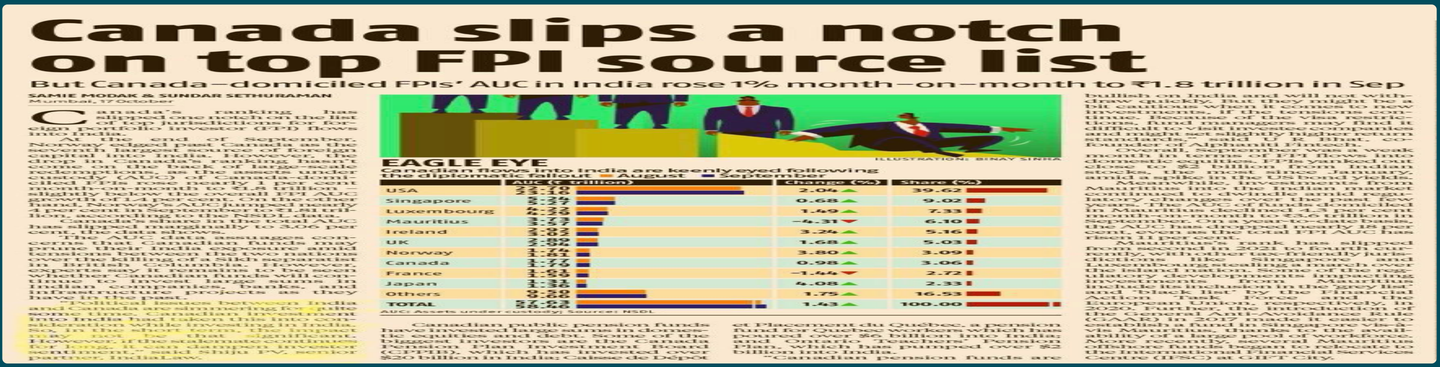

Canada slips a notch on top FPI source list

But Canada–domiciled FPIs' AUC in India rose 1% month–on–month to ₹1.8 trillion in Sep

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Canada's ranking has slipped one notch on the list of top jurisdictions for foreign portfolio investor (FPI) flows into India.

At the end of September, Norway edged past Canada as the seventh largest source of foreign capital into India. However, the drop in Canada's ranking hasn't come on the back of large-scale redemptions, as the assets under custody (AUC) of Canada-domiciled FPIs rose nearly 1 per cent month-on-month to ₹1.8 trillion — slightly below the overall FPI AUC growth of 1.4 per cent. On the other hand, Norway's AUC jumped nearly 4 per cent in September to ₹1.81 trillion, according to the NSDL data.

Canada's share in the total AUC has slipped marginally to 3.06 per cent, the data shows.

The AUC data assuages concerns that Canadian funds may prune their India exposure amid tensions between the two nations over the killing of a Sikh separatist in British Columbia. However, experts say it remains to be seen whether Canadian funds will continue to invest large sums in Indian companies, banks, and infrastructure projects as they have in the past.

"Political issues between India and Canada are simmering for quite some time. Canadian investment into India had taken this into consideration while investing in India. So, in the short term, the impact may not be that significant. However, if the stalemate continues for long, it can dampen investor sentiment," said Shiju PV, senior partner, IndiaLaw.

ILLUSTRATION: BINAY SINHA

EAGLE EYE

Canadian flows into India are keenly eyed following the diplomatic fallout ■ August ■ September

	AUC (₹ trillion)		Change (%)	Share (%)
	August	September		
USA	22.70	23.16	2.04 ▲	39.62
Singapore	5.24	5.27	0.68 ▲	9.02
Luxembourg	4.22	4.29	1.49 ▲	7.33
Mauritius	3.73	3.57	–4.31 ▼	6.10
Ireland	2.92	3.02	3.24 ▲	5.16
UK	2.89	2.94	1.68 ▲	5.03
Norway	1.74	1.81	3.80 ▲	3.09
Canada	1.77	1.79	0.98 ▲	3.06
France	1.61	1.59	–1.44 ▼	2.72
Japan	1.31	1.36	4.08 ▲	2.33
Others	9.50	9.66	1.75 ▲	16.53
TOTAL	57.63	58.46	1.43 ▲	100.00

AUC: Assets under custody; Source: NSDL

Canadian public pension funds have invested large sums in domestic equities and debt. Some of the biggest investors are the Canada Pension Plan Investment Board (CPPIB), which has invested over $20 billion in India; Caisse de Dépôt et Placement du Québec, a pension fund for Quebec workers which has poured over $6 billion into India; and Ontario Teachers' Pension Plan, which has pumped over $2 billion into India.

"Canadian pension funds are bullish on India and will not withdraw quickly. But they might be a bit cautious when it comes to new investments, if the tensions continue. Because of the visa restrictions, fund managers may find it difficult to visit investee companies and might set slightly higher return standards," said U R Bhat, co-founder of Alphaniti Fintech.

Overall, September was a weak month in terms of FPI flows into domestic equities. FPIs yanked out close to $2 billion from Indian stocks, the most since January, amid a spike in the US bond yields.

Meanwhile, investments from Mauritius into the Indian market continued to dwindle amid regulatory changes over the past few years. The AUC of funds domiciled in Mauritius declined 4.3 per cent month-on-month to ₹3.6 trillion in September. On a year-to-date basis, the AUC has dropped nearly 18 per cent, even as the total FPI AUC has risen 11 per cent.

Mauritius's rank has slipped from second in 2021 to fourth currently, with other tax-friendly jurisdictions like Singapore and Luxembourg stealing a march over the island nation. Some of the regulatory developments impacting investments from Mauritius include its inclusion in the 'grey list' and 'black list' by the Financial Action Task Force and the European Union, respectively, in 2020. Further, the introduction of the General Anti-Avoidance Rule (GAAR) in 2017 made it easier to establish a fund in Singapore vis-à-vis Mauritius, thanks to the availability of a large pool of workforce. More recently, several Mauritius offshore funds began to relocate to the International Financial Services Centre (IFSC) at GIFT City.

IL NEWS

Shiju P Veetil, Senior Partner, INDIALAW LLP quoted in The Business Standard

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