



FROM DEPENDENCY TO SELF-RELIANCE: INDIA'S INVESTMENT EVOLUTION IN THE ATMANIRBHAR BHARAT ERA

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Abstract:

This research investigates the evolving investment behaviors of Foreign Institutional Investors (FII's) and Domestic Institutional Investors (DII's) in the Indian stock market, highlighting the resilience fostered by Atmanirbhar Bharat. In recent times, FII's have been withdrawing substantial funds due to global economic uncertainties, domestic policy shifts, and market fluctuations. However, DII's and Indian retail investors have stepped up to stabilize the market by channeling significant investments. This study examines key factors influencing FII withdrawals, including interest rate hikes, geopolitical tensions, and global economic disruptions, alongside the proactive strategies employed by DII's to maintain equilibrium. The research also explores the pivotal role of Indian retail investors in supporting market liquidity and stability during periods of volatility.

By analyzing specific high-impact events, the study underscores how Indian investors collectively mitigate the adverse effects of FII withdrawals, ensuring market normalcy despite external pressures. The findings aim to guide policymakers in formulating strategies that not only attract foreign investments but also bolster domestic and retail investor confidence, promoting a self-reliant and inclusive financial ecosystem.

Keywords: *FII's, DII's, Indian stock market, Atmanirbhar Bharat, market resilience, FII withdrawals, retail investors, market stability, policy formulation.*

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Introduction:

India's financial markets have undergone a significant transformation, becoming a cornerstone of economic resilience. This evolution is driven by the interplay between Foreign Institutional Investors (FIIs), Domestic Institutional Investors (DII's), and retail investors, each shaping market dynamics and reducing dependency on foreign capital.

Historically, FIIs played a crucial role in India's stock market, enhancing liquidity and capital formation. However, their influence also introduced volatility, with global uncertainties—such as monetary policy shifts, geopolitical conflicts, and economic downturns—triggering sharp capital outflows. In

response, DII's, including mutual funds, insurance firms, and pension funds, have emerged as a stabilizing force, bolstered by regulatory support, rising domestic savings, and increased SIP participation.

Retail investors have also transformed India's financial landscape, driven by technology, financial literacy, and easy market access. Their share of market trades rose to 45% in 2023, reflecting deeper market participation and reduced institutional dominance. Additionally, government initiatives like Atmanirbhar Bharat have further spurred domestic investments, particularly in key sectors like renewable energy, pharmaceuticals, and technology.

This research examines:

FII Withdrawal Trends: Causes and effects of declining foreign inflows due to global uncertainties.

DII Resilience: How domestic institutions counter market volatility and enhance stability.

Retail Investor Revolution: The surge in retail participation, market liquidity impact, and behavioral finance influences.

Policy Interventions: Government measures promoting economic resilience and sustainable investments.

As India moves toward self-reliance, balancing foreign and domestic investments will be crucial for sustained growth. By analyzing these shifts, this research provides insights for policymakers, financial institutions, and investors to navigate the evolving investment landscape and strengthen India's position as a global economic powerhouse.

Objectives:

1. Understanding the investment patterns off FII's and DII's & retailers in Indian equity markets.
2. Assessing DII & Retail investors Role in Market Stability.
3. Developing a Theory on Market Stability Amid FII Outflows.

Review of Literature :

- Chen and Singal (2019): The study highlighted the role of Foreign Institutional Investors (FIIs) in improving market liquidity, reducing volatility, and enhancing price discovery in emerging markets. FIIs were credited for integrating global market practices and bringing efficiency. However, it overlooked the interaction between FIIs and Domestic Institutional Investors (DII's) and failed to address risks like sudden foreign outflows impacting market stability.
- Kumar and Verma (2021): This research focused on the stabilizing role of DII's during economic downturns, showing how they counteract FII sell-offs and ensure market resilience. The counter-cyclical investment behavior of DII's was

emphasized. However, it did not explore factors influencing DII decision-making, their sector-specific investments, or the combined effect of DII's and FIIs on market trends.

- Srinivasan and Thakur (2020): The study revealed the negative correlation between FII and DII activities during the COVID-19 pandemic, demonstrating their complementary roles in maintaining market stability. DII's were shown to counter FII outflows during crises. However, the study was limited to pandemic-specific data, lacking insights into normal market conditions or advanced statistical analyses to predict trends.
- Joshi and Mehta (2021): The research analyzed the joint impact of FIIs and DII's on market trends, highlighting FIIs as key market drivers and DII's as stabilizers during volatile periods. While informative, it lacked a sector-specific analysis of investment strategies and failed to address how macroeconomic factors influence the dynamics between FIIs and DII's.

Literature Gap:

Existing research focuses on FIIs and DII's separately, with limited studies on their combined impact. Future studies should explore more indices and advanced models to enhance market predictions.

Research Methodology:

Research Design:

This study adopts a mixed-methods approach, integrating quantitative and qualitative analyses to explore investment patterns and market dynamics.

Quantitative Analysis:

- Examines trends, correlations, and the impact of FIIs, DII's, and retail investors on market stability using historical data.

Qualitative Analysis:

- Explores policy implications and investor behaviours through market interpretation.

Data Collection Methods

1. Secondary Data (of 10–15 years):

- Sources: NSE, BSE, SEBI reports, Bloomberg, Thomson Reuters, Financial Express, Yahoo finance.
- Scope: Investment patterns, net inflows/outflows, and their impact on market.

2. Primary Data :

- Method: Surveys and interviews with market analysts, institutional investors, and retail participants.
- Objective: Assess perceptions on FII outflows, DII stabilization, and retail investor influence.

Sampling Methods

1. Quantitative Sampling:

- Population: Indian equity market investment data.
- 5. investment patterns across different market conditions.

DATA ANALYSIS :

TREND ANALYSIS:

- Method: Stratified Random Sampling (divided by time periods and investor types).

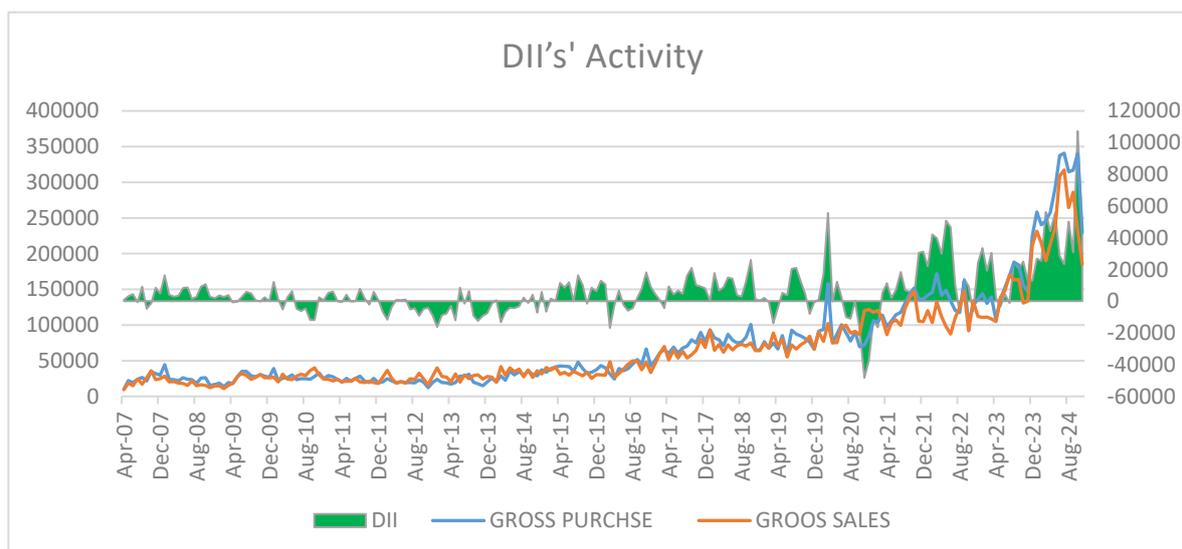
2. Qualitative Sampling:

- Population: Market experts, institutional investors, active retail participants.
- Method: Purposive & Snowball Sampling for expert-driven insights.
- Sample Size: ~128 respondents.

Data Analysis Techniques:

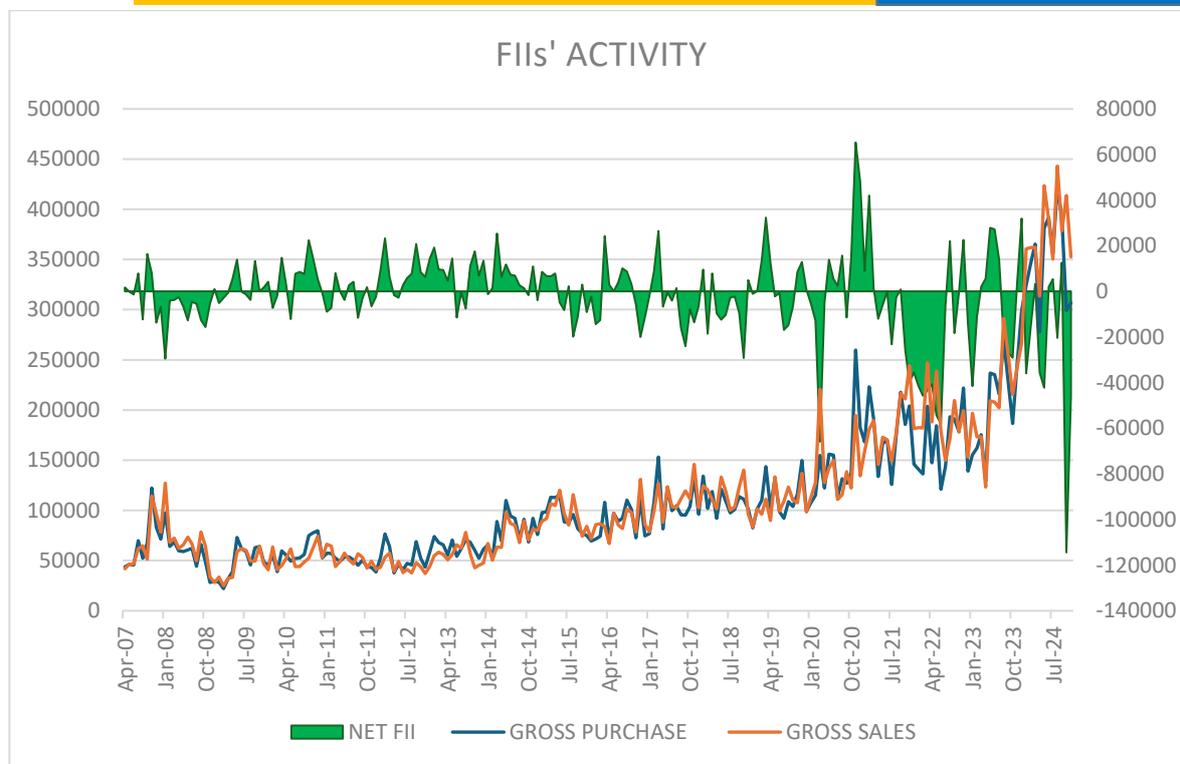
1. Trend Analysis: Identifies FII, DII, and retail investor buy/sell patterns.
2. Correlation Analysis: Assesses relationships between investor activities and market indices.
3. Regression Analysis: Predicts investor influence on market trends.
4. ANOVA: Compares

To understand the flow of investment :



• DII Activity:

- Monthly inflows in 2023–24 exceeded ₹300,000 crore.
- Consistent net positive flows since 2023 show strong investor confidence.
- Post-2020 resilience with monthly purchases above ₹100,000 crore.
- Record inflows in Mar 2020 (+₹55,595.18 crore) and Nov 2024 (+₹1,07,254.68 crore).
- Key sectors: IT, Banking, and Infrastructure.
- Domestic investors are now market drivers, reducing reliance on FIIs.



- **FII Activity:**

- Volatile flows with alternating inflows (Mar 2024: +₹3,314.47 million) and outflows (Oct 2024: -₹114,445.89 million).
- Influenced by global events, inflation, and policy changes.
- Seasonal inflows in December, March, and September bring bullish momentum.
- Outflows frequently pressure markets.

Reasons for Withdrawal & Investment:

1. **Global Uncertainty:** Interest rate hikes, geopolitical tensions.
2. **Currency Depreciation:** Weakening rupee reduces returns.
3. **Policy Changes:** Unfavourable tax or regulatory shifts.
4. **Inflation:** Reduces profitability, leading to outflows.
5. **Profit Booking:** Withdrawals after market rallies.
6. **Alternative Opportunities:** Attractive options in other markets.
7. **Economic Growth:** Strong GDP and recovery post-pandemic.
8. **Reforms:** PLI schemes, infrastructure initiatives.
9. **Political Stability:** Investor-friendly governance.
10. **Corporate Earnings:** Strong performance in key sectors.
11. **Valuation Opportunities:** Market corrections for entry.
12. **Global Liquidity:** Eased monetary policies globally.



INFLOWS OF MONEY IN MARKET THROUGH MUTUAL FUNDS:-

Month	SIP Contribution ₹ crore								
	FY 2024-25	FY 2023-24	FY 2022-23	FY 2021-22	FY 2020-21	FY 2019-20	FY 2018-19	FY 2017-18	FY 2016-17
Total during FY	159,248	199,219	155,972	124,566	96,080	100,084	92,693	67,190	43,921
March		19,271	14,276	12,328	9,182	8,641	8,055	7,119	4,335
February		19,187	13,686	11,438	7,528	8,513	8,095	6,425	4,050
January		18,838	13,856	11,517	8,023	8,532	8,064	6,644	4,095
December		17,610	13,573	11,305	8,418	8,518	8,022	6,222	3,973
November	41,887	17,073	13,306	11,005	7,302	8,273	7,985	5,893	3,884
October	25,323	16,928	13,041	10,519	7,800	8,246	7,985	5,621	3,434
September	24,509	16,042	12,976	10,351	7,788	8,263	7,727	5,516	3,698
August	23,547	15,814	12,693	9,923	7,792	8,231	7,658	5,206	3,497
July	23,332	15,245	12,140	9,609	7,831	8,324	7,554	4,947	3,334
Jun	21,262	14,734	12,276	9,156	7,917	8,122	7,554	4,744	3,310
May	20,904	14,749	12,286	8,819	8,123	8,183	7,304	4,584	3,189
April	20,371	13,728	11,863	8,596	8,376	8,238	6,690	4,269	3,122

The rise in Systematic Investment Plan (SIP) contributions from ₹43,921 crore in FY 2016-17 to ₹159,248 crore in FY 2024-25 highlights growing retail investor confidence in mutual funds and the Indian equity market. Monthly SIP inflows, such as ₹41,887 crore in November 2024, demonstrate a disciplined investment approach despite market volatility. This sustained growth reflects increasing financial literacy and a long-term investment mindset among retail investors.

SIP inflows play a crucial role in market stability by ensuring consistent liquidity, particularly during periods of Foreign Institutional Investor (FII) withdrawals. The steady participation of retail investors cushions market fluctuations and supports Domestic Institutional Investors (DII's), enabling them to act as stabilizers. As SIP investments strengthen domestic liquidity, DII's can leverage these inflows to counter market downturns.

Overall, the rising SIP trend signifies a shift toward sustained retail participation, reducing reliance on external capital and enhancing market resilience. By providing stability and mitigating volatility, SIPs serve as a key pillar of support for the Indian equity market, fostering long-term growth and stability.

Correlation Analysis:

	GROSS PURCHASE OF FII 1	GROSS SALES OF FII 2	NET BUY/SELL OF FII 3	GROSS PURCHASE OF DII 4	GROSS SALES OF DII 5	NET BUY/SELL OF DII 6
GROSS PURCHASE OF FII 1	1					
GROSS SALES OF FII 2	0.973908	1				
NET BUY/SELL OF FII 3	-0.1823	-0.40068	1			
GROSS PURCHASE OF DII 4	0.943788	0.973318	-0.40668	1		
GROSS SALES OF DII 5	0.963588	0.952435	-0.23627	0.979138	1	
NET BUY/SELL OF DII 6	0.505624	0.669409	-0.85895	0.685637	0.523416	1

The correlation matrix reveals key insights into FII and DII trading activity in India:

FII (Column 3) vs. DII (Column 6): Strong negative correlation (-0.85895), indicating they generally trade in opposite directions. When FIIs buy, DII's tend to sell, and vice versa, likely due to differing investment strategies and market perceptions.

FII Correlations: Moderate negative relationships with Column 2 (-0.40068) and Column 4 (-0.40668), suggesting an inverse link with certain financial metrics.

DII Correlations: Moderate positive correlations with Column 1 (0.5056), Column 2 (0.6694), Column 4 (0.6856), and Column 5 (0.5234), indicating alignment with domestic factors.

Key Takeaway:

FII and DII activity in India often move inversely, with FIIs reacting more to global trends while DII's focus on domestic market conditions.

Regression Analysis:

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.85894							
R Square	0.73778							
Adjusted R Square	0.73653							
Standard Error	9781.74							
Observations	212							
<i>ANOVA</i>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	1	5653686.7417	5.65E+10	590.8802	5.80838E-63			
Residual	210	2009331.5318	9568.2454					
Total	211	7663018.2735						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	3975.880276	720.8270397	5.51572	1.02E-07	2554.896061	5396.864491	2554.896061	5396.864491
X Variable 1	1.011371594	0.041606486	24.308	5.81E-63	1.093391491	0.929351698	1.093391491	0.929351698

Based on the regression analysis, here's an interpretation of the data, particularly focusing on the relationship between **FII** (Foreign Institutional Investors) and **DII** (Domestic Institutional Investors) trading activities, assuming **X Variable 1** represents the relationship between FII and DII activity:

Regression Analysis Summary: FII vs. DII Activity

- **Strong Negative Relationship:** The coefficient (-1.0114) confirms that FII and DII trading activities move inversely—when FIIs buy, DII's tend to sell, and vice versa.
- **High Predictive Power:** $R^2 = 0.7378$ shows that 73.78% of DII activity variation can be explained by FII movements, making FII a strong predictor of DII behavior.
- **Statistical Significance:** The **F-statistic (590.88)** and **P-value (5.8E-63)** confirm that the inverse relationship is highly significant.
- **Market Implication:** FIIs are influenced by global trends, while DII's focus on domestic conditions, leading to opposing market strategies.

The 95% confidence interval for the coefficient suggests that the true relationship between FII and DII trading activity (as indicated by X Variable 1) is likely to fall between **-1.0934** and **-0.9294**. This further reinforces the negative relationship observed.

Anova: Single Factor

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
Column 1	127	345	2.716535	1.855518		
Column 2	127	396	3.11811	1.866892		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	10.24016	1	10.24016	5.501897	0.019772	3.878624
Within Groups	469.0236	252	1.861205			
Total	479.2638	253				

Hypothesis Testing:

H₀: DII's do not significantly stabilize the stock market during uncertainties.

H₁: DII's significantly stabilize the stock market during uncertainties.

ANOVA Results:

F-value: 5.50 (> F-critical: 3.88)

P-value: 0.0198 (< 0.05)

Since $P < 0.05$ and $F > F\text{-critical}$, we reject H_0 , confirming that DII's play a significant role in stabilizing the stock market during geopolitical or economic uncertainties.

Findings:

The growing influence of Domestic Institutional Investors (DII's) and retail investors has strengthened market stability in India. Retail participation has surged, with demat accounts exceeding 154 million in April 2024, driven by digital access and the shift from traditional savings to equities. SIP inflows hit a record ₹20,371 crore in April 2024, ensuring steady liquidity and dampening volatility.

DII's, including mutual funds and insurance companies, act as stabilizers, absorbing selling pressure during Foreign Portfolio Investor (FPI) withdrawals. With 38 consecutive months of positive inflows, they ensure liquidity, sectoral diversification, and resilience during crises. However, their dependence on retail inflows and regulatory constraints remain challenges.

Retail investors, through direct equities and mutual funds, enhance liquidity and reduce reliance on institutional players. While their consistent participation supports market stability, behavioral risks like herd mentality and panic selling pose concerns. The synergy between DII's and retail investors has made Indian markets more resilient to external shocks, reducing reliance on FIIs.

To sustain this stability, policymakers should promote financial literacy, investor-friendly policies, and tax incentives for long-term investments. Strengthening regulatory support for DII's and fostering informed retail participation will further enhance market resilience. A collaborative approach among regulators, institutions, and investors is key to building a robust financial ecosystem.

Assessing the Role of DII's and Retail Investors in Market Stability:

India's capital market has seen a transformative shift with rising participation from Domestic Institutional Investors (DII's) and retail investors, enhancing liquidity and reducing reliance on foreign inflows. Increased financial literacy, technological adoption, and regulatory reforms have fuelled this growth

Retail Investor Growth:

Demat Accounts: Surged from 4 crore in 2020 to 14 crore in 2024, reflecting a sharp rise in participation.

SIP Inflows: Hit ₹20,371 crore in April 2024, ensuring steady market liquidity.

Young Investors: Under-30 investors now form 48% of total investors, up from 29% in FY19.

Fintech Influence: Platforms like Groww (6.63M active users) have boosted direct market access.

KYC & Inclusion: Aadhaar-based KYC has simplified market entry, expanding financial participation.

This evolving investor base strengthens market resilience, ensuring long-term stability amid global uncertainties.



Source: Motilal Oswal presentation

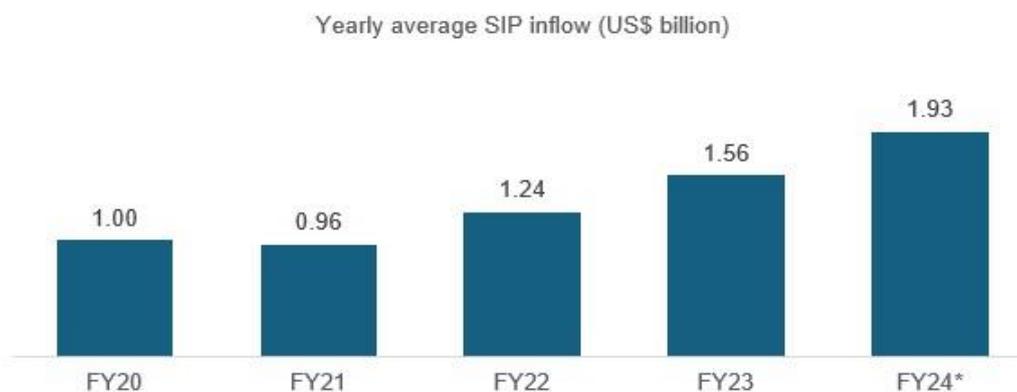
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The Role of Domestic Institutional Investors (DII's) in Market Stability:

Domestic Institutional Investors (DII's), including mutual funds, insurance firms, and pension funds, play a crucial role in stabilizing the Indian stock market. With 38 consecutive months of positive mutual fund inflows as of April 2024, DII's effectively counterbalance Foreign Portfolio Investor (FPI) outflows, reducing market volatility. Their value-driven, long-term investment approach limits speculative behavior, fostering market stability. During geopolitical crises like the Russia-Ukraine conflict, DII's ensure liquidity when foreign investors withdraw. However, they face challenges such as dependence on retail inflows and regulatory constraints that limit their flexibility.

The combined impact of DII's and retail investors has strengthened market resilience. While DII's absorb foreign outflows during global uncertainties, retail investors provide steady liquidity through SIPs and direct participation. This growing domestic participation has reduced India's reliance on foreign capital, making the market more resilient to external shocks. Additionally, both DII's and retail investors contribute to sectoral diversification, ensuring balanced investments across industries and mitigating risks associated with sector concentration.

Recent trends highlight the increasing influence of domestic funds. DII investments have surged from **\$8.64 billion in FY19 to \$15.35 billion in FY24** (until January), while mutual funds recorded net inflows of **\$61.09 billion in FY24**. The mutual fund industry has witnessed a **34% asset growth**, the highest since FY17, driven by strong market conditions and rising equity preference among retail investors.



Source: *The Financial Express* https://www.ibef.org/uploads/blog/1725429575_64355b141fcf7c2147bd.jpg

Regulatory and Technological Drivers:

SEBI's reforms have enhanced market transparency, fairness, and investor protection through measures like insider trading prevention and investor education. Financial literacy programs and technological advancements in mobile trading platforms (e.g., Zerodha) have empowered retail investors, especially in smaller towns.

Challenges and Opportunities:

Retail investors face behavioral risks like herd mentality and panic selling, while market access

remains limited in rural areas due to low financial literacy and digital infrastructure. Trust and transparency are essential for sustained investor confidence.

The growing role of DII's and retail investors has strengthened market stability. Regulatory reforms, fintech innovations, and financial literacy initiatives support this growth, reducing reliance on volatile foreign inflows and fostering a balanced, resilient capital market.

Event-Wise Interpretation of Data:

1. **Impact of the Global Financial Crisis (2008) on Market Stability: FII Withdrawal and Limited DII Support** The 2008 Global Financial Crisis (GFC) exposed the vulnerabilities of the Indian stock market, particularly its dependence on Foreign Institutional Investors (FIIs). From January to October 2008, FIIs withdrew ₹29,447.51 million in January, peaking at ₹15,653.50 million in October. This led to sharp market declines, underscoring its sensitivity to global risk aversion. Domestic Institutional Investors (DII's) had minimal impact, with inflows of ₹16,414.69 million in January failing to counterbalance FII outflows. The crisis highlighted the need for stronger domestic participation to enhance market resilience against global economic shocks.

2. **Impact of COVID-19 Pandemic on the Indian Stock Market: FII Withdrawals and Limited DII Stabilization** The COVID-19 pandemic in 2020 further illustrated the risks of relying on FIIs. In March 2020, FII outflows reached ₹65,816.70 million, triggering a sharp market decline. Despite DII inflows of ₹157,856.93 million, they were insufficient to prevent downturns. Additionally, DII withdrawals of ₹5,208.50 million in March 2020 showed that domestic investors were not yet strong enough to counteract FII-driven volatility. This event emphasized the need for expanding DII participation to mitigate future market disruptions.

3. **Impact of FII Withdrawal on the Indian Equity Market in 2024** The data from 2024 reflects a positive shift, with DII's playing a crucial role in market stability despite FII withdrawals:

- November 2024: FII withdrawals of ₹45,974.12 million were nearly offset by DII inflows of ₹44,483.86 million, demonstrating increased market resilience.

- October 2024: FII outflows of ₹114,445.89 million led to market contraction, but DII inflows of ₹107,254.68 million cushioned the decline, underscoring the growing importance of DII's.
- August 2024: With FII outflows of ₹20,339.26 million, strong DII inflows of ₹50,174.86 million helped stabilize the market.
- May 2024: FII outflows of ₹42,214.28 million were countered by DII inflows of ₹55,733.04 million, reinforcing the increasing role of DII's.

The 2024 data marks a significant change compared to 2008 and 2020. Unlike past crises, DII's now provide a more stable foundation, reducing dependence on volatile foreign capital. The ability of DII's to offset FII outflows demonstrates a shift towards a more self-reliant market. The growing participation of DII's and retail investors highlights a more balanced and resilient Indian equity market, better equipped to navigate global uncertainties.

Overall Findings:

- **Market Evolution:** Transition from reliance on FIIs to a stronger focus on domestic investments, driven by DIIs and retail investors.
- **FII Activity:** Volatility persists, influenced by global uncertainties, geopolitical tensions, and monetary policies. Withdrawals during crises significantly impacted market stability in 2008 and 2020.
- **DII Resilience:** DIIs have become key stabilizers, offsetting FII outflows with consistent inflows, particularly in critical periods like 2024.
- **Retail Investor Growth:** Surge in participation through SIPs and demat accounts has enhanced liquidity and reduced reliance on FIIs.
- **Sectoral Investments:** DIIs focus on key sectors like IT, Banking, and Infrastructure, contributing to market balance and diversification.

- **Policy Impact:** Regulatory reforms and initiatives like Atmanirbhar Bharat have encouraged domestic participation, fostering long-term stability.
- **Technological Drivers:** Fintech platforms and digital KYC processes have simplified access, boosting retail investor numbers.
- **Challenges:** Behavioral risks (e.g., herd mentality) among retail investors and regulatory constraints for DIIs remain barriers to full market resilience.
- **Shift Toward Self-Reliance:** The increasing influence of domestic investors has reduced the market's sensitivity to foreign capital, highlighting India's evolving financial ecosystem.

These findings emphasize the importance of strengthening domestic investor participation and implementing policies that foster a robust, self-reliant market.

Market Resilience Amid FII Outflows in India: The Role of Domestic Participation, Financial Literacy, and Market Liquidity

Abstract:

This theory posits that the Indian stock market, traditionally vulnerable to Foreign Institutional Investor (FII) outflows, is developing resilience due to increasing Domestic Institutional Investor (DII) and retail investor participation. Rising financial literacy, government financial inclusion initiatives, and a shift toward equities and mutual funds are diminishing reliance on foreign capital. The growing domestic investor base is expected to stabilize the market, reducing volatility from FII withdrawals.

Introduction:

Historically, FIIs have been crucial to India's stock market liquidity, with their outflows triggering volatility. However, domestic participation is expanding due to increasing financial literacy and the popularity of mutual funds and equities. As of March 2024, approximately 20% of Indian households are engaged in financial markets, but only 5% directly

invest in equities. Low financial literacy—at 27%—remains a barrier, yet digital investment platforms and education efforts are fostering greater market participation. These trends are creating a more self-sustaining market, less susceptible to FII-driven fluctuations.

Core Concept:

The central idea of this theory is that growing domestic investor participation enhances market stability by mitigating the adverse effects of FII outflows. Retail investors, DII's, and financial literacy are key drivers in shaping a long-term investment culture, reducing market volatility.

Key Hypothesis:

Despite FII outflows, the Indian stock market will demonstrate increased stability due to:

1. **Higher Domestic Investor Participation:** Retail investors and DII's are expected to play a stabilizing role.
2. **Growing Financial Literacy:** Better-informed investors will make rational decisions, reducing panic-driven market reactions.
3. **Attraction to Mutual Funds and Equities:** Higher returns will continue drawing domestic capital toward equities and mutual funds.

Determinants of Market Resilience:

1. **FII Outflows:** Traditionally, FIIs react to global economic conditions, interest rates, and geopolitical risks, leading to market instability. However, as domestic participation increases, reliance on FIIs is expected to decline.
2. **Domestic Investor Participation:**
 - *Retail Investors:* Currently, only 3% of Indians invest in the stock market. Increased financial literacy and accessibility will drive higher participation, adding liquidity and reducing volatility.
 - *Domestic Institutional Investors (DII's):* Mutual funds, pension funds, and insurance firms are

becoming key market players, counteracting FII withdrawals.

3. **Financial Literacy:** Education programs and fintech innovations are encouraging long-term investing, limiting knee-jerk reactions to market fluctuations.
4. **Mutual Funds and Equity Markets:** Systematic Investment Plans (SIPs) are growing due to low bank deposit returns. Increased domestic capital flow into mutual funds enhances market liquidity, providing a buffer against FII-driven volatility.
5. **Investor Sentiment and Confidence:** Long-term domestic investors help sustain confidence, unlike FIIs, who may exit in response to external shocks.
6. **Macroeconomic Stability:** Steady GDP growth, controlled inflation, and pro-market policies contribute to investor confidence and market stability.

Dependent Variables:

1. **Market Stability:** Reduced volatility and sustained growth despite FII fluctuations.
2. **Investor Participation:** Increased retail investment and mutual fund assets under management (AUM).
3. **Market Liquidity:** The ability to absorb large trades with minimal price impact.
4. **Mutual Fund Inflows:** Consistent domestic capital flow into equity mutual funds, stabilizing the market.

Independent Variables:

1. **FII Inflows and Outflows:** While still relevant, their influence will diminish as domestic investors gain prominence.
2. **Financial Literacy:** The rate of increase in investor education will shape retail participation.
3. **Macroeconomic Factors:** Interest rates, inflation, and policies influencing investor sentiment and stability.
4. **Regulatory Environment:** Pro-investor policies encouraging participation and market transparency.

Assumptions:

1. **Financial Literacy Growth:** Continued education and technology-driven initiatives will expand retail participation.
2. **Increased Market Liquidity:** More domestic investors will enhance liquidity and market stability.
3. **Macroeconomic Stability:** Favorable conditions will support long-term market growth.
4. **Regulatory Support:** Policies will continue fostering domestic investments.
5. **Limited Impact of Global Disruptions:** External events not directly affecting India will have minimal influence on the market.

Limitations:

1. **Slow Financial Literacy Adoption:** Despite progress, many Indians remain unaware or lack resources to invest.
2. **Impact of Global Economic Crises:** Severe global disruptions could still trigger market instability.
3. **Political Risks:** Policy changes and political instability may cause short-term volatility.
4. **Behavioral Biases:** Retail investors may still engage in herd behavior or panic selling, contributing to occasional instability.

Conclusion:

India's stock market is becoming increasingly resilient to FII outflows due to rising domestic participation, financial literacy, and the growth of mutual funds and equity investments. While financial literacy challenges and global economic uncertainties persist, the market is on a path to long-term stability and self-sufficiency. By fostering investor confidence and sustaining liquidity, India's stock market can reduce its dependence on foreign capital and continue its evolution toward greater resilience.

Overall Conclusion:

The growing participation of Domestic Institutional Investors (DII's) and Retail investors has strengthened

India's capital market stability, supported by regulatory reforms, fintech, and financial literacy. Despite challenges like behavioral risks and rural access barriers, their synergy drives long-term growth. The rising domestic participation reduces dependence on volatile foreign inflows, ensuring a more balanced and sustainable market ecosystem.

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