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FII Inflows Cross $3.2 Billion in August, Yet Large-Caps Remain Under Pressure: N. ArunaGiri, Founder & CEO, TrustLine Holdings

Usually, when FII sentiment turns positive, it invariably triggers a sharp rally in large caps, which in turn leads to a visible positive impact on the Nifty and Sensex. That has been the established pattern through previous cycles. But this time, this well-entrenched pattern seems to have broken.

For the first time in many months, FII flows turned positive in July, with net inflows of over US$2 billion. More interestingly, August has witnessed the highest monthly inflows since September 2024, with flows already exceeding US$3.2 billion as of Aug 30th. Yet, the Nifty continues to tr around 8.2% below its all-time high touched in early Jan'26, even as small- and mid-cap indices are at or near all-time highs. Clearly, the headline FII and mid-cap indices are at or near all-time highs. Clearly, the headline FII flow number is doing much less work than it has done in previous cycles. The reason is not far-fetched. One needs to look beyond the headline number and examine the composition of these flows. That is where the clues lie.

In July, only around US$0.7 billion came through the secondary market. The remaining US$1.4 billion+ came through the primary market, largely via QIPs, preferential allotments and IPOs. The pattern has continued in August. More than US$1.2 billion had come through the primary market, while around US$1.9 billion had come through exchanges. So, the actual FII buying through the secondary market over the last two months has been only around US$2.68 billion in total. Primary market money does not nec[illegible]essarily create a broad-based bid f[illegible] existing listed stocks - it gets absor[illegible] by promoters, companies and PE exits.

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But even this does not fully explain the lacklustre performance of the

Nifty and Sensex. The added flavour is that FIIs appear to be selectively buying large mid-caps despite elevated valuations, while largely bypassing attractively valued large Financials and IT stocks, which together constitute more than 44% of the Nifty.

The key takeaway is that headline FII flows can be misleading. For a meaningful large-cap rally to materialize, we probably need a much stronger and broader turnaround in secondary-market FII flows, particularly into the index heavyweights. That looks unlikely at this point, though it cannot be ruled out. Until then, it remains party time for the broader small and mid-cap markets.

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