Betting big

FPI from the Cayman Islands jumped to ₹33,242.24 crore in 62 firms by the end of FY21 from ₹8,732.53 crore in 28 firms at the end of FY18.

Firms in which Cayman Islands FPIs have exposure: % of total share*

Data includes companies where an FPI's shareholding is greater than 1%
*As of 31 March 2021

Source: primeinfobase.com

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Cayman FPIs raise stakes in Indian cos

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Foreign portfolio investments (FPI) routed through the Cayman Islands nearly quadrupled in the past four years, making the Caribbean jurisdiction India's second-largest source of FPI after Mauritius among tax havens.

FPI from the Cayman Islands jumped to ₹33,242.24 crore in 62 NSE listed companies by the end of FY21 from ₹8,732.53 crore in 28 listed Indian companies at the end of FY18, data compiled by Prime Database showed. The data covers only those companies where an individual FPI holds over more than 1%.

The Cayman Islands is popular among funds investing worldwide and not just in India, said Rajesh Gandhi, partner, Deloitte India. "US investors are particularly comfortable with using a Cayman vehicle for their overseas investments. The Cayman regulations and the ecosystem provides an attractive framework to mostly hedge funds, private equity and closed-ended alternative investment funds (AIFs)," he said.

What also makes the Cayman Islands the most preferred route for FPIs is the absence of exchange-control laws or regulations, said Suresh Swamy, partner, Price

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Waterhouse and Co. LLP.

"Cayman Islands is used as an intermediate jurisdiction to pool funds," he added.

Regulators in India are constantly on the watch to check whether tax havens such as Mauritius and Cayman are used by Indians to round-trip their own money. "The Cayman Islands continues to be the leading offshore domicile for hedge funds with close to 11,000 active mutual funds and a similar number of registered closed-ended private funds," Gavin Gray, country head of Cayman Islands at Sanne Group PLC, a global provider of alternative asset and corporate services.

He said the Cayman Islands is preferred by investors from the US, Hong Kong and Japan as it's a tried and tested jurisdiction. "As the Cayman Islands is tax-neutral, it adds no additional tax to financial services transactions in its jurisdiction," said Khushboo Chopra, head of business development-India at Sanne. "The Cayman Islands adds no corporate taxes, income tax, no property taxes, no capital gains taxes, no payroll taxes, and no withholding tax. Global investors with a mix of non-India/India portfolios may get a tax advantage while investing through the Cayman Islands," she said.

Among listed Indian firms, IndusInd Bank had the highest Cayman FPI of 12.83% at the end of FY21, up from 1.13% in FY18. Next is Lemon Tree Hotels, with 9.05% in March 2021 from 2.06% in the same period of 2019 and no holding in March 2018.

At the end of FY21, there were 20 Cayman FPIs that invested in just one firm in India.

A *Business Standard* report on 15 June said the market regulator is watching Mauritius and Cayman FPIs that may not have provided adequate information about their ultimate beneficial owners. There are concerns that a number of such funds could have a high non-resident Indian (NRI) holding and are used by Indian promoters for round-tripping and manipulating share prices.

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The Reserve Bank of India has issued two FAQs to check round-tripping and the Securities and Exchange Board of India FPI regulations require ultimate beneficial owner (UBO) declaration as well as curbs on Indian resident investment in case of investments through the FPI route, Gandhi said. A UBO is the person that is the ultimate beneficiary when an institution initiates a transaction.

"Based on our experience and global investment data, a significant majority of the funds have been invested by genuine investors and for reasons that are commercial, i.e., flattening of interest rate in developed jurisdictions and performance of Indian capital market, government action on Alibaba in China and Hong Kong unrest has also pushed money in India," Chopra said.