FPIs, MFs chasing fewer stocks

Their investments in the top 20 shares as percentage of the overall investment touched a multi-year high

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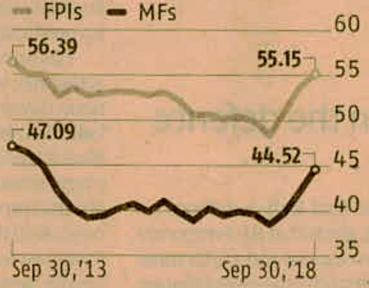
Percentage of investment in top 20 stocks vis-a-vis all NSE-listed firms



Source: PRIME Database

Distorted valuations and regulatory changes have prompted institutional investors to go after fewer stocks in the last one year or so, indicating polarisation among equities.

Numbers for the September quarter show that the percentage of investments by foreign portfolio investors (FPIs) in the top 20 stocks vis-a-vis other stocks on the NSE stood at 55.15 per cent. This is the highest since September 2013, data from Prime Database shows.

Mutual funds (MFs) had invested 44.5 per cent of their corpus in the top NSE stocks. This is the highest since March 2014.

Companies such as HDFC, HDFC Bank, Axis Bank, Reliance Industries, TCS, Maruti Suzuki, ICICI Bank, Kotak Mahindra Bank and L&T have seen buying interest from both FPIs and mutual funds in the past five years.

"Traditionally, institutional investors, especially from outside India, have gravitated towards the top 10-20 stocks, keeping in mind the mandate for adhering to a certain market cap and the corporate issues faced by a lot of mid- and small-cap shares," said Pranav Haldea, managing director, Prime Database.

In the past few months, investors have been dumping mid- and small-cap stocks and taking refuge in large-caps. The Securities and Exchange Board of India's (Sebi's) mandate to categorise equity schemes according to market capitalisation has also restricted investments in these stocks by mutual funds. There is polarisation among sectors with IT and healthcare receiving the lion's share of FPI money in the past two quarters.

In the last one year, the BSE Midcap and Smallcap indices slipped 12 per cent and 19.5 per cent, respectively. In contrast, the BSE Sensex is up four per cent during the same period.

FPIs continued to dump stocks this year even as domestic institutions stepped up their purchases. FPIs have offloaded shares worth more than ₹400 billion this year. In comparison, domestic institutions have shopped for equities of more than ₹1 trillion.

In September, India saw $931 million of overseas outflows, driven by non-ETF outflows of $1 billion, according to a recent research note put out by Kotak Institutional Equities. This compares with the outflows of $832 million for Taiwan and $566 million for Russia. Allocation to India by Asia funds declined to 12 per cent in September from 13.2 per cent in August, while that by global emerging market funds declined to 9.7 per cent from 10.6 per cent. Shares of consumer discretionary and consumer staples witnessed the most selling in 2018, to the tune of $2.1 billion and $1.3 billion, respectively. IT and healthcare sectors saw the highest buying interest with inflows of $774 million and $194 million, respectively.

The surge in domestic equity inflows has insulated the Indian equity markets several times in the past few years. Flows in equity mutual funds through systematic investment plans continue to be robust (₹60-70 billion). While this is unlikely to get impacted significantly by the recent sell-off, lumpsum investments from retail and wealthy investors are beginning to taper off, say experts.

"We expect equities to grind lower in the coming months, given our expectation of further earnings downgrades led by higher interest rates, rising inflation, and its impact on the economy, coupled with weaker-than-expected monsoon so far," said Jitendra Gohil, head, India equity research, Credit Suisse Wealth Management, in a recent note put out by the brokerage.

Gohil said investors need to be cautious as valuations remained stretched compared to peers and historical averages. The country's equities were trading at a 12-month forward price to earnings multiples of 16.1 versus the 10-year average of 15. "While the domestic equity flows are slowing, they still remain high. We expect a sharp slowdown amid heightened risk aversion. We maintain our 'book profits' call on equities that started in early September," Gohil said.