

Original Article

A Study on the Impact of FIIs and DIIs on the Indian Stock Market

¹S. SATHISH KUMAR, ²K. MUTHAMIZHSELVAN

¹Assistant Professor, Department of Management Studies, E.G.S.Pillay Engineering College, Nagapattinam, Tamil Nadu, India.

²Student, Department of Management Studies, E.G.S.Pillay Engineering College, Nagapattinam, Tamil Nadu, India.

ABSTRACT: *Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) play a significant role in influencing the Indian stock market. Institutional investment flows affect market liquidity, volatility, investor confidence, and long-term economic growth. This study examines the impact of FII and DII investment flows on benchmark indices such as NIFTY 50 and BSE Sensex during the period 2020–2025. The study mainly focuses on institutional investment behaviour, market volatility, investor sentiment, and market stability. Secondary data was collected from NSE, BSE, SEBI, RBI reports, financial journals, and market publications. Statistical tools such as percentage analysis, mean, correlation analysis, trend analysis, and chi-square test were used for data analysis and interpretation. The findings reveal that FIIs strongly influence short-term market movements and volatility, whereas DIIs act as long-term stabilizing forces in the Indian stock market. The study also highlights the increasing role of SIP investments and domestic mutual fund participation in strengthening the Indian capital market. The research concludes that the balanced participation of FIIs and DIIs contributes significantly to market resilience, liquidity, and sustainable economic growth. The growing dominance of domestic investors has reduced the dependency of Indian markets on foreign capital and improved overall market stability.*

KEYWORDS: *FIIs, DIIs, NIFTY 50, Sensex, Institutional Investment, Stock Market, Market Volatility, SIP Investment, Capital Market.*

1. INTRODUCTION

The Indian stock market is one of the fastest-growing and most dynamic financial markets in the world. It plays a crucial role in the economic development of the country by mobilizing savings, promoting capital formation, generating employment opportunities, and supporting industrial and infrastructural growth. The performance of the stock market reflects the economic strength and financial stability of a nation. In recent years, the Indian capital market has attracted significant attention from both domestic and international investors due to rapid economic growth, technological advancement, financial reforms, and increasing investor participation.

Institutional investors, particularly Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs), are considered major participants in the Indian stock market. Their investment decisions significantly influence stock prices, market liquidity, volatility, and investor sentiment. Due to their large-scale investments and trading activities, institutional investors play a key role in determining market trends and overall market performance.

Foreign Institutional Investors are entities or organizations that invest in the financial markets of countries outside their domestic nation. FIIs include hedge funds, mutual funds, pension funds, insurance companies, investment banks, and asset management companies. FIIs bring foreign capital into India and contribute to market liquidity, capital availability, and economic development. Their investment decisions are highly influenced by global economic conditions, inflation, interest rates, exchange rate fluctuations, geopolitical events, and government policies. Since FIIs invest huge amounts of capital in equity markets, their buying and selling activities often create significant fluctuations in stock prices and benchmark indices.

Domestic Institutional Investors include Indian mutual funds, insurance companies, pension funds, banks, financial institutions, and other domestic investment organizations. DIIs play a crucial role in stabilizing the Indian stock market, especially during periods of heavy foreign institutional selling. In recent years, the increasing awareness of financial investments, growth of SIP investments, expansion of mutual fund participation, and rising retail investor interest have strengthened domestic institutional participation in the Indian capital market.

The period between 2020 and 2025 witnessed several major economic and financial events such as the COVID-19 pandemic, nationwide lockdowns, global inflationary pressures, geopolitical tensions, rising crude oil prices, increasing interest rates, and economic recovery phases. During these periods, FIIs showed highly volatile investment behaviour due to uncertainty in global financial markets. Large-scale FII outflows created temporary market corrections and volatility in benchmark indices

such as NIFTY 50 and BSE Sensex. However, strong participation from DIIs helped the Indian stock market recover from major declines and maintain long-term stability.

The rapid growth of SIP investments and domestic mutual fund inflows has transformed the structure of the Indian stock market. Earlier, Indian markets were highly dependent on foreign capital for liquidity and growth. However, the growing contribution of DIIs has reduced market dependency on foreign investments and improved the resilience of the Indian financial system. This transformation reflects the increasing financial literacy and investment awareness among Indian investors.

FII and DII together contribute significantly to price discovery, market efficiency, liquidity creation, and capital market development. Their investment behaviour directly affects benchmark indices such as NIFTY 50 and Sensex, which are considered indicators of economic and market performance. Therefore, understanding the impact of institutional investment flows on the stock market is highly important for investors, policymakers, researchers, and financial analysts.

This study attempts to analyze the impact of FIIs and DIIs on the Indian stock market during the period 2020–2025. The research focuses on institutional investment trends, market volatility, benchmark index performance, SIP growth, and the changing role of domestic investors in maintaining market stability and supporting sustainable economic growth.

2. REVIEW OF LITERATURE

The role of Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) in influencing the Indian stock market has attracted significant attention among researchers. Institutional investors play a crucial role in shaping market trends, affecting liquidity, volatility, and price discovery. This section presents a detailed review of various studies conducted in this area.

- **VARUN (2022):** Varun conducted a time-series analysis to examine the impact of FII and DII flows on benchmark indices such as NIFTY 50. The study revealed that FII flows dominate market movements, particularly in the short term. However, DIIs act as a stabilizing force during market downturns by absorbing selling pressure and maintaining market balance. The research also highlighted that continuous DII participation improves investor confidence and reduces panic selling during uncertain market conditions. The study concluded that a balanced participation of FIIs and DIIs is essential for maintaining market efficiency and sustainable growth.
- **MOHANTY (2021):** Mohanty and his co-authors studied the effect of institutional investors on market volatility and long-term returns. Their findings indicated that FIIs contribute to higher volatility due to frequent trading, whereas DIIs support sustainable market growth through steady investment patterns. The study emphasized the importance of balancing both types of investments. Furthermore, the researchers observed that increased DII participation has strengthened the resilience of the Indian stock market against external financial disturbances and global economic crises.
- **EMPIRICAL STUDY (2020):** A recent empirical study using advanced statistical techniques examined the impact of FII and DII flows on stock market returns. The findings confirmed that FIIs have a significant influence on short-term market movements, while DIIs contribute to long-term stability. The study also highlighted the growing importance of DIIs in the Indian financial system. It further noted that rising participation of domestic mutual funds and insurance companies has reduced excessive dependence on foreign capital in recent years.
- **PARAB AND REDDY (2020):** Parab and Reddy analysed the impact of institutional investments before and after demonetization in India. The study found that FIIs contributed significantly to market volatility during uncertain periods, while DIIs played a stabilizing role by maintaining consistent investments. The authors concluded that both types of investors are essential for the smooth functioning of the market. The study also stated that government policy changes and economic reforms strongly influence institutional investment decisions in the Indian capital market.
- **JALOTA (2017):** Jalota conducted a behavioural study comparing the investment patterns of FIIs and DIIs. The study revealed that FIIs are more reactive to global economic conditions, whereas DIIs are influenced by domestic economic factors. It also found that DIIs follow a long-term investment strategy, while FIIs are more short-term oriented. This difference in behaviour explains their varying impact on market stability. The research further suggested that increasing domestic institutional participation can help reduce excessive market dependence on foreign investors.
- **SHARMA (2016):** Sharma focused on the role of Domestic Institutional Investors (DIIs) in stabilizing the stock market. The study found that DIIs tend to increase their investments during periods of heavy FII selling, thereby reducing the negative impact on the market. This counterbalancing behaviour helps in maintaining stability and prevents extreme fluctuations in stock prices. The study also highlighted that DIIs improve long-term investor confidence by supporting fundamentally strong companies during market downturns.
- **SINGH (2015):** Singh analysed the behaviour of FIIs under different market conditions, particularly during bullish and bearish phases. The study found that FIIs have a strong positive impact during bullish markets, where increased inflows drive stock prices higher. However, during bearish conditions, rapid outflows by FIIs can lead to sharp declines in market indices. This shows that FIIs play a significant role in amplifying market trends. The study

additionally emphasized that excessive reliance on foreign investments may expose the market to sudden financial shocks.

- GUPTA AND JAIN (2014): Gupta and Jain examined the comparative impact of FIIs and DIIs on the Indian stock market. Their findings suggested that FIIs play a major role in enhancing liquidity, whereas DIIs contribute to market stability. The study highlighted that DIIs act as a balancing force during periods of high volatility caused by FII outflows. This complementary relationship ensures smoother functioning of the market. The researchers also observed that coordinated participation of both investors improves overall market efficiency and strengthens capital market development.
- BALA (2013): Anju Bala conducted a comprehensive review of the Indian stock market and highlighted the role of institutional investors in its development. The study emphasized that both FIIs and DIIs contribute significantly to market liquidity and efficiency. It also noted that institutional investors reduce information asymmetry by bringing in professional management and better research practices, thereby improving overall market transparency. The study concluded that institutional investment has become a major driving force behind the modernization of the Indian capital market.
- KUMAR (2012): Kumar studied the impact of FII investments on market volatility in India. The research showed that FII inflows contribute to short-term volatility due to speculative trading behaviour. However, in the long run, FIIs help improve market efficiency by introducing better governance practices and global investment standards. The study concluded that FIIs have both positive and negative effects depending on the time horizon.
- SAXENA AND BHADARIYA (2011): Saxena and Bhaduriya investigated the causal relationship between FII flows and stock market returns using econometric models. Their study found a bidirectional relationship, indicating that FII flows influence stock returns and vice versa. This means that FIIs not only react to market conditions but also actively shape market trends. The study emphasized the dynamic interaction between institutional flows and stock prices. It also suggested that investor sentiment and market expectations significantly affect FII investment behaviour.
- RAMASAMY AND YEUNG (2010): Ramasamy and Yeung focused on identifying the factors that influence FII investments in emerging markets like India. Their research found that macroeconomic variables such as inflation rates, interest rates, exchange rate fluctuations, and global economic conditions play a major role in determining FII flows. The study concluded that FIIs are highly sensitive to international market conditions, which makes the domestic stock market vulnerable to external shocks and increases overall volatility. The researchers also highlighted the importance of maintaining stable macroeconomic conditions to attract foreign investments.
- KAUR AND DHILLON (2010): Kaur and Dhillon analysed the relationship between FII inflows and stock market performance in India. Their findings indicated a positive correlation between foreign investments and stock market indices such as NIFTY and Sensex. The study suggested that FII inflows boost investor confidence and contribute to the growth of the stock market. Additionally, the presence of FIIs improves market efficiency by increasing participation and reducing price distortions. The researchers also observed that institutional investments help improve the overall competitiveness of the Indian financial market.
- BANSAL AND PASRICHA (2009): Bansal and Pasricha conducted an empirical analysis to study the impact of Foreign Institutional Investor (FII) flows on the Indian stock market. By applying correlation and regression techniques, they found a strong positive relationship between FII inflows and stock market returns. The study highlighted that FIIs enhance market liquidity and improve price discovery mechanisms. However, it also emphasized that the sudden withdrawal of foreign funds can lead to increased volatility and market instability. The authors concluded that while FIIs contribute to market growth, they also make the market more sensitive to global financial shocks. The study recommended effective regulatory monitoring to reduce risks associated with excessive foreign capital dependence.
- SEHGAL AND TRIPATHI (2009): Sehgal and Tripathi examined the role of FIIs in determining stock prices in India. Their study revealed that FIIs significantly influence price movements due to their large-scale investments. They observed that FIIs often act as trendsetters, meaning that their buying or selling decisions can trigger similar actions among domestic investors. This behaviour leads to rapid changes in stock prices. The study also pointed out that increased FII participation results in greater integration of the Indian stock market with global financial markets. Additionally, the researchers highlighted that global economic news and investor sentiment strongly influence FII investment decisions.

3. OBJECTIVES OF THE STUDY

- To study the concept and growth of Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) in India.
- To analyse the investment patterns of FIIs and DIIs in the Indian stock market.
- To examine the impact of FII investment flows on stock market indices.
- To analyse the impact of DII investment flows on the performance of the Indian stock market.

4. RESEARCH METHODOLOGY

The study adopts both descriptive and analytical research methodologies. The research is based mainly on secondary quantitative data collected from official financial sources and market reports.

- To study the role of FIIs and DIIs in the Indian stock market
- To analyze institutional investment patterns
- To examine the relationship between institutional flows and stock market performance
- To understand market volatility and stability during different market conditions

Various statistical tools, such as percentage analysis, mean, correlation analysis, trend analysis, and chi-square test, are used for analysis and interpretation.

5. RESEARCH DESIGN

The study uses a descriptive and analytical research design.

6. DESCRIPTIVE RESEARCH

Descriptive research is used to explain:

- Concepts of FIIs and DIIs
- Growth of institutional investments
- Market behaviour and trends
- Role of institutional investors in the stock market

7. ANALYTICAL RESEARCH

- Analyze FII and DII investment data.
- Compare institutional investment patterns
- Measure the impact of institutional flows on NIFTY 50 and Sensex

The study is quantitative in nature because numerical financial data is analyzed using statistical methods.

8. SAMPLING TECHNIQUE

The study uses the Convenience Sampling Technique based on the availability of financial and institutional investment data.

Sample Size

The study considers:

- 6 years of data (2020–2025)
- FII net investment flows
- DII net investment flows
- NIFTY 50 values
- BSE Sensex values

9. METHOD OF DATA COLLECTION

The study is based mainly on the Secondary Data Collection Method. The required data was collected from:

- NSE reports
- BSE reports
- SEBI publications
- RBI reports
- Financial journals
- Annual reports

The collected data includes:

- FII investment data
- DII investment data
- NIFTY 50 values
- Sensex values
- SIP investment trends

10. TOOLS FOR DATA COLLECTION

The following tools were used for collecting and organizing data:

- Official NSE and BSE statistical reports
- SEBI disclosure reports
- RBI publications
- Excel spreadsheets
- Financial databases
- Online financial portals

The collected data were tabulated and interpreted using statistical methods.

11. DATA SOURCE

11.1. PRIMARY DATA

No primary data was collected for this study.

11.2. SECONDARY DATA

The study mainly depends on secondary data.

11.3. SOURCES OF SECONDARY DATA

- National Stock Exchange of India
- Bombay Stock Exchange
- Securities and Exchange Board of India
- Reserve Bank of India
- Research journals and articles
- Financial newspapers and magazines
- Official market websites and reports

12. TOOLS FOR ANALYSIS

The following statistical tools were used for data analysis:

12.1. PERCENTAGE ANALYSIS

Percentage analysis is used to measure the proportion of FII and DII investments in total institutional flow.

Formula

$$\text{Percentage} = \frac{\text{Particular Value}}{\text{total value}} * 100$$

Example Calculation

For 2024 FII Contribution:

FII Flow = ₹1,10,000 crore

Total Institutional Flow = ₹3,35,000 crore

$$= \frac{1,10,000}{3,35,000} \times 100 = \frac{1,10,000}{3,35,000} \times 100 = 32.83\%$$

Interpretation

FIIs contributed approximately 33% of total institutional investment during 2024.

12.2. MEAN (AVERAGE)

Mean is used to calculate the average value of institutional investments during the study period.

Formula

$$\bar{X} = \frac{\sum X}{N}$$

Example Calculation – Mean FII Flow (2020–2025)

$$= \frac{-35,000 + 25,000 - 1,20,000 + 45,000 + 1,10,000 + 90,000}{6} = \frac{-35,000 + 25,000 - 1,20,000 + 45,000 + 1,10,000 + 90,000}{6} = \frac{1,15,000}{6} = 19,167$$

Interpretation

The average FII investment during the study period was approximately ₹19,167 crore.

13. CORRELATION ANALYSIS

Correlation analysis measures the relationship between institutional investment flows and stock market indices.

Formula

$$r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum(X - \bar{X})^2 \sum(Y - \bar{Y})^2}}$$

Result

- FII vs NIFTY 50 = +0.68
- DII vs Sensex = +0.82

Interpretation

- FII flows show a moderate positive relationship with NIFTY 50.
- DII flows show a strong positive relationship with Sensex.

14. TREND ANALYSIS

Trend analysis is used to identify growth patterns of:

- FIIs
- DIIs
- NIFTY 50
- Sensex

Interpretation

The study identified a continuous increase in DII investments and overall market growth during 2020–2025.

15. CHI-SQUARE TEST

The chi-square test is used to identify whether institutional investment flows significantly influence stock market performance.

Hypothesis

Null Hypothesis (H₀)

There is no significant relationship between institutional investment flows and stock market performance.

Alternative Hypothesis (H₁)

There is a significant relationship between institutional investment flows and stock market performance.

Formula

$$\chi^2 = \sum \frac{(O - E)^2}{E} \quad \chi^2 = \sum \frac{(O - E)^2}{E}$$

Calculation Result

- Calculated χ^2 Value = 12.84
- Table χ^2 Value = 11.07

Decision

Since the calculated value is greater than the table value:

$$12.84 > 11.07 \quad 12.84 > 11.07 \quad 12.84 > 11.07$$

The Null Hypothesis (H₀) is rejected.

Interpretation

There is a significant relationship between institutional investment flows and stock market performance.

16. CONCLUSION

The study concludes that Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) play an important role in the growth and development of the Indian stock market. Institutional investment activities significantly influence market liquidity, price movements, investor confidence, and overall market performance.

The analysis reveals that FIIs have a strong impact on short-term market volatility due to frequent inflows and outflows influenced by global economic conditions, inflation, interest rates, and geopolitical events. Large-scale FII selling during

uncertain periods created temporary market corrections and increased volatility in benchmark indices such as NIFTY 50 and Sensex.

At the same time, DIIs acted as stabilizing forces in the market by continuously investing through mutual funds, insurance companies, and SIP contributions. Strong domestic institutional participation absorbed selling pressure created by FIIs and supported market recovery during difficult economic situations.

The study also highlights the growing importance of SIP investments and domestic mutual fund participation in strengthening the Indian capital market. Increasing domestic investment has reduced the dependency of Indian markets on foreign capital and improved long-term market stability.

The correlation between institutional investment flows and benchmark indices confirms that institutional investors significantly influence stock market trends and investor sentiment. The combined participation of FIIs and DIIs contributes to efficient price discovery, liquidity creation, market resilience, and sustainable economic growth.

Therefore, the study concludes that balanced participation of FIIs and DIIs is essential for maintaining stability and growth in the Indian stock market. The increasing strength of domestic institutional investors reflects the maturity and resilience of the Indian financial system.

REFERENCES

- [1] R. Bansal, and J. S. Pasricha, "Impact of FII Flows on Indian Stock Market," *Journal of Financial Studies*, vol. 6, no. 4, pp. 10–16, 2009.
- [2] K. Iyna, "Online-to-Offline (O2O) Models for Modern Retail Businesses," *International Journal of Commerce, Finance and Digital Economy*, vol. 1, no. 1, pp. 1-12, 2026.
- [3] Sehgal, S., & Tripathi, V. "FII Participation and Stock Price Determination in India," *Asian Economic Review*, vol. 12, no. 3, pp. 120–140, 2009.
- [4] B. Ramasamy, and M. Yeung, "Determinants of Foreign Institutional Investment in Emerging Markets," *International Journal of Economics and Finance*, vol. 8, no. 2, pp. 55–70, 2010.
- [5] A. Pandiammal, K. Iyna, "The Causality between FII and BSE in India," *International Journal of Applied Social Science*, vol. 6, no. 6, pp. 1357-1361, 2019.
- [6] P. Kaur, and S. Dhillon, "Relationship between FII Inflows and Indian Stock Market Indices," *Indian Journal of Finance*, vol. 5, no.1, pp. 98–106, 2010.
- [7] P. Saxena, and M. Bhadauriya, "Causal Relationship between FII Flows and Stock Returns," *Finance India*, vol. 9, no. 3, pp. 65–73, 2011.
- [8] S. Kumar, "FII Investments and Market Volatility in India," *Global Business Review*, vol. 14, no. 2, pp. 150–162, 2012.
- [9] A. Bala, "Role of Institutional Investors in Indian Stock Market Development." *Indian Economic Journal*, vol. 11, no. 4, pp. 210–225, 2013.
- [10] R. Gupta, and P. Jain, "Comparative Impact of FIIs and DIIs on Stock Market Performance," *Journal of Commerce and Accounting Research*, vol. 18, no. 2, pp. 88–101, 2014.
- [11] R. Sharma, "Stabilizing Role of DIIs in Indian Stock Market," *Indian Journal of Research in Capital Markets*, vol. 22, no. 5, pp. 175–188, 2016.
- [12] P. Mohanty, "Institutional Investors, Volatility, and Long-Term Returns." a. *Journal of Emerging Market Finance*, vol. 17, no. 2, pp. 200–218, 2021.
- [13] K. Rai, and N.R. Bhanumurthy, "FII Flows and Stock Market Volatility in India," *NSE Research Initiative*, vol. 4, no. 2, pp. 90–102, 2004.
- [14] R. Chakrabarti, "FII Behaviour and Market Efficiency in India," *ICRA Bulletin*, vol. 7, no. 1, pp. 45–59, 2001.
- [15] N. India, FII/FPI & DII trading activity in Capital Market segment, NSE India, 2025. <https://www.nseindia.com/reports/fii-dii>.
- [16] "LIVE Stock/Share Market | Indian Stock/Share Market LIVE | BSE SENSEX | BSE (formerly Bombay Stock Exchange)," Bseindia.com, 2026. <https://www.bseindia.com/indices/indexarchivedata>
- [17] "SEBI | Publications," www.sebi.gov.in. <https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=4&ssid=80&smid=101>
- [18] "RBI Annual Report 2025-26," Drishti IAS, 2025. <https://www.drishtias.com/daily-updates/daily-news-analysis/rbi-annual-report-2025-26>