FII VS MUTUAL FUNDS WHO DRIVES INDIAN MARKETS

FII investments :- The Foreign Institutional Investors have been traditionally controlling the Indian stock markets as they keep investing in a big way. The year 2020 has been recognised as the COVID 19 year saw the maximum withdrawal of the FII and also the maximum investment came in one calendar year from them. In march 2020 when the COVID 19 started spreading and the markets were in panic mode, the FII had withdrawn Rs. 61000 crore in one month March 2020 and the market had crashed from 42000 to 25600 levels. But from June 2020 when unlock started the FII started investing in a big way as USA had announced $ 2.5 trillion package for the US economy. The stimulus printed in USA started coming into the Indian stock market and from June to December 2020 finally the FII invested Rs. 1,68,000 crore in Indian stock markets. Thus huge money came from FII into the Indian markets and Indian stock markets delivered around 23 % return in the year 2020.

Mutual funds Investments:- The Mutual funds have become today a household name for the retail investors to enter the stock market. The number of mutual funds investors were 2.09 crore in march 2020 which are now at around 5 crore investors. The SIP investment on monthly basis has also increased in a big way from Rs. 4000 crore in 2019 to Rs. 24509 crore in October 2024.

This shows the long term belief of the Indian retail investors in the growth of the Indian economy and stock market.

Financial Year (INR Crores)	FII Net Flows	DII Net Flows
FY13	1,00,088	-66,936
FY14	74,482	-54,072
FY15	63,761	-19,264
FY16	-44,909	78,687
FY17	25,362	29,932
FY18	-78,531	1,14,600
FY19	-26,002	72,407
FY20	-90,044	1,28,208
FY21	2,01,377	-1,32,389
FY22	-2,74,244	2,21,660
FY23	-1,98,639	2,55,236
FY24	-14,394	2,06,717
FY 12-24	-2,61,695	8,34,785
FY 12-16	1,93,421	-61,585
FY 16-20	-1,69,216	3,45,147
FY 20-24	-2,85,900	5,51,224

Source:- Economic Times

Analysis:-

Correlation = -0.84326. The Coefficient of correlation shows that it has clear negative relationship between FII flows and Mutual Funds which means that usually when the foreigners are selling our domestic institutions are buying. The reason for this inverse relationship is that FII will look global cues like Geopolitical situation and data or news coming from USA, China, Europe and take decisions while the DII including mutual funds have to invest when the receive funds from the investors. As per SEBI guidelines the mutual funds can sit only on 10 % cash and have to invest the remining amount which means that whatever daily comes in the form of SIP investment the mutual funds have to invest in the stock market. DII decisions are based on local factors and money flow received from domestic institutions.

Year 2024:- The current year has been very interesting from Mutual funds perspective as they have invested Rs. 3,96,000 crore since 1st Janaury 2024 into Indian stock market till 30 November 2024 which is highest ever investment made by mutual funds since their inception in 1964 while the FII have been net sellers to the tune of Rs. 16,900 crore from January 2024 to 30 November 2024.

The BSE SENSEX and NSE NIFTY have corrected 10 % from the peak with FII selling Rs. 94000 crore of shares in October 2024 alone highest ever in the history of Indian stock market and in November 2024 FII selling was around Rs. 23000 crore. The main reason for the selling of FII is the war between Russia Ukrain and Isreal Gaza in which now USA is directly getting involved. The weak GDP data of Indian Economy from 6.7 % to 5.4 % which is 7 quarters low GDP data could result into fresh sell off in the month of December 2024 by the Foreign Institutional Investors.

Risk in 2025:- The main risk that comes in January 2025 is that when Mr. Donald Trump resumes seat in white house and takes tariff related measures. During this campaign in USA he had called "India Trade Abuser" . If USA governments puts some kind of tariff on Indian exports to USA or tingles with H1B visas then there is high possibility that FII may go for more selling and thus Indian stock markets may crash. The fear is the retail investors who are already having 30 to 40 % losses in their portfolio especially those with mid cap and small cap investment will be in panic and may withdraw their investments thus making more losses. The net SIP flows may get affected as many stop their SIP also and thus one will have to find out the net SIP money coming into the markets.

Long way to Go:- The Indian stock market has 17. 11 crore demat account which is more than population of Bangladesh, Mexico and Japan. The number of mutual funds investors are only 5 crore while the number of people having pan card linked with aadhar card is 55 crore which means that even if 10 % of this lot starts doing SIP then we have another 5.5 crore investors in mutual fund which takes the total number of MF investors to more than 10 crore.

Conclusion: - From the above table it is clear that the DII that is the Domestic financial Institutions are now clearly dictating the movement of the Indian stock markets. The effect of FII have been reduced as huge amount of selling done by FII is betting off set by the buying done by the mutual funds.