

FPIs trim fin exposure: Lowest in six yrs at 29%

At its peak in Dec 2019, foreign portfolio investors held 41% in BFSI stocks

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Mumbai, 22 February

Foreign portfolio investor (FPI) exposure to financial services stocks has fallen to 28.97 per cent, the lowest since 2018, according to data provided by PRIME Infobase. At their peak in December 2019, nearly 41.2 per cent of FPI assets under custody (AUC) were in the banking, financial services and insurance stocks.

The current allocation is also below the sector's weighting of 33 per cent in the benchmark National Stock Exchange Nifty 50 Index. However, it is largely in line with that in the Nifty 500.

Given the availability of large and liquid names, overseas funds have historically held a huge overweight on the financial sector. However, due to their sharp underperformance after the pandemic, FPIs have shifted their bets to other sectors such as automotive, capital goods, and power. Also, cashing out of the FPI space is relatively easier, given the interest of institutional investors, experts point out.

"Traditionally, FPIs have maintained a large weighting in the banking sector, as these stocks also constitute a major portion of the index. Also, whenever they have to sell, finance is one sector they will look at," said Andrew Holland, chief executive officer of Avendus Capital Public Markets Alternate Strategies.

Market players said the sharp reduction in FPI allocation can be attributed to their aversion to two marquee names — HDFC Bank and Kotak Mahindra Bank. Over the past year, shares of HDFC Bank are down 11 per cent, and those of Kotak Mahindra Bank are up 1.3 per cent. In comparison, the Nifty50 is up 27 per cent and Bank Nifty is up 17 per cent.

"Nifty Bank has underperformed in the past year, mainly driven by the poor stock performance of heavyweights



ILLUSTRATION: BINAY SINHA

LOSING INTEREST

FPI allocation to financials stocks has slipped below 30%

FINANCIAL SERVICES — Total assets under custody (AUC) is ₹61.99 tm*

● AUC (₹ trillion) ■ Allocation (%)



*As on January 2024

Source: PRIME Infobase

HDFC Bank and Kotak Mahindra Bank. We are witnessing the banks trading at higher valuations than their historical median, except for two large banks, HDFC Bank and Kotak Bank. The sharp correction in these two banks led to valuation comfort, and earnings upgrades are likely to bring investor sentiment back," said Ajit Kabi, research analyst at LKP Securities.

In the past one month alone, FPIs have pulled ₹39,000 crore (\$4.7 billion) out of financial stocks

In the past month alone, FPIs have pulled out ₹39,000 crore (\$4.7 billion) from financial stocks. The selloff was triggered by HDFC Bank's weak

December 2023 quarter earnings. The recent peak allocation towards financial stocks was 34.2 per cent in April 2023. The AUC since then has increased by 33 per cent to ₹62 trillion. The sharp drop in allocation but an increase in AUC underscores the sectoral rotation at play.

"While all these FPIs will be open to buying some stakes in the future, as of now, there are not many takers for some private bank majors. The sentiment towards other finance stocks too has taken a hit due to the selloff in some large private banks," said U R Bhat, co-founder of Alphaniti Fintech, adding that high credit deposit ratios and margin disappointments are key concerns for investors.