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Impact of Institutional Investors on Indian Stock Market Performance

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The paper analyzes the impact of Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs), as these are the two primary institutions on which the Indian stock market is dependent. The research design and statistical tools used in the study are: Vector Error Correction Model (VECM), Granger Causality, Variance Decomposition Analysis, and Impulse Response Function. During the Covid-19 pandemic, high volatility was witnessed in the global markets, so it is important to evaluate the behavior of the Indian stock market with respect to the inflows and outflows of institutional investors on a daily basis. The paper concludes that Indian stock market return (Nifty 50) has more significant impact on FIIs, as compared to DIIs (mutual funds).

Introduction

India is one of the fastest growing developing countries, where foreign and domestic investors seek to build their portfolios to get the maximum returns. In any economy, it is a challenge to allocate savings according to the availability of investment opportunities. All the countries expect to get a sufficient number of inflows to exploit new business ideas, generate employment, and grow the economy at a rapid pace. The foreign investors, on the other hand, seek to invest in an economy where the growth potential is high. Every country knows the importance of foreign investors as well as domestic investors.

The Indian stock market is mainly dependent on institutional investors, that is, Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs). In 1991, foreign investments were allowed in the form of stock market investments in listed companies. Since 1991, India has focused on influencing FIIs to invest in huge projects with high growth potential in the long run.

FIIs' infusion of capital into the host country is motivated by not only its economic conditions and external factors but also by market behavior or sentiment. If the market sentiment is too volatile, FIIs may be reluctant to invest. Therefore, market sentiment also plays a key role in attracting foreign investments.

Nowadays, FIIs hold a significant percentage of the stock in Indian companies, which makes them a critical driving factor for the Indian stock market. If we look closely, the role of

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