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FOREIGN PORTFOLIO INVESTMENT (FPI) : AN OPPORTUNISTIC APPROACH FOR INDIA

Dr. Suhasini Parashar

Reader, (Department of Business Administration)

Maharaja Surajmal Institute, New Delhi, 110058.

ABSTRACT:

The focus of this article will be to study the Foreign Portfolio Investment (FPI) ,an opportunity to develop directly the capital market . This market was not as developed before economic reform, 1991 .Since 1999 , financial sector reform needs for developing the financial institutional investors and corresponding capital and commodity market . Financial products in economy effect the monetary regulation and growth rate in economy .The difference in FDI and FPI effect on Foreign Institutional Investors . The Finance Ministry initiative for amendment of regulations such that foreign funds can flow to the country without being with held . International financial investments are subject to currency risks and political risk , as well as a set of constraints such as taxation, foreign exchange controls, capital market regulations, transaction costs and required familiarity with foreign markets . It is also necessary to develop the economy and thereby , keep the economy always highly attractive to foreign portfolio investment and for long time intact to the Indian economy.

Key Words : Capit4al Flow, Portfolio Investment , Risk.

INTRODUCTION

The current economic scenario shows the Indian economy needs stimulus to increase in the growth rate and maintain a balance. Investment from foreign portfolios is an essential source of funds to attain better economic stability and these investors will make money. The Indian companies due to the slowing of economy, the situation continues in this way, the economy of India expose a fall of unemployment and poverty. One technique to improve this economic slowdown is to facilitate investments from outside India. Thus, the Foreign Portfolio Investments (a form of capital flow) becomes the strength of Indian Economy. Because capital is always in short supply and is highly mobile, foreign investors with standard criteria for (Foreign Direct Investment) FDI and (Foreign Portfolio Investment) FPI, and the effect of :

(i) Economic factors: the strength of the economy , GDP growth trends, infrastructure, inflation, currency risk, foreign exchange controls etc.

(ii) Political factors: political stability, government's business philosophy, track record.

(iii) Incentives for foreign investors: taxation levels, tax incentives, property rights.

(iv) Other factors: education and skills of the labor force, business opportunities, local competition.

I. FOREIGN INVESTMENT PORTFOLIO (FPI) : AN OPPORTUNITY

Foreign portfolio investment is a way of funding that an investor has overseas investment opportunity . An overseas portfolio funding consists of totally different belongings held in overseas international locations , together with bonds, shares, and money equivalents . These are managed by finance professionals or straight held by an investor. Most of overseas portfolio investments are passively held by the investor and their liquidity does depend upon the volatility of the overseas market , and many advantages having overseas portfolio funding and to diversify their holdings and profit from worldwide funding diversification .

FPI refers to securities and other financial assets held by foreign investors . Such investment does not provide direct ownership of a company's assets to the investor. FPI along with FDI are the two important modes of funding for most economies. Foreign Portfolio Investment is part of a country's capital account and is shown on its balance of payments (BOP) . FPI holdings include stocks, bonds, mutual funds, American Depository Rights (ADRs) , and exchange-traded funds .

Need During the Developing Scenario:

Companies must raise investment when they do not have sufficient funds to sustain the operations . When there is a limitation on the domestically available investors, companies look forward to receiving foreign investment in the form of FPIs. The advantages of FPI are:

The investor can earn returns from the investment.

The investor make a profit on the investment based on the current exchange rate between the currencies .

Capital Flow : A Monetary Approach for Growth

Capital is a vital ingredient for economic growth, but since most nations cannot meet their total capital requirement from internal resources alone, they turn to foreign investors. As Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) are two of the most common routes for investors to invest in an overseas economy. FDI implies investment by foreign investors directly in the productive assets of another nation. FPI means investing in financial assets, such as stocks and bonds

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of entities located in another country. As retail investors increasingly invest overseas, they should be clearly aware of the differences between FDI and FPI, since nations with a high level of FPI can encounter heightened market potentiality and currency flow during times of uncertainty. Thus , A foreign direct investment (FDI) approach in the sense ,for an investment made by a firm or individual in one country for business interests located in another country. Foreign portfolio investment (FPI) instead refers to investments made in securities and other financial assets issued in another country. Both methods of foreign investment are crucial to global trade and development (FDI is often considered the preferred mode and is less volatile).

FDI versus FPI

Although FDI and FPI are similar as both involve foreign investment , there are some very fundamental differences between the two .

1. The difference arises in the degree of control exercised by the foreign investor. FDI investors typically take controlling positions in domestic firms or joint ventures and are actively involved in their management. FPI investors, on the other hand, are generally passive investors who are not actively involved in the day-to-day operations and strategic plans of domestic companies, even if they have a control of investment in them.

2. The difference is that FDI investors have to take a long-term approach to their investments and take years from the planning stage to project implementation . Where as FPI investors may profess to be in for the long , but often have a much shorter investment horizon, especially when the local economy encounters some turbulence .

3. FDI investors cannot liquidate their assets and depart from a nation. FPI investors can exit a nation literally , as financial assets are highly liquid and widely traded.

FDI and FPI – Pros and Cons

(i)FDI and FPI 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.

(ii) FDI is obviously the route preferred by most nations for attracting foreign investment, since it is much more stable than FPI and signals long-lasting commitment. But for an economy that is just opening up, meaningful amounts of FDI may only result once overseas investors have confidence in its long-term prospects and the ability of the local government. FPI is desirable as a source of investment link , it tends to have a much higher degree of volatility than FPI. These massive portfolio flows can extract the economic problems during periods of uncertainty.

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(iii) A multi-millionaire (Indian) looking for investment opportunity and trying to decide between (a) acquiring a company that makes industrial machinery, and (b) buying a large stake in a company that makes such machinery. The former is an example of direct investment while the latter is an example of portfolio investment . Now, if the machinery maker were located in a foreign jurisdiction , and invest in it, the investment would be considered as FDI. If the companies whose shares is considering buying were also located in Mexico, the purchase of such stock or their American Depositary Receipts (ADRs) would be regarded as FPI . Although FDI is generally restricted to large players who can afford to invest directly overseas, the average investor is quite likely to be involved in FPI , knowingly or unknowingly. Every time you buy foreign stocks or bonds, either directly or through ADRs, mutual funds or exchange traded fund, where engaged in FPI.

II. BUSINESS OPPORTUNITY BASIS AND EFFECTIVE APPROACH:

(a) FPIs can invest in debt securities of Real Estate Investment Trusts (ReITs) and Infrastructure Investment Trusts (InvITs) , in addition to the existing products for development.

(b) The merger of NRI portfolio investment scheme with that of FPI eases the process of NRIs investing in equities. This move is expected to bring in more equity-oriented funds into the Indian economy.

(c) An overseas portfolio funding permits a number of advantages akin to entry to a much bigger market.

Contents:

(i)Portfolio Diversification

Foreign portfolio funding offers traders a possibility to interact in worldwide diversification of portfolio belongings. The world inventory market operates in such approach that the components that drive the stock exchange at any given time are totally different from people who prevail in other country . It specifies, an investor who has shares in several international locations will expertise much less volatility over the whole portfolio.

(ii)International Credit

Investors who've overseas funding portfolios have important investments and advantageous when credit score sources out there become costly . It means to get credit score on favorable phrases and as rapidly as attainable can decide whether or not an enterprise executes a brand new challenge or not.

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(iii) Benefit From Exchange Rate

International foreign money trade charges remain changing . Sometimes the foreign money of the investor's residence nation could also be weak . There are instances when a stronger foreign money in the overseas nation might profit the investor .

(iv) Access to a Bigger Market

There is generally an access to bigger market to accelerate the growth and development in economyy.

(v) Liquidity

Where overseas portfolio investments are very liquid, they are often purchased and offered rapidly and simply. Higher liquidity means higher shopping for energy for traders . The traders holding overseas portfolio investments are better-positioned to behave rapidly .

III

The net flow of foreign portfolio investment is

Sr. No.	Year	Net flow of FPI(Rs. in Crore)
1	2015	17,808
2	2016	20,568
3	2017	51,252
4	2018	-33 ,014
5	2019	99,960

Recent Trends

The current FPI limit is Rs.3, 17,000 Crore .

(ii_ Total cumulative FPI Rs. 2,48,154 Crore on 31.03.2019 and Rs. 2,53,653 Crore in 31.03.2018 .

The net out flow Rs. 33,42,680 Crore in 31.03.2019 and Rs. 31,48,349 Crore in 31.03.2018 .

The total FIIs in 2019 , Rs. 84,575 Crore .

The total equity and debt securities Rs. 17, 505Crore and Rs. 1,07,462 Crore respectively in 2019-20.

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Budget about Foreign Investment (2019)

The Budget 2019 announced by the Finance Minister Nirmala Sitharaman made the following proposals:

a.The Government has proposed to streamline the existing Know Your Customer (KYC) norms for FPIs an effort towards making FPIs more investor-friendly without compromising the integrity of cross-border capital flows .

b.The Finance Minister views attracting cross-border investment is the availability of investable stocks. Therefore, she introduced the idea of increasing the statutory limit from 24% to sectoral foreign investment limit. It also provides the concerned corporate with the freedom to lower the threshold as required.

c.FPIs are now allowed to purchase listed debt securities issued by Real Estate Investment Trusts (ReITs) and Infrastructure Investment Trusts (InvITs).

d.The investments of FPIs in debt securities, issued by Infrastructure Debt Fund – Non-Bank Finance Companies (NBFC), are now allowed to be transferred or sold to a domestic investor within the lock-in period.

e.Encouraging non-resident Indians' (NRI) investment in the Indian market, the NRI portfolio investment scheme merged with FPI route.

The Budget updates on FPI regulations have both positive and negative effects on investors. The proposal to make KYC norms mandatory may create a negative effect. Not all FPI entities are ready to directly identify themselves as investors.

a.The Budget has proposed an effective tax rate of 39% for a taxable income from Rs.2 crore to Rs.5 crore and 42.74% for a taxable income above Rs.5 crore . These tax rates are applicable to foreign portfolio investors as about 40% of FPIs either individuals, trusts, or other small entities. The requirement to pay higher taxes would result in these FPIs losing interest in investments.

b. Higher tax rates, these individuals/small entities may try to get into a corporate structure. Under the laws of General Anti-Avoidance Rules, they may be penalized for showing themselves as a corporate structure only for the sake of tax avoidance .

IV. CONCLUSION

The investment decisions based on determining the degree of risk faced by every investors and benefits in the context of increasing globalization . Even investing in foreign securities is easier, but existing significant barriers and complexities to this strategy such as transactions costs and lack of

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information . The private investor prefer to consider investing in international mutual funds and a maximum of diversification can be exploited at low transactions cost and management fees . There are ways of reducing the risks , such as blending international stocks into portfolio and investing for the long term .The foreign investments should be made with a long-term strategy. International stocks can be volatile in the short-term , they become a part of a long-term investment plan. Out of the wide range of international investment opportunities , emerging economies have historically been characterized by high average returns and large volatility . The right way to invest according to the situation and economic development and growth which effect the capital formation and capital accumulation . Foreign portfolio investment contribute in capital market development with the help of Foreign Institutional Investors . FPI which is a part of liberalization is essentially a move towards achieving economic growth and investment by NRIs securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. FPI gives an upward thrust to the domestic stock market prices. FPI along with FDI can contribute to fill the savings investment gap and provide the foreign exchange to support growth and development. India‘s change of policy in relation to FPI, led to large surge of foreign investment in capital market becomes revolutionary for not only the capital market of the country but for the whole economy also , to protect against the volatility of the FPI with regulatory measures alone. What the country can do is to increase the foreign exchange reserve by concentrating in export trading activities with FPI . The government regulations , updated and modified, as and when necessary, for better use of foreign money for accelerating the growth and upgrade development in economy.

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