

FPI Optimism in Indian Markets

Posted at: 13/11/2024

FPI Optimism in Indian Markets

Context

Despite a continued sell-off by **foreign portfolio investors (FPIs)** in Indian markets since October this year, new FPIs are still showing interest in investing. Around **40-50 new FPI registrations** were submitted to the **Securities and Exchange Board of India (SEBI)** during this month, indicating a strong interest in the Indian market.

Background

- As of **March 2024**, there were **11,219 FPIs** registered with SEBI.
- Throughout the entire fiscal year **2023-24**, only **138 FPIs** registered with SEBI, averaging about **12-13 new FPI registrations per month**.
- This recent surge in new FPI applications suggests increased interest, even with existing market volatility.

Foreign Portfolio Investors (FPI)

- **Foreign Portfolio Investors (FPIs)** are **foreign entities or individuals** that invest in a country's **financial assets** like **stocks, bonds, and mutual funds**, without acquiring direct control over companies.
- FPIs include **institutional investors** such as **mutual funds, hedge funds, pension funds, and insurance companies**, as well as **individual investors**.

Key Characteristics of FPIs

1. Portfolio Investments:

- FPIs invest in **securities and financial assets** (such as stocks and bonds), but do not hold physical assets or take direct ownership in companies.

2. Short-term Focus:

- FPIs usually aim for **short-to-medium term returns**. In contrast, **Foreign Direct Investment (FDI)** is more **long-term oriented**.

3. High Liquidity:

- FPIs are **highly liquid**, meaning they can be sold off quickly. This flexibility makes FPIs more **sensitive to market volatility** and economic conditions.

FPI Regulations in India

- **SEBI (Securities and Exchange Board of India)** regulates FPIs under the **SEBI (FPI) Regulations, 2019**.
- FPIs are required to **register with SEBI** to legally invest in Indian markets.

Reasons for FPI Optimism Towards India

Several factors have contributed to the **continued interest** of FPIs in Indian markets, despite recent sell-offs:

1. Relaxed SEBI Norms:

- SEBI has **relaxed certain rules** for **Non-Resident Indians (NRIs)**, allowing up to **100% participation** in FPI activities and simplifying registration and operational processes, which has boosted foreign investor confidence.

2. Political Stability:

- India's **long-term political stability** adds a sense of **security for investors**, increasing their willingness to invest in the country's markets.

3. Economic Growth Potential:

- With strong **economic growth prospects**, India provides **attractive yields** for investors looking for emerging market opportunities.

4. Government Capital Expenditure:

- The Indian government's **significant capital expenditure** on infrastructure and development projects is expected to drive growth, which can lead to increased investment returns.

5. RBI's Cautious Monetary Policy:

- The **Reserve Bank of India (RBI)** is carefully managing interest rates to control inflation, thereby maintaining **stability in the financial markets** and supporting fundraising activities for companies.

6. Impact of U.S.-India Strategic Relations:

- The recent **strengthening of U.S.-India relations** has created optimism. Strategic partnerships between the two nations could lead to **favorable trade policies** and may attract additional FPI inflows due to potential benefits from this alliance.

Conclusion

Despite the sell-off trend among existing FPIs, new investors see opportunities in India due to regulatory support, economic stability, and growth potential. Factors like SEBI's relaxed norms, political and economic stability, and the U.S.-India strategic partnership are encouraging foreign investors to look at India as a promising investment destination.