MFs step up buying, FPI flows fall

Invest ₹7,700 crore in July, highest in four months; other domestic investors remain sellers

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ILLUSTRATION: BINAAY SINHA

Mutual funds (MFs) have stepped up equity purchases after staying on the fence for over two months. Their net equity investments reached a four-month high of ₹7,700 crore in July, rising for the third consecutive month after withdrawing a net of ₹5,100 crore in April 2023.

This trend continued in August, with net investments of ₹3,400 crore in the first three trading sessions, according to data from the Securities and Exchange Board of India (Sebi).

The buying by domestic fund managers comes at a time when daily foreign portfolio investor (FPI) flows have turned negative during five of the previous 12 trading sessions due to rising US bond yields.

On Tuesday, they sold shares worth ₹711 crore, shows provisional data provided by stock exchanges.

Other domestic institutional investors (DIIs), such as insurance firms, banks, new pension schemes, and development financial institutions, have remained on a selling spree (on an aggregate basis) for three consecutive months starting in May. They have offloaded shares worth ₹19,000 crore during this period, according to data from exchanges.

As a result, the equity buying by MFs has provided a strong counterbalance to the market. Despite the recent selling by FPIs, the benchmark indices have declined by less than 3 per cent from their peak, while the broader markets have managed to scale new peaks.

Experts state that DIIs, especially insurance firms, have booked profits in the past few months as the equity market rose sharply due to strong inflows from FPIs. The benchmark National Stock Exchange (NSE) Nifty50 has recorded gains in each of the past five months, starting in March, and has risen almost 14 per cent during this period. FPIs infused a net of ₹1.58 trillion in the March–July period. However, FPIs have been net sellers over the past fortnight.

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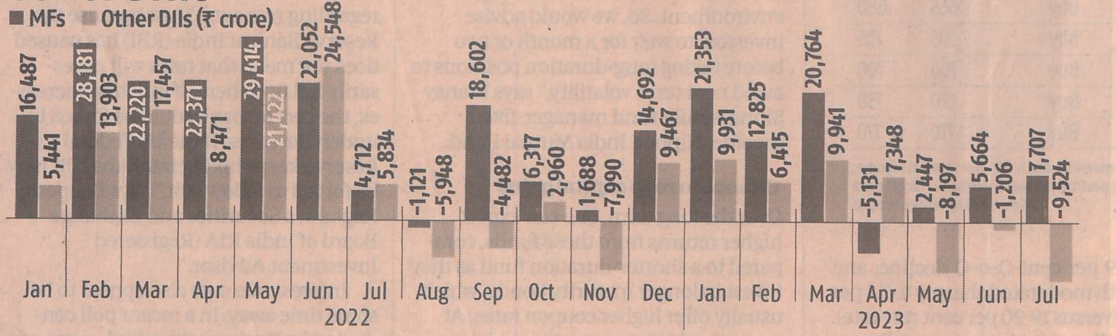

Source: Sebi, exchanges; Compiled by BS Research Bureau

The equity investments by MFs are largely influenced by the trend in investor flows, as most fund houses avoid keeping more than 5 per cent in cash. The slowdown in MFs' equity investments in 2023-24 is primarily due to higher redemptions. Investors' average monthly redemptions stood at ₹25,300 crore in the first quarter (Q1), compared with ₹18,000 crore in 2022-23.

Still, the equity buying trends of MFs and other DIIs are generally in sync. The investment patterns of FPIs and DIIs are mostly inversely correlated.

Overall, domestic investors' (individual and institutional) ownership in NSE-listed companies declined for the first time in seven quarters in Q1

"Whenever FPIs are major buyers, DIIs tend to be sellers. FPIs' buying and selling decisions are influenced by several factors, including US bond yields, the US dollar index, and other global factors. On the other hand, DIIs primarily focus on domestic factors and company-specific fundamentals such as earnings and valuations. The DII strategy has worked well this time, and they have achieved gains," observes V K Vijayakumar, chief investment strategist at Geojit Financial Services.

According to a report by PRIME Database, the ownership of insurance companies in NSE-listed companies declined to 5.67 per cent from 5.87 per cent in Q1 (April–June) as their equity allocation decreased due to profit booking.

Overall, domestic investors' (individual and institutional) ownership in NSE-listed companies declined for the first time in seven quarters in Q1.

"The decrease in domestic ownership was due to profit booking by Life Insurance Corporation of India, MFs, retail investors, and wealthy investors, as markets reached all-time highs," says Pranav Haldea, managing director of PRIME Database.

MFs had become net sellers in April as they offloaded stocks worth ₹5,100 crore, the highest since February 2021. Their investments have consistently risen since then. Consequently, they were net buyers in Q1, with a net investment of ₹3,000 crore.