Foreign Institutional Investors in India

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Introduction

An Institutional investor or investment fund 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 to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies

Investment Restrictions

Portfolio investments in primary or secondary markets were initially subject to a ceiling of 24 per cent of issued and paid up share capital for the total holdings of all registered FIIs in any one company, taking into account the conversions arising out of the fully and partly convertible debentures issued by the company. Further, the maximum holding of 24 per cent, for all FII investments did not include portfolio investments by non-resident Indians (NRIs), NRI-OCBs (overseas corporate bodies), direct foreign investments, offshore single/regional funds, global depository receipts and euro convertibles. In the case of public sector banks, the overall limit is 20 per cent of the paid-up capital. From 1997, it was decided to increase the limit of aggregate investment in a company by FIIs to 30 per cent of issued and paid-up share capital, subject to the condition that the board of directors of the company approved

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the limit and the general body of the company passed a special resolution in this behalf.

For carrying out transactions, the FIIs should designate a bank branch and open accounts in that branch. The investment operations of FIIs are conducted through the bank branch designated by them. The RBI permits the designated bank branch to open a foreign currency denominated account and a special non-resident rupee account in the name of the FII. The FII are also permitted to (a) transfer funds from foreign currency account to rupee account and vice versa, (b) make investments out of the balance in the rupee account, (c) credit the sale proceeds of shares and other investments as also dividend/interest earned on the investments in the rupee account, and (d) transfer the repatriable proceeds (net of taxes) from the rupee account to the foreign currency account. The RBI makes available to the designated bank branches a list of companies where no further investment will be allowed. FIIs can also appoint custodian, an agency approved by SEBI. The custodian will be in charge of all securities of the FII and will report to SEBI/RBI in order to comply with the disclosure and reporting guidelines. At present there are 14 registered custodians. There are however some restrictions. An FII will not engage in any short selling in securities. Also, it has to take delivery of securities purchased and affect delivery of securities sold.

Foreign Brokers In India

With a view to facilitating the operational procedures for foreign institutional investment in India and encouraging the present investment trends, it was decided to increase the role of foreign brokers in transactions of FIIs by allowing them to provide assistance to the FIIs registered with SEBI in their dealings in India. A few foreign broking firms have set up fully owned subsidiaries in India. These broking outfits can deal directly in the Indian stock markets. Custodians approved by SEBI could render further, custodial services. The FIIs have been playing a major role in the Indian capital market with cumulative investments having reached $11.24 billion by March-end 2000. As compared to this, the cumulative amount of foreign direct investment (FDI) since 1991 up to December end 1999 has been estimated at $19.2 billion. The market capitalisation varies depending on share market prices.

Impact On Prices

Along with the domestic mutual funds, the FIIs have started playing a critical role in the movement of stock prices. The assets under management of domestic mutual funds have crossed Rs. 100,000 crores. About half of these funds are income funds, and the remaining balanced funds and equity funds. Hence, the FIIs and the domestic mutual funds play an important part in the movement of stock prices. A few other developments have strengthened the role of the FIIs. The Unit Trust of India's share in mutual fund collection has been going down. In fact, the UTI today is more successful with its income funds rather than with equity funds. In recent months, privately managed domestic mutual funds have been the most successful in garnering fresh funds from the public. Not surprisingly a few of these foreign owned fund managers are also well known names among FIIs. Another development during recent years has been the declining role of development financial institutions (DFIs) such as IDBI, ICICI and IFCI in the capital markets. This is partly on account of their limited access to cheap funds and partly because of the withdrawl of the convertibility clause under which these DFIs managed to acquire equity shares of companies which were financed by them.

Fees For FII Licenses

On June 26, 2006, SEBI announced that fees for FII licenses had increased from $5,000 to $10,000 and that fees for each FII sub account had increased from $1,000 to $2,000. SEBI also announced that licenses must be renewed every three years, rather than every five years under the previous fee schedule. The new policy, which took effect immediately, effectively tripled the fees FIIs must pay to invest in India, largely. India is the only country in the world, to our knowledge, that charges foreign investors significant fees to be able to invest in its markets. Other countries that have, or have had, foreign investor licensing regimes charged nominal filing fees to cover the administrative costs associated with registration. Besides, FIIs seeking initial registration with SEBI will be required to hold a registration from an appropriate foreign regulatory authority in the country of domicile/incorporation of the FII.

The FIIs are playing an important role in bringing in funds needed by the equity market. Additionally, they are contributing to the foreign exchange inflow as the funds from multilateral finance institutions and FDI are insufficient. However, the fact remains that FII investments are volatile and market driven, but this risk has to be taken if the country has to ensure steady inflow of foreign funds

Following table shows investment and trends during the period 1992-93 to 2005-2006.

TABLE NO-1

FOREIGN INSTITUTIONAL INVESTOR'S INVESTMENT IN INDIA FROM THE YEAR 1992 -2006

Year	Inflows (US$ million)	Trend analysis
1992-1993	1	-500.5
1993-1994	1665	5.5
1994-1995	1503	511.5
1995-1996	2,009	1017.5
1996-1997	1,926	1523.5
1997-1998	979	2029.5
1998-1999	-390	2535.5
1999-2000	2,135	3041.5
2000-2001	1,847	3547.5
2001-2002	1,505	4053.5
2002-2003	377	4559.5
2003-2004	10918	5065.5
2004-2005	8686	5571.5
2005-2006	9926	6077.5
2010		8101.5

Source: RBI bulletin

The current list of companies allowed to attract investments from FIIs with their respective ceilings is:

TABLE NO – 2

INVESTMENT IN INDIAN COMPANIES BY FIIs (with effect from Nov 23, 2006)

S.NO	**UPTO 30% OF THEIR PAID UP CAPITAL UNDER PIS**	**UPT0 40% OF THEIR PAID UP CAPITAL**	**UPTO49%OF THEIR PAID UP CAPITAL**	**UPTO LIMITS FIXED BY THE COMPANIES AGAINST THERE NAMES**	**UPTO SECTORAL CAP/STATUTORY CEILING OF THEIR PAID UP CAPITAL**
1	Asian Paints (India) Ltd	Adlabs Films Ltd	Alok Industries	Amtek Auto Ltd (74%)	Gateway Distriparks Ltd - (100%)
2	Capital Trust Ltd	Aftek Infosys Ltd	Auribindo Pharma Ltd	Amtek India Ltd (74%)	Geodesic Information Systems Ltd- (100%)
3	Container Corporation Of	Balaji Telefilms Ltd	Arvind Mills Ltd	Ahmednagar Forgings Ltd (74%)	Geometric Software Solutions Ltd –

	India				(100%)
4	Divi's Laboratories Ltd	Bharat Forge Ltd	Bajaj Hindustan ltd	Apollo Hospitals (74%)	Hcl Infosystems Ltd. – (100%)
5	Ferro Alloys Corporation Ltd	Burr brown(India) Ltd	Balakrishna Industries	Aptech Ltd (74%)	Hexaware Technologies Ltd – (100%)
6	Garware Polyster Ltd	Cipla Ltd	Blue Dart Express Ltd	Crest Communication Ltd (50%)	Indiabulls Financial Services Ltd – (100%)
7	Givo Ltd (Formely Kb & T Ltd)	Elbee Services Ltd	Core Projects & Tech Ltd	Dcm Ltd (49%)	Infosys Technologies Ltd. – (100%)
8	InfoTech Enterprises Ltd	Emco Ltd	Crisil	Godrej Consumer Products L Td (35%)	Ivrcl Infrastructures & Projects Ltd (100%)
9	Mahindra Gesco Developers Ltd	Glen Mark Pharmaceuticals Ltd	Digital Global Soft Ltd	Gtl Ltd. – (74%)	Mascon Global Ltd. – (100%)
10	Orchid Chemicals And Pharmaceuticals Ltd	Gujarat Ambuja Cements Ltd	Dr. Reddy's Laboratories Ltd	Gtl Infrastructure Ltd. – (74%)	Mphasis Bfl Ltd – (100%)
11	Penta Soft Tec (Pentafour Communications Ltd)	Heg Ltd	D.S Kulkarani Developers Ltd	Housing Development Finance Corporation Ltd. – (74%)	Penta Media Graphics Ltd.- (100%)
12	Polyplex Corporation Ltd	Hero Honda Motors Ltd	Fedral Bank Ltd	Il & Fs Investment Managers Ltd- 74%	Pentasoft Technologies Ltd. – (100%)
13	Ranbaxy Laboratories Ltd	Igarashi Motors India Ltd	Financial Technologies (I) Ltd	I-Flex Solutions Ltd. (60%)	Reliance Communications Ltd – (74%)
14	Shasun Chemicals Ltd	Jindal Steel & Power Ltd	Gammon India Ltd. -49%	Kotak Mahindra Bank Ltd (30%)	Sujana Metal Products Ltd - (100%)
15	Sonata Software Ltd	Jyoti Structures Ltd	Hdfc Bank Ltd	Laxmi Energy & Foods Ltd (Lakshmi Overseas Industries Ltd) (39%)	

16	The Paper Products Ltd	Maars Software International Ltd	Himachal Futuristic Communications Ltd.	Mahindra & Mahindra Financial Services Ltd (35%)	
1`7	Vikas Wsp Ltd	Max India Ltd	Hindustan Lever Ltd	Mercator Lines Ltd (70%)	
18		Mount Everest Mineral Water Ltd	Hughes Software Ltd	Moser Baer India Ltd (74%)	
19		Padmini Technologies Ltd	Icici Bank Ltd	Opto Circuits (India) Ltd (40%)	
20		Ptc India Ltd	Ind-Swift Laboratories Ltd	Prajay Engineers Syndicate Ltd (74%)	
21		Rajasthan Spinning & Weaving Mills Ltd	Infrastructure Development Finance Co Ltd	Pritish Nandy Communications Ltd (60%)	
22		Rico Auto Industries Ltd	Jain Irrigation Systems Ltd	Punjab Tractors Ltd. (64%)	
23		Shanti Gears Ltd	Karnataka Bank Ltd	Pvr Ltd (40%)	
24		Silver Line Technologies Ltd	LIC Housing Finance Ltd	Sakthi Sugars Ltd (50%)	
25		Suven Life Science Ltd	Logix Microsystems Ltd	Sanghvi Movers Ltd. (35%)	
26		The Indian Cements Ltd	Marksans Pharma Ltd	Satnam Overseas Ltd (51%)	
27		The Indian Hotels Company Ltd	Mahindra & Mahindra Ltd	Satyam Computer Services Ltd (60%)	
28		Thiru Arooran Sugars Ltd	Mastek Ltd	Srei Infrastructure Finance Ltd (64%)	
29		Utv Software Communications Ltd	Mc Dowell & Co Ltd	Subex Systems Ltd. (74%)	
30		Visual Soft Technologiesltd	Niit Ltd	Ssi Ltd (74%)	
31		Ways India Ltd	Niit Technologies Ltd	Tata Motors Ltd. (35%)	
32		Welspun Gujarat Stahal Rohren Ltd	Panacea Biotec Ltd	Tata Tea Ltd (35%)	
33		Welspun India Ltd	Panacea Biotec Ltd	The Tata Power Company Ltd (35%)	
34		Zicom Electronic Security Systems Ltd	Reliance Capital Ltd.	The Jammu & Kashmir Bank Ltd. (33%)	

35			Reliance Energy Ltd	Unichem Laboratories Ltd (39%)	
36			Reliance Industries Ltd.	Vaibhav Gems Ltd (60%)	
37			Reliance Petroleum Ltd	Zicom Electronic Security System Ltd (74%)	
38			Sb & T International Ltd.		
39			Sintex Industries Ltd.		
40			S.Kumars Nationwide Ltd		
41			Soffia Software Ltd		
42			Stridesarcolabs Ltd		
43			Sun Pharmaceutical Industries Ltd		
44			Swaraj Mazda Ltd		
45			The South Indian Bank Ltd		
46			nited Breweries (Holdings) Ltd		
47			United Breweries Ltd		
48			United Phosphorus Ltd		
49			Uti Bank Ltd.		
50			Vimta Labs Ltd.		
51			Wockhardt Ltd.		
52			Yes Bank Ltd.		
53			Zee Films Ltd.		

Source: RBI

TABLE NO-3

TRENDS IN FOREIGN INSTITUTIONAL INVESTORS INVESTMENT IN INDIA

Year	**Purchase (Rs. Crore)**	**Sales (Rs. Crore)**	**Net investment (Rs. Crore)**	**Net investment (US $ mn.)**	**Net cumulative investment (US $mn)**
1992-93	17	4	13	4	4
1993-94	5,593	466	5,126	1,634	1,638
1995-96	7,631	2,835	4,796	1,528	3,167

1996-97	15,554	6,979	8,574	2,432	7,634
1997-98	18,695	12,737	5,957	1,650	9,284
1998-99	16,115	17,699	-1,584	-386	8,898
1999-00	56,856	46,734	10,122	2,339	11,237
2000-01	74,051	64,116	9,934	2,159	13,396
2001-02	49,920	41,165	8,755	1,846	15,242
2002-03	47,061	44,373	2,689	562	15,805
2003-04	1,44,858	99,094	45,765	9,950	25,755
2004-05	2,16,953	1,71,072	45,881	10,172	35,927
2005-06	3,46,978	3,05,512	41,467	9,332	45,259

Source: SEBI Bulletin

The Indian financial market was opened to the foreign institutional investors in 1992 to widen and broaden the Indian capital market. Since then, the net investment by FIIs in India has been positive every year except in 1998-99. During the last three years, there has been a phenomenal increase in the portfolio investment by FIIs in the Indian market. The Gross purchase is increased every year except in the years 1998, 2001, and 2002. The gross Sales by FIIs are increased every year except in 2001. However, the net investment by FIIs in 2005-06 declined to Rs.41, 467 crore in 2005-06 from Rs.45,881 crore in 2004-05 mainly due to large net outflows from the debt segment. The cumulative net investment by FIIs at acquisition cost, which was US$15,805 billion at the end of March 2003, rose to US$ 45,259 billion at the end of March 2006.

CHART NO- 2

TRENDS IN FOREIGN INSTITUTIONAL INVESTOR'S ANNUAL NET INVESTMENT AND CUMULATIVE INVESTMENT

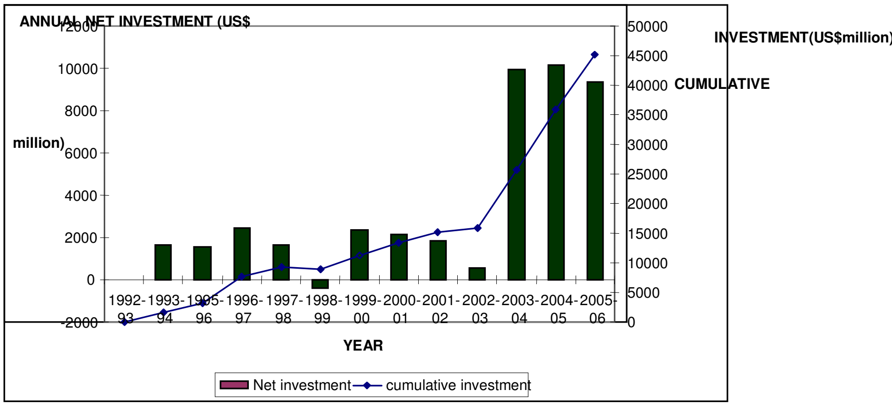

TABLE NO -4
MONTHLY FII INVESTMENTS FOR THE YEAR 2006

MONTH ENDED	NETINV. (Rs m)	MONTHEND Rs/US$	NETINV.(US$)	MONTHEND IN INDEX	CURRENT VALUE	CUMM. INV. (Rs.m)	CUMM. VALUE (Rs.m)	%GAIN (Rs m)	%GAIN (US$)
Jan -2006	48,480	44.07	1,087	9,920	66,474	48,480	66,474	37.1	36.8
Feb -2006	75,720	44.39	1,708	10,370	99,320	124,200	165,794	33.5	32.7
Mar-2006	59,778	44.62	1,343	11,280	72,083	183,978	237,877	29.3	28.6
Apr -2006	39,771	44.97	884	12,043	44,919	223,749	282,797	26.4	26.0
May- 2006	(82,473)	46.37	(1,793)	10,399	(107,876)	141,276	174,921	23.8	21.2
Jun-2006	9,094	46.04	200	10,609	11,660	150,370	186,581	24.1	21.7
Jul-2006	12,764	46.56	304	10,744	16,159	163,134	202,740	24.3	21.5
Aug -2006	47,739	46.54	1,024	11,699	55,504	210,873	258,245	22.5	21.4
Sep-2006	59,282	45.94	1,286	12,454	64,747	270,155	322,991	19.6	19.6
Oct -2006	65,995	45.03	1,457	12,962	69,254	336,150	392,245	16.7	17.0
Nov -2006	91,191	44.70	2,033	13,602	91,191	427,341	483,436	13.5	13.4

The above table shows that monthly investment in India by FII during the year 2006. It implies that in the month of November,2006 high investment compare to other months. The current value is high in the month of February. Percentage gain (in rupees) is high in the month of January, 2006 is 37.1% and low in the month of November is15% the above changes are due to some monetary and financial policy. In the month of May that shows the net investment is negative mainly due to large net outflows from debt segment.

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