

**Whose money is it anyway?** We have observed a peculiar phenomenon of large FII inflows into the Indian market in the last 5-6 trading sessions of quarter-ending months. The flows (always positive inflows and disproportionately large compared to the rest of the month) are significantly higher than during similar periods in other 'normal' months. We do not have an answer to this phenomenon but would be curious to understand the reasons for the disproportionate flows.

#### Those last five days of a quarter

Over the past six quarters, the Indian market has seen average inflows of US\$1.1 bn in the last five trading session of the quarter-ending months (June, September, December and March). This compares with about US\$400 mn of average monthly inflows over the past 18 months and only US\$58 mn of net inflows excluding the quarter-ending months. Exhibit 1 gives details of FII flows into the Indian market for the last five days of the past 18 months.

#### There must be a reason for this but it escapes us for the time being

It would be too much to expect that our observation is just mere coincidence. However, we do not have an explanation for this currently. Flows associated with F&O expiry period towards the end of the month may not be a valid reason since the expiry takes place every month. Also, we note that the flows are largely back-ended in the quarter-ending months compared to other months. Exhibit 2 compares FII flows in the last five trading sessions with the flows during the month for the past 18 months.

#### Valuations seem to be quite similar across months for those last five days

We rule out valuations as a reason for the sudden large inflows during the last five days of any quarter-ending month. Valuations seem to be quite similar around that period for the 18 months that we have analyzed the data. The only exception is June 2011 when valuations had dipped below 'normal' levels, sufficiently enough for the market to attract some inflows. Exhibit 3 gives 12-month forward valuation of the BSE-30 Index five days prior to the end of the month. Of course, the large inflows do result in positive market performance and may be the secret lies therein.

## INDIA

JULY 13, 2011

UPDATE

BSE-30: 18,596

#### QUICK NUMBERS

- **US\$1 bn of FII inflows in the last five days of quarter-ending months**
- **US\$58 mn of similar inflows in other months**
- **3.5% outperformance of the market in the last five days of quarter-ending months compared to other months**

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Quarter-end months see larger inflows in the last five days versus in other months  
 FI net inflows in the last five trading days of the month since January 2010 (US\$ mn)

	Amount (US\$ mn)
January 29, 2010	(1,480)
February 26, 2010	487
<b>March 30, 2010</b>	<b>1,000</b>
April 30, 2010	455
May 31, 2010	(215)
<b>June 29, 2010</b>	<b>439</b>
July 30, 2010	1,434
August 31, 2010	137
<b>September 30, 2010</b>	<b>1,969</b>
October 29, 2010	527
November 30, 2010	443
<b>December 31, 2010</b>	<b>888</b>
January 31, 2011	(495)
February 28, 2011	(610)
<b>March 30, 2011</b>	<b>1,094</b>
April 29, 2011	(531)
May 31, 2011	540
<b>June 29, 2011</b>	<b>1,129</b>
<b>Average monthly</b>	<b>401</b>
<b>Average 'other' months</b>	<b>58</b>
<b>Average quarter-ending months</b>	<b>1,087</b>

Notes:

(a) Net FI flows for June 30, 2011 were consolidated with July 1, 2011 as per SEBI and hence excluded.

Source: Bloomberg, Kotak Institutional Equities

Quarter-ending flows high even for quarter-ending months

FI net inflows in the last five trading days as a proportion of the total monthly inflow (US\$ mn)

	Net FI flows (US\$mn)		
	Last 5 days of a month (A)	Month (B)	(A)/(B) (%)
January-10	(1,480)	(230)	643
February-10	487	464	105
<b>March-10</b>	<b>1,000</b>	4,135	24
April-10	455	2,220	20
May-10	(215)	(1,989)	11
<b>June-10</b>	<b>439</b>	2,099	21
July-10	1,434	3,777	38
August-10	137	2,404	6
<b>September-10</b>	<b>1,969</b>	6,373	31
October-10	527	5,579	9
November-10	443	4,159	11
<b>December-10</b>	<b>888</b>	329	270
January-11	(495)	(1,387)	36
February-11	(610)	(826)	74
<b>March-11</b>	<b>1,094</b>	1,556	70
April-11	(531)	1,574	(34)
May-11	540	(1,156)	(47)
<b>June-11</b>	<b>1,129</b>	734	154
<b>Average monthly</b>	<b>401</b>	<b>1,656</b>	<b>24</b>
<b>Average 'other' months</b>	<b>58</b>	<b>1,216</b>	<b>5</b>
<b>Average quarter-ending months</b>	<b>1,087</b>	<b>2,538</b>	<b>43</b>

Notes:

(a) Net FI flows for June 30, 2011 were consolidated with July 1, 2011 as per SEBI and hence excluded.

Source: Bloomberg, Kotak Institutional Equities

Apart from the recent quarter, valuations need not have triggered inflows  
Comparison of BSE-30 Index P/E five trading days before month-end and the subsequent BSE-30 Index change in %

	Last five trading days of a month		
	Net FII flows (US\$ mn)	Sensex change (%)	P/E at T-5d
January-10	(1,480)	(3.0)	16.8
February-10	487	1.5	15.8
<b>March-10</b>	<b>1,000</b>	<b>0.8</b>	<b>16.7</b>
April-10	455	(0.8)	16.9
May-10	(215)	2.9	15.4
<b>June-10</b>	<b>439</b>	<b>(1.2)</b>	<b>16.4</b>
July-10	1,434	(1.4)	16.3
August-10	137	(1.9)	15.8
<b>September-10</b>	<b>1,969</b>	<b>1.0</b>	<b>17.3</b>
October-10	527	(0.7)	17.3
November-10	443	(0.9)	16.6
<b>December-10</b>	<b>888</b>	<b>2.2</b>	<b>16.7</b>
January-11	(495)	(4.3)	15.8
February-11	(610)	(3.3)	15.0
<b>March-11</b>	<b>1,094</b>	<b>6.0</b>	<b>14.6</b>
April-11	(531)	(2.4)	15.5
May-11	540	2.7	14.2
<b>June-11</b>	<b>1,129</b>	<b>6.5</b>	<b>13.8</b>
<b>Average monthly</b>	<b>401</b>	<b>0.2</b>	<b>15.9</b>
<b>Average 'other' months</b>	<b>58</b>	<b>(1)</b>	<b>15.9</b>
<b>Average quarter-ending months</b>	<b>1,087</b>	<b>2.5</b>	<b>15.9</b>

Notes:

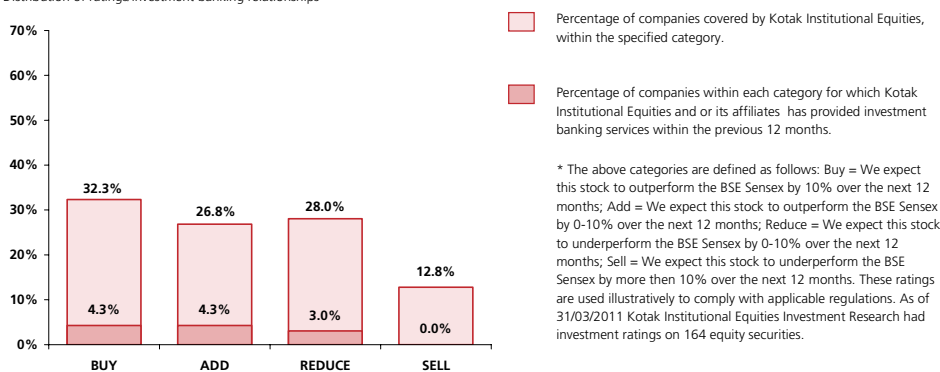
- (a) T= Last trading day of the month.
- (b) P/E is based on 12-month forward consensus EPS estimates.
- (c) Net FII flows for June 30, 2011 were consolidated with July 1, 2011 as per SEBI and hence excluded.

Source: Bloomberg, Kotak Institutional Equities

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As of March 31, 2011

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