AXIS CAPITAL

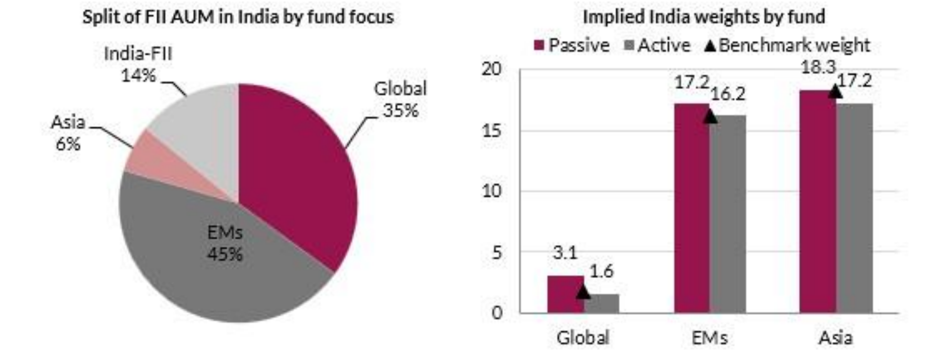
India Strategy

FII outflows driven by India's falling weight in benchmark

Strategy Report | September 28, 2025

Rolling 12M FII outflows from India fell to a 3Y low at (-) US$27bn in Sep'25, as outflows continued for three straight months. Most of the outflows came from global and Asia-focused MF/HFs, which add to ~56% of FII AUC. 29% of FII AUC is in SWFs, CB, pension, usually locked in, and ~10% is in India-focused funds. The outflows were a result of lower inflows into global/EM MFs and reduction in India's weight in both active/passive funds (India's weight in benchmark fell 3.3 pp YoY). As of Sep'25, global funds remain UW India and Asia/EM funds are Neutral. Going forward, a better earnings trajectory and record low premiums vs world/EM are likely to trigger relative outperformance of Indian stocks, initiating a rejig in fund allocation in these funds. A weaker DXY and better INR performance will support higher inflows.

Exhibit 1: Global/EM funds have reduced India's weight, likely to increase



Source: Refinitiv, Company, Axis Capital

Rolling 12M FII outflows at 3Y low, outflows likely from EM/global funds

FII outflows continued in Sep'25, making it the third consecutive month of outflow, but the pace moderated to US$0.3bn. This brought rolling 12M FII outflows to (-) US$27bn (Ex. 2), the lowest in the past three years. As of Aug'24, FIIs AUC in Indian equities totalled Rs70tn (~US$0.8tn), 29% of which is steady, as AUM from entities like sovereign wealth funds, central banks, and pension/insurance firms are largely locked-in (Ex. 3). The rest 71% come from mutual/hedge funds which are volatile and likely the ones selling Indian equities. In these funds, outflows have likely emerged from EM/global funds, which together add to 80% of FII MF/HF AUC. 14% of the funds are channeled through targeted India-dedicated funds, which might have seen slowdown in inflows.

Global active funds remain Underweight India, EM/Asia are at Market Weight

Over the past year, global/EM/Asia-focused equity funds have seen outflows but have also reduced weights on India (driven partially by underperformance). 26% of FII MF flows comes through ETFs/passive funds linked to the benchmark, and India's weight in benchmark EM has fallen from 19.5 in Sep'24 to 16.2. In active funds, the weights in EM/Asia at 16.2/17.2 are now closely tracking the benchmark, implying the funds are at Market Weight. Global active funds have reduced India's weight to 1.6, 0.2 pp lower than the benchmark, implying an Underweight stance.

Better EPS trajectory and cheaper valuations could trigger reset in allocation

India's rolling 12MFII outflows as % of market cap is among the highest in EMs, with sharp inflows in Brazil/China. Going forward, a better earnings trajectory and record-low India premiums vs world/EM are likely to trigger a relative outperformance of Indian stocks, increasing India's weight in the benchmark index. This is likely to initiate a fresh spate of FII inflows, mostly from passive funds. In the past 3M, FIIs net sold IT services, financials, and utilities and they currently are Underweight on energy, IT, discretionary, and autos.

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