

What market balancing act by domestic institutions signals



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and continue with their investments.

What led to this volatility?

Last week, amid panic over the emergence of the Omicron variant of the coronavirus, equity markets witnessed a global sell-off. The markets were already under pressure because of the continued surge of infections in Europe, and their fall was also driven by anxiety that the US central bank may wrap up its stimulus programme and raise interest rates sooner than earlier expected.

As top-line companies came under intense selling pressure, the benchmark Sensex at BSE crashed by 2,529 points, or 4.24%, to close at a three-month low of 57,107.15 on Friday last week. But it recovered some lost ground this week and closed at 58,461.29 on Thursday this week, as domestic institutions countered the FIIs' sell-off with purchases.

Over eight trading sessions, the FIIs pulled out a net of over Rs 30,000 crore, and they were

net sellers on each of these days. The DIIs — mainly banks, insurance companies and mutual funds — were net positive on each of these sessions, pumping in a net of Rs 24,363 crore.

"Domestic institutions follow the policy of 'buy when others sell'. They are long-term players and utilise every opportunity to get stocks cheap," said an analyst.

What does DII inflow indicate when FIIs are selling?

While continued investment by DIIs indicates that funds of retail investors are flowing into mutual funds and other market-related instruments, industry insiders say that a lot of the investment by mutual funds in the markets is on account of rebalancing and investment in asset allocation funds or hybrid funds, as fund managers enhance the equity allocation following a decline in markets. It also indicates the confidence of retail investors in the economy and growth, especially with an ad-

ditional boost coming from the festival season and pent-up demand.

Also, over the last seven years, mutual funds have emerged as a strong domestic investment category and have often played a counterbalancing role when FIIs have been selling. According to data sourced from *primeinfobase.com*, MF holdings in companies listed on NSE, which stood at 3.13% as of September 2014, have more than doubled to 7.36% in the quarter ended September 2021.

How should retail investors view this?

A sharp expansion in the manufacturing purchasing manufacturers; index (PMI) for November, strong GDP growth data for the second quarter, and high GST collections over the last 3-4 months indicate that the economy's fundamentals are on a strong footing. While concerns over Covid remains, experts feel the current dips can be utilised to invest. "Oil prices have now come down and central banks are

likely to delay the liquidity tightening due to the latest variant of Covid - Omicron," said Edelweiss group CMD Rashesh Shah.

"There is a notable improvement in the economy and most parameters and high frequency indicators seem to have bottomed out. When the market falls on global factors, which is the case now, it is a great opportunity to invest. I think retail investors should stay with their investments and can even look to go for fresh investment," said Mrinal Singh, CIO and CEO, InCred Asset Management.

What's the source of DIIs' funds?

DIIs now act as a strong defence against the sell-offs by foreign players. Earlier, when the funds arsenal of DIIs was small, markets used to find it difficult to counter the actions of FIIs.

Funds invested by DIIs are mostly from retail investors who contribute to various schemes of insurance companies and mutual funds. Investors have pumped around Rs 3.90

lakh crore into equity schemes of mutual funds since January this year. As a result, the assets under management (AUM) of equity schemes touched Rs 12.96 lakh crore as October 2021. The participation of retail investors in securities markets has risen significantly especially in the last two years, which is evident from the increase in number of demat accounts, mutual fund folios and number of SIPs. In 2019-20, on an average, 4 lakh new demat accounts were opened every month which increased to over 26 lakh per month in the current financial year. "If we look at number of mutual fund folios, in the beginning of FY 2019-20, total number of folios were 8.25 crore, which increased to 11.44 crore as on October 31, 2021," Sebi Chairman Ajay Tyagi said in a recent speech.

Insurance companies are also major investors in the market; they invest on a long-term basis of 10-15 years. LIC alone normally invests around Rs 50,000 crore every year.