THE IMPACT OF DIIS ON INDIAN BANKING SECTOR: GROWTH PATTERNS AND FUTURE OUTLOOK

P. Swapna, Research Scholar, School of Management Studies, Gandhi Institute of Engineering and Technology University, Gunupur, Odisha, India
Dr. John Imran Sandeep, Assistant Professor & Research Supervisor SMS, Gandhi Institute of Engineering and Technology University, Gunupur, Odisha, India
Dr. M. Kameswara Rao, Research Co-Supervisor and Project Manager, Birla Soft. Ltd. Bengaluru, India.

ABSTRACT
The Indian banking sector has undergone significant transformations in recent years, driven by both domestic and global economic forces. Among the key contributors to this evolution are Domestic Institutional Investors (DIIs), which have played a pivotal role in shaping the sector's growth trajectory. This paper examines the impact of DIIs on the Indian banking industry, focusing on the patterns of growth they have influenced and their potential role in the sector's future development. DIIs have emerged as important players in fostering liquidity, stabilizing market fluctuations, and enhancing overall financial resilience within the sector. The study delves into the quantitative and qualitative contributions of DIIs, assessing their investment trends, strategies, and the regulatory frameworks that govern their operations. It also explores the symbiotic relationship between DIIs and banking performance, highlighting key growth patterns observed over the last decade. Finally, the paper provides a forward-looking perspective on how DIIs are likely to influence the sector's future, considering current economic trends, regulatory changes, and global financial shifts. The findings suggest that while DIIs have been instrumental in driving growth, their future impact will depend on evolving market conditions, policy reforms, and the dynamic nature of the global financial ecosystem. The role of Domestic Institutional Investors (DIIs) in shaping the dynamics of the Indian banking sector has gained significant prominence in recent years. This paper explores the influence of DIIs on the growth trajectory of the banking industry, focusing on investment trends, capital inflows, and market performance. The study highlights the critical role DIIs play in fostering financial stability and providing liquidity, especially during market volatility. Through an analysis of historical data, the research identifies key growth patterns driven by DII investments, and how these patterns have influenced the capitalization and operational efficiency of banks. Furthermore, the paper examines the regulatory framework surrounding DIIs, its implications for banking governance, and the broader economic landscape. The future outlook suggests an increasingly vital role for DIIs, as their participation is expected to accelerate the sector's modernization, drive digital transformation, and enhance risk management practices. The findings offer valuable insights for policymakers and investors looking to capitalize on the evolving dynamics of the Indian banking sector.
Key words: Domestic Institutional Investors (DIIs), Indian banking sector, Investment trends, Capital inflows, financial stability

INTRODUCTION:
The Indian banking sector has undergone significant transformations in recent decades, driven by economic reforms, technological advancements, and evolving regulatory frameworks. A key player in this transformation has been the increasing influence of Domestic Institutional Investors (DIIs). DIIs, which include entities like mutual funds, insurance companies, pension funds, and

other large financial institutions, have become pivotal in shaping the investment landscape of the banking industry. Their participation has not only bolstered market liquidity but has also contributed to stabilizing the sector during periods of volatility, such as the global financial crisis and the more recent pandemic-induced disruptions. This study seeks to explore the critical role that DIIs play in the growth and development of the Indian banking sector. By examining historical data and current trends, the research aims to identify key growth patterns that have emerged due to the presence and activities of DIIs. Furthermore, it evaluates the regulatory environment that governs DIIs and its impact on banking governance, transparency, and investor confidence. As the Indian banking industry continues to evolve with increasing digitalization and modernization, DIIs are expected to play an even more significant role in shaping its future trajectory. This paper offers insights into how DIIs influence capital formation, risk management, and strategic decision-making within the sector, providing a comprehensive outlook for the future. The Indian banking sector has undergone substantial transformation over the past few decades, driven by evolving economic policies, technological advancements, and changes in investor behavior. Among the key contributors to this transformation are Domestic Institutional Investors (DIIs), which include mutual funds, insurance companies, pension funds, and other large financial entities that invest within the domestic market. DIIs have emerged as powerful stakeholders in shaping the financial and operational landscape of Indian banks, particularly in the wake of reforms aimed at increasing liquidity, transparency, and investor confidence. The significance of DIIs in the Indian banking sector is evident from their growing investments and their role in stabilizing markets during periods of volatility. Unlike Foreign Institutional Investors (FIIs), DIIs have a long-term investment horizon, which contributes to the sustainability and growth of banking institutions. This study aims to explore the impact of DII investments on the growth patterns of the Indian banking sector, examining key factors such as capital inflows, market capitalization, and overall financial health of banks. Additionally, the regulatory environment has been pivotal in shaping DII participation, with recent reforms encouraging increased domestic investments. As the banking industry faces new challenges, including digital disruption, regulatory changes, and evolving consumer preferences, the role of DIIs is becoming increasingly critical. This paper will assess the current trends and growth patterns fueled by DIIs and provide insights into the future outlook for the Indian banking sector, particularly in terms of its modernization and resilience in the face of global and domestic challenges. DII stands for Domestic Institutional Investor. A DII is an institutional investor that operates within the country where it is headquartered and invests in financial assets such as stocks, bonds, and other securities in the domestic market. In India, DIIs include entities such as mutual funds, insurance companies, pension funds, banks, and other financial institutions. DIIs are an important source of investment in the Indian financial market and play a significant role in providing liquidity and stability to the market. DIIs typically invest in a variety of financial assets such as equity, debt, and money market instruments, and their investment activities can have a significant impact on the performance of the financial markets. Overall, DIIs and their investment activities are an important aspect of the Indian financial market and play a crucial role in ensuring its stability and growth.

REVIEW OF LITERATURE :

The role of Domestic Institutional Investors (DIIs) in financial markets, particularly in the banking sector, has been extensively studied over the years. Researchers have highlighted the significance of DIIs in influencing stock market trends, providing liquidity, and acting as stabilizers during periods of economic volatility. In the context of emerging economies like India, the importance of DIIs has grown, especially with the increasing emphasis on domestic capital markets and the need for long-term, sustainable investments. Several studies have examined the impact of DII investments on market performance. According to Kumar (2019), DIIs have become critical players in the Indian stock market, with their investments influencing stock prices, especially in sectors like banking and finance. Their long-term investment strategies, coupled with their ability to provide liquidity, help reduce market volatility. Similarly, Bansal and Pasricha (2021) found that DIIs, unlike their foreign counterparts, have a stabilizing effect on stock markets, particularly during periods of economic uncertainty. This stabilizing role is especially pronounced in the banking sector, which often bears the brunt of market fluctuations. The banking sector in India has been one of the primary beneficiaries of DII investments. Sharma and Gupta (2020) note that DIIs have significantly contributed to the capitalization of Indian banks, especially during the post-2008 financial crisis period. Their investments have not only enhanced the liquidity of banks but have also strengthened their balance sheets, allowing for better credit disbursement and overall growth. Studies by Sinha (2022) also emphasize that DIIs are crucial in providing long-term funding to banks, thereby supporting the sector's ability to manage risks and expand its operations. The regulatory environment plays a key role in facilitating DII participation in the banking sector. As highlighted by Joshi (2021), reforms introduced by the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) have made it easier for DIIs to invest in the banking sector, leading to greater market penetration and influence. These regulatory changes, combined with government initiatives to promote domestic investments, have led to an increase in DII participation in banks, further contributing to the sector's growth. Das and Mukherjee (2023) argue that the reforms have created a more investor-friendly environment, encouraging DIIs to invest more aggressively in the banking sector, which has led to improved governance and operational efficiency. Looking ahead, research suggests that the role of DIIs in the Indian banking sector is expected to grow. According to a study by Mehta and Verma (2023), the increasing focus on digital transformation within the banking sector presents significant opportunities for DIIs. As banks look to modernize their operations and embrace new technologies, DIIs are likely to play a pivotal role in funding these initiatives. Moreover, the study emphasizes that the growing trend of sustainable and responsible investments by DIIs will shape the future trajectory of Indian banks, with a focus on enhancing risk management and governance practices

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OBJECTIVES OF THE STUDY:

1. Analyze the trends and patterns of DII activities in the Indian stock market during the study period. 2.Investigate the relationship between DII activities and the Nifty 100 index, using statistical methods to assess the direction and strength of the relationship.
3. Understand retail investor perspective on the DII activities.
4. Give a better understanding of the DII activities for benefit of making policies and investment strategies.

RESEARCH METHODOLOGY :

Research Methodology is the path through which one conducts their research. The paper intends to contain primary and secondary data which has been analyzed to interpret it along with graphs.

The research is descriptive research. Descriptive research is a type of research design that aims to describe a particular phenomenon or situation. It is used to gather information about the characteristics, behaviour, attitudes, opinions, and experiences of individuals, groups, or communities. Descriptive research is typically used in situations where the research question

focuses on the 'what' and 'how' aspects of a phenomenon rather than the 'why'. In other words, it is concerned with providing a comprehensive picture of a particular phenomenon rather than testing a specific hypothesis or theory.
Research Design: The study has adopted a quantitative research design to collect data through surveys and questionnaires from a representative sample of retail investors in India. The study can also include qualitative research methods, such as prices for Nifty100 index and FII and DII fund flow, to provide a more in-depth understanding of the impact of the activities of these institutions on the selected index of Nifty100.
Data Collection: For the purpose of this study has collected both primary and secondary data. Primary Data: Google form was rolled out to family, friends, peers, and acquaintances to get an idea of the retail investors towards the study. It aimed at collecting data as to their opinion on FII and DII activities and to get their perspective of the factor involved while investing as to see how crucial FII and DII activity is to them. *Sample Size is 75 respondents.*
Secondary Data: The secondary data on FII and DII activities and the Nifty 100 index for the period from January 2018 to December 2023. The data has been obtained from reliable sources such as the National Stock Exchange (NSE) and the Securities and Exchange Board of India (SEBI). Few interviews and articles of industry experts like that of fund managers have also been consulted for analysis purposes.
Data Analysis: The study involves conduct of qualitative analysis of primary data and other relevant data during the study period to understand the impact of external factors on FII and DII activities and the Nifty 100 index. Secondary data analysis is done using statistical methods.
Testing Method: The study will use statistical methods such as descriptive statistics, regression analysis and hypothesis testing to examine the relationship between FII and DII activities and the Nifty 100 index. Overall, this methodology seeks to use a mix of quantitative and qualitative analysis to address the research questions and achieve the study objectives. The conceptual framework for this study is based on the premise that FII and DII activities have an impact on the Nifty 100 index. The flow of funds from FIIs and DIIs is expected to impact the prices of stocks listed on the Nifty 100 index. Higher net inflows of funds from FIIs and DIIs are likely to drive up prices, while higher net outflows could result in a decline in prices.
To understand the basic structure of the study and about the analysis and testing of it, the following should be understood:

INDEPENDENT VARIABLES:
Foreign Institutional Investor (FII) Activity: This variable represents the net investments which are done by foreign institutional investors in the Indian stock market. It includes both equity and debt investments.
Domestic Institutional Investor (DII) Activity: This variable represents the net investments made by domestic institutional investors in the Indian stock market. It includes investments made by mutual funds, insurance companies, and other institutional investors.
Dependent Variable:
Nifty 100 Index: This variable reflects the index of the top 100 companies listed on the National Stock Exchange. It serves as a proxy for the overall performance of the Indian stock market.
Moderating Variables:
Market Volatility: This variable represents the degree of uncertainty or risk associated with the stock market. It can be measured using indicators such as the VIX index.
Macroeconomic Factors: This variable represents the overall economic conditions in the country,

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such as GDP growth, inflation, and interest rates.

Relationship between Variables:

The conceptual framework hypothesizes that FII and DII activities have a significant impact on the Nifty 100 index, and that this relationship is moderated by market volatility and macroeconomic factors. Specifically, it suggests that:Higher FII and DII investments lead to an increase in the Nifty 100 index, while lower investments lead to a decrease.Market volatility and macroeconomic factors moderate the impact of FII and DII investments on the Nifty 100 index, with high volatility or negative macroeconomic conditions weakening the relationship.Also, to cover perspective of retail investors regarding FII and DII activity, primary data suggests that the two variables- retail investors and FIIs/DIIs are linked. The inflow from FIIs/DIIs results in an inflow from retailers as well and boosts their confidence in the markets.

From this framework we can infer that the study will use statistical methods to examine the relationships between these variables and provide insights into the impact of FII and DII activities on the Nifty 100 index.

DATA ANALYSIS AND INTERPRETATION :

The section of the study includes thorough analysis on the agenda of the study through the circulation of a structured questionnaire where responses were collected which was then analyzed using graphs and charts. The secondary data collected has been analyzed using different statistical method and observation and interpretation were therefore noted with utmost care and authenticity.

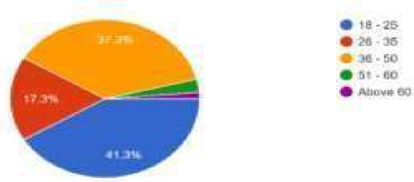
Primary data analysis:

Primary data was collected by rolling out a survey form. The purpose was to get an understanding of how FII and DII activity is looked at by the retail investors and to what extend does their investments get affected by FII and DII activities.

In total 75 responses were gathered. The responses are from family, friends, peers, and acquaintances.

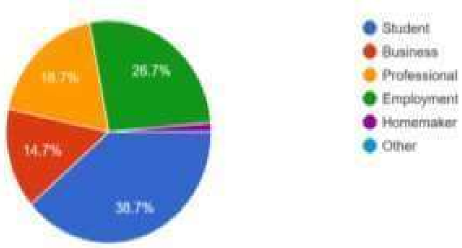
DEMOGRAPHIC

AGE



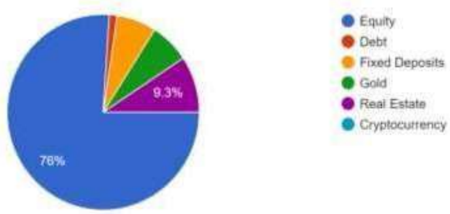
Interpretation: From the above pie chart, we get that a majority (41.3%) of the respondents are from the age group of 18 years to 25 years. The total respondents are of a mixed age group which extends to over 60 years also. This will help us in getting a broader idea of the study and FII/ DII activity impact on investments by different age groups.

OCCUPATION



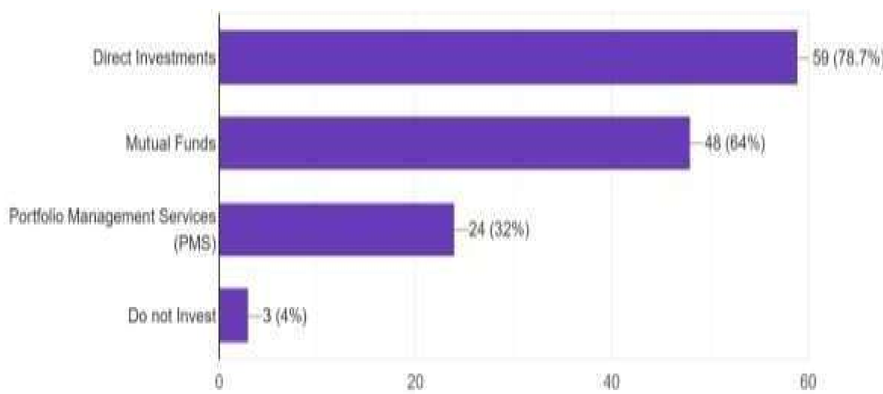
Interpretation: Students constitute a major part of the respondents which show that the youth participation is increasing. From this we can also infer that the financial literacy in the country is on a rise. Since, various occupation has been respondents to the survey, we can get an idea of how people from different occupations see the FII/ DII activity and understand about their investment patterns

MOST VIABLE INVESTMENT AVENUE



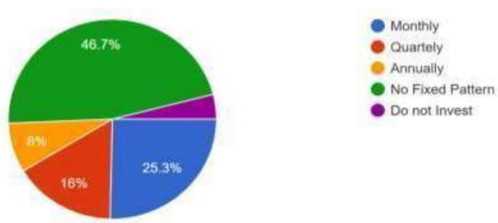
Interpretation: The above pie chart, clearly shows how equity is the most viable investment option as per the respondents. The growing popularity of the stock markets are being highlighted from this. The reason for this may also be the growing opportunities in the stock market due to bullish biasness of the Indian economy, economic and political situation in favour of India and hence, the growth prospects for Indian companies. The high returns post covid-19 pandemic, increasing financial knowledge and convenience of investing are a few factors which has contributed in making equity a viable option.

WAYS OF INVESTING



Interpretation: Due to the accessibility to demat accounts and trading platforms, most of the people invest directly into assets. This can also be seen in the graph above. Mutual funds being the second best alternative as it offers variety. When this is seen with the demographics, we see that for people of higher age and those from a business occupation prefer mutual funds or portfolio management services. However, income and investment amount also play a great role in respect to this.

FREQUENCY OF INVESTMENT



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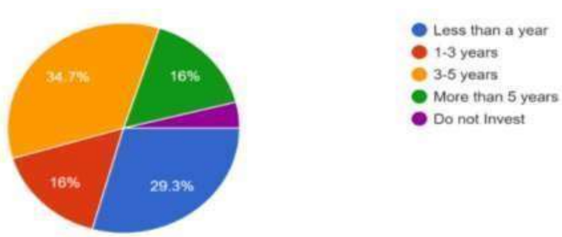
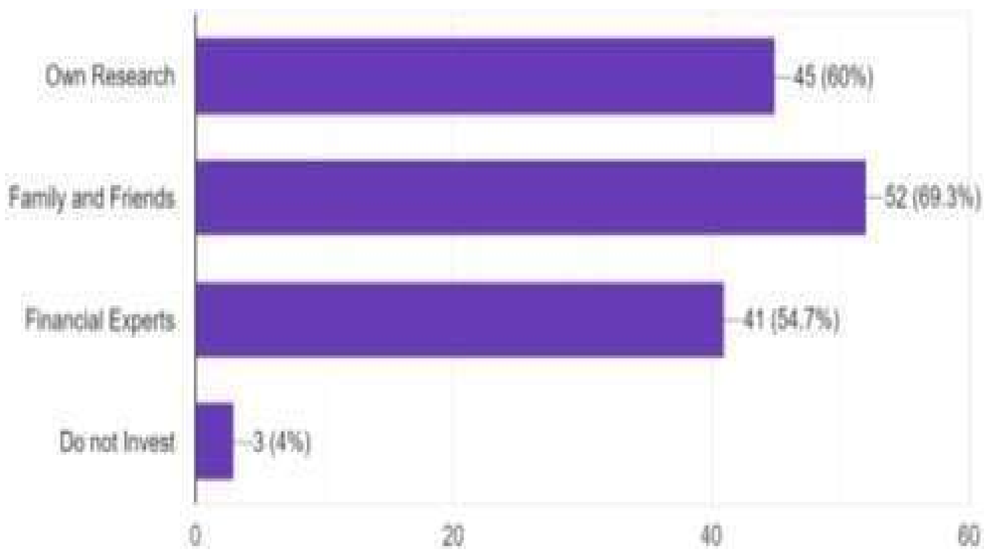
Interpretation: The above pie chart suggests that retail investors, do not have any fixed pattern of investing. They might invest as when the right valuation of securities come, when they have surplus money for investment or any other factor.

INVESTMENT HORIZON



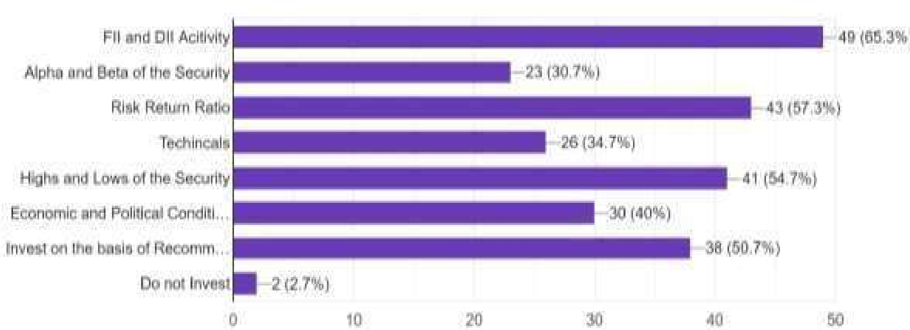
Interpretation: Most of the retail investors have a medium-term investment horizon of 3 years to 5 years. However, this investment horizon differs with age and with the investment purpose.

BASIS OF INVESTING



Interpretation: The bar graph above indicates that the respondents invest as per family and friends or as per own research. This means that recommendations play a great role in investing habits and word of mouth goes a long way in selecting a security for investment.

PARAMETERS CONSIDERED BEFORE INVESTING



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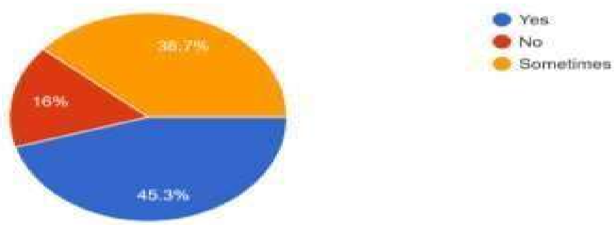
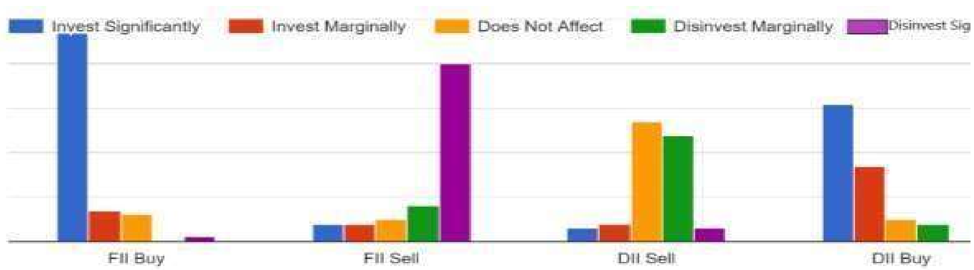
Interpretation: FII and DII activity is one of the main parameters considered while investing. This is because it gives an overview of how experts are expecting the markets to be in the short and medium term. This parameter is followed by the risk-return ratio and hence both the parameters are an indication to see if the markets are overvalued or undervalued.

FII AND DII DATA FOLLOWED



Interpretation: Most investors follow the FII and DII activity. Less than 20% do not follow it out of which a few do not invest. Hence, FII and DII activity is an important parameter followed by retail investors.

FII AND DII ACTIVITY'S IMPACT ON RETAIL INVESTMENTS



Interpretation: The above bar graph brings us to the main part of the analysis for primary data. We can clearly see that with a rise in funds from the FII and DII the retail investors have positive perspective and invest in the markets. FII buying is seen as a greater indication of retail investing. In the same way, FII selling is seen as a great negative and DII selling is a neutral indication for retail investors as per the responses gathered in collection of primary data for this study.
To summarize the above data in a tabular form and conclude on retail investing in regards to FII and DII activity, we can say:

FII Buy	Invest Significantly
FII Sell	Disinvest Significantly
DII Buy	Neutral
DII Sell	Invest Significantly

Secondary data analysis :
Given below is a table showing the monthly FII and DII fund flows and the monthly closing prices of Nifty100 index from January 2018 to December 2023.

		Net Equity Fund Flow	Nifty Closing

Year	Month	FII	DII	Price
2018	January	-1177	4503.94	8,961.30
	February	9902	935.26	9,087.00
	March	30906	-4395.61	9,173.75
	April	2394	9247.43	9,304.05
	May	7711	4277.06	9,449.90
	June	3617	6676.11	9,630.75
	July	5161	4786.37	9,821.50
	August	-12770	16205.22	9,894.70
	September	-11392	21025.53	9,985.75
	October	3055	10090.91	10,143.90
	November	19728	9243.21	10,235.15
	December	-5883	8142.88	10,358.95
2019	January	13781	398.73	10,605.15
	February	-11423	17813.01	10,680.65
	March	11654	6693.91	10,741.90
	April	-5552	8663.88	10,759.90
	May	-10060	15054.48	10,726.45
	June	-4831	14146.15	10,774.70
	July	2264	3845.87	11,037.50
	August	1775	2822.72	11,480.05
	September	-10825	12504.04	11,662.20
	October	-28921	26033.9	10,985.40
	November	5981	1309.47	10,676.85
	December	3143	375.55	10,820.35
2020	January	-4262	2146.87	10,871.55
	February	17220	-565.89	11,110.10
	March	33981	-13930.25	11,457.10
	April	21193	-4219.46	11,719.40
	May	7920	5316.34	11,844.85
	June	2596	3643.31	11,836.80
	July	-12419	20394.52	11,317.30
	August	-17592	20933.59	11,035.65
	September	7548	12490.81	11,003.55
	October	12368	4758.48	11,600.25
	November	25231	-7970.29	11,836.80
	December	7338	-740.76	11,876.80
	January	12123	1073.49	11,643.55
	February	1820	16933.03	11,579.35
	March	-61973	55595.18	9,974.20
	April	-6884	-117	9,693.65
	May	14569	12293.19	10,417.30

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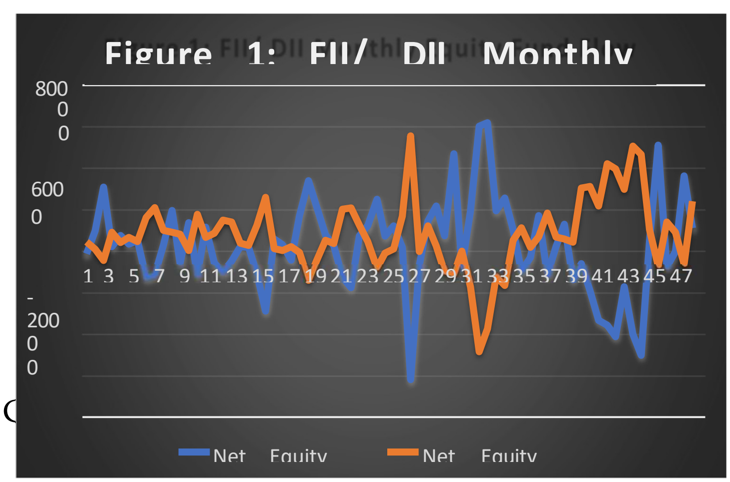
	June	21832	2434.4	10,744.20
2021	July	7563	-10007.88	11,216.05
	August	47080	-11046.78	11,373.55
	September	-7783	110.3	11,193.45
	October	19541	-17318.44	11,688.10
	November	60358	-48319.17	12,785.70
	December	62016	-37293.53	12,699.90
	January	19473	-11970.54	14593.3
	February	25787	-16358.1	16085.25
	March	10482	5204.42	14807.45
	April	-9659	11359.88	14790.6
	May	-2954	2067.23	15798.7
	June	17215	7043.51	15959.4
	July	-11308	18393.92	16040.15
2022	August	2083	6894.69	17373.1
	September	13154	5948.85	17845.1
	October	-13550	4470.99	17880.8
	November	-5945	30560.27	17270.25
	December	-19026	31231.05	17618.8
	January	-33303	21928.4	17547.4
2023	February	-35592	42084.07	17016.55
	March	-41123	39677.03	17660.35
	April	-17144	29869.52	17457.2
	May	-39993	50835.54	16767.5
	June	-50203	46599.23	15929.4
	July	4989	10546.02	17400.75
	August	51204	-7068.63	18112.4
	September	-7624	14119.75	17167.75
	October	-8	9276.97	18243.4
	November	36239	-6301.32	18919.55
	December	11119	24159.13	18258.75

Source: National Stock Exchange (NSE), Moneycontrol



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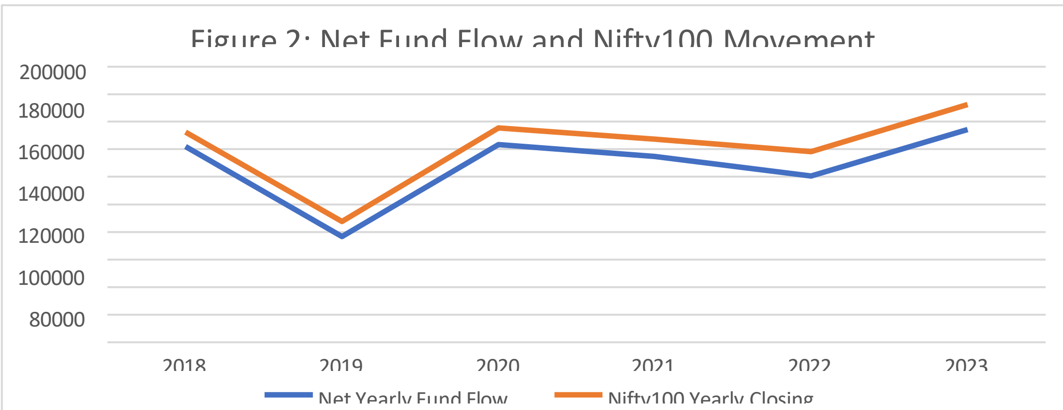
The above figure shows FII (in blue line) and DII (in red line) monthly fund flow in the Indian equity segment. A trend has been noticed that the FII and DII lines move in an opposite direction. This indicates that when the market is always supported by one of the two institutional investors and this leads to a tug-of-war in the markets which further leads to volatility. The trend in the market the FIIs and DIIs as per which of these buys or sells with greater force. A buying pressure leads to uptrend (bullish control) and a selling pressure leads to downtrend (bearish control). With the diagram below let us understand the movement of Nifty100 in respect to the net fund flow due to FII and DII activity.



We see in the above figure that Nifty100 index moves as per the fund flow of FIIs and DIIs. This shows that is a direct relationship in a yearly net basis between the two variables.

STATISTICAL ANALYSIS OF SECONDARY DATA :
The analysis of the above data using statistical tools are:
Regression Analysis:
To determine the relationship between Nifty100 Monthly Closing Price and FII and DII Monthly Net Investment, I performed a multiple linear regression analysis using Excel's built-in regression tool. The results are as follows: R-squared: 0.2203 Adjusted R-squared: 0.2125 Intercept: 10161.8 Coefficients: FII Monthly Net Investment: 0.2292
DII Monthly Net Investment: 0.0918 The regression equation is:
Nifty100 Monthly Closing Price = 10161.8 + 0.2292*(FII Monthly Net Investment) + 0.0918*(DII Monthly Net Investment) The R-squared value of 0.2203 indicates that about 22% of the variability in Nifty100 Monthly Closing Price can be explained by the variability in FII and DII Monthly Net Investment.

PEARSON'S CORRELATION COEFFICIENT:
To measure the strength and direction of the linear relationship between the variables, I computed the Pearson's correlation coefficient between Nifty100 Monthly Closing Price and FII and DII Monthly Net Investment using Excel's built-in CORREL function. The results are as follows:
Correlation between Nifty100 Monthly Closing Price and FII Monthly Net Investment: 0.469 Correlation between Nifty100 Monthly Closing Price and DII Monthly Net Investment: -0.215

The positive correlation coefficient between Nifty100 Monthly Closing Price and FII Monthly Net Investment indicates a weak positive relationship, while the negative correlation coefficient between Nifty100 Monthly Closing Price and DII Monthly Net Investment indicates a weak negative relationship.

T-TEST:

To determine whether there is a notable difference between the means of FII and DII Monthly Net Investment, a two-sample t-test assuming unequal variances, using Excel's built-in T.TEST function. The results are as follows: T-value: 15.276 Degrees of Freedom: 117 P-value: 1.0063E-30

The extremely low p-value (much less than 0.05) indicates that there is a significant difference between the means of FII and DII Monthly Net Investment. Overall, based on the results of the analysis, there appears to be a weak positive relationship between Nifty100 Monthly Closing Price and FII Monthly Net Investment, and a weak negative relationship between Nifty100 Monthly Closing Price and DII Monthly Net Investment. In simple terms, FII activity affects Nifty100 Monthly closing price more than the DII activity.

FINDINGS OF THE STUDY:

From the above analysis of data, the following points were the resultant outcome and thus the findings of this study:

- The primary data collected suggests that the retail investors are affected more significantly by the foreign institutional investors than the domestic institutional investors.
- It has been examined that when FIIs buy the retail investors are positive on the markets and invest significantly and in the same manner a series of FII selling leads to even the retailers disinvesting.
- Retail Investors are not much affected by sudden DII sellings but DII buying boosts their investing perspectives.
- The secondary data of FII and DII activity suggests that their exists are inverse relation between FIIs and DIIs (can be seen in Figure 1). When there is buying seen by FIIs there is selling by the DIIs. This creates volatility and provides a support to markets on the downside to some extent.
- When the net flow of funds from FIIs and DIIs are compared with the movement in Nifty100, we see that the index moves as per they activities of these institutional investors.
- Nifty100 movement is affected more by the FIIs than the DIIs.
- Statistical analysis suggests that to great extends the Nifty100 index movements can be varied as per the FII and DII activities.

CONCLUSION :

The section of the study concludes the entire study on whether it was able to achieve the objectives and recommends on the findings of the study. It also highlights the limitations of the study and future scope on the concept of the study. This paper study examined the impact of FII and DII activity on Nifty100 for the period January 2018 to December 2023. The study found that there is a statistically significant positive relationship between FII and DII activity and Nifty100 returns. This indicates that FII and DII activity have a significant impact on the Indian stock market. The study also found that FII and DII activity have an impact on the retail investors and their investing psychology. It is seen that FII buying leads to increase in retail investments and vice versa. DII buying creates a positive retail flow but DII selling is not seen as a great negative by retailers.

However, the FIIs and DIIs have an inverse relation in which we see that when there is FII buying, the DIIs sell and vice versa. This contributes to the unpredictability of the market but, in some situations, might mitigate losses. In terms of their effect on the Nifty100 index, statistical research indicates that FIIs are more powerful than DIIs. During the time period under consideration, the Nifty100 index was driven by the aggregate net buy/sell activity of these institutional investors. Finally, the effects of FII and DII actions on the Indian stock market are examined in this paper. Investors and policymakers in India may benefit the country's stock market by keeping tabs on foreign institutional investors' (FII) and domestic institutional investors' (DII) movements.

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