BFSI, oil and gas face foreign investor pullout from India

FPIs chase AI infra in US, Taiwan and South Korea, alongside more tactical EMs like China

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Global fund managers are actively rewriting their playbooks, pulling capital out of Indian equities to chase better opportunities elsewhere. This money is being channelled toward the artificial intelligence (AI) infrastructure and semiconductor powerhouses of the US, Taiwan and South Korea, alongside more tactical emerging markets such as China, market participants said.

Foreign portfolio investors (FPIs) were the biggest sellers in banking and financial stocks in May, pulling out ₹23,141 crore, Prime Database data showed. Oil & gas was the next major casualty, with net FPI sales of ₹8,978 crore in May, the highest since December 2024, according to the data.

As the Nifty 50 fell 2% in May, the market rout hit three sectors hardest: Nifty Consumer Durables plunged over 6.3%, while Nifty Oil & Gas skidded 4.2% and Nifty PSU Banks slid 3.8%.

BFSI

Foreign institutional investors (FIIs) primarily hold large-cap stocks and both their ownership and selling pressure are heavily concentrated in these larger names. So, when FIIs pull out of India, heavily owned sectors like banking, financial services and insurance (BFSI) bear the brunt of selling pressure.

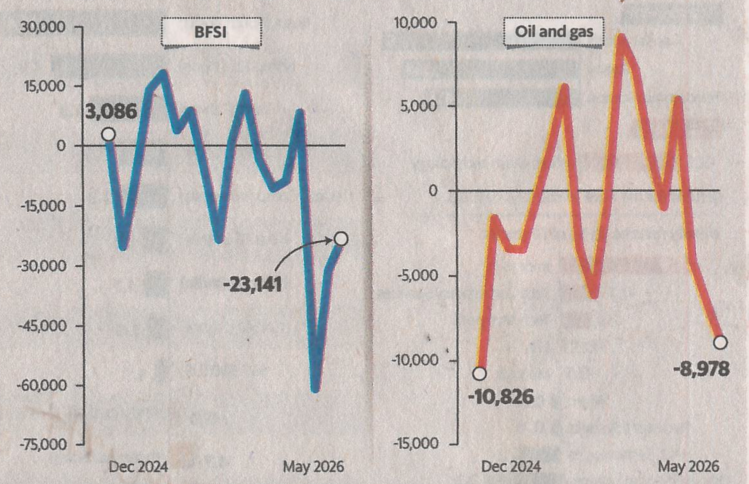
2%
The percentage the Nifty 50 fell by during May

Vinay Jaising, chief investment officer and head of equity advisory at ASK Private Wealth, noted that the financial sector faces the prospect of war-related bad debt from some borrowers, which could surface as early as the next quarter. "That said, the broader picture remains healthy—the country is witnessing robust loan growth of almost 16%," Jaising said.

Where FPIs sold the most?

FPIs have been selling BFSI stocks for past three consecutive months whereas oil and gas outflow has been the highest since December 2024.

FPI net equity investment across key sectors (in ₹ crore)



Source: primeinfobase.com

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Shibani Kurian, senior fund manager and head of equity research at Kotak Mahindra AMC, said loan growth has inched up and is getting broader based. While inflation and interest rates are key risks, new rules allowing banks to raise foreign funds via external commercial borrowings (ECBs) and foreign currency non-resident bank (FCNR-B) deposits should ease local liquidity and boost deposit growth. Meanwhile, overall loan repayment trends remain healthy, she added.

"The sector, by and large, has seen improvement in return ratio profiles over the last five years and trades at valuations lower than historic average multiples," Kurian said.

Oil and gas

Fundamentally, the oil and gas sector is grappling with elevated prices, which are not easy to pass on to the customer, said ASK Private's Jaising.

Kotak Mahindra AMC has remained somewhat cautious about the oil and gas sector, with select exposure in pockets where valuations are undemanding. This is in light of the uncertainty over the West Asia conflict and the consequent volatility of oil prices.

32%
Brent crude oil price rise so far in 2026

The price of Brent crude oil has risen over 32% so far in 2026.

For India's oil marketing companies, earnings visibility is still weak because marketing margins remain negative for diesel and petrol despite recent price increases, according to Kurian. Upstream firms—in energy exploration and production—benefit from higher oil prices and rupee depreciation, but they haven't been re-rated due to the overhang of likely policy changes and oil price uncertainty, she said.

Gas utilities may be better off as LNG is being imported from new destinations, Kotak's Kurian said. With the opening of the Strait of Hormuz, via which about one-fifth of the world's oil and natural gas flows, the outlook will improve on utilization and lower gas prices. However, if the shutdown continues beyond August, it will likely be a concern as winter demand could harden global gas prices and impact LNG availability for India, she said.

Valuations

Several market participants prefer to stay underweight on both sectors. Their massive index footprint crowds out high-conviction themes like AI and the capex boom. And, the West Asia war introduced too many wild cards, injecting an element of unpredictable volatility that is bound to squeeze corporate earnings, they said.

"Specifically, within financial services, private banks stand out as a strong prospect. As interest rates move upward, these institutions are fundamentally well-positioned to convert this environment into a core growth driver," said Rahul Singh, CIO-equities at Tata Asset Management.

According to ASK's Jaising, valuations in the BFSI space look relatively attractive.

Amid high crude prices, a weaker rupee and global uncertainties, JM Financial Institutional Securities has recalibrated its portfolio toward sectors offering stronger earnings visibility and macro resilience. The brokerage said on 10 June that it has turned overweight on sectors such as oil and gas and continues to favour NBFCs.

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