

Strategy

93% of TTM selling by FPIs are within financials and IT; industrials largely buck the trend except construction materials

- ▶ **Trailing 12-month (TTM) FPI selling eclipses outflows seen during GFC:** The ongoing FPI selling in Indian equities is turning out to be the **highest selling spree since the global financial crisis (GFC) of CY08** with TTM FPI cumulative selling in the secondary market of **US\$53bn vs US\$28bn** during the GFC, as per provisional flows data from exchanges.
- ▶ **However, TTM net institutional outflows (FPI flows + DII flows), based on provisional data for secondary market flows, is relatively lower at US\$10.6bn compared to GFC peak outflow of US\$8.6bn**, supported by significant inflows from DIIs of US\$42.5bn.
- ▶ Consequently, the impact on benchmark indices (NIFTY50, Nifty Midcap) is much lower (15-25% drawdown) compared to GFC.
- ▶ **Using the final FPI flows data from NSDL, which includes primary inflows as well, net TTM outflow from FPIs is much less at US\$32bn** supported by record IPO-related inflows over the past one year.
- ▶ Consequently, **aggregate FPI equity assets stood at Rs41.5trn as of 15th June 2022, which translates into 17% holding of aggregate listed Indian equities (Rs245trn)** and is a dip of 300bps from the Mar'21 level of 20%.
- ▶ **Sectorally, bulk of the FPI selling on 12 month rolling basis has been concentrated around financials and IT (93% contribution) along with FMCG, other services and construction materials whereas metals, power, discretionary consumption and telecom saw inflow.**
- ▶ **FPI selling across market capitalisation size:** Based on Mar'22 shareholding filings by listed companies, FPI holdings within the NIFTY50, NIFTY Next 50, NIFTY Midcap and NIFTY Smallcap indices has dipped 188bps, 155bps, 138bps and 113bps to 23.1%, 15.1%, 14.6% and 12%, respectively.
- ▶ **Rise in SIP flows appears structural (monthly run-rate exceeding Rs110bn)**, which is also reflected in tripling of mutual fund accounts from 40mn in Dec'14 to 129mn in Mar'22.
- ▶ FDI annual run-rate of around US\$50bn as a source of financing CAD is absorbing the shock of FPI outflows.

Outlook- Large scale outflows from Indian equities by FPIs has been largely driven by the fear of aggressive quantitative tightening by the US central bank to tame inflation and relatively higher valuations of Indian equities. However, valuations have rationalised significantly from Oct'21 levels and the fear of a structural increase in inflation is reducing as global commodity prices decline over the recent past which should build confidence of slowing down of FPI outflows incrementally. Risk still remains in terms of elevated CPI inflation and crude oil prices which are yet to climb down meaningfully from their recent peaks.

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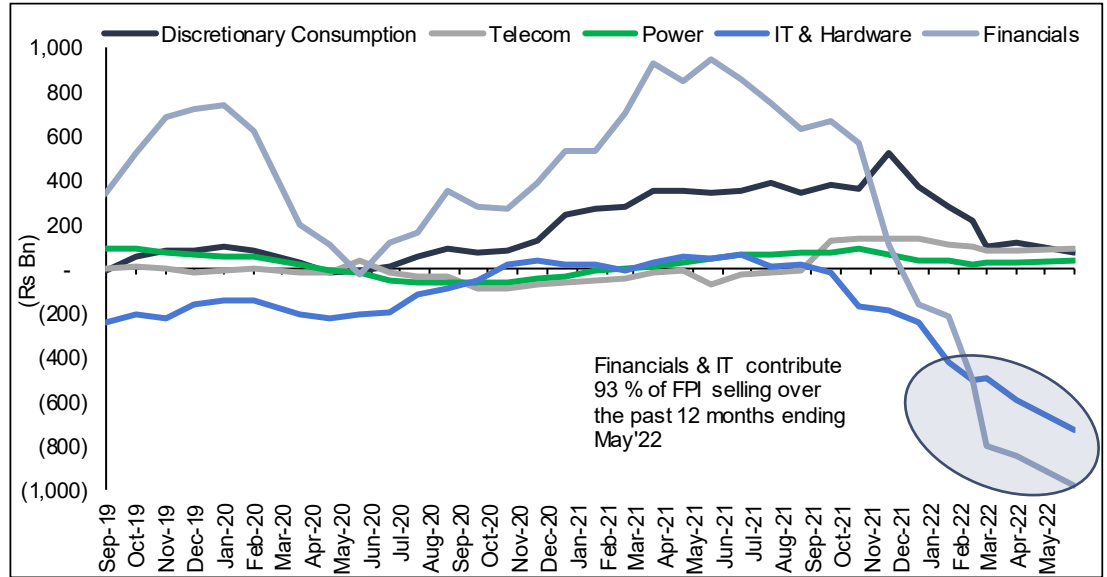
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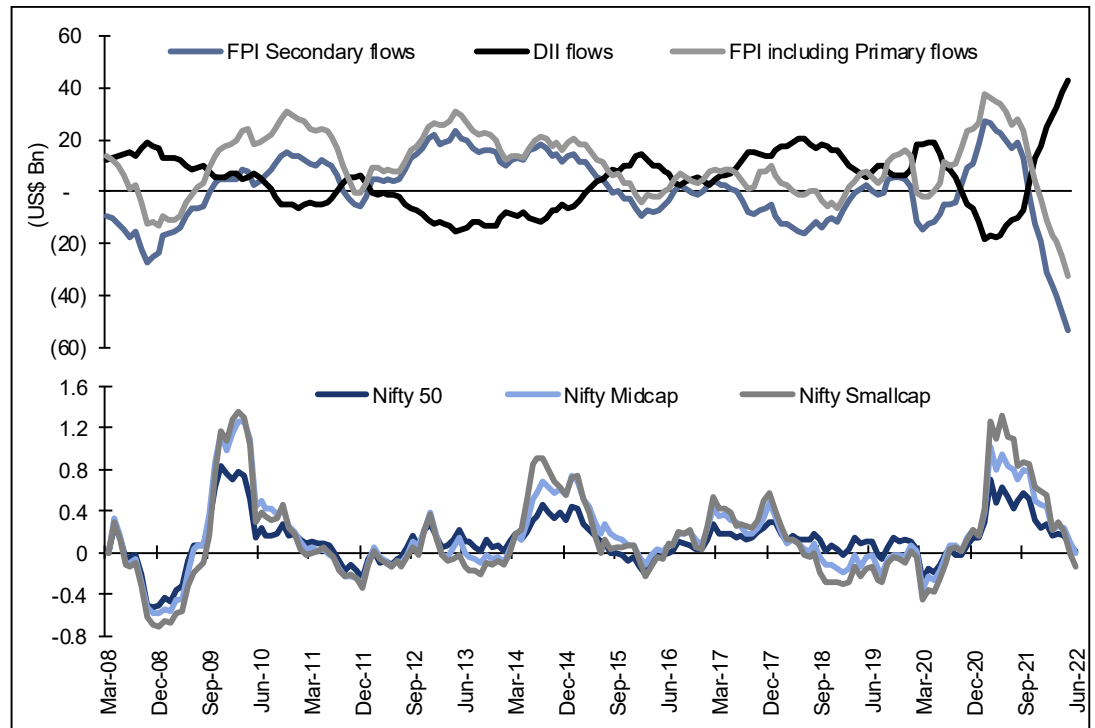
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Chart 1: 93% of TTM selling by FPIs within financials and IT



Source: NSDL, I-Sec research

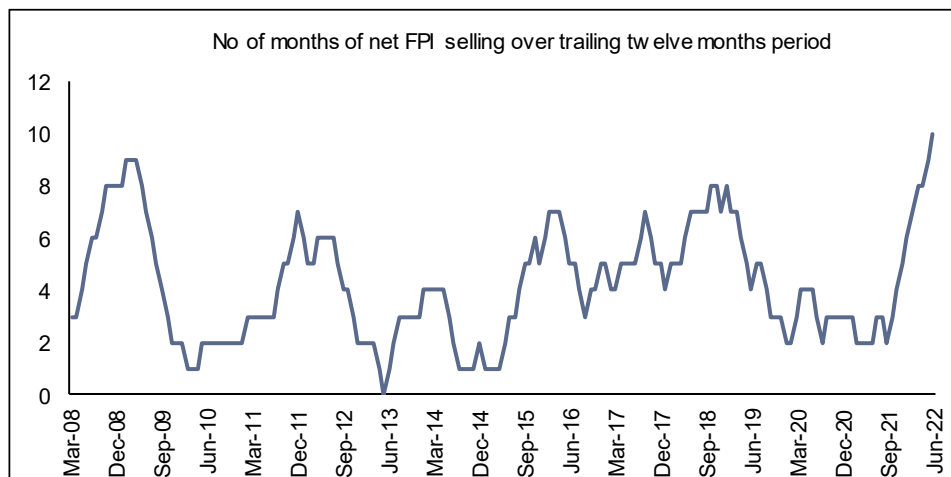
Chart 2: 12-month cumulative flows (FPI & DII secondary market flows) vs rolling 12-month returns for NIFTY50, Nifty Midcap 100 and Nifty Small Cap 100 indices



Source: Bloomberg, I-Sec research

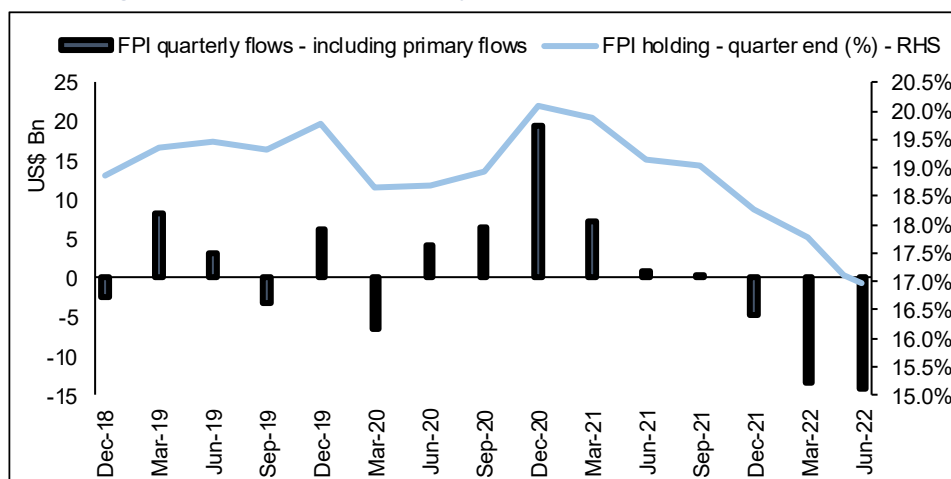
Note: FPI secondary flows is provisional data reported by exchange. FPI including primary flows is final data reported by NSDL.

Chart 3: Longest stretch of selling since GFC



Source: Bloomberg, I-Sec Research

Chart 4: Trend in aggregate %age FPI holding of Indian equities and FPI flows including investments into primary markets



Source: Bloomberg, NSDL, BSE website, I-Sec Research

Table 1: FPI assets under custody (AUC) and sectoral flows data

(Rs bn)

Sector	AUM May'21	AUM 15-Jun-22	Flows from Jun'21 TD	AUM 15-Jun-22 weight	Nifty weight	Flow as % of prior holding	
Column	A	B	C	D=B/(Sum:B)	E	F=D-E	G=C/A
Financials	15,218	12,856	(1,067)	31.0	35.7	-4.7	-7.0%
IT & Hardware	5,681	5,094	(765)	12.3	15.9	-3.6	-13.5%
Construction Materials	892	633	(135)	1.5	1.4	0.1	-15.1%
FMCG	2,710	2,590	(115)	6.2	7.6	-1.4	-4.2%
Other services	971	691	(77)	1.7	0.0	1.7	-7.9%
Oil & Gas	4,323	5,457	(63)	13.1	13.7	-0.6	-1.5%
Healthcare	2,234	1,980	(6)	4.8	3.9	0.9	-0.3%
Realty	431	503	(4)	1.2	0.0	1.2	-0.9%
Metals & Mining	991	1,234	7	3.0	2.8	0.2	0.7%
Industrials, Construction, capital goods	3,111	2,550	18	6.1	4.8	1.3	0.6%
Power	1,267	1,875	18	4.5	2.7	1.8	1.5%
Discretionary Consumption	4,542	5,007	27	12.1	9.3	2.7	0.6%
Telecom	841	1,037	67	2.5	2.3	0.2	7.9%
Total	43,213	41,506	(2,095)	100.0	100.0		-4.8%
Change in AUM		-4.0%					
Explained by flows		-4.8%					
Implied performance		0.9%					

Source: NSDL, I-Sec Research

Table 2: FPI sectoral flows since H1CY21

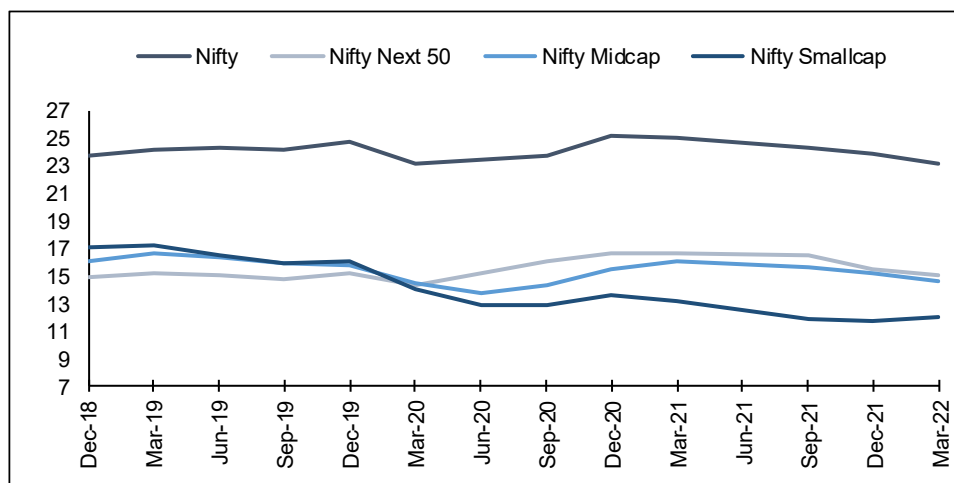
(Rs bn)

Sectors	H1CY21	H2CY21	H1CY22	Apr-22	May-22	15-Jun-22	AUM as on 15-Jun-22
Metals & Mining	23	(41)	42	0.9	(27.5)	(23.4)	1,234
Power	41	(2)	20	5.6	23.1	(19.6)	1,875
Healthcare	(14)	(23)	13	52.3	(7.1)	(8.6)	1,980
Telecom	48	85	(14)	4.4	(6.0)	(23.8)	1,037
Other services	(15)	(51)	(2)	2.1	26.6	1.8	691
FMCG	21	(80)	(30)	17.6	(5.7)	(15.2)	2,590
Realty	50	32	(35)	(8.3)	(4.9)	(0.0)	503
Industrials, Construction, capital goods	155	38	(61)	(19.4)	(6.8)	8.1	2,550
Construction Materials	24	(43)	(92)	(0.3)	(14.5)	(16.6)	633
Oil & Gas	31	10	(79)	(12.1)	(35.7)	8.5	5,457
Discretionary Consumption	66	303	(319)	0.4	(60.0)	(43.2)	5,007
IT & Hardware	(32)	(209)	(566)	(85.8)	(161.3)	(37.0)	5,094
Financials	205	(365)	(798)	(128.9)	(120.2)	(80.5)	12,856
Total	604	(346)	(1,921)	(171.4)	(400.0)	(249.5)	41,506

Source: NSDL, I-Sec Research

Note: NSDL has changed sector classification from April'22. We have broadly attempted to map old sectors with new sectors.

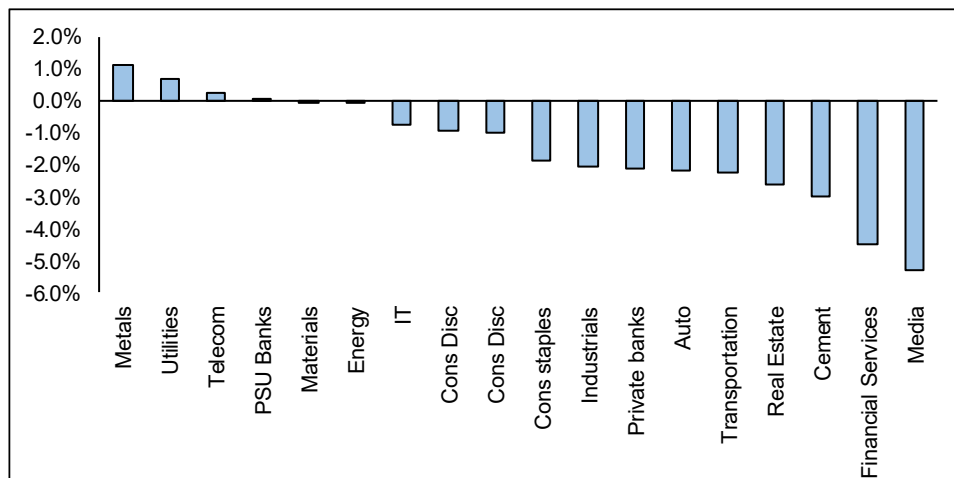
Chart 5: Trend in aggregate %age FPI holding in key benchmark indices (based on current constituents in the indices)



Note – Data based on quarterly shareholding filings by companies till Mar'22

Source: Capitaline, I-sec research

Chart 6: Change in FPI %age holdings in key sectors over Mar'21 to Mar'22 within NSE 200 universe (based on current constituents in the indices)

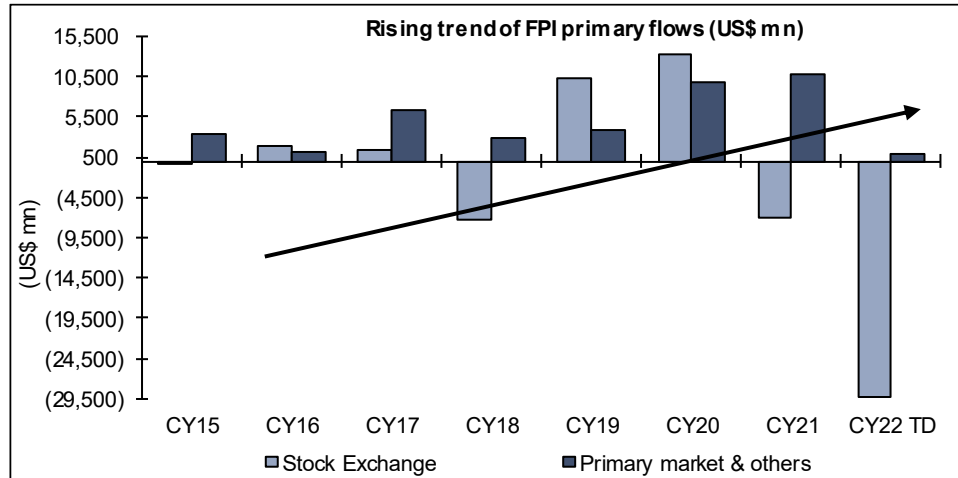


Note – Data based on quarterly shareholding filings by companies till Mar'22

Source: Capitaline, I-sec research

- ▶ Strong FPI primary flows of US\$10.8bn in CY21 vs US\$9.8bn in CY20 despite volatility; however, 1st half of 2022 has seen dip in flows:

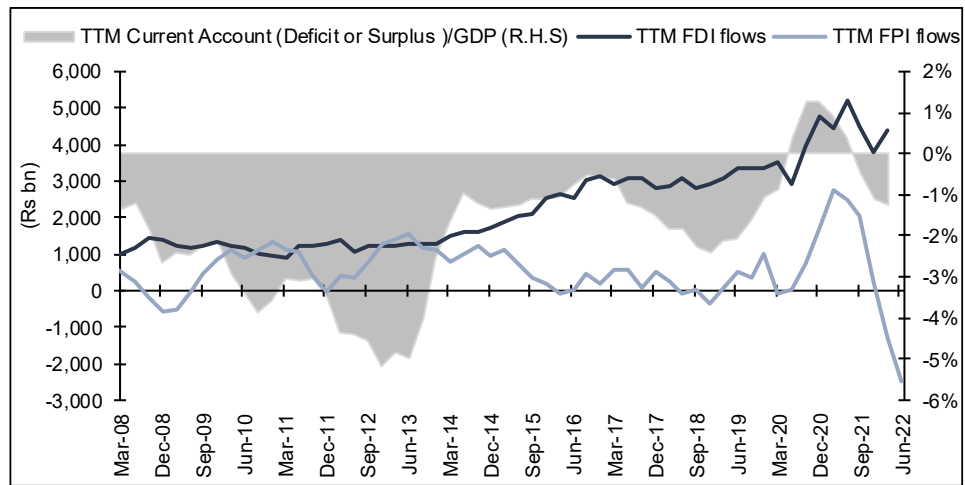
Chart 7: Break up of FPI flows into primary and secondary markets



Source: NSDL, I-Sec Research

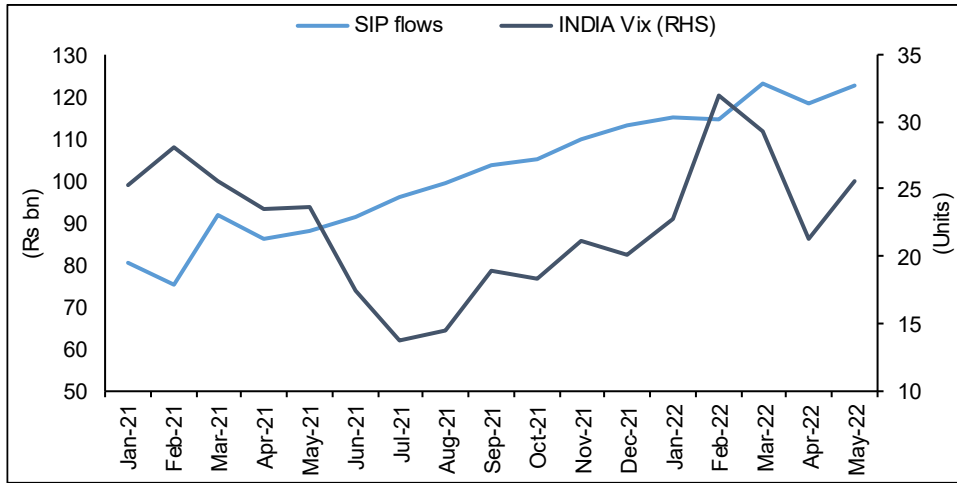
- ▶ Rising share of FDI as a source of financing CAD is a counterbalancing force against the sharp FPI outflows

Chart 8: Reducing reliance on FPI flows for financing CAD



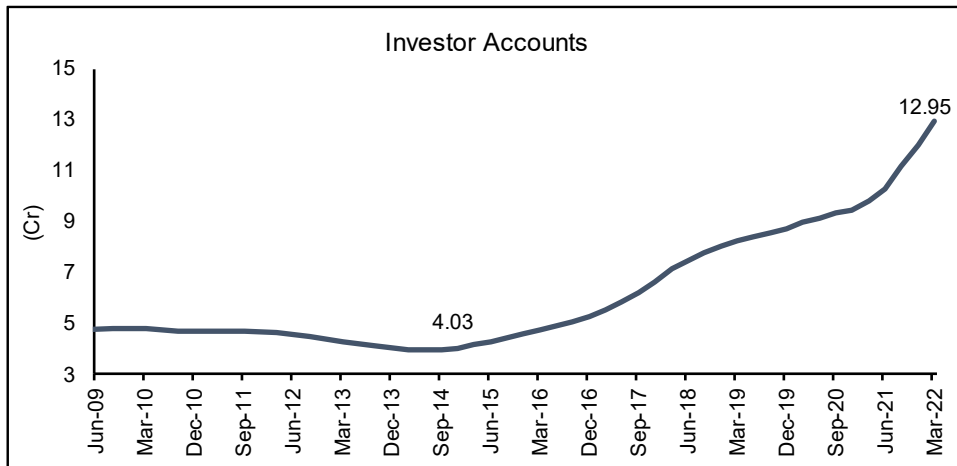
Source: Bloomberg, CEIC, I-Sec Research

Chart 9: SIP flow has been steadily increasing MoM despite periods of high volatility



Source: Bloomberg, AMFI, I-Sec Research

Chart 10: Since December 2014, there is a significant increase in MF investor accounts from 4.03cr to 12.95cr in March 2022



Source: AMFI, I-Sec Research

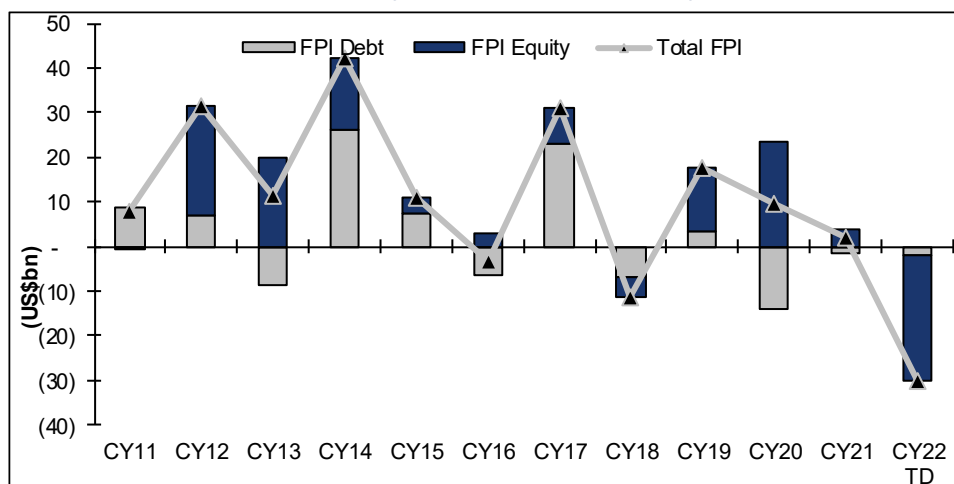
Table 3: Mutual fund flows

(Rs bn)

	Flows													CY22 total	AUM		
	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	May-21		Apr-22	May-22	
Equity Oriented schemes	63	219	100	96	86	142	295	195	254	406	217	234	1,305	11,115	14,481	14,163	
Multi Cap	2	2	0	36	3	3	106	9	6	97	13	13	138	235	556	547	
Flexicap	11	115	47	20	11	27	24	25	39	25	17	29	136	1,712	2,235	2,187	
Large Cap	5	6	-1	0	7	16	15	19	23	31	13	25	110	1,908	2,231	2,198	
Mid Cap	17	15	2	14	4	13	17	18	20	22	15	18	93	1,273	1,623	1,558	
Small Cap	7	18	-2	-2	3	8	10	15	14	17	17	18	81	804	1,097	1,047	
Large & Mid Cap	8	12	5	3	6	12	16	17	20	32	20	24	114	837	1,109	1,088	
Focused	6	10	31	1	7	15	15	18	20	23	13	15	89	751	962	939	
Value/Contra	-1	-5	-6	-1	-3	4	3	-2	8	8	7	12	33	660	794	779	
Dividend Yield	0	1	0	0	0	1	0	1	2	0	1	1	4	80	98	96	
Sectoral/Thematics	12	57	19	26	17	15	38	21	34	3	38	23	120	1,093	1,496	1,467	
ELSS	-8	-5	-8	-9	-5	2	6	8	11	27	3	7	56	1,327	1,461	1,408	
Index	17	11	19	31	35	35	45	49	57	123	61	57	348	229	740	780	
Other close ended	-13	-17	-4	-21	-1	-9	-1	-3	0	-1	-2	-8	-15	159	43	32	
Income / Debt	-75	639	-54	-689	120	150	-485	56	-78	-1,139	341	-426	-1,246	14,906	14,167	13,726	
Overnight	45	59	-118	163	63	-121	47	194	13	-129	41	151	270	784	1,075	1,230	
Liquid	21	317	-7	-484	-102	533	-87	-144	403	-446	287	18	118	3,350	3,758	3,787	
Fixed Term Plan	-105	-98	-65	-50	-11	0	2	2	2	8	-203	-100	-291	806	280	176	
Money Market	-140	209	20	-84	38	-5	-70	47	-7	-55	162	-146	2	1,151	1,308	1,163	
Low Duration	63	82	-74	-166	42	-67	-110	-20	-50	-89	15	-67	-211	1,470	1,145	1,078	
Hybrid / Other	165	285	284	121	177	169	148	102	140	35	171	116	563	7,035	9,388	9,331	
Other ETFs	30	65	85	77	54	65	136	40	108	69	87	61	364	2,997	4,129	4,097	
Balanced /Aggressive Hybrid	-3	7	-6	-2	-1	6	5	15	9	12	7	14	57	1,294	1,476	1,448	
Dynamic Asset Allocation/Balanced Advantage	21	25	166	52	112	61	37	28	21	17	15	22	104	1,160	1,801	1,800	
FoF investing overseas	8	25	11	4	15	3	3	4	2	0	1	2	9	161	205	204	
Arbitrage	91	149	18	-30	-23	10	-43	10	-3	-68	41	10	-11	859	990	1,000	
Total Mutual funds	153	1,143	330	-473	383	462	-42	353	315	-699	728	-75	622	33,057	38,037	37,220	
SIP Flows	92	96	99	104	105	110	113	115	114	123	119	123	594				

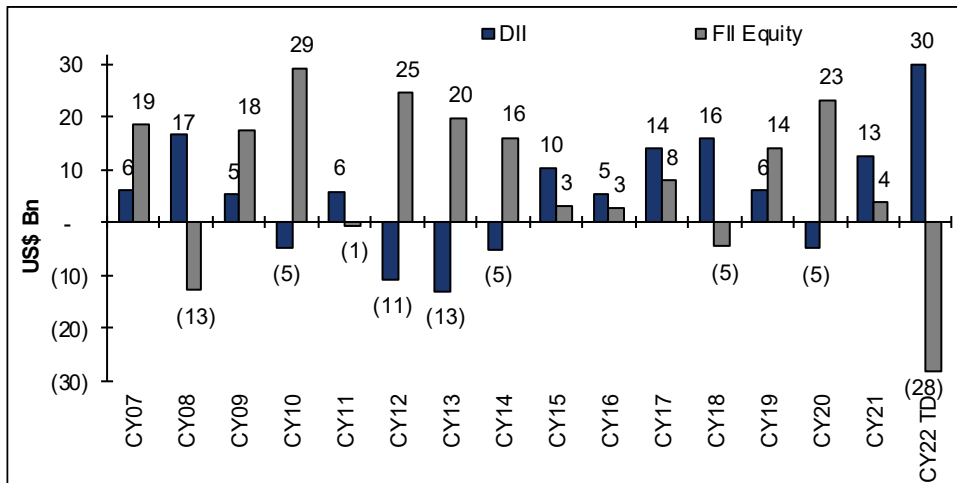
Source: CEIC, AMFI, I-Sec Research

Chart 11: CY FPI flows (equity flows include primary flows)



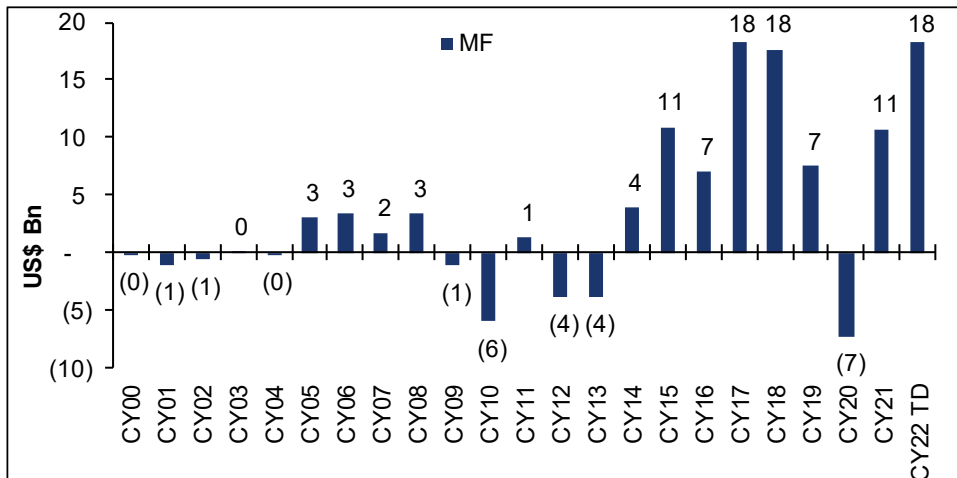
Source: Bloomberg, I-Sec Research

Chart 12: DII inflows have been relatively strong in CY22TD (FPI includes primary flows)



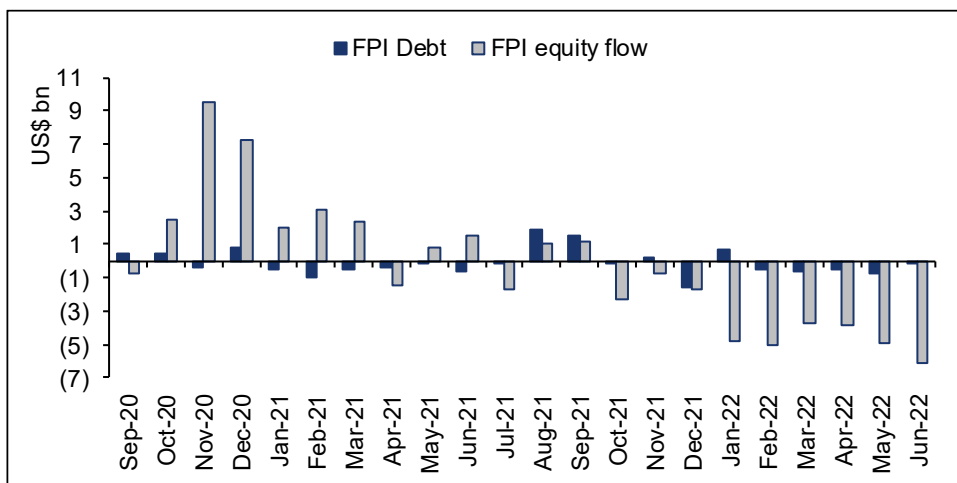
Source: Bloomberg, I-Sec Research

Chart 13: Mutual fund flows into equities



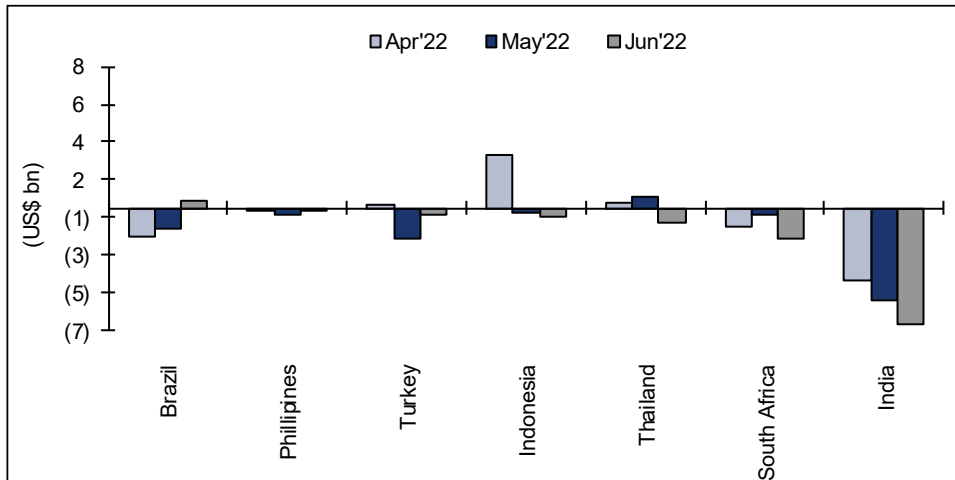
Source: Bloomberg, I-Sec Research

Chart 14: Volatility in FPI flows



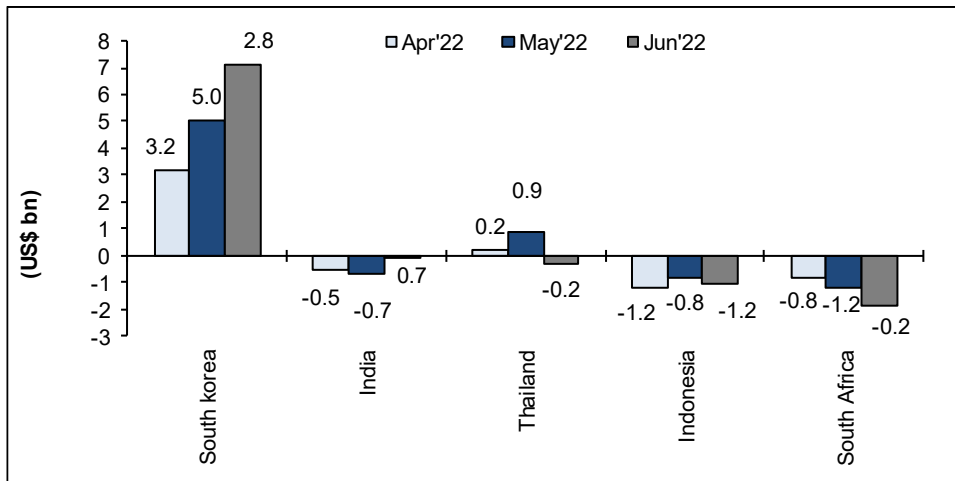
Source: Bloomberg, I-Sec research

Chart 15: Emerging market flows



Source: Bloomberg, I-Sec Research

Chart 16: Emerging market debt flows



Source: Bloomberg, I-Sec Research

Table 4: FPI AUM by category*(Rs bn)*

	May-21	May-22	Change (%)
Category I			
Appropriately Regulated Fund	22,531	23,762	5.5%
Pension Fund	3,697	3,671	-0.7%
Unregulated fund whose investment manager is Category I FPI	3,256	3,161	-2.9%
Sovereign Wealth Fund	2,630	2,720	3.4%
Entity controlled or at least 75% owned by Government and Government related investor(s)	2,150	2,671	24.2%
Entity whose Investment Manager is Category I FPI from FATF member country	2,694	2,132	-20.8%
Central Bank	1,118	1,192	6.6%
Appropriately Regulated - Insurance or Reinsurance Entity	553	632	14.4%
Entity which is atleast 75% owned by Appropriately regulated entities	523	495	-5.4%
Appropriately Regulated - Investment Advisor	423	354	-16.2%
Appropriately Regulated - Investment Manager	573	348	-39.2%
Appropriately Regulated - Broker Dealer	194	221	14.1%
University related endowment	158	190	20.0%
Appropriately Regulated - Bank	367	180	-51.0%
University Fund	33	46	38.1%
International/ Multilateral Organizations/ Agencies	31	38	23.5%
Entity which is atleast 75% owned by Pension Fund	8	12	50.5%
Entity which is atleast 75% owned by university related endowments	-	9	100.0%
Category II			
Unregulated fund - Limited Partnership / Trust	502	746	48.5%
Appropriately regulated fund not eligible as Category-I FPI	1,051	706	-32.8%
Others	451	528	17.0%
Corporate Body	114	164	44.7%
Charitable Organisation	111	97	-13.1%
Family Office	23	18	-23.2%
Endowment / Foundation	9	8	-12.8%
Individual	1	1	4.2%
Expired FPIs which have not been Recategorised	14	19	36.0%
Total	43,213	44,120	2.1%

Source: NSDL, I-Sec Research

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