The Indian Stock Market : A Comparative Study Of Mutual Funds & Foreign Institutional Investors

* *J. S. Yadav*
** *O.S. Yadav*

INTRODUCTION

Globalization led to widespread liberalization and implementation of financial market reforms in many countries, mainly focusing on integrating the financial markets with the global market. The Indian Capital Market has also undergone metamorphic reforms in the past few years. Every segment of the Indian Capital Market viz primary and secondary markets, derivatives, institutional investment, and market intermediation has experienced an impact of these changes, which has significantly improved the transparency, efficiency, and integration of the Indian market with the global markets. The domestic market alone is not able to meet the growing capital requirement of the country and financing from mutilated institutions has lost significance in the emerging global order. India has emerged as one of the most favored destinations for global investment. This is reflected in the number of Foreign Institutional Investors registered with SEBI. The registered number of FIIs increased from 18 in 1993 to 1653 in 2010. This is due to relaxation of FII regulation and lowering of barriers for foreign investments in the recent years. Matching the economic growth rate, India has also seen an incredible flow of investment by FIIs since April 2003. According to SEBI, the net investment into India in March 2004 amounted to ₹ 45765 crores and rose to ₹ 142514 crores in April, 2010. With the growth of the economy and the capital market in India, the number of investors also increased rapidly. In fact, small investors in India have regularly invested in public issues to finance big and small green-field projects of known promoters. They have benefited from such investments in the past. As the stock market crumbled later on, and new issues flopped, small investors again began looking for a good opportunity. In this situation, mutual funds proved that they are able to deliver the goods. The Mutual Fund industry today is one of the most preferred investment avenues in India. However, with a plethora of schemes to choose from, the investors face problems in selecting the funds. Factors such as investment strategy and management style are qualitative, but the fund's record is an important indicator too. Though past performance alone cannot be indicative of future performance, it is, frankly, the only quantitative way to judge how good a fund is at present.

REVIEW OF LITERATURE: HISTORY OF INDIAN MUTUAL FUNDS

The formation of the Unit Trust of India marked the evolution of the Indian Mutual Fund industry in the year 1963. The primary objective at that time was to attract the small investors, and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The history of the Mutual Fund industry in India can be better understood after dividing it into the following phases:

❖ **Phase 1 - Establishment And Growth of The Unit Trust of India - 1964 - 87 :** The Unit Trust of India enjoyed a complete monopoly when it was established in the year 1963 by an act of the Parliament. UTI was set up by the Reserve Bank of India, and it continued to operate under the regulatory control of the RBI until the two were delinked in 1978, and the entire control was transferred to the Industrial Development Bank of India (IDBI). UTI launched its first scheme in 1964, named as the Unit Scheme 1964 (US-64), which attracted the largest number of investors in any single investment scheme over the years. UTI launched more innovative schemes in 1970s and 80s to suit the needs of different investors. It launched ULIP in 1971, six more schemes between 1981-84, Children's Gift Growth Fund and India Fund (India's first offshore fund) in 1986, Mastershare (India's first equity diversified scheme) in 1987, and the Monthly Income Scheme (offering assured returns) during the 1990s.

* *Assistant Professor in Commerce,* Government College For Women, Gurawara, Rewari, Haryana.
E-mail : joginder_yadav100368@yahoo.co.in
** *Head,* P.G. Department of Commerce, Ahir P.G. College, Rewari, Haryana.
E-mail : osyadav_200357@yahoo.in

❖ **Phase II - Entry of The Public Sector Funds - 1987 - 1993 :** The Indian mutual fund industry witnessed a number of public sector players entering the market in the year 1987. In November 1987, SBI Mutual Fund from the State Bank of India became the first non-UTI mutual fund in India. SBI Mutual Fund was later followed by Canbank Mutual Fund, LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, GIC Mutual Fund, and PNB Mutual Fund.

❖ **Phase III - Emergence of The Private Sector Funds - 1993 - 96 :** Permission was given to the private sector funds, including foreign fund management companies (most of them entering through joint ventures with Indian promoters) to enter the mutual fund industry in 1993. The entry of private players provided a wide range of choice to investors and brought more competition in the industry. Private funds introduced innovative products, investment techniques, and investor-servicing technology. By 1994-95, about 11 private sector funds had launched their schemes.

❖ **Phase IV - Growth And SEBI Regulation - 1996 -2004 :** The mutual fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilization of funds and the number of players operating within the industry reached new heights as investors started showing more interest in mutual funds. Investors' interests were safeguarded by SEBI, and the Government offered tax benefits to the investors in order to encourage them. SEBI (Mutual Funds) Regulations, 1996 were introduced by SEBI that set uniform standards for all mutual funds in India. The Union Budget in 1999 exempted all dividend incomes in the hands of investors from income tax. Various Investor Awareness Programmes were launched during this phase, both by SEBI and AMFI, with an objective to educate investors and make them informed about the mutual funds industry. In February 2003, the UTI Act was repealed, and UTI was stripped of its special legal status as a trust formed by an Act of Parliament. The primary objective behind this step was to bring all mutual fund players on the same level. UTI was re-organised into two parts:
1) The Specified Undertaking,
2) The UTI Mutual Fund, presently Unit Trust of India, operates under the name of the UTI Mutual Fund and its past schemes (like US-64, Assured Return Schemes) are being gradually wound up. However, the UTI Mutual Fund is still the largest player in the industry.

❖ **Phase V - Growth And Consolidation - 2004 Onwards :** The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund, and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players entered India like Fidelity, Franklin Templeton Mutual Fund, etc. There were 29 funds as at the end of March 2006. This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players.

LITERATURE REVIEW

Literature on mutual fund and foreign institutional investors' performance evaluation is enormous. A few research studies that have influenced the preparation of this paper substantially are discussed in this section.

❖ **Mutual Funds :** Sharpe (1966) suggested a measure for the evaluation of portfolio performance. Drawing on results obtained in the field of portfolio analysis, economist Jack L. Treynor suggested a new predictor of mutual fund performance, one that differs from virtually all those used previously by incorporating the volatility of a fund's return in a simple yet meaningful manner. Jensen (1967) derived a risk-adjusted measure of portfolio performance (Jensen's alpha) that estimates how much a manager's forecasting ability contributes to a fund's returns. As indicated by Stateman (2000), the e-SDAR of a fund's portfolio is the excess return of the portfolio over the return of the benchmark index, where the portfolio is leveraged to have the benchmark index's standard deviation. Rao et al. evaluated the performance of Indian mutual funds in a bear market through relative performance index, risk-return analysis, Treynor's ratio, Sharpe's ratio, Sharpe's measure , Jensen's measure, and Fama's measure. The results of performance measures suggested that most of the mutual fund schemes were able to satisfy investors' expectations by giving excess returns over expected returns based on both - premium for systematic risk and total risk. Roy et al. conducted an empirical study on conditional performance of Indian mutual funds. The results suggested that the use of conditioning lagged information variables improves the performance of mutual fund schemes, causing alphas to shift towards right, and reduced the number of negative timing coefficients. Mishra et al. (2002) measured the mutual fund performance using lower partial moment. In their paper, measures of evaluating portfolio performance based on lower partial

moment was developed. Risk from the lower partial moment is measured by taking into account only those states in which return is below a pre-specified "target rate" like risk-free rate. Fernandes (2003) evaluated index fund implementation in India. In her paper, tracking error of index funds in India was measured. The consistency and level of tracking errors obtained by some well-run index fund suggested that it is possible to attain low levels of tracking error under Indian conditions.

❖ **Foreign Institutional Investors :** Industrial deregulation, a more flexible exchange rate, stronger debt and equity markets, and lower trade barriers injected resilience in the Indian economy and dramatically strengthened its external position. The pack of growth has become more stable compared with the past and with other fast growing economies. Foreign investment provides a channel through which the developing countries can have access to foreign capital that helps in increasing labour productivity and building foreign exchange reserves to meet the trade deficit. After smoothening of the restrictions for capital movement, foreign investments have grown in leaps and bounds in India. The FIIs, given their short term nature, have bi-directional causation with the return of other domestic financial markets like money market, stock market, etc. (Brenan & Henery, 1997). For developing countries, foreign portfolio equity investment has different characteristics and implications as compared to FDI. Besides supplementing domestic savings, FDI is expected to facilitate the transfer of technology, induce new management and marketing skills, and help expand host country markets and foreign trade. Over the last few years, a number of research studies have been performed to throw some light on some important features of FII flows in India. Kim and Singal (1997) conducted a study titled *"Are Open Markets Good For Foreign Investors and Emerging Nations?"* The study revealed that integrating the emerging stock markets into world markets has had benefits, and will continue to have benefits for both global investors and host countries. The end result are integrated markets with better allocation of resources, improved productivity of capital, and a higher standard of living. Any investments, either domestic or foreign, depend heavily on the risk factors. Hence, while studying the behaviour of FIIs, it is important to consider the risk variable. Pal et al. (1998) considered this factor in their article. Rangarajan (2000) suggested that foreign portfolio investments would help the stock markets (help directly) through widening the investor base and (help indirectly) by compelling local authorities to improve the trading system. Pasricha and Singh (2001) tried to analyze the impact of FIIs' investment on the Indian capital market. Their study revealed that FIIs are here to stay, and have become an integral part of the Indian capital market. Their entry has led to greater institutionalization of the market. They have brought transparency in the market operations. Kumar (2001), in his study, attempted to find out the effect of FIIs on the Indian stock market. The inference analysis of the paper suggested that FII investments are more driven by market fundamentals rather than by short term changers or technical position of the market. Ananthanaryanan, Krishnamurti and Sen (2003) conducted a study on *"Foreign Institutional Investors and Security Returns : Evidence From Indian Stock Exchanges"*. The study found strong evidence consistent with the base- broadening hypothesis. It did not find compelling confirmation regarding momentum or contrarian strategies being employed by FIIs. It supported price pressure hypothesis, and it did not find any substantiation to the claim that foreigners destabilize the market. Devi (2003) conducted a study on *"Causal Relationship Between FIIs and Stock Markets: A Critical Study"*. It revealed that there was a long run relationship between net FII investment and sensex. FII investments did not respond to short-run changes or technical-positions of the market, and they were more driven by fundamentals, and FII investments did Granger cause India's stock market. Bose and Coondoo (2004) conducted a study on *"The Impact of FII Regulation in India"*. These results strongly suggested that liberalization policies had the desired expansionary effect and either increased the mean level of FII inflows, or increased the sensitivity of these flows to a change in BSE returns. Pal (2004) conducted a study entitled as *"Recent Volatility In Stock Markets In India And Foreign Institutional Investors"*. The findings of this study indicated that foreign institutional investors had emerged as the most dominant investor group in the domestic stock market in India. Priya ,Lazar and Jeyapual (2005) conducted a study on *"The Role of Foreign Institutional Investors On Stock Market Development In India"*. The results revealed that Sensex, Market Capitalization of NSE, Turnover of BSE and NIFTY without market capitalizations were influenced by Foreign Institutional Investors. Chakraborty (2006), however, argued that FII flows should be viewed not in isolation, but as part of an integrated policy package for all capital receipts, keeping in mind their role in the overall microeconomic structure.

Trivedi and Nair (2006) investigated the determinants of FII flows in India, and the causal relationship between FII investment inflows and the risk- returns in the Indian stock markets. Bandopadhyay (2006) found that portfolio capital helps many developing economies in mitigating their balance of payments deficits as well as maintaining liquidity in

the source country stock market, and the inflation rate does not have any impact on the FII. Trivedi & Nair (2009) investigated the determinants of FII flows to India, and the casual relationship between FII investment inflows and the risk-returns in the Indian stock markets. They also indicated that FIIs have not been looking at the Indian market as a destination to diversify their portfolio risk. The author found preliminary evidence of absence of information disadvantage to FIIs in India. Sehgal & Tripathi (2009) summarized the investment strategies of FIIs in the Indian equity market. They found that the FIIs exhibit return chasing behavior for monthly data, and they did not work on the positive feedback strategy for daily files. FIIs wait for the market information to crystallize, and do not react in an 'instances' manner. They also observed that the FIIs display strong herding behavior based on quarterly shareholding pattern.

Garg & Chhabra (2010) examined the trading pattern of Foreign Institutional Investors (FIIs) and the Indian Mutual Funds across the days of the week for a period of 9 years. They showed that net investment made by the FIIs follows the Friday effect, while the investment made by the IMFs are equally distributed among the various days of the week. They also concluded that the Indian share market return is correlated with the investment pattern of foreign institutional investment.

REGULATORY MECHANISM

❖ **Regulation On Mutual Funds :** The Reserve Bank of India issued a set of guidelines in 1987 for bank sponsored mutual funds. This was followed in 1990 by stipulations for mutual funds from the Ministry of Finance, GOI. In 1991, the Government of India initiated the process of creating a common regulation for all mutual funds, and to permit the entry of private mutual funds. In October1991, the Securities and Exchange Board of India (SEBI) issued guidelines for the formulation of Asset Management Companies (AMCs) for mutual funds. A comprehensive set of guidelines was issued by the Ministry of Finance in February 1992. In 1993, the SEBI issued comprehensive mutual fund regulations. A more rigorous SEBI framework replaced these in 1996, which have been amended from time to time. The main elements of the SEBI regulatory mechanism of mutual funds, other than the Unit Trust of India are:

(i) Registration of mutual funds with the SEBI,

(ii) Constitution and management of mutual funds, and operation of trusts,

(iii) Constitution and management of assets management company and custodian,

(iv) Scheme of mutual funds,

(v) Investment objectives and valuation policies,

(vi) General obligation,

(vii) Inspection and audit and

(viii) Procedure for action in case of default.

❖ **Regulation On FIIs :** FIIs (foreign institutional investors) are investors or investment funds that are registered in a country outside of the one in which they are currently investing. Institutional investors include hedge funds, insurance companies, pension funds, and mutual funds. The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India (SEBI) to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies. Since the beginning of liberalization, FII flows to India have steadily grown in importance (Chakrabarti, 2001). Investment by FIIs was jointly regulated by Securities and Exchange Board of India through the SEBI (Foreign Institutional Investors) Regulations, 1995 and by the Reserve Bank of India through Regulation 5(2) of the Foreign Exchange Management Act (FEMA), 1999. The promulgation of legislation pertaining to foreign investment by SEBI in 1995 marked a watershed for FII flows to India; this led to a significant increase in the level of FII equity inflows in the pre-Asian crisis period. The SEBI FII Regulations and RBI policies are amended and modified from time to time in response to the gradual maturing of the Indian financial market and changes taking place in the global economic scenario. In order to trade in India's equity market, foreign corporations need to register with SEBI as Foreign Institutional Investors. Without registration, they can invest, but cases require the approval from RBI. They are generally concentrated in the secondary market. FII are allowed to invest in :

a) Securities in primary and secondary market including shares, debentures and warrant of companies, unlisted, listed

or to be the listed in India; **b)** Units of mutual funds; **c)** Dated government securities; **d)** Derivatives traded in a recognized stock market and; **e)** Commercial papers.

FIIs can invest their own funds as well as invest on behalf of their overseas clients registered as such with SEBI. These clients' accounts that the FIIs manage are known as 'sub accounts'. FIIs sub accounts include those foreign corporates, foreign individuals, institution funds or portfolios established or incorporated outside India. FIIs may issue deal in or hold off share derivative instruments such as participatory notes (PN).

❖ **Investment Limit :** As per the September 1992 policy, permitted foreign institutional investment registered FIIs could individually invest in a maximum of 5% of a company's issued capital and all FIIs together could invest up to a maximum of 24%. From November 1996, they were allowed to make 10 percent investment in debt securities subject to specific approval from SEBI as a separate category of FIIs or sub accounts such as 100% debt fund investment. Such investments were subjected to the fund specific ceiling prescribed by SEBI, and had to be within the overall ceiling of US $ 1.5 billion. The investments were, however, restricted to the debt instruments of companies listed or to be listed on the stock exchanges. In 1997, the aggregate limit on investment by all FIIs was allowed to be raised from 24% to 30% by the Board Of Directors of individual companies by passing a resolution in their meeting and by special resolution to that effect in the company's Board meeting. In June 1998, the 5% individual limit was raised to 10%. In March 2000, the ceiling on aggregate FII portfolio investment was increased to 49%. On March 8, 2001, the Finance Minister announced that foreign institutional investors could invest in a company under the portfolio investment rout beyond 24% of the paid-up capital of the company, with the approval of the general body of the shareholders by a special resolution. For encouraging FII flows while reducing the financial sector's vulnerability to speculative capital flows, an expert group was set up in 2004 to suggest ways to accomplish this goal. The group submitted its report in November 2005 and commented that to further stimulate FII flows, investment caps, over and above the FDI sectoral limits should be set. Another recommendation was to increase the supply of 'good quality equity' through disinvestment in the public sector and to encourage companies with large projects like in infrastructure and telecom sector to raise money in the domestic market.

OBJECTIVES OF THE STUDY

- ❖ To examine the contribution of mutual funds and FIIs in aggregate investments in the Indian economy.
- ❖ To judge the interest of mutual funds and FIIs in equity or/ debts.
- ❖ To judge the role of mutual funds and FIIs in aggregate investments made by them in Equity and Debts.

METHODOLOGY

❖ **Nature And Collection Of Data:** The data required for the study relates information pertaining to the funds raised by Mutual Fund Companies and FIIs in the Indian stock market. The data were obtained from published annual reports of respective Mutual Fund Companies, SEBI, and various websites.

❖ **Tools of Analysis:** Various statistical techniques were used for analyzing the data. These include Trend Values (Yc), Annul Growth Rate (AGR), Percentage (%),Coefficient Of Correlation; Mean Value; Standard Deviation; 't' Values etc. The uses of all these techniques at different places have been made in the light of nature and suitability of data available and requirement of analysis.

HYPOTHESES OF THE STUDY

1) There is no significant difference in investments made by Mutual Funds and Foreign Institutional Investors.

2) There is no significant difference between equity and debt for investment purpose by Mutual Funds and FIIs.

RESULTS & ANALYSIS

The Table 1 shows the registered number of Mutual Funds & Foreign Institutional Investors and the amount invested by them in the Indian economy over the period from 2003-04 to 2009-10. The registered no. of Mutual Funds presents an increasing trend, although their annual growth rate fluctuated, and it was negative in the year 2005-06 and zero in 2007-08. The total amount invested by Mutual Funds in the economy shows an increasing trend in the first two years of

the study period. Their contribution in aggregate amount of investment was below 50%, but in the remaining years, their contribution was above 55%. Bulk investments were made in the year 2008-09, which constituted 207% in overall investment. There is a positive coefficient of correlation between registered no. of Mutual Funds and the amount invested by them i.e. (0.93).

Table 1 : Registered No. of Mutual Funds & Foreign Institutional Investors And The Amounts Invested By Them

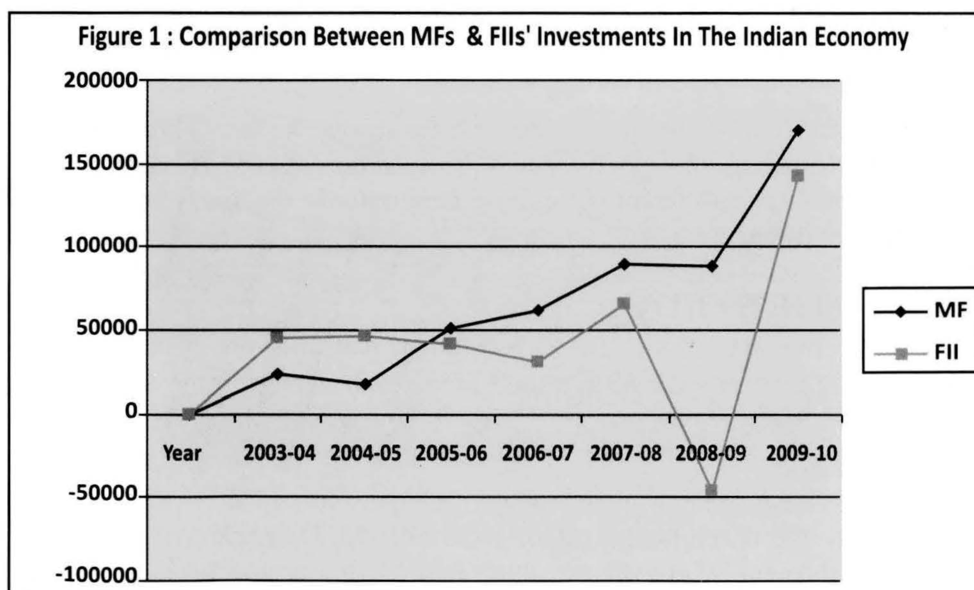
(₹ in crores)

	MF				FII				Aggregate Amount.			
Year	No.	AGR	T.Amt.	%	No.	AGR	T.Amt.	%	No.	AGR	G.T.Amt	%
2003-04	37	-----	24009	34.41	540	-----	45765	65.59	577	----	69774	100
2004-05	39	5.41	17435	27.54	685	26.85	45882	72.46	724	25.48	63317	100
2005-06	38	(-2.56)	51104	55.21	882	28.76	41467	44.79	920	27.07	92571	100
2006-07	40	5.26	61605	66.64	967	9.64	30841	33.36	1007	9.46	92446	100
2007-08	40	0.00	90096	57.65	1319	36.40	66179	42.35	1359	34.96	156275	100
2008-09	44	10.00	88787	206.60	1635	23.96	(-45811)	(-106.60)	1679	23.55	42976	100
2009-10	51	15.91	170076	54.41	1654	1.16	142514	45.59	1705	1.55	312590	100
r =	0.93				(-0.38)				0.62			

Source: Compiled from the websites of SEBI & RBI

In case of FIIs, the registered number of institutions shows an increasing trend, but the annual growth rate was fluctuating, but was positive during the period of the study. The total amount invested by FIIs also presents an increasing trend and contributed below 50%, except in the years 2003-04 and 2004-05, where it was 66% and 72% respectively. It should be noted that in the year 2008-09, the FIIs withdrew their investment from the Indian economy, at the time of global depression in the world economy, and they constituted (-107%) in aggregate investments. It should be noted that there is a negative coefficient of correlation between the registered number of FIIs and the amounts invested by them, i.e. (-0.38). In the matter of an aggregate registered number as well as the total amount invested by Mutual Funds and FIIs, the Table 1 indicates an increasing trend. The annual growth rate of registered numbers is also positive, but fluctuating. Coefficient of correlation between the total no. of registered Mutual Funds and FIIs, and the aggregate amount invested by them is also positive i. e. (0.62). So, it can be concluded that the role of mutual fund investments is increasing day by day. During the recession also, the Mutual Funds played a vital role in giving an upward push to the economy in comparison to the FIIs (Figure 1). The FIIs make investments (in any country) during favorable conditions only.

Figure 1 : Comparison Between MFs & FIIs' Investments In The Indian Economy



The Table 2 presents the total amount invested by Mutual Funds and Foreign Institutional Investors in equity & debts in absolute as well as in relative terms over the period from 2003-04 to 2009-10. It articulates that Mutual Funds were interested in debt in comparison to equity. Their investment contribution in equity was below 10% in the years 2003-04, 04-05 and 2008-09; below 20% in 2006-07 and 2007-08, and below 30% in 2005-06. Here, it should be noted that in the year 2009-10, their contribution in equity was negative i.e.(-6.18%). In the matter of investment in debt, their contribution was above 81%, except in the year 2005-06, where it was 72%. Correlation coefficient of the amount invested by Mutual Funds in equity and debt is negative i. e.(-0.52). In case of FIIs' investments in equity and debt, it can be concluded that they were more interested to invest in debt as compared to equity. Their investment in equity was in the range of 77% to 118%, whereas in debt it was (-18%) to 23%. Coefficient of correlation between equity and debt investment by FIIs was positive, i.e. 0.62. So, it can be expressed that Mutual Funds and FIIs have a reverse interest in the matter of investment in Equity Debts. Mutual Funds preferred to invest in debts, whereas FIIs preferred to invest in equities during the study period.

The total amount invested by Mutual Funds and FIIs in equity in absolute terms as well as in relative terms is given in the Table 3. The Table 3 reveals that mutual funds' contribution to the investment of equity was very poor in the years 2003-2004 and 2004-2005 i.e. 3% and 1% respectively. However, they improved their position in the next four years and increased their contribution up to 26% in 2006-2007. Here, it should be pointed out that in 2009-10, their contribution was negative i.e. (-10.56%), although the trend values of the amount invested by Mutual Funds in equity presents an increasing trend. Contribution of FIIs in aggregate investment in equity was above 74% during the period

Table 2 : The Total Amount Invested By Mutual Funds And FIIs In Equity & Debts

(₹ in crores)

	MF						FII					
Year	Equity	%	Debt	%	Total	%	Equity	%	Debt	%	Total	%
2003-04	1308	5.45	22701	94.55	24009	100	39960	87.32	5805	12.68	45765	100
2004-05	448	2.57	16987	97.43	17435	100	44123	96.17	1759	3.83	5882	100
2005-06	14303	27.99	36801	72.01	51104	100	48801	117.69	(-7334)	(-17.69)	41467	100
2006-07	9062	14.71	5543	85.29	1605	100	25236	81.83	5605	18.17	30841	100
2007-08	16306	18.10	73790	81.90	90096	100	53404	80.70	12775	19.30	66179	100
2008-09	6984	7.87	81803	92.13	88787	100	(-47706)	104.14	1895	(4.14)	(-45811)	100
2009-10	(-10512)	(-6.18)	180588	106.18	170076	100	110076	77.24	32438	22.76	42514	100
r =	(-0.52)						0.62					
Source: Compiled from the websites of SEBI & RBI												

Table 3 : The Total Amount Invested By Mutual Funds And FIIs In Equity

(₹ in crores)

	MF			FII			Aggtegate		
Year	AMT.	%	Yc	AMT.	%	Yc	AMT.	%	Yc
2003-04	1308	3.17	3230	39960	96.83	35774	41268	100	43373
2004-05	448	1.01	3958	44123	98.99	36892	44571	100	43763
2005-06	14303	22.67	4686	48801	77.33	38010	63104	100	44152
2006-07	9062	26.42	5414	25236	73.58	39127	34298	100	44542
2007-08	16306	23.39	6142	53404	76.61	40245	9710	100	44931
2008-09	6984	(-17.15)	6870	(-47706)	117.15	41362	(40722)	100	45321
2009-10	(-10512)	(-10.56)	7598	110076	110.56	42480	99564	100	45711
r =	(-0.43)								
Source: Compiled from the websites of SEBI & RBI									

of the study, except in the year 2008-09, where it was negative i.e. (-117%), although the trend values of FIIs and aggregate investment in equity shows an increasing trend, which can be considered to be a good factor for the economy. There is negative (-0.43) coefficient of correlation between Mutual Funds and FIIs investment in equity. So, it can be concluded that in normal and favorable conditions of the economy, FIIs contribution was greater than that of the Mutual Funds, while in abnormal and unfavourable situations, the FIIs also packed their bags and exited from the Indian economy. They (FIIs) can push the economy forward only when the domestic and world economy is in a healthy state, and hence, FIIs are not a bankable factor for economic development.

Table 4 : The Total Amount Invested By Mutual Funds And FIIs In Debts

(₹ in crores)

	MF			FII			Aggtegate		
Year	**AMT.**	**%**	**Yc**	**AMT.**	**%**	**Yc**	**AMT.**	**%**	**Yc**
2003-04	22701	79.64	-2142	5805	20.36	-3181	28506	100	(5324)
2004-05	16987	90.62	20724	1759	9.38	400	18746	100	21125
2005-06	36801	124.89	43591	(-7334)	(-24.89)	3981	29467	100	47574
2006-07	52543	90.36	66459	5605	9.64	7563	58148	100	74022
2007-08	73790	85.24	89326	12775	14.76	11144	86565	100	100471
2008-09	81803	97.74	112193	1895	2.26	14726	83698	100	126920
2009-10	180588	84.77	135060	32438	15.23	18307	13026	100	153368
r =	**0.14**								
Source: Compiled from the websites of SEBI & RBI									

The Table 4 reveals the total amount invested by Mutual Funds and FIIs in debt. It exhibits that the contribution of Mutual Funds' investments in debt was above 80% during the period of the study, with an increasing trend, which is a good factor for the economy. It is pointed out that the year 2005-06 had an adverse effect on the economy, but it also presented an increasing trend for debt investments. There is poor positive correlation between MFs and FIIs investments in debt; i.e. 0.14. The Mutual Funds increased the amount of their investments in 2009-10, as compared to 2003-2004, which depicts their steadfast contribution towards the growth of the economy.

The Table 5 articulates that in the matter of investment in Equity, the Mean Value of Mutual Funds and FIIs is 5414.14 and 39127.71 respectively, while the combined S. D. is 1133195328, and the resultant value of 't' is greater than the table value of 't' at the significance level of 0.05. In case of investment in Debt, Mean Values are (-66459) and 7563.29 respectively, with the combined S.D. value of 435850562. So, it is observed that the 't' value is greater than the table value at the significance level of 0.05. In the matter of total investment by Mutual Funds and FIIs, the Mean Values are 71873.14 and 46691, with a combined S.D. value of 5480810240. Here also, the observed 't' value is very high than the table value. From the results of this table, it is clear that hypotheses are rejected, and there is a significant difference between investments by Mutual Funds and FIIs in the Indian economy, as well as in equity and debt investments.

Table 5 : 't' Value of Amount Invested By Mutual Fund Companies And Foreign Institutional Investors In Equity & Debts

	MEAN		Combined S.D.	t 0.05 Value	t 0.05 Table
	MF	FII			
Equity	5414.14	39127.71	1133195328	-5.57E-05	1.782
Debt	66459	7563.29	4395850562	2.507E-05	1.782
Total	**71873.14**	**46691**	**5480810240**	**8.596E-06**	**1.782**

CONCLUSION

The liberalization policies have had a vast impact on the overall investment by Mutual Funds and FIIs. It was found

that these policies mostly rendered to FII investments made in the domestic economy, which is proved by the increase in registered numbers, and investments made by them. In the Indian market, the researchers found the combined potential force of Mutual Funds and the FIIs. Investments made by the Mutual Funds were greater than investments made by FIIs. During the recession, the Mutual Funds played a vital role in pushing the economy upward, while the FIIs withdrew their investments. Obviously, Mutual Funds work as a 'Good Pickup & Boosting Engine', while FIIs act as a 'Good Running Engine' for the economy. Mutual Funds dominated in debt investments, while FIIs dominated in equity investments. There was a negative coefficient of correlation between Mutual Funds and FIIs in the matter of equity investments. FIIs can boost the economy during a healthy and stable political environment of the host country, however, FIIs are not a reliable factor for economic development. There was a significant difference in the matter of regulatory framework as well as in the investment pattern of Mutual Funds and FIIs. After the sub - prime crisis, experts expressed that the Indian economy has a very unique model and is based on the fundamentals of strong economic growth with huge liquidity flow.

India is an attractive destination for investments by FIIs. However, the burning issues - black money, corruption, lack of security against terrorist attacks, the involvement of ministers and bureaucrats in various scams such as the 2G spectrum scam, and the latest one, the Coalgate scam - are having an adverse impact on India's image as an attractive investment decision.

REFERENCES

1) Aggrawal,R., Leora, K., and Peter, W. (2005). "Portfolio Preferences of Foreign Institutional Investors." *Journal of Banking and Finance*, Volume 29, Issue 12, pp. 2919-2946.

2) Bhalla V.K. (2006). *"International Financial Management."* Anmol Publication Pvt. Ltd., pp. 779-799.

3) Bhalla V.K. (2007). *"Investment Management."* S. Chand & Co. Ltd. pp. 1013-1027.

4) Chakrabarti, R. (2001). 'FII Flow To India: Nature and Causes'. *Money and Finance*, Volume 2, Issue 7, pp. 34-44.

5) Chaudhuri Tamal Datta (2008). 'Emerging Issues in the Indian Mutual Fund Industry.' *Portfolio Organizer,* Volume 9, Issue 2, pp. 51-56.

6) Devi, Rama V. and Kumar Nooney Lenin (2010). "Performance Evaluation: A Comparative Study Between Indian And Foreign Equity Mutual Funds." *Indian Journal of Finance,* Volume 4, Issue 6, pp. 43-53.

7) Gahlot Ruchika and Ruchi Sharma (2010). *"Emerging Trend of Foreign Institutional Investors in India."* Paper Presented in National Seminar on Emerging Marketing Strategies , Department of Commerce, Chhaju Ram Memorial Jat College, Hisar , Haryana, India on Febuary 20, 2010, pp. 79-89.

8) Jaydev. M. (1996). "Mutual Funds Performance: An Analysis of Monthly Returns." *Finance India*, Vol.10, Issue 1, pp. 73-84.

9) Kohli, R. (2003). "Capital Flows and Domestic Financial Sector in India." *Economic and Political Weekly,* Vol.38, Issue 8, pp.761-768.

10) Mohan, Ram, T.T. (2005). "Taking Stock of Foreign Institutional Investors." *Economic and Political Weekly*, Volume 40, Issue 24.

11) Pethe, Ajit, and Karnik, A. (2000). "Do Indian Stock Markets Matter? Stock Market Indices and Macro-economic Variables." *Economic and Political Weekly*, Volume 35, Issue 5, pp. 654-660.

12) Rangarajan C. (2000) . "Capital Flows, Another Look." *Economic and Political Weekly,* Volume 35, Issue 50, pp. 421-427.

13) *RBI Annual Report* for the year 2003-04 to 2009-10.

14) Saha Malundu (2009). "Stock Market In India and Foreign Institutional Investment an Appraisal." *Journal of Business and Economics Issues*, Volume 1, No. 1, pp. 1-15.

15) *Securities and Exchange Board of India Monthly Bulletin and Annual Reports* for the year 2003-04 to 2009-10.

16) Sharpe, W.F. (1994). "The Sharpe Ratio." *Journal of Portfolio Management,* Volume 1, Issue 21 pp. 49-59.

17) Sharpe, W.F. (1996). "Mutual Fund Performance." *Journal of Business*, Volume 34, Issue 2, pp. 119-138.

18) Trivedi, P. and Nair A. (2006). "Determinants Of FII Investments Inflows In India." *The ICFAI Journal of Applied Finance*, Volume 12, Issue 3, pp. 5-20.

19) Viramgami Hitesh S. (2009). "Resource Mobilization By Indian Mutual Fund Industry." *Indian Journal of Finance*, Volume 3, Issue 3, pp. 33-38.

20) www.rbi.gov.in accessed on June 15, 2012.

21) www.sebi.gov.in accessed on June 10, 2012.