in the Indian Financial market. It is helpful to identify the impact of DII on Sensex. The study will help us to give valuable recommendations to from suitable strategies to encourage or regulate DII in India.

Research Methodology:-

The data has been collected for the past 18 months from the NSDL relating to October 2021 to February 2020 and the following test has been performed to find out the impact of DII in Indian stock market.

Study has used statistical tools such as and Karl Pearson correlation, Standard Deviation & Average for data of the past 18 months, to find out the relationship between DII& Nifty movement. The sources used for secondary Data collection are NSE, BSE, NSDL reports, Business Line, Economic Times, Money control, The Hindu newspaper articles and few books on Statistics.

Limitations Of Study

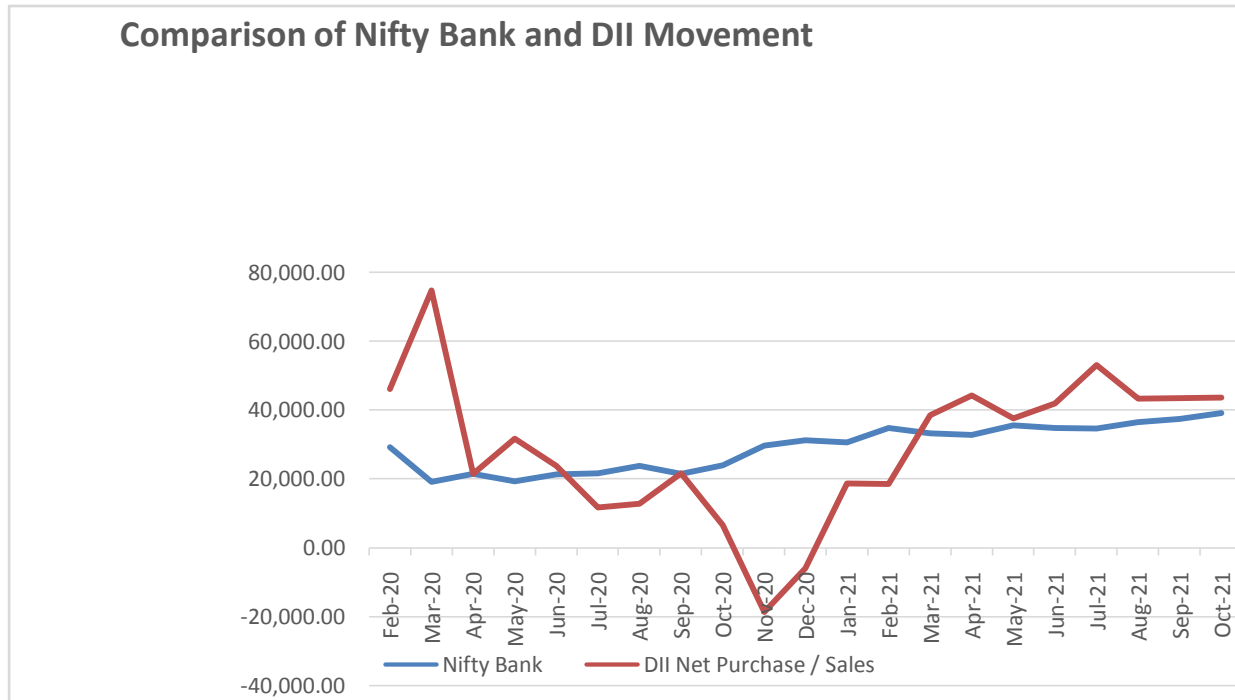
1. The study is undertaken by analysing data relating to a particular time only (For period of 18 months).
2. The analysis is done by using some statistical techniques such as Karl Pearson Correlation, which have few limitations.

Data Analysis And Interpretation

Table & Chart showing the Movement of Nifty Bank & DII

Date	Nifty Bank	DII Net Purchase / Sales (Rupees in Crores)
Oct-21	39,115.60	4,470.99
Sep-21	37,425.10	5,948.85
Aug-21	36,424.60	6,894.69
Jul-21	34,584.35	18,393.92
Jun-21	34,772.20	7,043.51
May-21	35,526.65	2,067.23
Apr-21	32,781.80	11,359.88
Mar-21	33,303.90	5,204.42
Feb-21	34,803.60	-16,358.10
Jan-21	30,565.50	-11,970.54
Dec-20	31,264.05	-37,293.53
Nov-20	29,609.05	-48,319.17
Oct-20	23,900.90	-17,318.44
Sep-20	21,451.80	110.3
Aug-20	23,754.35	-11,046.78

Jul-20	21,640.05	-10,007.88
Jun-20	21,370.15	2,434.40
May-20	19,297.25	12,293.19
Apr-20	21,534.50	-117
Mar-20	19,144.00	55,595.18
Feb-20	29,147.15	16,933.03
	Std. Deviation	21,118.52
	Correlation	-0.115342029
	Average Nifty Bank	29,115.07
	Average DII	-175.33

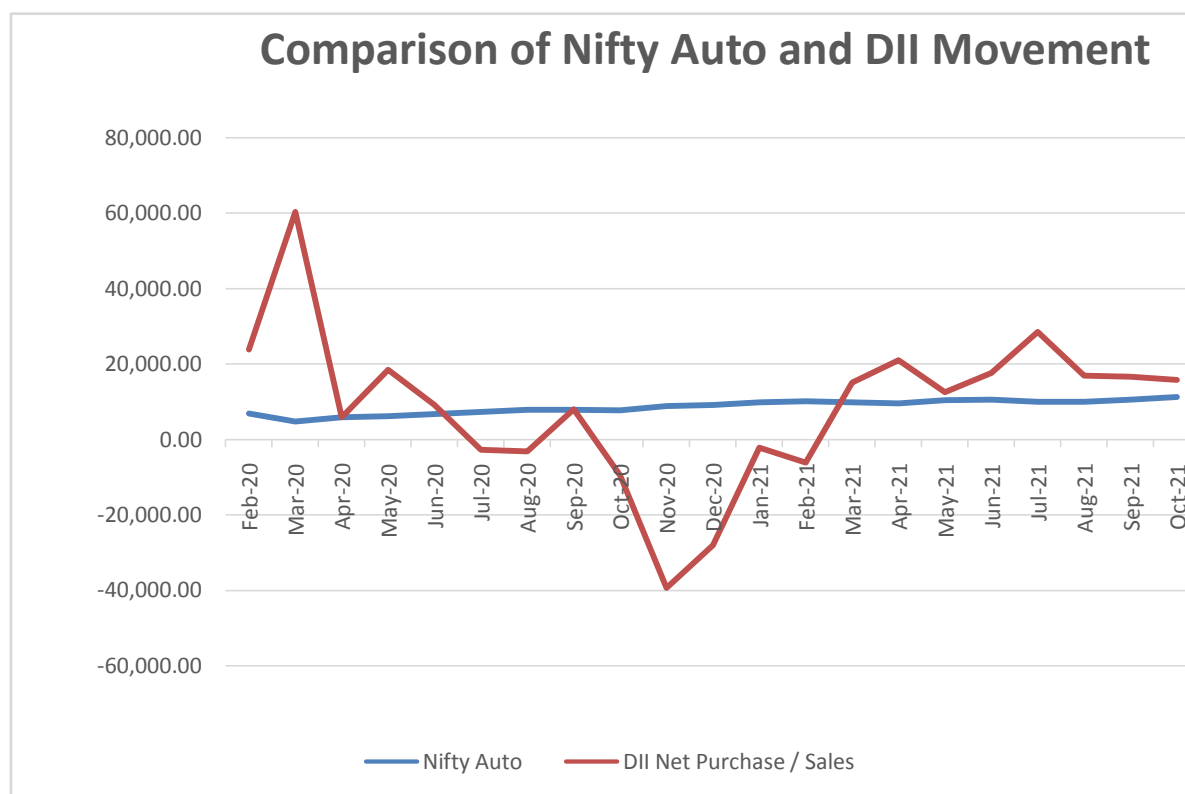


From the above table we can find that there is minor Positive correlation between Nifty Bank and DII to the extent of 0.11. But When we observe the Average DII Investment there is a withdrawal of -175.33 crore during the period of analysis, Nifty Bank reached to the level of 39,115.60 points in October 2021 which indicates the stabilization of the sector activities post 2nd wave of the pandemic. We can observe that DII withdrawal was highest -48,319.17 crore, in the month of November 2020 as the Nifty Bank Stabilized post Covid First wave with 29,609.05 points. In March 2020 during the beginning of Covid -19 first wave DII have made highest investments of Rs. 55,595.18 Crore as majority of the stocks fell to the lowest levels with nifty bank falling to 19,144.00 points. Overall, the nifty bank is progressing to new high levels in the recent past indicating a stabilisation of market.

Table & Chart showing the Movement of Nifty Auto& DII

Date	Nifty Auto Points	DII Net Purchase / Sales (Rupees in Crores)
Oct-21	11,297.45	4,470.99
Sep-21	10,598.45	5,948.85
Aug-21	10,034.45	6,894.69
Jul-21	10,048.50	18,393.92
Jun-21	10,600.35	7,043.51
May-21	10,491.85	2,067.23
Apr-21	9,640.85	11,359.88

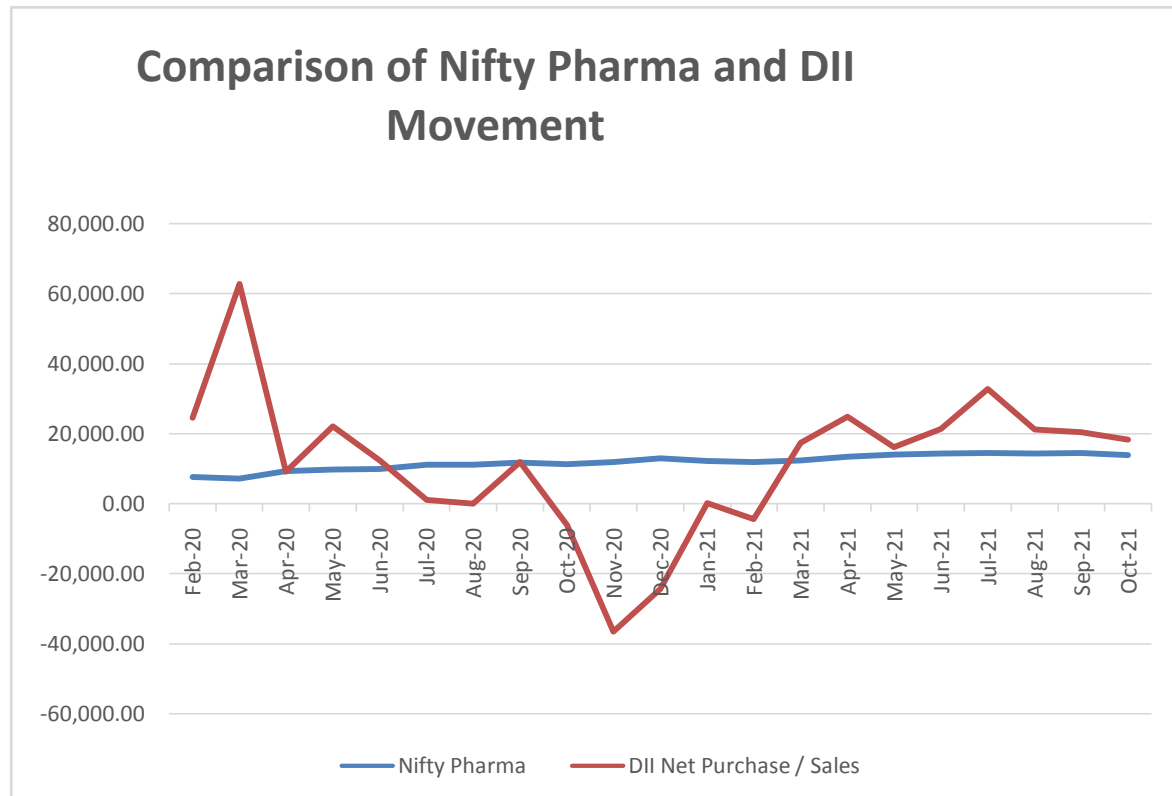
Mar-21	9,862.45	5,204.42
Feb-21	10,169.90	-16,358.10
Jan-21	9,813.15	-11,970.54
Dec-20	9,193.50	-37,293.53
Nov-20	8,891.60	-48,319.17
Oct-20	7,758.40	-17,318.44
Sep-20	7,908.10	110.3
Aug-20	7,840.35	-11,046.78
Jul-20	7,279.75	-10,007.88
Jun-20	6,719.15	2,434.40
May-20	6,218.80	12,293.19
Apr-20	5,901.40	-117
Mar-20	4,731.30	55,595.18
Feb-20	6,903.95	16,933.03
	Std. Dev	15,221.90
	Correlation	0.284789999
	Avg. Nifty auto	8,662.08
	Average DII	-175.33



From the above table we can find that there is Positive correlation between Nifty Auto and DII to the extent of 0.28. We can observe that DII withdrawal was highest -48,319.17 crore, in the month of November 2020 as the Nifty Auto Stabilized post Covid First wave with 8,891.60 points. In March 2020 during the beginning of Covid -19 first wave DII have made highest investments of Rs. 55,595.18 Crore as majority of the stocks fell to the lowest levels with nifty falling to 4,731.30 points. When we compare Nifty Auto average (8862.08) with present level there is a growth of 30% Overall, the Nifty Auto is progressing to new high levels in the recent past indicating a stabilisation of market.

Table & Chart showing the Movement of Nifty Pharma& DII

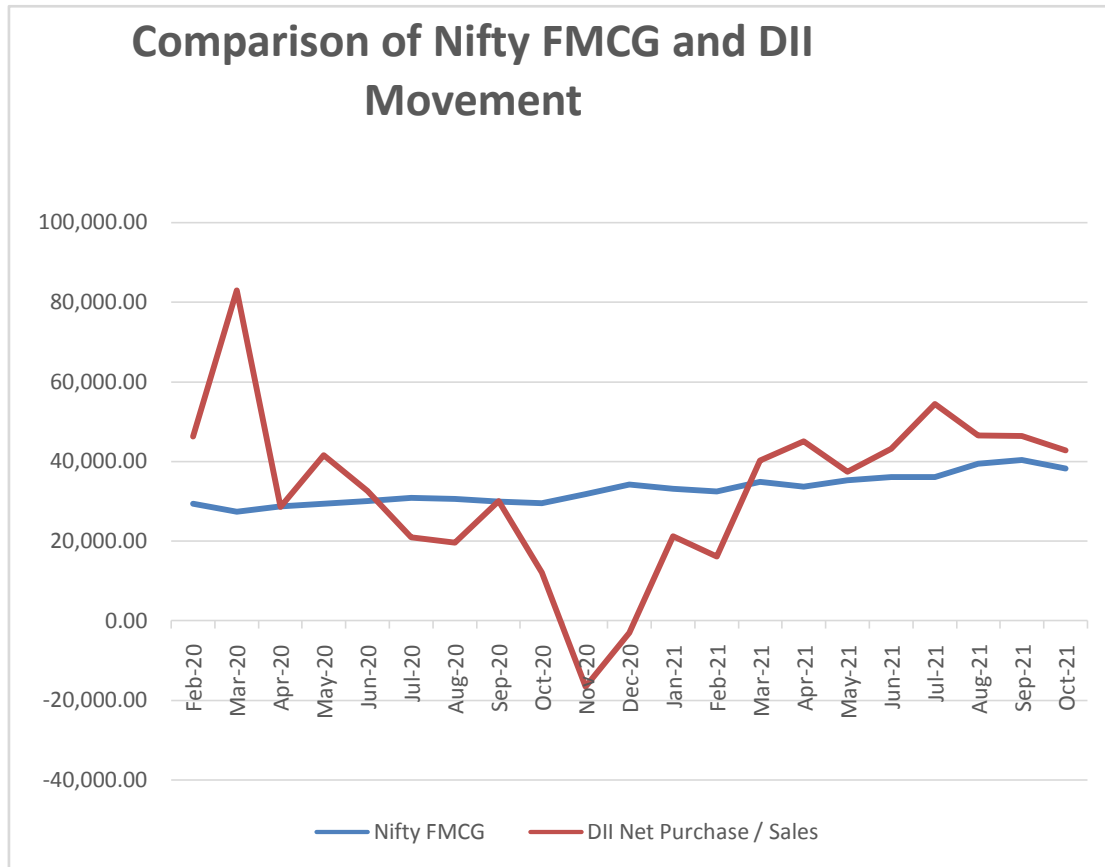
Date	Nifty Pharma	DII Net Purchase / Sales (Rupees in Crores)
Oct-21	13,879.35	4,470.99
Sep-21	14,466.50	5,948.85
Aug-21	14,344.75	6,894.69
Jul-21	14,425.30	18,393.92
Jun-21	14,308.90	7,043.51
May-21	14,051.75	2,067.23
Apr-21	13,469.25	11,359.88
Mar-21	12,272.60	5,204.42
Feb-21	11,927.90	-16,358.10
Jan-21	12,170.25	-11,970.54
Dec-20	12,915.90	-37,293.53
Nov-20	11,839.15	-48,319.17
Oct-20	11,243.75	-17,318.44
Sep-20	11,772.85	110.3
Aug-20	11,079.80	-11,046.78
Jul-20	11,148.90	-10,007.88
Jun-20	9,985.15	2,434.40
May-20	9,768.60	12,293.19
Apr-20	9,327.10	-117
Mar-20	7,176.50	55,595.18
Feb-20	7,576.75	16,933.03
	Std. Dev	15,781.47
	Correlation	-0.271957318
	Avg. Nifty pharma	11,864.33
	Average DII	-175.33



From the above table we can find that there is Negative correlation between Nifty Pharma and DII to the extent of 0.28. We can observe that Nifty Pharma was growing continuously since the beginning of the pandemic .In March 2020 during the beginning of Covid -19 first wave the nifty pharma was at the level of 7176.50 points and it has marched to the level of 14,446.50 points by September 2021 with more than 100% growth. This is due to during pandemic most of the pharma companies were having high demand for their drugs and other allied products , which has resulted in the improved performance of the sector.

Table & Chart showing the Movement of Nifty FMCG& DII

Date	Nifty FMCG	DII Net Purchase / Sales (Rupees in Crores)
Oct-21	38,222.10	4,470.99
Sep-21	40,426.55	5,948.85
Aug-21	39,529.70	6,894.69
Jul-21	36,051.90	18,393.92
Jun-21	36,093.20	7,043.51
May-21	35,243.10	2,067.23
Apr-21	33,623.45	11,359.88
Mar-21	34,931.70	5,204.42
Feb-21	32,443.15	-16,358.10
Jan-21	33,121.05	-11,970.54
Dec-20	34,177.10	-37,293.53
Nov-20	31,718.80	-48,319.17
Oct-20	29,428.45	-17,318.44
Sep-20	29,841.75	110.3
Aug-20	30,595.15	-11,046.78
Jul-20	30,872.45	-10,007.88
Jun-20	30,063.25	2,434.40
May-20	29,296.95	12,293.19
Apr-20	28,669.30	-117
Mar-20	27,319.20	55,595.18
Feb-20	29,310.25	16,933.03
	Std. Deviation	22,151.76
	Correlation	-0.053449977
	Avg. Nifty FMCG	32,903.74
	Average DII	-175.33



From the above table we can find that there is negative correlation between Nifty FMCG and DII to the extent of 0.05. We can observe that Nifty FMCG was growing steadily after the beginning of the pandemic. In March 2020 during the beginning of Covid -19 first wave the Nifty FMCG was at the level of 27,319.20 points and it marched to the level of 40,426.55 points by September 2021 with more than 47% growth. This is because since the FMCG industry deals with the day-to-day consumption products, pandemic has not affected the performance of the sector. Infact, it has contributed to the growth of the sector because of increased consumption

Suggestion and Conclusion:-

From the analysis the following suggestions are given

1. From the study it is observed that the Nifty Bank has a direct impact of Pandemic, Nifty index fell to 19,144 points in the month of March 2020 during the initial phase of pandemic, we can observe that DII have made huge investments of Rs.55595.18 Crore during this month as the Sensex fell to lowest level resulting in the fall of majority of stock prices. It has given a good opportunity for the investors with bearish view. Since Nifty Bank having positive correlation and moving in line with Sensex investors with the bearish view can prefer Nifty Bank stocks for investments.
2. From the study, it is observed that there is a positive correlation between Nifty Auto and DII. Automobile sector stocks fell to the lowest level during the outbreak of the pandemic in March 2020. Later as the market recovered slowly, there was a progress in the Nifty auto indices. When we compare the nifty auto average of 18 months with latest indices there is overall growth of 30% in this sector. This sector also has given an good opportunities to the investors to make investment. Nifty auto is having positive correlation and moving in line with Sensex investors with the bearish view can prefer Nifty auto stocks for investments.
3. From the study it is observed that Nifty pharma was outperformed after the outbreak of Pandemic. There was a 100% growth in the Pharma Indices in past 18 months. This is due to high demand for drugs and allied products. People with bullish view can prefer this sector stocks, as it has given a high returns in the short period of time.

4. From the study, it is observed that there is less Volatility in case of Nifty FMCG as there is steady progress of 47% in the last 18 months. As the sector deals with day-to-day consumption products, Pandemic has not affected the performance of the sector. The investors who are looking to halt their money in less volatile stocks owing to get steady returns over the years can prefer this sector stocks.

Conclusion:-

We have observed a higher volatility in the Indian stock market from past 2 years. Pandemic has given good opportunities to the investors to get high returns because Sensex has shown a movement range from 28000 points to 60000 points in a span of 12 Months after the outbreak of Pandemic in March 2020. It has once again proved that DII are the strong pillars of the Indian financial market helping the Sensex to resist the fall and move further. Thus safeguarding the common man's money and ensuring stability of the market.

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