

# SECTORAL ANALYSIS OF THE IMPACT OF FOREIGN INSTITUTIONAL INVESTMENT (FII) ON INDIAN STOCK MARKET RETURNS - EVIDENCE FROM BANKING, IT, AND FMCG SECTORS

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**Abstract**— Foreign Institutional Investors (FIIs) are a significant cause of the stock movement in the Indian stock market, as we often read about how FII buying or selling affects the total market sentiment. Still, we observed that most such studies only consider broad market indices and not how FIIs impact different sectors differently. In this paper, we seek to find the sectoral relationship between FII inflows and returns of three very important sectors in India-Banking, Information Technology, and Fast-Moving Consumer Goods. The necessary data for this study is purely secondary in nature. These were gathered from publicly available sources like NSE and NSDL for a selected period. We used very simple analytical tools such as trend analysis, correlation, and linear regression to test and compare how each sector responds to changes in FII activity. With this analysis, we try to identify which sector is more responsive to FII movements and which sector can keep itself relatively stable. We wish to present a clear, easily understandable comparative study that would be useful to students, investors, and all those interested in knowing the dynamics of FIIs and sectoral performance.

**Keywords**— Foreign Institutional Investors (FIIs); Sectoral Returns; Banking Sector; IT Sector; FMCG Sector; Correlation; Regression Analysis; Indian Stock Market.

## I. INTRODUCTION

The term that one encounters time and again while studying the Indian stock market is that of Foreign Institutional Investors. FIIs are foreign investors, mainly mutual funds, pension funds, hedge funds, and large institutions, that invest money in the Indian equity and debt markets. Since they invest huge volumes at one go, their buying and selling tends to strongly influence market trends, impacting everything related to liquidity, volatility, to the short-run movement of share prices. This would, in other words, mean that when the FIIs are investing more, the market would generally be bullish, and when they withdraw, the market becomes volatile. Over the years, FIIs have emerged as a key source of capital for India. They help in deepening the financial markets, developing the price discovery mechanism, and improving the overall trading activity. India attracts FIIs due to a variety of factors, including strong economic growth, a stable regulatory environment, continuous structural reforms, digitalization, and the steady expansion of its capital markets. Therefore, India is considered one of the most promising emerging markets for foreign investors.

Interestingly, however, we found that FIIs do not affect all sectors with the same force. While some of them respond so quick to every movement in FII, others just seemingly remain unaffected. That's where the curiosity started. We have chosen three major sectors: Banking, IT, and FMCG, because each of them behaves differently and has a different relation with foreign investment.

- **Banking:** Banking is a very sensitive sector to economic and financial conditions. It normally receives a lion's share of FII inflows due to the fact that FIIs consider banking stocks as representative of general economic health.
- **IT:** This industry, by nature, is global. It depends on such factors as currency movements, outsourcing demand, and global economic sentiment. FIIs invest heavily in IT due to its export-oriented business model.

- **FMCG:** This is considered a defensive sector. FMCG companies show stable demand even when the economy slows down. So, this sector is less volatile and does not fluctuate much with FII activity.

While studying previous papers, we found that research is largely conducted on broad indices like Nifty 50 or Sensex to understand the impact of FIIs. Very few papers have studied which sectors are individually affected more by FIIs. Also, hardly any research has jointly studied Banking, IT, and FMCG in one analysis. This made us feel there was a clear gap in the research. The motive of our study will be to find out how FIIs affect sectoral performance and which sector is most responsive to changes in FII inflows. This comparison of three sectors would present a clearer picture about whether the FIIs prefer certain sectors over others, whether certain sectors are more sensitive, and how foreign investments shape up the sector-wise market movements. We therefore intend to update the simple analysis in an easy and student-friendly manner, bringing to light the nature and strength of the relationship between FIIs and sector returns.

## II. STATEMENT OF PROBLEM

Though FIIs have a major influence on the Indian stock market, most existing studies predominantly focus on overall market indices like Nifty and Sensex. Very few studies try to understand how different sectors react to the movement of FIIs. We noticed that sectors like Banking, IT, and FMCG behave differently based on their structure and risk levels. Banking is usually more sensitive, IT responds not only to global factors but also to FIIs, whereas FMCG remains somewhat stable. However, comparative studies of these three sectors are very few. Consequently, whether FII influences all sectors equally or the extent of sensitivity varies among sectors is not well known. Hence, our study attempts to find the influence of FII on Banking, IT, and FMCG sectors and also the sector which is most sensitive with regard to FII.

## III. OBJECTIVES

1. To understand how much FIIs invest in India.
2. To study how the Banking, IT, and FMCG sectors perform during the study period (2020–2024).
3. To find out whether FII investment affects each of these three sectors.
4. To compare the three sectors and see which one is most impacted by FII movements.

## IV. REVIEW OF LITERATURE

<sup>1</sup>“**Empirical Analysis of the Impact of Foreign Institutional Investment on the Indian Stock Market: Evidence from NSE**”  
Sohail Gasim Nir and Ishaq Ahmad Bhat have stated that foreign capital is imperative in developing economies when domestic financial sources are very inadequate. Based on empirical findings, they found that FIIs are positively affecting the different NSE indices from 2004 to 2013. In their findings, it has been shown that along with a surge of FII inflow, stock market indices also surge upward, though the relationship may not be equally strong in all sectors. The authors have pointed out that apart from FIIs, inflation, government policies, economic conditions of the country, and the world market also affects stock performance. They have further argued that the effects of FIIs vary from sector to sector, which can be viewed in the different correlation levels of FII investment in the indices like CNX IT and CNX FMCG. According to their findings, FIIs add to liquidity, productivity, and foreign exchange reserve but make the market sensitive to the movement of foreign investment.

<sup>2</sup>“**A Study on Impact of Foreign Institutional Investment on Indian Stock Market**”

Another work by M. Manickam and Dr. A. Nirmaladevi also supports the stance that FIIs positively influence the Indian stock market. According to them, FII net flows show a positive correlation with changes in stock market performance. However, they found that average market returns have slightly decreased in the post-FII era, thus indicating increased volatility or speculative movements. Their study also brings out the fact that FIIs maintain higher exposure in banking, financial services, and FMCG sectors, indicating their preference for stable and relatively safer industries. This preference of FIIs directly affects sectoral indices, as sectors with higher FII participation tend to show stronger market reactions.

### 3“**A Study of the Impact of FII on the Sectoral Market Indices**”

According to S. Lakshmy, foreign investments like FDI and FII have accelerated the economic development of India through an increase in access to advanced technology, better management practices, and efficient resource utilisation. She highlights that FIIs are one of the most powerful players in the Indian equity market, and their investment patterns influence the liquidity conditions, rising share prices, and increasing price-earning ratio. This study finds that sectoral indices, except a few, move in tandem with FII trends, showing strong dependence of market behaviour on foreign capital inflows. Lakshmy also warns that abrupt outflows of FII may deplete the foreign exchange reserves, create volatility in the exchange rate, and bring vulnerability in the financial system of the Indian economy. According to her, therefore, policymakers should focus on strong macroeconomic fundamentals which would reduce the economy's vulnerability to rapid foreign capital flows.

## V. RESEARCH METHODOLOGY

Component	Details
Research Type	Descriptive and analytical (secondary data based)
Nature of Study	Quantitative study using numerical data of FIIs and sectoral indices
Data Type	Secondary data only
Data Sources	NSE website (Sectoral Indices), NSDL (FII data), RBI publications, SEBI reports, Money control, Investing.com
Period of Study	5 years (Example: 2020–2024)
Sectors Selected	Banking sector, IT sector, FMCG sector
Variables Used	Monthly FII net inflow; Monthly sector index values/returns
Sampling Technique	Purposive sampling (selected sectors based on relevance)
Data Tools Used	Excel for data cleaning, graphing, correlation, comparison
Statistical Techniques	Percentage change, Trend analysis, Correlation analysis, Sector comparison

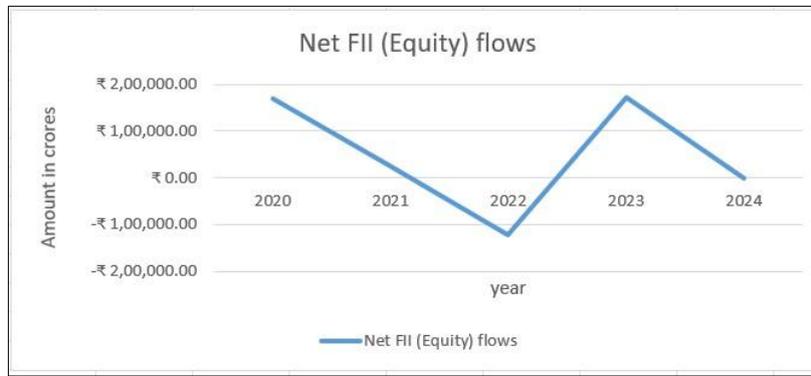
**Table 1 :** Research Methodology

## VI. DATA ANALYSIS AND INTERPRETATION

### 1. FII Net FPI (Equity) Trend Analysis (2020–2024)

Year	Net FPI (equity) flows (₹ crore)
2020	170,262
2021	25,752
2022	-121,439
2023	171,017
2024	427

**Table 1 :** Yearly FII net equity flows (2020–2024)



**Graph 1 :** FII net equity flows (2020-2024)

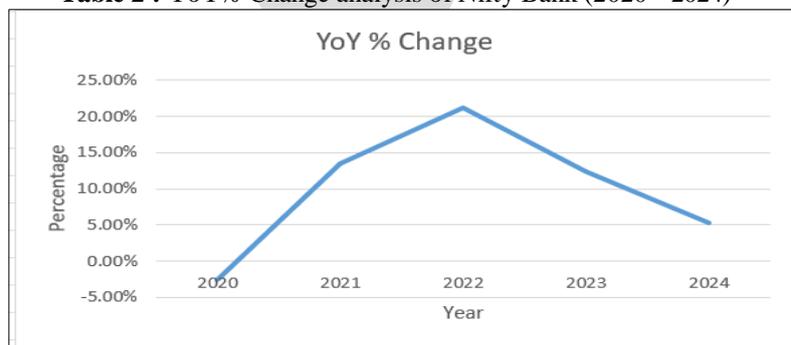
**Interpretation:** The graph indicates fluctuations in the equity segment of Net FPI flows between 2020 and 2024, reflecting changing global economic conditions and investor sentiment. It witnessed a very high inflow in 2020, driven by global liquidity post-pandemic, followed by a steep fall in 2021 when foreign investors turned cautious. In 2022, there was a heavy pull-out by FPIs owing to hikes in interest rates globally and fear of recession, which led to the deepest dip in the trend. This was followed by a strong rebound in 2023 with FPIs returning as macro conditions stabilized. Finally, 2024 shows almost no net inflow, indicating a wait-and-watch approach amid global and domestic uncertainties. This essentially underlines the fact that foreign investor participation in Indian equities only, excluding debt and other categories, is highly sensitive to global monetary cycles and risk appetite.

**2. Sector-Wise Index Trend (Banking, IT, FMCG)**

**A] NIFTY BANK**

Year	Closing Value (₹)	YoY % Change
2020	31,264.05	-2.62%
2021	35,481.70	+13.50%
2022	42,986.45	+21.16%
2023	48,292.25	+12.32%
2024	50,860.20	+5.32%

**Table 2 :** YoY% Change analysis of Nifty Bank (2020 - 2024)



**Graph 2 :** YoY% Change Analysis of Nifty Bank (2020 - 2024)

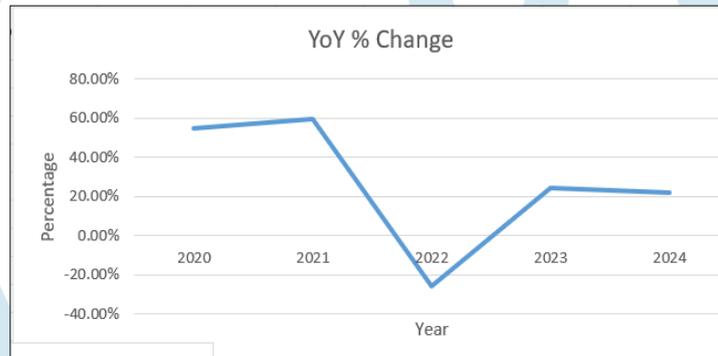
**Interpretation:** The year-on-year percentage trend in the NIFTY Bank index indicates that the sector has shown a small decline of -2.62% during 2020 due to the COVID-19 pandemic and countrywide lockdowns, which effectively dragged down banking operations and credit growth. Starting from 2021, the index rebounded very strongly on the back of continuous positive growth every year. In 2022, it reported the highest growth at +21.16%, underpinning strong credit demand, improvement in asset quality, and increased investor confidence in the banking sector. Growth continued in 2023 to +12.32% and to +5.32% in 2024, though at a slower pace, indicating stabilization after a period of rapid recovery. The overall trend suggests that the Banking sector is highly

susceptible to economic conditions and FII activity, with extreme fluctuations in times of uncertainty and bouncing back strongly during economic revival.

## B] NIFTY IT:

Year	Closing Value (₹)	YoY % Change
2020	24,251.35	+54.94%
2021	38,701.00	+59.58%
2022	28,621.70	-26.04%
2023	35,515.00	+24.08%
2024	43,337.80	+22.03%

**Table 3 :** YoY% Change analysis of Nifty IT (2020 - 2024)



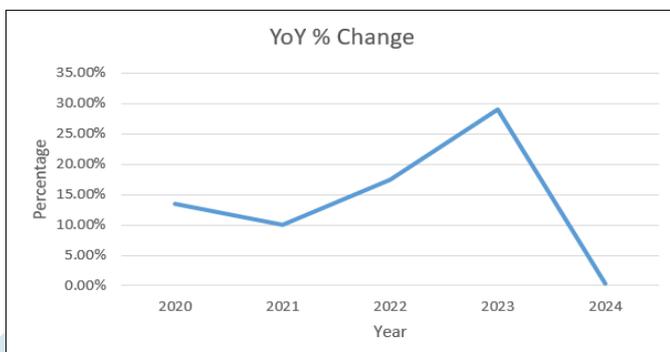
**Graph 3:** YoY% Change Analysis of Nifty IT (2020 - 2024)

**Interpretation:** The NIFTY IT index was highly volatile throughout the 2019–2024 period. The index recorded sharp growth in 2020 (+54.94%) and 2021 (+59.58%), propelled by the accelerated digital transformation in the COVID-19 pandemic, strong demand for IT services, and increased outsourcing by global clients. In contrast, it corrected by -26.04% in 2022 on the back of global recession fears, rising interest rates, and a slowdown in technology spending by major foreign clients. Despite this correction, the sector recovered strongly in 2023 with a gain of +24.08% and continued its expansion in 2024 at +22.03%, supported by strengthening global IT demand, the stabilization of U.S. markets, and strong order pipelines of major Indian IT firms. Overall, the IT sector has long-term upward momentum but with periods of cyclical corrections, due to global macroeconomic conditions and changes in FII sentiment toward the technology sector.

## B] NIFTY FMCG:

Year	Closing Value (₹)	YoY % Change
2020	34,177.10	+13.45%
2021	37,579.95	+9.95%
2022	44,171.45	+17.50%
2023	56,987.20	+29.04%
2024	56,799.65	-0.33%

**Table 4:** YoY% Change analysis of Nifty FMCG (2020 - 2024)



**Graph 4:** YoY% Change analysis of Nifty FMCG (2020 - 2024)

**Interpretation:** The NIFTY FMCG index has shown an upward trend from 2019 to 2024, reflecting the stable and defensive nature of the sector. The growth in the FMCG index surged by 13.45% in 2020 on the back of improved demand for essential items during the pandemic period. The sector continued to report a growth of 9.95% in 2021, driven by consistent spending by consumers and strong brand loyalty. Growth accelerated in 2022 as economic recovery strengthened and input cost pressures eased at +17.50%. The most significant jump happened in 2023 at +29.04%, driven by an increase in rural consumption, premium product demand, and better profit margins across major FMCG companies. In 2024, the index saw a very mild fall of -0.33%, indicating sectoral consolidation after strong gains in the previous year and some profit-booking by investors. Overall, the FMCG sector has exhibited steady long-term growth. This factor, combined with its low volatility and generally defensive nature, having stable cash flows, attracts FII investors.

**3) Correlation Analysis Between FII Flows and Sector Indices:**

Sector	Correlation with FII Equity Flows (2020–2024)
Banking (Nifty Bank)	-0.238
IT (Nifty IT)	-0.169
FMCG (Nifty FMCG)	-0.021

**Table 5:** Correlation Analysis between FII and Sector Indices

**Interpretation:**

- **Nifty Bank and FII Flows (Correlation = -0.238) :** Therefore, the correlation between FII flows and the Nifty Bank index is weakly negative. This does not mean that the FIIs pull the banking sector down. On the contrary, it demonstrates that in the 5-year period chosen for the study, the two did not move in the same direction consistently. For instance, during 2021-2022, when FIIs pulled money out from the country, the banking index went up because credit demand was huge and the economy was recovering well. This suggests that the banking sector has been predominantly run by domestic banking fundamentals and not merely by foreign capital. So, the negative correlation just tells us that the annual FII numbers and the annual banking index movement did not match perfectly during these years; it does not say that the FII have no influence.
- **Nifty IT and FII Flows (Correlation = -0.169) :** The IT sector shows a weak negative correlation with FII flows. This is because IT is highly dependent on global technology demand, US economic conditions, and currency movements themselves, which sometimes move in the opposite way from FII flows. In some years, FIIs were selling in the Indian market but global demand for Indian IT services remained strong - so the index went up. Because of these opposite movements in a few key years, the correlation appears slightly negative. That does not mean the FIIs do not matter; it only means that IT reacts more to global factors than to FII activity.
- **Nifty FMCG and FII Flows (Correlation = -0.021) :** FMCG shows an almost zero correlation with FII flows. This value is only slightly negative because FMCG continued to rise even in those years when FIIs were selling. The sector depends mainly on domestic consumption and remains stable irrespective of foreign investor behaviour. So, the negative value simply reflects that FII trends and FMCG index trends did not follow similar yearly patterns, not that FIIs affect FMCG negatively. Overall, FMCG is the most stable and least sensitive sector.

#### 4) Sector Sensitivity to FII Movements

The Banking sector is relatively sensitive to the movement of FII. This happens because, during phases of economic optimism, FIIs tend to heavily invest in financials; hence, the sector reacts more noticeably to foreign fund flows. Still, during the 2020-2024 period, banking continued to grow even in years marked by sharp FII pullouts, as in 2022. That indicates that while FIIs influence banking stocks, the sector also draws strong impetus from domestic credit demand, reforms by the government, and stable financial performance. In other words, banking is also related to FII behavior but not entirely dependent. The IT sector shows low sensitivity to FII flows. Unlike banking, IT companies earn a major portion of their revenues from global clients, especially from the U.S. and Europe. Hence, the sector responds more to international macroeconomic trends, technology spends, and currency movements rather than domestic FII flows. That explains why IT kept on rising in certain years when the FIIs were net sellers in the Indian market. Overall, the performance of IT stocks is influenced primarily by global factors, making them less responsive to changes in FII investments.

The FMCG sector is the least sensitive to the movement of FII and is driven largely by domestic consumption patterns. FMCG is considered a defensive sector, and investors believe in its stability, both domestic and foreign, even in times of market volatility. In the period from 2020 to 2024, FMCG saw regular upward growth irrespective of the inflow or outflow of FII. This clearly indicates that this sector's performance is not impacted much by FIIs, and its returns are shaped by internal market demand, pricing power, and rural consumption. In short, sectors sensitive to the movement of FII shift from Banking to IT to FMCG in a decreasing order. Banking reflects moderate responsiveness, IT reflects limited influence, while FMCG remains largely untouched. This trend is well-reflected in the correlation results and the observed behaviour in the data for five years.

## VII. FINDINGS

### Objective 1- To understand how much FIIs invest in India.

Finding: From the introduction of the study, we understood what Foreign Institutional Investors are and how they play a major influencing role in the Indian stock market by affecting its liquidity, volatility, and overall investor sentiment. We also discussed why FIIs are attracted to India, mainly due to the strong growth of the economy, reforms, and market potential. From the analysis, we saw that the FII equity inflows from 2020 to 2024 were highly volatile. We saw strong inflows in 2020 and 2023, heavy selling in 2022, and negligible inflows in 2024. That goes to prove that FIIs respond more to global economic situations and risk perceptions rather than maintaining stable investment patterns in India.

### Objective 2: To study how the Banking, IT, and FMCG sectors perform during the study period.

Finding: Before carrying out the analysis, an introduction was given as to why these three sectors were chosen. Banking, due to high FII interest in that sector and its linkage to economic cycles; IT, because of its dependence on global factors; and FMCG, for its defensive stability. The data analysis showed that all three sectors experienced overall growth between 2020–2024, but each behaved differently. Banking grew steadily every year, IT was volatile because of global factors, and FMCG had stable and consistent growth. These patterns confirm that each sector is driven by its own internal fundamentals.

### Objective 3: To find out whether FII investment affects each of these three sectors.

Finding: The correlation analysis revealed weak and slightly negative correlations of FII flows with all three sectors: Banking (-0.238), IT (-0.169), FMCG (-0.021) This means that the performance of sectors in the chosen five-year period did not move together with FII investment. This does not mean FIIs have no impact on the market; instead, it shows that during 2020–2024, domestic investors, global technology demand, and stable consumption were stronger drivers for the sectors compared to FII flows.

### Objective 4: To compare the three sectors and identify which one is most impacted by FII movements.

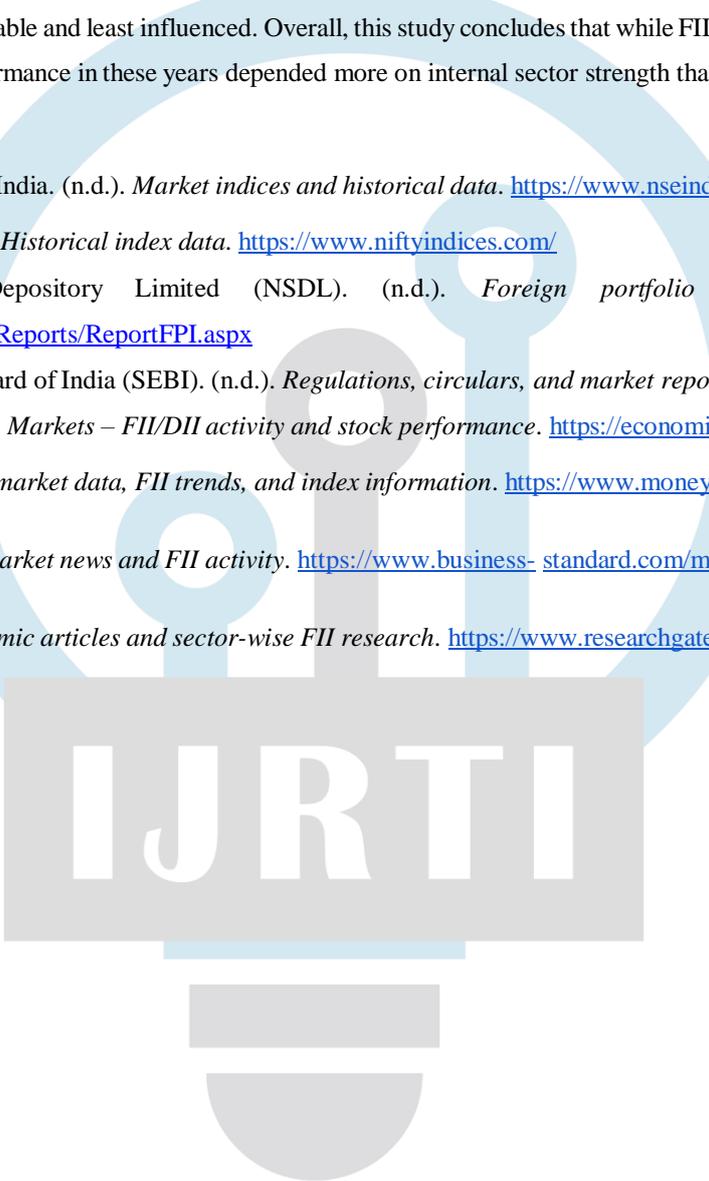
Finding: The sensitivity analysis clearly brought out the sectoral differences. Banking was moderately sensitive to FIIs—that is, it responds to foreign inflows but also draws support from domestic economic factors. IT sector revealed a low sensitivity because it became dependent upon global demand and currency movements. FMCG had the least sensitivity, having remained stable even during heavy FII outflows. That demonstrates that FIIs influence each sector differently, and FMCG has been the most insulated from foreign investor behavior.

## VIII. CONCLUSION

The present study gave a sector-wise understanding of how FIIs interact with the Indian stock market. From understanding the basics of FII in the introductory stage to analyzing data for 2020–2024, it has been observed that FII has been highly unpredictable in recent times. All three sectors, Banking, IT, and FMCG, showed growth, but their movements were driven more by domestic and global fundamentals rather than FII flows. The correlation values confirmed that the movement of FII had only a weak relationship with these sectors during the study period. Among the three, Banking showed moderate sensitivity, IT showed limited sensitivity, and FMCG remained the most stable and least influenced. Overall, this study concludes that while FIIs remain important participants in India's markets, sectoral performance in these years depended more on internal sector strength than on foreign capital flows.

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