# Tru Primer

**26 December 2025**

## FIIs chase growth but at a value !

Our analysis shows that whenever Indian equity markets trade at stretched levels, FIIs turn net sellers, a pattern consistent across (1) 12-month Forward P/E, (2) Earnings yield vs. Bond yield, and (3) Trailing PEG frameworks. Strong growth alone is not enough; when price outruns fundamentals, foreign capital pauses. We believe that FIIs are not abandoning India's story, they are simply waiting for valuations to reopen the gate.

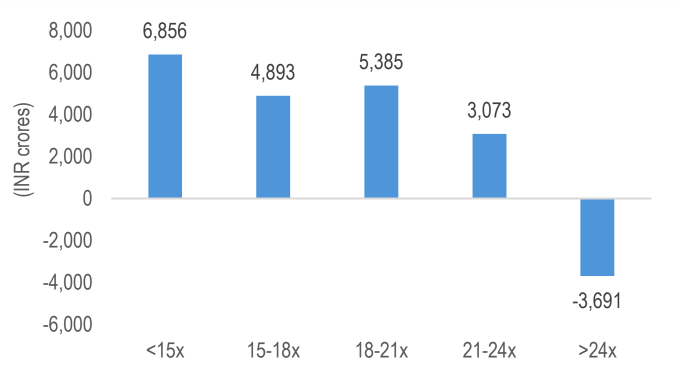
# FIIs chase growth but at a value !

**Global equity capital is inherently price-disciplined, and valuations determine when it chooses to participate. We note that foreign investors (i.e. FIIs) are not structurally averse to India, but they are highly sensitive to the *price at which growth is offered.***

**Across three independent valuation frameworks, we see that:** elevated valuations coincide with FII net selling, while reasonable or compressed valuations tend to attract foreign inflows.

- **First, using 12-month forward (NTM) P/E.** We observe that whenever forward multiples move meaningfully above long-term bands, FII flows turn decisively negative, suggesting discomfort with paying up for incremental growth.
- **Second, the gap between bond yields and earnings yield**. This reveals that as equities lose their relative attractiveness versus bonds (i.e., the yield gap turns unfavourable), FIIs reduce exposure, reflecting classic relative-value discipline.
- **Third, the trailing PEG ratio reinforces this behavior:** When growth-adjusted valuations become stretched, FIIs tend to withdraw, indicating that even strong earnings growth does not justify unlimited valuation expansion.

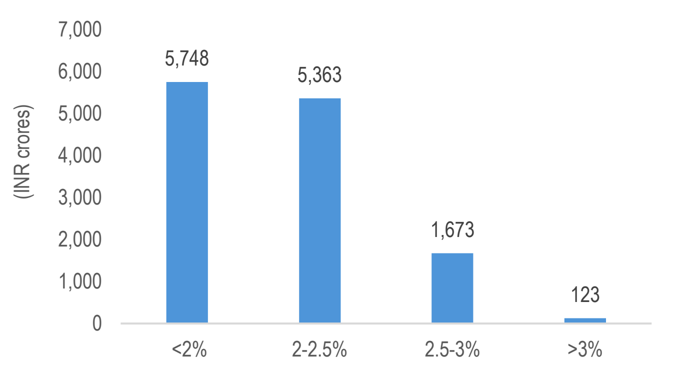
**Figure 1: MSCI India 12-month Forward (NTM) P/E vs. Next 6-month Avg. FII Equity Net Flows**




| MSCI India NTM P/E | No. of Observations | Next 6M Avg. FII flows (INR crores) |
|---|---|---|
| <15x | 39 | 6,856 |
| 15-18x | 44 | 4,893 |
| 18-21x | 67 | 5,385 |
| 21-24x | 53 | 3,073 |
| >24x | 36 | -3,691 |

**Source:** Bloomberg, NSDL, HDFC TRU. **Data Period:** Jan, 2006 - Nov, 2025.

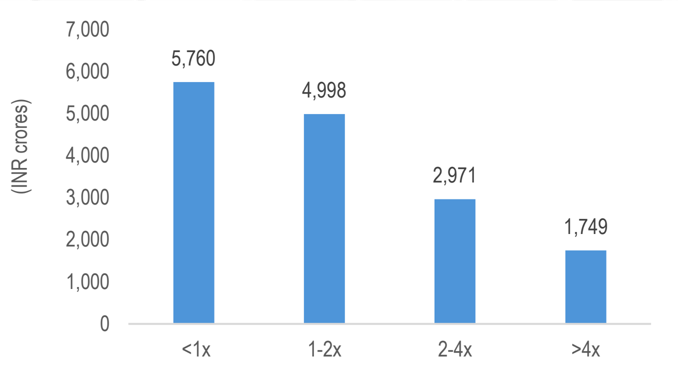
**Figure 2: Gap between India Bonds Yield and Earnings Yield vs. Next 6-month Avg. FII Equity Net Flows**




| Bond Yield – Earnings Yield | No. of Observations | Next 6M Avg. FII flows |
|---|---|---|
| < 2% | 88 | 5,748 |
| 2% – 2.5% | 51 | 5,363 |
| 2.5% – 3% | 70 | 1,673 |
| > 3% | 30 | 123 |

**Source:** Bloomberg, NSDL, HDFC TRU. **Data Period:** Jan, 2006 - Nov, 2025.

**Figure 3: MSCI India Trailing PEG Ratio vs. Next 6-month Avg. FII Equity Net Flows**




| Trailing MSCI India PEG (x) | No. of Observations | Next 6M Avg. FII flows |
|---|---|---|
| < 1x | 30 | 5,760 |
| 1x – 2x | 81 | 4,998 |
| 2x – 4x | 32 | 2,971 |
| > 4x | 69 | 1,749 |

**Source:** Bloomberg, NSDL, HDFC TRU. **Data Period:** Jan, 2006 - Nov, 2025. **Note:** Trailing PEG = TTM P/E / 3-year TTM EPS CAGR.

***Net-net, the above analysis highlights that FIIs are valuation-anchored, not momentum-chasing.*** *Growth may be India's long-term story, but stretched valuations often result in global capital waiting at the immigration counter rather than entering the market.*

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