



# A Study on Domestic Institutional Investors Growth and Their Impact On Indian Market From 2014-15 To 2023-24

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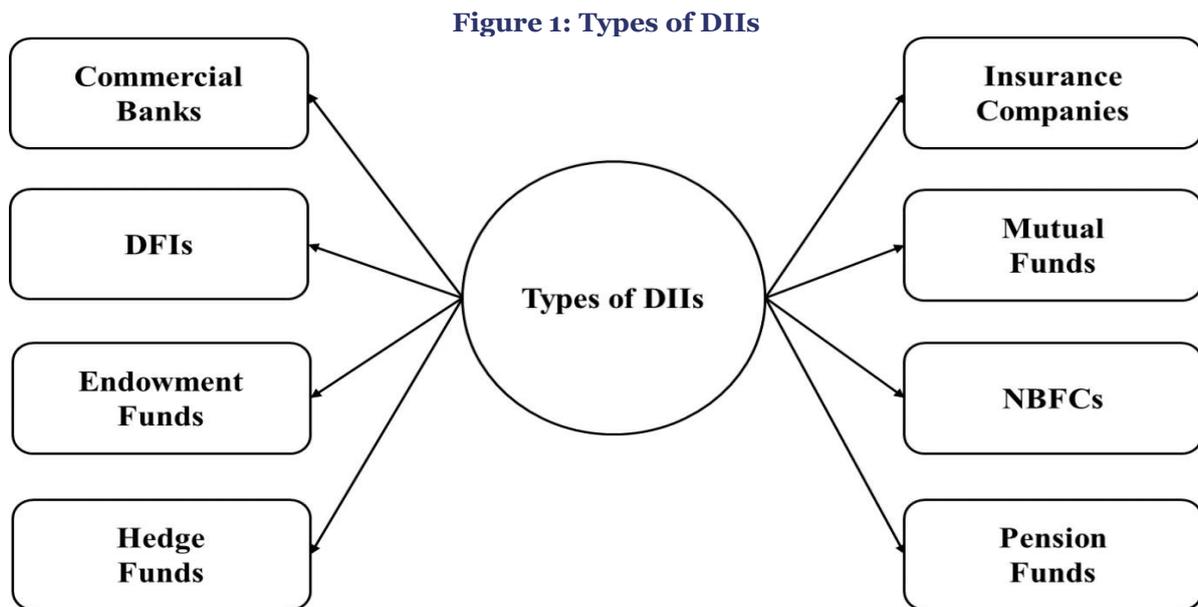
## ABSTRACT

The study investigates the growth trajectory of domestic institutional investors (DIIs) in the Indian financial landscape and assesses their profound impact on the country's economy. With the liberalization of the Indian economy and the subsequent surge in capital markets, DIIs have emerged as significant players, wielding substantial influence over market dynamics. This paper delineates how the growing participation of DIIs in capital markets enhances liquidity, fosters market efficiency, and promotes price discovery. Additionally, the study explores the role of DIIs in channelizing savings into productive investments, thereby fuelling economic growth and development. Moreover, the study investigates the spill over effects of DII activities on various sectors of the economy, including infrastructure, manufacturing, and services. By facilitating capital formation and fostering entrepreneurship, DIIs contribute to job creation, income generation, and poverty alleviation. This study underscores the pivotal role played by domestic institutional investors in shaping the trajectory of the Indian economy. It provides valuable insights for policymakers, regulators, investors, and other stakeholders to harness the potential of DIIs effectively while mitigating associated risks, thereby fostering sustainable economic growth and financial stability.

**Keywords:** Domestic Institutional Investors (DIIs), Indian economy, Capital markets, Economic growth

## Introduction

In recent decades, the Indian economy has witnessed a significant transformation, propelled by liberalisation, globalization, and technological advancements. 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. 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. The investment strategies adopted by DIIs, including their asset allocation patterns and sectoral preferences, the research endeavours to provide insights into their modus operandi and market behaviour. 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. By shedding light on the interplay between DIIs and the broader economy, aims to inform policymakers, regulators, investors, and other stakeholders in their quest for sustainable economic development and financial stability.



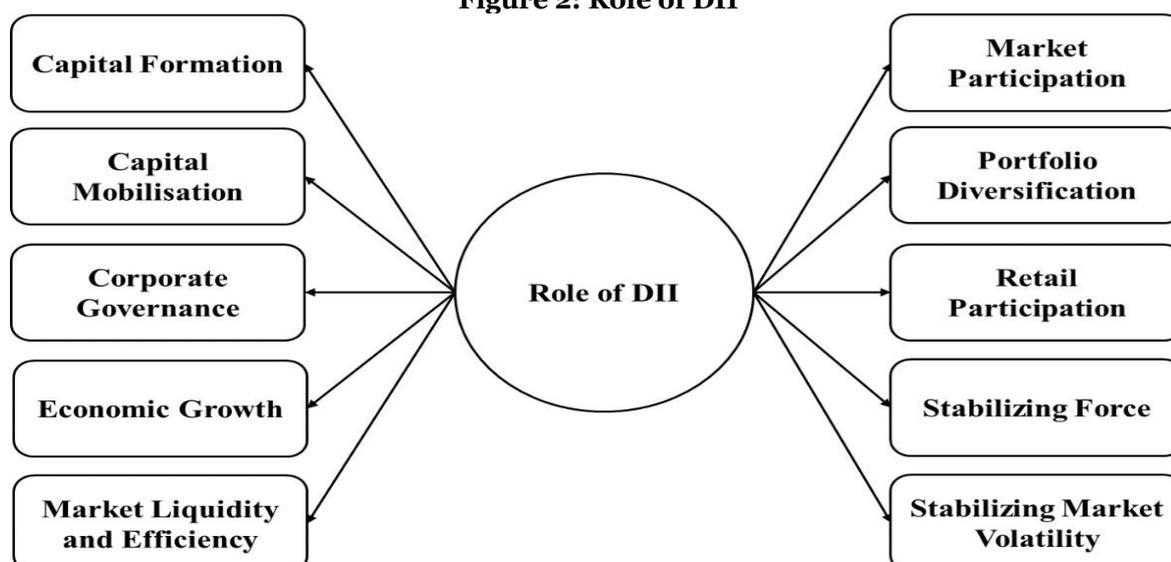
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### Review of Literature

Singh, R., & Verma, S. (2019). "Evolution and Growth of Domestic Institutional Investors in India", provide a comprehensive overview of the evolution and growth trajectory of Domestic Institutional Investors (DIIs) in India. They analyse historical data and regulatory reforms to trace the emergence of DIIs as significant players in the Indian financial landscape. The study emphasizes the role of regulatory changes, market liberalization, and technological advancements in fostering DII growth. Sharma, A., & Gupta, R. (2020). "Investment Strategies of Domestic Institutional Investors: A Comparative Analysis", conduct a comparative analysis of the investment strategies adopted by different categories of DIIs in India. Using empirical data and statistical techniques, they examine variations in asset allocation patterns, sectoral preferences, and risk management practices among mutual funds, insurance companies, and pension funds. The study sheds light on the factors influencing DII investment decisions and their implications for market dynamics. Chatterjee, S., & Das, P. (2021). "Impact of Domestic Institutional Investors on Indian Capital Markets", investigate the impact of DIIs on Indian capital markets, focusing on their role in enhancing liquidity, price discovery mechanisms, and market efficiency. Drawing on empirical evidence and econometric analysis, the study quantifies the contribution of DIIs to market stability and evaluates the spill over effects of DII activities on stock returns and volatility. Roy, D., & Patel, N. (2022). "Economic Consequences of DII Growth in India: Evidence from Macroeconomic Indicators." Roy and Patel explore the macroeconomic consequences of DII growth on the Indian economy, utilizing a combination of econometric models and time-series data analysis. They examine the relationship between DII investments, GDP growth, capital formation, and employment generation, providing insights into the channels through which DII activities influence economic outcomes. Mukherjee, A., & Banerjee, S. (2023). "Regulatory Challenges and Policy Implications of DII Expansion in India." Mukherjee and Banerjee assess the regulatory challenges associated with the expansion of DIIs in India and propose policy implications to address them. The study identifies issues related to corporate governance, market integrity, and systemic risk management, offering recommendations for enhancing regulatory oversight and strengthening risk mitigation frameworks in the DII sector. Amiya Kumar and Vaswani, L. and Chakraborty(2013), Amrita discusses the monitoring role of institutional investors and cost and benefits of monitoring.

### 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. Moreover, DIIs contribute to democratizing market access, making investment opportunities accessible to a broader spectrum of retail investors through avenues like systematic investment plans (SIPs). Overall, DIIs are instrumental in shaping the Indian market ecosystem, fostering resilience, integrity, and inclusivity for sustainable economic growth.

**Figure 2: Role of DII**

Source: Created by the author

- 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, manufacturing, 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 instil 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.

### 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 channelled 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.

The author collected ten years comprehensive data on DII Trading Activity gross purchases and gross sales in cash. The following table shows the year wise performance of DIIs.

**Table 1 DII Trading Activity in Cash (₹ Crores) for last Ten Years from 2014-15 to 2023-24**

Year	Gross Purchase	△ Percent	Weight	GrossSales	△ Percent	Weight	Net Purchase/Sales
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	-1,32,389.13
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

Source: Prepared by author

The above table depicted that there is a huge change in percentage observed in gross purchases for the years 2017-19, 2021-22 & 2023-24 and in gross sales for the years 2016-17, 2017-18, 2020-21 & 2023-24. The weight of the purchases and sales follows incremental case. 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 investment objectives and mandates purchases and sales may vary based on market conditions.

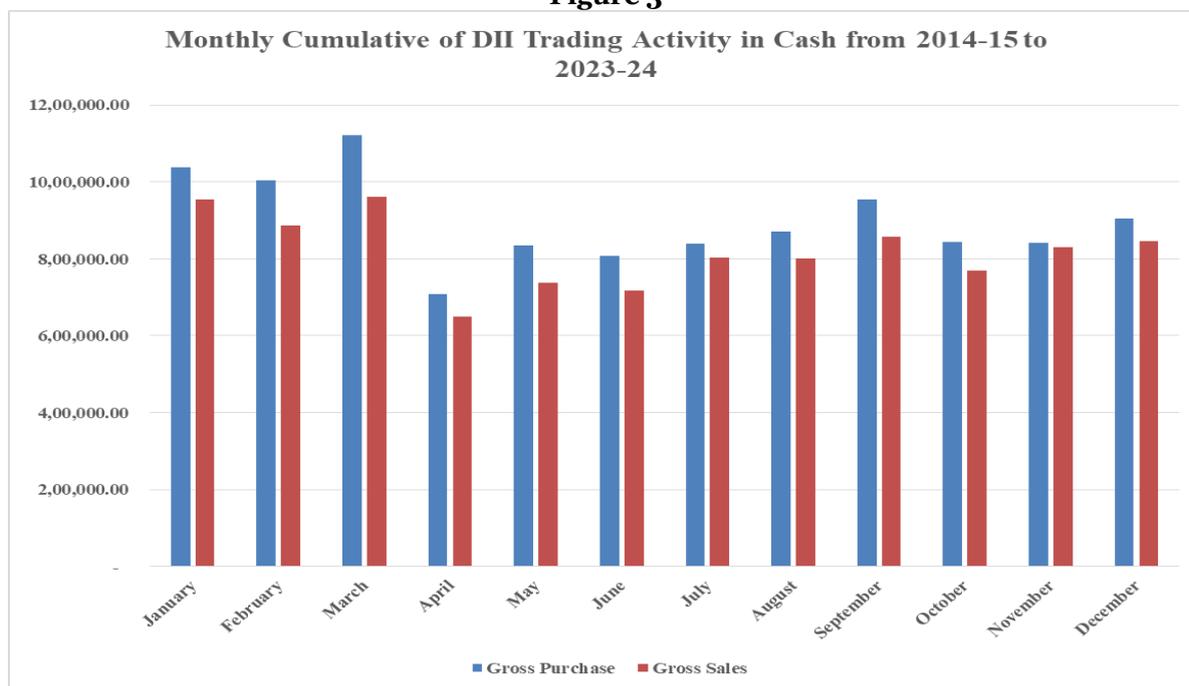
**Table 2 Monthly Cumulative of DII Trading Activity in Cash (₹ Crores) for last Ten Years from 2014-15 to 2023-24**

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

Source: Prepared by author

The above table depicts that monthly cumulative of DIIs Trading Activity. 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.

**Figure 3**



Source: Created by the author

**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	Confidence Level (95.0%)
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

Source: Prepared by author

**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

Source: Prepared by author

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

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

Note: r means Correlation Source: Prepared by author

The above table 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.

### 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 channelling 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 behaviour 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 behaviour. Their continued growth and responsible stewardship will be essential for fostering a resilient and vibrant financial ecosystem in India.

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