



A Study on the Influence of Foreign Institutional Investors on Indian Stock Market Performance

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ABSTRACT:

This study examines the influence of Foreign Institutional Investors (FIIs) on the performance of the Indian stock market. FIIs play a significant role in providing capital, improving liquidity, and influencing market trends. The study is based on secondary data collected from sources such as NSE, BSE, and RBI reports. It analyzes FII inflows and outflows and their relationship with stock market indices. The findings reveal that FII investments have a strong impact on market performance, where increased inflows lead to market growth, while withdrawals result in market decline.

Keywords: Foreign Institutional Investors (FIIs), Stock Market Performance, Indian Stock Market, FII Inflows and Outflows, Market Trends, Investment Patterns, Market Liquidity, Stock Indices.

INTRODUCTION:

The Indian stock market has emerged as one of the fastest-growing financial markets in the world. It attracts both domestic and foreign investors due to its growth potential and investment opportunities. Among them, Foreign Institutional Investors (FIIs) play a crucial role in shaping market movements. Garment producers must also meet strict quality requirements and adapt quickly to changing fashion trends. Timely delivery has become crucial due to fast-moving global markets and customer expectations. These factors make production planning and supply chain coordination more challenging. Small and medium enterprises, in particular, face difficulties in maintaining competitiveness.



FII invest large amounts of capital in equity markets, influencing stock prices, liquidity, and overall market performance. Their investment decisions are often influenced by global economic conditions, interest rates, and political stability. Due to their significant financial power, even small changes in FII investment patterns can lead to noticeable changes in the stock market. This study focuses on understanding how FII inflows and outflows affect the performance of the Indian stock market over a specific period.

REVIEW OF LITERATURE:

Vishwanath and Subramanian (2025) investigated how FII investments have affected market synchronization between India and developed economies. Their research highlighted that FIIs play a significant role in linking the Indian financial markets to global financial trends. However, the study also noted that this integration makes India more vulnerable to external shocks, recommending that regulatory mechanisms be adapted to better absorb global financial shocks without hindering FII inflows.

Basu & Sood (2025) examined the role of FIIs in the Indian real estate market. Their study addressed the question, "How do FIIs affect the Indian real estate sector?" The results indicated that FIIs have significantly influenced the commercial real estate sector, especially in major metropolitan cities. The paper concluded that FII investments are a key driver of growth in the Indian real estate market. This research added to the literature by exploring the lesser-studied impact of FIIs on real estate.

Kapoor & Sharma (2024) investigated the relationship between FII investment and corporate performance in India. The study aimed to answer, "Do FIIs enhance corporate profitability and efficiency?" The research showed that companies with higher FII investments tend to outperform their counterparts in terms of profitability and operational efficiency. The paper concluded that FII involvement improves corporate governance and financial performance. This study provided valuable insights into the economic benefits of FII investments in corporate India.

Srinivasan & Sharma (2024) examined the influence of Foreign Institutional Investors (FIIs) on the Indian stock market's price volatility during the post-pandemic recovery. Their research aimed to answer the question: "Do FIIs contribute to stabilizing the market postCOVID?" The study found that FII inflows helped stabilize market prices after the pandemic, but significant outflows led to sharp declines. The paper concluded by highlighting that FIIs are vital for market recovery but can induce instability during global downturns. This study enriched the literature by emphasizing the post-pandemic role of FIIs in emerging markets.

RESEARCH GAP

The review of existing literature shows that many studies have focused on the impact of Foreign Institutional Investors (FIIs) on stock market volatility and short-term price fluctuations. However, there is comparatively less focus on the overall stock market performance in the Indian context over a longer period. Most of the earlier studies concentrate either on specific sectors or short time frames, without providing a comprehensive view of how FII inflows and outflows influence the broader market performance. In addition, limited research has been done by combining sector-wise analysis with overall market indices. Therefore, this study attempts to



fill this gap by analyzing the influence of FIIs on the overall performance of the Indian stock market, along with sector-wise investment patterns during the selected period. This provides a more comprehensive understanding of the role of FIIs in shaping market performance.

RESEARCH METHODOLOGY

The present study is analytical and descriptive in nature, focusing on examining the influence of Foreign Institutional Investors (FIIs) on the performance of the Indian stock market. The study is based on secondary data collected from reliable sources such as the National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Reserve Bank of India (RBI) reports, and various financial websites and journals. It covers a period of ten years from 2016 to 2025 to analyze trends and patterns in FII inflows and outflows. The analysis is carried out using tools such as trend analysis, percentage analysis, and Compound Annual Growth Rate (CAGR), along with the use of tables and charts for better interpretation. In this study, FII inflows and outflows are considered as independent variables, while stock market performance, measured through indices like Nifty and Sensex, is taken as the dependent variable.

STATEMENT OF THE PROBLEM

The Indian stock market is highly influenced by foreign capital flows, particularly from FIIs. Frequent inflows and outflows of FII investments create fluctuations in stock prices and impact overall market performance. There is a need to understand how these investment patterns influence market behavior and whether they contribute to stability or uncertainty. Hence, this study aims to analyze the influence of FIIs on the performance of the Indian stock market.

SCOPE OF THE STUDY

The study focuses on analysing the influence of Foreign Institutional Investors on the performance of the Indian stock market.

- Covers a specific period (2016–2025)
- Based on secondary data sources
- Includes sector-wise analysis such as IT, Banking, and FMCG
- Examines trends in FII inflows and outflows

OBJECTIVES

- To study the trend of FII inflows and outflows
- To analyze the impact of FIIs on stock market performance
- To examine sector-wise investment patterns of FIIs
- To understand the relationship between FII activity and market indices



LIMITATIONS

- The study is based only on secondary data
- It is limited to a specific time period
- Only selected sectors are considered
- External factors affecting the market are not fully included

ANALYSIS AND INTERPRETATION

FII Inflows vs Market Performance

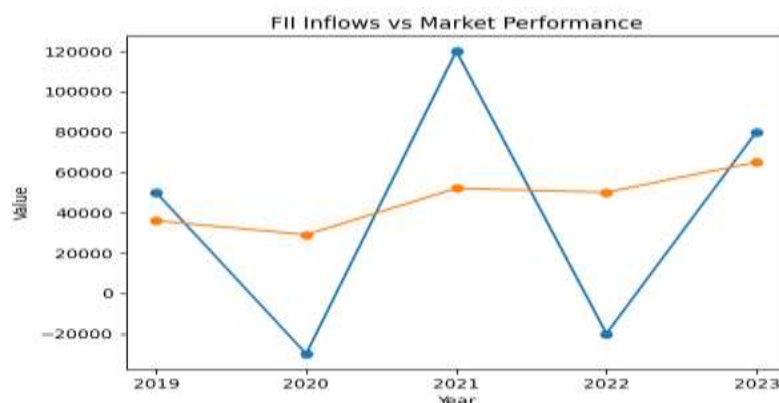
Year	FII Inflows (₹ Crores)	Market Index (Points)
2019	50,000	36,000
2020	-30,000	29,000
2021	1,20,000	52,000
2022	-20,000	50,000
2023	80,000	65,000

INTERPRETATION

The table shows that years with higher FII inflows (like 2021 and 2023) experienced a rise in stock market indices, whereas years with outflows (2020, 2022) showed a decline or slower growth.

Technological innovation plays a crucial role in addressing operational challenges in the garment industry. Advanced technologies such as automation, digital manufacturing systems, and artificial intelligence are transforming garment production processes. Automation technologies can significantly improve production efficiency by reducing manual labour and minimizing production errors.

FII Inflows vs Market Performance





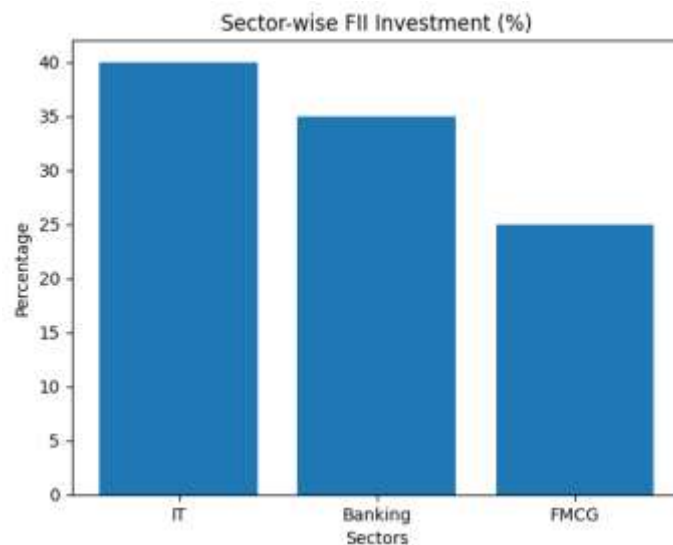
Impact of FII Outflows

Year	FII Outflows (₹ Crores)	Market Movement
2020	-30,000	Sharp decline
2022	-20,000	Moderate fall

INTERPRETATION

The data shows that during years of significant FII withdrawals, the stock market experienced a noticeable decline. This suggests that FII withdrawals negatively affect market performance, as they create panic among investors and reduce market liquidity.

FII Inflows vs Market Performance



FINDINGS

1. The study reveals a strong positive relationship between FII inflows and stock market performance in India.
2. Increased FII investments lead to a rise in stock market indices such as Nifty and Sensex.
3. FII outflows result in a decline in stock prices and create negative market sentiment.
4. FIIs significantly contribute to market liquidity and improve trading activity.
5. Sector-wise analysis shows that FIIs prefer investing in IT, Banking, and FMCG sectors.
6. Global economic factors such as interest rates, inflation, and exchange rates influence FII investment decisions.
7. The Indian stock market shows partial dependence on foreign institutional investments.
8. Sudden FII withdrawals can increase market volatility and instability.



CONCLUSION

The study concludes that Foreign Institutional Investors (FIIs) play a crucial role in influencing the performance of the Indian stock market. Their investment decisions significantly impact stock prices, market liquidity, and overall investor sentiment.

A positive inflow of foreign funds contributes to market growth and stability, while outflows can lead to fluctuations and uncertainty. Although FIIs enhance market efficiency and provide capital, excessive dependence on them may expose the market to external risks. Therefore, it is essential to maintain a balanced approach by strengthening domestic institutional participation alongside foreign investments. This will ensure sustainable growth and stability in the Indian stock market in the long run.

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