# Increase in Foreign Portfolio Investment



## Why in News

The quantum of Foreign Portfolio Investments (FPIs) flows in the equity market reached a record high in the first week of June compared to any other month in the current calendar year of 2020.

## Key Points

- The foreign portfolio investors have bought shares worth about Rs. 21,000 crore in just five trading sessions in the first week of June 2020.
- This is the highest in any month of 2020, with the previous high registered in May at Rs. 14,569 crore.
- The FPI has been brought into **sectors like automobiles, private banks and pharmaceuticals.**
- The sudden surge in FPIs is because of the **Rights Issue** of Reliance Industries Limited (RIL), **stake sale** in Kotak Mahindra Bank, and the **slight increase in optimism in Indian market.**
    - RIL's Rights Issue is India's largest Rights Issue at Rs. 53,124.20 crore.
    - Uday Kotak sold shares worth around Rs. 6,800 crore of Kotak Mahindra Bank, which were bought by FPIs.
- However, the **cumulative foreign flows in equities this year is still negative** at Rs. 19,531 crore, since **March and April saw huge outflows.**

    March witnessed a record outflow of Rs. 61,973 crore, which was followed by selling worth Rs. 6,884 crore in April.

**Rights Issue**

- A rights issue is when a company offers its existing shareholders the chance to buy additional shares for a reduced price.

- A company would offer a rights issue in order to raise capital which can be used to clear its debt obligations, acquire assets, or facilitate expansion without having to take out a loan from a bank.

**Stake Sale**

- Stake sale refers to a company selling its equity holding in a particular company to another company.
- It is the disinvestment of a company's shares. It also represents the end of the investment process in a particular company.

## Foreign Portfolio Investment

- **Foreign portfolio investment (FPI)** consists of securities and other financial assets **passively held by foreign investors.**
- It does **not provide the investor with direct ownership** of financial assets and is relatively liquid depending on the volatility of the market.
- FPI is **part of a country's capital account** and is **shown on its Balance of Payments (BOP).**
    - The BOP measures the **amount of money flowing from one country to other** countries over one monetary year.
- The investor **does not actively manage** the investments through FPIs, he does not **have control over the securities or the business.**
- The investor's goal is to create a quick return on his money.
- FPI is often referred to as **"hot money"** because of its tendency to flee at the first signs of trouble in an economy.
- FPI is more liquid and **less risky than Foreign Direct Investment (FDI).**
    - A Foreign Direct Investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. FDI lets an investor **purchase a direct business interest** in a foreign country.
- FPI and FDI are both important sources of funding for most economies. Foreign capital can be used to develop infrastructure, set up manufacturing facilities and service hubs, and invest in other productive assets such as machinery and equipment, which contributes to economic growth and stimulates employment.
- **Securities and Exchange Board of India (SEBI)** brought **new FPI Regulations, 2019**, replacing the erstwhile FPI Regulations of 2014.

**Source:TH**