

FPIs exit BFSI, IT stocks in May's opening weeks

FPIs trim holdings, await positive signals; experts eye post-Budget opportunities amid election tension

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Mumbai, 20 May

Stocks in the banking and information technology (IT) sectors have accounted for more than half of the selloff by foreign portfolio investors (FPIs) during the first half of this month.

According to *PRIME Infobase*, FPIs withdrew nearly ₹10,000 crore from financial stocks, mainly banks, and another ₹5,574 crore from the IT pack between May 1 and May 15.

During the fortnight, total FPI selling stood at ₹25,278 crore (\$3 billion).

Construction, oil and gas, and fast-moving consumer goods (FMCG) stocks were among the other sectors that saw heightened FPI selling.

Foreign investors were net sellers of ₹3,811 crore in construction stocks while selling shares worth ₹2,808 crore in oil, gas, and consumable fuel stocks, and shares worth ₹1,158 crore in FMCG.

As large FPI holdings are concentrated in financials, oil and gas, and IT stocks, these sectors tend to experience higher pullouts during episodes of FPI selloffs.

"If we observe the composition of large indices in India, financial services and IT have the largest weight, and FPIs have high exposure to them. IT is a foreign-facing business, and since there is a general slowdown internationally, the technology sector has ceased to be the must-have sector for the time being," said UR Bhat, co-founder of Alphaniti Fintech.

Regarding the selling of financial services stocks, Bhat said banking stocks have made huge gains over the past few years. The larger names where FPIs have sold have seen a change in leadership and a shift in the outlook of the bank.

"FPIs are in a wait-and-watch mode. They have probably reduced their weighting and are waiting for external or better newsflow to come," said Bhat.

On the selling in construction stocks, analysts said the engineering, construction, and procurement billing cycle would have peaked in the run-up to the elections.

Regarding profit-taking in FMCG stocks, experts said foreign investors might take fresh positions after the Budget as there are signs of a revival in rural demand.

"In the run-up to the elections, wherever they have large exposure or made profits, they want to sell and keep some dry powder," said Bhat.

Consumer services, capital goods, and realty saw positive flows from overseas investors. FPIs were net buyers of consumer services

PULLING BACK



Overall, net outflows stood at ₹25,278 crore for the fortnight ended May 15

Sectors with highest outflows

	Flows (₹ cr)
Financials	-9,687
IT	-5,574
Construction	-3,811
Oil & Gas	-2,808
FMCG	-1,158

Sectors with highest inflows

	Flows (₹ cr)
Consumer services	733
Capital goods	376
Realty	233
Others	180
Healthcare	172

Note: Data for period between May 1 and May 15, 2024
Source: primeinfobase.com

stocks worth ₹733 crore and capital goods stocks worth ₹376 crore. FPIs also bought realty stocks worth ₹233 crore and healthcare stocks worth ₹172 crore.

The latest bout of FPI selloff was triggered by a spike in US bond yields amid uncertainty over the Federal Reserve's rate-cut trajectory.

Election-induced volatility and the rotation of flows from India to China, where stocks are available at half the valuations, also contributed to the selling spree.

There is rising anxiety about the incumbent National Democratic Alliance regime's margin of victory in the ongoing Lok Sabha elections and its impact on policy continuity.

However, after the latest softer-than-expected inflation data, US bond yields have softened, which is expected to provide some relief for risky assets.

As of May 15, the highest sectoral allocation was to financial services at 28.28 per cent (down from 29.13 per cent on April 30), followed by oil, gas, and consumable fuels at 8.95 per cent (down from 9.13 per cent) and IT at 8.53 per cent (up from 8.5 per cent).