FPI Trends

EY India Newsletter

Round-up of 2024

The better the question. The better the answer. The better the world works.

EY

Shape the future with confidence

Foreword

We are pleased to present EY India's annual round-up of the important trends and developments in calendar year (CY) 2024 impacting Foreign Portfolio Investors (FPIs) and the broader asset management sector.

FPI investments in India have witnessed a volatile journey throughout CY 2024. The total FPI investment into Indian capital markets as at the end of CY 2024 was approximately US$20 billion. The last quarter of CY 2024 witnessed heavy selling by FPIs driven by rising US Treasury yields, China's economic stimulus measures, and high valuations of Indian stocks. Despite this, FPIs remained net buyers of Indian equities in CY 2024 to the tune of approximately US$50 million[1]. While this is significantly lower than the corresponding number for CY 2023, this dip is expected to be transitory as India's structural growth story remains attractive. The sell off by FPIs in secondary markets was compensated with significant inflows into primary issuances as CY 2024 was a record-breaking year for Indian IPOs.

Further, one of the key features of the Indian capital markets has been the increasing presence of domestic institutional and retail investors providing market stability. This has been possible through a supportive regulatory regime, financialization of savings, availability of technology and a rising equity culture. Assets Under Management (AUM) of Indian mutual funds has grown six-fold in the last 10 years to reach approximately US$0.8 trillion[2] as of December 2024.

From being the 10th largest economy 10 years ago to now becoming the fifth largest economy, India continues to be in a sweet spot as the fastest growing major economy in the world[3]. As per the International Monetary Fund (IMF) in October 2024, India is projected to lead global growth with an average annual real gross domestic product (GDP) growth of 6.5%[4] in the medium term.

Amongst the significant developments in CY 2024 in the context of FPIs is, India's inclusion in the global bond indices which is expected to encourage significant passive flows into Indian bond markets. On the regulatory front, the year CY 2024 has seen the Securities and Exchange Board of India (SEBI) introducing several changes in the framework governing FPIs. The amendments have been made with the twin objective of improving ease of doing business in India by FPIs and fostering greater trust and transparency in the Indian securities market ecosystem.

This year saw the implementation of guidelines which were introduced in CY 2023, for granular ownership for certain identified FPIs; in addition, SEBI also expanded the coverage of these guidelines to offshore derivative instrument (ODI) holders. Towards the year-end, SEBI also prohibited hedging of ODIs with derivatives as underlying to curb overleveraging and systemic risks posed using derivative products. While these changes may result in enhanced compliances, it should increase transparency and assist in tracking foreign investments in the Indian capital markets. Further, in November 2024, SEBI introduced a series of measures with respect to trading in futures and options, in an effort to curb risks faced by retail investors. The changes, inter-alia, include recalibration of contract sizes, reduction of weekly expiries and higher margin requirements. Interestingly, as a counterbalance, SEBI has proposed to allow retail investors access to algo-based trading thereby providing them with a level playing field with institutional investors. The amendments were driven by the changing market dynamics post COVID which saw Indian markets account for 30 to 50%[5] of global exchange traded derivative trades, driven by retail participation.

Further, with an objective to facilitate ease of onboarding of FPI applicants and enabling them to access the Indian securities market seamlessly, SEBI has simplified the Common Application Form (CAF) for certain categories of FPI applicants and also established a dedicated FPI Outreach Cell to ensure direct engagement with FPIs.

1. As per data available on National Securities Depository Limited (NSDL) portal
2. As per data available on the Association of Mutual Funds in India portal as on December 2024
3. As per data available on World Bank Group portal
4. As per data available on International Monetary Fund – World Economic Outlook (October 2024)
5. SEBI Consultation Paper dated 30 July 2024 on measures to strengthen index derivatives framework for increased investor protection and market stability

Foreword

Apart from enabling ease of access, SEBI is also working on shortening settlement cycles in the secondary markets for equity cash segment from the current T+1 to optional T+0 settlement cycle with effect from 1 May 2025, by extending the same to top 500 scrips in terms of market capitalization as on 31 December 2024 and eventually move to instant settlement with the objective to make the capital markets more efficient for all market participants.

India's first International Financial Services Centre (IFSC) – GIFT City has seen increased momentum in CY 2024. For foreign investors seeking to access Indian markets, GIFT City presents an alternate avenue, given the attractive regulatory regime and tax incentives available. This has been possible through the measures taken by the International Financial Services Centres Authority (IFSCA), the unified regulator for GIFT City and supported by SEBI.

The growth of the domestic Alternative Investment Fund (AIF) industry has further supplemented the domestic market boom. Funds raised by domestic AIFs have touched close to US$60 billion[6] across all categories – including Private Equity/ Venture Capital and hedge funds.

In our experience, CY 2024 has also seen a growth of global capability centers (GCCs) being set-up in India by global funds including alternative asset managers

From a tax standpoint, the Union Budget announced in July 2024, rationalized the tax rates and holding periods for various asset classes with an aim to simplify the capital gains tax regime, though it did result in a slightly higher tax for FPIs on their short-term and long-term capital gains.

Outlook for 2025

With the global economy poised for significant geopolitical changes, CY 2025 will be an interesting year. India's GDP is expected to grow steadily at over 6%, as the country has set itself a target of becoming a developed economy by 2047[7] (when it completes 100 years of independence). Expectations in terms of regulatory changes for FPIs include easier process for those investing in Indian government bonds and doubling of threshold for granular disclosures by FPIs from the current approximate of US$3 billion to approximately US$6 billion.

AUM of domestic mutual funds are expected to compound at healthy rates as retail participation and resultant momentum in inflows by way of systemic investment plans will continue to provide the necessary tailwinds for growth. Several new entrants (including foreign funds) are expected to enter the market buoyed by the opportunities over the next several years. Similarly, the size and quality of India's private market will continue to evolve in CY 2025 as domestic AIFs (which have crossed more than 1,400 in number) provide a vital source of capital to start-ups or established companies and offer diversification opportunities to investors looking beyond traditional asset-classes.

The Government of India sees GIFT City as an engine for growth and hence, it is likely to continue to attract a lot of focus. Notable among the changes that are expected is the introduction of a Variable Capital Company (VCC) framework for establishment of funds in GIFT City to make the regime more competitive with other established financial centres.

From a tax perspective, the Union Budget, 2025 is going to be presented on 1 February 2025. It is expected that the focus of the Budget will continue to be simplification, rationalization and reduction of litigation.

Keyur Shah
Financial Services – Tax and
Regulatory services
Partner & Leader - India Region

Tejas Desai
Partner & Leader, Wealth & Asset
Management – Tax, India Region

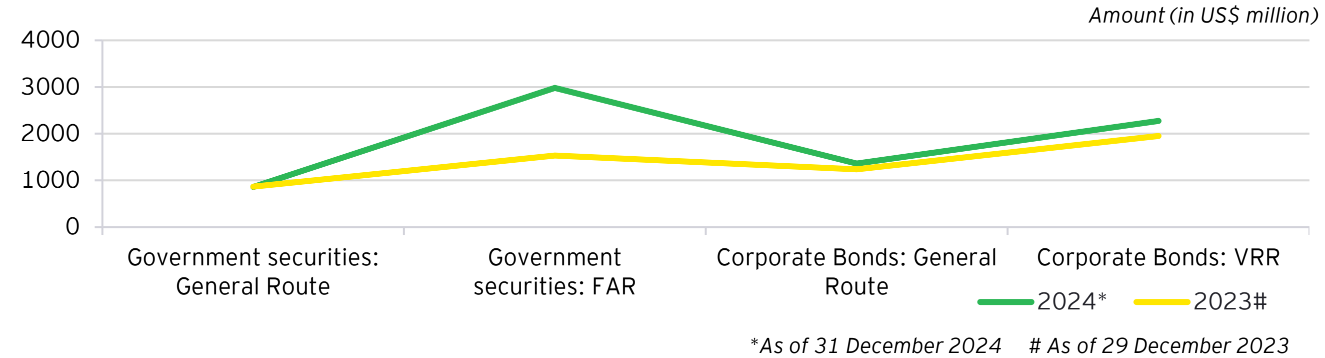
6. As per data available for AIFs on the NSDL portal as on December 2024
7. From the EY Publication India@100: Realizing the potential of a US$26 trillion economy

Key highlights of 2024

India's inclusion in global bond indices

FPIs can invest in the Indian debt market through four ways - General Route, Voluntary Retention Route (VRR), Fully Accessible Route (FAR) and through mutual funds. One of the most significant developments of CY 2024 was India's inclusion in JP Morgan's Government Bond Index starting June 2024. This was followed by inclusion in Bloomberg Emerging Market Local Currency Government Index (beginning 31 January 2025) and by FTSE Russell in its Emerging Market Government Bond, Asian Government Bond and Asian-Pacific Government Bond indices commencing September 2025. These developments have already led to FPI investment in debt more than double in CY 2024 to US$18 billion vis-à-vis US$7 billion in CY 2023[8]. Details of investments made under different routes are provided below:

Table 1: Key Statistics



Disclosure of granular ownership details[9]

The CY 2023 saw the implementation [through issuance of detailed Standard Operating Procedures (SOPs)] of SEBI's Circular of 24 August 2023 requiring disclosures of granular ownership details of FPIs upto the level of all natural persons through objectively identified criteria i.e., concentrated ownership (of more than 50% of their India equity AUM) in a single Indian corporate group or FPIs breaching the size threshold (India equity AUM of more than approximately US$3 billion), subject to certain exemptions.

Additionally, in CY 2024, with a view to enhance the ease of doing business in India, SEBI has expanded the list of exemptions and proposed to redefine the reporting requirement under the size criteria. In this regard, SEBI had released a consultation paper (CP) on 30 July 2024, proposing a suitable risk-based threshold of disclosure of investors and stakeholders to categorize an FPI as Land Bordering Country (LBC) or non-LBC entity. Further, SEBI has also recently issued another CP dated 10 January 2025 proposing to increase the threshold for the size criteria of approximately US$3 billion to US$6 billion. Both CPs are pending to be formalized by SEBI.

SEBI has also extended such granular disclosure requirement to ODI subscribers and to FPIs with segregated portfolios. The new requirements may likely increase the operational burden on ODI participants as well as prime brokers (specifically relating to validating the disclosures reported by their clients) and Designated Depository Participants (DDPs) who are required to monitor various disclosure norms. However, these changes should eventually reduce opacity and allow for greater investor protection.

Prohibition on hedging of ODIs with derivatives as underlying[10]

SEBI has prohibited hedging of ODIs with derivatives as underlying with the stated intention to curb overleveraging and systemic risks posed by the use of derivative products. Existing exceptions related to the use of derivatives by ODI issuers have been done away with. From a tax standpoint, the revised norms relating to one-to-one hedging shall require further analysis and a review of investment structures to assess the tax impact.

8. As per data available on NSDL Portal
9. Please refer - EY Alert dated 29 August 2023 and EY Alert dated 4 March 2024 and EY Alert dated 23 March 2024 and EY Alert dated 6 August 2024 and EY Alert dated 15 January 2025 on additional disclosures by FPIs that fulfil certain objective criteria
10. Please refer – EY Alert dated 24 December 2024 on measures to address regulatory arbitrage with respect to ODIs and FPIs with segregated portfolios vis-à- vis FPIs

Key highlights of 2024

Settlement of trades under the T+1 settlement cycle and expanding the scope of optional T+0 settlement cycle

SEBI has made process improvements and enhanced efficiency by introducing measures to speed up the availability of sales proceeds to FPIs thereby, bringing them on par with domestic institutional investors. Under the new process, FPIs can have access to sale proceeds either for investment or repatriation on the same 'T+1' day. As per SEBI's estimates, the efficiency gains on account of these processes are expected to be approximately US$235 million per annum[11].

Further, SEBI has announced that the existing optional T+0 (same day) settlement cycle, currently applicable to 25 stocks, shall be expanded to cover the top 500 scrips in terms of market capitalization as on 31 December 2024. The scrips shall be made available for trading and settlement, starting with scrips at bottom 100 companies out of the 500 companies and gradually include the next bottom 100 companies every month till top 500 companies are available for trading in optional T+0 settlement cycle. The same shall be applicable from 1 May 2025.

Simplified registration process for FPIs

To ease the registration process for FPIs and to reduce duplication of information, SEBI has provided an option to categories of FPI applicants *inter-alia* funds managed by already-registered investment managers, sub-funds of master funds, and insurance schemes with registered parent entities to either complete the CAF in its entirety or fill an abridged CAF, with the remaining fields being disabled or auto-populated based on information already available with the DDP.

GIFT City: India's first IFSC

The GIFT City, India's first IFSC was established as a gateway to attract foreign capital into India and to onshore the financial services ecosystem. It has been gaining a lot of attention from asset managers across the world given its best-in-class regulatory framework, a proactive and business friendly regulator and tax incentives. Funds (including FPIs) established in GIFT City enjoy tax benefits which are at par or better than those available under India's tax treaties with various countries, including Singapore and Mauritius. Establishing these funds in GIFT City requires setting-up of a licensed fund manager entity and meeting substance requirements. SEBI has also permitted 100% ownership by non-resident Individuals (NRIs)/ Overseas Citizens of India (OCIs)/ resident Indian individuals (RIIs) in FPIs established in IFSCs[12]. Previously, the limits were capped to less than 25% of the corpus of FPI in case of contribution by a single NRI/ OCI/ RII and less than 50% of the corpus of FPI in case of aggregate contribution of all NRIs, OCIs and RIIs. As of September 2024, approximately 132 fund management entities are registered collectively having launched 171 funds.

Table 2: Investments by fund management schemes at GIFT IFSC as on 30 September 2024[13]

Particulars	No. of schemes registered	Total commitments	Total funds raised	Investments into India	Investments made in foreign jurisdiction
					Amount in US$ million
Venture capital schemes (including angel schemes)	11	192	37	20	9
Category I and II AIFs	57	7,989	3,328	2,816	196
Category III AIFs	100	3,954	2,216	1,461	111
Total	**168**	**12,134**	**5,581**	**4,297**	**316**

11. SEBI Press Release dated 16 October on Process improvements under SEBI's initiative to make sale proceeds available to FPIs on settlement day itself
12. Please refer - EY Alert dated 2 July 2024 on participation by NRIs, OCIs and Resident Indian individuals in SEBI registered FPIs based in IFSCs in India
13. As per data published in the IFSCA portal

Key highlights of 2024

Options trading restrictions

As indicated above, in recent years, the derivatives market in India has significantly outdone the equity cash market, accounting for 30% to 50% of global exchange-traded derivative trades. Post COVID, retail investor participation in short-term index options has surged significantly leading to increased speculative trading and market volatility thereby enhancing the risk of capital losses and creating opportunities for market manipulations.

Thus, with an aim to promote long-term investment strategies and enhance market integrity and transparency, SEBI issued a new framework with effect from 21 November 2024. Measures among others include increasing minimum contract value leading to revision in contract lot sizes, reducing the number of weekly expiries for index derivatives to one per benchmark index per exchange, higher margin requirements and upfront collection of premiums. As a counterbalance, SEBI has proposed to allow retail investors access to algo-based trading, a practice currently used by institutional investors, thereby proposing to provide a level playing field to institutional and non-institutional investors in the trading space.

Domestic asset management market

The Indian asset management market has seen robust growth due to favourable regulatory reforms, increased investor awareness specifically in Tier 2 and Tier 3 cities and a growing appetite for wealth creation. This has led to various new players entering the market and setting-up asset management companies. In 2024, Assets Under Custody (AUC) of mutual funds reached US$698 billion[14], approximately 35% increase from 2023.

The AIF industry has also grown tenfold in the last decade, now worth US$146 billion[15], driven by increasing affluence, rising financial literacy, regulatory support and diverse investment strategies for mitigating risk. Future trends and opportunities within private equity, private debt, venture capital, and initiatives like GIFT City, should further aid the growing interest and investment in the AIF category.

SEBI has made various key changes to give a further impetus to the domestic asset management market. This inter-alia includes introducing the Mutual Fund Lite framework for passively managed mutual fund schemes, launching Specialized Investment Fund (SIF), a new asset class to bridge the gap between traditional mutual funds and more exclusive investment options thereby offering higher risk and reward opportunities within a regulated framework.

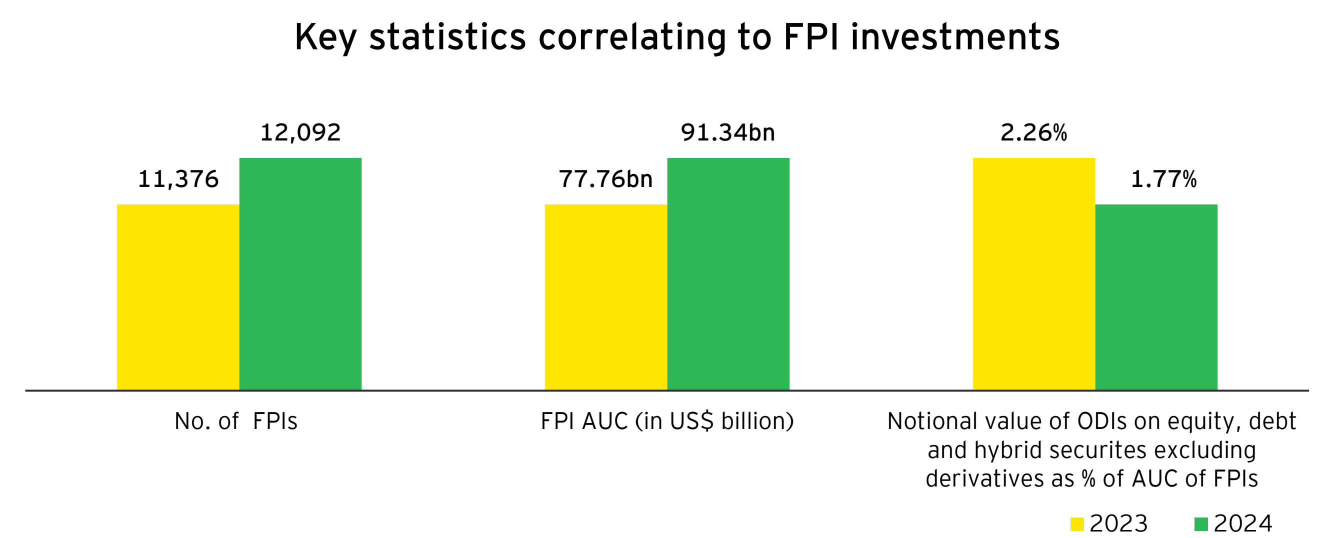
Despite these advancements, challenges like market volatility, regulatory complexities, and intense competition remain significant hurdles for the industry.

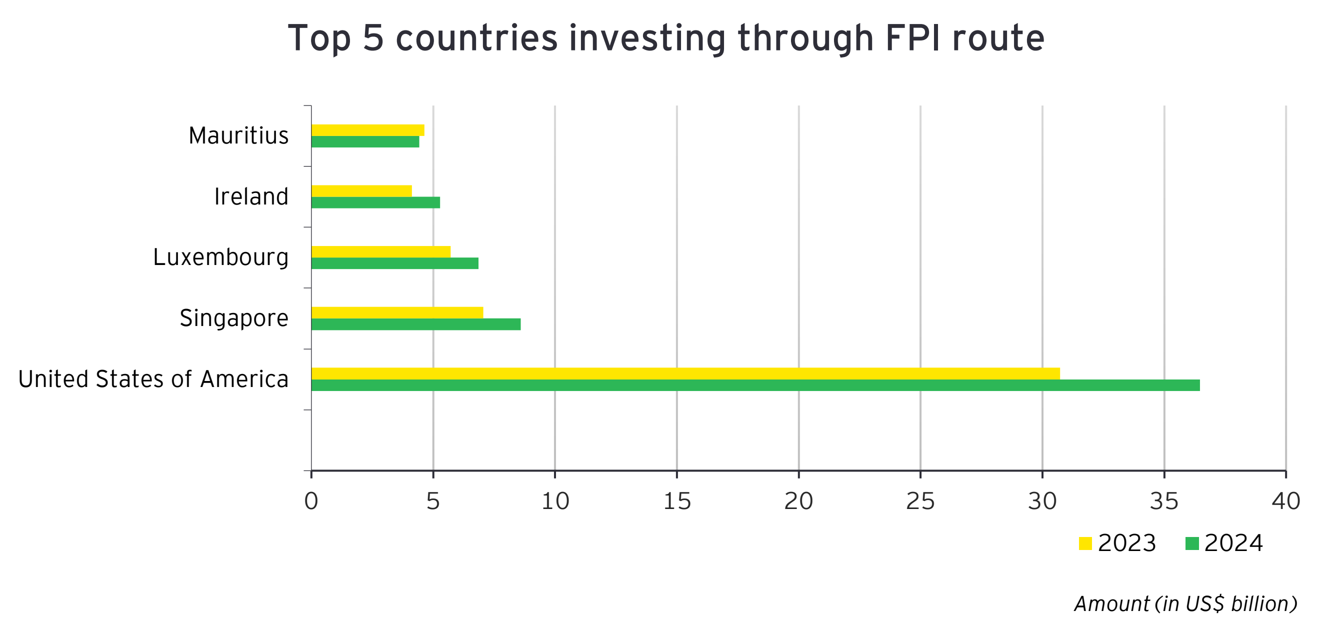
Other trends: Growth of GCCs in India for asset management entities

The Indian asset management ecosystem has evolved significantly in the last five to seven years. Over 25 alternatives asset managers have established presence (investment teams) in India. All major global asset managers operate in India, collectively employing more than 20,000 professionals across core functions. This growth has been fuelled on account of highly bespoke products and flexible investment platforms being provided to clients creating a complex operating environment, a growing need to consolidate global operations in one location and implement a "follow-the-sun" model to serve clients across the globe and the requirement to maintain shadow accounts. Industry dynamics clearly indicate the need for large-scale transformation over the next few years, with offshoring to India at the forefront of the transformation agenda for most alternative asset managers.

14. As per data collated from NSDL portal as on December 2024
15. Data collated from SEBI portal pertaining to commitments raised by AIF as on September 2024

Table 3: Key statistics relating to FPI investments in Indian markets - as per data available on the NSDL Portal (NSDL : FPI Investments)





For more information regarding this newsletter, please contact:

Keyur Shah
Financial Services - Tax and Regulatory services
Partner & Leader - India Region
Email: keyur.shah@in.ey.com

Tejas Desai
Partner & Leader, Wealth & Asset Management - Tax, India Region
Email: tejas.desai@in.ey.com

Anahita Kodia
Financial Services - Tax & Regulatory services
Partner - India Region
Email: anahita.kodia@in.ey.com

Shonna Misquita
Financial Services - Tax & Regulatory services
Partner - India Region
Email: shonna.misquita@in.ey.com

Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon Temple
Off SG Highway
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International Financial Centre
GIFT City SEZ
Gandhinagar - 382355, Gujarat
Tel +91 79 6608 3800

Bengaluru

12th & 13th Floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield, Bengaluru - 560 048
Tel: + 91 80 6727 5000

Bhubaneswar

8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar
Odisha - 751024
Tel: + 91 674 274 4490

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Aikyam
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
Tel: + 91 124 443 4000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur

9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur, Rajasthan - 302018

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: +91 33 6615 3400

6th floor, Sector V,
Building Omega, Bengal Intelligent
Park, Salt Lake Electronics Complex,
Bidhan Nagar
Kolkata - 700 091
Tel: +91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No 301
Building No. 1
Mindspace Airoli West (Gigaplex)
Located at Plot No. IT-5
MIDC Knowledge Corridor
Airoli (West)
Navi Mumbai - 400708
Tel: + 91 22 6192 0003

Altimus, 18th Floor
Pandurang Budhkar Marg
Worli, Mumbai - 400 018
Tel: +91 22 6192 0503

Pune

C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Pune - 411 045
Tel: + 91 20 4912 6800

Ernst & Young LLP

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at Ground Floor, Plot No. 67, Institutional Area, Sector - 44, Gurugram - 122 003, Haryana, India.

EYIN2501-021
ED None

RS

ey.com/en_in

@EY_India EY EY India EY Careers India @ey_indiacareers