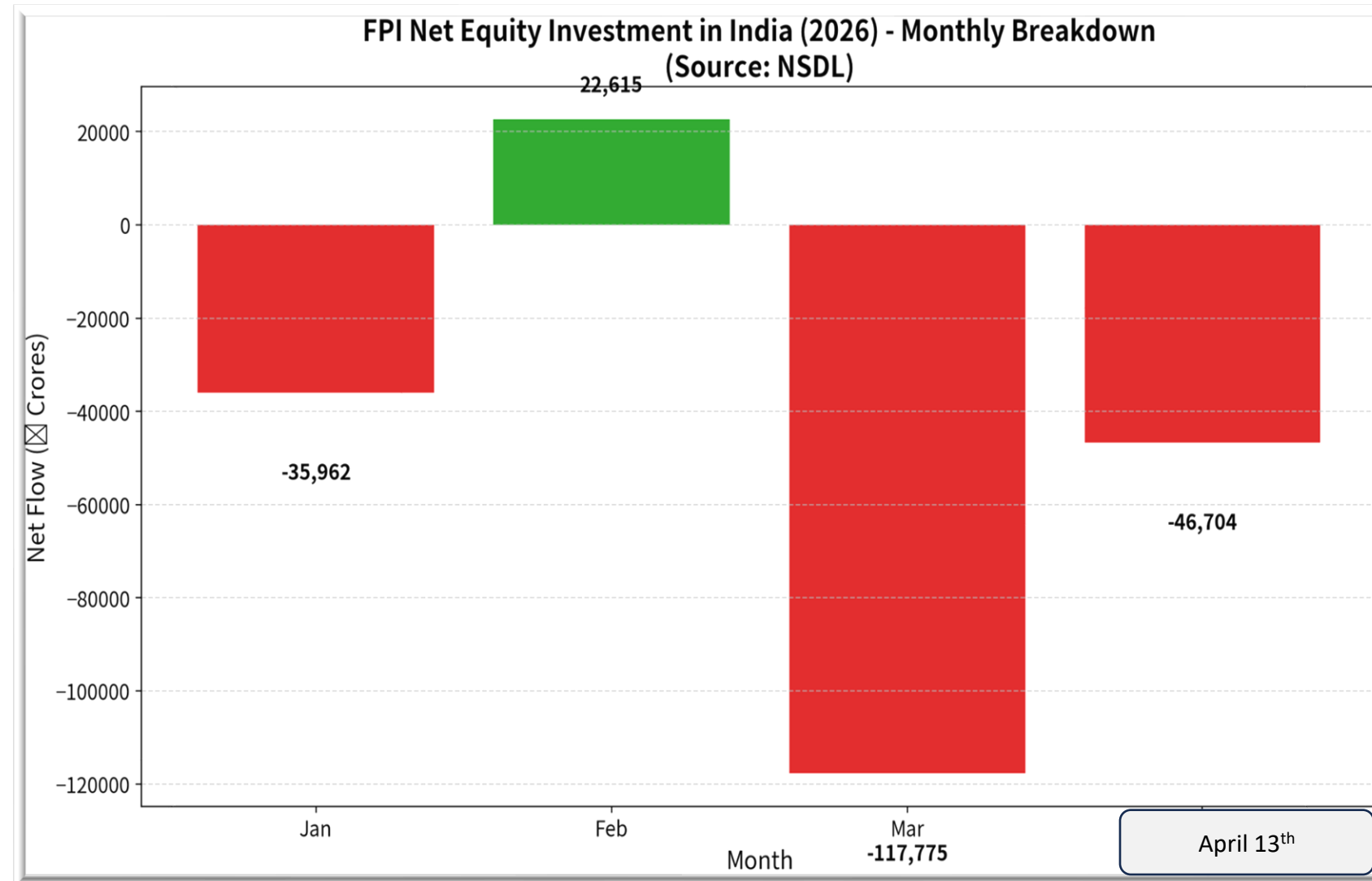


Why FPIs are Exiting India?

CANARA BANK | ECONOMIC RESEARCH VERTICAL | HEAD OFFICE

- ❑ FPIs net sellers of **₹1,77,826 Cr** in Indian equities in 2026 YTD (up to Apr 13)
- ❑ 2025: Record **₹1.6 lakh Cr** outflow — highest ever
- ❑ **Primary Drivers:** Sky-high valuations + global risk-off (US-Iran tensions, strong USD) + rupee depreciation
- ❑ DIIs & SIPs fully offsetting → Markets resilient, but FPI ownership at **15-year low**
- ❑ India still structurally strong long-term, but FPIs moving to cheaper markets

- ❑ Jan: **-₹35,962 Cr**
- ❑ Feb: **+₹22,615 Cr** (brief pause)
- ❑ Mar: **-₹1,17,775 Cr** (massive)
- ❑ Apr (up to 13th): **-₹46,704 Cr** YTD
- ❑ **Total: -₹1,77,826 Cr**

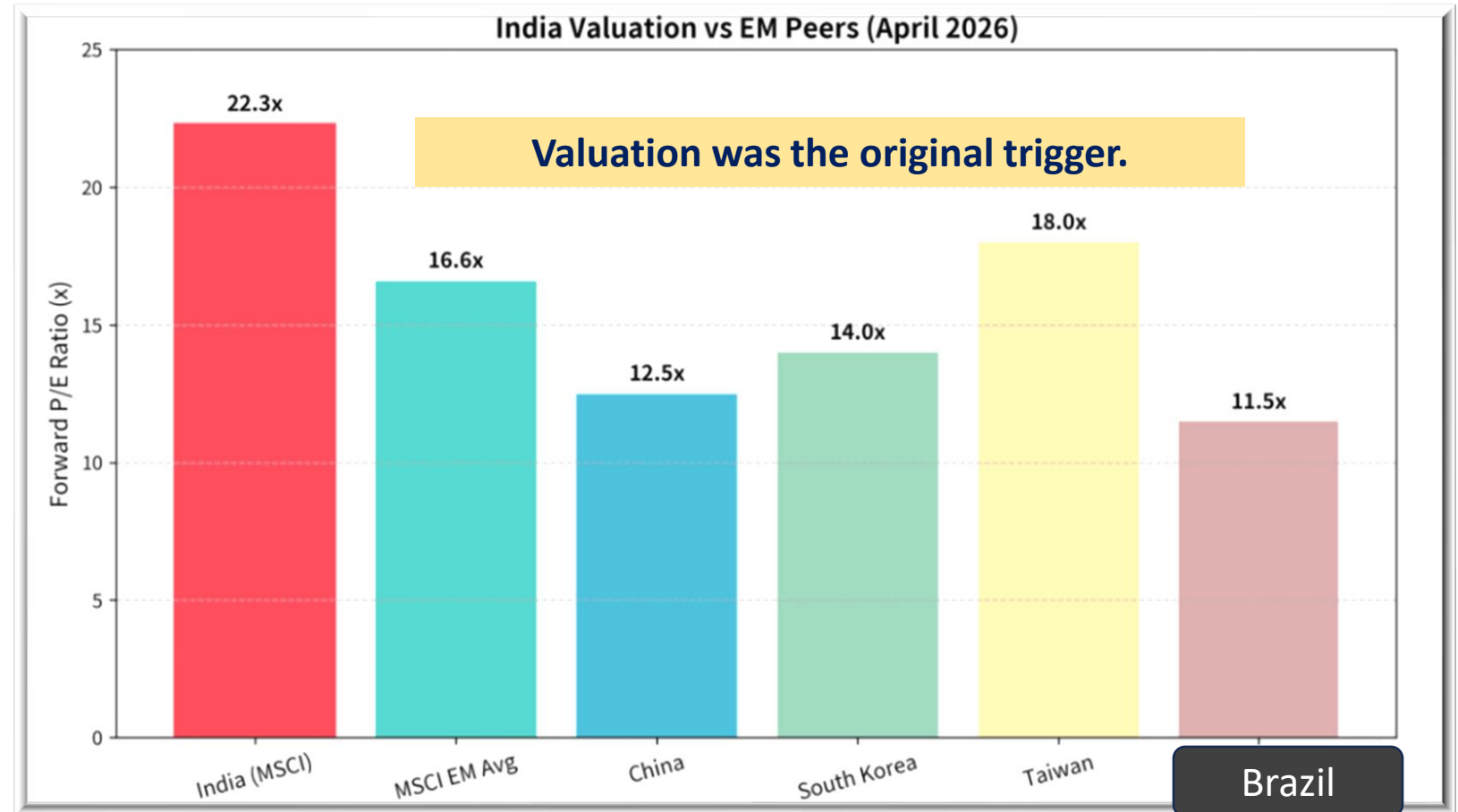


March was the worst month — triggered by West Asia crisis. April continues the bleed.”

3 Important Reasons

Reason #1 — Sky-High Valuations

- ❑ India trades at **20x forward P/E** → **50% premium** to emerging market average
- ❑ Earnings growth only **10–15%** — not enough to justify the price
- ❑ Low innovation quotient and R& D spends even in traditional strongholds like IT
- ❑ Not a single sectors where India is a world leader. Alternative markets exist now.



- ❑ **Analyst view: “Why pay 20x when Korea/Taiwan deliver better growth cheaper?”**

FPIs shifting capital to cheaper EMs (Brazil, Korea, China tech) that offer better value and innovation potential. Even after the 2025–26 correction, India remains at a premium, which is one of the core reasons for sustained outflows

- ❑ US-Iran/West Asia crisis → spike in crude prices + risk aversion
- ❑ Capital rotating to **AI hubs** (US, Taiwan, Korea) — India has limited AI value chain
- ❑ Stronger USD + rising US bond yields → safer returns in developed markets

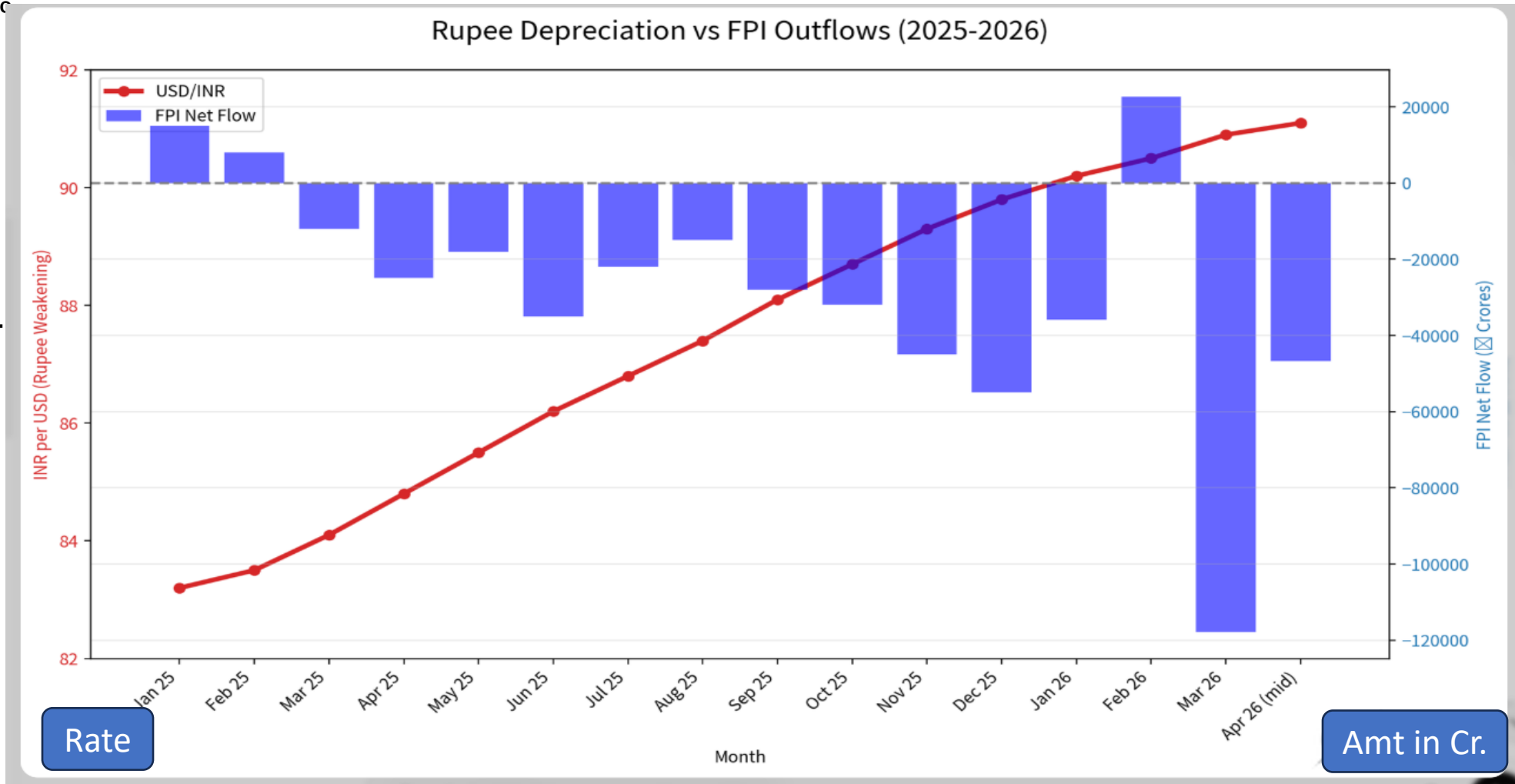
Date / Period	Geopolitical Event	FPI Equity Outflow Impact	Cumulative Outflow (approx.)
Feb 28 - Mar 1	US + Israel launch massive airstrikes on Iran (900+ strikes). Supreme Leader targeted.	Immediate risk-off trigger. FPIs start heavy selling.	~₹8,000-10,000 Cr (early)
Mar 1-3	Iran retaliates: Strikes on US bases, radar systems in Gulf. Strait of Hormuz threatened/partial closure.	Oil prices surge (Brent >\$100-110/bbl). Markets panic.	₹15,000+ Cr
Mar 1-15 (First Half)	Escalation peaks: Attacks on energy infra, embassy incidents.	FPIs net sellers every single trading day . Heavy BFSI/IT selling.	~₹52,704 Cr
Mar 16-20	Ongoing conflict, oil supply fears intensify. Trump statements on prolonged ops.	Weekly outflow: ₹36,290 Cr. Continued daily selling.	~₹88,180 Cr (by Mar 20)
Mar 21-27	Strait of Hormuz disruptions worsen. Global risk aversion.	Persistent selling. Highest intensity phase.	~₹1,13,380 Cr (by Mar 27)
Mar 28-31	Conflict continues with no immediate de-escalation.	Record monthly total. FPIs sellers on all 17+ trading days .	₹1,17,775 Cr - ₹1.18 lakh Cr (full month)

March's ₹1.18 lakh Cr sell-off was directly linked to Middle East tensions.

Reason #3 — Rupee Depreciation

- ❑ Rupee weakened ~11% in FY26
- ❑ Currency loss erodes dollar-based returns for FPIs
- ❑ Higher hedging costs further discourage flows. 2-3% annual weakness expected
- ❑ \$5 trn size delayed
- ❑ **Critical Period:**
 - ✓ March 2026 shows the sharpest rupee slide + record ₹1.8 lakh cr FPI outflow.
 - ✓ April 2026 (mid-month): Continued pressure with another ₹46.704 Cr outflow.

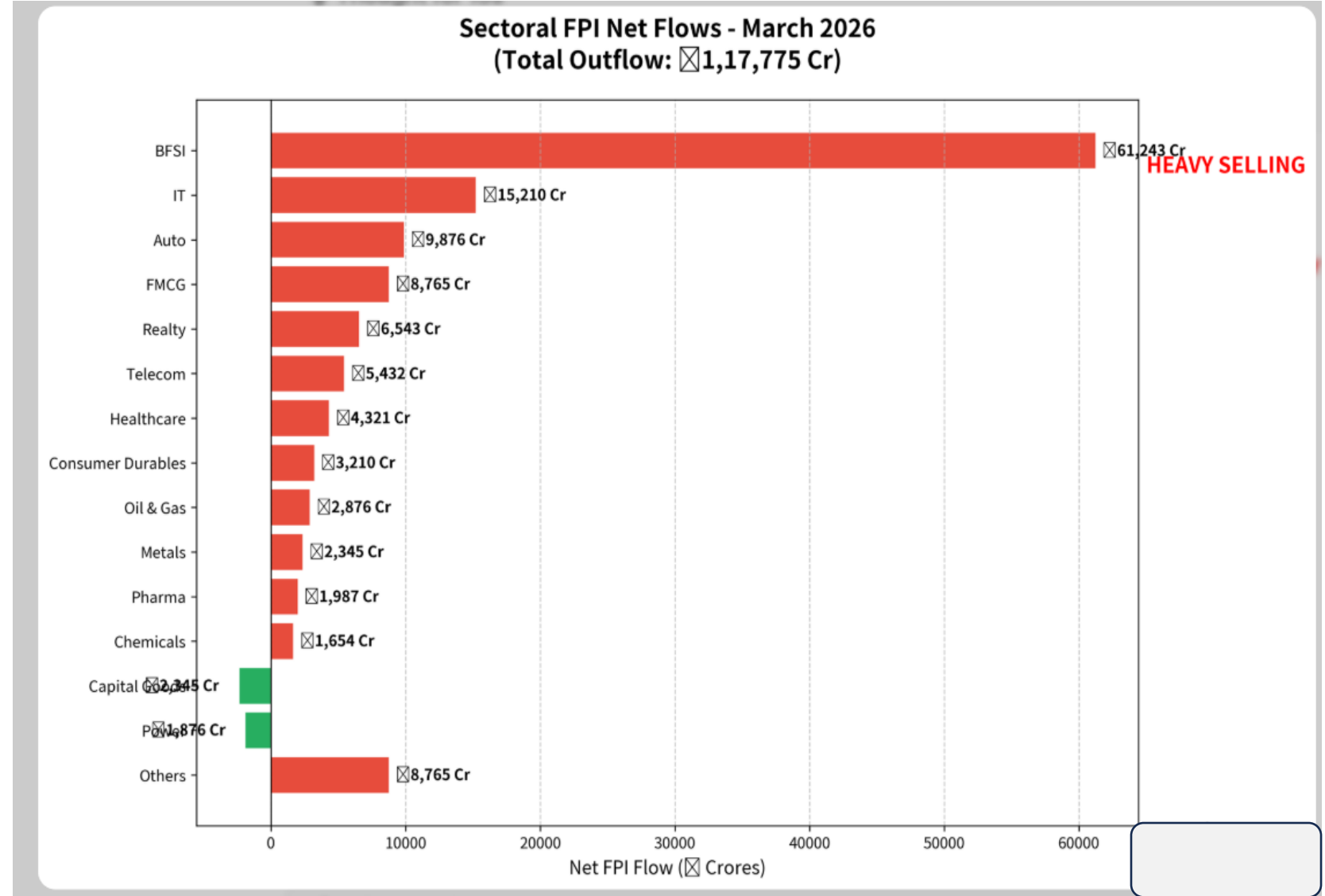
Rupee vs USD + FPI Outflow Overlay Chart (2025–April 2026)



FPI Correlation: Clear inverse relationship — as rupee weakens (higher line), FPI outflows intensify (deeper red bars).

Heavy selling in:

- ❑ **Financial Services (BFSI)** — biggest hit in Mar 2026 due to Highest foreign ownership + sensitive to rising yields & oil prices
- ❑ **IT** — AI disruption + weak global tech spending
- ❑ **FMCG, Auto, Consumer** sectors due to Fears of slowdown due to inflatio



FPIs are not selling blindly — they're exiting high-valuation, low-AI-exposure sectors

- ❑ FPI Net Flow: -₹1,77,826 Cr
- ❑ DIIs net buyers: **₹1.68 lakh Cr+** in 2026 YTD
- ❑ Record SIP inflows continue ((₹25,000+ Cr/month) powering DII buying)
- ❑ FPI ownership in NSE companies: **16.7%** (15.5-year low)
- ❑ Domestic investors now dominant force on Dalal Street

Why indices tanked 10% despite DIIs compensating FPI outflows?

Reason 1 : Domestic investors are widely spread not necessarily in Nifty or Sensex stocks

Reason 2 : Heavyweights have higher FPI share. Top 10 Nifty stocks have >40% FII holding

Reason 3: FPI unwinding happens very fast and this pace leads to quick plunge

Positive Triggers Needed for FPIs to return:

- Valuation correction + strong Q4 earnings. But this is constrained by pvt capex
- Fed rate cuts / USD softening. As of now high US inflation (3.3%) prohibits cut
- Geopolitical de-escalation
- India-specific catalysts (strong GDP, ease of business, tax clarity)
- In FY27 equity indices unlikely to surpass FY26 levels
- Sectors with bullish outlook

EVs, solar, defense, semi-conductors,

This is tactical rotation, not a structural exit from India

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