

## **An Empirical Study on the Influence of FII on Indian IPO's**

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**Abstract:** The Indian stock market sees huge volatility and enormous growth since liberalization. In the year 2017 from January to December, the Indian capital market has witnessed a massive 171 IPOs[1]. Out of 171 IPOs, 38 are in mainstream IPO, 133 in NSE SME. Foreign Institutional investors have an upper hand over Domestic Institutional Investors in Indian IPO's. Here the researcher tries to understand the influence of FII on Indian IPO. The inflows of FII into total subscription and total shares offered have been collected and found FII inflows over total subscription and total shares offered. The data about IPO's from January 2014 to December 2019 has been analyzed. The regression model is used to find the relationship between listing gains FII inflows over total subscription, FII inflows over total shares offered, nifty return and nifty volatility. The study finds that listing gains has a significant relationship with FII inflows over total shares offered.

**Key Words:** Foreign Institutional Investor, IPO, Total subscription, and Total shares offered.

### **Introduction**

The 20<sup>th</sup> century witnessed worldwide securities market improvement and liberalization. The financial markets and the securities exchange experienced numerous convinced changes. Understanding the importance of foreign investments for the country is significant for development. De-regulation was introduced in 1991 in the country, the Indian government introduced many improvement and changes to speed-up the growth of the country's economic and change for globalization of economy (**Alfaro & Chari, 2013**).

The Indian primary market is playing a significant function to frame a connection between savings and investment. Through the primary market the debtors viz., the Government or the company issue shares and raise money from the investors. The primary market includes public issues and private arrangements. The public issue includes of an organization which raises money from varied range of investors this is termed as the Initial Public Offer (IPO). There are very limited subscribers to issue in the event of private arrangements. There are varied investors in the IPO market are individual investors, HNI, Domestic Institutional investors, and foreign institutional investors.

### **Initial Public Offering**

The initial public offering meaning is where the issuer company sells its shares to the public to raise money. In India, the mainstream IPO follows the book building method to issue the shares to the public.

### **SEBI Guidelines on IPO via Book Building**

An issuer company should comply with any of the following methods

1. 75% book building – 75% of the shares will be issued to the civic via book-building method and 25% will be issued at the determined price via book building. After the book-building process, the determined price through book building will be the fixed price for the fixed portion.
2. 100% book building – whereas the entire net offer will be issued to the public through the book-building process.

There is a reservation in the book building offer

- 50% of the total issue is offered to Qualified Institutional Buyer (QIB)
- 35% of the total issue is offered to Nonretail investors
- 15% of the total issue is offered to retail investors

**Table: 1** IPO activity in India

Year	No. of IPOs	Amount Raised (In Rs Cr)	Issue Succeeded	Issue Failed
2012	13	6,834.17	11	2
2013	5	1,283.95	3	2
2014	7	1,200.94	5	2
2015	21	13,513.17	21	0
2016	27	26,500.82	26	1
2017	38	75,278.57	38	0
2018	25	31,731.28	24	1
2019	16	12,687.32	16	0

Sources: SEBI

From the above table, it is visible that Indian IPO activities are taking a tremendous growth. The amount raised in the IPO market has increased significantly from 2012 to 2017. In Economic Times on Nov 14, 2017 news articles focused on FII betting on the primary market. The FII investing three times more than investing in the secondary market. FII invested Rs.35,000 crore in the primary market compared with Rs.12,200 in the secondary market in Jan 2017. FII had only invested almost \$1 billion in IPO SBI Life Insurance, ICICI Lombard General Insurance, and IRB InvIT. The FII invested almost Rs.2,850 crore in SBI Life Insurance whereas, DII invested only Rs.1,530 crore.

The companies raise money through the primary market and list their shares in the secondary market need not always have positive returns. The performance of the shares is determined by many factors which include the valuation, market sentiments, and investor sentiments. The retail investor continuously bet in the IPO market to get better listing gains. However, they often find it difficult to make such gains irrespective of the information available to them in the form of IPO reports and grading.

### Literature Review

There are a good amount of research analyzing the effects of FII on the securities exchanges for instance **Mukherjee, P** et al. (2002) have tried to understand the connection of institutional investment from foreign flows (FII) with the securities market in India. Their findings document FII sales and the total inflow

of FII are considerably disturbed the returns of the securities exchange in India. They also prove that the purchase made by FII is not receptive to the performance of the market.

**Agarwal, B. (2014)** the researcher attempts to study that the IPO size and market capitalization are the major causes of the overseas institutional buyers (FII) to invest in the capital market of India.

**Banerjee, S., & Rangamani, K. T. (2015)** aim to understand the dynamics influencing the investor's wish for IPO. In the pre IPO related factors and market sentiment factors are included in the study. The researcher has concluded that all the factors have an influence on the interest of the investor to subscribe the IPO.

**Gao, Set al. (2016)**, have focused on investor sentiments particularly to corporate buyer and individual buyer on first day and long pull returns of IPO in Chinese market. It is identified that both the investor are correlated positively with day one of IPO return. Also, the research says that long haul IPO performance is correlated negatively with the retail investor only.

**Agarwal, B. (2016)** analyses how the FII speculations within the Indian IPO portion increase money related advancement, and to what degree such venture can be considered near to real investments by being within the IPO Market.

**Neupane et al. (2016)** have examined the role of FIIs in Indian IPOs and provided that the foreign institutional investor put all the resources into the primary market assertively than a domestic institutional investor. They find that DII has a preferable choice capacity over FII. The FIIs reduce their IPO holding post listing more rigorously compared to DII especially in those firms which are small, young, and highly volatile in terms of the stock price.

**Minimol, M. C., & Makesh, K. G. (2017)** have explored the influence of FDI and FII on the performance of the securities market in India by analyzing with the benchmark indices of BSE and NSE. Using an OLS model, they find that the international flow of funds to India has a significant effect on the securities exchanges.

**Roy, S., & Deb, S. (2019)**. Studied the impact of FII and DII on the stock market by collecting 10 years of monthly data. Also, the researcher studies the role of FII at the time 2008 crises with a comparison of 2018 FII flows. He finds that FII and DII have effected the securities market.

**Gahlot, R. (2019)** has attempted to observe the outcome of FII & DII flows in the securities exchange in India. Employing the data pertaining to Nifty50, Nifty Next 50, BSE Sensex, and BSE 100, it finds that trading activities of FIIs carry more influence on DIIs. A further analysis of volatility using the TGARCH model provides the asymmetric impact of information on the fluctuation of return in the stock.

**Emenike, K. O., & Amu, C. U. (2019)** have attempted to study foreign direct equity investment impact on the stock market volatility in Nigeria from Jan 2007 to July 2017 monthly data. The statistical tool like GARCH is used for estimating the volatility in the stock market. It is found that foreign direct equity does not have any changes on securities market.

**Gao, S., Brockman, P., Meng, Q., & Yan, X. (2020)** have studied the IPO underpricing ascends because of investors' differences of opinion. In this study, Chinese IPO data is used and found that issue price of IPO is determined by the underwriters on probing the book building issue price. Secondly, they tested Miller's

theory by concentrating on optimistic investors' opinions. The data collected to analyze the aftermarket and pre-IPO pricing impact. Third, the researcher finds a new signal on Miller's theory for IPO underpricing.

**Ong, C. Z., Mohd-Rashid, R., & Taufil-Mohd, K. N. (2020)** aim to understand the influence of the corporate ownership on IPO valuation. In this study, 450 IPO listed in the Bursa Malaysian stock market is studied for this purpose. The researcher finds that institutional ownership influences positively the IPO valuation. The study has reaffirmed that the presence of institutional buyers in IPOs by conveying fair valuation is possible by data on companies qualities. The pricing of book built IPO which had institutional ownership was as close as possible to firms' intrinsic value. The study finds that underwriters and issuers ended indicating the firm's qualities by integrating book-building in the IPO and rationing a larger portion of shares to the institutional investors.

The present study also aims in analyzing the impact of FIIs in Indian IPOs. However, unlike other studies that use market capitalization as a target variable and the FII inflows as an explanatory variable, the researcher investigate the influence of FIIs on the listing gain of the IPO investments. This paper emphasizes on the impact of foreign subscriptions as a proportion of total subscriptions as well as a proportion of total shares offered on the listing gains.

### **Statement of the Problem**

Investing in IPO and getting listing gains is an illusion for many retail investors. Comparatively Foreign Institutional Investors' investment will be huge than retailers and HNI. In the stock market, FII intermittently will be called as market movers. This study focuses on the impact of foreign subscriptions as a percentage of total subscriptions as well as a percentage of total shares offered, Nifty return, and Nifty volatility on listing gains.

### **Objectives of the Study**

- To find the impact of Foreign Institutional Investor investment on the IPO listing gains.

Further, the primary objectives have been divided into four parts.

- To find the impact of FII investment over total subscription IPO listing gains.
- To find the impact FII investment over total shares offered IPO listing gains.
- To find the impact Nifty returns on the IPO listing gains.
- To find the impact of Nifty volatility on the IPO listing gains.

### **Research Methodology**

#### **Time Period**

In this study, all IPO's from January 2014 to December 2019 which have been listed in the National stock exchange has been considered to do the analyse. In 2014 there were 8 IPOs, listed on the NSE. 2 issues were withdrawn. In 2015 there were 21 IPOs, listed on the NSE. In 2016 there were 27 IPOs in which 1 IPO was withdrawn. In IPO 2017 there were 38 IPOs. In 2018 there were 25 IPOs' with 1 IPO withdrawn and in 2019 there were 16 IPOs. In total there were 130 IPOs from January 2014 to December 2019 out of which 126 IPOs data was available and included in our study. Thus in this study, the researcher analyzed the FII inflows into these 126 IPOs during the specified period.

## Data Collection

In this study total shares offered, total subscription on the day of IPO, and Foreign Institutional Investors' investment in the IPO during the IPO period are collected. Each IPO data is collected from the NSE website. The Nifty index return and Nifty volatility are calculated on a monthly basis.

## Analytical Tools and Techniques

This study employs a regression test to examine the relationship with the variables.

H0: The listing gains of IPO has no relationship with the variables.

H1: The listing gains of IPO has a relationship with the variables.

The collected data are analyzed using the OLS model. To understand the linear association between FII inflows over total shares offered by the company and FII inflows over total subscription for the company and IPO listing gains. The regression used to estimate the outcome of two or more explanatory variables is on one target variable. In this paper, tried to understand the influence of FII inflows on IPO listing gains. FII inflows over total shares offered by the company, FII inflows over total subscription of the company, Nifty Index monthly return, and Nifty volatility.

## Empirical Analysis

To study the effect of FII inflows on listing gain. FII inflows over total shares offered by the company and FII inflows over the total subscription for the company are calculated.

*FII inflows over total shares offered = FII inflows ÷ Total shares offered by the company*

*FII inflows over total subscription = FII inflows ÷ Total subscription of the company*

To regression model is outlined in the following way:

$$\text{Listing Gain} = \alpha + \beta_1 \times \text{FII over Total Shares} + \beta_2 \times \text{FII over Total Subscription} + \beta_3 \times \text{Nifty Return} + \beta_4 \times \text{Nifty Volatility}$$

In the above equation which IPO Listing gain is the dependent variable, FII inflows over total shares, FII inflows over total subscription, Nifty index return, and Nifty volatility are the independent variables.

**Table 2: Correlation**

	Return	FII over Total Shares	FII Over Total Sub	Nifty Return	Nifty Volatility
Return	1				
FII over Total Shares	0.628335	1			
FII Over Total Sub	-0.14577	-0.06066	1		
Nifty Return	0.24275	0.252313	0.051782	1	
Nifty Volatility	-0.12454	-0.07907	-0.11047	0.100663	1

From the above table, it is evident that the Foreign institutional investors' subscription over total shares as percentage is highly correlated with returns of the IPO listing and Nifty return is weakly correlated. Whereas foreign institutional investors' subscription over the total subscription and Nifty volatility is negatively correlated to the IPO listing gains.

**Table 3: Anova**

	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	47316.87	11829.22	22.43047	0.000000
Residual	121	63812.09	527.3726		
Total	125	111129			

Table 3 provides a statistically significant f-value which indicates that the regression model is fit.

**Regression results**

**Dependent variable – Listing Gains**

**Table 4: R Square**

<i>Regression Statistics</i>	
Multiple R	0.652521
R Square	0.425783
Adjusted R Square	0.406801
Standard Error	22.9646

The adjusted R Square shows a value of 0.42. It indicates that the proposed model explains approximately 42% of the variation in the dependent variable i.e. the variables FII over total shares offered, FII over total subscription, Nifty Return, and standard deviation of Nifty predicts 40% changes in the listing gains of IPO.

**Table 5: Regression results with listing gains of IPOs as dependent variable and FII inflows over total shares and FII inflows over total subscription are the independent variables.**

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	11.37535	5.00887	2.271041	0.024912	1.458971	21.29173
FII over Total Shares	0.039053	0.004808	8.121841	0.000000	0.029534	0.048573
FII Over Total Sub	-0.27578	0.150691	-1.83013	0.069691	-0.57412	0.022548
Nifty Retun	84.09839	53.85836	1.561474	0.121024	-22.5284	190.7252
Volatility	-0.02797	0.018923	-1.47819	0.141956	-0.06544	0.009491

The linear regression table 5 indicates that listing gains has a statistically significant relationship with the independent variable that is FII inflows over total shares offered. Whereas it is statistically evident that the

listing gains have no relationship with the independent variable that is FII inflows over total subscription, Nifty return and Nifty volatility.

### **Findings**

In this study, regression is imparted to find the influence of Foreign corporate buyers subscriptions as a proportion of total subscriptions as well as a proportion of total shares offered, Nifty return, and Nifty volatility on listing gains. It is found that the statistically evident that the IPO listing gains have a significant relationship with foreign institutional investors subscriptions. It is conspicuously known that whenever there is an increase in foreign institutional investors' subscriptions in total shares offered, the particular IPO tends to give higher returns. Whereas the foreign corporate buyers as a proportion of total shares offered, Nifty returns and volatility of nifty do not influence the IPO listing gains. However, there is further scope to study the other variables that influence the IPO listing gains.

### **Suggestions**

The study focuses to suggest the retail investors in the initial public market, based on foreign corporate buyers' subscriptions in the IPO. Investing in IPO and getting listing gains is an illusion for many retail investors. Comparatively Foreign Institutional Investors' investment will be huge than the retailers and HNI. It is found that if there is an increase in foreign institutional investors' subscriptions in an IPO then there is a possibility of getting higher returns. Hence retail investors are advised to follow the pattern of Foreign institutional investors' subscription on total shares offered in IPO before taking any individual decision.

### **Conclusion**

The present study focuses to find out how FIIs inflows affect the IPO listing gains in the Indian stock market. It employs the data of 126 IPOs during the period 01 January 2014 to 31 December 2019 to examine the dependency of listing gains on FII inflows over total shares offered and FII inflows over total subscription. The regression model concludes that listing gains impacting positively and statistically significantly on FII inflows over total shares offered by the company. However, it is concluded that there is no impact of FII inflows over the total subscription for the company on the listing gains. There could be more possible understanding of this data and findings which entails more research. However, the outcome from the research is that an investor can get better listing gains when the FII inflows over the total subscription are high. This indicates that when there is a higher demand for the share in IPO by foreign investors and they possess a substantial part of the total subscriptions, the share tends to provide better listing gains.

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