Chapter 14

Book Chapter

Study on Domestic Institutional Investors Growth and their Impact on Indian Market from 2014-15 to 2023-24

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Abstract

With the liberalization of the Indian economy and the surge in capital markets, DIIs have emerged as significant players, influencing market dynamics. This chapter outlines how increased DII participation enhances liquidity, fosters market efficiency, and promotes price discovery by channelizing savings into productive investments, fuelling economic growth. It examines the spillover effects of DII activities in sectors like infrastructure, manufacturing, and services. By facilitating capital formation and fostering entrepreneurship, DIIs contribute to job creation and poverty alleviation. This study offers insights for policymakers, regulators, and stakeholders to harness the potential of DIIs while mitigating risks for sustainable growth and financial stability.

Keywords: Domestic Institutional Investors (DIIs). Indian Economy. Capital Markets. Economic Growth.

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1 Introduction

In recent decades, the Indian economy has witnessed a significant transformation, propelled by liberalisation, globalization, and technological advancements (Mohan, 2018).Corporate ownership is primarily controlled by institutional intermediaries who invest on behalf of the end beneficiaries—households. Their involvement has led to significant transformations across various areas of financial markets, including market practices, technological advancements, regulatory frameworks, liquidity depth, and the range of activities (Badhani et al., 2023). Central to this transformation has been the burgeoning presence of Domestic Institutional Investors (DIIs) in the country's financial landscape. DIIs, comprising mutual funds, insurance companies, pension funds, and other institutional investors, have emerged as key players shaping the dynamics of the Indian capital markets (Genberg, 2016). The types of DII has been demonstrated in figure 1. Against the backdrop of economic reforms initiated in the early 1990s, DIIs have witnessed remarkable growth, reflecting the deepening of financial markets and the increasing participation of retail investors (Geels, 2013). The investment strategies adopted by DIIs, including their asset allocation patterns and sectoral preferences, the research endeavors to provide insights into their modus operandi and market behavior (Kapoor & Rana, 2022). DIIs contribute to market liquidity, foster efficiency, and facilitate price discovery, thereby enhancing the overall functioning of capital markets. The role of DIIs in mobilizing savings and channelizing them into productive investments, thereby fuelling economic growth, job creation, and poverty alleviation (Ma, 2023).Institutional investors, often described as the "elephants" of the stock market due to their financial power, play a pivotal role in influencing market movements. In emerging markets like India, their influence on stock performance is particularly pronounced. Garg and Chawla's (2015) reveals two main categories of institutional investors: Domestic Institutional Investors (DIIs) and Foreign Institutional Investors (FIIs). The findings highlight the trends and patterns of institutional investments in the Indian stock market, along with the interrelationship between Foreign Institutional Investors and Domestic Institutional Investors.

Editors: Madhavi K, Bhargava N, P Venkaiah Babu
DOI:10.48001/978-81-966500-8-7-14 | ISBN: 978-81-966500-8-7

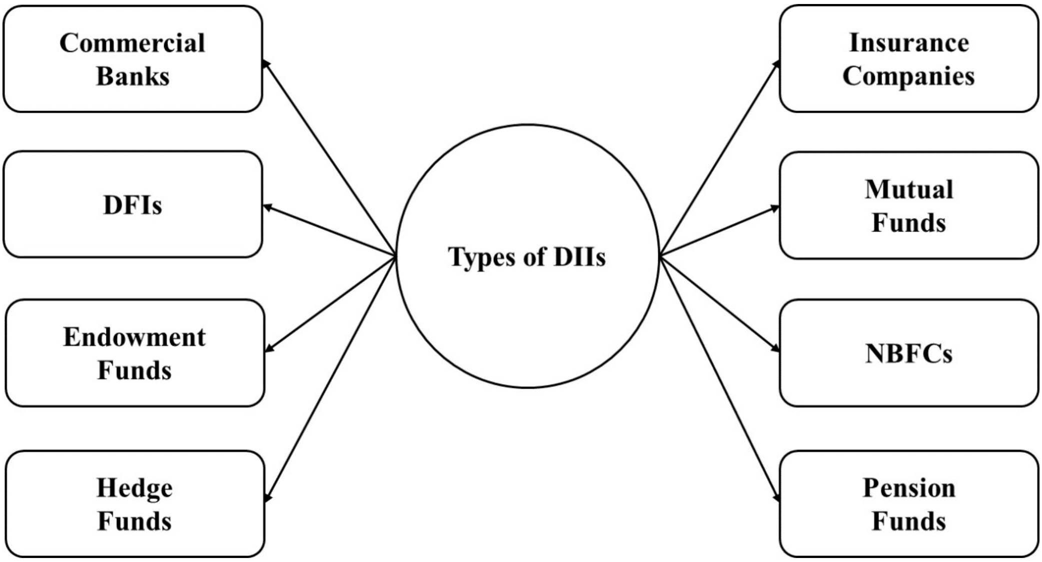

Figure 1. Types of DIIs

2 Significant Role of DIIs

DIIs play a multifaceted and pivotal role in the Indian financial markets, serving as crucial drivers of liquidity, stability, and long-term growth. With diverse entities like mutual funds, insurance companies, pension funds, and banks among their ranks, DIIs channel substantial domestic savings into productive investments, thus fuelling economic development. Their presence ensures market stability through their typically long-term investment horizon, countering the volatility often associated with foreign institutional investors (FIIs). Beyond financial investments, DIIs actively engage in corporate governance, advocating for transparency, accountability, and sustainable business practices (see figure 2).DIIs contribute to democratizing market access, making investment opportunities accessible to a broader spectrum of retail investors through avenues like systematic investment plans (SIPs). Thus, DIIs are instrumental in shaping the Indian market ecosystem, fostering resilience, integrity, and inclusivity for sustainable economic growth.

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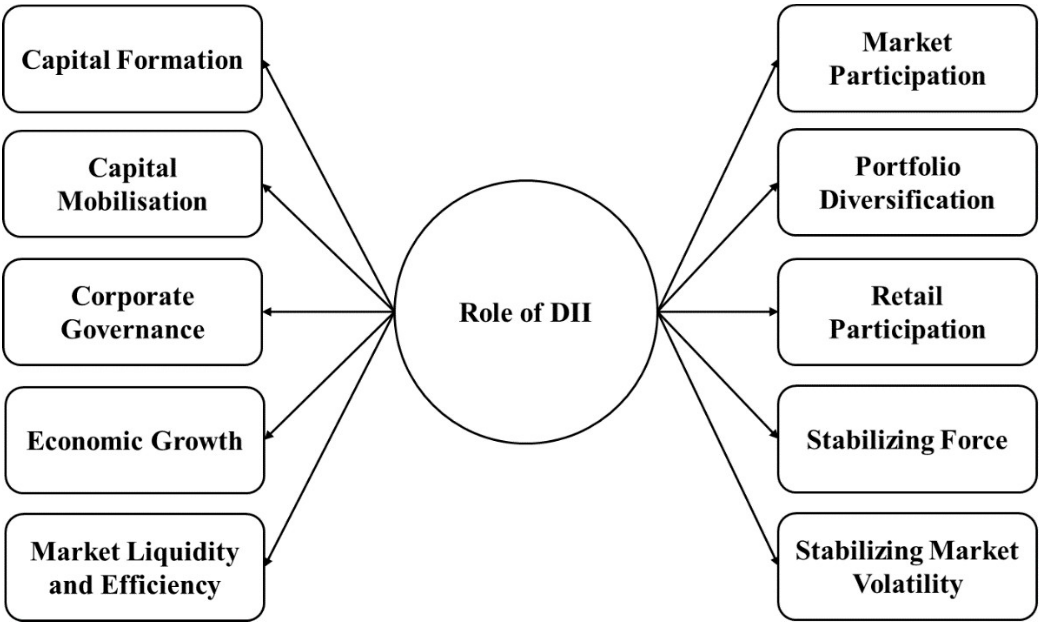

Figure 2. Role of DII

- DIIs play a pivotal role in mobilizing savings from retail investors and channelizing them into productive investments. By investing in a diverse range of financial instruments such as equities, debt securities, and alternative assets, DIIs facilitate Capital Formation, which is crucial for financing infrastructure projects, stimulating economic growth, and fostering entrepreneurship.
- DIIs play a crucial role in Mobilizing Funds from various sources such as retail investors, corporate entities, and government institutions. They pool these funds to invest in a diverse range of financial instruments, including equities, bonds, money market instruments, and alternative assets. By channelizing savings into productive investments, DIIs facilitate capital formation, which is essential for fostering economic growth and development.
- DIIs exert influence on Corporate Governance practices by actively engaging with investee companies on issues related to board composition, executive compensation, and shareholder rights. Through proxy voting, shareholder resolutions, and dialogue with company management, DIIs contribute to improving corporate governance standards and fostering a culture of transparency and accountability in the corporate sector.
- By allocating capital to productive sectors of the economy such as infrastructure, man-

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ufacturing, and services, DIIs play a vital role in driving Economic Growth and employment generation. Their investments contribute to capital formation, technological innovation, and entrepreneurial development, thereby fostering sustainable economic development and prosperity.

- DIIs enhance Liquidity in the capital markets by providing a constant source of demand for securities. Their active participation in both primary and secondary markets ensures a smooth flow of funds, reducing transaction costs and improving market efficiency. Moreover, DIIs contribute to price discovery mechanisms by incorporating fundamental analysis and market insights into their investment decisions, thereby enhancing market transparency and reducing information asymmetry.
- DIIs are significant Participants in the Indian financial markets, operating across both primary and secondary markets. They contribute to market liquidity by providing a continuous source of demand for securities, thereby enhancing market efficiency and reducing price volatility. Additionally, DIIs play a vital role in price discovery mechanisms, incorporating fundamental analysis and market insights into their investment decisions.
- DIIs manage Diversified Investment Portfolios on behalf of their clients, which include retail investors, institutional investors, and high-net-worth individuals. By spreading investments across different asset classes, sectors, and geographies, DIIs help mitigate risk and optimize returns for their clients. This diversification strategy is particularly beneficial in volatile market conditions and helps investors achieve their long-term financial objectives.
- DIIs play a crucial role in democratizing access to financial markets by offering investment products such as mutual funds, pension funds, and insurance-linked investment schemes. These vehicles provide Retail Investors with opportunities to diversify their portfolios, manage risk effectively, and participate in the wealth creation process. Additionally, DIIs contribute to financial inclusion by extending financial services to underserved segments of the population, thereby promoting inclusive economic growth.
- DIIs often act as Stabilizing Forces in the financial markets, especially during periods of market turmoil or economic uncertainty. Their long-term investment horizon and diversified portfolio strategies enable them to absorb market shocks and maintain a balanced approach to risk management. By providing stability and continuity in their investment approach, DIIs instill confidence among investors and support overall market stability.
- During periods of Market Volatility and uncertainty, DIIs often act as stabilizing forces by providing counter-cyclical investment flows. Their long-term investment horizon and diversified portfolio strategies help mitigate short-term market fluctuations, thereby promoting market stability and investor confidence.

DOI:10.48001/978-81-966500-8-7-14 | ISBN: 978-81-966500-8-7

3 Growth and Impact of DIIs

The growth of DIIs in the Indian market has been a transformative force, marked by steady increases in assets under management (AUM), expanding market share, and significant contributions to market stability and economic development. As major players in the financial landscape, DIIs have channeled domestic savings into productive investments, fostering capital formation and infrastructure development. Their long-term investment approach has provided stability to the market, mitigating volatility and bolstering investor confidence, particularly during uncertain times. Additionally, DIIs play a crucial role in corporate governance, actively engaging with companies to promote transparency and accountability. Through initiatives like systematic investment plans (SIPs), they have democratized market participation, empowering retail investors and broadening the investor base. Looking ahead, the continued growth of DIIs is poised to further reshape the Indian market, underlining their integral role in driving liquidity, stability, and sustainable growth. Table 1 ten years comprehensive data on DII Trading Activity gross purchases and gross sales in cash.

Table 1. The bank account holders and quality of services related

Year	Gross Purchase	%	Weight	Gross Sales	%	Weight	Net Purchase
2014-15	3,98,916.09	-	3.704	4,18,179.68	—	4.26	-19,263.59
2015-16	4,67,178.75	17.11	4.338	3,88,492.21	-7.10	3.96	78,686.54
2016-17	5,66,181.59	21.19	5.257	5,36,250.05	38.03	5.46	29,931.54
2017-18	9,02,611.50	59.42	8.381	7,88,011.13	46.95	8.03	1,14,600.37
2018-19	9,19,881.45	1.91	8.541	8,47,474.66	7.55	8.64	72,406.79
2019-20	10,41,016.31	13.17	9.666	9,12,808.07	7.71	9.30	1,28,208.24
2020-21	10,70,317.60	2.81	9.938	12,02,706.73	31.76	12.25	-1,32,389
2021-22	15,94,072.12	48.93	14.801	13,72,412.23	14.11	13.98	2,21,659.89
2022-23	16,01,962.87	0.50	14.874	13,46,726.76	-1.87	13.72	2,55,236.11
2023-24	22,07,923.02	37.83	20.501	20,01,206.30	48.60	20.39	2,06,716.72

The total gross purchases for the last ten years are 1,07,70,061.30 and gross sales are 98,14,267.82. It is observed that due to market sentiment, the market leads to positive in case purchases and negative in case of sales. DII-managed investment vehicles, such as mutual funds and insurance funds, significantly influences their buying and selling activities. Positive corporate developments may lead to increased purchases, while deteriorating fundamentals could trigger sales. It is also observed that global economic conditions and investor sentiment can impact DII allocations to Indian equities. Due to specific invest-

DOI:10.48001/978-81-966500-8-7-14 | ISBN: 978-81-966500-8-7

ment objectives and mandates purchases and sales may vary based on market conditions.

Table 2. Monthly Cumulative of DII Trading Activity in Cash (Crores) for last Ten Years from 2014-15 to 2023-24

Month	Count	Gross Purchase	Gross Sales	Net Purchase / Sales
January	10	10,38,739.74	9,54,160.22	84,579.52
February	10	10,03,577.98	8,85,914.53	1,17,663.45
March	10	11,21,135.27	9,62,127.36	1,59,007.91
April	10	7,08,601.41	6,49,482.53	59,118.88
May	10	8,35,547.45	7,37,805.66	97,741.79
June	10	8,07,099.40	7,16,658.14	90,441.26
July	10	8,40,351.40	8,02,775.73	37,575.67
August	10	8,70,152.52	8,02,028.06	68,124.46
September	10	9,54,390.36	8,56,743.14	97,647.22
October	10	8,42,923.36	7,70,014.33	72,909.03
November	10	8,41,764.29	8,31,016.09	10,748.20
December	10	9,05,778.12	8,45,542.03	60,236.09

Table 2 depicts that monthly cumulative of DIIs Trading Activity. The graphical representation is seen in figure 3. It is observed that March month shows maximum performance in case of purchases and sales. The net difference of purchases and sales is positive and maximum in the month of March. Table 3 Descriptive Statistics of DII Trading Activity Gross Purchases for last Ten Years from 2014-15 to 2023-24. The gross sales is demonstrated in 4.Table 5 shows that a perfect correlation exists between gross purchases and gross sales is 0.95. The year-wise correlation also depicts that the growth of DIIs and their impact is mostly positively correlated.

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Table 3. Descriptive Statistics of DII Trading Activity Gross Purchases for last Ten Years from 2014-15 to 2023-24

Year	Mean	Standard Error	Standard Deviation	Kurtosis	Skewness	95% C.I.
2023-24	1,83,993.59	14024.10	48,580.91	-1.13	0.21	30,866.84
2022-23	1,33,496.91	4575.05	15,848.45	0.71	-0.35	10,069.63
2021-22	1,32,839.34	6036.91	20,912.46	-0.13	-0.02	13,287.14
2020-21	89,193.13	4154.84	14,392.80	-1.06	0.24	9,144.75
2019-20	86,751.36	7262.30	25,157.36	6.42	2.18	15,984.23
2018-19	76,656.79	2948.65	10,214.43	1.90	1.19	6,489.94
2017-18	75,217.63	2978.93	10,319.31	-0.54	0.17	6,556.58
2016-17	47,181.80	3636.42	12,596.92	-0.40	0.09	8,003.70
2015-16	38,931.56	1460.81	5,060.40	-0.71	0.06	3,215.22
2014-15	33,243.01	1464.09	5,071.77	0.30	-0.51	3,222.45

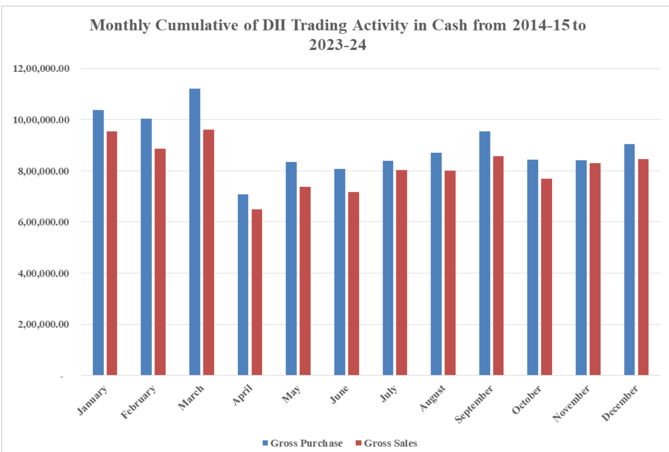

Figure 3. Monthly Cumulative of DII

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Table 4. Descriptive Statistics of DII Trading Activity Gross Sales for last Ten Years from 2014- 15 to 2023-24

Sales	Mean	Standard Error	Standard Deviation	Kurtosis	Skewness	Confidence Level (95.0%)
2023-24	1,66,767.19	11177.27	38,719.19	-0.82	0.26	24,601.00
2022-23	1,12,227.23	4863.07	16,846.18	0.66	0.67	10,703.55
2021-22	1,14,367.69	5184.54	17,959.79	-0.57	0.49	11,411.10
2020-21	1,00,225.56	5015.64	17,374.70	-1.45	-0.08	11,039.36
2019-20	76,067.34	3547.58	12,289.16	1.03	0.59	7,808.16
2018-19	70,622.89	2060.14	7,136.52	2.91	1.37	4,534.33
2017-18	65,667.59	3441.86	11,922.96	1.17	1.04	7,575.49
2016-17	44,687.50	3518.12	12,187.12	0.31	0.63	7,743.33
2015-16	32,374.35	1641.10	5,684.94	6.51	2.22	3,612.04
2014-15	34,848.31	1448.51	5,017.77	-1.07	-0.54	3,188.14

Table 5. Correlation between Year-wise Gross Purchases and Gross Sales

Year	r	Result
2023-24	0.95	Perfect Correlation
2022-23	0.37	Moderate Correlation
2021-22	0.73	Strong Correlation
2020-21	0.40	Moderate Correlation
2019-20	0.80	Perfect Correlation
2018-19	0.36	Moderate Correlation
2017-18	0.86	Perfect Correlation
2016-17	0.83	Perfect Correlation
2015-16	-0.39	Negative Correlation
2014-15	0.60	Strong Correlation
Overall Correlation for Ten Years	0.95	Perfect Correlation

r means Correlation

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4 Conclusion

DIIs often adopt a more stable, long-term investment approach. This stability helps mitigate market fluctuations and enhances investor confidence, especially during periods of uncertainty. DIIs have played a pivotal role in channeling domestic savings into productive investments, thereby fuelling economic growth. DIIs' growing influence extends beyond investment to corporate governance and policy advocacy. As significant shareholders in Indian companies, DIIs actively engage with management on matters of governance, sustainability and Shareholder value creation. Their collective voice can drive positive changes in corporate behavior and enhance transparency and accountability. The growth of DIIs in the Indian market underscores their pivotal role in driving liquidity, stability, and development. As major institutional investors, DIIs wield significant influence over market dynamics, corporate governance, and investor behavior. Their continued growth and responsible stewardship will be essential for fostering a resilient and vibrant financial ecosystem in India.

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DOI:10.48001/978-81-966500-8-7-14 | ISBN: 978-81-966500-8-7