

India's equity market story could have been worse

By Sreedev Krishnakumar

India's benchmark equity market index, the BSE Sensex, is down nearly 12% on a year-to-date basis. The bearish sentiment is not just a reflection of the ongoing geo-economic turbulence because of the war in West Asia. And an HT analysis shows that things would have been much worse if not for the domestic savings being channelised into the markets as Foreign Institutional Investors (FIIs) continue to sell.

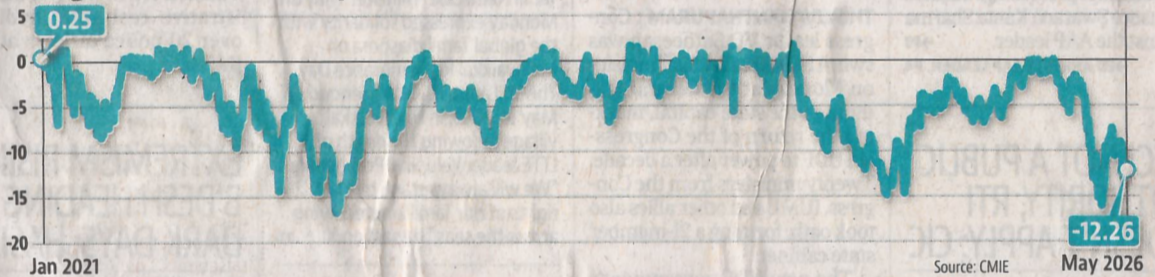


1 How bad is the current correction in markets?

A 12% year-to-date fall looks pretty bad. But this is not the first bear run on the Sensex. How bad is this compared to past troughs in the market? HT has compared BSE Sensex daily values in relation to its previous peaks to put this in perspective. The data shows that while this is not the worst downward rally in the markets, it is not insignificant either. On May 18, the

Sensex was down 12.26% compared to the previous peak of 85,836 on September 26, 2024. This is ranked the 4,580th lowest among the 10,232 (bottom half) days on which the index was down compared to a previous peak since 1979; but 840th lowest of 3,768 (bottom 25%) such days since the global financial crisis (post-2009); and 68th lowest of 1,207 (bottom 6%) such days since the pandemic.

Change in BSE Sensex from previous peak (% change)



2 FII selling has been deepening

The Iran war has deepened the pressure on Indian markets, but foreign selling had begun much earlier. Monthly flow data shows that FIIs have been net sellers in 13 out of the past 20 months. This number was just 7 for the same period preceding that. What has changed in the FII story is that the selling is becoming deeper and wider. In 2025, FIIs sold a net Rs 1.66 lakh

crore in equities during the year, but debt still saw net inflows of about Rs 94,700 crore. Since the US-Israel war with Iran began at the end of February, FIIs have sold Rs 2.03 lakh crore in equities and also pulled out Rs 12,512 crore from debt as of Friday, according to depository data. The conflict therefore turned an equity-led withdrawal into a broader foreign capital retreat.

3 Selling has moved from rotation to risk aversion

The sectoral picture shows that the foreign exit has not been uniform. In 2024, net FII equity investment was almost flat at Rs 426 crore, but this masked large churn. Foreign investors sold financial services, oil and gas, FMCG and automobiles, while adding to capital goods, healthcare, telecom, realty and consumer services. By 2025, the selling became much broader, led by information technology, where FIIs

pulled out Rs 74,698 crore, followed by FMCG, power, healthcare and consumer durables. Data as of April shows that in 2026, the stress has shifted decisively to financial services. FIIs have sold Rs 91,685 crore from the sector so far, nearly half of all FII outflows this year. But pockets of buying in capital goods, metals and power suggest this is not a blanket exit from India, but a sharp de-risking of sectors most exposed to global uncertainty.

Sector-wise FII equity investments in 2024, 2025 and 2026 (in Rs crore)

	2024	2025	2026
Financial services	-58,280	-14,903	-91,685
Information technology	14,914	-74,698	-24,870
Fast moving consumer goods	-20,191	-36,786	-18,072
Oil, gas & consumable fuels	-56,340	8,431	-6,391
Automobile and Auto components	-16,696	-11,898	-17,985
Power	-7,808	-26,522	7,966
Consumer durables	790	-21,369	-4,628
Construction	-11,538	-6,480	-5,273
Consumer services	20,733	-16,524	-19,596
Healthcare	28,356	-24,967	-18,055
Realty	20,270	-12,635	-8,737
Utilities	681	-145	-127
Textiles	2,677	-1,224	-792
Chemicals	4,312	6,017	-231
Metals & mining	-675	4,661	15,217
Capital goods	29,482	-2,581	22,383
Telecommunication	23,737	48,222	-16,661
Others	26,005	17,112	-4,432

4 Domestic money has been the market's shock absorber

The reason FII selling has not translated into a one-way market collapse is the growing weight of domestic institutions. In March, domestic institutional investors (DIIs) held 19.24% of the value of NSE-listed companies, compared with 16.13% for FIIs, according to data from Prime Infobase. This is a major reversal from the earlier structure of the market. In

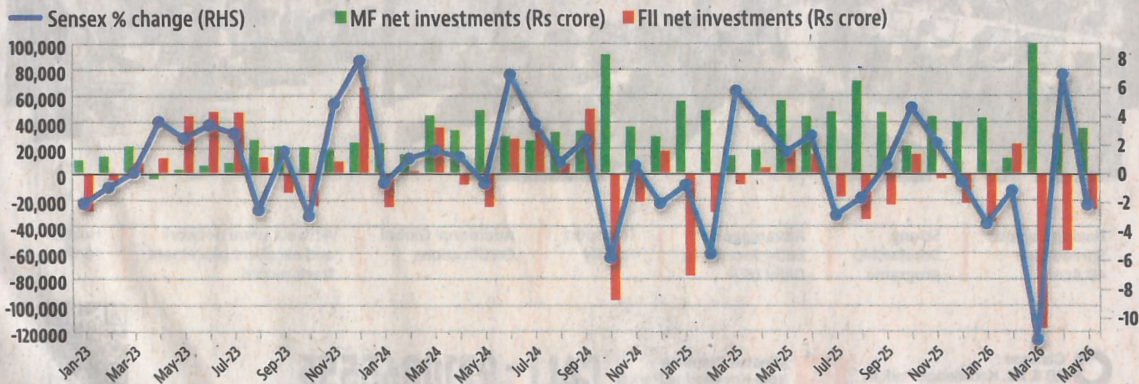
December 2020, FIIs held 21.16% while DIIs held just 13.58%. Since then, foreign ownership has fallen by about five percentage points, while domestic institutional ownership has risen by nearly six percentage points. Retail ownership, in comparison, has hovered around 7%. The rest of the holdings are largely held by promoters, including the Government of India.

5 And they have been buying against the trend

Domestic investors have not just become bigger players in the market. Monthly flow data shows that mutual funds, which are the core of DII activity, have repeatedly put money into Indian equities during months when FIIs were selling heavily. This buying has helped cushion the Sensex from the full impact of foreign exits. It

has not removed the risk altogether, though. March showed that when foreign selling becomes very large, domestic buying may not be enough to prevent a sharp fall. The bigger question now is whether domestic institutions, powered by retail SIP flows, can keep cushioning Indian markets if foreign selling persists.

Monthly institutional flows to Indian equity markets compared to Sensex returns



*May, 2026 data is as of the 15th. Source: Yahoo Finance, CMI