FPI trends

Financial Services Newsletter

Round-up H1 2025

August 2025

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Foreword

In the first half of 2025, India reached an important milestone in its economic journey. According to the International Monetary Fund's April 2025 World Economic Outlook, India's nominal Gross Domestic Product (GDP) is set to surpass Japan's, putting the country on track to become the world's fourth-largest economy. This milestone not only reflects India's sustained economic momentum but also signals its growing influence in the global financial order. India is the world's fastest-growing major economy, with real GDP growing at 6.5%[1]. India's performance stands in stark contrast to the global average of 2.8%[2], underscoring its resilience and expanding global influence. India's GDP rose to 7.4 % in Q4 of the financial year (FY) 2025.

Though Foreign Portfolio Investors (FPIs) commenced the calendar year (CY) 2025 with subdued inflows, which continued until March 2025, the next three months saw FPIs being net buyers of Indian equities to the tune of US$4.5 billion[3].

Not only the Indian equity markets, but the Indian debt markets also faced challenging conditions in the first half (H1) of CY 2025. On a net basis, FPIs invested approximately US$1.54 billion[3] in debt securities, with investment in Government Securities under the fully accessible route (FAR) being a major contributor.

In H1 of CY 2025, certain noteworthy amendments were announced by the Reserve Bank of India (RBI) and SEBI, namely relaxing the requirement for short-term investment and concentration limit for FPI investment in debt securities under the General Route and easing out compliances for FPIs investing solely in Indian Government Bonds (IGB-FPIs) under the Voluntary Retention Route (VRR) and FAR. Investments in debt securities have shown a consistent upward trend from Q4 CY 2024 to H1 CY 2025. Under the VRR, investment levels rose from approximately US$22.6 billion to US$23.6 billion. Similarly, inflows through the FAR increased from around US$29.7 billion to US$33.1 billion[4], reflecting sustained investor confidence in the segment.

While the single or group-wise investor limits continue to apply, the relaxation in short-term and concentration limits will provide greater flexibility to FPIs to structure their portfolios. It should also help FPIs who do not want to take a long-term credit risk in light of the financial markets facing volatility. Furthermore, the reduction in compliances for IGB-FPIs by way of less frequent KYC reviews and exemption from furnishing investor group details should assist in creating a favorable investment climate and attract more stable and long-term capital into sovereign debt.

Additionally, the extension of timelines by SEBI for adherence to the additional granular disclosure framework in case of subscribers of overseas direct investments (ODIs), and FPIs with segregated portfolios should provide much needed relief to establish due procedures.

The Foreign Venture Capital Investor (FVCI) framework underwent a major overhaul with the SEBI (FVCI) Amendment Regulations, 2024, effective from 01 January 2025, aligning the FVCI registration and governance process with the FPI regime.

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1 https://www.pib.gov.in/PressReleasePage.aspx?PRID=2132688
2 https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025
3 https://www.fpi.nsdl.co.in/web/Reports/Yearwise.aspx?RptType=6 (converted to INR using FX US$/INR - 85.90)
4 https://www.fpi.nsdl.co.in/web/Reports/ReportDetail.aspx?RepID=1 (converted to INR using FX US$/INR - 85.1)

On the domestic asset management side, the Indian mutual fund industry has grown significantly with an Asset Under Management (AUM) of US$840 billion[5] as of May 2025 indicating an approximate 22% growth on a year-on-year basis. 18% of the assets of the mutual fund industry during May 2025 came from B30 locations (i.e., beyond the 30 top-tier cities in India). Significantly noteworthy developments on the regulatory front included SEBI's introduction of the framework for Specialised Investment Funds (SIF), providing flexibility to Alternative Investment Funds (AIFs) to offer co-investment opportunities and introduction of measures to enhance trading convenience and strengthen risk monitoring in equity derivatives.

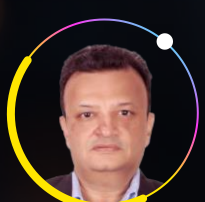
From a tax standpoint, in addition to announcing the Union Budget, 2025 the Indian Parliament also tabled the Income-tax Bill, 2025 in February 2025, aimed at simplifying the language of the existing law, reducing litigation, decreasing compliance burdens, and removing redundant provisions. The Bill was referred to a Parliamentary Select Committee (PSC), which has recently issued its report to harmonize its provisions with the existing law without any policy change to maintain continuity. Following the issuance of the report, the erstwhile Bill was withdrawn and a new Income-tax Bill was tabled in the parliament which will be enacted into law and take effect from 1 April 2026.

Outlook for H2 - 2025

On balance, H1 of CY 2025 saw FPIs returning to the Indian capital markets while maintaining a cautious attitude. As of June 2025, India's stock market capitalization crossed US$5.3 trillion[6], placing India among the largest stock markets globally. India's economic outlook for the balance of 2025 appears promising, with robust growth expected despite some global headwinds. Some of the critical factors that may influence market volatility include the progress on the ongoing India-US free trade agreement negotiations, global interest rate movements, commodity price fluctuations, and geopolitical developments.

Recent developments relating to regulatory action in the context of a global proprietary trading firm have been a pivotal moment for India's derivative market. SEBI's approach going forward towards regulating the derivatives market will be keenly watched as it seeks to strike a balance between protecting market integrity and not disrupting innovation driven by technological advancement.

On the domestic front, the size of the mutual fund as well as the alternative fund industry continues to grow at a rapid pace aided by a supportive regulatory environment, domestic wealth creation and technological advances. The introduction of the SIF regime which blends the flexibility of AIFs with the structure of mutual funds, will mark a significant step forward for both asset managers and investors in India.



Tejas Desai

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[5] https://www.amfiindia.com/indian-mutual#:~:text=Message%20from%20Chairman%2C%20SEBI&text=The%20AUM%20of%20the%20Indian,18.71%20crore%20(187.1%20million) (converted to INR using FX US$/INR - 85.90)

[6] All India Market Capitalization | BSE Listed stocks Market Capitalization (converted to INR using FX US$/INR - 85.90)

01

Amendments to additional granular disclosure framework[7]

SEBI, vide circular dated 24 August 2023, has mandated FPIs to disclose granular details of all entities holding any ownership, economic interest or exercising control in an FPI, on a full look through basis up to the level of natural persons based on objectively identified criteria i.e., concentrated ownership (of more than 50% of their India equity Asset Under Management (AUM)) in a single Indian corporate group or FPIs breaching the size threshold (India equity AUM of more than approx. US$3 billion), subject to certain exemptions.

Given that the cash equity market trading volumes (in FY 2024-25) has more than doubled from the time when the limit was introduced (in FY 2022-23), SEBI has increased the threshold limit for size criteria from ~US$3 billion to ~US$6 billion. The increase in the limit shall also be applicable for granular disclosure requirements by ODI subscribers.

Furthermore, SEBI has extended the timeline for adherence to the additional granular disclosure framework in case of subscribers of ODIs and FPIs with segregated portfolios from 17 May 2025 to 17 November 2025.

02

RBI provides relaxation on restrictions in investments by FPI in Corporate Debt Securities through general route[8]

To provide greater ease of investment to FPIs, the RBI has withdrawn the following conditions applicable for FPI investment in corporate debt securities under the General Route:

Short-term investment limit:
Short-term investments (i.e. investments with residual maturity of up to one year) by an FPI should not exceed 30% of the total investment of the FPI in corporate debt securities.

Concentration limit:
Investment in corporate debt securities by an FPI (including its related FPIs) shall not exceed 15% of prevailing investment limit of these securities in case of long-term FPIs and 10% of the prevailing investment limit for other FPIs.

All other conditions shall continue to be applicable. The amendments are effective immediately.

[7] 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

[8] EY Alert dated 13 May 2025 - relaxation on restrictions in investments by FPI in Corporate Debt Securities through general route

03

Reducing compliances for FPIs investing only in Indian Government Bonds[9]

To enhance the ease of doing business for FPIs investing only in IGBs under the VRR or FAR, SEBI has made the following relaxations:

- Rationalizing KYC periodicity to align with the timelines prescribed by RBI, resulting in less frequent mandatory KYC reviews.
- Exemption from providing details of investor group unlike other FPIs as the same is relevant only for monitoring FPI exposures into equity and corporate debt.
- Unrestricted contribution permitted by Non-Resident Indians, Overseas Citizen of India, or Resident Indian Individuals for investment in IGB-FPI along with grant of control of IGB-FPI
- Timelines for disclosure of material changes and submission of supporting documents increased from 7 to 30 days.

While SEBI has approved the above changes in its board meeting held on 18 June 2025, a circular introducing the changes is yet to be released.

[9] EY Alert dated 20 May 2025 - SEBI consultation paper proposing to relax regulatory compliances for FPIs investing only in IGBs

04

Flexibility for AIFs to offer co-Investment opportunities

In its board meeting held on 18 June 2025, SEBI also allowed Category I and Category II AIFs to offer co-investment opportunities within the existing AIF structure. AIFs can now launch a separate Co-investment Vehicle scheme (CIV scheme) for each co-investment in an investee company subject to certain conditions. This can be done without obtaining a separate portfolio manager license required as per the original framework, which presented substantial operational issues in the form of dual registration and compliance under both the SEBI (Alternate Investment Funds) Regulations, 2012 (AIF Regulations) and the SEBI (Portfolio Managers) Regulations, 2020 (PMS Regulations) and divergence from global best practices. A circular outlining the nuances of the CIV scheme is yet to be issued by SEBI.

The CIV scheme should simplify co-investment execution, reduce administrative and regulatory complexity and better align the interests of AIF investors and co-investors. The CIV structure is expected to encourage greater participation in private equity deals and improve capital raising efficiency.

> SEBI's decision to permit the establishment of CIV schemes under the AIF regulations marks a progressive step towards enhancing ease of doing business. This move introduces a flexible and streamlined option for structuring co-investment arrangements, which are increasingly prevalent in the private equity and venture capital fundraising landscape. While certain safeguards proposed—based on publicly available board meeting materials—may present operational challenges, we hope that the regulatory framework will continue to evolve and liberalize as both industry participants and the regulator gain practical experience with CIV schemes.

Subramaniam Krishnan
Tax Partner, EY India

[9] EY Alert dated 20 May 2025 - SEBI consultation paper proposing to relax regulatory compliances for FPIs investing only in IGBs

05

Proposal to enhance the investment flexibility of Category II AIFs

The amendments introduced by SEBI to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Amendments) vide Notification - SEBI/LAD-NRO/GN/2023/151 dated 19 September 2023, could adversely impact the availability of unlisted debt securities in the debt market[10], thereby shrinking the investment opportunities for Category II AIFs.

To ease the challenges for Category II AIFs, SEBI had released a consultation paper proposing to expand the scope of Category II AIFs, which primarily (i.e., >50%) invest in unlisted securities, to include listed debt securities with a credit rating 'A' or below (directly or through investment in units of other AIFs), which is in line with the higher risk appetite of AIFs. This proposal seeks to increase the investment flexibility for Category II AIFs and to improve market liquidity.

The consultation paper was approved by SEBI during its board meeting on 24 March 2025.

[10] The impact of LODR Amendments is as under:
- a) A listed entity, having outstanding listed debt securities, will only be able to issue listed debt securities from 01 January 2024 onwards.
- b) Any outstanding unlisted debt security, issued pursuant to 01 January 2024, may require to be listed in terms of Regulation 62A (3) of SEBI (LODR) Regulations, 2015, if the issuer lists any of the debt security on stock exchange(s) in future subsequent to issue of such unlisted debt security

06

Regulatory framework for Specialized Investment Funds (SIF)

SEBI has released the regulatory framework for the newly introduced asset class of SIF, aimed at bridging the gap between Mutual Funds (MFs) and Portfolio Management Services (PMS).

An MF may launch SIF through either of the below routes:

Soundtrack record:
MF has been in operation for at least three years and has an average AUM of approx. US$1.16 billion.

Alternate route:
The Asset Management Company has appointed a Chief Investment Officer and an additional fund manager with prescribed experience.

Minimum investment amount for SIF is approximately US$0.012 million.

This development marks a significant milestone in diversifying investment options for affluent individuals while ensuring that MFs involved adhere to strict eligibility and operational criteria.

> Specialized Investment Funds are likely to disrupt India's investment ecosystem by offering tailored strategies, wider asset class exposure, and greater structural flexibility — appealing especially to HNIs and institutional investors. However, with this innovation comes complexity. Investors must exercise greater scrutiny around risk concentration, governance standards and transparency, ensuring sophistication does not come at the cost of safeguards. As these funds grow in influence, regulatory attention will be key to maintaining market integrity and investor confidence.

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