

The Absorption Print — India's Bank-NBFC-Insurance Bench Owns The DII vs FII Regime

Author: [Rahi Masoom Raza](#) [Yathisha Naik](#)

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Domestic institutions absorbed more than US\$20bn against roughly US\$15bn of foreign selling in Q1 FY27, and yet the [Nifty 50](#) closed 26-Aug-2026 at 24,207.75, down 7.36% CYTD (Moneycontrol). The absorption is not a floor for the large-cap index; it is a compression spring loaded under the smid-cap tape and the bank-NBFC-insurance bench where the domestic book is structurally light. The tactical trade is not "own the whole bench." It is the wedge between crowded [LIC](#)/SBI-MF names like [BAJFINANCE](#), where positioning is tight, and MF-underweight private banks — [AXISBANK](#), [KOTAKBANK](#), [ICICIBANK](#) — where the Q1 FY27 print (**Axis** management-declared NIM bottom at 3.46%, **ICICI** 15.9% PAT, [HDFC Bank](#) pre-cleared [LIC](#) demand to 9.99%) argues for re-rating. The absorption is not holding up the index. It is holding [LIC](#)'s cleared-to-unload book against the underweights.

The Flow Print Is Real But The Cover Story Is Wrong

The quantum is real. FPIs sold net equities of Rs 1,43,150 crore, or US\$15.1bn, in the June 2026 quarter, taking FPI ownership of NSE-listed companies to a 17-year low of 15.1% (Business Standard on NSE India Ownership Tracker). The domestic complex absorbed more than US\$20bn over the same window; across H1 CY2026 DIIs deployed US\$50bn against US\$29bn of FPI outflows, and Buoyant estimates domestic MFs alone have deployed c.US\$141bn since 2024, more than 80% of identifiable equity demand (Buoyant Capital July 2026 Factsheet). The funding engine is intact — July SIPs printed a four-month high of Rs 31,961 crore, up 12.3% YoY, and SIP AUM stands at Rs 18.19 lakh crore, ~21.2% of industry AUM (AMFI July data via Fortune India). Trailing twelve months, DIIs are net buyers of Rs 8,45,586 crore against FII net sales of Rs 4,58,477 crore on the same tracker.

But the cover story that this absorption has "held up the index" is wrong. [Nifty 50](#) is down 7.36% CYTD, six-month -5.05%, and only the one- and three-month windows are positive at +1.85% / +1.23% (Moneycontrol). Where the absorption did hold up is the smid tape: BSE SmallCap +11.89% and Nifty Midcap 100 +5.57% as of 10-Aug-2026 (Buoyant Capital June 2026 factsheet).

Now the contrarian data. PRIME Database shows total DII ownership actually FELL to 19.15% as of 30-Jun-2026, from 19.24% at 31-Mar-2026 — the first decline after nine straight quarterly increases; MF net investment in the June quarter was Rs 2.19 lakh crore, below Rs 2.51 lakh crore in March (The New Indian Express). Alongside, ~61% of SIP assets were earning at or below prevailing FD rates as of March 2026 per Buoyant, and new SIP registrations were down 11% YoY in July (Fortune India). This is not "DIIs are unstoppable" — it is "DIIs are close to their ownership ceiling AND FIIs are done with large-cap supply." FIIs turned net buyers of c.US\$2.5bn in July, the first net-buy month in four, per Buoyant's July factsheet. The regime is turning, not deepening.

The Absorption Is Concentrated — Read The Overweights

Where the domestic rupee actually went in July tells the story. Motilal Oswal's Fund Folio shows MF weight in technology up from an all-time low 5.9% to 6.6%, autos up to 8.9% for a third straight month, and healthcare and NBFC-lending higher MoM. Private banks, still the largest sector weight at 17.4%, saw their allocation FALL 50bps MoM and YoY; fifteen funds are at least 1pp underweight private banks versus BSE 200, twelve are underweight PSU banks, and insurance weight declined MoM too (Motilal Oswal Fund Folio via Moneycontrol). The absorption bench is structurally light in the very book people assume DII's are buying.

Meanwhile large-cap equity funds saw a net OUTFLOW of Rs 1,321.69 crore in July while small-cap funds took a record Rs 7,767.50 crore (Fortune India). Kotak Institutional Equities puts the read plainly: valuations have held up across the market EXCEPT in private banks, large-cap NBFCs, insurance and IT services — the only de-rated pockets in the tape (Kotak Institutional via Moneycontrol).

The Q1 FY27 prints of the underweight bench say the fundamentals do not support the underweight. **ICICIBANK** posted standalone PAT of Rs 14,804.50 crore, up 15.9%, with NIM UP 4bps QoQ to 4.36% — the only large private bank with expanding margin — and credit cost of 0.32% on advances up 19.6% YoY (Financial Express). **HDFCBANK** printed PAT of Rs 19,059.72 crore, up only 4.98%, with NIM at a record-low 3.26% on total assets — the weakest operating leverage in the bench, which is exactly what makes **LIC**'s RBI clearance to raise its stake from 4.11% to 9.99% so meaningful. The 19-Aug-2026 approval letter creates 5.88pp of pre-cleared, price-insensitive domestic buying headroom in a stock whose MF holding value fell 5.6% MoM (Financial Express on the RBI approval).

AXISBANK did the print the market did not want to see. Standalone PAT was Rs 7,114 crore, up 23% and ahead of the Rs 6,900 crore estimate; credit cost fell 75bps YoY to 0.63%; cumulative non-NPA provisions of Rs 15,608 crore now stand at 161% of GNPA; and management stated on the call that "NIM for Q1FY27 at 3.46% is our cycle bottom" (**Axis Bank** Q1 FY27 earnings call transcript). The stock fell 6% intraday to Rs 1,249.10. **KOTAKBANK** consolidated PAT was Rs 5,480 crore, up 23%, with NIM at a bench-high 4.53% and CASA ratio down 294bps QoQ to 40.3%. **SBIN** NII grew 14.88% — bench-best — with domestic NIM at 3.00%, up 7bps QoQ, and an RoE of 17.87%, the highest in the bench; **LIC** net SOLD Rs 2,198 crore of **SBIN** in the same quarter, while its largest Q1 FY27 financials buy was **Bajaj Finance** at Rs 1,414 crore (Economic Times on **LIC**'s Q1 book, Prime Database). Domestic-flow narrative and domestic-flow reality diverge on the very names the flow story assumes.

The Tactical Book — Own The Underweights, Watch The Crowded Longs

Position for a 2-to-12-month window in three legs.

Leg one — overweights, the MF-underweight, LIC-cleared bench. [AXISBANK](#) carries a management-declared NIM cycle bottom, a 75bps YoY credit-cost decline and 161%-of-GNPA cover; the cycle-bottom call is the un-priced item after the 6% print-day sell. [ICICIBANK](#) is the only bench name with expanding NIM and 15.9% PAT growth at a 0.32% credit cost. [HDFCBANK](#) is a flow trade: [LIC](#) has RBI clearance for 5.88pp of demand, Marcellus flags [HDFC Bank](#) as a top-2 detractor across both flagship books — non-food credit growth accelerated to ~18% YoY in June with industrial lending +21%, and the FCNR(B) window has already raised c.US\$37bn against a Kotak-modelled US\$70bn, a dated funding-cost tailwind arriving in H2 FY27 after Q1 NIM guidance was set (Marcellus August 2026 update). [KOTAKBANK](#) offers the bench-high NIM but wear the CASA-mix caveat.

Leg two — the cleanest non-consensus long. [CHOLAFIN](#) printed consolidated PAT of Rs 1,656 crore, up 46%, the fastest earnings growth in the bench, on AUM growth of 23%, RoA 3.7%, RoE 21.2% and NIM expansion of 42bps (Business Standard on [Cholamandalam](#) Q1). Net credit cost was 1.5%, actually below [Bajaj Finance](#)'s 1.54%, on a secured book at ~7.8% NIM — structurally insulated from the RBI revolving-credit draft that targets unsecured, revolving product architecture. Marcellus names [Cholamandalam](#) a top-three 12-month contributor to its Kings of Capital financial-sector PMS, which trades at ~18x one-year-forward earnings, near the lower end of its historical range (Marcellus).

Leg three — the crowded leg, sized down. [BAJFINANCE](#) delivered a Q1 FY27 print that is genuinely best-in-bench: PAT +28%, AUM +23.9% with a record Rs 36,969 crore quarterly add, RoA 4.7%, RoE 20.4%, and credit cost ex-overlay at 1.31%, the lowest since Covid ([Bajaj Finance](#) Q1 FY27 investor presentation). The problem is positioning. [BAJFINANCE](#) was simultaneously [LIC](#)'s single largest Q1 FY27 financials buy at Rs 1,414 crore AND SBI MF's single largest July buy at Rs 2,634 crore (Whalesbook fund-house disclosures). Two of India's three largest domestic pools were buying the same NBFC in the same window. Overlaid on that is the RBI's early-August draft direction restricting NBFCs/HFCs to term loans and prohibiting revolving credit ex-credit-card issuers; Buoyant explicitly flags "fee and yield compression is a genuine risk for the most exposed lenders" (Buoyant July 2026). If any of the three overlapping books trims, the move is asymmetric down. [BAJAJFINSV](#) compounds the concern — group PAT grew only 12.3%, lagging its [Bajaj Finance](#) subsidiary by 16pp.

The insurance sub-bench is the least-crowded margin story. [ICICIPRULI](#) delivered VNB margin of 26.7%, up 220bps YoY and the highest since FY24, on protection APE +45.7%

(Business Standard on [ICICI Pru Life](#) Q1). [MAXFIN](#) posted NBM of 23.2%, up 315bps YoY and 290bps ahead of Nomura, with [Axis Bank](#) raising its **Axis Max Life** stake to 19.99%. [LIC](#) delivered net VNB growth of 61.32% with net VNB margin up 750bps to 22.9% ([LIC](#) Q1 FY27 investor presentation) — while carrying a SEBI-mandated 10% public-float deadline of 16-May-2027 that anchors a supply calendar. [SBILIFE](#) beat with PAT +22.1% and VNB +29.4%; the 120bps VNB-margin optics are 110bps GST plus 60bps group protection. [HDFCLIFE](#) missed both APE and VNB consensus with a two-year VNB CAGR of only 11%.

The tactical call: DII flows have prevented a disorderly de-rating but the absorption is book-constrained, not headline-flow-constrained. PRIME Database's 9bps DII ownership decline, the private-bank 50bps underweight, and the large-cap fund net outflow all argue that the marginal domestic rupee is not this bench's floor. What IS a floor is [LIC](#)'s cleared [HDFC Bank](#) headroom and the FCNR(B) funding tailwind. Own the underweights ([AXISBANK](#), [ICICIBANK](#), [HDFCBANK](#), [KOTAKBANK](#)) plus the non-consensus quality name ([CHOLAFIN](#)) and the margin-expansion insurers ([ICICIPRULI](#), [MAXFIN](#), [LIC](#)). Size the crowded longs ([BAJFINANCE](#), [BAJAJFINSV](#)) small enough to survive the RBI revolving-credit outcome and any DII trim. The absorption is a compression spring under the bench, not a floor under the index.