

FOREIGN INSTITUTIONAL INVESTORS (FIIS)

FII means an entity established or incorporated outside India which proposes to make investment in India. FII is an investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds.

The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies

The following can get registered as FII:

Following entities / funds are eligible to get registered as FII:

1. Pension Funds
2. Mutual Funds
3. Insurance Companies / Reinsurance Company
4. Investment Trusts
5. Banks
6. International or Multilateral Organisation or an agency thereof or a Foreign

Government Agency or a Foreign Central Bank

7. University Funds
8. Endowments (Serving broader Social Objectives)
9. Foundations (Serving broader Social Objectives)
10. Charitable Trusts / Charitable Societies

Further, following entities proposing to invest on behalf of broad based funds, are also eligible to be registered as FIIs:

1. Asset Management Companies
2. Investment Manager/Advisor
3. Institutional Portfolio Managers
4. Trustees

The following are the parameters on which SEBI decides eligibility of a FII applicant

- (a) Applicant's track record, professional competence, financial soundness, experience, general reputation of fairness and integrity. (The applicant should have been in operation for at least one year)
- (b) Whether the applicant is registered with and regulated by an appropriate Foreign Regulatory Authority in the same capacity in which the application is filed with SEBI
- (c) Whether the applicant is a fit & proper person.

The following are the financial instruments available for FII investments

- (d) Securities in primary and secondary markets including shares, debentures and warrants of companies, unlisted, listed or to be listed on a recognized stock exchange in India;
- (e) Units of mutual funds;
- (f) Dated Government Securities, other debt instruments;
- (g) Derivatives traded on a recognized stock exchange;
- (h) Commercial papers.
- (i) Security Receipts

Other facts about FIIs

Including pension funds, mutual funds, investment trusts, university funds, endowments, foundations or charitable trusts or charitable societies, etc. are permitted to invest in all securities i.e. equity shares/debentures/ PCDs/ FCDs/ Rights renunciations /warrants of Indian companies listed as well as unlisted, dated Government securities, Treasury Bills and units of domestic mutual fund schemes in the primary and secondary markets. Investments by FIIs will be subject to a ceiling 24% of the total paid up equity capital of the company. The ceiling would apply to all holdings taken together along with conversion out of the fully and partially convertible debentures issued by the Company. The holding of a single FII or the concerned FII group in any company would also be subject to a ceiling of 10% of total paid up equity capital. Indian companies, however, would be permitted to raise the ceiling limit of 24% to 30% provided it has been approved by the Board of Directors of the company and a Special Resolution is passed to that effect by the General Body. The ceiling of 24% or 30% as the case may be, applicable for investment by FIIs will not include investment made by NRIs/ OCBs under the Portfolio Investment Scheme. It will also not include direct foreign investment by a foreign collaborator and investment by FIIs through Off-shore Funds, Global Depository Receipts and Euro-Convertible Bonds.

The Reserve Bank has also granted general permission to mutual funds in India to issue units or similar instruments to FIIs under the scheme approved by Securities and Exchange Board of India and to send such units/instruments out of India to their global custodians, as also to repurchase units/instruments from FIIs.

Positive tidings about the Indian economy combined with a fast-growing market have made India an attractive destination for foreign institutional investors (FIIs).

- The number of FIIs registered with the Securities and Exchange Board of India (Sebi) has doubled to 1,050 between March 2001 and June 2007. In the beginning of calendar year 2006, the figure was 813.
- FIIs account for a little over a third of the total turnover on the BSE and NSE today. Since May 2006, FIIs have, on an average, accounted for 34 per cent of the total turnover on the two exchanges every month. In fact, during this period, FIIs were net sellers only in four months.
- FIIs made a net investment of US\$ 9.88 billion in the Indian market this year (till September 20), much higher than the US\$ 8 billion they had invested in India in the whole of 2006. In fact, net FII flows between April and June 2007, at US\$ 7.4 billion were twice the total of US\$ 3.2 billion in the preceding twelve months put together. This is a clear index of how bullish this category of investors is on the prospects for the Indian stock market.

Some investment highlights:

- The Indian growth story has attracted many global majors like CLSA, HSBC, Citigroup, Merrill Lynch, Crown Capital, Fidelity, Goldman Sachs, Morgan Stanley, UBS, T Rowe Price International, Capital International, ABN Amro among others have all entered the Indian market.
- Merrill Lynch and Citigroup have acquired 5 per cent stake each in the Multi Commodity Exchange of India Ltd (MCX).
- Goldman Sachs Investments Mauritius has increased its stake in Aftek to 5.74 per cent, by picking up an additional 2.29 per cent stake.
- Starwood Capital and Walton Street Capital along with Shriram Properties have set up a special purpose vehicle, Bengal Shriram Hi-Tech City Private Ltd, for the development of a US\$ 1386.96-million integrated IT township and auto park project at Uttarpara in West Bengal, with about 33 per cent stake by each partner.
- Citigroup, Morgan Stanley, Goldman Sachs and BSMA have picked up a combined stake of over 7 per cent in Gitanjali Gems for US\$ 28.74 million.
- Global private equity major Blackstone Group has agreed to acquire 50.1 per cent stake the Bangalore-based Gokaldas Exports Ltd, for about US\$ 170.47 million.
- Fidelity Investments International has picked up close to 7 per cent equity in the supply chain and logistics services company, Transport Corporation of India (TCI) for US\$ 13.27 million.
- The George Soros-promoted Quantum Fund along with Fortress Capital, HSBC Principal Investments, Galleon Group, New Silk Route, GLG Partners and DA Capital, have together picked up a 5 per cent stake in Reliance Telecom Infrastructure Ltd (RTIL) for US\$ 353.04 million.
- Singapore-based private equity firm Bring Pvt Equity Asia has picked up 7.5 per cent stake in BSE-listed KS Oils by investing US\$ 22.69 million.