5 reasons why FIIs are still buying Indian stocks

Contrary to popular perception, FIIs have invested Rs 1.88 lakh cr in the last three months

The fall in the value of the rupee and the deteriorating economic scenario have been cited as reasons for the decline in the stock market. And as expected, foreign institutional investors (FIIs) have been blamed for the 'sell-off'. But have these FIIs really sold off and run away, as is the general impression?

FII trades can be studied from the data released by SEBI after collecting from both the exchanges, BSE and NSE. Usually, the conclusion can be arrived at by looking at the net figure which is the difference in value of total shares bought and sold. If the figure is negative, one correctly says that FIIs have sold. But what is lost in translation between the numbers and the words is that there has been buying too on that day but this was lower than selling on that particular date.

Thus on a net basis, FIIs cumulative selling of Rs 22,638.9 crore over the last three months was arrived after they bought shares worth Rs 188,613.3 crore and sold Rs 211,252.2 crore. In other words there was not one-way selling. If FIIs had found the markets and economy to be bad why would they have invested Rs 1.88 lakh crore in the past three months?

We take a look at five possible reasons on why FIIs still continue to invest in India:

1) The FIIs that have sold in the market are mostly the ones who have a trading portfolio (ETFs) while those who are investing in the market find the long-term India story to be intact and are using the fall to build up on their position. Reuters has reported that Mark Mobius's Templeton Asia Growth Fund has increased its allocation to India. Other pension and Long only funds invest with a 10-20 year vision. Every dip is thus a good opportunity to invest.

2) Like Indian mutual funds, global funds also find it hard to explain on why they are sitting on cash and not investing. Thus, even if they do not like the markets, they cannot completely exit but have to remain invested, at best, they churn their portfolio.

3) A number of funds (index funds) and investors follow the MSCI which allocates a portfolio in a country and stock specific basis. With world markets improving, these funds have seen inflows and thus proportionate allotment to India has increased.

4) Not every sector or every company has been affected by the current scenario. FIIs have moved their money from banking and infrastructure to IT and other export oriented companies.

5) They just were not fast enough to run out of the door. Lack of liquidity and the sharp fall in currency prevented an immediate exit. Delivery-based trading on the bourses are at multi-year lows.

On account of lack of depth and high impact cost, FIIs could not sell as much as they wanted to.

Further, the sharper fall in rupee would have meant a bigger hit. While Sensex in rupee terms has fallen by 14.3%, in dollar terms it has fallen by 30.39%.

However, the increased FII interest in futures and options suggests they would have hedged themselves against the fall.

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