

FII



Global Funds, Local Markets, Unpacking FII Trends in India



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— SPROUT —

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Greetings from **Capital Sprout!**

It gives me great pleasure to share the November 24 edition of **Global Funds, Local Markets, Unpacking FII Trends in India** which delves into the evolving trends of Foreign Institutional Investments (FII) in India. This issue focuses on key drivers behind FII activity, their impact on the Indian markets, and the future of this critical segment of global capital flows.

Foreign Institutional Investors (FIIs) have long played a pivotal role in shaping the trajectory of India's financial markets. In 2024, their influence has been marked by both resilience and volatility. While the Indian equity market has faced headwinds, including rising global interest rates and geopolitical uncertainty, it has remained a key destination for foreign capital. Despite intermittent outflows- primarily driven by inflationary pressures and tighter monetary policies- India's strong macroeconomic fundamentals and increasing weight in global indices continue to draw investor confidence.

This edition delves into the latest FII trends shaping India's markets. Explore how factors such as global monetary policies, domestic demand, and sectoral performance shape FII trends.

We hope readers find this newsletter helpful. Happy reading!

CA DR Rajesh Khandol

A Snapshot of FII Activity in 2024

FII displayed a mixed trend in 2024, with net flows reflecting strong buying and considerable selling pressures. From January to November 2024, cumulative FII net outflows stood at approximately - ₹287,234.77crores.

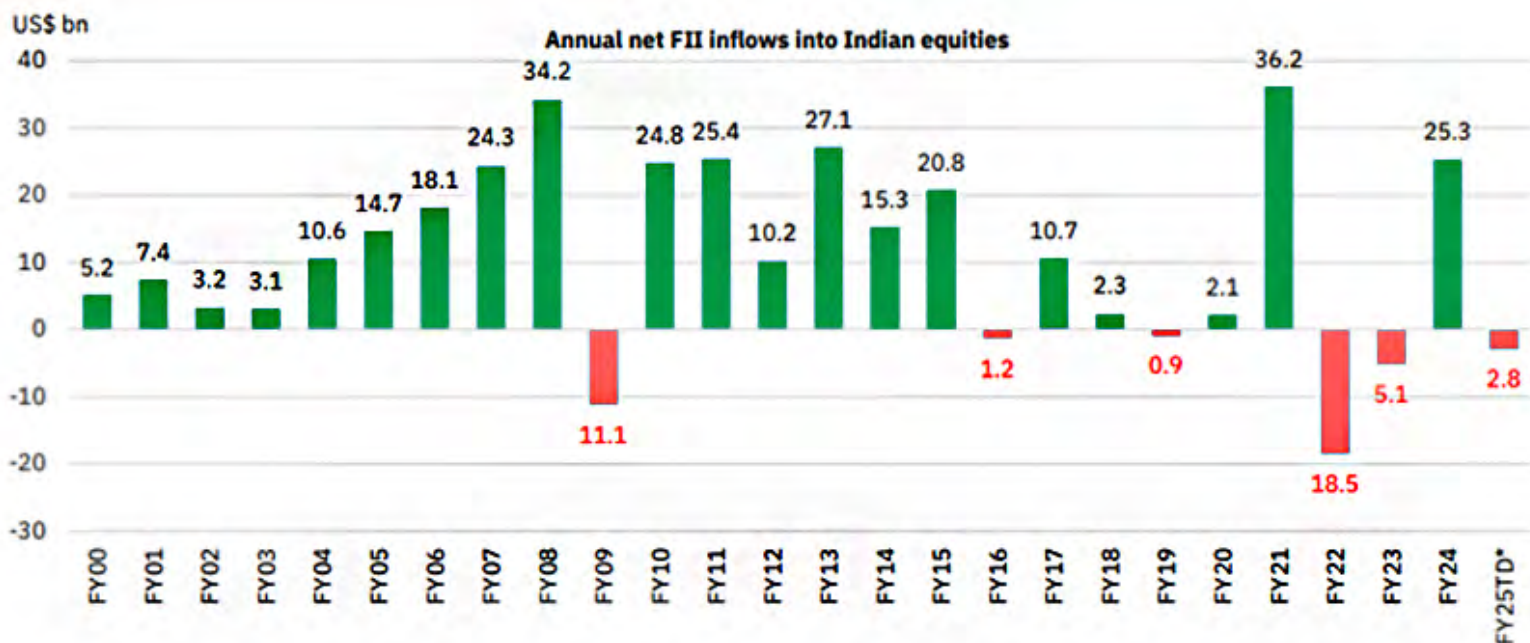
- October 2024 and November 2024 saw significant outflows of -₹114,445.89 crores and -₹45,974.12 crores, respectively, driven by global uncertainties and rising U.S. Treasury yields.
- Contrasting these trends, September 2024 witnessed net inflows of ₹12,611.79 crore, reflecting renewed investor confidence during a brief period of stability.
- Other months, such as July 2024 and June 2024, saw modest net inflows of ₹5,407.83 crore and ₹2,037.47 crore, respectively, as FIIs capitalized on attractive valuations in Indian markets.



A Snapshot of FII Activity in 2024

However, throughout the year, the volatility has been evident. Inflows in some months were offset by significant sell-offs in others, such as May 2024 (-₹42,214.28 crore) and April 2024 (-₹35,692.19 crore). This erratic pattern underscores the influence of global factors like monetary tightening, geopolitical tensions, and risk-off sentiments.

The total net outflows paint a challenging picture for Indian markets, but India's internal strength has been a mitigating factor. Domestic Institutional Investors (DIIs) have played a critical role in stabilizing markets, absorbing a large part of FII selling pressure. This growing internal buying strength reflects a maturing domestic investment landscape and highlights India's progress toward self-reliance in financial markets.



Source: NSE EPR as of November 8th, 2024

1.Sectoral Shifts: Technology and renewable energy have emerged as top picks for FIIs in 2024. The Indian government's push towards digitalization and green energy has made these sectors lucrative. Investments in tech startups and clean energy companies have surged, accounting for nearly 30% of total FII inflows.



2.Debt Market Resurgence: FIIs are increasingly eyeing India's debt markets, drawn by attractive yields and a stable rupee. Data from CDSL shows that FII investments in debt securities rose by 18% year-on-year, signaling a diversification strategy to hedge against equity market volatility.



3.Geopolitical Influence: The Russia-Ukraine conflict, coupled with China's slowing economic growth, has redirected capital flows towards India. As a relatively stable emerging market, India has benefited from this shift, further cementing its position as a preferred investment destination.



4. Index Inclusion: India's inclusion in JP Morgan's Emerging Market Bond Index in 2024 has been a game-changer. This development is expected to bring in over \$25 billion in passive inflows over the next two years, reinforcing FII participation.

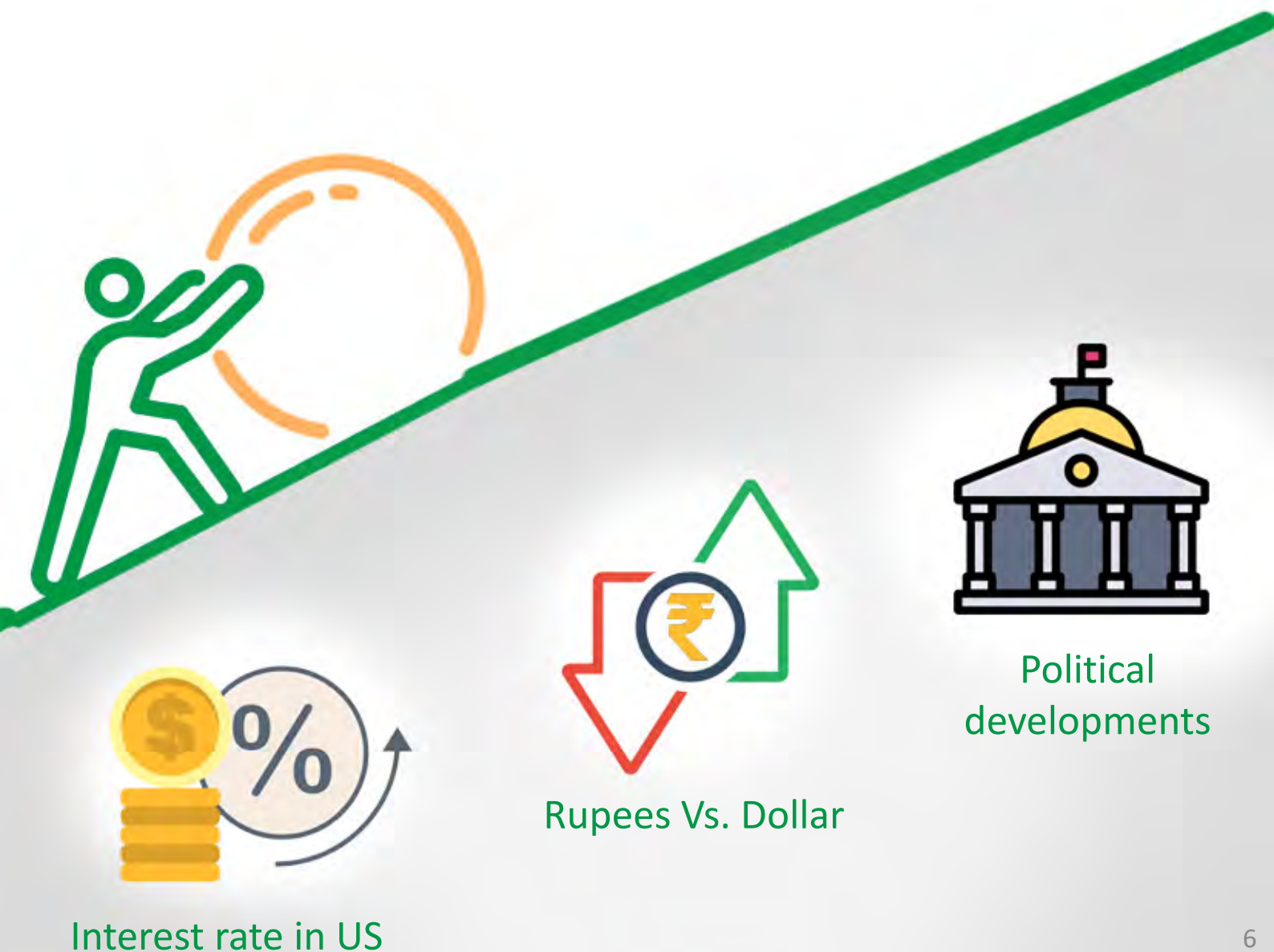


Challenges and Risks

Despite the optimism, FII activity in India is not without challenges. Global central bank policies, especially those of the U.S. Federal Reserve, continue to influence FII sentiment. Rising interest rates in the U.S. have occasionally led to outflows as investors seek higher returns in developed markets.

Currency fluctuations also pose risks. While the rupee has remained relatively stable in 2024, any sharp depreciation could deter FIIs, impacting their returns in dollar terms.

Additionally, domestic policy uncertainties and political developments in the run-up to the 2024 general elections could introduce volatility, influencing FII decision-making.



Interestrate in US

Rupees Vs. Dollar

Political developments

Opportunities in Indian Markets

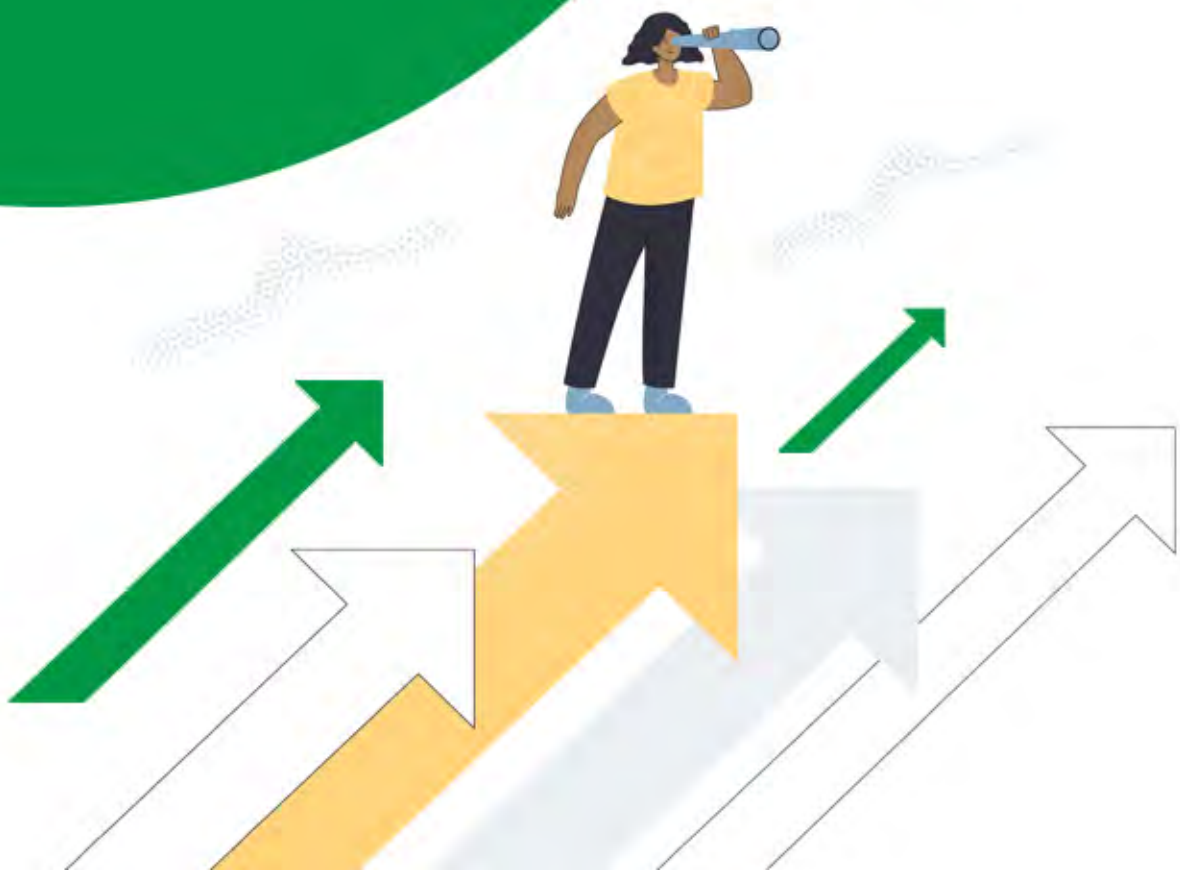
1. Green Economy Investments: With India's commitment to achieving net-zero emissions by 2070, the renewable energy sector is poised for exponential growth. FII interest in green bonds and renewable infrastructure projects is likely to surge.



2. Consumer Growth Story: India's burgeoning middle class and increasing consumer spending present opportunities in sectors like retail, FMCG, and e-commerce.



3. Startups and Innovation: India's startup ecosystem, the third-largest globally, continues to attract FII interest. In 2024, sectors like fintech, edtech, and health tech have seen robust FII funding.



Implications for the Indian Economy

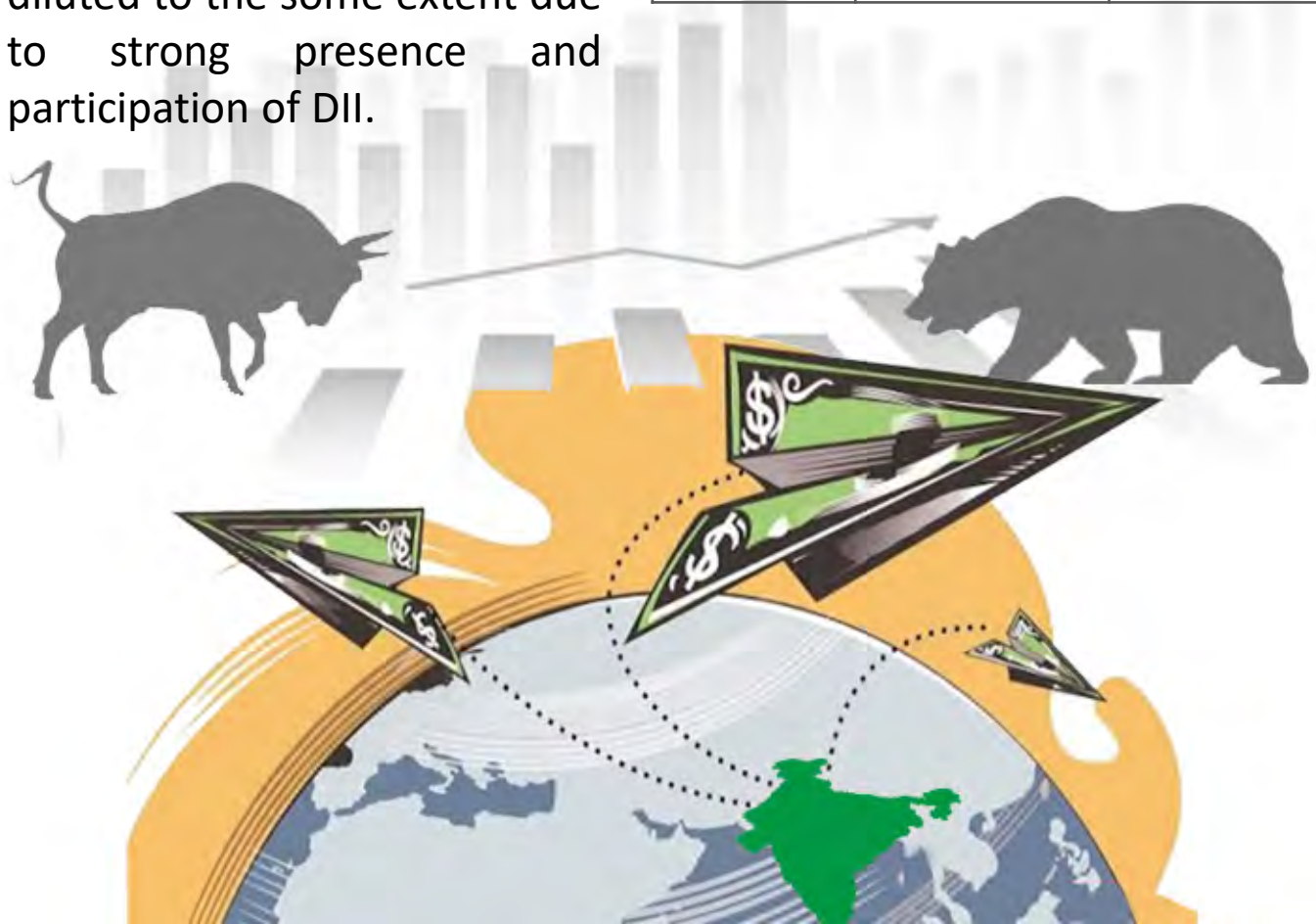
FII investments play a crucial role in deepening India's financial markets and enhancing liquidity. Their participation often sets the tone for domestic investor sentiment. However, reliance on volatile FII flows also underscores the importance of developing stable, long-term sources of capital, such as domestic institutional investments and sovereign wealth funds.

Impact of FII selling & buying on stock market is still significant.

While going through the table, we can observe that in first four incidences of net outflow, market went down. The rest of four incidences of Net inflow cases market went up significantly even for small amount of net inflow.

Eventually we can conclude that effect of FII outflow is diluted to the some extent due to strong presence and participation of DII.

Month Year	FII Net Investment (₹ Cr)	Nifty 50 Return (%)
Oct-24	-1,14,445.89	-6.14%
Mar-20	-65,816.70	-26.60%
Jun-22	-58,112.37	-4.91%
May-22	-54,292.47	-2.01%
Nov-20	65,317.13	10.87%
Dec-20	48,223.94	7.04%
Feb-21	42,044.46	5.60%
Mar-19	32,371.43	7.21%



Looking Ahead: What to Expect

The outlook for FII investments in India remains optimistic but contingent on several critical global and domestic factors. As the world's major economies navigate economic recovery, the performance of the U.S. and European markets will heavily influence capital flows into emerging economies like India. A robust economic environment in developed markets could either compete with or complement the attractiveness of Indian markets, depending on investor sentiment and risk appetite.

India's proactive policy reforms will play a crucial role in sustaining FII interest. Measures aimed at improving ease of doing business, addressing tax-related concerns, and introducing sector-specific incentives will likely bolster foreign investor confidence. These reforms not only enhance India's global competitiveness but also create a stable investment ecosystem that can weather global uncertainties.



Market dynamics further contribute to this optimistic outlook. With India's growing presence in global indices, the stage is set for significant passive inflows from ETFs and index funds. These inflows, driven by the increasing adoption of index-based strategies, are not just numbers on a ledger—they reflect a deepening integration of India's financial markets with the global investment ecosystem. Such investments promise to bring more stability to FII participation, reducing the episodic volatility often seen in foreign flows.



As we look ahead, India's growth story remains compelling. The balance between addressing short-term volatility and leveraging long-term opportunities will determine the trajectory of FII investments. For investors, staying informed and adapting to evolving market conditions will be key to maximizing returns in one of the world's most dynamic emerging markets. The journey ahead promises both challenges and immense potential, reaffirming India's status as a critical player in the global investment landscape.



Performances

Equity Market

Indices	01-11-2024	30-11-2024	High	Low
BSE S&P SENSEX	80,023.75	79,802.79	80,569.73	76,802.73
NIFTY 50	24,302.75	24,131.10	24,537.60	23,263.15

Mutual Fund

AUM Data of Mutual Fund for the Month of Nov 2024

(INR. In Lakh Crore)

Particulars	AUM As On 31-10-2024	Fresh Fund Mobilize During Nov- 24	Redemption During Nov-24	AUM As On 30-11-2024
Total AUM of all mutual funds scheme	67.21	10.15	9.55	67.81
AUM of equity oriented (growth) schemes	30.00	0.62	0.26	30.36

Source: Association of Mutual Fund of India (AMFI)

SIP Contribution

(INR. In Crore)

Month	SIP Contribution	SIP AUM
Nov-2024	25,320	13,54,105

FII & DII Inflow/Outflow Position

FII's selling in the month of Nov-24 is 0.46 Lakh.

DII's buying in the month of Nov-24 is 0.44 Lakh.

Inflow/Outflow position in the month of Nov 2024

(INR. In Crore)

FII /DII	Gross Purchase	Gross Sale	Net
FII	3.07Lakh	3.53Lakh	(0.46)Lakh
DII	2.29 Lakh	1.85Lakh	0.44 Lakh

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