

## India Flow Trails

## Jan'24: FII outflows led by Financials

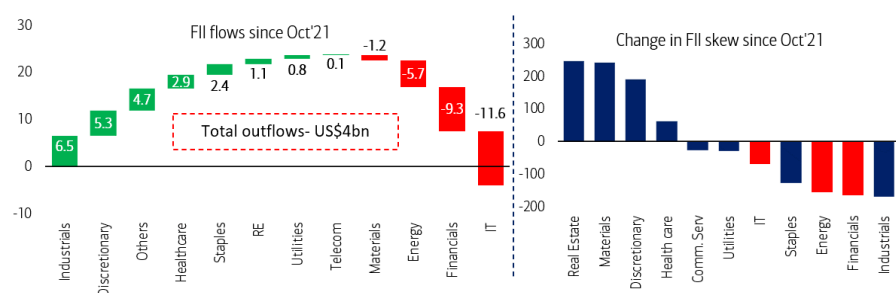
## Equity Strategy

## Financials lead FII outflow, DII momentum strong

- After witnessing record FII inflows in Dec'23, **Jan'24 saw reversal of FII flows** (-US\$3bn vs +US\$8bn in Dec'23). Feb'24 tracking at -US\$0.5bn.
- FII Outflows were led by Financials** (-US\$3.6bn, highest FII outflow), followed by Staples & Discretionary (-US\$0.3bn each). FII AUM stands at US\$757bn (+2.7% MoM)
- DII flows came in at US\$4.4bn** in Jan'24 (vs US\$3.1bn in Dec'23). Active DII flows stood at US\$4bn constituting 90% of total DII flows (vs US\$3bn in Dec'23), while passive flows came in at US\$0.4bn (vs US\$0.1bn in Dec'23). DII AUM stood at US\$414bn. (+2.8% MoM)
- DII inflows across schemes:** SMID caps continue to see strong inflows US\$0.6bn while large cap saw subdued inflows of US\$0.2bn in Jan'24. Only focused funds saw minor outflows in Jan'24.
- Continued upward momentum of SIP** with Jan'24 coming in at US\$2.3bn (vs US\$2.1bn in Dec'23). Jan'24 IPO announcements stand at US\$0.7bn, on track to achieve the CY24 target of US\$8bn.
- EM funds' positioning reverse:** EM fund positioning towards India remained at Neutral in Dec'23 after turning negative for the first time in Sep'23, China's position further dropped to 31% (vs 33 in Nov'23).
- FII outflows since Oct'21**-Since the market started pricing in rate hikes in Oct'21, India has seen FII outflows of US\$4bn till date, with IT, Financials and Energy seeing the highest outflows. In anticipation of rate cuts and reversal of FII outflows, these sectors could see revival of flows.

**Exhibit 1: FII outflows since Oct'21.**

In anticipation of rate cuts, IT, Financials and Energy could see revival of FII flows



Source: BofA Global Research, Bloomberg, NSDL

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Details on page 2....

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Refer to important disclosures on page 13 to 15.

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Equity Strategy  
India

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**Abbreviations:**

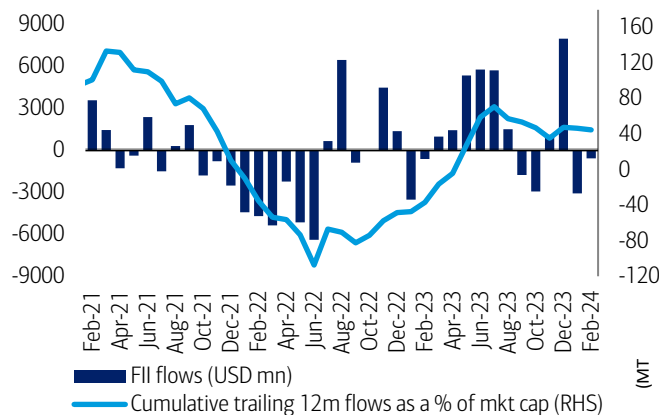
UW = Underweight  
OW = Overweight  
NW - Neutral weight  
RE - Real Estate  
EMs = Emerging markets  
MoM = Month on Month  
TTM = Trailing 12M  
MTD = Month-to-Date  
YTD = Year-to-Date  
EMs- Emerging Markets

- **FII flows for India:** After witnessing record inflows of US\$8bn by FIIs in Dec'23, Jan'24 saw outflows of US\$3bn (highest outflows since Jan'23). Feb'24 tracking at -US\$0.5bn.
- **FII flows India vs other EMs:** India had the highest FII inflows among the EM basket on TTM basis at US\$18bn followed by South Korea (US\$13bn) and Taiwan (US\$8bn). Although EM fund allocation to India remains strong at 25% (vs 23.8% in Nov'23), EM fund positioning to India remained neutral after turning negative in Sep'23 while China's position further dropped to 31% in Dec'23 (vs 33% in Nov'23)
- **FII sectoral deployment and ownership:** FII ownership remained steady at 18.7% in Jan'24. Outflows were seen in 6/11 sectors with Financials (-US\$3.6bn; highest ever outflow) leading the pack. Inflows were seen in IT (US\$0.5), Utilities & Energy (US\$0.3bn each).
- **FII AUM:** FII AUM reached US\$757bn in Jan'24 led by Energy (10.56% +37bps), IT (10.04%, +22bps) and RE (4.2%, +18bps), while Financials (31.34%, -53 bps) saw sharp AUM decline.
- **FIIs sector positioning:** FII remains most OW in RE (+298 bps) followed by Financials, (+269bps), Energy (+267bps) & Discretionary (+244bps) while Materials (-487bps), Industrials (-424bps), and Staples (-109bps) were the most UW sectors.
- **DII flows:** DII flows came in strong at US\$4.4bn in Jan'24 (vs US\$3.1bn in Dec'23) higher than its LTA of US\$2.6bn. Active funds contributed 90% of the total DII flows (US\$4bn) while passive funds inflows were at US\$0.4bn. SMID cap funds continue to witness strong inflows of US\$0.6bn in Jan'24. Sectoral /Arbitrage funds both recorded inflows of US\$0.6bn (vs US\$0.6bn/US\$0.7bn in Dec'23) Large cap funds saw subdued inflows of US\$0.2bn with only one fund (Focused fund) seeing outflows in Jan'24 (-US\$0.02bn)
- **DII sector allocation:** DIIs ownership levels remain steady at 9.2% (+0.1% QoQ). Sectorally, Industrials saw a higher allocation (10.5%, +96bps) while allocation to Financials (32.3%, -132bps) and Healthcare (6.9%, -52bps) dropped further. Rest of the sectors remained steady.
- **DII sector positioning:** DMFs were most OW in Financials (+363bps), Healthcare (+96bps), and Discretionary (+40bps) while most UW on Staples (-149bps), Energy (-148bps) and IT (-99bps)
- **SIP inflows & Retail volumes** SIP inflows continued its upward momentum, with Jan'24 inflows at US\$2.3bn (vs US\$2.1bn in Dec'23). Retail trading activity continued its upward trajectory and currently stands at 58% while the share of FII and DII continue to fall (24%/18%).
- **Primary Market Flows:** Deal count went up to 61 in Jan'24 (vs 61 in Dec'23) while deal value dropped down to US\$3bn (vs US\$6bn in Dec'23). Feb'24 tracking at US\$ 0.9bn. Jan'24 IPO announcements stand at US\$0.7bn, on track to achieve the CY24 target of US\$8bn.

## Focus Charts

### Exhibit 2: FII Inflows into Indian Equities Market

After witnessing record inflows in Dec'23, FIIs recorded outflows of US\$3bn in Jan'24, its highest since Jan'23. Feb'24 flows tracking weak at -US\$0.5bn

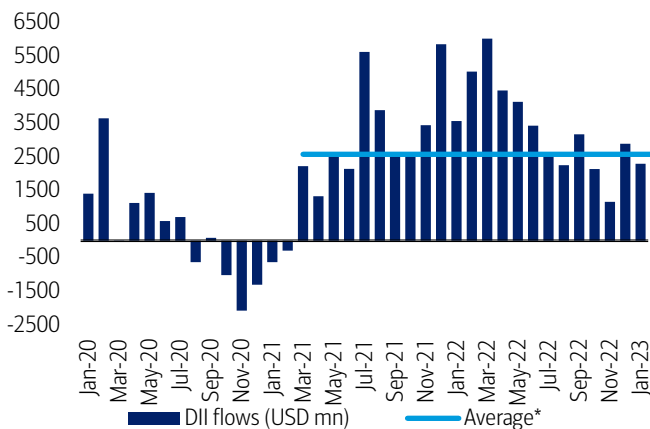


Source: BofA Global Research, NSDL; \*February data is till Feb 19th

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### Exhibit 4: DII flows into Indian equities market

Jan'24 saw strong DII inflow of US\$4.4bn (vs US\$3.1bn in Dec'23); higher than its LTA of US\$2.6bn.



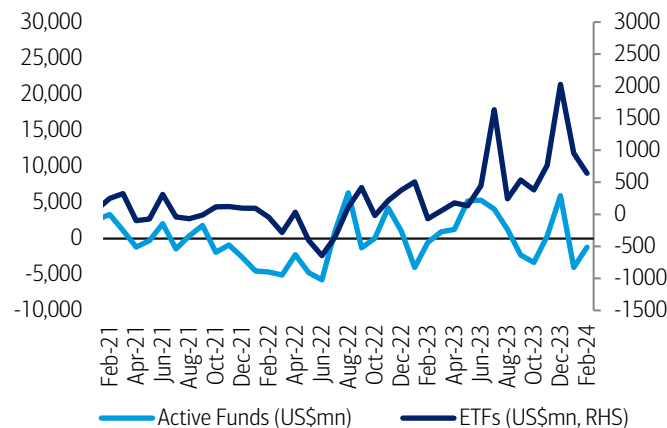
Source: BofA Global Research, AMFI, Bloomberg

\*Average excludes periods between witnessing exceptionally high flows >US\$4bn/month

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### Exhibit 3: FII flows through active and passive funds

Active funds saw outflows to the tune of US\$4bn (highest outflow since June'22) while passive funds saw moderate inflows of US\$0.9mn in Jan'24

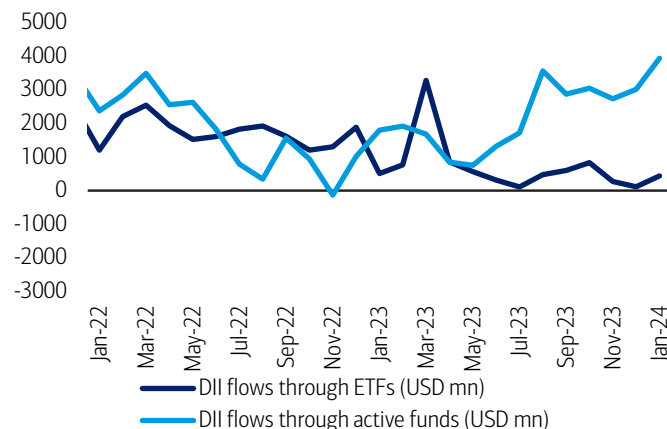


Source: BofA Global Research, NSDL, Bloomberg; \*February data is till Feb 19th

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### Exhibit 5: DII flows through active & passive funds

Active DII flows for Jan'24 came in at US\$4bn (highest since July'21) while passive flows were at US\$0.4bn (vs US\$3bn/US\$0.1bn in Dec'23)

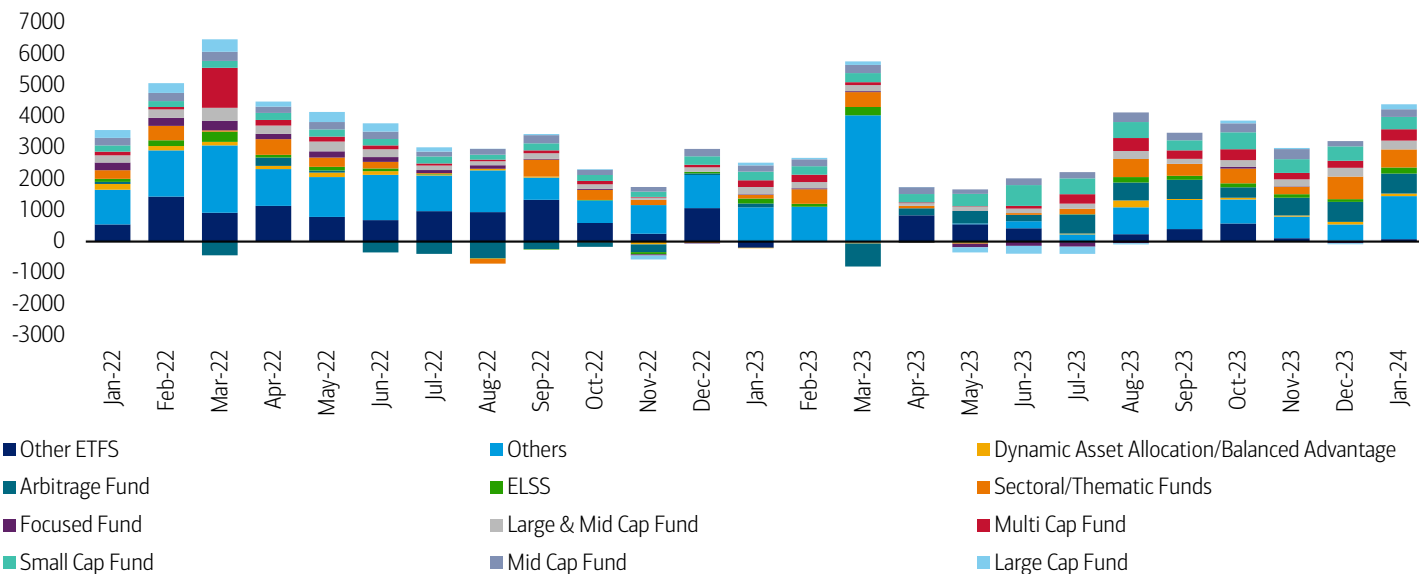


Source: BofA Global Research, AMFI, Bloomberg

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**Exhibit 6: Monthly DII flows: split across fund types**

SMID cap funds continue to witness strong inflows of US\$0.6bn in Jan'24. Sectoral /Arbitrage funds both recorded inflows of US\$0.6bn (vs US\$0.6bn/US\$0.7bn in Dec'23) Large cap funds saw subdued flows at US\$0.2bn with only one fund (Focused fund) seeing outflows in Jan'24

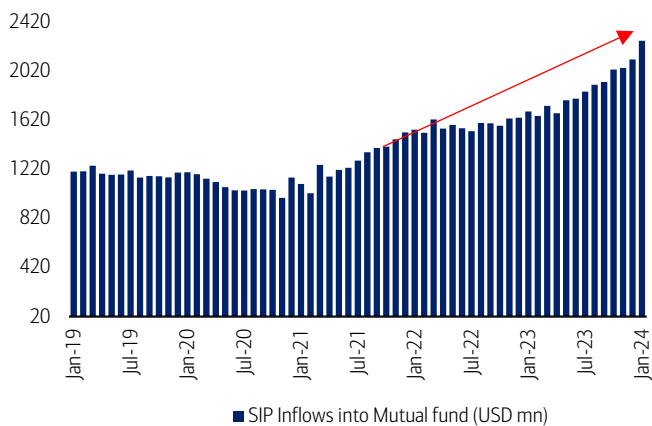


Source: BofA Global Research, AMFI, Bloomberg

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**Exhibit 7: SIP inflows into Mutual Funds**

SIP flows continue to remain strong at US\$2.3bn in Jan'24 (vs US\$2.1bn in Dec'23) registering a growth of 7% MoM

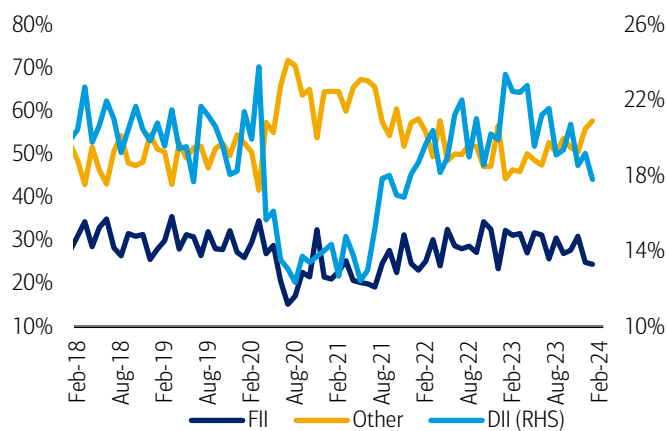


Source: BofA Global Research, AMFI, CMIE

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**Exhibit 8: Retail trading activity by FII, DII & Others**

Retail trading activity continued its upward trajectory and currently stands at 58% while the share of FII and DII continue to fall (24%/18%).

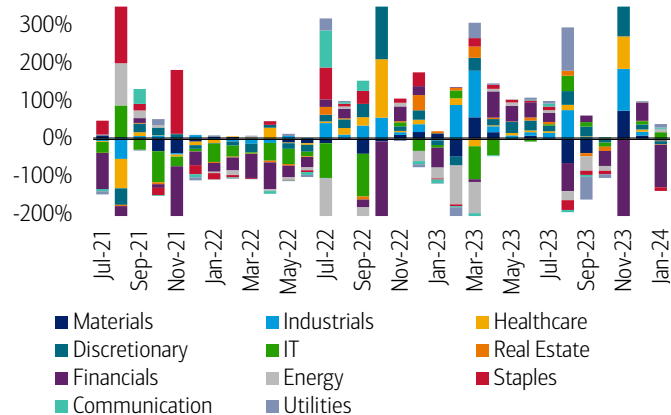


Source: BofA Global Research, Bloomberg

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**Exhibit 9:- Sector wise monthly FII flows allocation**

After witnessing highest inflows post covid in Dec'23, Jan'24 witnessed highest ever outflows in Financials since Mar'17(-US\$3.6bn), followed by Staples (-US\$0.3bn) and Disc (-US\$0.2bn). IT (US\$0.5bn), Utilities (US\$0.3bn) and Energy (US\$0.3bn) saw inflows.

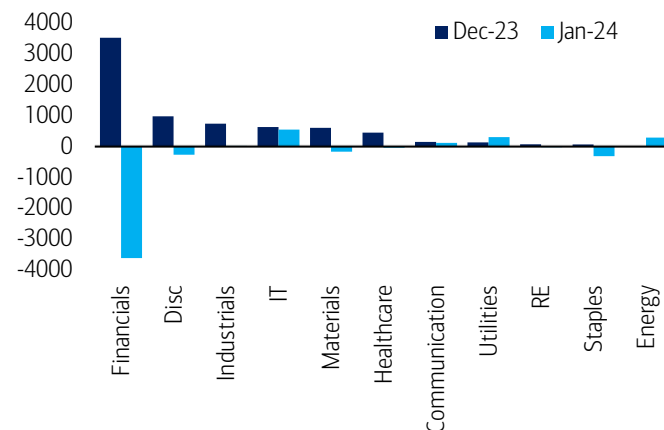


Source: BofA Global Research, NSDL, Bloomberg

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**Exhibit 10: Sector-wise monthly FII flows allocation (\$mn)**

Outflows were seen in 6/11 sectors with Financials leading the pack.

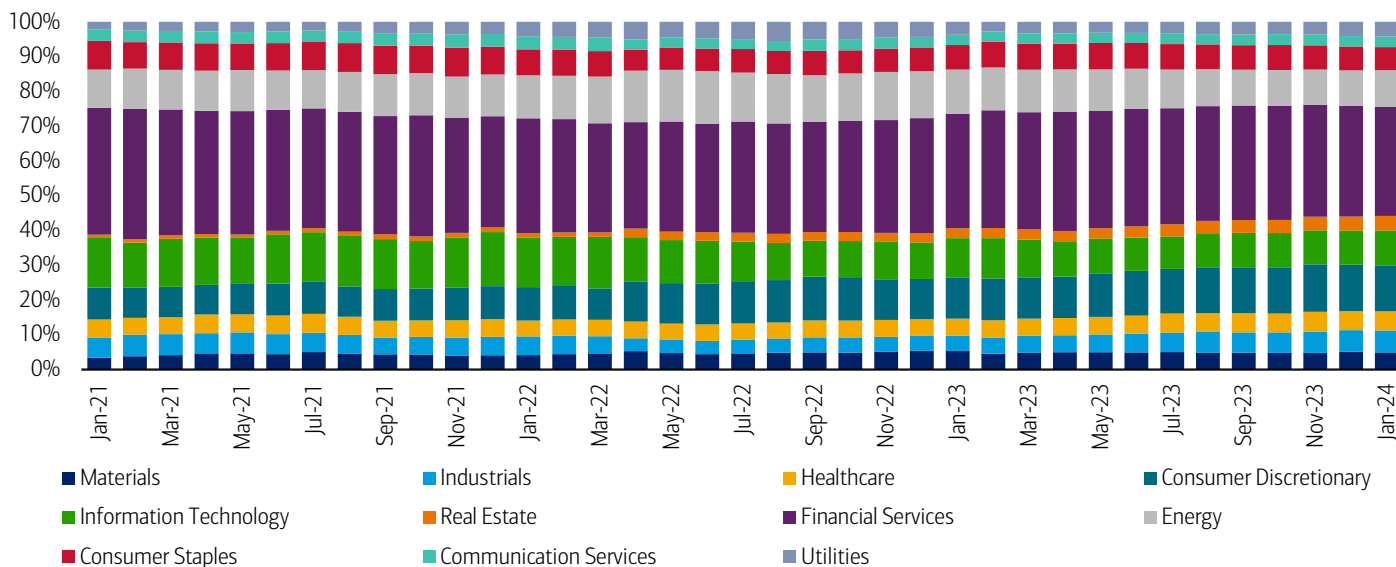


Source: BofA Global Research, NSDL, Bloomberg

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**Exhibit 11: Sector-wise split of FII AUM**

FII AUM reached US\$757bn in Jan'24 led by Energy (10.56% +37bps), IT (10.04%, +22bps) and RE (4.2%, +18bps), while Financials (31.34%, -53 bps) saw sharp AUM decline.

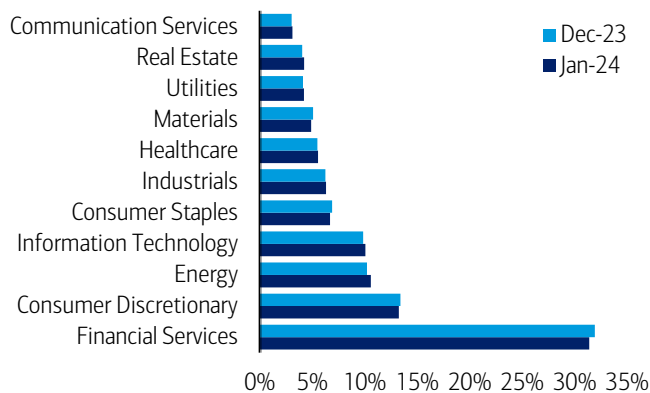


Source: BofA Global Research, NSDL, Bloomberg

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**Exhibit 12: FII AUM allocation amongst sectors**

...while rest remained at similar level

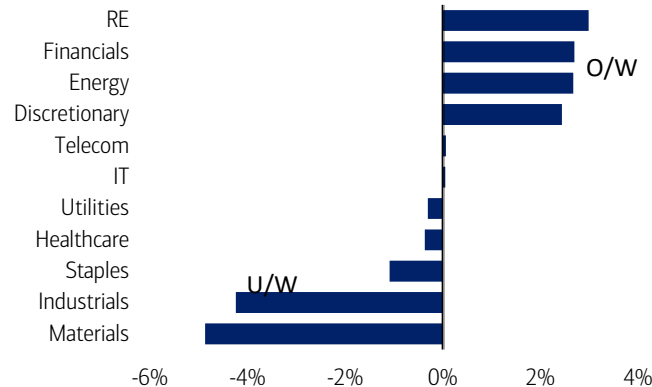


Source: BofA Global Research, NSDL, Bloomberg

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**Exhibit 13: FII sector positioning**

FII remains most OW in RE (+298 bps) followed by Financials. (+269bps), Energy (+267bps) & Discretionary (+244ps) while Materials (-487bps), Industrials (-424bps), and Staples (-109bps) were the most UW sectors

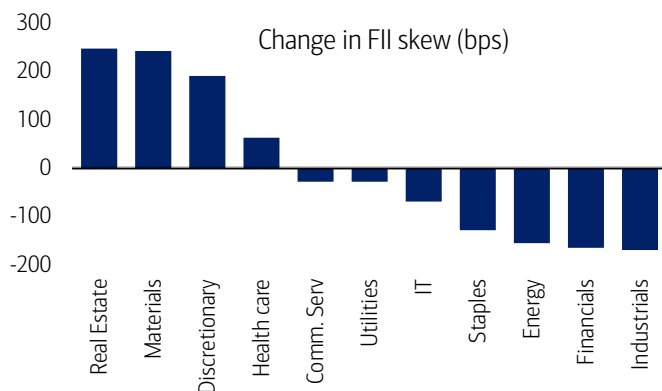


Source: BofA Global Research, NSDL, Bloomberg

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**Exhibit 14: Change in FII skew (in bps) vs Oct'21 peak**

From the time the markets started pricing in rate hikes in Oct'21, RE (247bps), Materials(242bps) and Discretionary (191bps) saw the highest increase in allocation while Industrials (169bps), Financials (165bps), Energy (155bps) and Staples (128bps) saw the fall in allocations.

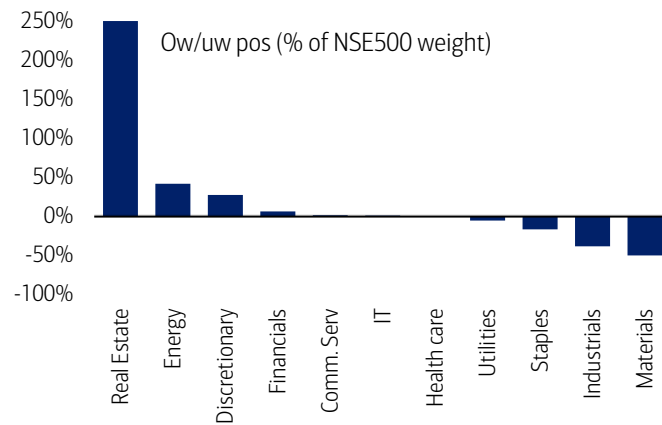


Source: BofA Global Research, NSDL, Bloomberg

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**Exhibit 15: FII sector positioning intensity**

Benchmarked to NSE500 weights, FII ow/uw skew intensity is most significant on RE, Energy, Discretionary, Materials & Industrials indicating higher conviction

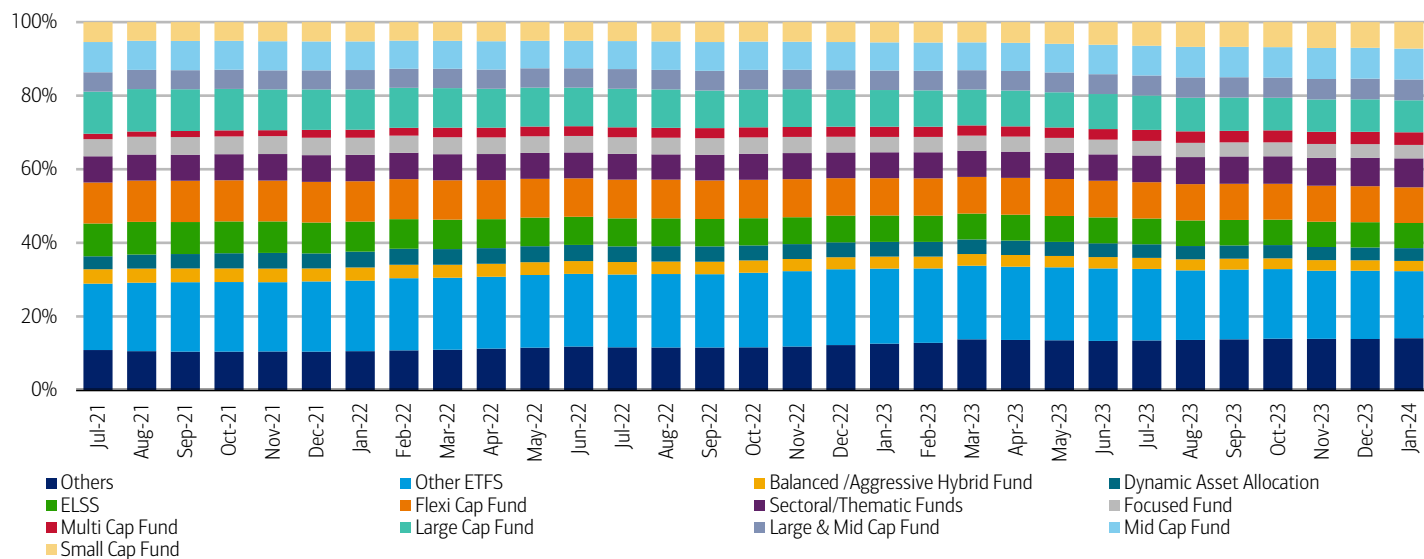


Source: BofA Global Research, NSDL, Bloomberg

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**Exhibit 16: Split of Domestic equity AUM**

DII equity AUM inched up to US\$415bn in Jan'24 with Small cap funds (7.2%, +20bps), Sectoral funds (7.9%, +15bps) seeing their highest AUM allocation while Large cap funds (8.7%, 13bps) saw its lowest AUM allocation.

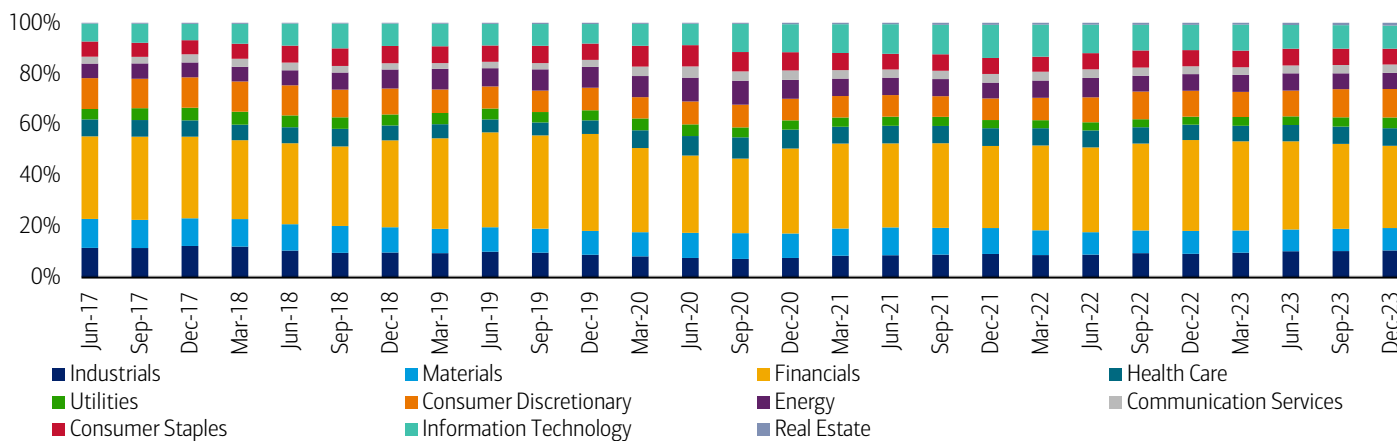


Source: BofA Global Research, AMFI, Bloomberg

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**Exhibit 17: Sector wise DIIs AUM split**

As of Dec'23, DII allocation was favored towards Financials (32.3%) followed by Discretionary (11.2%), Industrials (10.5%) and IT (9%)

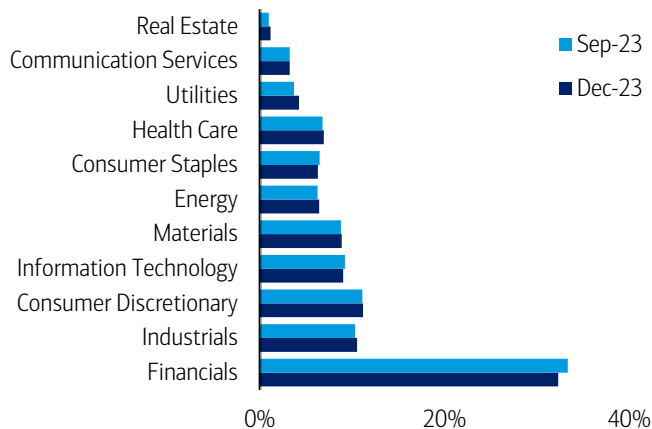


Source: BofA Global Research, CMIE

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**Exhibit 18: DMF AUM allocation amongst sectors**

As of Dec'23, Industrials saw a higher allocation (10.5%, +96bps) while allocation to Financials (32.3%, -132bps) and Healthcare (6.9%, -52bps) dropped further. Rest of the sectors remained steady

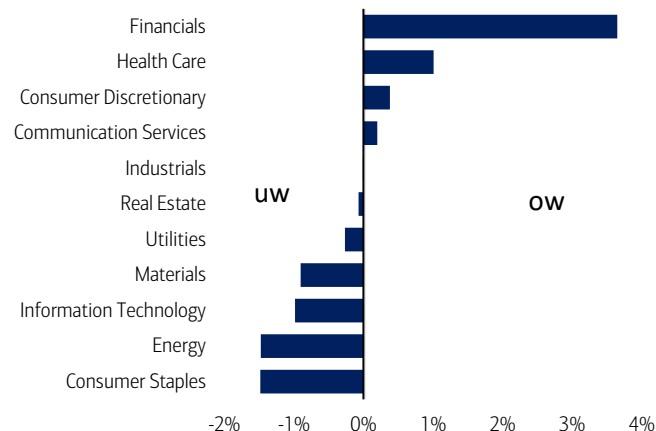


Source: BofA Global Research, CMIE

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**Exhibit 19: DMF Sector Positioning**

DMF's were most OW in Financials (+363bps), Healthcare (+96bps), and Discretionary (+40bps) while most UW on Staples (-149bps), Energy (-148bps) and IT (-99bps)

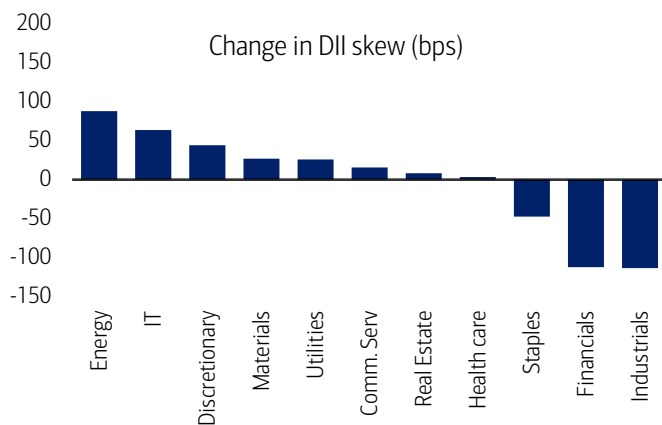


Source: BofA Global Research, CMIE

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**Exhibit 20: Change in DII skew (in bps) vs Sep'21 (near market high)**

DII's have increased their allocation to Energy, IT, Discretionary the most since Sep'21, while Industrials, Financials, and Staples saw largest cuts

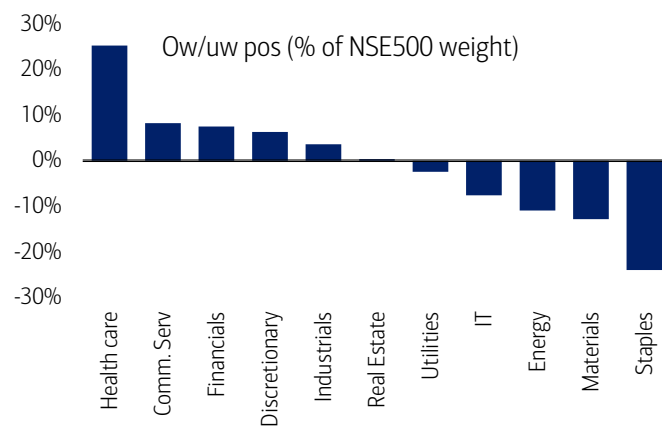


Source: BofA Global Research, CMIE

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**Exhibit 21: DII sector positioning intensity**

Benchmarked to NSE500 weights, DII OW/UW skew intensity is more significant on Healthcare, Comm. Serv, Financials, Staples, and Materials showing higher conviction



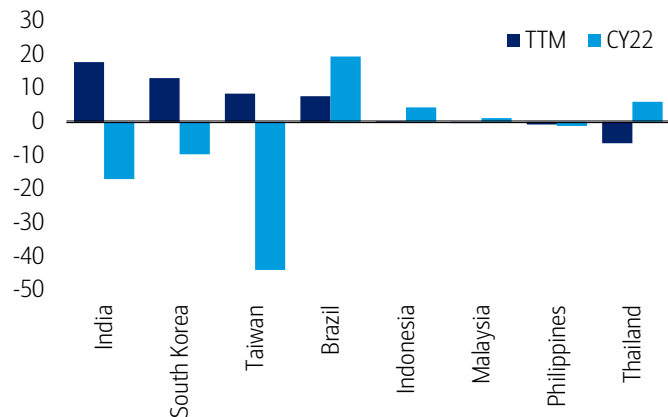
Source: BofA Global Research, CMIE

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**Exhibit 22: Cumulative FII flows**

Since Jan'23, India saw highest inflows (US\$18bn) within the EM basket, followed by South Korea (US\$13bn) and Taiwan (US\$8.n), while outflows were seen in Thailand (-US\$6bn)

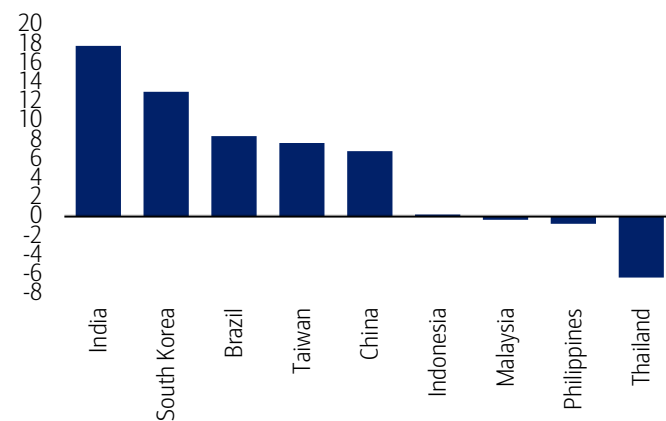


Source: BofA Global Research, Bloomberg

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**Exhibit 23: Cumulative FII flows**

Since Jan'23, FIIs have withdrawn money from Thailand, while all major EM countries have seen inflows,

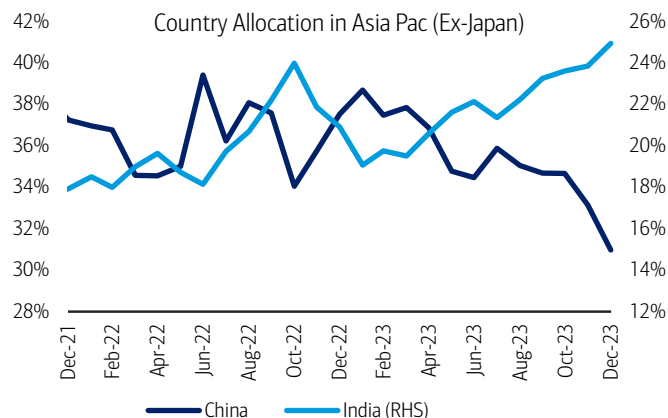


Source: BofA Global Research, Bloomberg \*Data of China till 30<sup>th</sup> June 23.

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**Exhibit 24: EM AUM: country allocation (%) for India & China**

EM fund allocation to India continued its upward trajectory in Dec'23 (25%, +109bps MoM) while allocation to China shrank by 218bps MoM to 31%

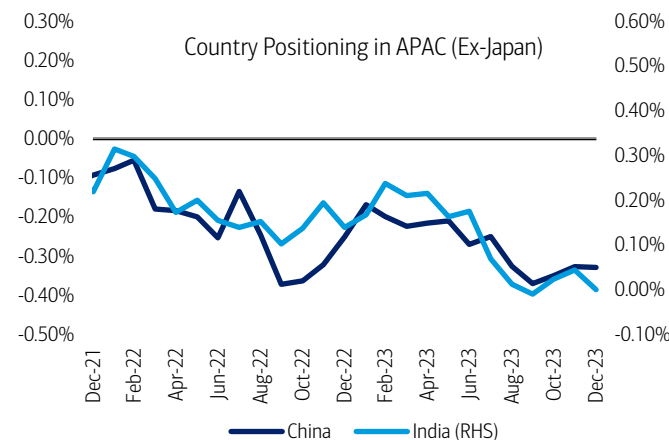


Source: BofA Global Research, BofA Asia Pac Quantitative Strategy, MSCI, FTSE, FactSet, 13F Filings, Benchmark Indices, Country Stock Exchanges

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**Exhibit 25: Country positioning for India and China (ow/uw)**

India's position remained Neutral in Dec'23, after moving into the negative territory in Sep'23. China position declined further (-0.33% vs -0.32% in Nov'23)



Source: BofA Global Research, BofA Asia Pac Quantitative Strategy, MSCI, FTSE, FactSet, 13F Filings, Benchmark Indices, Country Stock Exchanges

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**Exhibit 26: India Country Positioning**

After moving into the negative territory for the first time in Sep'23, India's active positioning moved up to Neutral weight in Dec'23. .

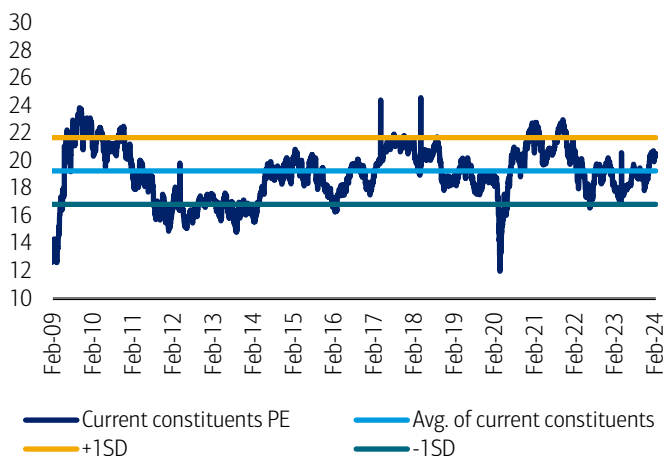


Source: BofA Global Research, BofA Asia Pac Quantitative Strategy, MSCI, FTSE, FactSet, 13F Filings, Benchmark Indices, Country Stock Exchanges

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**Exhibit 28: BofA Nifty Band Chart**

Nifty trading at 20.3x vs long-term average at 19x basis bottom-up weighted average of 1yr fwd earnings of current Nifty constituents

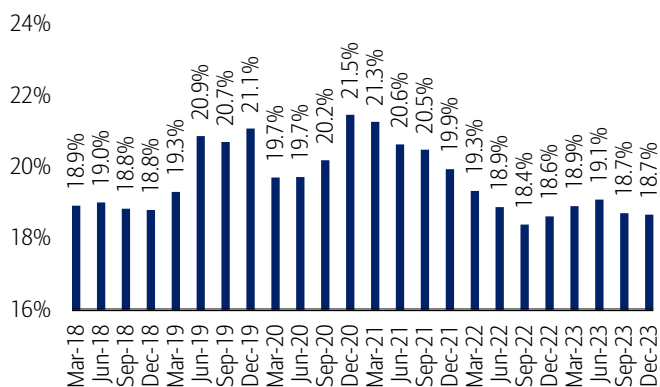


Source: BofA Global Research, Bloomberg

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**Exhibit 27: FII ownership % (NSE500)**

FII ownership levels fell to 18.7% from 19.1% in June'23 largely on the back of DII and retails participants increasing their share at a faster pace than FIIs.

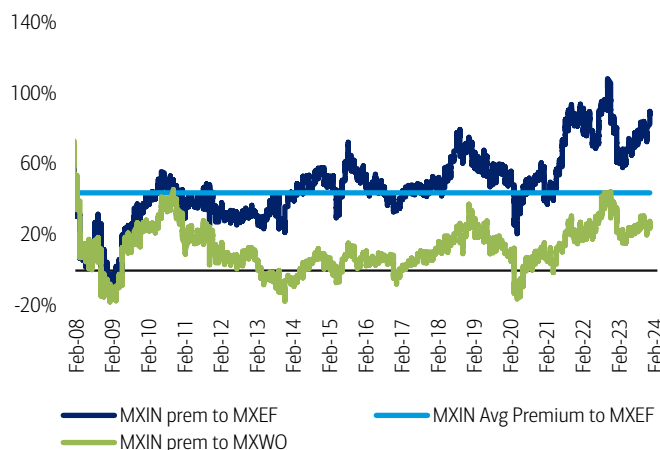


Source: BofA Global Research, CMIE, Bloomberg

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**Exhibit 29: MSCI India premium to EM, World**

MSCI India valuation premiums to EM/World at shrunk to 94%/23% from the peak of 117%/48%, but remains elevated vs average levels (44%/11%)

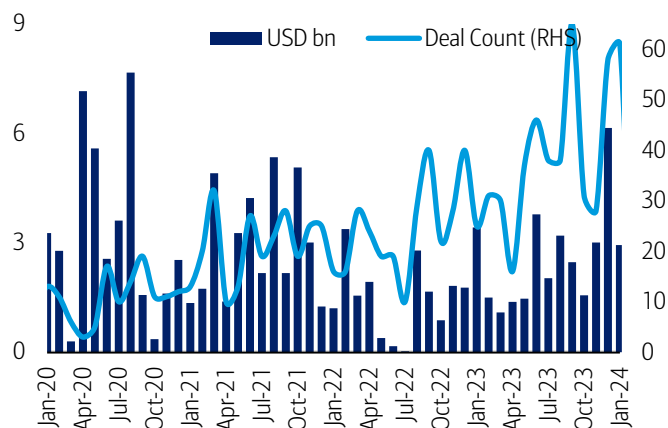


Source: BofA Global Research, Bloomberg

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**Exhibit 30: Primary Market Deals**

Deal count went up to 61 in Jan'24 (vs 61 in Dec'23) while deal value dropped down to US\$3bn (vs US\$6bn in Dec'23). Feb'24 tracking at US\$ 0.9bn

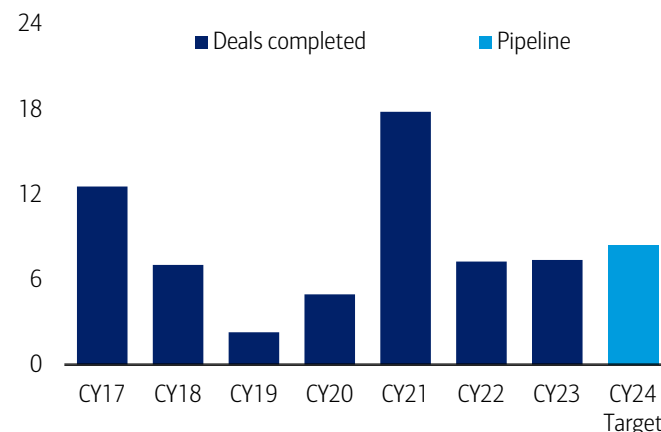


Source: BofA Global Research, Bloomberg

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**Exhibit 31: IPO expectations for CY24**

Jan'24 IPO announcements stand at US\$0.7bn, on track to achieve the CY24 target of US\$8bn..



Source: BofA Global Research, Bloomberg, Media articles

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# Disclosures

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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