India embraced the policy of economic liberalisation in 1991 to counter the external payment crisis due to unsustainable macroeconomic balances. With an eye on integration with the world economy and enhancement of capital inflows for financing industrial growth, the Indian financial market was opened up to Foreign Institutional Investors (FII) for portfolio investment in 1992. Beginning from January 1993, foreign portfolio holdings in Indian equity market has grown considerably in volume, extent and importance over last two and a half decades. Although, inviting FIIs to invest in Indian economy was aimed at tackling balance of payment problems and spurring growth of the capital markets, at times, synchronised outflows of FIIs have been blamed for catalysing surge in equity return volatility and plunge in stock liquidity leading to stock market crashes.

In the above backdrop, the present study is undertaken to examine the influence of FII ownership in equity capital of Indian companies, and vice versa, on major variables at firm level and index level. A comprehensive review of the theory of international portfolio investments, and an analytical depiction of the international trend in FII flows are presented, followed by a discussion on the regulatory framework for FIIs in India. An attempt is also made to empirically model FII holdings in equity capital of Indian companies, and determine existence and nature of its causal relationship with informational efficiency of equity prices, stock market liquidity and return volatility at both firm and index levels. The study concludes with its brief summarisation, an outline of limitations of the present research work, and scope for further research.
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