

Structural transformation of Indian capital markets and the rising dominance of domestic investors



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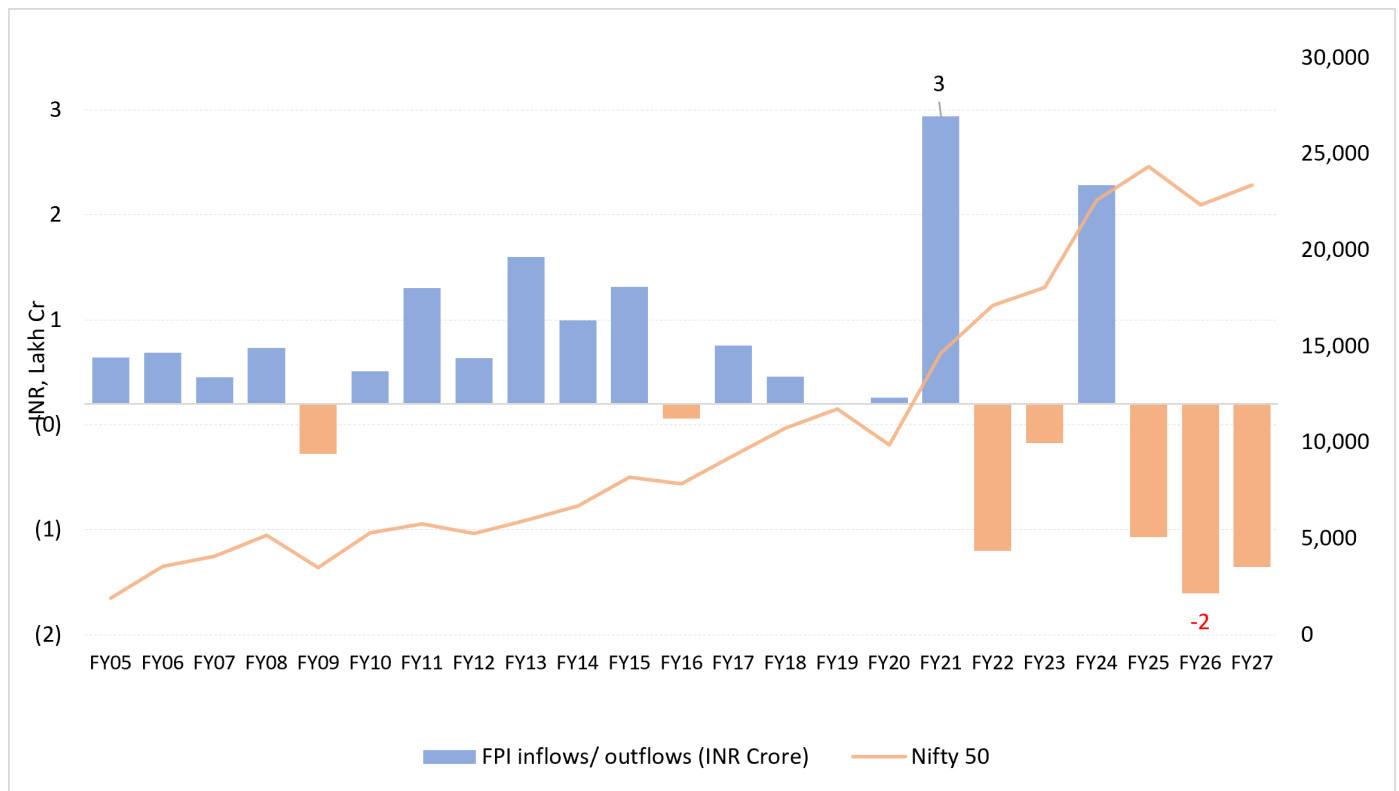
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For most of India's post-liberalisation story, global sentiment and foreign capital flows played an important role in shaping the domestic stock market's trajectory. The story, however, has been changing.

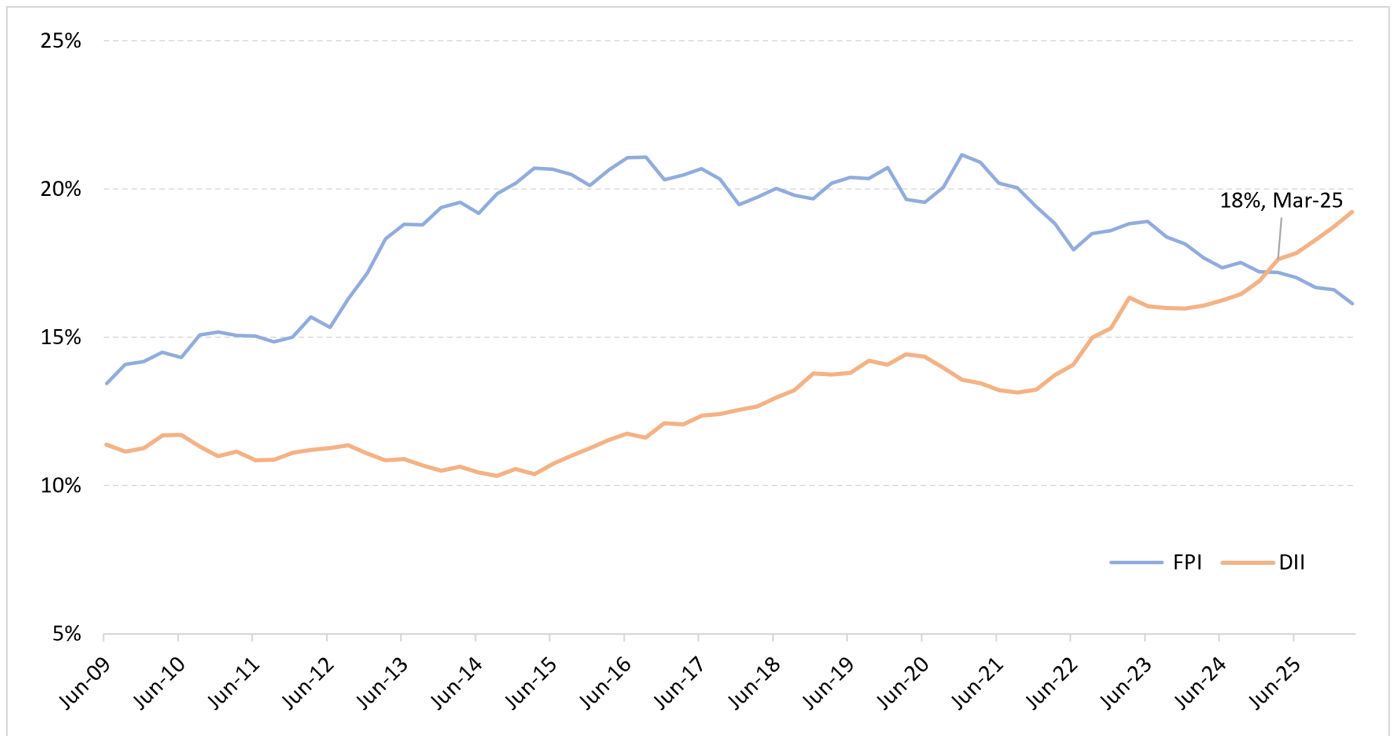
Over the past few years, Foreign Portfolio Investors ("FPIs") have pulled roughly INR 4.3 lakh crore from Indian equities (net outflows between FY22 and FY27 YTD). And yet, the market held. IPOs got done and how! Liquidity did not vanish. Between FY22 and FY26, Indian capital markets absorbed these external shocks and still raised an astounding c. 3 lakh crore of equity capital (through a combination of 356 IPOs and 218 QIPs).

The changing ownership profile tells an equally compelling story. FPI ownership in NSE-listed companies declined to c.16% in the Mar'26 quarter, the lowest level in 14 years. In contrast, DII ownership rose to a record c.19%. This was not merely an ownership crossover, it marked the arrival of a fundamentally different Indian market, increasingly driven by large domestic institutional investor base.

(CHART: FPI Annual Equity Net Flow (INR Crore), FY05–FY27 | Source: NSDL)



(CHART: FPI vs DII %age ownership across all NSE-Listed Companies)



When India opened to FPIs in 1992, the first year's inflow was INR 13 crore, symbolic more than substantial. Foreign capital deepened its presence steadily over the next two decades and eventually became the market's dominant mood-setter. The Global Financial Crisis of 2008-09 exposed the vulnerability starkly. FPIs pulled out, markets collapsed, and the lesson was uncomfortable: India's market moved to sentiments prevailing in global financial centers, like New York, London, Hong Kong but not in Mumbai.

The decade that followed saw India benefit from an extraordinary period of global liquidity. Near-zero interest rates across major economies pushed investors further out on the risk curve, directing substantial capital toward emerging markets, including India. In FY21, in the middle of a pandemic, FPIs poured around INR 2.7 lakh crore into Indian equities in a single year. The Sensex doubled and the partnership felt mature, only it was not. When the US Federal Reserve began hiking rates in 2022, the reversal was swift and sustained. Record outflows followed in three of the last four years, with outflows peaking at INR 1.8 lakh crore in FY26. The Indian market has underperformed global peers through this period; the correlation between FPI selling and Indian market weakness still does exist and should not be wished away. But for the first time, the selling did not break the floor, because something else had been quietly built underneath.

What built that floor is a story that begins not in institutional boardrooms but on smartphones, in Tier-2 cities, in the middle of a lockdown. India had c. 4 crore demat accounts in Dec'19. By Mar'25, that number had crossed 19 crore, a near fivefold increase in five years. It took 25 years to cross 11 crore accounts; it took just 2 more to nearly double again.

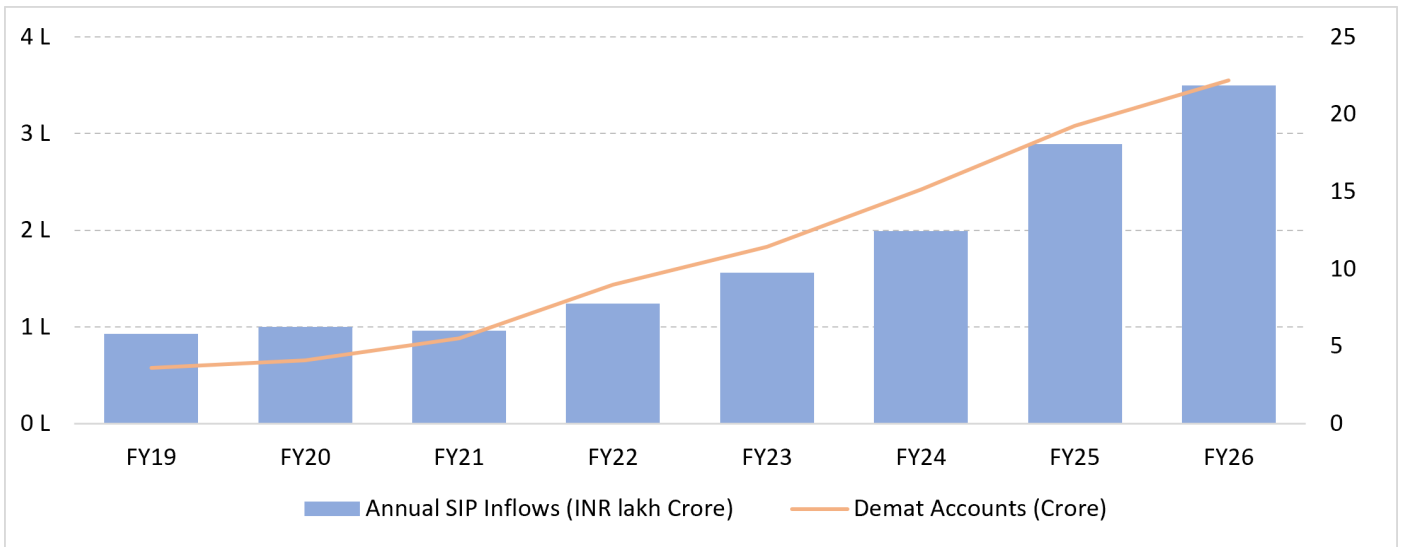
Technology was a critical enabler of this transformation. Discount brokers fundamentally altered access to financial markets. Pioneering this shift, Zerodha demonstrated that low-cost investing models could be commercially viable. Groww, Upstox and Angel One subsequently simplified onboarding to the point where opening an investment account became as frictionless as ordering food. What was once a relatively narrow investor base has broadened significantly. As of Sept'25, the NSE counted nearly 12 crore unique registered investors (unique-PAN base), almost four times the level seen six years earlier. Participation has deepened alongside growth, with the number of investors executing at least one trade annually increasing from about 1 crore in 2020 to 3.5 crore in 2025. This expansion has been accompanied by a generational shift, with the median investor age declining from 38 years to 32 years over the same period.

Systematic Investment Plans have institutionalised this behavioural shift. Annual SIP inflows increased from approximately ~INR 70k crore in FY18 to INR 2.9 lakh crore in FY25, that's more than 4 times in just 7 years Mar'26 recorded an all-time monthly high of INR 32k crore. More than 9.6 crore SIP accounts are now active.

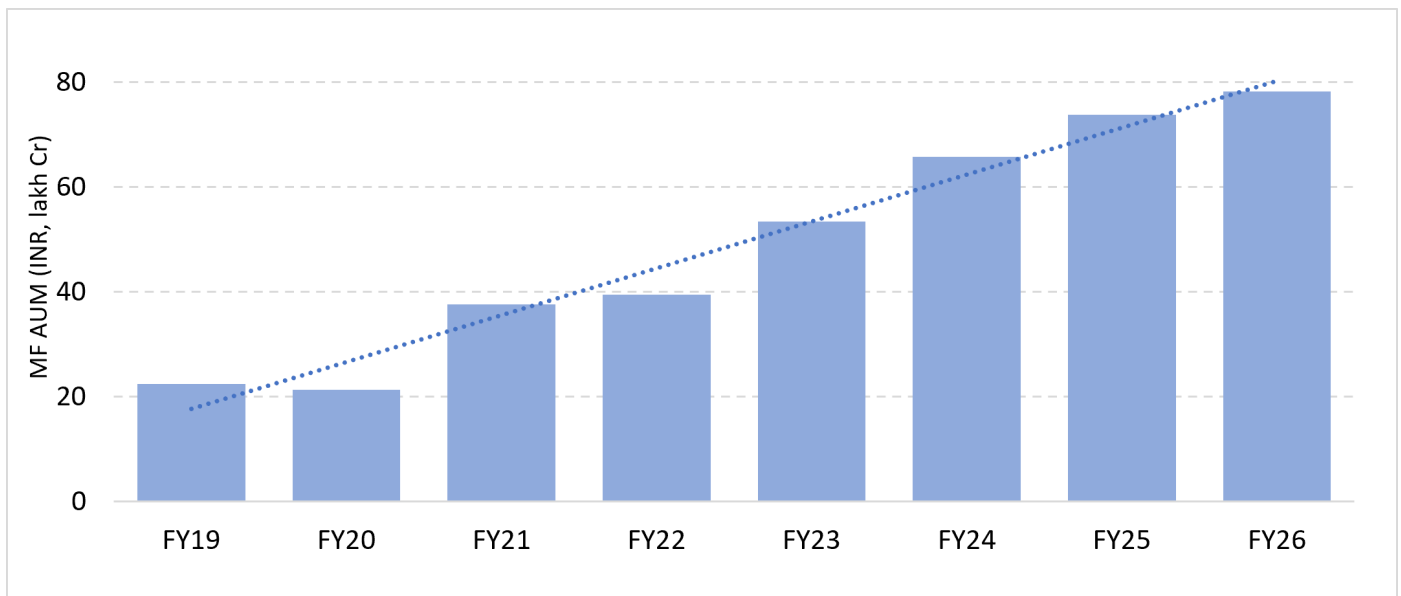
The MF industry's average assets under management have grown at a robust 20%+ CAGR since FY14 to over INR 83 lakh crore as of May 2026, outpacing the c.17% growth in the market capitalization of NSE-listed companies.

Unlike cross-border capital, these domestic flows are not calibrated to interest-rate differentials, currency movements or shifts in global risk appetite. They represent recurring domestic savings entering capital markets with increasing regularity, and that consistency has fundamentally altered the market's ability to absorb external shocks.

(CHART: Demat Accounts + Annual SIP Inflows)



(CHART: Mutual fund AUMs since FY19-26)

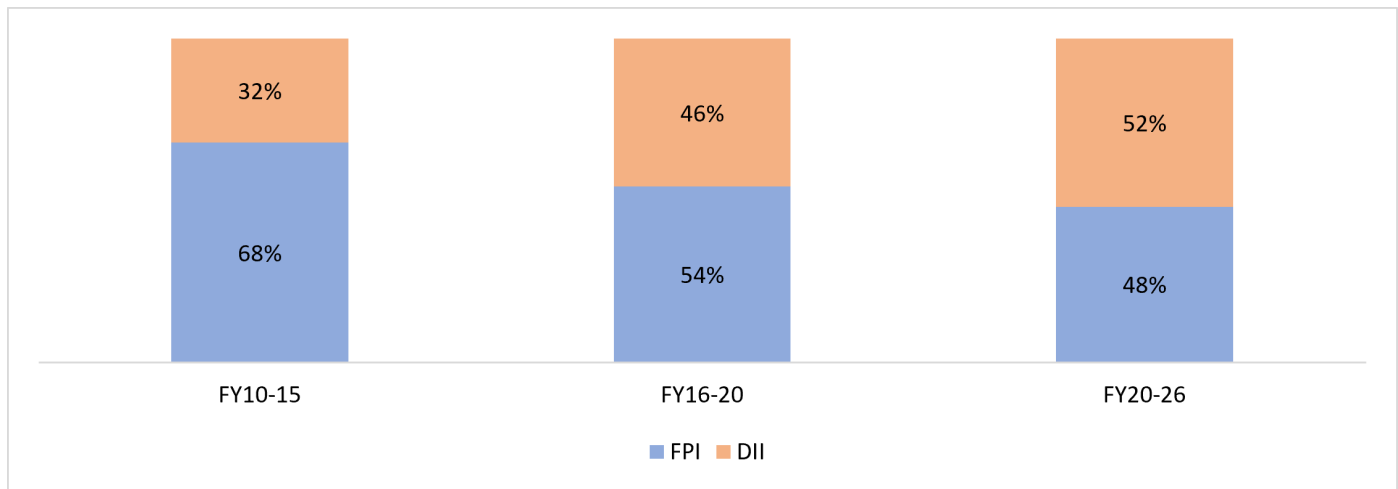


The clearest signal that FPIs are repricing India rather than abandoning it comes from what they sold and what they did not. For instance, in FY25, some sectors like IT bore the heaviest blow (the hyped-up AI story). Meanwhile, telecom, financials (still 30%+ of FPI India holdings as of May'26) and chemicals attracted consistent buying, sectors with domestic pricing power and earnings insulated from global impact.

Meanwhile, telecom, financials (which still accounted for over 30% of FPI holdings in India as of May 2026), and chemicals witnessed sustained inflows, supported by strong domestic pricing power and earnings that remain relatively insulated from global headwinds.

Consider the contrast: when TCS listed in 2004, nearly 80%+ of QIB demand came from foreign investors; domestic institutions barely featured. Two decades later, Tata Capital's IPO had domestic institutions at approximately c.65% of the anchor book. When Bajaj Housing Finance went public in Sep'24 with a 6500 crore IPO - Capital Group led the anchor book (INR 170 crore anchor investment). At INR 85 crore anchor investment each, HDFC Mutual Fund, SBI Mutual Fund and ICICI Prudential matched the Government of Singapore, ticket for ticket. Interestingly, number of retail investors rose from ~17 lakh in Sep'24 at IPO allotment to 26 lakh in Dec'24, a 55% increase in retail shareholding in just a quarter post listing, demonstrating valuable brand's pull from non-institutional household capital.

(CHART: Change in share of anchor investments between DII and FPI)



This transition however isn't entirely unprecedented. Nations like South Korea and Taiwan went through a version of this transition before us: domestic ownership surpassing foreign, greater stability, lower volatility on global risk-off days. While both saw P/E multiples expand, captive domestic capital chased a concentrated universe of Samsung, TSMC and semiconductors. India's opportunity set on the other hand is considerably broader. Financials, manufacturing, healthcare, consumer businesses, digital platforms, infrastructure and energy transition themes together provide a far larger investable universe. As domestic savings continue migrating toward financial assets, the breadth of listed opportunities should help capital find productive avenues across sectors rather than concentrating in a narrow group of market leaders.

None of this diminishes the importance of foreign capital. FPIs remain critical participants in India's capital markets, bringing global perspectives, valuation and price discovery discipline and access to pools of capital that domestic markets alone cannot replicate. Their presence improves price discovery and connects Indian companies to the broader global investment ecosystem.

What has changed, however, is the balance of influence. The real significance of this transition extends beyond market resilience. Every SIP instalment, mutual fund contribution and domestic institutional allocation expands the pool of patient capital available to Indian businesses. That capital supports new listings, funds corporate expansion and strengthens the market's ability to absorb volatility without disrupting long-term growth.

India's capital markets are no longer merely recipients of global capital flows; they are increasingly becoming engines of domestic capital formation in their own right. Foreign investors will continue to matter, and rightly so. But the defining story of the next decade may be that the growth of Indian markets is being funded not only by capital coming into the country, but by savings generated within it.