1. Rational and entail of research study

Indian stock market is regarded on parity with the developed market as so many developments have taken place in the stock market arena during the last decade. The important feature of the Indian stock market is growing dominance of foreign institutional investors. Last one decade, FIIs; foreign institutional investors investments play vital role to bull and bear circumstances of Indian stock market. So, this is main objectives of this research study which employed and investigated result by the researcher. The studies confer a very apparent depiction of the impact of foreign institutional investors on Indian stock indices. It also describes the market trends due to FIIs inflow and outflow. Moreover, it would be beneficial to gain knowledge regarding foreign institutional investments their process of registration and their impact on Indian stock market and different industrial sectors.

Foreign Institutional Investors are said to be the driver of the market. Those are the one cause behind the rise and fall of SENSEX. FII investment trends tell us about many effects that the Indian market is experiencing. The companies in which they investment are getting overvalued. Whenever FII find any trouble they withdraw their investments. The empirical investigation of the course of causation between FIIs activities and Indian stock market performance over the time period year 2003 to year 2012 for 10 years has revealed that FIIs activities are caused by rather than causing the Indian stock indexes. Researcher has used the BSE SENSEX and NIFTY nationalised index for study and investigated the effect of FIIs investments on volatility of BSE SENSEX and NIFTY for the year 2003 to year 2012. Moreover, researcher exercised year average of BSE SENSEX and NIFTY Indian stock index and average FIIs purchase, sales, net investments for 10 years for direction to accomplish objectives; to study the scope and trading mechanism of Foreign Institutional investors in India, to find the relationship between the FIIs equity investment pattern and Indian stock indices, to study the trend of FIIs investments in India stock market and BSE & NSE Indices, to discover the role of foreign institutional investors in Indian stock market.
2. Objectives of study

1. To study the scope and trading mechanism of Foreign Institutional investors in India.
2. To find the relationship between the FIIs equity investment pattern and Indian stock indices.
3. To study the trend of FIIs investments in India stock market and BSE SENSEX & NIFTY50.
4. To discover the contribution of FII equity investment in shaping Indian capital market.
5. To know the market trends due to FIIs activities inflow and outflow.

3. Review of existing literatures

There are number of literatures existing in respect of the study FII investment and performance of stock market. This Review of existing literature examines recent and historically research studies on influence of FIIs investments on stock market. The literature review may also explain the need for the proposed work to appraise the shortcomings and gaps in research study. This analysis may go beyond scrutinizing the availability or conclusion of the past studies and their data, to examining the accuracy of secondary sources, the credibility of these sources and appropriateness of past studies.

Paramita Mukherjee, (1) This research investigated the relationship of foreign institutional investment (FIIs) investment to the Indian equity market. Results suggested that though FII flows to and from India are significantly affected by return in the domestic equity market, the latter was not significantly influenced by variation in these flows. It appeared that some factors would affect purchase or sale decision of foreign investors, but not the corresponding.

S S S Kumar, (2) The regression results show that the combined might of the FII and mutual funds are a potent force, and they in fact direction can forecast market direction using the direction of the flow of funds from FII and mutual funds, the Granger causality test has showed that the mutual funds in fact lead the market rise or fall and FII follows suit. This may actually raise questions on the market efficiency but on the contrary, markets become more efficient with
the growing presence of institutional investors who predominantly go by fundamentals. Noise trading on the part of institutional investors will be less in Indian.

Murat Usta (3) Findings of this study indicate that trades by foreign investors and the returns on individual securities and indices are related. However, since researcher examining contemporaneous volume and security returns, our findings do not indicate a casual relationship between these two variables. Rather it shows that there is a positive and statistically significant relationship between these variables. Analyzing the casual relationship between foreign trading activity and returns would be an interesting issue to look at in a future study.

Prasanna, P. K., 2008 (4) This research paper examined domestic sources of outside finance are limited in many countries, particularly those with emerging markets. Through capital market liberalization, foreign capital has become increasingly significant source of finance. This provides a pointer for further research that market performance is the strong basis for attracting more foreign investment for the individual companies. The foreign institutional investors with draw their money when the stock market performance starts sliding down.

Karimullah (5) The Researcher has employed granger causality test has been applied to test the bidirectional causality. Apart from net investment of FIIs, the 'Purchase' and 'Sales' behaviour of FIIs are analyzed separately. The result indicates that stock market performance is a major determinant of both the FIIs purchase and sales behaviour. But researcher did not find any strong evidence that the variations in the stock market indices are determined by FIIs investment behavior.

Ravi Akula (6) Result of this research, The net investments made by the FIIs were Rs. 1118 Crores in January, 2006. Later, year after year there was negative net investment recorded from January, 2007 to January, 2010. This may be due to the global financial crisis and other changes in the global business environment. The number of FIIs has also steeply increased from 158 in 1993-94 to 540 in 2003-04 registering an increase at 242 percent and it was further, steeply gone up to 733 as on July 14th, 2005. This may be on account of liberal policies of the
government towards foreign capital. The foreign institutional investment was increased during the years 2006 and 2007. Later on, due to global financial crisis the investments by FIIs were reduced.

Dr. Rahul Singh (7) Result of this research; though it is a popular belief that FII and SENSEX are positively correlated, our analysis also shows that there have been many instances for a negative correlation between the net FII and SENSEX.

Gaurav Agrawal (8) He has investigated Causality between FIIs’ Investment and Stock Market Returns. Causality highlighted unidirectional relationship of Nifty over FIIs during each phase in the long run. Variance decomposition and impulse response functions determined the short term causal relationship which reveals that there was only positive unidirectional causality from Nifty to FIIs.

Dr. Tanupa Chakraborty (9) This is research studied concern with Foreign Institutional Investment (FII) flows, i.e., capital flows across national borders, to emerging market economies (EMEs) have risen sharply over the past one and half decade due to globalization and India is no exception in this regard. In view of the limitations of using monthly, instead of daily, observations and of a shorter sample period, a more detailed study using daily data for a longer period or, even, disaggregated data showing the transactions of individual foreign investors at the stock level to help address questions regarding the extent of their herding or return-chasing behaviour can be identified as potential areas for future research.

Ravi Kumar (10) In this paper researcher analyze these flows and their relationship with other economic variables and arrive at the following major conclusions: While the flows are highly correlated with equity returns in India, they are more likely to be the effect than the cause of these returns. Results imply that stock prices can capture information on neither the FIIs. Investors can therefore apply profitable trading rules to earn supernormal profits. Under the circumstances, the Indian stock market seems to be bearing the underlying strain not currently visible at the surface. A point also to be noted here is the current concentration of FII funds
in the IT and Banking sector, which in any event of flow reversals may worsen the situation.

Paramita Mukherjee & Suchismita (11) Results show that, though there is a general perception that FII activities exert a strong demonstration effect and thus drive the domestic stock market in India, evidence from causality tests suggests that FII flows to and from the Indian market tend to be caused by return in the domestic equity market and not the other way round. Looking at the role of the beta's of the Indian market with respect to the S&P 500 and MSCI indices it is concluded that foreign institutional investors do not seem to use the Indian equity market for the purpose of diversification of their investments. It is also seen that return from exchange rate variation and fundamentals of the Indian economy may have some influence on FII decisions, but such influence does not seem to be strong, and finally, daily FII flows are highly autocorrelated and this autocorrelation can not be accounted for by all or some of the covariates considered in our study.

Kishore C. Samal, 1997 (12) He opined that in recent years, particularly in developing countries like India, there had been increased liberalisation of domestic financial and capital markets, and an opening up of the market to foreign institutional investors. The main emerging feature of India's equity market was its steady combination with the global market and its subsequent problems due to the hot money movement by Foreign Institutional Investors (FIIs). Therefore, policy measures to 'develop' equity market should aim to persuade small domestic investors to participate in it and oppose the tendency of the FIIs to destabilise the promising equity market.

Henry, 2000 (13) This reports the two possible consequences of market liberalization in the light of international asset pricing models. First outcome of market liberalization is an increase in a country’s equity prices because market learns that domestic markets will liberalize more in near future. The second impact of market liberalization is on physical investment that will increase because of fall in cost of capital as new entrepreneurs will initiate more investment projects. The second effect of market liberalization will definitely increase the rate of economic growth.
Paul A. Gompers & Andrew Metrick, 2001 (14) his analyses the demand for stock characteristics and its implications on price and return by institutional investors. The shares of the stock market were doubled by large investors in 1996 compared to 1980. The demand for stock in large companies has increased where as decreased in small companies due to compositional shift.

Batra, 2003 (15) Researcher using both daily and monthly data attempted to understand the trading behaviour of FIIs and returns in Indian equity market. He found the strong evidence of FIIs chasing trends and adopting positive feedback and herding trading strategies. However, Batra did not find FIIs having any destabilizing impact on the equity market.

Dahlquist, 2003 (16) Researcher analysed foreign ownership and firm characteristics for the Swedish market. They found that foreigners have greater presence in large firms, firms paying low dividends and in firms with large cash holdings. They explained that firm size was driven by liquidity. They measured international presence by foreign listings and export sales. They reiterated that foreigners tend to underweight the firms with a dominant owner.

Pushpa, Trivedi, and Abhilash nair, 2003 (17) Researcher suggested that the relationship between the FII and the Indian economy remains debatable. Although FIIs had been the net investors in the Indian capital market in the years except 1998, they had not increased the risk-sharing ability of the market.

Sivakumar S, 2003 (18) He examined that the net flows of foreign institutional investment over the years, it also briefly analyses the nature of FII flows based on research, explores some determinants of FII flows and examines if the overall experience had been stabilising or destabilising for the Indian capital market.

Kulwant Rai & N. R. Banumurthy, 2004 (19) They marked that FII inflows depends on stock market returns, inflation rate, and ex- ante risk. In terms of magnitude, the impact of stock market returns, and ex- ante risk turned out to be the major determinants of FII inflows. Stabilising the stock market volatility and minimising the ex- ante risk would help to attract more FII, an inflow of which has positive impact on the real economy.
Dipankor, Coondoo and Paramita Mukherjee, 2004 (20) They analysed that the moment of FII operations and other variables like stock market returns and the call money rate were volatile. The over time movement of everyday activities of all the variables contain affair amount of volatility. It’s also found that none of the variables had been changed systematically over the time period and the strength of the volatility of an individual FII variable was positively correlated with the stock market returns and call money rate.

Michael Frenkel & Lukas Menkhoff, 2004 (21) They examined that the institutional investors’ inflows were the most dynamic capital flows in the emerging market. But the institutional investors do not automatically provide benefits for the emerging markets.

Sandhya, 2004 (22) This research study found the relation between expected FII investments and expected performance of stock market. She reported that unexpected flow from FII had a greater impact on stock market than expected flow.

Douma, Pallathiattha and Kabir, 2006 (23) Researchers investigated the impact of foreign institutional investment on the performance of emerging market firms and found that there was positive effect of foreign ownership on firm performance. They also found the impact of foreign investment on the business group affiliation of firms.

Rakshit, 2006 (24) He criticised that, far from being healthy for the economy, FII inflows had actually imposed certain burdens on the Indian economy. Understanding the determinants and effects of FII flows and devising appropriate regulation therefore constitute an important part of economic policy making in India.

Ila Patnaik, 2008 (25) Researcher viewed that FII investors prefer highly liquefied firm for investment. The median value of FII ownership in the first two quintiles was zero. If the liquidity of the firm increases, the FII shares in the firm also increases.

Prasanna. P. K, 2008 (26) Researcher found that more foreign investors prefer companies which had high return and earnings per share are also high. FII prefer companies which had higher volume of public shares and choose companies where family shareholding of promoters was not substantial. The impact of FII in unexpected flows was greater than in expected flows on
stock market. Thus trading of FII had a great impact on both the stock market and the stock price. This also influences the company’s performance.

**Bansal, 2009 (27)** Researcher opined that when there was a decline in return after the entry of FII in India, the volatility had been reduced. The volatility of Indian stock market was not only because of FII inflow. There were also some other factors which influence the volatility of Indian stock market.

**Narayan Sethi (28)** The study attempts to examine the impact of international capital flows on economic growth. The study also examines trends and composition of capital inflows, changing pattern capital flows in view of economic reform, ascertain the impact of domestic financial policy variables on international capital flows and suggest policy implication thereof. By using monthly time series data, we found that Foreign Direct Investment (FDI) is positively affecting the economic growth direct contribution, while Foreign Institutional Investment (FII) is negatively affecting the growth alb its, in a small way and make a preliminary attempt to test whether the international capital flows has positive impact on financial markets and economic growth.

**Agarwal and Bernan, 1997 (29)** Capital flows expose the potential vulnerability of the economy to sudden withdrawals of foreign investor from the financial market, which will affect liquidity and contribute to financial market volatility. One opinion that could be explored in the face of capital inflow surge is absorption by the external sector through capital outflows. Financial markets are significantly different from other markets; market failures are likely to be more pervasive in these markets and there exists Government intervention. Government interventions in the financial markets that promoted savings and the efficient allocation of capital are the central factor to the efficiency of financial markets

**News papers of The Economic Times & Business Standards, (30)**

Stock market of the country tremendous influences by the FIIs Investment, they are true drivers of the capital market. Investments of FIIs also depend on the currency exchange rate, FIIs investment pattern change resulting from change in currency rate in the country. In the country effect of currency rate also influence on the performance of country stock exchanges. Thus, it
shows that FIIs investments, Currency Rates and Market Index have relation with each other. They influence to each other way of direct and in directly.

P. K. Mishra (31)
This paper an effort has been made to examine the performance of the Indian capital market by empirically studying the impact of net equity investment by FIIs on stock returns. The study using monthly data on SENSEX based stock return and net FII flows over a period of 17 years spanning from Jan 1993 to May 2009, provides the evidence of positive correlation between FII net flows into India and stock market return. And, the analysis finds that the movements in the Indian capital market are fairly explained by the FII net inflows.

Corporate Governance CLSA, 2001 (32) The capital market reforms like improved market transparency, automation, dematerialization and regulations on reporting and disclosure standards were initiated because of the presence of the FIIs. But FII flows can be considered both as the cause and the effect of capital market reforms. The market reforms were initiated because of the presence of FIIs and this in turn has lead to increased flows.

Dalal Street, 2006 (33) The Government of India gave preferential treatment to FIIs till 1999-2000 by subjecting their long term capital gains to lower tax rate of 10 percent while the domestic investors had to pay higher long-term capital gains tax. The Indo-Mauritius Double Taxation Avoidance Convention 2000 (DTAC), exempts Mauritius-based entities from paying capital gains tax in India - including tax on income arising from the sale of shares. This gives an incentive for foreign investors to invest in Indian markets taking the Mauritius route. Consequently, we now see investments coming from Mauritius while there were none before 2000. free float available has been bagged by FIIs - despite the fact that they invest in just a few highly liquid stocks. in India will witness more and more of institutionalization. This set of investors will play a major role in Indian equity markets.

The Economic Times of India, 2006 (34) Heavy selling by the FII’s was experienced in this period, with the total equity sales amounting to Rs. 82.47 bn. However, they regained interest thereafter in the Indian market and the net investment in September 2006 amounted to Rs. 62.32 bn.
The Business Standard, 2006 (35) FIIs add to the extreme volatility in the stock markets also. One such episode was in May 2006, when the bullish market lost more than 1000 points intraday which was triggered by a circular from the CBDT regarding treatment of the FIIs for the purpose of taxation and it was not just the Indian stock index but other indices of the world also lost several points mainly due to the global jitters.

**Findings of literature reviews for study**

After reviewing many research study and articles, researcher comes to know what the important role play in stock market and also seen that which factors influence FIIs investment.

The FIIs investment in Indian securities market has shown fluctuating trend year after year. This may be due to changes in the global financial system. The **global financial crisis** has resulted in negative inflow of FIIs. Market performance is the strong basis for attracting more foreign investment for the individual companies. The foreign institutional investors with draw their money when the stock market performance starts sliding down.

Other things, factors affecting FII sale and purchase were not the same. It appeared that some factors would affect **purchase or sale decision of foreign investors**, but not the corresponding. Return from exchange rate variation and fundamentals of the Indian economy may have some influence on **FII decisions**, but such influence does not seem to be strong, and finally, daily FII flows are highly correlated. There is a positive and statistically significant relationship between these variables.

**The free float** available has been bagged by FIIs - despite the fact that they invest in just a few highly liquid stocks. The **capital gains tax** in India, also encourage FIIs investments.

FII flows can be considered both as the cause and the effect of **capital market reforms**. The market reforms initiated because of the presence of FIIs and this in turn has lead to increased flows. The relationship between **return and foreign trading activity** is examined for the **overall market** and **national sectors**.
Most of the research works shows that market index affected by the FIIs investment but in the contrary market also drives due to micro factors like as Exchange Rate, GDP & GNP, IIP, Inflation Rate, Money supply, Employment scenario, growth of agricultures etc. and FIIs likely to invest in country stock markets which have performing well and developed, Stock Market good performance due to positive or favorable trends of micro factors in the country.

Some researchers have taken BSE SENSEX & NIFTY returns and FIIs investment for the study on role of FIIs on Indian capital market. Many researches have taken net investment of FIIs and BSE Index and NSE Index, so results only concern with the overall market index. It hasn’t able to find the accurate results for the study. Researchers found role of FIIs in capital market without considering the particular sartorial indexes like as BSE Auto, BANKEX, BSE CG, BSE IT, BSE FMCG etc. That is main limitation of these researches. Here research has to involve FIIs investments in every sectors and market index & sectors index for viable result regarding study.

4. Research Methodology

Researcher has used a following research methodology for his study entitled "Role Of Foreign Institutional Investors (FIIs) In Indian Stock Market" which is as follow:

Justification and identification of research problems

Problem identification too broadly defined cannot be addressed adequately in single study. Formulation of problem is often more essential than its solution because when the problem is formulated, an appropriate technique can be applied to generate alternative solution. In essence, a proper formulation of the research problem starting with objectives would enable a researcher to go ahead in the proper direction. Finally, it may be noted that problem formulation would have focus on what sort of decision issues are tackled.

This empirical research study narrates the vital role of FIIs investments on Indian stock market. Here researcher has used FIIs investments and performance of Indian stock market; BSE SENSEX and NIFTY50 variables of the study. Researcher defines various existing literatures related with the study and problems of the title, various objective frames by the researcher,
which leads to research phenomenon. There were used many literature of review for this research study and formulated appropriate methodology for accomplish objectives of the study. By referring the different past research studies, researcher has selected this topic for the purpose of the study the relationship between the FII equity investment pattern and Indian stock indices and study the scope and trading mechanism of Foreign Institutional investors in India. However, most of the prior researcher studies have been based on empirical data and they have covered different time duration and methodologies.

Consequently, Researcher has gathered the familiarity concerning FIIIs and stock market, formulation of objectives, recognition of variables, statistical tool and techniques for the suitable findings. Researcher has framed for the purpose of the study entitled "Role of Foreign Institutional Investors (FIIs) in Indian stock market".

**Research Design**

As an exploratory study is conducted with an objective to gain familiarity with the phenomenon or to achieve new insight into it, this study aims to find the new insights in terms of finding the relationship between FIIs investments and Indian Stock Indices

**Title of the Study:**

Researcher has framed for the purpose of the study entitled "Role Of Foreign Institutional Investors (FIIs) In Indian Stock Market" An Approach To Investigate The Relationship Between FII And BSE & NSE.

**Nature and Scope of the Study**

Scope of the study is very broader and wider. But here study covers both the stock indices and its comparison with foreign institutional investments. Study is only going to cover foreign investments in form of equity. The time period is limited from January 2001 to December 2010 as it gives exact impact in both the bullish and bearish trend.

The study provides a very apparent image of the impact of foreign institutional investors on Indian stock indices. It also describes the market trends due to FIIs inflow and outflow.
The study would be helpful for further descriptive studies on the ideas that will be explored. Moreover, it would be beneficial to gain knowledge regarding foreign institutional investments their process of registration and their impact on Indian stock market and different industrial sectors.

A number of studies in the past have observed that investments by FIIs and the movements of SENSEX are quite closely correlated in India and FIIs wield significant influence on the movement of SENSEX. There is little doubt that FII inflows have significantly grown in importance over the last few years. In the absence of any other substantial form of capital inflows, the potential ill effects of a reduction in the FII flows into the Indian economy can be severe. From the point of attracting foreign capital, the initial expectations have not been realised. Investment by FIIs directly in the Indian stock market did not bring significantly large amount compared to the GDR issues. GDR issues, unlike FII investments, have the additional advantage of being project specific and thus can contribute directly to productive investments. FII investments seem to have influenced the Indian stock market to a considerable extent.

Results of this study shows that not only the FIIs are the major players in the domestic stock market in India, but their influence on the domestic markets is also growing. Data on trading activity of FIIs and domestic stock market turnover suggest that FII’s are becoming more important at the margin as an increasingly higher share of stock market turnover is accounted for by FII trading. Moreover, the findings of this study also indicate that Foreign Institutional Investors have emerged as the most dominant investor group in the domestic stock market in India. Particularly, in the companies that constitute the Bombay Stock Market Sensitivity Index SENSEX, their level of control is very high. Data on shareholding pattern show that the FIIs are currently the most dominant non-promoter shareholder in most of the SENSEX companies and they also control more tradable shares of SENSEX companies than any other investor groups.

**Variables of the Study**

Research used variables for research work independent variables and independent variables which are as follow:
1. Dependent variables

Dependent variables employed in this present research study for measure the effect of independent variables. Dependent variables are central Indian stock index: BSE SENSEX and NIFTY50. These stock indexes employed as dependent variables to come across causes of volatility attributable to FIIs investments in Indian stock market.

BSE SENSEX

BSE SENSEX or Bombay Stock Exchange Sensitive Index is a value-weighted index composed of 30 stocks started in April, 1984. It consists of the 30 largest and most actively traded stocks, representative of various sectors, on the Bombay Stock Exchange. These companies account for around one-fifth of the market capitalization of the BSE.

NIFTY 50

It is popular index of NSE. It was introduced in April 96 with 95 as the base year. It comprised of a well-diversified 50 stock index accounting for 23 sectors of the economy of the total traded value of NIFTY stocks is about 59% of the total market capitalization. The average price of the scrip is taken for the compilation of the index

2. Independent variables

Independent variables used as fundamental character in this present research study. FIIs investments consider as independent variables to find significance role headed for performance of dependent variables Indian stock index: BSE SENSEX and NIFTY50.

FIIs Investments; FIIs purchase, FIIs sales and FIIs net investments

FII’s include investors or investment funds that registered out side and investments in Indian stock markets. Foreign institutional investors ‘investments are volatile in nature, and they invest in the emerging markets. They usually keep in mind the potential of a particular market to grow. FIIs activities included FIIs purchase, FIIs sales and FIIs net investments exercised to Indian stock market.
Formulation of Hypothesis

The present study focused on effect of FIIs investments on performance of Indian stock market. Research formulates the following hypothesis for research.

Hypothesis 1:

F-test to measure overall significance predictability of the volatility of Indian stock indexes: BSE SENEX and NIFTY by the FIIs activities: FIIs purchases, FIIs sales, FIIs net investment given from this regression model.

Null $H_0$: $\beta = 0$
Alt $H_1$: $\beta \neq 0$

OR

Null $H_0$: there is at least one of the regression coefficients is zero
Alt $H_1$: there is at least one of the regression coefficients is different from zero

Hypothesis 2:

t-test resolute how well a regression model fits the data. Here researcher decides that it is not worth the effort to develop a linear regression model to predict stock market performance from FIIs investments. t–test for testing the slope of the regression model and significant predictive variables FIIs Investments on Indian stock indexes.

Null $H_0$: $\beta = 0$
Alt $H_1$: $\beta > 0$

OR

Null $H_0$: There is no relationship between FIIs Investments and stock indexes.
Alt $H_1$: There is positive relationship between FIIs Investments and stock indexes.
Selection of the Sampling Design

The study has used non-random sampling methods. A non-random sampling method assists to selection for the study and its give facility for proper selection to all of the population to be selected. Researcher has developed sampling design by following elements for reliable and appropriate sampling.

Population and sample

In this study the universe is finite and take into the consideration related news and events that have happened in last ten year. The universe of the study consists of all the Indices which running under Bombay Stock Exchange (BSE) and (NSE), FII investments in different avenues; Pension Funds, Mutual Funds, Investment Trust, Insurance or reinsurance companies, Endowment Funds, University Funds, Foundations or Charitable Trusts or Charitable Societies, Asset Management Companies, Nominee Companies, Trustees, Bank.

Sampling units

As this study revolves around the foreign institutional investment and Indian stock market, so for the sampling unit is confined to only the Indian stock market and FII investment in Indian stock market only. Out of universe following index employed as sample for the research study.

1. FIIs investments
2. BSE SENSEX
3. NIFTY 50

Following list of tables shows listed companies under BSE SENSEX and NIFTY50
Table Name Of 30 Companies Listed In BSE SENSEX Index

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ACC Ltd.</td>
<td>Housing Related</td>
</tr>
<tr>
<td>2</td>
<td>Ambuja cement</td>
<td>Housing Related</td>
</tr>
<tr>
<td>3</td>
<td>Bharat Heavy Electricals Ltd.</td>
<td>Capital Goods</td>
</tr>
<tr>
<td>4</td>
<td>Bharti Airtel Ltd.</td>
<td>Telecom</td>
</tr>
<tr>
<td>5</td>
<td>Cipla</td>
<td>Healthcare</td>
</tr>
<tr>
<td>6</td>
<td>DR. Reddy</td>
<td>Healthcare</td>
</tr>
<tr>
<td>7</td>
<td>Grasim Industries Ltd.</td>
<td>Diversified</td>
</tr>
<tr>
<td>8</td>
<td>HDFC</td>
<td>Finance</td>
</tr>
<tr>
<td>9</td>
<td>HDFC Bank Ltd.</td>
<td>Finance</td>
</tr>
<tr>
<td>10</td>
<td>Hindalco Industries Ltd.</td>
<td>Metal,Metal Products &amp; Mining</td>
</tr>
<tr>
<td>11</td>
<td>Hindustan Unilever Ltd.</td>
<td>FMCG</td>
</tr>
<tr>
<td>12</td>
<td>ICICI Bank Ltd.</td>
<td>Finance</td>
</tr>
<tr>
<td>13</td>
<td>Infosys Technologies Ltd.</td>
<td>Information Technology</td>
</tr>
<tr>
<td>14</td>
<td>ITC Ltd.</td>
<td>FMCG</td>
</tr>
<tr>
<td>15</td>
<td>Jaiprakash Associates Ltd.</td>
<td>Housing Related</td>
</tr>
<tr>
<td>16</td>
<td>Larsen &amp; Toubro Limited</td>
<td>Capital Goods</td>
</tr>
<tr>
<td>17</td>
<td>Mahindra &amp; Mahindra Ltd.</td>
<td>Transport Equipments</td>
</tr>
<tr>
<td>18</td>
<td>Maruti Suzuki India Ltd.</td>
<td>Transport Equipments</td>
</tr>
<tr>
<td>19</td>
<td>NTPC Ltd.</td>
<td>Power</td>
</tr>
<tr>
<td>20</td>
<td>ONGC Ltd.</td>
<td>Oil &amp; Gas</td>
</tr>
<tr>
<td>21</td>
<td>Ranbaxy Laboratories Ltd.</td>
<td>Healthcare</td>
</tr>
<tr>
<td>22</td>
<td>Reliance Communications Ltd.</td>
<td>Telecom</td>
</tr>
<tr>
<td>23</td>
<td>Reliance Industries Ltd.</td>
<td>Oil &amp; Gas</td>
</tr>
<tr>
<td>24</td>
<td>Reliance Infrastructure Ltd.</td>
<td>Power</td>
</tr>
<tr>
<td>25</td>
<td>Satyam Computer</td>
<td>Information Technology</td>
</tr>
<tr>
<td>26</td>
<td>State Bank of India</td>
<td>Finance</td>
</tr>
<tr>
<td>27</td>
<td>Tata Consultancy Services Ltd.</td>
<td>Information Technology</td>
</tr>
<tr>
<td>28</td>
<td>Tata Motors Ltd.</td>
<td>Transport Equipments</td>
</tr>
<tr>
<td>29</td>
<td>Tata Steel Ltd.</td>
<td>Metal,Metal Products &amp; Mining</td>
</tr>
<tr>
<td>30</td>
<td>Wipro Ltd.</td>
<td>Information Technology</td>
</tr>
</tbody>
</table>

Source: www.BSEindia.com
Table Name Of 50 Companies Listed In Nifty Index

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ABB Ltd.</td>
<td>Electrical equipment</td>
</tr>
<tr>
<td>2</td>
<td>ACC Ltd.</td>
<td>cement products</td>
</tr>
<tr>
<td>3</td>
<td>Ambuja Cements Ltd.</td>
<td>Cement Products</td>
</tr>
<tr>
<td>4</td>
<td>Bajaj Auto Ltd.</td>
<td>Automobiles - Wheelers</td>
</tr>
<tr>
<td>5</td>
<td>Bharat Heavy Electricals Ltd.</td>
<td>Electrical Equipment</td>
</tr>
<tr>
<td>6</td>
<td>Bharat Petroleum Corporation Ltd.</td>
<td>Refineries</td>
</tr>
<tr>
<td>7</td>
<td>Bharti Airtel Ltd. Telecommunication -</td>
<td>Services</td>
</tr>
<tr>
<td>8</td>
<td>Cipla Ltd.</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>9</td>
<td>Dr. Reddy's Laboratories Ltd.</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>10</td>
<td>GAIL (India) Ltd.</td>
<td>Gas</td>
</tr>
<tr>
<td>11</td>
<td>Glaxosmithkline Pharmaceuticals Ltd.</td>
<td>Pharmaceuticals</td>
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<tr>
<td>12</td>
<td>Grasim Industries Ltd.</td>
<td>Cement Products</td>
</tr>
<tr>
<td>13</td>
<td>HCL Technologies Ltd. Computers -</td>
<td>Software</td>
</tr>
<tr>
<td>14</td>
<td>HDFC Bank Ltd.</td>
<td>Banks</td>
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<tr>
<td>15</td>
<td>Hero Honda Motors Ltd.</td>
<td>Automobiles</td>
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<tr>
<td>16</td>
<td>Hindalco Industries Ltd.</td>
<td>Aluminium</td>
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<tr>
<td>17</td>
<td>Hindustan Petroleum Corporation Ltd.</td>
<td>Refineries</td>
</tr>
<tr>
<td>18</td>
<td>Hindustan Unilever Ltd.</td>
<td>Diversified</td>
</tr>
<tr>
<td>19</td>
<td>Housing Development Finance Corporation Ltd.</td>
<td>Finance Housing</td>
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<tr>
<td>20</td>
<td>I T C Ltd.</td>
<td>Cigarettes</td>
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<tr>
<td>21</td>
<td>ICICI Bank Ltd.</td>
<td>Banks</td>
</tr>
<tr>
<td>22</td>
<td>Infosys Technologies Ltd. Computers -</td>
<td>Software</td>
</tr>
<tr>
<td>23</td>
<td>Larsen &amp; Toubro Ltd.</td>
<td>Engineering</td>
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<tr>
<td>24</td>
<td>Mahanagar Telephone Nigam Ltd. -</td>
<td>Telecommunication</td>
</tr>
<tr>
<td>25</td>
<td>Mahindra &amp; Mahindra Ltd.</td>
<td>Automobiles</td>
</tr>
<tr>
<td>26</td>
<td>Maruti Udyog Ltd.</td>
<td>Automobiles</td>
</tr>
<tr>
<td>27</td>
<td>NTPC Ltd.</td>
<td>Power</td>
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<tr>
<td>28</td>
<td>National Aluminium Co. Ltd.</td>
<td>Aluminium</td>
</tr>
<tr>
<td>29</td>
<td>Oil &amp; Natural Gas Corporation Ltd.</td>
<td>Oil Exploration</td>
</tr>
<tr>
<td>30</td>
<td>Punjab National Bank</td>
<td>Banks</td>
</tr>
<tr>
<td>31</td>
<td>Ranbaxy Laboratories Ltd.</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>32</td>
<td>Reliance Communications Ltd.</td>
<td>Telecommunication</td>
</tr>
<tr>
<td>33</td>
<td>Reliance Energy Ltd.</td>
<td>Power</td>
</tr>
<tr>
<td>34</td>
<td>Reliance Industries Ltd.</td>
<td>Refineries</td>
</tr>
<tr>
<td>35</td>
<td>Reliance Petroleum Ltd.</td>
<td>Refineries</td>
</tr>
<tr>
<td>36</td>
<td>Satyam Computer Services Ltd.</td>
<td>Computers Software</td>
</tr>
<tr>
<td>37</td>
<td>Siemens Ltd.</td>
<td>Electrical Equipment</td>
</tr>
<tr>
<td>38</td>
<td>State Bank of India</td>
<td>Banks</td>
</tr>
<tr>
<td>39</td>
<td>Steel Authority of India Ltd.</td>
<td>Steel and Steel Products</td>
</tr>
<tr>
<td>40</td>
<td>Sterlite Industries (India) Ltd.</td>
<td>Metals</td>
</tr>
<tr>
<td>41</td>
<td>Sun Pharmaceutical Industries Ltd.</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>42</td>
<td>Suzlon Energy Ltd.</td>
<td>Electrical Equipment</td>
</tr>
<tr>
<td>43</td>
<td>Tata Consultancy Services Ltd.</td>
<td>Computers Software</td>
</tr>
<tr>
<td>44</td>
<td>Tata Motors Ltd.</td>
<td>Automobiles</td>
</tr>
<tr>
<td>45</td>
<td>Tata Power Co. Ltd.</td>
<td>Power</td>
</tr>
<tr>
<td>46</td>
<td>Tata Steel Ltd.</td>
<td>Steel Products</td>
</tr>
<tr>
<td>47</td>
<td>Unitech Ltd.</td>
<td>Construction</td>
</tr>
<tr>
<td>48</td>
<td>Videsh Sanchar Nigam Ltd.</td>
<td>Telecommunication</td>
</tr>
<tr>
<td>49</td>
<td>Wipro Ltd.</td>
<td>Computers</td>
</tr>
<tr>
<td>50</td>
<td>Zee Entertainment Enterprises Ltd.</td>
<td>Media &amp; Entertainment</td>
</tr>
</tbody>
</table>

Source: www.NSEindia.com
Period of the study
Period of the study restricted and bounded for 10 years which start from January 2003 to December 2012 as it gives initiative regarding impact in both the bullish and bearish trend. Researcher has used 10 years tendency of FIIs investments, BSE SENSEX and NIFTY for research study.

Data collection and data sources
The study is based on secondary data, there were different existing literature review referred for this present study and research study used data as FIIs investments activities, BSE SENSEX and NIFTY50 employed for the 10 years. So it takes from www.sebi.com, www.bseindia.com and www.nseindia.com, web-sites, the various types of research journal, news papers.

Data analysis
The researcher prepare various tables to summaries the data for the purpose of study the relationship between the FIIs equity investment pattern and Indian stock indices and study the scope and trading mechanism of Foreign Institutional investors in India, The collected data is duly edit, classified and analyse using all types of relevant statistical techniques and employing the most appropriate test. The data presented through classification through a daily average volatility, co-relations, the data were analyse and the hypothesis were tested employing t-test and F-test by comparing two variables. Comparative Analysis and Trend Analysis has used in data analysis.

Statistical tools and techniques
Researches used necessitate statistical tools and techniques for data analysis and interpretations. The present study has employed following statistical parameters to test hypothesis of the study. Data analysis techniques would be a form of simple descriptive statistical and more statistical tools which are relevant and require for research study.
Regression model residual analysis

Regression analysis finds linear relationship between two variables dependent variables and independent variables. Here, Researcher has used regression model for the measure the cause and effect relationship between FIIs activities and Indian stock indexes.

In residual analysis, researcher test a regression line to determine whether the line is a good fit of the data other than by observing the fitted line plot in other word regression line fit through a scatter plot of the data.

Residual analysis

The values of independent variables (X) FIIs investments are inserted into the regression model and a predicated value ($\hat{Y}$) is obtained for each X value. This predicted value is compared to the actual Y valued to determine how much error the equation of the regression line produced. Each different between the actual y values and the predicated Y values is the error of the regression line at a given point. (Y- $\hat{Y}$) and is referred to as the residual value which use for comparative analysis among actual value and predicated value.

Normal Probability plot of the residual chart

The residual model diagnostics consist of the plots. Normal probability plot of the residual analysis is indicating that the residual are nearly normal in shape or not.

F-test for testing for overall significance of the regression model

t-test for testing for relationship between FIIs investments activities and BSE SENSEX and NIFTY50

Descriptive Statistical tools

Descriptive statistical analysis is conducted to define the effect of changing values on measures of central tendency, variation and shape. The descriptive statistical tools calculated for measurement of FIIs investments activities and Indian stock indexes BSE SENSEX and NIFTY. Descriptive statistical tools like as mean, median, standard deviation, standard error, coefficient of variance, kurtosis, skewness, range of FIIs investments activities and Indian stock indexes BSE SENSEX and NIFTY.
1. Coefficient of determination - $R^2$ and adjusted $R^2$
2. Karl Pearson ‘s Correlation
3. Standard Deviation
4. Standard Error
5. Coefficient of variance
6. Mean
7. Median
8. Skewness
9. Kurtosis
10. Minimum
11. Maximum:
12. Range

**Outline of Chapter Plan**

The present study entitled "Role of Foreign Institutional Investors (FIIs) in Indian stock market" divided into chapters which are as follow:

Chapter 1 : Research Methodology
Chapter 2 : An overview of Indian Capital Market
Chapter 3 : Role Foreign Institutional Investors (FIIs) in Indian Stock Market
Chapter 4 : Data Analysis and Interpretation
Chapter 5 : An overall analysis of study
Chapter 6 : Summaries, Findings, Conclusion

**Significance of the Study**

India has steadily come into view as vital player of Foreign institutional investors in Indian stock market last one decade. In this present study explore the relationship of foreign institutional investment (FIIs) flows to the Indian equity market with its possible covariates based on a time series of daily data for the period January, 2003 to December 2012. Here study gives to identify the relevant covariates of FII flows into and out of the Indian equity market and also to conclude the nature of causality between the relevant variables. It is in this context that a cautious examination of the nature of foreign institutional investment (FIIs) flow into an economy may
help identify, the strength of various factors likely to affect such flows, FIIs purchase, FIIs sales, FIIs net investment in stock market and also, the possible impact of such flows on the performance of the equity market concerned.

This present study gives idea and mechanism of Foreign Institutional investors in India. So it assists to investors to understand FIIs trend and its impact on stock market. Study provided result regarding the relationship between the FIIs investments equity investment pattern and Indian stock indices. Study employed trend movement of FIIs investments in India stock market and analysis of volatility in BSE SENSEX and NIFTY50. This study would rally round to fill in the loop this currently present in the knowledge on how do FIIs choose individual companies for their investment. This study would also provide the much needed understanding of how do we spread the FIIs investment across the various securities listed in the market thereby try and broad base the market. The understanding of the determinants of FIIs investment would also help stop portfolio outflows being triggered by the specific happenings in a few companies. Study reversals of market performances make foreign equity investment extremely volatile and may have an effect on the domestic economy of the beneficiary country. It is therefore prudent to evolve appropriate built-in mechanisms in these economies such that destabilization and damages can be minimized in case foreign investors suddenly withdraw from the equity market.

It is in this context that a careful examination of the nature of foreign institutional investment (FIIs) flow into an economy may help recognize the strength of various factors likely to affect such flows, FIIs purchase, FIIs sales, FIIs net investment in stock market.

**Limitations of the Study**

1. The study relates to the Indian stock market only. Not for global markets.
2. The study pertinent for the BSE SENSEX, NSE and industrial sectors indices only. Other indices have been excluded like as BSE200, BSE100, Dollex etc.
3. The study narrated with only FII investments, FDI investments do not consider.
4. This study is base on secondary data derived from published annual reports of the selected units. The reliability and finding are contingent upon the data published in annual report.
5. The inferences made are purely from the past year’s performance of variables.
6. The study use different statistical tools and techniques, so its own limitation which also apply to this study.
5. Results and Findings

Finding of study leads to accomplish the objectives of the research study. In this present research study researcher has defined objectives and formulated hypothesis for objectives. Chapter fourth and fifth consist with analysis and interpretation of variables through the descriptive statistical tools. F-test and t-test has used for hypothesis testing. Following finding obtained from this research study.

First finding, FIIs investments activities; FIIs purchases, FIIs sales, FIIs net investments having positive upward trend for last decade as same way sensitive Indian stock market index BSE SENSEX and NIFTY50 having same positive trend for last decade. So, both of variables have optimistic trend.

Second finding, Indian stock market index BSE SENSEX and NIFTY50 and FIIs purchase having high degree of correlation with each other. So performance of Indian stock market is varying accountable for FIIs purchases. Moreover, Indian stock market index and FIIs sales strong correlation with each other. There is positive or negative influence of FIIs purchases and FIIs sales on performance of BSE SENSEX. It can be concluded that bull market and bear market trend happening in BSE SENSEX and NIFTY50 resulting in FIIs activities; FIIs purchases and FIIs sales. FIIs net investments concern with excess investment among FIIs purchases and FIIs sales. So, The FIIs purchases and FIIs sales have foremost influence on performance of Indian stock indexes BSE SENSEX and NIFTY50 rather than FIIs net investments.

Third Finding, Research study has investigated the effect of FIIs investments activities FIIs purchases, FIIs sales, FIIs net investments over the Indian stock indexes. There is a proportional considerable effect of FIIs investments activities on performance of BSE SENSEX and NIFTY50. This result shows that remain some proportional changes in performance of Indian stock indexes are happening attributable to the other factors other than FIIs investments activities. Thus, it indicates that interest and behavior of Foreign investors lead to volatility of Indian stock market.
Fourth finding, FIIs purchases and FIIs sales are highly influenced of Indian stock market. Both should be nearly equal. But if FIIs purchases and FIIs sales do not deviated with simultaneously, it shows huge deficit toward FIIs investments that define as FIIs net investments which composes bull or bear market conditions. So, FIIs net investments are major attributes for performance of stock market.

Fifth finding, the regression residual model investigated cause and effect relation among dependent variable BSE SENSEX and NIFTY50 and independent variables FIIs investments activities. Here, regression residual model has obtained predicated value of dependent variable BSE SENSEX and NIFTY50 with respect to FIIs investments activities. The predicated value is relevance to the independent variables. So, the regression residual model result indicated that the regression coefficients are significantly equal to zero, which shows the volatility of BSE SENSEX and NIFTY50 index owning to FIIs investments activities.

Consequently, Foreign institutional investors having vital role toward Indian stock market. The bull and bear market trend deprived on behavior and interest of foreign institutional investors.

6. Future perspectives of the Study

The study would be supportive for more expressive studies on the thoughts that will be explored. Furthermore, it would be beneficial to gain knowledge concerning foreign institutional investments their process of registration and their force on Indian stock market and different industrial sectors. The study grants a very apparent depiction of the impact of foreign institutional investors on Indian stock indices. It will also express the market tendency due to FIIs inflow and outflow.

The empirical investigation of the course of causes between FIIs activities and Indian stock market performance over the time period year 2003 to year 2012 for 10 years has revealed that FIIs activities are caused by rather than causing the Indian stock indexes. However, researcher can employed FIIs investments for starting period of time since 1991. So, research result gives the logical analysis by the different time lags which will be provide trend of FIIs investments and performance of Indian stock market. Thus research gives diagnostic result at particular time lags like as 3 years, 5 years, 10 years etc.
Researcher has used the BSE SENSEX and NIFTY nationalised index for study and investigated the effect of FIIs investments on volatility of BSE SENSEX and NIFTY for the year 2003 to year 2012. Moreover, the study is dynamic in nature. It is not end of this research study. It is quite wider in nature. So the future research can more research activity regarding volatility BSE & NSE. There is not only FIIs investments play important but also FDI investment crucial role in Indian stock market. Research study might be more analytical and excellent with consideration FIIs and FDI investments in India.

The performance of stock market and behavior of foreigner investors are change due to many unforeseen variables in the future. Researcher can use different variables for this research like as macro economic – Inflation rates, Money supply, GDP rate, Industrial production index, Commodities index, and Exchange rates, etc. Researcher also can study the buyers and sellers behavior in respect of investment. Due to changes in Indian financial system, there are drastic changes shown in the stock market. So it will be changes in continues in the Indian financial system. Researcher has to consider all the future changes in stock market. There will have many opportunities as well challenges for the research to more study about this topic.

7. Conclusion

The role of investment in promoting economic growth has conventional considerable concentration in India since independence. But the role of foreign institutional investment in the economic development of India is a recent topic of discussion among economists and development planners. Since the implementation of the new economic policies in early 1990s, India emerged as an important destination of global investors’ investment. It is from September 14, 1992, FIIs have been investing on financial instruments in India and providing incentives for financial innovations in the country.

Recently, FIIs have become the movers and shakers of the market. Given this growing importance of FIIs for the Indian economy, it is necessary that the energetic of such cross-border portfolio investment in the context of economic growth of the country be examined. It is with this aim an attempt has been made in this empirical research study.
This empirical research study examined the vital role of FIIs investments on Indian stock market. Here researcher has used FIIs investments and performance of Indian stock market; BSE SENSEX and NIFTY50 variables of the study. Researcher defines various existing literatures related with the study and problems of the title, various objective frames by the researcher, which leads to research phenomenon. There were used many literature of review for this research study and formulated appropriate methodology for accomplish objectives of the study. researcher exercised year average of BSE SENSEX and NIFTY Indian stock index and average FIIs purchase, sales, net investments for 10 years for course to carry out objectives; to study the trend of Foreign Institutional investors in India, to discover the relationship between the FIIs equity investment pattern and Indian stock indices, to study the trend of FIIs investments in India stock market and BSE & NSE Indices, to discover the role of foreign institutional investors in Indian stock market.

Researcher employed Descriptive statistical tools like as Mean, Median, and Coefficient of variance, Skewness, kurtosis, Standard Deviation, standard error, range, etc for fundamental analysis of the research objectives. Coefficient of correlation and coefficient of determination employed in the variables for purpose of measure the effect of independent variables FIIs investments on dependent variables Indian stock indexes BSE SENSEX and NIFTY and study the association with independent and dependent variables. Regression residual model employed for examine cause and effect relationship between FIIs investment and Indian stock indexes BSE SENSEX and NIFTY. There is hypothesis developed and tested in order to reach objectives headed for role of FIIs on Indian stock market. Researcher has applied t-test for significant predictive variables FIIs behavior on Indian stock index. t-test used coefficient of determination zero as null hypothesis, in other word, null hypothesis that populations slope is zero which shows that there is no relationship between of FIIs investments and BSE SENSEX / NIFTY. F-test employed the overall significance of the regression model. This F-test determines tolerate regression coefficients are different from zero. Moreover, an applied methodology assists from effective analysis and interpretation of study which gives suitable results and findings of study.

The first result of study shows that there is high degree of positive correlation between FIIs investments activities and performance of stock market; BSE SENSEX and NIFTY50. Second result disclosed that the proportional effect of FIIs investment; FIIs purchase and FIIs sales on
BSE SENSEX and NIFTY 50. So as per these results it concluded that behavior of foreign institutional investors is highly influenced on performance of stock market in India. Third regression residual analysis results show that FIIs investments activities are perfect predictors to measure the bull and market trends in Indian stock market. Forth t-test and fifth F-test results disclosed that coefficient of determination is not equal to zero which indicates. FIIs investments activities are more predictive variables for volatility Indian stock market.

The study would be sympathetic for more communicative studies on the thoughts that will be explored. Subsequently it will be changes in continues in the Indian financial system. Researcher has to consider all the future changes in stock market and behaviour of foreign institutional investors. There will have many opportunities as well challenges for the research to more study about this topic.

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