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Foreign Institutional Investor (FII)

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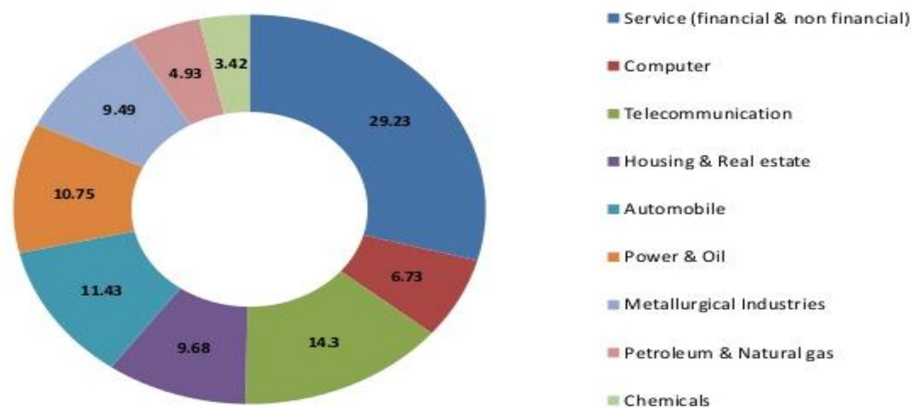
FOREIGN INSTITUTIONAL INVESTORS (FIIs)

Introduction

We often wonder what it is that makes the capital market so interesting and risky as well. But do we ever question about who plays the most prominent role in the functioning of the capital market. Maybe yes, maybe no. But first here are a few things you should know before understanding the working of the foreign institutional investors.

First, we need to understand what a capital market is. Quoting the Economic Times, "Capital Market is market where buyers and sellers engage in the trade of securities like bonds, stocks etc." But to be more precise, a capital market is a place where large companies can raise capital by issuing shares, debentures, bonds, etc., for commencing their business activities and then leave it up to the investors to trade among themselves.

Foreign investment is a necessary element to boost developing economies as this foreign capital exposure helps in improvement of the country's use of labour, machinery and other factors. Foreign investment helps in building up foreign exchange reserves and acts as a channel through which developing economies gain access to foreign capital.



FDI VS FII

Foreign Investment can enter the economy through two ways: Foreign Direct Investment (FDI) and Foreign Institutional Investors (FII). FDI relates to direct production and marketing activities that foreign companies initiate in the host country and are directly involved in developing the infrastructure of the industry. FII relates more to investment in the country's Capital market where the investment is short term and uncertain like in money markets, stock markets and foreign exchange markets.

Reasons For Foreign Investment In India

Foreign Investment was first liberalized in the year 1990-91 by the Government of India through new and freshly introduced economic reforms concerned with opening gates for international trade and investment. Through the Government's New Industrial Policy, the country witnessed increased and expanded areas for Foreign Direct Investment useful in developing and upgrading industries. Simultaneously, the government also permitted portfolio investments by foreign Institutions and organizations.

From September 14, 1992 the FIIs were allowed to invest in all types of securities present in primary and secondary markets including shares, debentures issued by the companies listed in the Stock Exchanges of the country.

In an economy like India's, which has and provides a higher growth rate compared to that of developed economies, foreign investments are catching up the trend in the Indian capital market. Foreign Investments are capturing a huge market share. India has emerged as a strong performer in mergers and acquisitions which has cumulated from year-to-year up to US$ 61.26 billion. This is one of the reasons that India has emerged as one of the most loved and trusted capital markets in the world attracting many prominent investors to invest their money in the market.

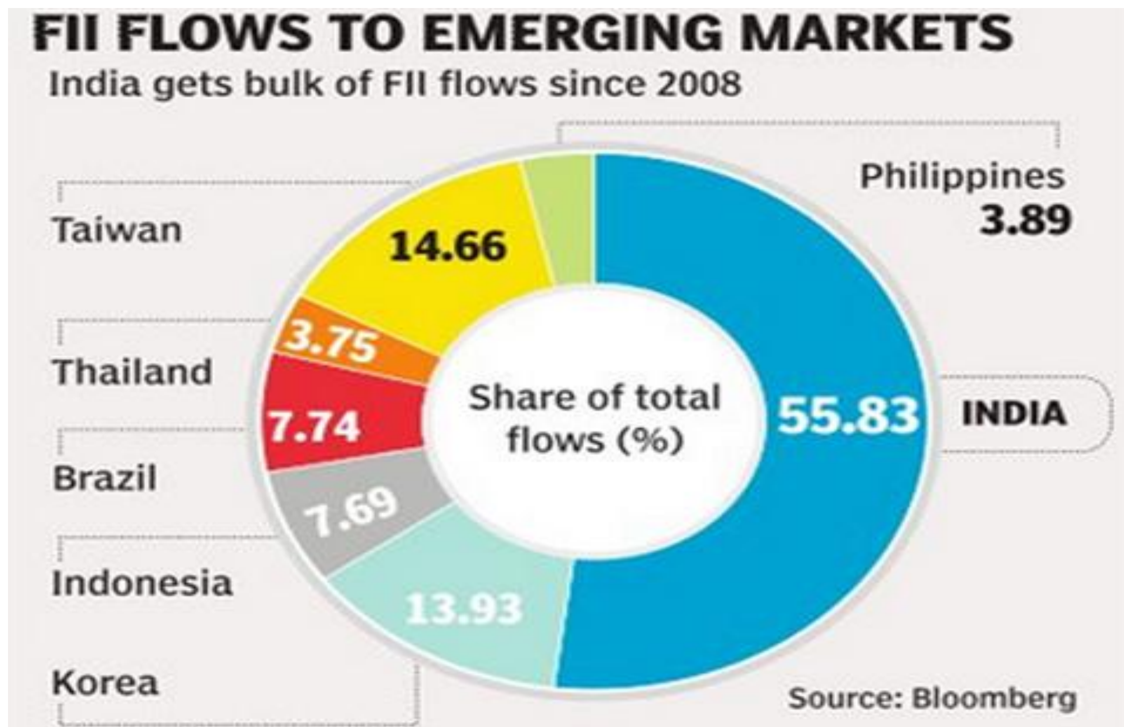
One of these Institutions, known as Foreign Institutional Investors (FIIs), capture and control a huge portion of the capital market. FIIs are institutions that borrow money from the investors in their country and invest it in markets all around the world. They invest this borrowed money in another countries primary and secondary capital markets. These Institutions include foreign mutual funds, portfolio investors, pension funds, asset management companies, university funds, charitable trusts and many more.

As the funds put in by these Institutions are huge, they have a very prominent influence over the markets they invest in. As India is a developing country and has a large number of emerging companies that might boost the economy, the FIIs find it best to put their money here.

Statistical Data

The figures tell us that FIIs net investments in the Indian equities and debt market stood at US$ 7.46 billion in 2016-17. The total value of Investments by FIIs during April 2000 – December 2016 stood at US$ 183.69 billion.

Since 2008, India has been one of the FIIs most trusted market. The inflow of Foreign Investment has a substantial increase since 2008.



Small Explanation On Portfolio Investment Scheme

By the rules and regulations of the Reserve Bank of India, all Foreign Institutional Investors are permitted to invest in the Indian Capital market only through the country's portfolio investment scheme. Now what is a portfolio investment scheme? Portfolio investment schemes (PIS) are different from direct investment. PIS involves taking up a considerable stake in a company's share and be a part in its day to day management. It is a passive instrument used to generate returns with direct correlation to the risk involved.

But there are certain ceilings put up to the maximum amount of investment made by FIIs. The FIIs can make a maximum investment of up to 24% of the total paid up capital of an Indian Company whereas the limit is reduced to 20% in case of public

sector enterprises. This limit can be increased by passing a special resolution made by the Board of the company.

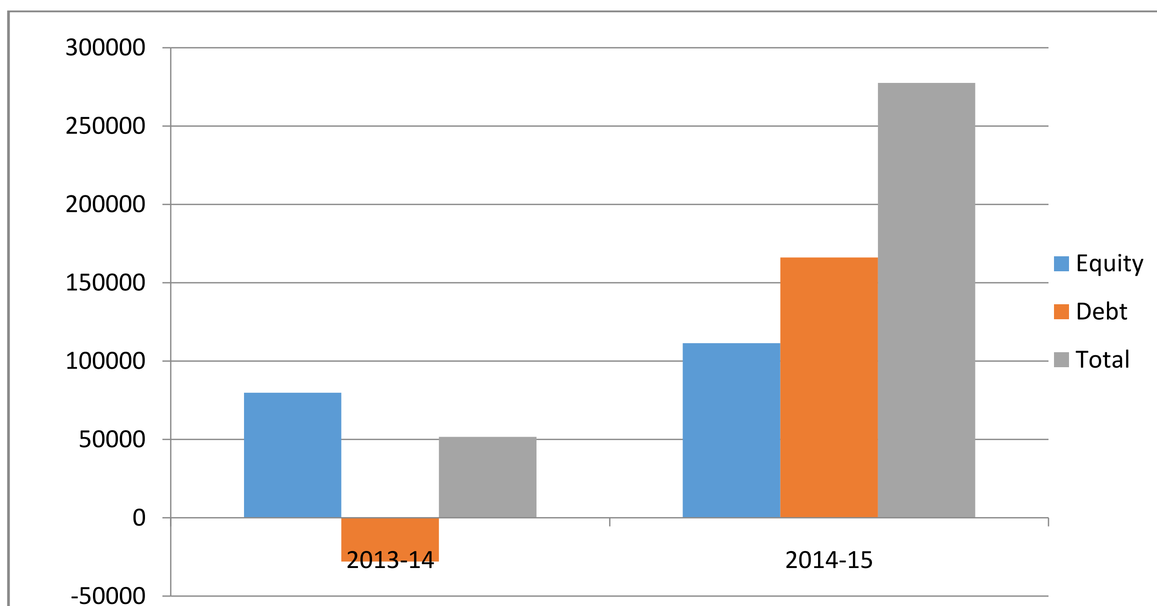
The RBI keeps a keen eye on the activities of the FIIs and checks the maximum investment made by them. It checks the compliance by cutting off their investments at 2% below the maximum limit. Before doing so they intimate the company about this and then allow the FIIs to make the 2% investment too.

The FIIs show a particular interest in our country's financial sector. Our financial sector has been experiancing a 8.5% of growth every year. The growth of our finacial sector suggest that our economy too is growing and making oppurtunities for itself. This is seen because there has been a substantial rise in the tracsactions that go through the deposit systems. This also indictaes the rise in the population's exchange of money. One other factor that helped in boosting the Indian Financial sector is the introduction and linking of infotech systems in the National Stock Exchange (NSE) connecting all the traders and investors to initiate trade transactions.

The other sectors of our economy also attract these FIIs as our economy is one of those which has a oppurtunity for industrial development and has a lot to offer. The FIIs find it best to invest their money in India as they believe in it's growth. The Indian economy has witnessed many ups and downs but has never let her ship sink. This motivates the Investors to put there money here.

We saw a substantial increase in the inflow of the FII's investment in India during the year 2014-15. This was because a new government had taken charge over the country and had claimed and promised to make policies so suitable for foreign investment. This has encouraged the FIIs to put their money in the Indian capital Market and there was a boost in their investment.

In this year, the Indian economy witnessed a boost of 7.4% and GDP of 5.9%. This also encouraged FIIs to dispense their money in India. Thus, there was anoticeable incrase in foreign investment.



There are two sides of everything. Allowing Foreign Investment in the country too has its pros and cons. They are listed below.

ADVANTAGES

- Helps in enhancing and improving capital structure and contribute towards building investment.

- Due to Foreign Investment, the capital market experiences a boost which in turn means the boost in the country's economy.

- Improved Corporate Governance.

- Due to availability of higher capital by the investment of FIIs in the capital market, companies have a long term capital which can be utilized to increasing and developing the company. This boosts the economic development.

- FIIs include asset management companies and financial advisor organizations which observe and advise companies and provide better understanding of business operations and improve governance.

DISADVANTAGES

- Due to increase in the inflow of FII's money, the demand for Indian Rupee is pumped up and thus rupee is devalued.

- If the FIIs are able to capture maximum stake in the capital market then it is the FIIs that determine the way the capital market moves creating a problem for small investors.

- Adverse impact on exports is seen due to the appreciation of money which may make the exporting industries less competitive.

These days FIIs are great contributors in the stock markets. The pros of FIIs is far weighted and outnumbers its cons.

Conclusion

Thus, Foreign Institutional Investors are a very prominent element that makes the Indian capital market what it is. Foreign Investment is a necessary element for the development and betterment of the finances of a country as it paves to path to a wide and huge capital exposure. And Foreign Institutional Investors are one of the most prominent investors in our capital market who particularly have developed a love for investing in India. They believe in a good future of the Indian Economy.

War Economy

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WAR ECONOMY

INTRODUCTION:

War economy is a specific part of the national economy that is responsible for financing of the preparation and conduct of war and the part of the national economy that strengthens defensive capability. It refers to the study the economic aspects of national defense and warfare.

The war economy as a part of the national economy includes the production of various types of military products, as well as the distribution, exchange, and consumption of the products. The history of war shows that military spending increases in absolute and relative terms with the development.

It is regarding the organization of a country's production capacity and distribution during a time of conflict. A war economy must make substantial adjustment to its consumer production in order to accommodate defense production. Government must choose how to allocate their resources in a

war economy very carefully in order to achieve military victory while meeting vital domestic consumer needs.

The war economy is little similar as that of civilian economy, as the large number of enterprises manufacture products such as footwear, fabrics, cloths, eatables, etc. which can be used for both military as well as civilian purpose.

THE EMERGENCE OF ECONOMIC APPROACH:

War economy, as an object of research, is viewed as a complicated situations which creates lots of loss and challenges to society. However, in the post-cold war era conflict research has been dominated by discussion of dynamics in contemporary wars, this discourse led to economic approach towards war.

FINANCING THE WARS:

It refers to the fiscal and monetary methods that are used in meeting the costs of war. It includes taxation, loans, voluntary domestic loans, foreign loans, and creation of money. Various wars are usually financed by inflationary measures. Inflation distributes the burden of war costs in an arbitrary manner. However, it increases the burden on civilians.

For financing the war, various financing methods are utilized by policy makers. Wars inevitably involve governments increasing expenditure, and this can be done in various ways such as:

- Increasing taxation
- Reducing non-military spending to pay for military purpose
- Money creation, etc.

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CONSEQUENCES OF WAR ON ECONOMY:

One of the more enduring myths in society is that war is good for economics. However, the depression afterworld War2, this faulty belief stems from misunderstanding of economic way of thinking.

Why war doesn't benefit economy?

1. Increase in government spending: During the war time, there is necessity of war materials and some necessary commodity goods, hence it results into increase in government expenditure.

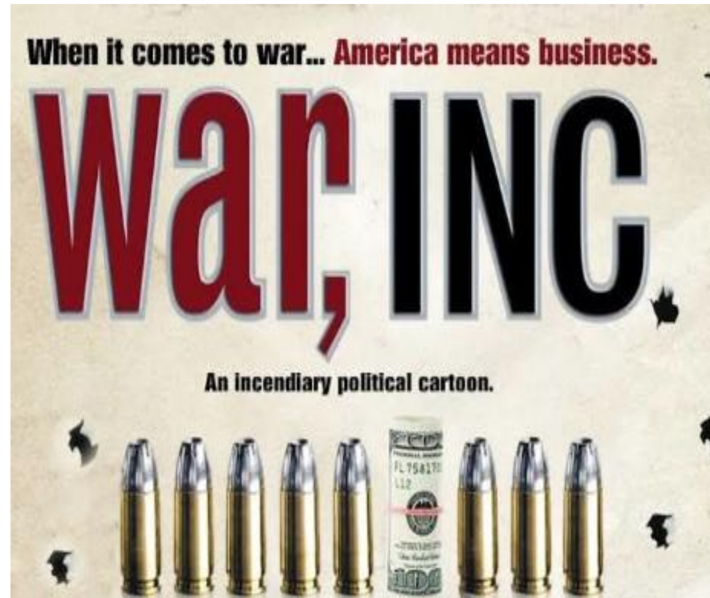
2. Increase in public debt: As the money for financing the war is acquired through types of loans, this results into increase in public debt.
3. Rise in tax rates: Charging higher tax rates is one of the method for war financing which leads into boost into tax rates and increase in burden for common people.

4. Inflation: Though little inflation is healthy for economy of the nation, but during the time of war, it proves to be destroying economy.
5. Decrease in GDP rate: During war time, the GDP rates falls due to various reasons. Especially, in comparison to Public Debt.
6. Social effects: From society's point of view, it causes a great damage to society. At a while it generates employment, but there is a great threat to national youth.

EXAMPLES OF ECONOMIC IMPACT OF WAR:

1. World War 2: It was financed by debt and higher taxes. At the end of the war, tax revenue of USA increased by 20% of GDP, however its debts grown by over 120% of total GDP.
2. The Korean War: Financed by taxes, however in this case, investment and consumption stalled and the government needed to implement price control in response to inflation which had increased due to the additional stimulus that was created by the government spending.
3. The cold war: This period saw sustained increase s in military spending alongside tax cuts which then resulted in a budget deficit.

AMERICA'S WAR ECONOMY



Economists says, "The whole America's economy is built on the military theme. To maintain its economic growth, the United States needs a war every 4 years, otherwise, the economic growth slows down.

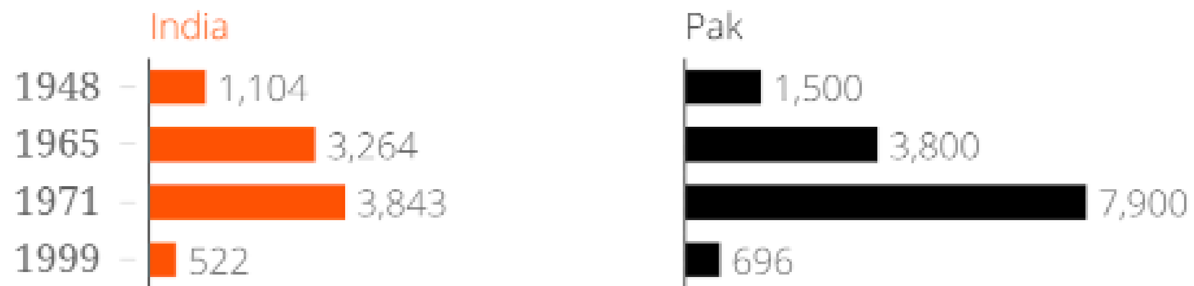
Since the year 1776, there were 91 % chance that America was involved in some war during those years. There was no us presidents who can truly qualifies as a peacetime president. Instead, all U.S. presidents can technically be considered war presidents. America has never gone a decade without war.

The only time the America went 5 years without war was during the isolationist period of the Great Depression.
The America had fought,7 wars in 18th century, 61 wars in 19th century, 31 wars in 20th century, there are 6 wars are already had been fought, and are still going on.

KARGIL WAR EFFECT ON INDIAN ECONOMY.

The kargil war held at Jammu Kashmir state of India in the year 1998-1999 brought out lots of economic as well as social consequences. Government has to bear lot of cost during the war. The intermediate and direct costs to government will be what it will have to incur on consumption of inventories of missiles and ammunition, on additional input such as fuel, the cost of destruction of armaments and the spending on development. Inventories are replenished after a conflict and the additional expenditure after the kargil war of 1999 gives and idea of how much even a contained and short war could at the bare minimum.

Defense expenditure in 1998-99 was Rest. 39,897 crores.During the year of the Kargil conflict it jumped by 18 % to Rs. 47,071 crores. Some of the replenishment costs would have been incurred in the next financial year as well, defense outlay increased further by 16 % to Rs. 54,461 crores in 2000-01.That was total of Rs. 14,564 crores or a 36 % growth over two years. Not all of this additional spending can be attributed to Kargil since an increase in defense expenditure had been planned even before the mountain war of 1999.Still, if the contained Kargil conflict cost Rs. 10,000 crores one should expect a broader India-Pakistan war cost many times. Such spending on a war will mean less Government investment in the infrastructure and social sectors. This besides having a negative effect on its own account, will also have a ripple effect in the form of lower private investment.A war also result in the destruction of civilian infrastructure, disruption of local economics and a dislocation of production and transport elsewhere in the economy. The overall outcome is slowing down of economic growth.



CONCLUSION:

Military spending during the war can be important source of demand, it can lead to the development of technologies, generate new industries. If military spending is funded by taxation, it can result in more efficient income distribution.

However, analysis of GDP during World War 2 and in subsequent conflict show heightened military spending had several adverse effects.
These occurred as a direct consequences of the funding requirement of increased military expenditure. The taxpayers are been burdened and private sector consumption and investment have been constrained as a result. Large budget deficits, higher taxes, and growth above trend leading to inflation are other negative effects.

HOSTILE TAKEOVER

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HOSTILE TAKEOVER

INTRODUCTION

BASICALLY WHAT IS TAKEOVER?

TAKEOVER IS WHEN ONE COMPANY PURCHASES OR TAKES OVER ANOTHER COMPANY.

TAKEOVER IS OF TWO TYPES

1. FRIENDLY TAKEOVER

When the target company (the company to be purchased) agrees to sell off its whole shares to the purchasing company (the bidder or company which is going to purchase), then it is a friendly takeover. The offer is informed to company's board of directors.

2. HOSTILE TAKEOVER

When the target company is unwilling to agree to a merger or takeover but still the bidder

continuously makes attempts to purchase the target company then it is called as hostile takeover. Here the target company's board rejects the offer.

Hostile takeovers are governed by SEBI and it has rules and regulations for substantial acquisition on shares (most popularly known as takeover code)

NEED FOR TAKEOVER CODE

Takeover code is basically the regulations for hostile takeover under SEBI. Now why is there need for takeover codes?

1. **FIRST WAVE**
   The first wave of takeover witnessed in India during 80s and in the beginning of 90s.it was not similar to the current scenario. In those times there were no such rules and regulations because of which in cases where the acquirer company was stronger and the target company

was not as strong as the bidder, the bidder easily took over the target companies which generally included small investors. Eg.TATAs acquisition of special steel and HLLs acquisition of Stephan chemicals.

2. **SECOND WAVE**

Second wave started after 1994 in Indian context. previously there were friendly mergers but during this time there were more and more hostile takeovers taking place and it was very much easy for large profit making companies to do the mergers but the target companies were at risk and had no idea of when their business would go in the hands of other company moreover there was availability of foreign funds during that period.

3. **THIRD WAVE**

The third wave was very much different from the earlier two waves because it had the role of banks and FIS. Now there was the need to protect the interests of small investors as well as target company because this could have led to monopoly and there was the need to control it.
Therefore because of takeover code there was transparency, fairness and equal opportunity to all.

Types of Hostile Takeover

- **Tender offer**: acquiring company makes a public offer at a fixed price above the current market price
- **Creeping Tender offer**: purchasing enough stock on the open market, known as a creeping tender offer, to effect a change in management
- **Proxy Fight**: tries to persuade enough shareholders, usually a simple majority, to replace the management with a new one which will approve the takeover

TAKEOVER DEFENCE STRATEGIES

The target company needs to employ several safeguards to counter this threat. Takeover defensive strategies may be adopted both at pre bid stage or a post bid stage. Some of the takeover defensive strategies are:

1. POISON PILLS

It is also referred to as shareholders rights plan.

Poison pills are triggered when the acquirer acquires a certain percentage of the targets voting stock, upon

which the target company issues shares at discount which seems to be unattractive for the bidder because it seems to be expensive.

2. SALE OF ASSETS

The target company may sell off the entire company or some of its "crown jewel" assets which may be of particular interest to the acquirer, thus making the target less attractive to the acquirer.

3. DUAL-CLASS STOCK

In this strategy the existing shareholders are issued shares as a part of exchange offer or as dividend. This is also known as super-voting or dispute – class stock.

4. SHARK REPELLENTS

In this strategy the corporate laws or charter are amended whereby only specified number of directors are re-elected to the board while others have a fixed

tenure, thereby forcing a hostile bidder to wait for the

entire circle until he gets full control of the board.

Animal Defence Mechanism and Takeover Defence Strategies:

I would relate hostile takeover with few animal defensive techniques. These examples will help you understand in a better way about the defensive strategies of target companies to protect them from hostile takeover.

1. Hairy frog and sale of assets:

Hairy frogs protect themselves from the predators by breaking their own bones and using them as weapons against the enemy, in the same way the target companies sell off their assets in order to show their balance sheet weak. Assets are the bones of company which they break by selling off their assets and use the same as a weapon against hostile takeover.

2. Turkey vulture a poison pills:

Turkey vultures to protect themselves from the enemies vomit their food and that produces a foul smell which makes the vulture UNATTRACTIVE to eat, in the same way the target company triggers poison pills by issuing shares at discount which makes it UNATTRACTIVE for the acquiring company to purchase it.

3. CHAMELEON'S CAMOUFLAGE AND SHARK REPELLENTS:

Chameleon's camouflage and change their colour to adapt themselves to the surroundings in a way that their enemies cannot catch them. In the same way, shark repellents also adapt to their defensive policy by amending laws such that the bidder company cannot take over them.

CONCLUSION:

In this article we have explained mainly everything regarding hostile takeover, the types and strategies to overcome etc. The basic intention of Indian law makers has been to prevent the interest of shareholders and investors during such act.