

# Falling foreign ownership

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Foreign ownership of the Indian stock market has declined to the lows last seen in 2012. The decline in foreign ownership comes amid rising domestic investor participation and lower relative attractiveness of the Indian market, despite higher earnings growth.

The average monthly flows into Indian markets were lower in the three months leading into the 2024 general elections than in the preceding six months. While external factors affect foreign flows, 2019 and 2014 witnessed higher foreign investment leading into

elections (chart 1).

Domestic institutions have continued to buy. The gap in ownership between domestic and foreign investors has now narrowed to its lowest point since at least 2009 (chart 2). However, the absolute value of holdings continues to increase for both domestic and foreign institutional investors. This has meant that institutions (foreign and domestic combined) now hold a greater proportion of the stock market than a decade ago (chart 3).

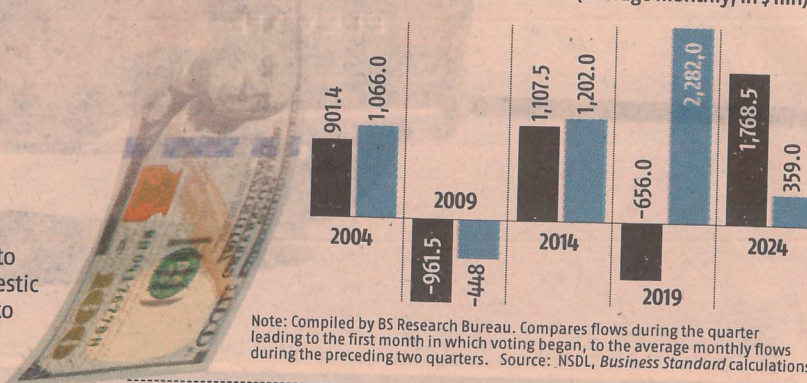
Private sector promoters, or majority owners, among listed companies continue to hold on to their shares. While the government promoter stake is down 3.5 percentage points to 10.4 per cent (March 2024) compared to a decade ago, private sector promoters held a bigger stake in their companies in March 2024 (41 per cent) compared to 37.8 per cent in March 2014 (chart 4). The share of foreign investors was lower than domestic institutions across key

sectors, including commodities, consumer discretionary, financial services and industrials (chart 5).

Relative attractiveness can play a role in foreign flows. Earnings continue to grow at a strong double-digit rate in India, significantly higher than most emerging markets. However, the valuation relative to earnings is significantly higher, especially when compared to markets like Brazil, which have comparable or better earnings growth (chart 6).

## 1 SUBDUED FOREIGN FLOWS AHEAD OF ELECTIONS

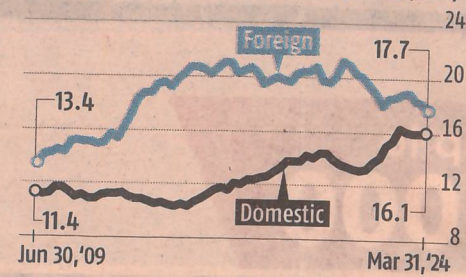
Leading up to elections ■ 6-month ■ 3-month (average monthly, in \$ mn)



Note: Compiled by BS Research Bureau. Compares flows during the quarter leading to the first month in which voting began, to the average monthly flows during the preceding two quarters. Source: NSDL, Business Standard calculations

## 2 NARROWING GAP

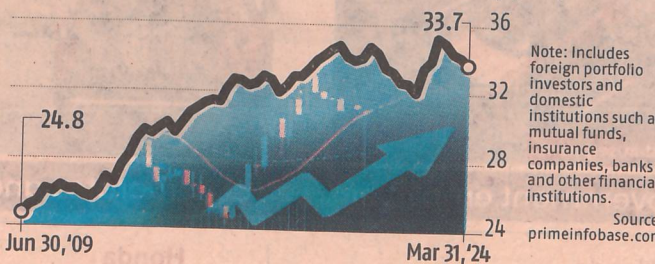
Ownership across all NSE-listed companies (in %)



Note: Foreign investors include foreign portfolio investors (FPIs), foreign direct investment (FDI), and ownership through depository receipts (DRs) held by custodians. Domestic institutional investors include mutual funds, insurance companies, banks and other financial institutions. Source: primeinfobase.com

## 3 INSTITUTIONAL OWNERSHIP OF THE STOCK MARKET RISING

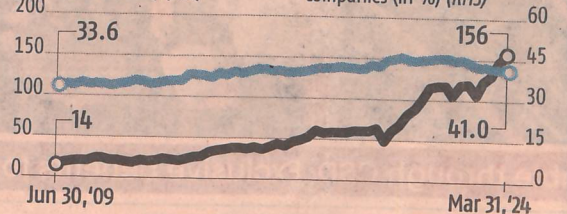
Total institutional ownership (in %)



Note: Includes foreign portfolio investors and domestic institutions such as mutual funds, insurance companies, banks and other financial institutions. Source: primeinfobase.com

## 4 PROMOTERS STILL HOLD HIGHER STAKE

Value of Shares (in ₹ trillion) (LHS) and Ownership across all NSE-listed Companies (in %) (RHS)

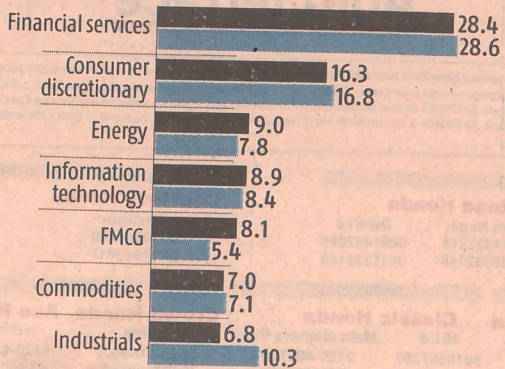


Note: Data is for private sector promoters. Source: primeinfobase.com

## 5 FINANCIAL SERVICES, CONSUMER DISCRETIONARY AMONG TOP BETS

Holding as share of total (Mar 2024, in %)

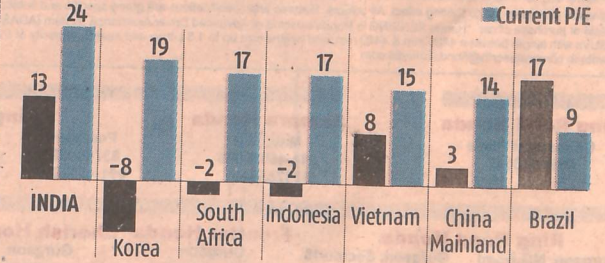
■ Foreign investors ■ Domestic institutions



Source: primeinfobase.com

## 6 RELATIVELY HIGHER VALUATIONS

Earnings growth (5-year compound annual growth rate, in %) and Current P/E



Note: Data for key emerging markets; Source: DSP Mutual Fund (Netra report, May '24)